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32

FALKLAND ISLANDS GENERAL

PS (2)  
 PS/LADY YOUNG  
 PS/MR WHITNEY  
 PS/MR RIFKIND  
 PS/PUS  
 MR DEBEK THOMAS  
~~SIR J FREELAND MR DARWIN~~  
~~SIR W HARDING~~  
 MR GOODALL  
 MR O'NEILL  
 SIR C TICKELL  
 MR D C THOMAS  
 MR WESTON  
 MR BAZZINGTON  
 HD/PUSD  
 HD/SAMD  
 HD/FID  
 HD/NEWS DEPT  
 HD/EED  
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 HD/UND

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PS/NO 10 DOWNING ST  
 PS/S OF S FOR DEFENCE  
 MR ~~RD~~ NICHOLLS, AUSD STAFF, MOD  
 NH

PS/CHANCELLOR }  
 MISS M E CUND } TREASURY  
 MR LITTLER }

SIR R ARMSTRONG }  
 MR ~~A D S~~ GOOBALL } CABINET  
 DIO *Cartledge* } OFFICE

MR POWER, SAD, ODA

MR A FORTNAM IAT/D. TRANSPORT

RESIDENT CLERK

GRS 900

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(FM BERNE 041335Z)

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TO IMMEDIATE FCO

TELNO 588 OF 3 SEPTEMBER 1984

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INFO PRIORITY MOD (SIC A3A), CBFFI BANK OF ENGLAND ASUNCION BRASILIA  
 CARACAS MEXICO CITY MONTEVIDEO SANTIAGO UKMIS NEW YORK  
 WASHINGTON PORT STANLEY

ARGENTINA : ASSESSMENT

SUMMARY

1. THE ECONOMIC CRISIS DEEPENS AS INFLATION SPIRALS OUT OF CONTROL. THE 30 AUGUST ANTI-INFLATIONARY PACKAGE CONTAINS SOME ENCOURAGING SEVERE MEASURES BUT THE GOVERNMENT'S

CONTROL. THE 30 AUGUST ANTI-INFLATIONARY PACKAGE CONTAINS SOME ENCOURAGING SEVERE MEASURES BUT THE GOVERNMENT'S DETERMINATION AND ABILITY TO CARRY THEM THROUGH REMAINS UNCERTAIN. THE UNIONS ARE FLEXING THEIR MUSCLES WITH A GENERAL STRIKE. PROSPECTS FOR A PROMPT BEAGLE SETTLEMENT ARE RECEDING AND THERE SEEMS LITTLE POSSIBILITY OF EARLY IMPROVEMENT IN RELATIONS WITH THE UK.

#### DETAIL

2. THE ABSENCE OF CLEAR, EFFECTIVE POLICIES PERSISTS ON ALL FRONTS. THE CONSEQUENCES ARE ESPECIALLY KEENLY FELT IN THE ECONOMY WHERE INFLATION CONTINUES TO SOAR UNCHECKED WITH A RATE OF 25 O/O EXPECTED THIS MONTH AND MORE THAN 30 O/O IN SEPTEMBER. SINCE THE RETAIL PRICE INDEX IS WEIGHTED IN FAVOUR OF THE QUOTE POOR MAN UNQUOTE AND HIS IMMEDIATE NEEDS, ARGENTINA'S LARGE AND POLITICALLY INFLUENTIAL MIDDLE CLASS IS BEARING A RATE CONSIDERABLY IN EXCESS OF THE 600 O/O ADMITTED BY THE GOVERNMENT. THIS IS STOKING MEDIA CRITICISM OF ALFONSIN'S ADMINISTRATION. COMPANIES HAVE CEASED TO INVEST ON A SIGNIFICANT SCALE AND DEMAND HAS BEEN DECLINING SINCE JUNE AFTER A VERY MODEST RISE IN THE FIRST HALF OF THE YEAR.

3. THE GOVERNMENT HAS SHOWN LITTLE STOMACH FOR IMPOSING DISCIPLINE ON THE STILL-EXPANDING PUBLIC SECTOR, AND THE PROMISE TO CUT THE BUDGET DEFICIT THROUGH HIGHER TAX REVENUES IS STILL UNFULFILLED, FOR THESE HAD DECLINED IN REAL TERMS BY UP TO 19 O/O BY END JULY. TAX EVASION IS RUNNING AT APPROXIMATELY 50 O/O AND RISING, THE SCOPE FOR GENERATING MORE EASILY COLLECTED REVENUE FROM INDIRECT TAXES ON SUCH ITEMS AS PETROL IS LIMITED, AND PLANS TO RATIONALISE THE ENTIRE TAX SYSTEM WILL TAKE AT LEAST TWO YEARS TO BECOM

VE. A REAL DROP IN THE MONEY SUPPLY OF 5.1 O/O OVER THE FIRST SEVEN MONTHS OF 1984 HAS FAILED TO PUT THE BRAKE ON INFLATION, NOW PROBABLY FUELLED OUT OF CONTROL BY CONTINUALLY RISING INFLATIONARY EXPECTATIONS.

4. TRADE UNION LEADERS, HELPING TO CREATE RATHER THAN ALLEVIATE THE CRISIS, REGARD MILITANCY AS A WAY TO SECURE THEIR OWN AUTHORITY, AND THE RADICALS' PLANS FOR A SOCIAL CONTRACT APPEAR UNREALISTIC. HINTS OVER THE LAST WEEK THAT THE GOVERNMENT WOULD STAND FIRM AGAINST THE CRT'S WAGE DEMANDS PROVED GROUNDLESS AS RESISTANCE COLLAPSED WITHOUT PREVENTING THE CGT FROM CALLING A GENERAL STRIKE FOR 3 SEPTEMBER. IF THE LABOUR BOSSES FAIL TO ATTRACT MASSIVE SUPPORT FOR THEIR ACTION THIS TEST OF STRENGTH

GENERAL STRIKE FOR 3 SEPTEMBER. IF THE LABOUR BOSSES FAIL TO ATTRACT MASSIVE SUPPORT FOR THEIR ACTION, THIS TEST OF STRENGTH MIGHT BOOST THE ADMINISTRATION'S IMAGE AND CONFIDENCE. BUT RELIEF WOULD BE ONLY TEMPORARY, BEFORE THE RADICALS' CREDIBILITY AND POPULARITY RESUMED ITS DECLINE. BOTH SIDES WILL PROBABLY CLAIM VICTORY.

1 TM 5. ALFONSIN HIMSELF HAS SO FAR BEEN LARGELY EXEMPTED FROM CENSURE, SINCE HE HAS ALLOWED HIS CABINET TO TAKE THE BLAME FOR THE ILL-JUDGED ECONOMIC POLICIES THAT HAVE CHARACTERISED HIS PRESIDENCY. ALTHOUGH THE LOGIC OF THE IMF ARGUMENT FOR A THOUGH AND ORTHODOX PROGRAMME IS IRREFUTABLE, IT REMAINS UNCERTAIN WHETHER ALFONSIN IS SUSCEPTIBLE TO LOGIC LIABLE TO JEOPARDISE HIS POPULARITY WHICH HE IN TURN SEEMS TO EQUATE WITH THE CONTINUATION OF DEMOCRACY IN ARGENTINA. HE IS ALREADY PREPARING THE GROUND FOR NEXT YEAR'S PARTIAL CONGRESSIONAL ELECTIONS AND HIS TENTATIVE APPEALS FOR AUSTERITY HAVE OMITTED ANY REFERENCE TO SACRIFICE. THE ANTI-INFLATION PROGRAMME ANNOUNCED ON 30 AUGUST APPEARS A REPETITION OF THAT ATTEMPTED AT THE BEGINNING OF THE YEAR, WHEN THE GOVERNMENT AIMED TO CONTROL INFLATION BY DECREE. BUT A STRONG DOSE OF MONETARY AND CREDIT RESTRICTION IS ADDED WHICH, TO BE EFFECTIVE, WILL REQUIRE ACHIEVEMENT OF THE MUCH-SOUGHT BUT STILL UNLIKELY CONCENSUS. SOME CRITICS HAVE EVEN SUGGESTED THE PACKAGE IS ONLY A TEMPORARY FEINT TOWARDS ORTHODOXY FOR THE BENEFIT OF THE IMF. FOREIGN DEBT NEGOTIATIONS WILL CERTAINLY CONTINUE FOR SOME TIME, SHAKILY BUTTRESSED BY SHORT-TERM EXPEDIENTS.

6. MEANWHILE, DISCONTENT AMONGST JUNIOR AND MIDDLE-RANKING MILITARY OFFICERS IS AROUSING GOVERNMENT CONCERN. THERE HAS BEEN TALK OF AN AMNESTY FOR THOSE GUILTY OF HUMAN RIGHTS VIOLATIONS WHICH THE CIVILIAN COURTS HAVE BEEN INVESTIGATING WITH UNACCUSTOMED VIGOUR. IF TRUE, THIS IS YET ANOTHER SIGNAL OF THE GOVERNMENT'S SENSE OF WEAKNESS.

7. FOREIGN POLICY SEEMS SCARCELY BETTER DEFINED. ALTHOUGH ALFONSIN HAS ANNOUNCED A PLEBISCITE FOR THE END OF SEPTEMBER ON A PROPOSED BEAGLE CHANNEL SETTLEMENT WITH CHILE, THE PAPAL PROPOTALS THESELVES HAVE STILL NOT BEEN OFFICIALLY REVEALED AND SOMEWHAT ACCELERATED NEGOTIATIONS APPEAR TO BE CONTINUING IN ROME. IF AND WHEN THE PLEBISCITE IS HELD, ALFONSIN WILL PROBABLY OBTAIN A MAJORITY, BUT TO BE OF ANY REAL HELP TO HIM THIS MUST BE LARGE AND THE PROPORTION OF ABSTENTIONS SMALL. HOPES FOR AN EARLY SOLUTION COULD EASILY BE FRUSTRATED.

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5. FA'S HECTIC PREOCCUPATION WITH THE BEAGLE DISPUTE MAY COMPLICATE ITS PREPARATIONS FOR THE UNGA FALKLANDS DEBATE WHEN ARGENTINA GENUINELY FEARS A LESS FAVOURABLE RESULT THAN LAST YEAR. SHE WILL CONCENTRATE EFFORT ON SECURING THE VOTES OF OUR EC PARTNERS, PARTICULARLY FRANCE AND ITALY, AND SEEMS SET TO PURSUE HER CASE THROUGH INTERNATIONAL FORA FOR THE TIME BEING. DOMESTIC PROBLEMS WILL INHIBIT FLEXIBILITY.

9. THE DEMOCRATIC GOVERNMENT'S ACHIEVEMENTS SO FAR ARE MINIMAL, AND THE PRESIDENT'S APPARENT WILL TO CHANGE HIS CABINE AND DEFINE POLICIES, LIMITED. BUT POSSIBLE ALTERNATIVES, REPRESENTED BY THE PERONISTS OR THE MILITARY, ARE EVEN MORE UNPROMISING AND UNLIKELY. THE COURSE OF "FUDGE IN THE MUDDLE", OR CHRONIC INDEFINITION, SEEMS TO CONTINUE ENDEMIC IN ALFONSIN'S ARGENTINA, LEAVING HIM SCANT SPACE FOR MANOEUVRE ON ECTHER INTERNAL OR FOREIGN PROBLEMS.

JOY

UNQUOTE

CCNS:

PARA 3 LINE 9

.....TAKE AT LEAST TWO YEARS TO BECOME EFFECTIVE. A REAL DROP IN THE MONEY SUPPLY.....

PARA 4: SHLD BEGIN... TRADE UNION LEADERS....

POWELL-JONES

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SENT AT 041615Z