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FM ATHENS 211000Z SEP 81

TO IMMEDIATE FCO TEL NO 222 OF 21 SEP 1981
DESKBY 211400Z

RPTD IMMEDIATE DESKBY 211400Z TO UKMIS NEW YORK
(FOR PRIVATE SECRETARY)

AND ROUTINE INFO TO ANKARA, NICOSIA AND WASHINGTON .

SAVING TO NATO POSTS, MADRID, MOSCOW, UKREP BRUSSELS AND DUBLIN.

THE GREEK ELECTIONS AND AFTER.

1. ATHENS TEL 215 PROVIDED A RECENT ACCOUNT OF THE PROSPECTS FOR THE ELECTIONS DUE ON 18 OCTOBER. I ENDORSE FAIRWEATHER'S ANALYSIS OF THE RANGE OF POSSIBILITIES AND HIS CONCLUSIONS. I OFFER THE FOLLOWING TENTATIVE LONGER-TERM FORECAST, ON MY RETURN AFTER FOUR WEEKS' ABSENCE, AS BACKGROUND TO MEETINGS THIS WEEK IN NEW YORK AND (SUPPLEMENTING ATHENS TEL 216) FOR THE ASSESSMENTS STAFF PAPER ON THE IMPLICATIONS OF A PASOK VICTORY.

2. I STILL THINK THAT, GIVEN THE PECULIARLY VOLATILE NATURE OF THE GREEK ELECTORATE AND THE FACT THAT A FAIR BODY OF VOTERS HAS CLEARLY NOT YET MADE UP ITS MIND, IT IS UNREALISTIC FOR ANYONE TO MAKE FIRM PREDICTIONS. BUT THE LATEST, NATION-WIDE (NIELSEN) POLL PUBLISHED ON 16 SEPTEMBER SHOWS PASOK LEADING NEW DEMOCRACY BY 40% AGAINST 34% OF THOSE WHO SAID THEY HAD DECIDED. TRANSLATED INTO SEATS, THIS WOULD GIVE PASOK A RELATIVE BUT NOT ABSOLUTE MAJORITY--THE OUTCOME CONSIDERED MOST PROBABLE IN OUR ASSESSMENT OF 15 SEPTEMBER. THIS OUTCOME COULD LEAVE THE MOSCOW-LINE COMMUNISTS HOLDING THE BALANCE IN THE NEW PARLIAMENT. I DO NOT SEE PAPANDEOU BRINGING THE KKE INTO HIS GOVERNMENT. BUT I DO NOT EXCLUDE A PASOK MINORITY GOVERNMENT DEPENDENT ON COMMUNIST SUPPORT OR TOLERANCE--THE WORST-CASE OUTCOME FOR BOTH INTERNAL STABILITY AND WESTERN INTERESTS.

3. MORE PROBABLY PAPANDEOU WOULD, IN THIS CONTINGENCY, CALL FOR NEW ELECTIONS AND, ALTHOUGH ANOTHER EARLY ELECTION COULD BE CHALLENGED AS UNCONSTITUTIONAL, THE PRESIDENT MIGHT AGREE. KARAMANLIS HAS HOWEVER, BEEN SAYING IN PRIVATE THAT HE WOULD LIKE TO SEE A GOVERNMENT RESTING ON THE COMMON SUPPORT OF ELEMENTS FROM NEW DEMOCRACY AND PASOK. IF KARAMANLIS STEPPED IN TO ACHIEVE THIS OBJECTIVE RATHER THAN CALLING NEW ELECTIONS THERE WOULD BE A PERIOD OF GREAT POLITICAL UNCERTAINTY, PERHAPS PROLONGED. BUT PASOK'S MORE EXTREME DOMESTIC AND FOREIGN POLICIES COULD BE CURBED, AND IN THE MEDIUM TERM SUCH AN OUTCOME SHOULD BE MORE FAVOURABLE TO OUR INTERESTS. THERE ARE HOWEVER MANY 'IFS' IN THIS SEQUENCE.

4. A CLEAR OVERALL MAJORITY FOR NEW DEMOCRACY IS POSSIBLE BUT NOT I THINK VERY LIKELY. A MORE LIKELY SCENARIO IS A SLENDER NEW DEMOCRACY MAJORITY OVER PASOK WITH A MINORITY GOVERNMENT WHICH WOULD BE WEAK AND SUBJECT TO DEFECTIONS. IT IS TRUE THAT RALLIS AND MOST OF HIS MINISTERS ARE IN A MORE CONFIDENT MOOD THAN A MONTH AGO. BUT PAPANDEOU'S CALL FOR "THE GREAT CHANGE" AND HIS TAUNTS OF INEFFECTIVE GOVERNMENT HAVE A BROADER APPEAL. THE DECISION ANNOUNCED ON 17 SEPTEMBER OF THE VETERAN CENTRE POLITICIAN GEORGE MAVROS TO JOIN PASOK IS ANOTHER STRAW IN THE WIND. NOR HAS THE GOVERNMENT PARTY BEEN HELPED BY THE ECONOMIC SITUATION, WHICH IS A DOMINANT ISSUE IN THE CAMPAIGN. THE LEAK OF A REPORT ON THE DEPRESSED STATE OF THE COUNTRY'S FINANCES BY AVEROFF IN HIS RECENTLY ASSUMED CAPACITY OF ECONOMIC OVERLORD HAS BEEN A MAJOR EMBARRASSMENT.

5. WHATEVER GOVERNMENT EMERGES WILL FACE A DIFFICULT ECONOMIC SITUATION. BUSINESS CONFIDENCE IS LOW. PRIVATE INVESTMENT HASN PENDING THE ELECTIONS, BEEN AT A STANDSTILL FOR SOME TIME, AND THERE IS SOME EVIDENCE OF A FLIGHT FROM THE DRACHMAE. ALTHOUGH THE RATE OF INFLATION HAS FALLEN SLIGHTLY TO ABOUT 20%, THE PROJECTED PUBLIC SECTOR DEFICIT FOR 1981 IS NOW MUCH HIGHER THAN FORECAST AND FURTHER INFLATION IS THEREFORE IN THE PIPELINE.

TOOTVKBEE IT, ONLY A STRONG NEW DEMOCRACY GOVERNMENT ENJOYING INTERNATIONAL CONFIDENCE WOULD BE IN A POSITION TO TACKLE THESE ISSUES EFFECTIVELY.

6. PAPANDEOU HAS SAID THAT A PASOK GOVERNMENT WOULD TREAT THE ECONOMIC SITUATION AS ITS FIRST PRIORITY. THIS WOULD MEAN ACTION TO BRING INFLATION UNDER CONTROL. THE POLICIES ADOPTED WOULD PROBABLY INCLUDE PRICE CONTROLS AND PERHAPS IMPORT CONTROLS. THIS COULD GIVE RISE TO INVOCATION OF THE SAFEGUARD CLAUSE IN THE TREATY OF ACCESSION. BUT AT THE SAME TIME, PARTICULARLY IF FACED WITH NEW ELECTIONS, A PASOK GOVERNMENT WOULD HAVE TO DO SOMETHING TO REDEEM PROMISES TO THE ELECTORATE : AND THIS ACTION, ESPECIALLY SOCIALISATION AND INDEXATION OF WAGES, WOULD COMPOUND EXISTING ECONOMIC DIFFICULTIES. ONE COULD EXPECT PRESSURE ON THE DRACHMA AND A WORSENING OF THE BALANCE OF PAYMENTS, DEPENDENT AS IT IS ON THE INFLOW OF AUTONOMOUS CAPITAL.

7. WHATEVER THE OITCOME OF THE ELECTIONS, I ANTICIPATE THAT GREECE WILL REMAIN IN THE COMMUNITY. BUT AN OUTHRIGHT PASOK VICTORY OR A PASOK MINORITY GOVERNMENT WILL MEAN DIFFICULTIES ACROSS THE BOARD IN THAT AREA AS WELL AS WITH NATO (THE THREAT TO WITHDRAW AGAIN FROM THE INTEGRATED MILITARY STRUCTURE AND PERHAPS, EVENTUAL WITHDRAWAL FROM THE ALLIANCE) AND WITH THE AMERICANS (DIFFICULT NEGOTIATIONS ON THE US BASES WHICH COULD LEAD TO THEIR REMOVAL). ATTITUDES TOWARDS TURKEY ARE LIKELY TO BE PRICKLIER, NOT ONLY UNDER PASOK IN ANY STRENGTH BUT IF WE HAVE A WEAK NEW DEMOCRACY GOVERNMENT. THE SAME EQUATION APPLIES TO CYPRUS. EVEN IF PAPANDEOU ACHIEVES A LARGE MAJORITY,

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I DO NOT SEE HIM EVER ASPIRING TO BE THE ARCHITECT OF A NEW RECONCILIATION WITH ANKARA AND IT IS HARD TO SEE HIM PUSHING THE GREEK CYPRIOTS IN ANY DIRECTION THEY DO NOT WISH, EVEN IF HE ACCEPTS THE INTERCOMMUNAL TALKS. I AGREE (PARAGRAPH 1 OF YOUR TEL 207 TO NICOSIA) THAT HE WOULD BE LESS LIABLE TO DISRUPT A UN INITIATIVE STARTED BEFORE THE ELECTIONS. PASOK'S LINKS WITH THE RADICAL ARAB STATES, THE PARTY'S ANTI-NUCLEAR STANCE AND THEIR WOOLY VIEW OF EAST-WEST RELATIONS WOULD COMPLICATE POLITICAL COOPERATION. PAPANDREOU HAS, HOWEVER, STRONG VIEWS ON RUSSIAN INTERVENTION IN POLAND, WHICH ARE NOT PREDICATED ONLY ON THE THOUGHT THAT IF THEY DO INVADE HIS ELECTORAL PROSPECTS WOULD BE MUCH REDUCED.

3. MY GENERAL CONCLUSION IS THAT THE FORTHCOMING ELECTIONS MAY WELL SIGNAL THE END OF THE PERIOD OF POLITICAL STABILITY ENJOYED BY GREECE SINCE 1974, EXCEPT IN THE UNLIKELY EVENT OF NEW DEMOCRACY BEING RETURNED AGAIN WITH A SUBSTANTIAL OVER-ALL MAJORITY. A NEW AND SATISFACTORY EQUILIBRIUM MIGHT EVENTUALLY BE ATTAINED THROUGH THE KIND OF COALITION ENVISAGED IN MY PARAGRAPH 4 : BUT SUCH A COALITION WOULD MORE PROBABLY BE A PROVISIONAL AFFAIR, WITH A MINIMUM PROGRAMME, LEADING TO NEW ELECTIONS BEFORE LONG. A PASOK GOVERNMENT WITH AN OVER-ALL MAJORITY AND THE STRENGTH TO GOVERN COULD MELLOW IN OFFICE AND ALSO SUCCEED, AFTER A PHASE OF DIFFICULT ECONOMIC ADJUSTMENT, IN ESTABLISHING ANOTHER KIND OF DOMESTIC BALANCE. BUT IT IS AT LEAST AS LIKELY THAT OFFICE WOULD BRING OUT THE LATENT STRUGGLE BETWEEN MODERATES AND HARDLINERS IN PASOK, AND THAT THE COMBINATION OF DOCTRINAIRE POLICIES, INEXPERIENCE IN GOVERNMENT, AND SHAKE-UP IN THE PUBLIC SERVICES WILL BE A RECIPE FOR CONTINUING POLITICAL AS WELL AS ECONOMIC UNCERTAINTY. PAPANDREOU IS NOT MITTERAND AND ANY PASOK GOVERNMENT WILL BE A DIFFICULT PARTNER IN THE COMMUNITY AND AN UNCERTAIN MEMBER OF THE ALLIANCE
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SUTHERLAND

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