

CONFIDENTIAL

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TO IMMEDIATE F C O
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INFO SAVING UKDEL NATO, UKMIS NEW YORK, BONN, PARIS, UKREP BRUSSELS.

PS/Suf's DTI

(X9)

HADFIELD } CABINET OFFICE
CARRIDGE }

PRIME MINISTER'S VISIT.

1. THE PRIME MINISTER WILL FIND THE PRESIDENT ON THE CREST OF A WAVE OF PERSONAL POPULARITY AND PUBLIC SUPPORT. HIS PERSONAL RATINGS ARE AS HIGH AS IN THE AFTERMATH OF THE ASSASSINATION ATTEMPT: AND THE WAVE SHOWS NO SIGN OF BREAKING.

2. REAGAN RIDES IT WITHOUT AN APPARENT CARE IN THE WORLD. CONCERN ABOUT THE TWIN DEFICITS IS MOUNTING, AND WITH IT THE PROTECTIONIST PRESSURES WHICH HE STOUTLY OPPOSES, BUT REAGAN IS NOT BLAMED FOR THEM. HIS DEFICIT REDUCTION PACKAGE IS FLAWED, PERHAPS FATALLY, BY WEINBERGER'S OVER-BID ON DEFENCE (5.9 PERCENT REAL TERMS INCREASE) WHICH INCENSES THE DEFENDERS OF THE DOMESTIC PROGRAMMES ON WHICH CUTS ARE SOUGHT - BUT REAGAN IS NOT BLAMED. BAKER SEEMS FOR THE PRESENT AS OPPOSED TO A TAX INCREASE AS WAS HIS PREDECESSOR. THE GENERAL ADMINISTRATION COMPLACENCY ABOUT THE ECONOMY NEEDS TO BE TAKEN INTO ACCOUNT IN DECIDING HOW TO MAKE THE POINTS SET OUT IN MY TELEGRAM NO 414. M I F T - NOT TO ALL- GIVES THE WIDER ECONOMIC CONTEXT.

3. THE PRESIDENT'S SUPPORT IS PERSONAL TO HIM: IT DOES NOT OF COURSE EXTEND TO ALL HIS POLICIES. WHILE THE DEMOCRAT PARTY IN THE COUNTRY HAS FALLEN INTO DISARRAY, IT REMAINS FIRMLY ENTRENCHED IN CONGRESS: AND THERE WILL BE TROUBLE THERE TOO WITH RECALCITRANT REPUBLICANS: PARTICULARLY THOSE JOCKEYING FOR THE SUCCESSION OR UP FOR RE-ELECTION IN 1986. SO THE PRESIDENT FACES TOUGH BATTLES ON THE HILL - ON THE BUDGET, AND PARTICULARLY DEFENCE (THOUGH NOT SDI RESEARCH, WHICH IS POLITICALLY POPULAR), ON TAX REFORM, FINANCE FOR THE CONTRAS, ETC ETC.

4. SHULTZ TOO IS ON THE CREST OF A WAVE, THOUGH A DIFFERENT ONE. HE HAS EMERGED FROM THE CHANGES OF PERSONNEL AS THE UNDISPUTED MASTER OF THE BUREAUCRACY ON FOREIGN POLICY ISSUES. THE DEPARTURE OF MRS KIRKPATRICK TO ACADEME, AND HER REPLACEMENT BY WALTERS, SYMBOLISE SHULTZ'S SUCCESS IN PUTTING HIS OWN STAMP ON THE HANDLING OF FOREIGN AFFAIRS, DOWN-GRADING IDEOLOGY AND UP-GRADING PRAGMATIC PROFESSIONALISM. THE SUCCESS OF THE GENEVA MEETING WITH GROMYKO DEMONSTRATED HIS PERSONAL SKILL AND STRENGTHENED HIS REPUTATION. WEINBERGER, WHO THE MEDIA SEE AS HIS RIVAL, HAS TAKEN UP A SEVERELY EXPOSED POSITION ON THE DEFENCE BUDGET, AND IS LIKELY TO BE BOGGED DOWN ON THE HILL FOR SEVERAL MONTHS TO COME.

5. ACROSS THE BOARD, THERE IS LITTLE NEW IN THE POLICIES OF REAGAN II. THE DRIVE TO REDUCE THE SCALE OF GOVERNMENT, GETTING IT OFF THE BACKS OF THE PEOPLE, WILL CONTINUE; AND THE PRESIDENT STILL CONTRIVES TO BE SEEN AS THE OPPONENT, RATHER THAN THE HEAD, OF THE BUREAUCRACY. THE DRIVE TO REINSTATE "TRADITIONAL" VALUES - IN EDUCATION, ON SOCIAL ISSUES, AND ON THE FRONTIER BETWEEN CHURCH AND STATE, WILL GO ON, BUT IS TAKING NO STRIKINGLY NEW DIRECTIONS. THE DETERMINATION TO MAKE AND KEEP AMERICA STRONG ABROAD IS UNDIMINISHED. THE REAL CHANGE HERE, CF 1980/81, IS IN THE TERMS OF THE NATIONAL DEBATE. POSITIONS WHICH, WHEN FIRST ADVANCED BY THE PRESIDENT, WERE DESCRIBED AS EXTREME, HAVE NOW WON WIDE ACCEPTANCE.

6. THE PRESIDENT CERTAINLY IS NOW IN NO HURRY. THE ADMINISTRATION PROCLAIMS THE VIRTUES OF LEADERSHIP, BOTH DOMESTICALLY AND ABROAD: BUT LEADERSHIP IS SEEN IN TERMS OF WAITING UPON EVENTS, AND THEN MASTERING THEM. THE VISION IS STILL THE 1980 VISION: THE POLICIES - GENEVA AND SDI APART - UNCHANGED. HENCE THE RELUCTANCE TO GRASP THE NETTLE OF THE DEFICIT.

7. MY SECOND IFT CONTAINS SOME SUGGESTIONS ON THE HANDLING OF FOREIGN POLICY ISSUES DURING THE PRIME MINISTER'S VISIT.

8. ADVANCE COPIES TO POWELL (NO 10): PS/S OF S, PS/PUS, MARSHALL (NAD) FCO: PS/S OF S, DUS(P), MOD: PS/CHANCELLOR, LAVELLE (H M TREASURY): PS/S OF S DTI: HADFIELD, CARTLEDGE (CABINET OFFICE).

FCO PASS SAVING TO UKDEL NATO, BONN, PARIS, UKREP BRUSSELS.

WRIGHT