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SUBJECT: AN INSIDER'S VIEW OF VIOLA GOVERNMENT

1. (S-ENTIRE TEXT)

2. ROSENDO FRAGA, ONE OF PRESIDENT VIOLA'S PRINCIPAL ADVISORS, CONVOKED AN EMBASSY OFFICER IN ORDER, IN FRAGA'S WORDS, TO "EXPLAIN TO THE EMBASSY THE FACTS OF THE POLITICAL SITUATION AT AN EXTREMELY CRITICAL MOMENT." FRAGA STATED THAT ARGENTINA IS GOING THROUGH THE WORST ECONOMIC CRISIS IT HAS EXPERIENCED SINCE 1980. POLITICALLY, HE OBSERVED, "THERE IS AN ALMOST UNIVERSAL IMPRESSION IN BUENOS AIRES THAT VIOLA PRESIDENCY WILL NOT LAST."

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HOWEVER, HE SAID THAT IMPRESSION IS MISTAKEN.

3. FRAGA WENT ON TO EXPLAIN THAT THE ARMED FORCES, AND PARTICULARLY THE ARMY, CONTINUE TO SUPPORT VIOLA. THEY DO SO IN PART BECAUSE OF THE LACK OF ANY REASONABLE ALTERNATIVE. ALSO, THE MILITARY RECOGNIZE THAT ANY MOVE TO REPLACE VIOLA WOULD CAUSE DANGEROUS DIVISIONS IN THE ARMED FORCES, PARTICULARLY IN THE ARMY. HE ADDED THAT VIOLA'S MILITARY BACKING SHOULD REMAIN SOLID AT LEAST THROUGH MARCH 1982. HE WAS NOT PRE-

REVIEW AUTHORITY:
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Reviewer

Dictating, he added, that Viola would lose military backing in March 1982. Rather, he said, the coming changes in the leadership of the Air Force and the Navy, plus promotions and retirements in the Army, will begin to produce political effects in the services around March -- and it was impossible at this time to state what those effects would be.

4. Fraga also averred that though the present crisis is economic in nature, its root is political. He particularly blamed conservative anti-Peronist sectors for seeking to undermine Viola. He added that there were also those, including some in the armed forces, who want the government to take a very hard line with political opponents, cracking down on political party activity and the press. Fraga said that Viola could not take such measures without abandoning his political plans and beliefs. He said that instead Viola, through the Minister of Interior, would kick off a new chapter in the political dialogue in early July, inviting party leaders in to discuss the precise terms of the political party law. He added that though the window is narrowing rapidly, Viola still has a confidential

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chance to reach out for civilian political support and intends to try to seize it.

5. Fraga said that the government must also deal with the economic issues. He suggested that the approach the GOA should take would have three elements: increasing salaries; giving the private sector debt relief; and, bringing down interest rates, if necessary by decree. He recognized that such a package would have an inflationary impact, but there is no other solution, he said.

6. COMMENT. Viola is surrounded by advisors. However, Fraga's title to the position is legitimate. For example, he was one of two civilians who accompanied Viola to the United States. His review of the political and economic landscape probably coincides fairly closely with that of the President. The message he offered was, of course, that the United States should still place its bets on Viola. *4-amp;'s estimate of the generalized expectation that Viola cannot last is accurate. But so is his view that there is no reasonable alternative to the Viola presidency. The issue remains whether the armed forces will listen to the voice of reason.
RUSER

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