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TO ROUTINE FCO

TELEGRAM NO 1235 OF 24 MAY

Prime Minister

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PRESIDENT CARTER

1. THE INDICTMENT ON 23 MAY OF BERT LANCE ON 22 ALLEGATIONS OF BANKING FRAUD AND LARGE SCALE ILLEGAL LOAN PRACTICES IS AN UNWELCOME, IF LONG EXPECTED, POLITICAL EMBARRASSMENT AND PERSONAL SETBACK FOR PRESIDENT CARTER.
2. THE INDICTMENT AND ENSUING TRIAL WILL REVIVE MEMORIES OF THE BITTER AND PROLONGED CONTROVERSY TWO YEARS AGO OVER THE PROPRIETY OF LANCE'S APPOINTMENT AS DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET AND HIS ROLE AS ONE OF CARTER'S CLOSEST FRIENDS AND ADVISERS (A CONTROVERSY WHICH SAPPED WHITE HOUSE MORALE AND SERIOUSLY DAMAGED THE PRESIDENT'S POLITICAL STANDING).
3. CARTER'S OWN INTEGRITY HAS NEVER BEEN SERIOUSLY IMPUGNED; BUT THE LANCE AFFAIR WEAKENS ONE OF HIS STRONGEST SUITS WITH THE ELECTORATE, HIS PERSONAL COMMITMENT TO STRINGENT ETHICAL STANDARDS IN GOVERNMENT.
4. ALTHOUGH TANGENTIAL IN ITSELF TO CARTER'S POLITICAL STANDING, THE LANCE INDICTMENT (TOGETHER WITH RELATED ALLEGATIONS, STILL UNDER INVESTIGATION, OF FINANCIAL IMPROPRIETIES DURING BILLY CARTER'S MANAGEMENT OF THE FAMILY PEANUT BUSINESS IN 1975-6) COMES AT A TIME WHEN CARTER'S DOMESTIC POLITICAL FORTUNES, AND IN PARTICULAR HIS STANDING IN CONGRESS, ARE SAGGING AGAIN. THE ADMINISTRATION HAS SUFFERED SEVERAL RECENT REVERSES ON THE HILL, IN PARTICULAR ON RHODESIAN SANCTIONS (MY TELNO 1135) AND OIL PRICE DECONTROL. AS FORECAST IN MY TEL NO 1226 THE HOUSE DEMOCRATIC CAUCUS TODAY PASSED BY 138-69 A RESOLUTION IN FAVOUR OF MAINTAINING PRICE CONTROLS AND SOME ADVOCATES OF DECONTROL ARE SHOWING THE FIRST SIGNS OF NERVOUSNESS ABOUT THE OUTLOOK IN THE SENATE. AGREEMENT ON THE FIRST CONCURRENT BUDGET RESOLUTION (DUE BY 15 MAY) HAS BEEN DELAYED BY UNEXPECTEDLY DETERMINED OPPOSITION FROM LIBERAL HOUSE DEMOCRATS TO INCREASED DEFENCE EXPENDITURE.
5. THE GOING IS LIKELY TO GET TOUGHER FOR THE REMAINDER OF THIS YEAR AS BATTLE IS JOINED IN CONGRESS ON A RANGE OF DIFFICULT LEGISLATIVE ISSUES. MANY DEMOCRATS ARE SHOWING SIGNS OF LACKING CONFIDENCE

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THAT THE CARTER ADMINISTRATION HAS A FIRM ENOUGH GRIP ON DOMESTIC POLICY - PARTICULARLY INFLATION, ENERGY AND RELATED ISSUES (AND ARE CONSEQUENTLY MORE SUSCEPTIBLE TO CONSTITUENCY PRESSURES). THE ADMINISTRATION'S OWN RESERVES OF POLITICAL CAPITAL WILL BE STRETCHED TO THEIR UTMOST IN THE RATIFICATION OF SALT II AND OTHER ISSUES.

6. IT IS IN KEEPING WITH THIS DISCOURAGING POLITICAL SCENARIO THAT FIVE DEMOCRATIC CONGRESSMEN ANNOUNCED YESTERDAY THE ESTABLISHMENT OF A CAMPAIGN TO DRAFT SENATOR KENNEDY FOR NEXT YEAR'S PRESIDENTIAL NOMINATION. KENNEDY HIMSELF IS REPORTED TO HAVE ALL BUT ENDORSED CARTER'S RENOMINATION AT A RECENT PRIVATE MEETING OF THE DEMOCRATIC PARTY LEADERSHIP. IN PUBLIC HE MAINTAINS HIS POSITION THAT HE EXPECTS TO WORK FOR CARTER'S RENOMINATION AND RE-ELECTION IN 1980, BUT IN TERMS WHICH ARE NOT SUFFICIENTLY UNEQUIVOCAL TO DETER DISGRUNTLED DEMOCRATS FROM SEEKING TO DRAFT HIM. I STILL BELIEVE THAT KENNEDY WOULD PREFER NOT TO RUN IN 1980. BUT THIS LATEST MANIFESTATION OF DISSENT FROM WITHIN THE DEMOCRATIC PARTY IS AN UNWELCOME REMINDER TO THE WHITE HOUSE OF THE DIFFICULT CAMPAIGN WHICH THEY KNOW LIES AHEAD FOR CARTER'S RENOMINATION AND RE-ELECTION.

ROBINSON

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