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(FM BERNE 291610Z)

Prime Minister

FM BIS BUENOS AIRES

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TO IMMEDIATE FCO

TELNO 972 OF 29 DECEMBER

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ALFONSIN'S FIRST TWO WEEKS : ASSESSMENT

1. AFTER TWO HECTIC WEEKS, THE NEW GOVERNMENT ARE STILL BARELY SETTLING IN BUT ALFONSIN HAS UNLEASHED A DIRECT AND FORCEFUL ASSAULT UPON THE GOVERNMENT'S MAJOR INTERNAL PROBLEMS : THE MISDEEDS OF THE FIRST THREE JUNTAS, THE PRUNING AND REORGANISATION OF THE THREE ARMED FORCES, INVESTIGATION INTO THE MISSING PEOPLE, THE ECONOMY AND DEMOCRATISATION OF THE UNIONS. THE SPEED HAS LEFT MANY PEOPLE BREATHLESS AND DISCONCERTED.

2. ALFONSIN'S PROSPECTS SEEM EVEN BRIGHTER AFTER THESE FIRST FEW WEEKS : ROBERT POTASH, A NORTH AMERICAN EXPERT ON THE ARGENTINE MILITARY, QUOTED TO ME THE RECENT WORDS OF RETIRED GENERAL AND EX-PRESIDENT LANUSSE : "FOR THE FIRST TIME IN MANY YEARS I HAVE HEARD THE VOICE OF A COMMANDER-IN-CHIEF". IT CERTAINLY APPEARS THAT PRESIDENT ALFONSIN CURRENTLY HAS THE ARMED FORCES ON THE DEFENSIVE.

3. BUT THE DANGER SIGNALS IN THE ECONOMIC FIELD ARE ALREADY FLASHING :

A. ECONOMIC POLICY IS STILL ILL-DEFINED, WITH MUTUALLY CONTRADICTORY STATEMENTS AND POLICY PROPOSALS PROLIFERATING,

B. THE DECEMBER PAY RISE WAS RECEIVED WITH RIDICULE BY THE UNIONS,

C. THE PRICE FREEZE WAS SIMILARY RECEIVED BY INDUSTRY,

D. THE TAX INCREASE PROPOSALS APPEAR TOTALLY INADEQUATE EFFECTIVELY TO REDUCE THE ENORMOUS BUDGET DEFICIT,

E. THERE ARE NO CLEARLY DEFINED PROPOSALS FOR ABSOLUTE EXPENDITURE REDUCTIONS : MAINLY SHIFTS FROM DEFENCE TO EDUCATIONAL, HEALTH AND HOUSING SPENDING,

F. THE STATEMENTS ON QUOTE PRIVATISATION UNQUOTE CONTRADICT EACH OTHER,

G. THE PERONISTS ARE DETERMINED TO OPPOSE THE NEW UNION DEMOCRATISATION LEGISLATION.

THE ECONOMY REMAINS ALFONSIN'S ACHILLES HEEL.

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4. ON BILATERAL RELATIONS WITH BRITAIN, A GRAPHIC DESCRIPTION BY A LOCAL JOURNALIST IS OF QUOTE TWO STONE STATUES STARTING TO SMILE AT EACH OTHER UNQUOTE. THE EXPRESSION OF GOOD WILL CONVEYED BY THE INAUGURATION MESSAGES HAS NOT RESULTED IN ANY MOVEMENT SO FAR, AND ALFONSIN'S REPLY MAY NOT EVEN HAVE CONVEYED A CLEAR SIGNAL: THE INTENTION WAS APPARENTLY THAT BRITAIN SHOULD SHOW THE WILL: IT WAS A CHALLENGE RATHER THAN A PROMISE. ARGENTINA NEEDS TO REFINE AND DEFINE ITS SHORT AND MEDIUM TERM OBJECTIVES OVER THE FALKLANDS SOVEREIGNTY ACQUISITION IS CLEARLY NOT ON BUT THE QUESTION REMAINS WHETHER THE NEW TEAM WILL BE PREPARED TO QUOTE PLAY IT LONG UNQUOTE OR WHETHER INTRANSIGENCE WILL AGAIN SPOIL THE GAME.

JOY

POWELL-JONES

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