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TO IMMEDIATE FCO

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INFO IMMEDIATE PARIS ROME BONN MOSCOW UKDEL NATO
ROUTINE OTHER NATO POSTS*ms***PRESIDENT REAGAN'S VISIT TO EUROPE**

1. PRESIDENT REAGAN LEAVES ON WEDNESDAY, 2 JUNE, FOR HIS FIRST VISIT TO EUROPE AS PRESIDENT. ALTHOUGH REAGAN ATTENDED BOTH THE OTTAWA AND CANCUN SUMMITS LAST YEAR THIS WILL BE HIS MOST IMPORTANT VENTURE OVERSEAS SINCE HE BECAME PRESIDENT.
2. WHEN THE PRESIDENT'S VISIT TO LONDON WAS FIRST AGREED IT WAS SEEN BY THE AMERICANS AND BY US AS AN OPPORTUNITY FOR HIM TO DEMONSTRATE THE CLOSENESS OF THE ANGLO/US RELATIONSHIP: THE VISIT WOULD CONTAIN, SYMBOLISM AND SUBSTANCE. THE PRESIDENT'S SPEECH TO MEMBERS OF BOTH HOUSES OF PARLIAMENT WAS EXPECTED TO BE AN OPPORTUNITY TO ADDRESS HIMSELF THROUGH BRITAIN TO EUROPE AS A WHOLE AND TO PROJECT HIMSELF AS A STRONG LEADER AS WELL AS A DECENT MAN, A PEACEMAKER AND NOT A WARMONGER.
3. FACED WITH PUBLIC DISILLUSIONMENT IN EUROPE WITH THE COURSE OF US FOREIGN POLICY, PARTICULARLY IN THE FIELD OF DISARMAMENT, THE PRESIDENT NEVER LOOKED LIKE SCORING AN EASY TRIUMPH. HE WILL NOW BE WALKING ANOTHER TIGHTROPE, KNOWING THAT WHATEVER HE SAYS IN BRITAIN WILL BE ANALYSED FOR ANY INDICATION OF WEAKENING IN US SUPPORT OVER THE FALKLANDS: AND FEARING THAT WHATEVER IS SAID IN BRITAIN COULD BE THE PRETEXT FOR FURTHER LATIN AMERICAN HOSTILITY TOWARDS THE US.
4. THE FEAR OF COMMUNIST SUBVERSION ON ITS DOORSTEP IS A SERIOUS PREOCCUPATION FOR ANY US ADMINISTRATION BUT PARTICULARLY FOR THIS ONE WHICH MADE ITS DETERMINATION TO HALT THE SOVIET/CUBAN ADVANCE THE CORNERSTONE OF ITS FOREIGN POLICY AND CHOSE EL SALVADOR AS THE FIRST BATTLEGROUND. THE ADMINISTRATION NOW SEE THEIR FUTURE RELATIONS WITH MUCH OF LATIN AMERICA AND THEIR ABILITY TO WORK OUT PLANS FOR JOINT ACTION TO COUNTER SUBVERSION EG THROUGH THE OAS, AS SERIOUSLY COMPROMISED BY THE FALKLANDS CRISIS WHICH HAS PRODUCED AN UNHOLY ALLIANCE OF RIGHT AND LEFT IN LATIN AMERICA. THE AMERICANS FIND THE SPECTACLE OF ARGENTINA AND NICARAGUA HAND IN GLOVE IN THE OAS UNNERVING. AT THE SAME TIME, THEY SEE THE PROSPECT OF THEIR POLICY IN EL SALVADOR COMING UNSTUCK: SALVADOREAN RELUCTANCE TO MAINTAIN THE LAND REFORM POLICY HAS ALREADY LED THE SENATE TO REFUSE TO MAINTAIN THE US AID PROGRAMME.

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5. THE MUDDLE THAT CHARACTERISES MUCH OF US FOREIGN POLICY-MAKING SHOULD NOT CONCEAL SOME REAL PROGRESS FROM OUR POINT OF VIEW, PARTICULARLY ON ARMS CONTROL AND EAST/WEST RELATIONS. DETENTE IS STILL A LARGELY DISCREDITED CONCEPT HERE, GIVEN THE FAILURE OF THE SOVIET UNION TO EXERCISE QUOTE RESTRAINT UNQUOTE, WHETHER IN AFGHANISTAN, POLAND OR IN SUPPORT OF CUBAN ADVENTURISM IN AFRICA. BUT, COMPARED WITH A YEAR AGO, THE ADMINISTRATION HAS MADE A SERIES OF FAR-REACHING PROPOSALS IN THE FIELD OF ARMS CONTROL. FOR THE TIME BEING, IT APPEARS TO HAVE TAKEN THE STEAM OUT OF THE PEACE MOVEMENT IN THE US, IN PART AT LEAST BECAUSE IT HAS RESPONDED TO ITS PRESSURES. THE PRESIDENT'S VISIT TO EUROPE WILL TEST HOW FAR THE SAME IS TRUE THERE. THERE ARE STILL IMPORTANT AND INTRACTABLE DIFFERENCES WITH THE ALLIES, IN PARTICULAR IN RELATION TO TECHNOLOGY TRANSFERS TO AND CREDITS FOR THE SOVIET UNION: BUT THE TALK HERE IS NO LONGER - AS IT WAS IN THE IMMEDIATE AFTERMATH OF THE REPRESSION IN POLAND - OF A QUOTE CRISIS UNQUOTE IN THE ALLIANCE. THE PRESIDENT WILL BE VISITING EUROPE AGAINST A BACKGROUND OF POLICY DECISIONS WHICH HAVE GONE A LONG WAY TO MEET THE CRITICISMS OF EUROPEAN GOVERNMENTS AND OPINION. HAIG DESERVES MUCH OF THE CREDIT FOR THE LABORIOUS HAMMERING OUT WITHIN THE ADMINISTRATION OF POLICIES MORE ACCEPTABLE TO THE ALLIES. THE START TALKS WILL BEGIN ON 29 JUNE. ANOTHER HAIG/GROMYKO MEETING IS IN THE OFFING. THE PRESIDENT CONTINUES TO TAKE THE VIEW THAT A MEETING WITH BREZHNEV (IF HE IS UP TO IT) MUST BE WELL PREPARED AND SUSCEPTIBLE OF PRODUCING POSITIVE RESULTS, BUT A SUMMIT MEETING IS CERTAINLY NOT EXCLUDED IN A FEW MONTHS TIME.

6. IN AN INTERVIEW WITH EUROPEAN JOURNALISTS AS A CURTAIN-RAISER TO THE VISIT, PRESIDENT REAGAN CITED UNEMPLOYMENT AS THE FIRST OF THE ECONOMIC PROBLEMS FACING THE INDUSTRIAL DEMOCRACIES. WITH UNEMPLOYMENT IN THE UNITED STATES CURRENTLY STANDING AT NEARLY 9 AND ONE HALF PERCENT (A POST-WAR RECORD) AND REAL INTEREST RATES ALSO AT AN UNPRECEDENTED LEVEL, THE PRESIDENT'S ECONOMIC STRATEGY IS UNDER SERIOUS FIRE. THE ONE BRIGHT SPOT IS THE DRAMATIC REDUCTION IN INFLATION (NOW ABOUT 6 TO 7 PERCENT), BUT THERE IS STILL LITTLE SIGN OF THE RETURN OF BUSINESS CONFIDENCE AND TO AN END TO THE CURRENT RECESSION.

7. PRESIDENT REAGAN'S BUDGET TRIUMPH A YEAR AGO WAS EPHEMERAL. IN THE FACE OF MASSIVE PROSPECTIVE BUDGET DEFICITS HIS 3 YEAR PROGRAMME OF INCOME TAX CUTS (WITHOUT COMPENSATORY INCREASES IN OTHER SOURCES OF REVENUE) HAS COME TO BE REGARDED AS IMPRUDENT. BECAUSE THE INCOME TAX CUTS ARE SEEN TO FAVOUR THE WELL-OFF, IT HAS BECOME POLITICALLY MORE DIFFICULT TO MAKE THE NECESSARY CUTS IN PUBLIC EXPENDITURE, ESPECIALLY ENTITLEMENT PROGRAMS, WHICH WOULD HURT THE LESS WELL-OFF. THE COMPROMISE BUDGET RECENTLY VOTED BY THE SENATE MAINTAINS THE TAX CUT BUT PROVIDES FOR OVER DOLLARS 100 BILLION OF NEW TAXES AND FOR REDUCTIONS IN PLANNED SPENDING.

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EVEN SO, IT TOLERATES A BUDGET DEFICIT OF OVER DOLLARS 100 BILLION FOR FISCAL YEAR 1983. THE DEMOCRATICALLY CONTROLLED HOUSE OF REPRESENTATIVES HAS YET TO ADOPT A BUDGET AT ALL. WHILE THE PRESIDENT HAS PUT THE BLAME FOR FAILURE ON HIS OPPONENTS PARTICULARLY IN CONGRESS, PUBLIC CONFIDENCE IN HIS POLICIES IS ERODING AS MONTH AFTER MONTH GOES BY WITHOUT THE PROMISED ECONOMIC TURN-AROUND.

8. PRESIDENT REAGAN STANDS LOWER IN THE OPINION POLLS THAN CARTER DID AT THIS PERIOD IN HIS PRESIDENCY. THE PRESS IS ALREADY PREDICTING THAT, IF THE REPUBLICANS DO BADLY IN NOVEMBER'S MID-TERM ELECTIONS, AS IS TO BE EXPECTED, THIS COMBINED WITH REAGAN'S AGE AND UNCERTAIN COMMAND OF GOVERNMENT COULD SEE HIM WRITTEN OFF AS A LAME DUCK PRESIDENT TWO YEARS BEFORE THE END OF HIS TERM. THE DEMOCRATS HOWEVER ARE THEMSELVES DIVIDED AS TO BOTH THEIR POLICIES AND THEIR LEADERSHIP, WITH THE USUAL PLETHORA OF CANDIDATES BUT NO OUTSTANDING FIGURE YET IN SIGHT TO LEAD THEM IN 1984.

9. WHATEVER THE DOUBTS ABOUT REAGAN'S ABILITIES AND, INCREASINGLY, ABOUT SOME OF HIS POLICIES, AND ALTHOUGH THE SCRIPT FOR THE MEETINGS AT VERSAILLES AND IN BONN HAS TO A LARGE EXTENT BEEN WRITTEN IN ADVANCE, THERE IS A FULL REALISATION HERE OF THE IMPORTANCE OF THE SERIES OF MEETINGS ON WHICH THE PRESIDENT IS ABOUT TO EMBARK. BEYOND THE ADMINISTRATION AND ITS SUPPORTERS THERE IS A DESIRE FOR THE VISIT TO EUROPE TO BE A SUCCESS AND NOT TO BE SPOILED BY PEACE DEMONSTRATIONS, THE ANTI-AMERICAN CHARACTER OF WHICH HAS MADE A PAINFUL IMPRESSION HERE, EVEN AMONG THOSE WHO CONSIDERED THAT THE REAGAN ADMINISTRATION INITIALLY WAS LARGELY TO BLAME. THE PRESIDENT'S ENTOURAGE CONSIDER THAT THE ADMINISTRATION HAS DONE MUCH TO MODIFY AND MODERATE ITS POLICIES IN RESPONSE TO THE WISHES OF THE ALLIES, THAT THE PRESIDENT HAS GONE TO CONSIDERABLE LENGTHS TO REASSURE EUROPEAN OPINION AND THAT THE ADMINISTRATION SHOULD BY NOW HAVE SUCCEEDED IN OVERCOMING THE CARICATURE OF ITSELF PRESENTED SOME MONTHS AGO NOT ONLY BY LEFTWING CRITICS IN EUROPE, BUT ALSO IN THE EARLY DAYS BY SOME OF ITS OWN SPOKESMEN.

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