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FM WASHINGTON 251700Z MAY 83

TO PRIORITY FCO

TELEGRAM NUMBER 1465 OF 25 MAY

INFO PRIORITY PARIS BONN TOKYO ROME OTTAWA UKREP BRUSSELS

MY TEL NO 1271: WILLIAMSBURG SUMMIT: PRESIDENT REAGAN

1. THE STANDING OF THE PRESIDENT IS RISING WITH THE ECONOMY. PRESIDENT REAGAN IS DOING BETTER IN THE OPINION POLLS THAN AT ANY TIME OVER THE PAST EIGHTEEN MONTHS. INFLATION IS RUNNING AT 3.9 PER CENT. LONGER TERM INTEREST RATES HAVE COME DOWN A LONG WAY FROM THE LEVEL THEY WERE AT WHEN THE PRESIDENT TOOK OFFICE, EVEN IF AT 10.5 PER CENT THEY LEAVE REAL INTEREST RATES VERY HIGH. THE US ECONOMY IS NOW REALLY BEGINNING TO MOVE. THE LATEST FORECASTS PROJECT GROWTH THIS YEAR OF ABOUT THREE PER CENT. UNEMPLOYMENT REMAINS HIGH (AT ABOUT 10 PER CENT) BUT IS NOW HOLDING LEVEL. MOST OF THE NEWSPAPERS (AND MOST OF HIS FELLOW POLITICIANS) ARE BETTING THAT MR REAGAN WILL SEEK A SECOND TERM: AND MOST WOULD SAY THAT IF HE RUNS HE WILL WIN. BUT A WEEK IS A LONG TIME IN POLITICS AND THERE ARE PROBABLY FOUR MONTHS TO GO BEFORE HE NEEDS TO DECIDE WHETHER TO RUN, AND SEVENTEEN MONTHS BEFORE THE ELECTION.

2. AS THE PRESIDENT PREPARES FOR THE WILLIAMSBURG SUMMIT, THEREFORE, BOTH THE ECONOMIC AND POLITICAL INDICATORS ARE POINTING IN THE RIGHT DIRECTION FOR HIM. THE AREA OF ECONOMIC POLICY WHERE HE IS VULNERABLE IS THE CONTINUED HIGH DEFICITS PROJECTED IN HIS OWN BUDGET, OR ANY LIKELY ALTERNATIVE: AND FEARS THAT THESE MAY START INTEREST RATES EDGING UP AGAIN. THE SIZE OF THE DEFICIT IS COMPLICATING THE BUDGET BATTLE IN CONGRESS, IN WHICH THE PRESIDENT IS PITTED, NOT ONLY AGAINST THE DEMOCRATS, BUT AGAINST A NUMBER OF MEMBERS FROM HIS OWN PARTY. CONGRESS IS LIKELY TO REFUSE HALF OF THE TEN PER CENT REAL INCREASE IN DEFENCE SPENDING THE PRESIDENT ORIGINALLY WAS DEMANDING, BUT STILL TO VOTE A VERY LARGE REAL INCREASE. THE PRESIDENT SO FAR HAS BEEN ADAMANT IN HIS REFUSAL TO CONTEMPLATE TAX INCREASES COMING OUT OF THE RECESSION.

3. THE PRESIDENT HIMSELF SHARES THE VIEW OF CONSERVATIVE REPUBLICANS THAT TAX CUTS ARE MORE IMPORTANT TO RECOVERY THAN REDUCING THE DEFICIT AND THAT TO LOSE THE BENEFIT OF THE TAX CUT EITHER BY CANCELLING THE THIRD YEAR BENEFIT, DUE TO COME INTO EFFECT ON 1 JULY, OR BY RAISING TAXES, IS AN UNACCEPTABLE PRICE TO PAY FOR GETTING CLOSER TO A BALANCED BUDGET. EVEN THOSE CONCERNED ABOUT THE EFFECT OF THE DEFICIT ARE NOT SO MUCH WORRIED ABOUT ITS IMPACT IN THE NEXT FINANCIAL YEAR AS IN THE SUBSEQUENT TREND IN THE QUOTE OUT YEARS UNQUOTE, WHEN THEY SEE THE COMPETITION BETWEEN GOVERNMENT AND INDUSTRY FOR AVAILABLE FUNDS PUSHING UP INTEREST RATES AND CHOKING OFF THE RECOVERY.

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4. THE PRESIDENT EVENTUALLY, WITH A GREAT SHOW OF RELUCTANCE, MAY ACCEPT SOME OF THE MEDICINE WHICH CONGRESS IS PROPOSING, BUT IS MAKING CLEAR HIS READINESS, IF NECESSARY, TO PROCEED WITHOUT AN AGREED OVERALL BUDGET (ON THE BASIS OF CONGRESSIONAL FUNDING OF THE SEPARATE APPROPRIATIONS FOR DEFENCE, SOCIAL SECURITY ETC). FOR THE TIME BEING, CONGRESS MAKES A GOOD POLITICAL WHIPPING BOY. THE AMERICAN PUBLIC IS VERY READY TO ASSUME THAT CONGRESS IS WORKING AGAINST THEIR INTERESTS AND MANY ARE INCLINED TO SUPPORT THE PRESIDENT IN HIS ATTACKS ON ATTEMPTS TO RETURN TO THE QUOTE BIG SPENDING UNQUOTE PROGRAMMES OF HIS DEMOCRATIC PREDECESSORS.

5. FOREIGN POLICY, ON WHICH MOST OVERSEAS JUDGEMENTS OF MR REAGAN ARE BASED, COMES LOW IN THE LIST OF PRIORITIES FOR MOST AMERICANS. THE SENIOR DEMOCRAT ON THE SENATE COMMITTEE WHICH DEALS WITH CENTRAL AMERICA RECENTLY TOLD ME THAT MOST OF HIS NEBRASKAN CONSTITUENTS HAD NEVER HEARD OF NICARAGUA. IT SHOULD NOT BE THOUGHT, BECAUSE LEBANON AND CENTRAL AMERICA LOOM LARGE IN THE NEWSPAPERS OR EVEN ON TV NEWS, THAT THEY ARE OF DOMINANT PUBLIC CONCERN HERE. DOMESTICALLY, THE US PRESIDENT TRADITIONALLY HAS CONSIDERABLE LEEWAY IN FOREIGN AFFAIRS THOUGH THERE COMES AN OBVIOUS POINT EG. THE THREAT OF CONFRONTATION WITH THE SOVIET UNION OR OF ARMED INVOLVEMENT IN CENTRAL AMERICA, WHERE FOREIGN POLICY BECOMES AN IMPORTANT DOMESTIC ISSUE. HE ALSO NEEDS THE CONGRESS TO VOTE HIM MONEY. THERE IS CONCERN ABOUT THE ADMINISTRATION'S POLICY IN BOTH THESE AREAS. MANY AMERICANS WHO SHARE THE PRESIDENT'S DISLIKE OF THE SOVIET LEADERSHIP DO NOT NECESSARILY AGREE WITH HIS MANNER OF DEALING WITH THEM. IF THE PRESIDENT DECIDES TO RUN AGAIN, THERE WILL BE INCREASED PRESSURE FOR A MEETING WITH ANDROPOV. UNLIKE HIS PREDECESSORS, MR REAGAN HAS LITTLE ENTHUSIASM FOR US/SOVIET SUMMITRY. HE IS KEEPING THE OPTION OPEN, BUT WILL ONLY AGREE TO A MEETING IF HE BELIEVES THAT SOMETHING POSITIVE CAN BE ACHIEVED. THE PRESIDENT'S SPEECH ON CENTRAL AMERICA, MEANWHILE HAS HAD AN EFFECT IN CONGRESS, WITH HIS OPPONENTS FEARING THE CONSEQUENCES OF BEING HELD RESPONSIBLE FOR THE LOSS OF EL SALVADOR (FEW HERE CHALLENGE THE DOMINO THEORY IN CENTRAL AMERICA). IN THE MIDDLE EAST, THE ISRAEL/LEBANON AGREEMENT HAS MENDED US/ISRAELI FENCES, ANOTHER VALUABLE DOMESTIC ACHIEVEMENT SHOULD THE PRESIDENT DECIDE TO RUN AGAIN. ON ARMS CONTROL, THE BIPARTISAN RECOMMENDATIONS OF THE SCOWCROFT COMMISSION HAVE REDUCED OPPOSITION IN CONGRESS TO MX FUNDING. WITH THE LATEST VOTE IN THE HOUSE OF REPRESENTATIVES, THE PRESIDENT IS NOW CLOSE TO SUCCEEDING IN GETTING HIS STRATEGIC FORCES MODERNISATION PROGRAMME THROUGH. TO TAKE ACCOUNT OF THE SCOWCROFT RECOMMENDATIONS AND IN RESPONSE TO CONGRESSIONAL PRESSURE, THE ADMINISTRATION IS NOW REVIEWING THE US POSITION IN START.

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6. IN THE USUAL ROLLER-COASTER MANNER OF OPINION IN THIS TOWN, THOSE WHO A FEW MONTHS AGO WERE GIVING LITTLE FOR HIS CHANCES ARE NOW PROFESSING CONFIDENCE THAT THE PRESIDENT WILL STAND AGAIN: AND THAT IF HE DOES, HE WILL WIN. THE PRESIDENT CERTAINLY WILL BE UNDER GREAT PRESSURE TO RUN AGAIN: ALL HIS STAFF ARE SAYING THAT THEY EXPECT THAT HE WILL DO SO. MY OWN FEELING IS STILL THAT HE GENUINELY HAS NOT YET MADE UP HIS MIND. IN ANY EVENT, HE WILL NOT ANNOUNCE HIS INTENTIONS UNTIL THE AUTUMN.

7. THE PRESIDENT, THEREFORE, WILL BE GOING TO WILLIAMSBURG NOT AT ALL IN BAD SHAPE DOMESTICALLY. A SUCCESSFUL SUMMIT WOULD BE A BONUS FOR HIM: BUT HE DOES NOT NEED IT AS A LIFE-LINE. NOR IS IT LIKELY TO AFFECT HIS OWN DECISION ABOUT THE FUTURE- EXCEPT TO THE EXTENT THAT IT CONFIRMS HIS EVIDENT ENJOYMENT OF THE BUSINESS OF BEING PRESIDENT. IF HE DOES STAND AGAIN, HE WILL TAKE SOME STOPPING.

WRIGHT

[THIS TELEGRAM WAS NOT ADVANCED]

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