

CONFIDENTIAL

CONFIDENTIAL

FM WASHINGTON 300030Z JAN 82

TO ROUTINE F C O

TELEGRAM NUMBER 283 OF 29 JANUARY

INFO SAVING UKDEL OECD, PARIS, ROME, BONN, TOKYO, OTTAWA, CG'S USA.

MY TELNO 235: PRESIDENT REAGAN'S STATE OF THE UNION ADDRESS

1. IF PRESIDENT REAGAN'S AIM IN ANNOUNCING A MASSIVE TRANSFER OF RESPONSIBILITY FOR SOCIAL PROGRAMMES FROM THE FEDERAL TO THE STATE LEVEL WAS TO SOW CONFUSION, TO FOCUS ATTENTION ON THE STATE OF THE UNION A DECADE HENCE AND TO DIVERT ATTENTION FROM THE ECONOMIC PROBLEMS OF THE COMING MONTHS, HE HAS HAD SOME SUCCESS.

2. THE PRESIDENT PROPOSED A SWAP; THE FEDERAL GOVERNMENT WOULD ASSUME RESPONSIBILITY FOR MEDICAL AID FOR THE POOR (MEDICAID) AND, IN RETURN, THE STATES WOULD ASSUME FULL RESPONSIBILITY FOR AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) WHICH IS NOW A FEDERAL/STATE PROGRAMME, AS WELL AS FOR THE FOOD STAMP PROGRAMME WHICH IS NOW FEDERALLY FUNDED. IN THE ENSUING WELTER OF REACTION AND COMMENT IT HAS BEEN EASY TO OVERLOOK THE FACT THAT THE PROGRAMME WOULD NOT EVEN BEGIN TO BE IMPLEMENTED UNTIL FY 1984 (STARTING IN OCTOBER 1983) AND WOULD ONLY BE FULLY OPERATIONAL TEN YERS FROM NOW. THE PRESIDENT LEFT MANY QUESTIONS UNANSWERED, NOTABLY (A) WHY HE CHOSE TO MAKE THIS APPARENTLY ARBITRARY SWAP BETWEEN FEDERAL AND STATE RESPONSIBILITIES (NEW YORK TIMES: WHERE IS THE LOGIC IN FEDERALISING ONE POVERTY PROGRAM BUT TURNING BACK OTHERS. DO POOR PEOPLE GET EQUALLY SICK IN DIFFERENT PLACES BUT UNEQUALLY HUNGRY?) AND (B) WHAT MEANS, IF ANY, WILL BE FOUND AT THE END OF THE TRANSITION PERIOD TO ENSURE THAT STATES WITH A POOR RECORD IN SOCIAL WELFARE IMPOSE SUFFICIENT TAXES TO GUARANTEE A MINIMUM OF CARE FOR THEIR CITIZENS; I.E. HOW DOES THE ADMINISTRATION ENSURE THE PROVISION OF A SAFETY NET. SOME COMMENTATORS SEE A RISK THAT A LARGE BURDEN WILL FALL ON THOSE STATES WITH A GOOD RECORD (MANY OF THEM THE INCREASINGLY IMPOVERISHED INDUSTRIAL STATES OF THE NORTHEAST) RATHER THAN ON THE WEALTHIER SUNBELT STATES WITH A RELATIVELY POOR RECORD. IF INEQUALITY OF BENEFITS ENCOURAGES A POPULATION SHIFT, PARTICULARLY AMONG MINORITIES, TO THOSE STATES WHICH OFFER GREATER BENEFITS, THE PROBELMS OF THE NORTHEAST AND OF THE NORTH/SOUTH DIVIDE COULD SIMPLY BE EXACERBATED.

3. REACTION TO THE PRESIDENT'S ANNOUNCEMENT HAS TENDED TO DIVIDE ON PARTY LINES THOUGH THE DEMOCRATS ARE BEING GUARDED IN THEIR CRITICISMS NOT LEAST BECAUSE THE IDEA OF RETURNING RESPONSIBILITY OF THEIR OWN AFFAIRS TO THE INDIVIDUAL STATES HAS CONSIDERABLE APPEAL IN A COUNTRY WHERE THE ENCROACHMENT OF FEDERAL BUREAUCRACY HAS BECOME INCREASINGLY UNPOPULAR.

CONFIDENTIAL

4. IT IS IRONICAL THAT THE PRESIDENT'S ANNOUNCEMENT SHOULD COINCIDE WITH THE CENTENARY OF THE BIRTH OF ROOSEVELT WHICH IS BEING CELEBRATED THIS WEEKEND. WHILE CONSERVATIVE REPUBLICANS DRAW SATISFACTION FROM WHAT THEY SEE AS THE FINAL DEATH KNELL OF THE NEW DEAL (WILLIAM SAFIRE: THE REAL REAGAN IS IN THE WHITE HOUSE, ALL'S RIGHT WING WITH THE WORLD), THE REPUBLICANS ARE LESS HAPPY WITH THE PRESIDENT'S FAILURE TO DEAL WITH THE RECORD BUDGET DEFICIT, NOW EXPECTED TO BE DOLLARS 96 BILLION IN FY82. IN A SPEECH THAT WAS OTHERWISE PUNCTUATED BY APPLAUSE AND DELIVERED WITH HIS CUSTOMARY SKILL, MR REAGAN WAS GREETED WITH ALMOST DERISIVE LAUGHTER AT THAT PASSAGE IN HIS ADDRESS WHICH FORECAST THAT THIS YEAR'S DEFICIT QUOTE WILL EXCEED OUR EARLIER EXPECTATIONS UNQUOTE. NOR HAS THE PRESIDENT'S BOLD APPROACH TO FEDERAL FUNDING (DUBBED BY THE PRESS THE NEW FEDERALISM IN A SOMEWHAT UNHAPPY REMINDER OF AN ILL-FATED NIXON SCHEME) SUCCEEDED IN DIVERTING ATTENTION FROM THE BUDGET DEFICIT EVEN AMONG MEMBERS OF THE PRESIDENT'S OWN PARTY. MANY OF THE CONGRESSIONAL REPUBLICAN LEADERSHIP SUCH AS BAKER (SENATE MAJORITY LEADER), DOMENICI (BUDGET COMMITTEE CHAIRMAN) AND DOLE (FINANCE COMMITTEE CHAIRMAN) HAVE MADE CLEAR THAT, WHILE THE NEW FEDERALISM MAY HAVE ATTRACTIONS TWO OR THREE YEARS HENCE, NOTHING IS OF GREATER CONCERN THAN THE ADMINISTRATION'S IMMEDIATE ECONOMIC DIFFICULTIES. WHILE CONSERVATIVE REPUBLICANS LIKE JACK KEMP, SOMEWHAT UNCONVINCINGLY, PLAY DOWN THE ADVERSE EFFECTS OF THE DEFICIT, THE DEMOCRATS ARE EQUALLY ENJOYING THEIR ROLE AS ADVOCATES OF BALANCED BUDGETS AND ARE PORTRAYING THEIR OPPONENTS AS THE LAST OF THE BIG SPENDERS.

5. BEHIND THIS POLITICAL POINT - SCORING LIES A REAL FEAR AMONG REPUBLICAN LEADERSHIP THAT THE PRESIDENT CAN NO LONGER COUNT ON THE SUPPORT OF DEFECTING DEMOCRATS OR ON THE UNITY OF HIS OWN PARTY TO CARRY THROUGH HIS PROGRAMME UNCHALLENGED. EVEN MR REAGAN'S FRIENDS ACKNOWLEDGE THAT HE HAS SIMPLY DUCKED THE DEFICIT ISSUE. AS THE NEW YORK TIMES PUT IT: QUOTE HE MAY BE PASSING THE BUCK, HOPING TO MAKE CONGRESS TAKE THE BLAME FOR RAISING TAXES. HE MAY SEE THE DEFICIT AS A LEVER TO FORCE MORE REDUCTIONS IN FEDERAL SPENDING. OR HE MAY SIMPLY PREFER TO WAIT UNTIL AFTER THE 1982 ELECTIONS BEFORE SWALLOWING THE PAINFUL MEDICINE OF TAX INCREASES. MORE LIKELY, THE PRESIDENT IS GAMBLING ON A SUPPLY SIDE SAVINGS BOOM. UNQUOTE. THE UNCOMFORTABLE FACT IS THAT QUITE APART FROM GROWING SCEPTICISM IN THE PRESS, FEWER AND FEWER OF MR REAGAN'S OWN SUPPORTERS IN CONGRESS BELIEVE THAT SUCH A BOOM IS IMMINENT. WHILE THEY WILL NOT WANT TO CARRY THE CAN FOR THE PRESIDENT BY TAKING THE UNPOPULAR STEPS THAT HE HAS DECLINED TO TAKE, THERE WILL UNDOUBTEDLY BE CONGRESSIONAL ATTEMPTS TO REDUCE THE DEFICIT AS CONGRESSIONAL COMMITTEES GO THROUGH THE BUDGET LINE BY LINE AFTER ITS PRESENTATION ON 8 FEBRUARY. ALL THE OBVIOUS CHOICES (TAX INCREASES; REDUCTIONS IN PUBLIC SPENDING; DEFERRAL OF PROMISED TAX CUTS; REDUCTIONS IN DEFENCE SPENDING) ARE UNATTRACTIVE TO REPUBLICANS IN THIS ELECTION YEAR. BUT THE DEFICIT, THE PROSPECT OF HIGH INTEREST RATES AND THE SCOURGE OF RISING UNEMPLOYMENT, MAY LOOK WORSE.

USA

GRS 1200
UNCLASSIFIED
DESKBY 270930Z
FM WASHINGTON 270315Z JAN 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 236 OF 26 JANUARY 1982
INFO UKDEL OECD
INFO SAVING UKDEL NATO, PARIS, ROME, BONN, TOKYO, OTTAWA,
C G'S IN USA.

*h-a
12/27/1.*

MIPT: STATE OF THE UNION ADDRESS: ECONOMIC MEASURES.

FOLLOWING ARE MAIN POINTS MADE BY THE PRESIDENT ON ECONOMIC POLICY. THEY INCLUDE SOME FURTHER EXPLANATIONS ISSUED IN A WHITE HOUSE PRESS RELEASE.

NO TAX INCREASE TO SOLVE BUDGET PROBLEMS

PRESIDENT REAGAN MADE IT CLEAR THAT LARGER THAN ANTICIPATED DEFICITS - DUE TO THE RECESSION AND THE DECLINE IN PROJECTED INFLATION AND IN THE GROWTH OF GOVERNMENTAL RECEIPTS - WILL NOT BE SOLVED BY RESORTING TO RAISING TAX RATES. SPECIFICALLY, HE WILL PROPOSE NO NEW INCREASES IN EXISTING TAX RATES IN THE FY 1983 BUDGET TO BE RELEASED FEBRUARY 8.

ELIMINATION OF UNNECESSARY AND OBSOLETE TAX CODE PROVISIONS

THE ONLY TAX CHANGES PLANNED ARE OF THE TYPE ANNOUNCED LAST FALL: EFFORTS TO CLOSE LOOPHOLES. THE PRESIDENT RENEWED HIS SEPTEMBER PROPOSALS FOR TAX CODE REVISION AND ANNOUNCED THAT THE FY 1983 BUDGET WILL INCLUDE A PROPOSAL TO STRENGTHEN THE MINIMUM CORPORATE TAX TO ENSURE THAT ALL LARGER, ECONOMICALLY PROFITABLE CORPORATIONS PAY A MINIMUM FAIR SHARE OF FEDERAL TAXES.

OTHER MAJOR TAX CODE REVISIONS WILL INCLUDE THE REPEAL OF ENERGY TAX CREDITS FOR BUSINESS, LIMITATIONS OF TAX-EMEMPT INDUSTRIAL BONDS, CHANGES IN CODE PROVISIONS RELATING TO CONTRACT PROGRESS PAYMENTS AND CONSTRUCTION PERIOD INTEREST AND TAXES, AND ALL HEALTH INSURANCE.

WITH BROAD BASED TAX RATE REDUCTIONS, NEW SAVINGS AND INVESTMENT INCENTIVES AND A GENEROUS BUSINESS DEPRECIATION SYSTEM NOW IN PLACE, THESE SPECIAL TAX CODE PROVISIONS ARE NO LONGER NEEDED. THEIR ELIMINATION WILL INCREASE FEDERAL RECEIPTS BY AN ESTIMATED DOLLARS 24 BILLION IN THE 2-YEAR PERIOD OF FY 1983 AND 1984.

/FEDERAL OUTLAY

FEDERAL OUTLAY REDUCTIONS

PRESIDENT REAGAN INDICATED THERE WILL BE NO RETREAT FROM THE OVERRIDING FISCAL POLICY IMPERATIVE OF REDUCING THE GROWTH RATE OF FEDERAL SPENDING. THE FY 1983 BUDGET WILL INCLUDE DOLLARS 63 BILLION IN NEW ENTITLEMENT REFORMS OVER THE NEXT FOUR YEARS AND SUBSTANTIAL REDUCTIONS IN DISCRETIONARY PROGRAMS. ALSO, THE PRESIDENT WILL PROPOSE TENS OF BILLIONS IN ADDITIONAL SAVINGS THROUGH MANAGEMENT INITIATIVES OVER THE NEXT THREE YEARS - INCLUDING IMPROVED DEBT COLLECTION, SURPLUS PROPERTY SALES, ACCELERATED SALES OF OFF-SHORE OIL AND GAS LEASES, AND STRENGTHENED FRAUD, WASTE AND ABUSE PREVENTION EFFORTS.

OVERALL, THE GROWTH RATE OF FEDERAL SPENDING WILL DECLINE FROM AN AVERAGE OF 17 PERCENT A YEAR FROM FY 1979 TO FY 1981, TO 9 PERCENT IN THE RECESSION BUDGET OF FY 1982, TO ABOUT 5 PERCENT IN THE FY 1983-84 BUDGET.

REDUCTION OF THE FEDERAL DEFICIT

THE PRESIDENT REPEATED HIS COMMITMENT TO REDUCING FEDERAL DEFICITS AND BORROWING BY MEANS OF RENEWED ECONOMIC GROWTH, CONTINUED BUDGET REDUCTIONS, AND ELIMINATION OF TAX ABUSES AND OBSOLETE PROVISIONS.

THE FY 1982 DEFICIT WILL BE UNDER DOLLARS 100 BILLION. ITS SIZE IS LARGELY DUE TO THE CURRENT RECESSION AND CONSEQUENT REDUCTION IN TAX RECEIPTS AND INCREASED UNEMPLOYMENT-RELATED PAYMENTS. THE FY 1982 DEFICIT IS TOO LARGE BUT, NEVERTHELESS, AS A SHARE OF GNP IT IS SMALLER THAN THE RECESSION DEFICIT OF FY 1976.

THE DEFICIT WILL DECLINE EACH YEAR AFTER THE 1982 RECESSION PEAK, AS THE ECONOMIC RECOVERY TAKES HOLD AND BUDGET SAVINGS MEASURES ARE IMPLEMENTED. FULL DETAILS ON ADDITIONAL BUDGET SAVINGS PROPOSALS WILL BE TRANSMITTED WITH THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1983 ON FEBRUARY 8.

A MAJOR NEW PARTNERSHIP WITH STATES AND LOCAL COMMUNITIES

PRESIDENT REAGAN HAS PROPOSED A MAJOR RESHAPING OF THE FISCAL RELATIONSHIP BETWEEN THE FEDERAL GOVERNMENT AND THE STATES. THE PROGRAM, INVOLVING SOME DOLLARS 47 BILLION IN FEDERAL GRANTS-IN-AID, IS INTENDED TO SORT OUT THE RESPONSIBILITIES PROPERLY ASSIGNED TO EACH GOVERNMENTAL LEVEL, RETURN TO THE STATES BOTH THOSE RESPONSIBILITIES BETTER HANDLED BY THE STATES AND THE REVENUE SOURCES NEEDED TO FUND THEM, AND ACHIEVE ECONOMIES FOR THE STATES AND THE FEDERAL GOVERNMENT.

THE PLAN HAS TWO MAJOR COMPONENTS:

(1) A "SWAP" OF MEDICAID TO THE FEDERAL GOVERNMENT FOR FULL FUNDING IN RETURN FOR WHICH THE STATES WOULD ASSUME RESPONSIBILITY FOR THE FOOD STAMP AND AFDC WELFARE PROGRAMS.

(2) A "TURNBACK" OF RESPONSIBILITY TO THE STATES FOR OVER 40 FEDERAL PROGRAMS IN EDUCATION, COMMUNITY DEVELOPMENT, TRANSPORTATION AND SOCIAL SERVICES ALONG WITH FUNDS FROM A DOLLARS 28 BILLION FEDERAL TRUST FUND TO BE FINANCED BY EXISTING FEDERAL EXCISE TAXES. THE TURNBACK WILL BE VOLUNTARY THROUGH FY '87, PERMANENT AFTER THAT.

THE PROGRAM WILL BE PHASED IN OVER 8 YEARS, STARTING IN FY 1984. BY 1991, STATE AND LOCAL AUTHORITIES WILL HAVE ASSUMED RESPONSIBILITY FOR OVER 40 PROGRAMS NOW ADMINISTERED BY THE FEDERAL GOVERNMENT. THE STATE AND LOCAL GOVERNMENTS WILL ALSO HAVE RECEIVED EQUIVALENT REVENUE RESOURCES THROUGH THE ELIMINATION OF MAJOR FEDERAL EXCISE TAXES (ALCOHOL, TOBACCO, TELEPHONE AND MOTOR FUEL EXCEPT FOR A 2 CENTS TAX PER GALLON RETAINED BY THE FEDERAL GOVERNMENT) AND THE PHASE-OUT OF THE FEDERAL WINDFALL PROFIT TAX ON DECONTROLLED OIL.

THE PROGRAM CONTEMPLATES NO NET FINANCIAL GAIN OR LOSS TO THE STATES AND INCLUDES PROTECTIONS IN SUCH AREAS AS PASS-THROUGH OF FUNDS TO LOCAL GOVERNMENTS, CIVIL RIGHTS AND ADEQUATE WELFARE STANDARDS.

ENTERPRISE ZONES

PRESIDENT REAGAN HAS PROPOSED A PLAN FOR CREATION OF ENTERPRISE ZONES AS AN EXPERIMENTAL FREE-MARKET PROGRAM FOR DEALING WITH SOME ASPECTS OF URBAN PROBLEMS. THE PURPOSE OF THE EXPERIMENT IS TO EXPLORE NEW WAYS:

- TO CREATE JOBS IN THE NATION'S DEPRESSED AREAS, PARTICULARLY JOBS FOR DISADVANTAGED WORKERS;
- TO REDEVELOP AND REVITALIZE THE GEOGRAPHIC ZONE AREAS THEMSELVES.

THE PRESIDENT INTENDS TO SUBMIT HIS PLAN FOR ENTERPRISE ZONES TO THE CONGRESS IN THE NEXT SEVERAL WEEKS.

FCO PLEASE ADVANCE TO PS/SIR K. COUZENS (TREASURY), BOTTRILL (TREASURY) AND TO WATSON (BANK OF ENGLAND).

FCO PASS SAVING TO UKDEL NATO, PARIS, ROME, BONN, TOKYO, OTTAWA.

HENDERSON

[ADVANCED/REPEATED AS REQUESTED]

FCO/WHITEHALL
NAD

GR 650
UNCLASSIFIED
DESKBY 270930Z
FM WASHINGTON 270310Z JAN 82
TO IMMEDIATE F C O
TELEGRAM NUMBER 235 OF 26 JANUARY 1982
INFO UKDEL NATO, UKDEL OECD, PARIS, ROME, BONN, TOKYO, OTTAWA,
INFO SAVING C G'S IN USA, MOSCOW AND WARSAW.

h-a.
100227
11.

PRESIDENT REAGAN'S STATE OF THE UNION ADDRESS.

PRESIDENT REAGAN DELIVERED THE ANNUAL STATE OF THE UNION ADDRESS TO CONGRESS THIS EVENING. THE ADDRESS WAS BROADCAST LIVE TO THE NATION. FOLLOWING WERE THE MAIN POINTS.

(1) DOMESTIC.

AFTER OUTLINING THE PROBLEMS WHICH HE HAD INHERITED, THE PRESIDENT REAFFIRMED HIS FAITH IN HIS ECONOMIC RECOVERY PROGRAMME WHICH, HE SAID, WOULD PULL THE ECONOMY OUT OF ITS SLUMP AND PUT THE NATION ON THE ROAD TO PROSPERITY AND STABLE GROWTH BY THE LATTER HALF OF THIS YEAR. ALTHOUGH THE ADMINISTRATION'S FORECASTS WOULD SHOW MAJOR DEFICITS, ALBEIT STARTING AT LESS THAN 100 BILLION DOLLARS, RAISING TAXES WAS NOT THE ANSWER. HE WOULD SEEK NO TAX INCREASES THIS YEAR AND HAD NO INTENTION OF RETREATING FROM HIS PROGRAMME OF BASIC TAX RELIEF. THE WAY TO REDUCE THE DEFICIT WAS TO CUT OUT MORE NON-ESSENTIAL GOVERNMENT SPENDING. SAVINGS WOULD BE MADE IN THE FOLLOWING WAYS.

(A) DISMANTLING THE DEPARTMENTS OF ENERGY AND EDUCATION.

(B) ELIMINATION OF INEFFECTIVE SUBSIDIES FOR BUSINESS.

(C) SAVINGS IN ENTITLEMENT PROGRAMMES TOTALLING SOME DOLLARS 63 BILLION OVER FOUR YEARS.

(D) PLUGGING UNWARRANTED TAX LOOPHOLES AND STRENGTHENING THE LAW WHICH REQUIRES ALL LARGE CORPORATIONS TO PAY A MINIMUM TAX.

(E) THE RETURN OF SOME DOLLARS 47 BILLION IN FEDERAL PROGRAMMES TO STATE AND LOCAL GOVERNMENT, TOGETHER WITH THE MEANS TO FINANCE THEM AND A TRANSITION PERIOD OF NEARLY TEN YEARS TO AVOID UNNECESSARY DISRUPTION. STARTING IN FY84 THE FEDERAL GOVERNMENT WOULD ASSUME FULL RESPONSIBILITY FOR THE COST OF THE MEDICAID PROGRAMME FOR THE POOR. AS A PART OF A FINANCIALLY EQUAL SWAP, INDIVIDUAL STATES WOULD TAKE RESPONSIBILITY FOR AID TO FAMILIES WITH DEPENDENT CHILDREN AND FOR FOOD STAMPS. IN 1984 THE GOVERNMENT WOULD STEP UP A GRASS ROOTS TRUST FUND TO BE FINANCED TO THE TUNE OF DOLLARS 28 BILLION A YEAR FROM EXCISE TAXES AND DESIGNED TO HELP STATES FINANCE THE TRANSITIONAL PERIOD UP TO 1988 WHEN THEY WOULD ASSUME COMPLETE CONTROL OF OVER FORTY FEDERAL GRANT PROGRAMMES.

2. IN A CONCLUDING PASSAGE ON DOMESTIC POLICY THE PRESIDENT SAID THAT THIS TRANSFER OF RESPONSIBILITY FROM STATE TO FEDERAL LEVEL WOULD NOT UNDERMINE THE DISADVANTAGED. THERE WOULD BE NO BACKSLIDING OR SLOWING DOWN ON CIVIL RIGHTS ISSUES.

(II) FOREIGN POLICY.

(A) THE ADMINISTRATION'S CARIBBEAN BASIN PROGRAMME WOULD LEAD TO A MORE SECURE LIFE FOR AMERICA'S NEIGHBOURS TO THE SOUTH. THE U.S. WOULD ACT WITH FIRMNESS TOWARDS THOSE WHO WOULD EXPORT TERRORISM AND SUBVERSION IN THE CARIBBEAN AND ELSEWHERE, ESPECIALLY CUBA AND LIBYA.

(B) SANCTIONS AGAINST THE MILITARY DICTATORSHIP THAT HAD ATTEMPTED TO CRUSH HUMAN RIGHTS IN POLAND - AND AGAINST THE SOVIET REGIME BEHIND THAT MILITARY DICTATORSHIP- CLEARLY DEMONSTRATED TO THE WORLD THAT AMERICA WOULD NOT CONDUCT BUSINESS AS USUAL WITH THE FORCES OF OPPRESSION.

(C) IF EVENTS IN POLAND CONTINUED TO DETERIORATE, FURTHER MEASURES WOULD FOLLOW.

(D) ALL PEACE LOVING-PEOPLES SHOULD SUPPORT THE 30 JANUARY DAY OF SOLIDARITY WITH POLAND AND THE EUROPEAN PARLIAMENT'S CALL FOR A DAY OF SUPPORT FOR AFGHANISTAN ON 21 MARCH.

(E) THE U.S. WAS WORKING FOR A REDUCTION OF ARMS AND MILITARY ACTIVITY EG IN THE INF TALKS. THE U.S. WOULD NEGOTIATE FROM A POSITION OF STRENGTH BASED ON THE REBUILDING OF HER DEFENCES.

(F) FOREIGN POLICY MUST BE ROOTED IN REALISM, THE STARTING POINT OF WHICH WAS RECOGNITION OF WHAT THE SOVIET EMPIRE WAS ABOUT. THE PRESIDENT QUOTED CHURCHILL TO THE EFFECT THAT THE SOVIET UNION RESPECTED ONLY STRENGTH AND RESOLVE IN OTHER NATIONS.

FCO PLEASE ADVANCE TO ERD: PS/SIR K. COUZENS (TREASURY).

FCO PASS SAVING TO MOSCOW AND WARSAW.

HENDERSON

[ADVANCED/REPEATED AS REQUESTED]

FCO/WHITEHALL

NAD



USA
Prime Minister
Sir N. Henderson's account
of Reagan's first year is
worth reading, if you have
time.
A.S.C.
h-a.
ML-1/2.

CONFIDENTIAL AND ECLIPSE

UNITED STATES ANNUAL REVIEW 1981

SUMMARY

1. President Reagan has made a difference. He has stamped his personality on the country and on the year, The American people like him, but he has not yet been truly tested and doubts about him and his policies are likely to grow (Paragraphs 1-3).
2. The Administration have not found it as easy as expected to fulfil their commitment to get government off the backs of the people. Committed to massive increases in defence spending; blocked by Congress from making cuts in social security and unable, because of recession and tight monetary policies, to reap the benefits of their tax cuts, they are now faced with increased unemployment and a record budget deficit. David Stockman is going out of fashion just as Maynard Keynes is coming back in. (Paragraphs 4-9).
3. There are signs of disarray in the Administration even among the White House troika. Weinberger is secure; Haig more so than before. In the Cabinet, Regan (Treasury) and Baldrige (Commerce) have made their mark. Congress has produced few stars. The Democratic Party has not yet found an obvious Presidential challenger for 1984. (Paragraphs 10-13).
4. The Administration's main preoccupations in foreign policy have been:

/(a)

CONFIDENTIAL AND ECLIPSE



CONFIDENTIAL AND ECLIPSE

- (a) to stand up to the Russians and resist the spread of Communism. This aim and the resumed dialogue with the USSR have been tested by Poland;
- (b) a more realistic approach to the third world; though they are stuck for a policy for Central America. Castro and Qadhafi are major obsessions;
- (c) to strengthen alliances. Though alliance consultation, at which they have worked hard, has shown up differences, Haig and Reagan have tried to damp them down.

The neutralist movement has provoked doubts about the US/Europe relationship. One should never forget the importance of America's Far Eastern connections. US isolationism is not on the horizon but Europe should not take America for granted.

(Paragraphs 14-21).

5. The third world is seen in East/West terms on the basis that any enemy of Communism (however disreputable) is a friend of ours. The Middle East has provoked a tug of war between America's traditional ties with Israel, severely tested, and her interest in a better relationship with the Arabs. The risks of trying to have it both ways are evident in policy towards China. Anything to do with the United Nations, including the North/South Dialogue and UNLOSC, is suspect.

(Paragraphs 22-25).

6. Relations with the United Kingdom have been close.

(Paragraph 26).

CONFIDENTIAL & ECLIPSE



BRITISH EMBASSY,

WASHINGTON, D C.

1 January 1982

The Hon The Lord Carrington
etc etc etc
Foreign & Commonwealth Office
London SW1

My Lord

ANNUAL REVIEW 1981

1. Whatever the limitations on the ability of present day democratic leaders to influence events as they would wish there is no doubt that President Reagan has made a difference: peoples' lives in the USA have been affected by his Presidency. Asked after nearly a year in office what accomplishment he was proudest of he replied, "All over America there is a different attitude", by which he meant, in his own words, that despite the recession "there is confidence that things are going to get better", a spirit, so he believed, that was not present a year or two ago, any more than was a widespread sense of patriotism that he also now thinks is prevalent.

2. I think there is truth in these claims and that it is his personality that has stamped the year. Not that he is dominating, as FDR was, or romantic like JFK, or bludgeoning in the manner of LBJ, to mention three of his predecessors this century who have made a considerable personal impact. But he has changed the political climate of this country which not every President has done, and certainly not within the space of a year. Not, I wish

/to suggest

CONFIDENTIAL & ECLIPSE



to suggest, that he will necessarily continue to have this influence, or that he can go on enjoying the present absence of any organised opposition or coherent criticism.

3. It is the nature of Reagan's character and leadership that create doubts about the durability of his sway, at any rate in my mind. You may be getting a little bored with hearing of Reagan's qualities as communicator and charmer, and his capacity to represent and reflect the feelings and responses of the ordinary decent citizen. Nevertheless these are the attributes that got him to the White House and continue to bring him popularity. The Americans respond to them more readily than they do to the mastery of detail or moralising self-doubt that characterised his predecessor. They also like his toughness (sacking air controllers; AWACS; vetoing the budget) though it must be recognised that he has not so far had to undergo any very severe test. But one cannot but ask whether behind it all there is enough of substance to justify all the communication, and whether there is sufficient dynamism, as well as charm, to hold the nation in thrall. I am not sure that there is, and I am certain that scepticism and hostility are bound to grow; they are in any event the concomitant of democratic government and they will be compounded by emerging criticisms of Reagan's ideology and by the growing impact of his economic programme on the welfare of the less-favoured.

4. Getting government off the backs of the people was the

/principal



principal promise of Reagan's Inaugural speech. But he has not done much to implement it, even in the tax area (see below). The Departments of Energy and Education, though under sentence of death from the start, have not yet been killed off. Vice-President Bush was given the task, in between funerals, of supervising de-regulation, one of the new Government's commitments; but the results of this have not been conspicuous. The dilemma is that in a thrusting free-enterprise society the government alone can provide much-needed protection for some sections of the population - and they know this.

5. There was something debonair at first about the Administration's approach to social problems. Surely, they seemed to be saying to themselves, the cutting of school lunch programmes, student loans, Medicare and Medicaid and the provision of relatively less tax relief to the poor than to the rich, would come to be seen by the victims as ultimately for their benefit, just as in the world of sport the fox must come to appreciate the advantages bestowed by the huntsmen. So it came as a shock to him when the Congress rejected Reagan's proposal for reducing Social Security, a "misunderstanding", so he has described it, that was the "one disappointment in what otherwise has been a most successful year". The US Government has discovered, as have other democratic governments, how difficult it is to cut what the public, whom they hope will vote for them again, have come to expect as their due. Yet if you do not attack these entitlements which represent such

/a large



a large proportion of budgetary outlays, how can an adequate dent be made in government expenditure? By way of comparison, whereas in the UK the cost of social welfare as a proportion of government expenditure has remained fairly steady over the last twenty years, in the US these entitlements have almost doubled their share of the budget and now amount to over 47%. There has been another expenditure problem, that of defence. The Government have abided by their commitment to increase defence expenditure, and it is worth recalling by way of comparison that the additional expenditure in this area for 1982 will amount to the equivalent of almost the total UK defence programme for the year. As a proportion of total federal expenditure the amount to be devoted to defence in 1982 is 28%.

6. On the revenue side the Government were committed to reducing taxation and this they have done (even though inflation will make the reduction more apparent than real). Nor have they so far sought to compensate by an increase in indirect tax. Underlying this is the Panglossian assumption that such a reduction will create a growth in economic activity so as to off-set the loss in revenue caused by the cut in the tax rate. Whether or not this trickle-down effect can in theory bring about a surge in the economy in anything but a longish time-scale, it is certain that the tight monetary creed in which the Government believe and of which Volcker has been the high and unrelenting priest at the Federal Reserve Board has thwarted it this year. After a short rise in the

/first quarter



first quarter when GNP increased by 2% the economy has remained flat or in decline ever since. The motorcar and building industries, which are particularly sensitive to high interest rates, have been and remain hard-pressed. Most forecasters expect little or no GNP growth in 1982, though the prognosis is favourable for the second half.

7. Inflation has come down to about 10% compared with 13% at the turn of the year. But unemployment rose during the year to over 8% with the rate for blacks, other minorities and teenagers very much higher, raising the spectre of a recurrence of social tensions (for black teenagers the rate is over 40%).

8. The President has spent a great deal of time trying to cajole Congressmen into supporting his plans for reducing expenditure and taxation. He has not been totally successful and, given the inherent conflict between the White House and Capitol Hill, it is difficult to see how he could have been. The effects of this and of the recession are that the Government do not look like succeeding in one of their main aims which was to reduce the Government deficit. They had hoped to bring this down from about \$45 billion in 1982 to zero in 1984; but the deficit now appears to be going from over \$100 billion in 1982 (a record) to a still higher figure in 1984. This forecast has dismayed Wall Street.

9. Some officials are already suggesting that government deficits may not be all that wrong in a time of recession;

/so John Maynard



so John Maynard Keynes, who began the year at the bottom of the class, looks like reaching Remove by the end. An opposite trajectory has been followed by the Director of the Budget, David Stockman, who started out as the Reaganauts' prize pupil but who has been given a hiding by the President - "a visit to the woodshed" as it is described in Mid-West jargon - for having revealed to the Atlantic Monthly flaws in the Government's economic programme.

10. This Stockman episode has been one of several signs of disarray in Reagan's team. He had tried to introduce a system akin to Cabinet Government, but it is difficult to recognise it under that name, and such a system is not, in my view, compatible with Presidential government (at any rate on either the US or French model). At the centre of affairs has been the strong triumvirate of Meese, Baker and Deaver, who have exercised powerful and harmonious influence; a team that has, however, just scored an own goal by the announcement that Deaver will be leaving the White House in a year's time as he cannot afford to live on the salary of \$60,000 a year; not, it is admitted, a convincing mark of dedication to the public service. I do not attach much importance to Dick Allen's reduced role in the National Security Council or to his abilities, whatever his involvement with the Japanese.

11. Of the Ministers, you know about Haig's roller-coaster performance. He is looking at ease with himself now and his

/position



position seems more secured. Reflecting on his first year in office I cannot escape the conclusion that whatever his problems, whether of status or of character, he has made a distinct mark, much more so, for example, than did either of his two predecessors. People may laugh about him, or criticise him, but he does not induce indifference. Weinberger is close to the President, and at the Pentagon has shown authority without brashness. He is dogmatic but not polemical. He is his own master however much he may have been set around at the Pentagon by people not of his choosing. Given his background and interests he seems miscast, and he may even think so himself.

13. Regan has enhanced his reputation at the Treasury, almost pari passu with the decline of Stockman's. He has been helped by following in Miller's footsteps. I think his financial colleagues round the world find it possible to have discussions and do business with him on a basis of rationality. He has clear-cut opinions, not to say prejudices, as was apparent to me when he told me à propos Keynes that it must not be forgotten that he was a homosexual. As Secretary of Commerce Baldrige has cut a dash, helped by his much publicised hobby as a cowboy with a gift for lassoing. He has a big department and seems to handle it with aplomb. All in all I do not think that the Cabinet have either shone or shown themselves dimmer than their predecessors. But I should add in parenthesis that, whatever their qualities as individuals, Cabinet Ministers are not necessarily the main wielders of power, which here is so diffused that Congressmen may on occasion excel them in influence.

/13.



13. No single Congressman has, however, captured the limelight. Senator Baker strikes me as the star performer of the year and Senator Percy the dunce. The Democrats have been disorganised. No obvious candidate has emerged for their Presidential nomination in 1984 either on the Hill or on the other main recruiting ground for the Presidency, the State Governorships. In the Republican camp, Reagan himself continues to keep his options open for a second term.

14. When they took office, Reagan and his Ministers emphasised how domestic affairs, particularly the rejuvenation of the economy and the control of inflation, would have priority over foreign affairs. But the President has been drawn increasingly into international questions; and at the end of the year the crackdown in Poland and relations with Israel must be his most time-consuming preoccupations.

15. Reagan's overall foreign policy aim was to restore America's prestige and self-confidence. The specific new directions were defined as:

- a) Standing up to the Russians and resisting the spread of Communism on the basis of increased military strength and plain-speaking.
- b) Renewal of traditional alliances.
- c) A more "realistic" approach to the Third World.

16. I believe that the Administration thought that they were doing well in the first of these objectives until the crackdown in Poland. They set much store by the firmer foundations that

/would



would be provided by the increased defence effort; and a great deal of attention was devoted to the Rapid Deployment Force. They have resumed a dialogue with the Soviets (Haig has said that he has seen Dobrynin over 20 times); and they have embarked on INF talks and committed themselves to resuming SALT (now START).

17. Haig made El Salvador his first test of resistance to Cuban/Soviet subversion, and he continues to fulminate against Castro and the Sandinistas in Nicaragua. Fearful of the rot spreading further, the Administration nevertheless do not give the impression of having a clear idea of what to do about it.

18. The other obsession has been Qadhafi who epitomises everything that the Administration most dislikes. International terrorist par excellence and gold medalist of subversion, he is seen by Washington as the abettor of Soviet influence in the area and the would-be assassin of American leaders.

19. The new Administration have made much of the importance that they attach to proper consultation with their European allies. There have undoubtedly been lapses, eg over announcements about the lifting of the grain embargo and the neutron bomb, but they have tried hard to live up to their intentions, and in the latter months of the year, particularly over arms control and Namibia, consultation has been intense. There are differences over Poland, stemming from the pressures the Administration are under to take action, even if this means moving ahead of their Allies. There is always a readiness amongst the press in Washington, and perhaps in Europe, to play up differences of

/policy



policy between the two sides of the Atlantic, and I think that Reagan and Haig have done their best to damp this down, with the important exception of matters concerning Israel.

20. The Administration took care to differentiate between public anti-nuclear and anti-American demonstrations in Europe and the attitudes of Governments there, but the adverse effect of the former on US opinion should not be discounted, however much they may have been encouraged by US rhetoric. I do not think that there is a widespread view here in favour of US withdrawal from Europe because of European attitudes. But the events of the year have demonstrated once again how imprudent it would be for Europe to take American backing for granted.

21. As Europeans we tend to neglect the importance to the Americans of their Far Eastern connections. These are particularly pertinent in an Administration full of Californians. No opportunity is missed by the current American leaders of referring to their alliance with Japan. Seen from here, the latter tend to produce too many cars and not enough battleships.

22. The Reagan people have seen Third World issues largely in East/West terms: the root of many Third World problems lies not necessarily in economic deprivation, social conditions, tribalism or racism, but in the machinations of the Soviets or their surrogates. This partly explains the Government's tendency to provide military support all round the world as the first step in resistance to the spread of Communism (note the lifting of

/a number



CONFIDENTIAL & ECLIPSE

11

a number of previous arms embargoes). It is also relevant to what appears to many other Western countries as a lack of scruple about the type of regime they are prepared to support. It is a readiness to resist Communism that counts. Personally I believe that anti-Communism has been a greater motive force in US foreign policy since the Second World War than any positive ideal including humanitarianism, though many Americans will argue that the two are inseparable.

23. In the Middle East Reagan and Haig, despite their Zionism, have recognised the need to fortify relations with other Arab countries, principally Saudi Arabia, for reasons both of anti-Soviet strategy and oil. This led to the AWACS deal and later to the condemnation of the Israeli raid on Iraq and of the annexation of the Golan Heights. The new Administration also embraced the Camp David process despite its parentage. The Israelis insisted on this and the Americans saw no alternative despite disenchantment with Begin, given Sadat's, and later Mubarak's, eagerness to carry on with it and thereby secure Israel's withdrawal from Sinai. Initial flirtation with the Fahd plan and subsequent relief when it was ditched at Fez illustrate the tug-of-war in US policy.

24. The attitude of the new Administration towards China exemplifies the influences that are at work on the present Administration. Republicans tend to be pro-Taiwan, but with their need to stand up to the Soviets they should in theory do nothing to jeopardise relations with Peking. Needless to say they are trying to have it both ways, and there is a serious danger that arms sales to Taiwan will upset the relationship with China.

/25.

CONFIDENTIAL & ECLIPSE



25. Along with the anti-Soviet focus goes a deep scepticism in the present Administration about the value of any kind of North South dialogue, and a distaste for the UN. Why should the United States, defender of the free world, put up with a barrage of insults from an organisation dominated by the vociferous and incompetent? Hence their attitude to UNLOSC and to global negotiations. The Americans are scathing about the UN as a forum for helping developing countries, as compared with the World Bank or the IMF and they have a predilection for bilateral rather than multilateral aid.

26. Relations between the UK and the new US Government were given a good foundation by the Prime Minister's visit here in February; they have remained predictably close. Apart from a more than usually large flow of defence, commercial, cultural etc, exchanges, intensified by the advent of a new Administration, there were thirty-nine Ministerial visits to the US in 1981 and six visits by Select Committees of the House of Commons. Northern Ireland, particularly the hunger strike, brought us a lot of trouble. On the bright side, not for a long time have we had so much or such favourable publicity as that produced by the Royal Wedding. Our economic difficulties continue to weaken our authority, but our Presidency of the Community, at a time of heightened international tension, has added something to our relationship with Washington.

I have the honour to be
My Lord
Your obedient Servant

Nicholas Henderson



CALENDAR OF EVENTS 1981

JANUARY

- 1 President Carter sets a deadline of 16 January for Iranian response to US proposals on the hostage crisis.
- 2 President Carter extends for another year the US embargo on the sale of grain to the Soviet Union.
- 5 97th Congress convenes. Republicans control the Senate for the first time in twenty eight years.
- President-elect Reagan meets President Lopez-Portillo in Mexico.
- 9 - 15 Senate Foreign Relations Committee holds confirmation hearings on Secretary of State-designate Alexander Haig.
- 14 - 16 Visit to Washington of the Race Relations and Immigration Subcommittee of the House of Commons Home Affairs Committee.
- 15 President Carter submits to Congress his budget for FY 1982 including a projected deficit of \$27 billion.
- 16 President Carter sends his final State of the Union message to Congress.
- 19 President Carter announces agreement with Iran on terms for the release of the US hostages.
- 20 Ronald Wilson Reagan sworn in as 40th President of the United States.
- US hostages released from Tehran.
- 27 US hostages greeted by President Reagan in Washington.
- 28 Visit of Prime Minister Seaga of Jamaica for talks with President Reagan.
- President Reagan removes remaining price controls on gasoline, propane, and US-produced crude oil.
- 28 - 5 Visit of President Chun of South Korea for talks with
Feb President Reagan.
- 29 In his first press conference as President, Mr Reagan criticises the Soviet Union as liars and cheats.

/FEBRUARY



FEBRUARY

- 1 - 6 Visit to the United States of cross-party group of MPs on Northern Ireland (Michael Mates (Conservative), Don Concannon (Labour) and Stephen Ross (Liberal))
- 3 At his first press conference, Secretary of Defense Weinberger announces that the US Government is looking at the possibility of producing the neutron bomb.
- 5 Mr Reagan, in his first broadcast as President, says that economic calamity threatens the United States.
- 6 President Reagan's 70th birthday.
- 18 President Reagan delivers economic address to Congress outlining his Administration's economic strategy.
- 25 - 28 Visit of the Prime Minister, The Rt Hon Margaret Thatcher MP, and the Secretary of State for Foreign and Commonwealth Affairs, The Rt Hon The Lord Carrington, to Washington and New York.
- 26 Prime Minister holds talks with President Reagan, meets Senators and Congressmen and attends dinner at the White House.
- Pope John Paul II visits Anchorage, Alaska.
- 27 Prime Minister receives honorary degree from Georgetown University and gives dinner at the British Embassy in honour of President and Mrs Reagan.
- 28 Prime Minister receives Donovan Award in New York.

MARCH

- 3 In a television interview, President Reagan says that his Government will not allow US involvement in El Salvador to turn into another Vietnam.
- 6 President Reagan gives his second press conference devoted mostly to El Salvador.
- Walter Cronkite retires as CBS News Anchorman.
- 10 President Reagan submits to Congress FY 1982 budget totaling \$695.3 billion (\$43.9 billion less than sum proposed by President Carter).

/US Treasury



- 10 US Treasury announces policy of not interfering on foreign exchange markets on its own account except to counter conditions of disorder.
- 10 - 12 Visit of the Secretary of State for Defence, The Rt Hon John Nott MP, for talks with Secretary of Defense Weinberger.
- 16 "Four Horsemen" (Senators Kennedy and Moynihan, Speaker O'Neill and Governor Carey) issue annual St Partick's Day Statement on Northern Ireland and announce formation of Friends of Ireland group.
- 17 President Reagan lunches at Irish Embassy and issues St Patrick's Day statement on Northern Ireland.
- 18 In his first appearance as Secretary of State, Mr Haig tells House Foreign Affairs Committee that the Soviet Union is responsible for international terrorism
- 19 Senate Budget Committee vote spending cuts totalling \$36.4 billion for 1982.
- 22 - 27 Visit to Washington of House of Commons Defence Committee.
- 26 Secretary Haig publicly denies rumours that he plans to resign in dispute over control of crisis management in the Administration.
- 30 Assassination attempt on President Reagan.

APRIL

- 1 Prime Minister of the Netherlands, Mr van Agt, holds talks with Vice President Bush, standing in for President Reagan.
- 3 President Reagan, from hospital, sends a letter to President Brezhnev emphasising the US Administration's concern over the situation in Poland.
- 4 - 8 Secretary Haig visits Italy, Egypt, Israel, Jordan, Saudi Arabia and Spain.
- 7 President Reagan leaves hospital.
- 12 - 14 First flight of space shuttle Columbia.
- 22 - 12 Visit to United States of the Archbishop of Canterbury, May the Rt Rev Robert Runcie.

/President Reagan



- 24 President Reagan lifts embargo on sale of grain to Soviet Union.
- 28 President Reagan gives his first nationally televised address to Congress since assassination attempt.
- 30 - 3 Visit of HRH The Prince of Wales to Washington DC and
May Virginia.

MAY

- 3 Japanese manufacturers agree to limit car exports to the United States.
- 3 - 10 Visit of Minister of State for Trade, Mr Cecil Parkinson MP
- 4 - 5 Secretary of State Haig attends NATO Ministerial Meeting in Brussels.
- 4 - 8 Visit to United States of Prime Minister Suzuki of Japan.
- 6 Message to Prime Minister from Four Horsemen criticising British handling of the hunger strike in Northern Ireland.
- 7 President Reagan scores his first major Congressional victory: the House of Representatives approves spending target of \$688.8 billion for FY 1982.
- 7 - 8 Visit of Mr Nicholas Ridley MP, Minister of State at the Foreign and Commonwealth Office, for talks on the future of Belize.
- 12 US Administration proposes revisions to social security system.
- 17 President Reagan receives honorary degree at Notre Dame University: his first public appearance outside Washington since assassination attempt.
- Senate votes unanimously against President Reagan's proposed cuts in social security benefits.
- 20 - 23 Visit of Chancellor Schmidt of the Federal Republic of Germany for talks with President Reagan.
- 25 - 27 Visit of Secretary of State for Employment, The Rt Hon James Prior MP
- 28 - 29 Visit of Secretary of State for Energy, The Rt Hon David Howell MP.

/House of Commons



30 - 2 House of Commons Committee on Education, Science and the
June Arts visit to Washington.

JUNE

- 4 President Reagan revises his income tax cut proposals from 30% to 25% over three years.
- 5 Senate Foreign Relations Committee votes against appointment of Ernest Lefever as Assistant Secretary for Human Rights: first rejection of a Presidential nominee in thirty one years.
- 8 - 9 Visit of President Lopez-Portillo of Mexico.
- 8 - 11 Visit of Lord Trenchard, Minister of State for Defence.
- 9 State Department condemns Israeli raid on Iraqi nuclear reactor of 7 June.
- 10 US Administration suspends delivery of F16 shipments to Israel.
- 12 - 16 Visit to the United States of the Lord Privy Seal, The Rt Hon Sir Ian Gilmour MP
- 16 President Reagan gives his first press conference since assassination attempt.
- 16 - 18 House of Commons Energy Committee visit to Washington.
- 17 HRH The Prince of Wales attends performance of the Royal Ballet in New York.
- 18 Meeting in Washington between President Reagan and Prime Minister Lee Kuan Yu of Singapore.
- 19 United States votes for Security Council resolution condemning Israeli bombing of Iraqi nuclear reactor.
- 20 - 21 Visit of the Secretary of State for Defence, The Rt Hon John Nott MP, for talks with Secretary of Defense Weinberger.
- 23 - 24 Visit to Washington of the Minister of Agriculture, The Rt Hon Peter Walker, MP
- 25 Vice President Bush holds talks with Prime Minister and Lord Carrington in London.

/House of Representatives



26 House of Representatives approves the Reagan budget by 217 - 211 votes.

30 Talks in Washington between President Reagan and Prime Minister of Australia, The Rt Hon Malcolm Fraser.

JULY

7 President Reagan defends US foreign policy in a speech in Chicago.

President Reagan nominates Sandra Day O'Connor to be the first woman member of the Supreme Court.

9 - 10 Visit of Mr Michael Alison MP, Minister of State for Northern Ireland, for talks with the Administration and Congress on Northern Ireland.

10 - 11 Visit of Mr Nicholas Ridley MP, Minister of State at the Foreign and Commonwealth Office, for talks on Belize.

14 Mr Max Hugel, CIA chief of covert operations, resigns following revelations of business malpractice.

Secretary of State Haig in speech to the Foreign Policy Association, sets out Administration's policy on arms control.

16 Visit to Washington of House of Commons Select Committee on Transportation.

16 - 17 Visit of The Rt Hon The Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs, for talks with Mr Haig and Mr Weinberger.

17 US Administration presents the National Energy Policy Plan to Congress, emphasising a more market-oriented approach to energy policy.

19 - 21 President Reagan attends Ottawa Seven-Power Summit.

27 In televised appearance to the nation, President Reagan calls for public support for his tax cut proposals.

29 Mrs Reagan attends Royal Wedding in London.

President Reagan wins support for tax cut bill by 238 - 195 votes in House of Representatives.

/After questioning



- 29 After questioning CIA Director, William Casey, for five hours in closed session, Senate Intelligence Committee decides that there is no basis for concluding that Casey is unfit to serve.

AUGUST

- 3 US Air Traffic Controllers' strike begins. President Reagan announces sacking of strikers.
- Four Horsemen ask for meeting with President Reagan following hunger strike deaths in Northern Ireland.
- US dollar climbs to eleven year high on foreign exchange markets.
- 4 - 9 State visit of President Anwar Sadat of Egypt
- 6 - 3 President Reagan on holiday in California.
Sept
- 11 Secretary of State Haig makes major speech on East/West relations.
- 13 President Reagan signs Economic Recovery Tax Act and Omnibus Reconciliation Act to implement his economic programme.
- 17 Following meeting of the National Security Council in Los Angeles, US Government announces resumption of F15/16 supplies to Israel.
- 18 President Reagan holds meeting with economic advisers in Los Angeles to discuss forecasts of budget deficits.
- 19 US shoots down two Libyan aircraft over the Gulf of Sirte.
- 21 Defense Secretary Weinberger holds talks in London with Secretary of State for Defence, The Rt Hon John Nott MP
- 25 Federal Reserve Board approves Midland Bank bid for Crocker National Bank.
- 31 US Stock Market plunged fifty points during the month of August.

SEPTEMBER

- 1 US vetoes UN Security Council draft resolution condemning South African invasion of Angola.

/Visit to the



- 7 - 14 Visit to the United States of Prime Minister Menachem Begin of Israel.
- 10 US Cabinet meets to decide further budget cuts for FY 1982 and 1983.
Congressional Budget Office predicts budget deficit of \$80 billion for FY 1982.
- 12 Secretary Haig, on visit to Europe, holds talks with Crown Prince Fahd of Saudi Arabia in Malaga.
- 15 - 17 Visit to Washington of the Secretary of State for Trade, The Rt Hon John Biffen MP
- 18 President Reagan, President Lopez-Portillo of Mexico and Prime Minister Trudeau of Canada meet in Grand Rapids, Michigan at dedication of Gerald Ford Museum.
- 19 250,000 people take part in US labour solidarity rally in Washington DC.
- 20 - 3 Visit to the United States of Mr Timothy Raison MP, Minister of State at the Home Office, to study US race relations.
Oct
- 21 - 23 Visit to New York of The Rt Hon The Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs, for the UN General Assembly.
- 23 Meeting between Secretary Haig and Soviet Foreign Minister Gromyko in New York.
- 24 In a speech to the nation President Reagan proposes \$16 billion of new spending cuts and minor tax increases for FY 1982.
- 25 Sandra Day O'Connor sworn in as the first woman Justice of the Supreme Court.
- 25 - 1 Visit to the United States for IMF/IBRD meeting of the Chancellor of the Exchequer, The Rt Hon Sir Geoffrey Howe MP, and the Governor of the Bank of England, Mr Gordon Richardson.
Oct
- 25 President Daniel Arap Moi of Kenya visits Washington for talks with President Reagan.
- 29 President Reagan, in a speech to the IMF/IBRD annual meeting, stresses the role of the private sector in economic development.

/Senate



30 Senate votes to repeal Clark Amendment banning covert aid to factions in Angola.

OCTOBER

- 1 In his fourth press conference, President Reagan announces US intention of maintaining pro-West regime in Saudi Arabia.
US Administration notifies Congress of its intention to sell five AWACS aircraft to Saudi Arabia.
- 2 President Reagan announces decision on basing of MX missiles, construction of the B1 bomber and development of the D5 Trident missile.
- 6 President Reagan condemns assassination of President Anwar Sadat of Egypt as "cowardly infamy".
- 6 - 9 Visit to Washington of Mr Peter Blaker MP, Minister of State for the Armed Forces.
- 8 President Reagan makes major statement on civil nuclear policy including removal of ban on the reprocessing of spent fuel from nuclear power plants.
- 10 Ex-Presidents Carter, Ford and Nixon attend President Sadat's funeral in Cairo.
- 12 - 16 Visit to the United States of Lord Trenchard, Minister of State for Defence Procurement.
- 13 - 14 State visit to the United States of King Juan Carlos of Spain.
- 14 US House of Representatives votes by 301 - 111 against proposed F15 enhancement/sale of AWACS to Saudi Arabia.
- 15 Senate Foreign Relations Committee votes 9 - 8 against F15 enhancement/sale of AWACS to Saudi Arabia.
In a speech in Philadelphia, President Reagan urges developing countries to emulate US economic success.
- 17 - 19 Visit of the Lord Chancellor, The Rt Hon The Lord Hailsham, for celebration of the 200th anniversary of the Battle of Yorktown.
- 17 - 19 State visit of President Mitterrand of France.

/Defense Secretary



- 20 - 22 Defense Secretary Weinberger attends NATO Nuclear Planners Group meeting at Gleneagles, Scotland.
- 21 - 23 President Reagan attends North/South Summit in Cancun, Mexico.
- 21 - 23 Visit to Washington of the Minister of State for Consumer Affairs, The Rt Hon Sally Oppenheim MP
- 22 - 23 Visit of Lord Trefgarne, Parliamentary Under Secretary of State, Foreign and Commonwealth Office, including meeting with Deputy Secretary Clark.
- 25 - 30 Visit of House of Commons Select Committee on Foreign Affairs.
- 28 US Senate approves F15 enhancement/sale of AWACS aircraft to Saudi Arabia by 52 - 48.
- 30 Treasury Secretary Regan says that a balanced budget by FY 1984 is "possible but not probable".

NOVEMBER

- 2 - 4 State visit to Washington of King Hussein and Queen Noor of Jordan.
- 3 President Reagan expresses confidence in Secretary Haig following press speculation over Haig's future as Secretary of State.
- Democrats capture governorship in Virginia state elections.
- 4 Secretary Haig, in testimony to the Senate Foreign Relations Committee, says that NATO planning includes the possibility of a demonstrative nuclear explosion.
- 6 President Reagan receives Irish American Historical Society Award in New York.
- President Reagan publicly acknowledges that balanced budget is unlikely to be achieved by FY 1984.
- 10 At Mr Reagan's fifth Presidential press conference he reaffirms faith in his basic economic plan.
- 12 In an article published in Atlantic Monthly, OMB Director, David Stockman, expresses scepticism about Reagan economic programme.

/Second flight



- 12 - 14 Second flight of the US Space Shuttle Columbia
- 13 Richard Allen, National Security Adviser, implicated in bribery allegations following receipt of \$1000 honorarium from Japanese magazine.
President Reagan declines to accept offer of resignation by OMB Director, David Stockman.
- 16 By 201 - 189 votes House of Representatives defeats stopgap spending bill backed by the Administration.
- 16 - 19 State visit of President Luis Herrera Campins of Venezuela.
- 18 President Reagan, in speech on US arms control policy, proposes zero outcome in Long Range Theatre Nuclear Force negotiations.
- 19 House of Representatives approves Administration's BI bomber and MX missile programmes.
- 22 - 24 Visit to Washington of Minister of State for Foreign and Commonwealth Affairs, Mr Richard Luce MP for talks on Belize.
- 23 UK, France, Italy and Netherlands announce participation in Sinai multinational force.
President Reagan vetoes Congressional temporary funding resolution for FY 1982. Existing continuing resolutions extended to 15 December.
State Department welcomes European participation in Sinai multinational force.
- 23 - 25 Visit to Washington of Minister of State for Foreign and Commonwealth Affairs, The Hon Douglas Hurd MP for talks on the Middle East and disarmament, including meeting with Secretary Haig.
- 27 Israeli Foreign Minister Shamir holds talks in Washington with Secretary Haig on Israeli reaction to European participation in the Sinai multinational force.
- 29 President Reagan's National Security Adviser, Richard Allen, takes administrative leave following allegations of financial malpractice.
- 30 US/USSR talks on intermediate nuclear forces open in Geneva.

/November



30 November unemployment rate of 8.4% is highest in over six years.

US/Israel strategic cooperation agreement signed in Washington DC.

DECEMBER

- 1 Department of Justice finds no grounds for appointing a Special Prosecutor to investigate Japanese payment to Richard Allen.
- Following lengthy investigation into CIA Director William Casey, Senate Intelligence Committee concludes that Casey is "not unfit to serve".
- 2 President Reagan meets AFL-CIO labour leaders at the White House.
- 2 - 3 Visit to London of Deputy Secretary Clark for talks with the Lord Privy Seal, The Rt Hon Humphrey Atkins MP, and other Government Ministers.
- 3 - 11 Defense Secretary Weinberger visits Morocco, Turkey, Brussels (for NATO Defence Ministers meeting) and London (including talks with Secretary of Defence, John Nott and the Prime Minister).
- 4 President Reagan signs new regulations easing restrictions on US collection of foreign intelligence.
- Secretary of State Haig, at OAS meeting in Saint Lucia, calls for action against Nicaraguan/Cuban threats to the peace.
- 8 President Kyprianou of Cyprus holds talks in Washington with President Reagan and Secretary Haig.
- 9 Secretary Haig visits Brussels for NATO Foreign Ministers' meeting.
- Department of Justice launches enquiry into possible kick-backs received by Labour Secretary Donovan.
- 10 President Reagan calls on all Americans to leave Libya as soon as possible and invalidates passports for travel to Libya.
- 11 Congress adopts continuing resolution authorising federal expenditure until 31 March 1982.

/Secretary Haig



- 13 Secretary Haig cancels planned visits to Israel, Turkey, Pakistan, India, Egypt and Morocco and returns to Washington from Brussels following declaration of martial law in Poland.
- 15 President Reagan signs into law a temporary Congressional resolution funding the Government until the end of March 1982.
- 16 First session of the 97th Congress ends.
- 17 In his sixth Presidential press conference, Mr Reagan says that the US Administration views the Polish situation in the gravest terms.

US votes for UN Security Council Resolution declaring Israel's annexation of the Golan Heights null and void.
- 18 US announces suspension of strategic cooperation agreement with Israel.
- 20 Polish Ambassador to the US, Romuald Spasowski, is granted political asylum in the US.
- 21 State Department revokes visa of the Rev Ian Paisley MP and denies him entry into the US.
- 23 President Reagan, in Christmas broadcast to the nation, announces economic action against Poland and warns of action against the Soviet Union if repression continues.

US Department of Justice clears National Security Adviser, Richard Allen of wrongdoing. Department of Justice appoints a special prosecutor to investigate allegations against Labour Secretary Donovan.
- 27 President Reagan, in a press interview, says that a summit meeting with President Brezhnev is likely in 1982.
- 28 Secretary of State Haig attends lunch at the British Embassy with European Community Ambassadors.
- 29 President Reagan announces sanctions against the Soviet Union.



With the compliments of
HER MAJESTY'S AMBASSADOR

BRITISH EMBASSY
WASHINGTON, D.C.



Prime Minister

fs

Paul

UNITED STATES: ANNUAL REVIEW 1980

SUMMARY

1. The Presidential election result reflects the mood of the country: not heroic, but a mixture of frustration and resignation, condemning Carter's incompetence and acknowledging Reagan's qualities (paragraphs 1-4).

2. Inflation and Iran were the two decisive nails in Carter's coffin. There has been inconsistency in the handling of the economy. The energy policy has been only partially successful. On trade policy he has contained the worst protectionist pressures (paragraphs 5-9).

3. Opinion polls failed to predict Reagan's landslide, a movement that has also affected Congress where the Republicans now have a Senatorial majority (paragraph 10).

4. Most issues have had to be seen through the electoral lens: Iran, Africa and Central America. Resolute measures were taken after Afghanistan, but these led to tensions in the Alliance. The Iraq/Iran war provided an unexpected break enabling the USA to secure a firmer military footing in the Gulf and to give greater substance to the Carter doctrine (paragraphs 11-12).

ECLIPSE
CONFIDENTIAL

- 2 -



5. The problems of relations with Saudi Arabia and of the Arab/Israel dispute will persist (paragraphs 13-14).
6. Greater defence spending is accepted by the US public. The Allies are criticised for not doing more. The reasons for SALT stagnating (paragraphs 15-17).
7. It would be wrong to assume that there will necessarily be decisive leadership ahead (paragraph 18).
8. Anglo-US relations have been good, though the halo enveloping the UK since May 1979 has been dispersed. Reagan can be relied upon to make a close partnership with the UK a central plank in his policy (paragraphs 19-20).

ECLIPSE
CONFIDENTIAL



FROM THE AMBASSADOR

BRITISH EMBASSY.

WASHINGTON D C 20008

TELEPHONE: 202 462-1340

31 December 1980

The Right Honourable
The Lord Carrington KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
London SW1

My Lord,

ANNUAL REVIEW

1. "How fortunate you are to be here at such an interesting time", many Americans say to me, as the Carter Administration brings down the curtain and the Republicans crowd the wings. This reflects the detached, inquisitive mood that prevails - as though the Americans, far from feeling that they belong to God's own country, the military, political and industrial paragon of the world, see themselves as some sort of exhibit, neither proud nor shameful; interesting, yes, but not great. I must admit that the resignation with which the country swallowed the fiasco of the failed hostage-rescue operation has been surprising to those who expect heroic responses from a great power. Detroit's eclipse by Japan as the car centre of the world has been accepted with fatalism. True, the failures that have occurred at home and abroad have had political repercussions. "Is America as respected throughout the world as it was?" Reagan asked at the conclusion of his TV debate with Carter. The electorate gave their answer on the 4th;

/but they

ECLIPSE
CONFIDENTIAL

ECLIPSE
CONFIDENTIAL

- 2 -



but they seemed to me to be showing frustration rather than anger.

2. In recording this impression I realise that I am breaking the golden rule of all those called upon to generalise about the American scene, which is to refrain from doing so. The country and people are too vast and varied for any universal conclusions about them to be valid; and it is no more possible for an observer to attempt to catch America's likeness with one broad sweep than it is for the US Government to be able to impose any single pattern or strict discipline upon the country.

3. The election to the Presidency, to what is widely considered to be the most powerful office in the western world, of a man whose career had been spent entirely in California, much of it in making B-films, to succeed a southerner, whose trade had been in peanuts, testifies, in a way that seizes the least-troubled mind with something approaching fearful dread, to the diverse, unpredictable, not to say wayward, nature of US public life.

4. How and why has Reagan got there? The answer is to be found partly in the incompetence of Carter, a failure felt as much by traditional Democrats as by Republicans, and partly

/in the

ECLIPSE
CONFIDENTIAL

- 3 -



in the embodiment by Reagan of America's present frame of mind. To say that Carter has shown himself accident-prone scarcely does justice to the device within him that homes unerringly on any banana-skin. Recognition must also be made of Reagan's good-humour and beguiling voice, instruments that he played upon with charm and stamina to silence successfully those trying to make out that he was nothing more than a trigger-happy, reactionary light-weight.

5. If a Gilbertian air of incompetence emanated from the White House throughout the year and if the frequent chorus of lament from on high about the country's general economic malaise, including the growing unemployment, has prompted intimations of mortality, it is inflation and Iran that have been the two most decisive nails in Carter's coffin. In the autumn of 1979, it looked to most American commentators as though Carter's main problem in securing a second term would lie in Senator Edward Kennedy's challenge for the Democratic nomination; if he could but get the nomination he was surely likely to beat any Republican candidate, particularly Reagan, for long the Democratic choice for the Republican candidacy. But though in the early autumn Carter had achieved his wish both of defeating Kennedy and of having Reagan against him, he had also succeeded in winning nation-wide disenchantment for his handling of the economy and the hostages.

/6.

ECLIPSE
CONFIDENTIAL

ECLIPSE
CONFIDENTIAL

- 4 -



6. In the second quarter of 1980 the economy experienced one of the largest declines (2.3%) since World War II. (Car sales and housing were hit particularly hard.) For 1980 as a whole the decline has been about 1%, caused largely by higher oil prices, tight money and credit controls. Unemployment has risen to over 7%. However, it was the continuing high rate of inflation in an election year - a rise of over 13% in consumer prices - that made a particular contribution to the public's disaffection with Carter.

7. It may be true, as the Administration has claimed, that no policies would have succeeded this year in the face of external conditions. There was also the perennial problem that the important fiscal decisions rest ultimately with the Congress. But it cannot be denied that there was inconsistency in execution, which has earned severe criticism. A prime example of this was the way in which an emergency economic package was announced in March, only two months after the President's proposals for the budget. Interest rates also roller-coasted throughout the year. The Administration continued with its voluntary wage and price guidelines but, like its fiscal policy, these lacked conviction and were not particularly effective judged by results.

8. Carter's energy policy has been partially successful. The synthetic fuels legislation passed Congress but other

/initiatives

ECLIPSE
CONFIDENTIAL

- 5 -



initiatives failed. The well-intentioned but ill thought-out gasoline conservation fee aroused such antagonism that President Carter had his veto powers decisively overridden, the first such defeat for a Democratic President since Truman. Meanwhile, however, the American energy situation improved considerably with oil imports now running 25% lower and consumption 7% than in 1979. Much of the credit for that must go to Carter for his decision in 1979 to start removing the controls on American oil prices, certainly the most effective and perhaps the only really effective energy decision taken during his Administration.

9. As regards trade policy, Carter has had, in an election year, to lend sympathy to domestic industries, like steel, pressing for import relief; equally he has had to avoid the risk of serious confrontations with his major trading partners. He has steered a middle course, and managed to contain the worst protectionist pressures. The underlying problems will, however, resurface early on in Reagan's term of office. He will, for example, have to decide whether to restrict Japanese car imports, what to aim for in the renegotiation of the Multifibre Agreement, and how to react to EC pressure over US textile exports. Despite his preference for the promotion of exports to the restriction of imports, Reagan may face irresistible political and economic pressures to offer some

/import

ECLIPSE
CONFIDENTIAL

ECLIPSE
CONFIDENTIAL

- 6 -



import relief to the less efficient US industries.

10. No account of the times would be complete without giving the opinion polls their due. Right up to election day they were showing Carter and Reagan running neck and neck, and insisting that the result was "too close to call", a prophesy as bad as any since 1948. But it has to be recognised that no-one, including Reagan himself, predicted the landslide, a movement that has also affected the elections to the Congress where the Republicans now have a majority in the Senate (though not in the House of Representatives, despite a strong swing there to the right) for the first time since 1955. Whether the 1980 elections will prove to be a watershed will depend not only on how Reagan's Administration fares, not least in its dealings with Congress, but also on whether the Republicans on the Hill can adjust to the responsibilities of power after a generation in opposition.

11. Looking back over the hostage drama it is difficult to exaggerate how far Carter's political fortunes have hung upon it. This time last year the opportunity for "statesmanship" by the US President that Khomeini suddenly offered enabled Carter to hold off Kennedy's challenge; and up to the eve of the election the Republicans feared that Carter might pull off some settlement that could offset his defects. But as things turned out the Americans, when they went to the polls, had come to view the hostages in the catalogue of Carter's failures.

/12.

ECLIPSE
CONFIDENTIAL

ECLIPSE
CONFIDENTIAL

- 7 -



12. Practically every issue this past year, whether domestic or foreign, has had to be seen through the electoral lens. The Administration made much play (justifiably) with the success of their Africa policy in persuading Black Africa that the US should not be seen as the automatic ally of apartheid. There was also a steady improvement in relations with China. On the other side, turbulence in Central America and Castro's dumping of 200,000 refugees on Florida were political embarrassments. Similarly, the Soviet move into Afghanistan has been one of the counts against Carter. American weakness and the President's vacillations since he came to office have been widely held to have emboldened the Russians to invade. It was to counteract this impression, but also with genuine, if belated, determination to show sufficient strength to deter the Soviets, now dangerously close to the Gulf, from attempting further adventures, that Carter undertook a series of resolute measures whatever the risks eg. the grain embargo, Olympic boycott and the promulgation of the Carter doctrine. But even with these there was ambiguity in statement and confusion in timing, and the tensions and uncertainties generated within the Alliance had the effect of increasing the doubts at home about the President's competence in foreign affairs. In the immediate aftermath of Afghanistan the Americans busied themselves in establishing or enhancing defence facilities in Oman, Egypt, Somalia, Kenya and Diego Garcia in support of plans for injecting into the area new US military

/strength

ECLIPSE
CONFIDENTIAL

ECLIPSE
CONFIDENTIAL

- 8 -



strength in the form of the Rapid Deployment Force (RDF). However, only Oman lies within immediate striking distance of the likely scene of conflict. It was the Iraq/Iran war that provided an unexpected break. Though it added to the price of oil and to the instability of the area, the war opened up a long-sought opportunity for the Americans to secure a firmer military footing inside the Gulf, and with it the chance to give greater substance to the Carter doctrine. They seized this by grabbing an invitation from the Saudis to provide AWACS.

13. How to build an enduring relationship with the Saudis that meets both oil and strategic needs will be one of the most urgent and delicate tasks facing the new US Administration. It will be affected by the degree of danger felt by the Saudis; it could be impaired by Saudi fears that Reagan is tilting too much to Israel.

14. The Egypt/Israel peace treaty of 1979 was certainly seen here as one of the successes of Carter's diplomacy. But nothing that has occurred this past year, or that looks attainable in the future within the compass of the Camp David process, can be expected to contribute to his record on this subject. Indeed, his reluctance, predictable, if understandable in ^{an} election year, to put the necessary pressure on Israel without which the autonomy talks could not succeed, let alone on schedule, failed to bring him the success in the Middle East

/that

ECLIPSE
CONFIDENTIAL

- 9 -



that could well have helped him electorally, while also failing to secure for him the Jewish support upon which he hoped, vainly as it turned out, to be able to rely on 4 November.

15. Risking generalisation once again, I suggest that much of the US public, while far from bellicose, is worried about the country's margin of safety. There is an almost embarrassing frankness about the serious deficiencies in America's conventional forces, especially in the quality of its man-power. There is universal acceptance of the need for greater defence spending, which will in fact increase by over 4% in 1980 in real terms.

16. The Allies are readily criticised - for not doing more militarily in Europe, for leaving the USA to bear the brunt of the security burden in the Gulf, and more generally (particularly the FRG and France) for not reacting sufficiently forthrightly to the Soviet invasion of Afghanistan. Under a Reagan Administration I think that the trans-Atlantic debate will continue over detente. A good deal will depend upon the outcome of the present Polish crisis. But there is a danger of a serious rift developing in the Alliance if the US Administration and Congress become convinced that the West Europeans are not responding sufficiently resolutely to what the Americans consider to be a strong challenge by the Soviet bloc to the security of the West. I should add that there are

/the makings

ECLIPSE
CONFIDENTIAL

- 10 -



the makings of a similar problem with Japan whose military contribution is not thought commensurate with their economic power - or their security needs in the Gulf for oil.

17. Afghanistan, and the anxieties about the strategic balance which it generated, ensured that there was never any realistic hope that SALT could be brought forward again. Many opinions conspired against it: the feeling that the Russians could no longer be trusted to observe even a formal treaty; the view that the conventional balance was now so distorted that America could not accept anything short of a restoration of strategic nuclear superiority; a revival of linkage theory and the idea of a price that the Soviets could and should be made to pay for strategic arms control. With SALT stagnating, lesser arms control negotiations came to a standstill too, excepting only the cautious preliminary opening of talks with the Russians in October on Theatre Nuclear Forces (TNF), as required by the Alliance decision of last December. The Carter Administration showed a sensitive understanding of the dependence, for the Europeans, of progress in TNF deployment on a continuation of the arms control process. The new Administration may understand the link less clearly, and have less sympathy for the nervousness caused by nuclear weapons in Europe.

18. Before concluding about Anglo-US relations, I should say that I think it would be wrong to assume that because there is

/a new

ECLIPSE
CONFIDENTIAL



a new Administration here based on a wide majority and a new sentiment on the Hill, this will necessarily lead to decisive US leadership. The checks and balances of the system can be relied upon to prevent this happening, not to mention the intractable nature of many of the problems.

I do not say that within a few months Carter's regime will be looked back upon as an idyll, but those dealing with America in the immediate future will perforce be reminded of the inexperience of the new Administration and much of the new Congress, and of the nature of public life here which militates deliberately against strong government.

19. As regards Anglo/US relations, following our elections of last year there have been a great many Ministerial and Parliamentary visits here. There has also been a considerable increase in tourism from the UK, the consequence both of the exchange rate and of the extension of the air services available as a result of the new UK/US Air Services Agreement. There have been two notable successes in UK defence sales - the Marconi Avionics and the Rapier contracts - and there has been the British decision to purchase Trident, with far-reaching consequences for our future relations. Remarkably, given the exchange rate, British exports will have reached the record figure of 4½ billion pounds in the last year, increasing our share of the US market by more than any of our competitors have done.

/20.

ECLIPSE
CONFIDENTIAL

- 12 -



20. Much of the halo in which the UK has been enveloped in American eyes since the change of government last year has been suddenly dispersed by a flurry of comment on our persistent economic and industrial difficulties. Few here any longer point to the UK as a model for the economic policy to be followed by the USA. There is, of course, an element of domestic politics in this; and our relations remain generally sound. The British Government's foreign policies are viewed as both forthright and helpful. Reagan himself, and the new Administration, can be expected to do everything they can to put into practice the conviction they have long expressed, to make close partnership with the UK a central plank of their policy. The announcement on 31st December of the Prime Minister's forthcoming visit here, the first to be made to the new Administration by a Head of Government after the Inauguration, rang out the year on a promising note.

I have the honour to be
My Lord
Your obedient Servant

Nicholas Henderson

ECLIPSE
CONFIDENTIAL



UNITED STATES: ANNUAL REVIEW FOR 1980

CALENDAR OF EVENTS

January 1980

- 4 President Carter broadcasts to the Nation about the Soviet invasion of Afghanistan
- 4-14 Visit of The Rt Hon James Callaghan MP (leader of the Opposition) and Mrs Callaghan
- 8-12 Visit of The Rt Hon Norman Fowler MP (Minister of Transport) and Mrs Fowler
- 10 Death of George Meany (former President AFL-CIO)
- 13 Soviet Union vetoes UN Security Council Resolution on economic sanctions against Iran
- 17-18 Visit of Mr Nicholas Ridley MP, Minister of State FCO
- 20 President Carter announces US Government support for an Olympic boycott
- 20-22 Visit of Hans-Dietrich Genscher, Foreign Minister of the Federal Republic of Germany
- 21 President Carter and Mr George Bush victors in the Iowa State Caucuses
- 23-26 Visit to Washington of Prime Minister Cossiga of Italy



January 1980 cont

- 23 President Carter's State of the Union address, including announcement of draft registration and definition of US interests in the Persian Gulf ("The Carter Doctrine")
- 28 President Carter sends his Budget proposals to Congress (proposed FY1981 deficit of \$15.8 billion)
- 29 Six American non-hostage diplomats slip out of Iran with Canadian Embassy help
- 30-1 February Visit to Washington of the Australian Prime Minister, Mr Malcolm Fraser



February 1980

- 1-3 Visit to Pakistan of Dr Brzezinski (National Security Assistant) and Mr Warren Christopher (Deputy Secretary of State)
- 3 'Abscam scandal' involving bribery and corruption in Congress revealed
- 3-7 Visit of Mr Norman Lamont MP (Parliamentary Under Secretary of State, Department of Energy)
- 8-12 Visit of TRH Prince and Princess Michael of Kent
- 14-15 Visit of the Earl of Mansfield (Minister of State, Scottish Office)
- 15-22 Mr Hector Munro (Parliamentary Under Secretary, Department of the Environment) attends Winter Olympics at Lake Placid
- 22-6 March Visit to the USA of HRH Prince Andrew
- 26 President Carter and Governor Reagan win New Hampshire primaries



March 1980

- 3 President Carter states that US Security Council vote on Israeli settlements on the West Bank was "a mistake"
- 4-6 Visit of Chancellor Schmidt of the Federal Republic of Germany
- 5 Senator Baker withdraws from the Presidential campaign
- 9 Governor Connally withdraws from the Presidential campaign
- 14 President Carter announces crisis economic measures including plans for a balanced budget in FY1981
- "Four horsemen" (Senators Kennedy and Moynihan, Speaker Tip O'Neill and Governor Carey of New York) issue St Patrick's Day statement on Northern Ireland
- 20-21 Visit of The Rt Hon John Nott MP (Secretary of State for Trade)
- 25 Instruments of ratification of US/UK Double-tax Convention exchanged



April 1980

- 1 In early morning press conference President Carter announces positive developments from Iran on the hostage issue
- President Carter wins Wisconsin primary
- 6 Breakdown of scenario (agreed with President and Foreign Minister of Iran) for release of US hostages in Tehran
- 7 President Carter announces break in relations with, and economic measures against, Iran
- 8-10 Visit of President Sadat of Egypt for talks with President Carter
- 14-17 Visit to Washington of Prime Minister Begin of Israel
- 25 President Carter announces failure of attempted rescue of US hostages in Tehran
- 25-27 Visit to Washington of The Rt Hon Norman St John-Stevas MP (Chancellor of the Duchy of Lancaster and Leader of the House of Commons)
- 28 Resignation of the US Secretary of State, Cyrus Vance
- 29 President Carter holds press conference on abortive Iran rescue mission
- 30 President Carter announces that Iran crisis is "manageable", enabling him to undertake campaigning for the Democratic nomination
- 30-1 May Visit to Washington of Mr Nicholas Ridley MP (Minister of State FCO)



May 1980

- 3-6 Visit to Washington of the Rt Hon Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs, and Lady Carrington
- 5 Lord Carrington meets President Carter, Secretary of State-designate Senator Edmund Muskie, Speaker O'Neill and others
- 7 New US Department of Education opens
- 8 Edmund Muskie sworn in as US Secretary of State
- 11-15 Visit of Dr Rhodes Boyson MP (Parliamentary Under Secretary, Department of Education and Science) and Mrs Boyson
- 18 Mount St Helens volcano erupts in Washington State
- 19-30 Visit to the United States of the Lord Strathcona (Minister of State, Ministry of Defence)
- 23 President Carter meets Vice President Mubarrak of Egypt in Washington
- 26-3 June Visit to the United States of The Rt Hon Sir Keith Joseph MP, Secretary of State for Industry
- 26 Camp David target date for completion of Palestinian autonomy negotiations passes
- 28 Assassination attempt on Vernon Jordan, President of the National Urban League
- 30 French Foreign Minister (M. Francois Poncet) in Washington for talks with Secretary Muskie



June 1980

- 3 Mr Reagan wins California and 8 other primaries and is assured of the Republican nomination
- President Carter loses New Jersey, California and 3 other primaries to Senator Kennedy, but has sufficient delegate votes to secure the Democratic nomination
- 5 President Carter vetoes Congressional bill rejecting proposed 10¢ per gallon gasoline tax
- 6 House and Senate overturn President Carter's veto - the first occasion under a Democratic Congress/ President since Truman
- 7-11 Visit of House of Commons Select Committee on Education, Science and the Arts
- 11-17 Visit of House of Commons Select Committee on Energy
- 12-15 Visit to the United States of the Archbishop of Westminster, Cardinal Basil Hume
- 15-16 Visit of Mr Norman Tebbit MP (Parliamentary Under Secretary of State, Department of Trade)
- 17-19 Official visit to the United States of King Hussein of Jordan
- 19 The Rt Hon Edward Heath MP gives testimony before Congress on the Report of the Brandt Commission
- 19-20 Visit of Mr Geoffrey Pattie MP (Parliamentary Under Secretary of State for Defence for the Royal Air Force)



June 1980 con't

19-26

President Carter in Europe for State Visit to Italy,
Economic Summit in Venice and State Visits to
Yugoslavia, Spain and Portugal



July 1980

- 7 Federal Reserve Board announces phasing out of Credit Controls
- 8-10 President Carter visits Tokyo for Memorial Service for Prime Minister Ohira and meeting with Chinese Premier
- 11 Release from Tehran of US hostage, Richard Queen
- 14-17 Republican National Convention in Detroit. (16 - Governor Reagan adopted as Republican Presidential nominee, chooses George Bush as Vice Presidential running mate)
- 15 UK announces intention to purchase Trident missile
- 21 Mid-session Review of FY1981 Budget: President Carter projects deficit of \$29.8 billion for FY1981
- 22 President Carter issues statements about alleged involvement with Libya on the part of his brother, Billy Carter
- 25 US Attorney-General, Benjamin Civiletti, admits discussing the Billy Carter case with President Carter, an alleged breach of his position as Attorney-General
- 27 Ex-Shah of Iran dies in Egypt
- 31 White House releases text of cables about Billy Carter's visit to Libya in 1978



August 1980

- 4 President Carter gives press conference to explain his actions in Billy Carter affair
- 5 Iranians released from prison following violent demonstrations in Washington on 27 July
- 11-14 Democratic National Convention in New York (11 - Senator Edward Kennedy withdraws from Democratic race; 13 - President Carter renominated by the Democratic Convention)
- 16 At press conference on George Bush's departure for Peking, Mr Reagan advocates official relations between US and Taiwan
- 20-23 George Bush visits Peking on behalf of Mr Reagan
- 22-27 Official visit to the United States of Prime Minister Robert Mugabe of Zimbabwe
- 25 Messrs Reagan and Bush clarify position on policy towards Taiwan at a joint press conference
- 27-30 Visit of Lord Bellwin (Parliamentary Under Secretary, Department of the Environment)
- 28 President Carter announces proposals for revitalising the US economy, including measures to encourage business investment and reductions in taxes to offset increases in social security contributions scheduled for 1981



September 1980

- 1 Presidential election campaign formally opens
- 5-15 Visit to the United States of Mr K Speed MP
(Parliamentary Under Secretary, Department of Defence)
- 9 Senator Jacob Javits of New York defeated in
Republican primary by Al D'Amato
- 9 Ronald Reagan makes economic policy statement including
proposed reduction in income tax of 10% a year for
3 years and a balanced budget by FY1983
- 12 Ayatollah Khomeini announces 4 conditions for release
of US hostages
- 14-19 Visit of Mr J Stanley MP (Minister of State,
Department of Environment)
- 14 President Carter's campaign manager, Tim Kraft, stands
down following allegations of drug abuse
- 16-17 Visit of Dr Rhodes Boyson MP (Parliamentary Under
Secretary of State, Department of Education)
- 17-22 Visit of Mr P Rees MP (Minister of State, HM Treasury)
- 17 Dr Brzezinski gives testimony before Senate enquiry
into Billy Carter affair
- 18 President Carter, at a White House press conference,
rules out any apology to Iran to secure release of
the hostages
- 19 Titan II missile blows up in Arkansas
- 21 Televised "Presidential" debate between Ronald Reagan
and independent candidate, John Anderson



September 1980 con't

- 21-26 Visit of The Rt Hon Lord Carrington and Lady Carrington to New York for the UN General Assembly
- 23 President Carter pledges neutrality in Iran/Iraq conflict
- 23-25 Visit of The Rt Hon Nicholas Edwards MP (Secretary of State for Wales, and Mrs Edwards)
- 24 US Senate approves sale of enriched uranium fuel to India
- 25-26 Visit of The Rt Hon David Howell MP (Secretary of State for Energy)
- 25 US Secretary of State, Edmund Muskie, meets Soviet Foreign Minister Gromyko in New York
- 26-10 October Visit of The Rt Hon Sir Geoffrey Howe MP, Chancellor of the Exchequer, and Mr Gordon Richardson, Governor of the Bank of England, for IMF/IBRD meetings in Washington
- 26-28 Lord and Lady Carrington visit Washington
- 30 Mr Reagan confirms that, if elected President, he would withdraw SALT II Treaty from Senate consideration



October 1980

- 3 President Zia of Pakistan visits Washington to brief President Carter on his mediation efforts in Persian Gulf war
- 5 United States announces despatch of radar and communications equipment to Saudi Arabia for defensive use
- 7-8 State visit of President Shehu Shagari of Nigeria
- 14-15 Visit of Mr Nicholas Ridley MP, Minister of State FCO
- 19 Mr Reagan gives nationwide address on foreign and defence policy
- President Carter says that Mr Reagan's policies could push the United States closer to the "nuclear precipice"
- 22 US/China sign bilateral grain agreement
- 23 CBS/New York Times poll shows President Carter and Mr Reagan neck and neck in election race
- 27 Cuba releases 30 Americans held in jail
- 28 President Carter and Mr Reagan take part in televised election debate
- 30 Richard Allen, Reagan's principal adviser on foreign policy, withdraws from the Reagan campaign organisation following allegations of past malpractice
- President Carter names A W Clausen, President of Bank of America, to be President of the IBRD



November 1980

- 2 Iranian Parliament votes to release US hostages under certain conditions
- 4 US Presidential and Congressional elections. Mr Reagan elected President by majorities of 51%-41% of the popular vote and 489-49 Electoral College votes. Republicans gain 12 Senate seats to capture the Senate. The Democrats retain control of the House of Representatives with a reduced majority
- 1st anniversary of the taking of the US hostages
- 6 President-elect Reagan gives first press conference
- 10 ITC Report on US motor industry says imports are not the major cause of industry's problems
- 10-11 US Deputy Secretary of State, Warren Christopher, visits Algiers to discuss terms for release of US hostages
- 12 96th Congress reassembles for lame-duck session
- US response to Iranian conditions delivered to Tehran
- 13 President Carter and Prime Minister Begin of Israel meet in Washington
- 14 President-elect Reagan appoints Edwin Meese as Counsellor, with Cabinet rank, and James Baker as White House Chief of Staff
- 17-21 President-elect Reagan visits Washington for talks with Congressional leaders, President Carter etc



November 1980 con't

- 19-21 Visit to the United States of Chancellor Schmidt of the Federal Republic of Germany
- 20 Meetings between President Carter and Chancellor Schmidt and President-elect Reagan and Chancellor Schmidt
- 20 Second Budget Resolution passed in House and Senate: provides for deficit of \$27.5 billion
- 21 75 die in Las Vegas hotel fire
- 24-26 Visit of The Rt Hon Marold Macmillan MP
- 24-28 Visit to Moscow of Senator Charles Percy, Chairman-designate of the Senate Foreign Relations Committee
- 30-7 December Visit to US of Mr John Biggs-Davison MP and Mr Brian Mawhinney MP to speak about Northern Ireland



December 1980

- 1-3 Deputy Secretary of State, Warren Christopher, visits Algiers for further discussions on US hostages in Iran
- 3-5 Visit of Mr John Moore MP (Parliamentary Under Secretary, Department of Energy)
- 3 President Carter warns USSR of "most negative consequences" in event of Soviet military intervention in Poland
- 4 Bodies of four murdered Americans (including 3 nuns) found in El Salvador
- 9 John Lennon murdered in New York
- 10-12 President-elect Reagan visits Washington
- 11 President-elect Reagan names 8 Cabinet appointments
- 11-12 US Secretary of State, Edmund Muskie, attends North Atlantic Council meeting in Brussels
- 12-13 US Secretary of State, Edmund Muskie, visits London for farewell meetings with the Prime Minister and Lord Carrington
- 16 96th Congress ends
- 16 General Alexander Haig nominated US Secretary of State
- US prime rate raised to record 21%
- 18 Delta Airlines buys Pratt and Whitney, not Rolls Royce, engines to power 60 Boeing 757 aircraft ordered for late 1984 onwards



December 1980 con't

- 19 Iran proposes new terms for release of US hostages
- 21 US Secretary of State, Edmund Muskie, describes new Iranian terms as unreasonable
- 22/23 President-elect Reagan names more members of his Cabinet
- 24 President-elect Reagan describes Iranian captors of US hostages as "nothing better than criminals"
- 27 President Carter breaks collarbone in skiing accident
- 28 Algerian intermediaries fly to Camp David for talks with President Carter about US hostages
- President-elect Reagan describes Iranian captors as "barbarians"
- 30 US Government gives Algerian intermediaries reformulated proposals for release of US hostages in Iran



bc: Consul-Generals in USA

EC posts: PARIS
BONN
BRUSSELS
COPEHNAGEN
DUBLIN
ROME
THE HAGUE
LUXEMBOURG
ATHENS

Private Secretary, No 10 Downing Street ✓