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TO IMMEDIATE FCO

TELNO 145 OF 7 JUNE

INFO MADRID UKDEL NATO, UKREP BRUSSELS, WASHINGTON, MODUK FOR D13 WEST
MY TELNO 144: POLITICAL SITUATION

1. THE MINISTER OF INDUSTRY ALVARO BARRETO, TOLD ME THIS MORNING HE THOUGHT THE PRESIDENT WOULD TODAY ACCEPT MOTA PINTO'S RESIGNATION AND THEN INVITE THE POLITICAL PARTIES TO PUT FORWARD PROPOSALS FOR A NEW PARTY-BASED GOVERNMENT (IE OPTION (C) IN TUR). HE AGREED THAT THE SOCIALISTS WANTED TO GET BACK INTO GOVERNMENT (THOUGH HE THOUGHT THAT THIS WOULD BE SUICIDE FOR THEM, GIVEN THE UNPOPULAR ECONOMIC MEASURES THAT ANY GOVERNMENT WOULD HAVE TO TAKE OVER THE NEXT FEW MONTHS) BUT HE DOUBTED WHETHER THEY WOULD BE ABLE TO CONVINCЕ THE PRESIDENT THAT THE BASIS FOR A STABLE GOVERNMENT EXISTED. THE SOCIAL DEMOCRATIC INDEPENDENTS WERE SIMPLY NOT A COHERENT POLITICAL FORCE. HE THOUGHT THEREFORE THAT IN TWO OR THREE WEEKS THE PRESIDENT WOULD COME TO THE CONCLUSION THAT THERE WAS NO ALTERNATIVE TO DISSOLVING THE ASSEMBLY, BUT THAT HE WOULD ASK THE PRESENT GOVERNMENT TO REMAIN IN OFFICE UNTIL ELECTIONS IN OCTOBER. IN BARRETO'S VIEW THE GOVERNMENT WOULD IN THESE CIRCUMSTANCES HAVE ENOUGH POLITICAL AUTHORITY TO CONCLUDE THE AGREEMENT WITH THE IMF AND TO TAKE OTHER MAJOR ECONOMIC DECISIONS.

2. HE SAID THAT JACINTO NUNES'S RESIGNATION (MYTELNO 143) HAD NOTHING TO DO WITH HIS POSSIBLE NOMINATION AS PRIME MINISTER OF THE NEXT GOVERNMENT, THOUGH IT WAS POSSIBLE THAT THE SOCIALISTS' FIRST PROPOSAL TO THE PRESIDENT MIGHT BE FOR THE CONTINUATION OF THE PRESENT GOVERNMENT WITH JACINTO NUNES AS PRIME MINISTER AND SUBSTITUTION OF A FEW OF THE MORE UNPOPULAR MINISTERS. JACINTO NUNES WOULD NEVER HOWEVER ACCEPT SUCH A POSITION. HIS RESIGNATION WAS SOLELY DUE TO HIS FRUSTRATION, AS A NON-POLITICIAN, AT THE ASSEMBLY'S OBSTRUCTION OF THE GOVERNMENT. HE HAD TOLD THE PRESIDENT AFTER THE FIRST BUDGET WAS REJECTED IN MARCH THAT HE WISHED TO RESIGN BUT THE PRESIDENT HAD PERSUADED HIM TO STAY ON UNTIL THE SECOND BUDGET WAS PASSED. I AM SURE THAT THIS IS THE TRUE EXPLANATION.

GOLDING

EUROPEAN POLITICAL DISTN

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CONFIDENTIAL [COLLAR]

TO IMMEDIATE FCO

TELNO 144 OF 7 JUNE.

RPTD FOR INFO TO MADRID, UKREP BRUSSELS, UKDEL NATO,
WASHINGTON, UKDEL IMF/IBRD WASHINGTON, PARIS, BONN, MODUK (DIB WEST)

Prime Minister

AW
9/6

mi

MY TELNO 143 (NOT TO ALL):

POLITICAL SITUATION

1. LAST NIGHT MOTA PINTO PRESENTED TO THE PRESIDENT HIS GOVERNMENT'S RESIGNATION. HE SAID THAT THE OBSTRUCTION OF THE SOCIALISTS AND THE COMMUNISTS IN THE ASSEMBLY, BOTH IN CHANGING GOVERNMENT BILLS AND IN MORE THAN DOUBLING THE CURRENT ACCOUNT DEFICIT IN THE BUDGET, HAD MADE IT IMPOSSIBLE FOR HIS GOVERNMENT TO CONTINUE TO GOVERN EFFECTIVELY.
2. THE PRESIDENT HAS NOT YET ACCEPTED MOTA PINTO'S RESIGNATION. HE HAS FOUR OPTIONS:
 - A) HE COULD ASK MOTA PINTO TO SOLDIER ON. THERE IS LITTLE ATTRACTION IN THIS AS THE GOVERNMENT WOULD BE BOUND TO FALL IN A MONTH'S TIME WHEN THE SOCIALISTS' SECOND CENSURE MOTION IS VOTED. MEANWHILE IT WOULD LACK ALL POLITICAL AUTHORITY.
 - B) HE COULD ASK ANOTHER INDEPENDENT TO FORM A FURTHER NON-PARTY GOVERNMENT. ALL PARTIES WOULD OPPOSE THIS AND SUCH A GOVERNMENT WOULD ALMOST CERTAINLY BE REJECTED BY THE ASSEMBLY.
 - C) HE COULD WORK FOR A GOVERNMENT BASED ON THE SUPPORT OF THE SOCIALISTS AND THE SOCIAL DEMOCRATIC INDEPENDENTS, WHO BETWEEN THEM COMMAND A MAJORITY IN THE ASSEMBLY. THIS SOLUTION IS FAVOURED BY MARIO SOARES, THOUGH HE WOULD PROBABLY FEEL IT NECESSARY TO REACH SOME UNDERSTANDING WITH THE COMMUNISTS IN ORDER TO BALANCE HIS AGREEMENT WITH THE SOCIAL DEMOCRATIC INDEPENDENTS ON HIS RIGHT.
 - D) HE COULD DISSOLVE THE ASSEMBLY AND CALL EARLY ELECTIONS. HE WOULD BE OBLIGED BY THE CONSTITUTION TO OBTAIN THE PRIOR CONSENT OF THE COUNCIL OF THE REVOLUTION WHICH COULD NOT BE TAKEN FOR GRANTED IF (C) ABOVE WAS A VIABLE ALTERNATIVE. SO FAR EANES HAS ALWAYS RESISTED EARLY ELECTIONS FOR A VARIETY

OF REASONS, INCLUDING THE FACT THAT FURTHER ELECTIONS TO THE ASSEMBLY WILL ANYWAY HAVE TO BE HELD NEXT SUMMER.

3. THE PARTIES OF THE RIGHT (THE SOCIAL DEMOCRATS AND ANDTHE CENTRE DEMOCRATS) ARE URGING THE PRESIDENT TO DISSOLVE THE ASSEMBLY. THE COMMUNISTS HAVE NOT YET DECLARED THEIR HAND BUT WILL PROBABLY TAKE THE SAME VIEW. THE SOCIALISTS ARE OPPOSED TO EARLY ELECTIONS. I THINK THAT EANES WOULD PROBABLY PREFER A SOCIALIST-BASED GOVERNMENT PROVIDED THAT HE CAN BE CONVINCED THAT IT WILL LAST UNTIL ELECTIONS ARE DUE NEXT YEAR AND NOT FALL APART IN THE WAY THE SOCIALIST/CENTRE DEMOCRAT GOVERNMENT DID LAST SUMMER. RELATIONS BETWEEN THE SOCIALISTS AND THE SOCIAL DEMOCRATIC INDEPENDENTS HAVE BEEN STRAINED BY DIFFERENCES OVER AMENDMENTS TO THE AGRARIAN REFORM LAW PROPOSED BY THE SOCIALISTS AND THE INDEPENDENTS NOW SEEM LESS KEEN ON THEIR FORMING A GOVERNMENT TOGETHER. SO THE PRESIDENT MAY HAVE NO ALTERNATIVE TO DISSOLVING THE ASSEMBLY.

4. THE MOST WORRYING IMMEDIATE CONSEQUENCE OF THE GOVERNMENT'S RESIGNATION IS FOR THE AGREEMENT WITH THE IMF (MY TELNO 131). THE BUDGET CHANGES IMPOSED BY THE ASSEMBLY HAVE ADDED A FURTHER 9 MILLION ESCUDOS TO THE DEFICIT AND IT IS UNLIKELY THAT THE PARTIES, IN THEIR PRESENT MOOD, WOULD ALLOW THROUGH THE REMEDIAL DECREE LAW AGREED WITH THE IMF. NOR IS IT LIKELY THAT THE MOTA PINTO GOVERNMENT (ASSUMING IT CONTINUES FOR THE NEXT FEW WEEKS IN A CARETAKER CAPACITY) WILL HAVE THE POLITICAL AUTHORITY TO IMPOSE THE AGREED INCREASES IN ADMINISTERED PRICES. THE MONETARY AUTHORITIES WILL CONTINUE TO APPLY THE CREDIT CEILINGS AGREED WITH THE FUND AND MORE THAN HALF THE EXTERNAL FINANCING NEEDED FOR 1979 HAS ALREADY BEEN NEGOTIATED. BUT PORTUGAL WILL NEED TO CONCLUDE A NEW STAND-BY AGREEMENT WITH THE FUND BEFORE LONG IF HER INTERNATIONAL CREDIT-WORTHINESS IS NOT TO SUFFER.

5. IN THE LONGER RUN THE PARTIES APPARENT INCONSISTENCY IN FIRST APPROVING THE BUDGET AND MAKING RADICAL CHANGES TO IT WILL HAVE ADDED TO THE GROWING POPULAR DISENCHANTMENT WITH THE WORKINGS OF DEMOCRACY.

GOULDING