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SIC

GORBACHEV VISIT: HIS PERSONAL POSITION AND OBJECTIVES.

1. I HAVE JUST GOT BACK FROM SEEING MR AND MRS GORBACHEV OFF AT THE AIRPORT. HE SAID THAT HE WAS MUCH LOOKING FORWARD TO HIS VISIT TO LONDON, AND TO HIS TALKS WITH THE PRIME MINISTER: THERE WOULD BE MUCH TO DISCUSS. BEYOND THAT NEITHER HE NOR HIS OFFICIALS HAVE VOUCHSAFED TO US (OR TO THE AMERICANS HERE) WHAT ARE HIS PRIORITIES FOR THIS TRIP - PRESUMABLY HIS LAST BEFORE HE ACQUIRES THE FORMAL ATTRIBUTES OF AN EXECUTIVE HEAD OF STATE AT THE ELECTIONS TO BE HELD NEXT SPRING. WHAT FOLLOWS IS THEREFORE MOSTLY SPECULATION.

2. WHEN MR GORBACHEV LAST MET THE PRIME MINISTER A YEAR AGO AT BRIZE NORTON, HE WAS JUST GETTING OVER THE EMBARRASSMENT OF THE ELTSIN AFFAIR. SINCE THEN HE HAS ACCELERATED AND EXTENDED THE MOMENTUM OF HIS REFORMS - IN THE PUBLIC DEBATE, IN THE ECONOMY, IN THE POLITICAL AND LEGAL INSTITUTIONS. HE HAS BRISKLY SEEN OFF AN APPARANT THREAT TO HIS AUTHORITY IN SEPTEMBER. HE HAS BEEN BESET WITH TROUBLE IN THE REPUBLICS. HIS ECONOMIC REFORMS FACE IMMENSE PROBLEMS. BUT HE SEEMS FIRMLY IN THE SADDLE. AND HIS ENERGY APPEARS INEXHAUSTIBLE: APART FROM THE PRESSURE OF DOMESTIC BUSINESS, HE HAS IN THE PAST FEW WEEKS BEEN TO INDIA, SEEN THE HEADS OF THE FRENCH, GERMAN AND ITALIAN GOVERNMENTS, CONDUCTED A MAJOR FENCE-MENDING EXCHANGE WITH THE CHINESE FOREIGN MINISTER, AND RECEIVED A HOST OF SMALL FOREIGN FRY AS WELL.

3. THERE ARE CURRENTLY NO RUMOURS ABOUT INTRIGUES AGAINST HIM. LIGACHEV AND CHEBRIKOV, WHO WERE THOUGHT TO BE THE FOCUS OF DISCONTENT, SEEM TO BE WORKING QUIETLY IN THE AREAS TO WHICH THEY HAVE BEEN RELEGATED. GORBACHEV DOES NOT OF COURSE HAVE ABSOLUTE POWER: LIKE MOST OTHER NATIONAL LEADERS HE HAS TO CAJOLE, CONCILIATE AND OCCASIONALLY BULLY. HE DOES SO IN A MASTERLY FASHION. BUT THERE IS A WEAKNESS IN HIS POSITION. HIS INITIAL BROAD POPULARITY HAS

WANED: PEOPLE DO NOT SEE HIS FINE WORKS - AND EXCEPTIONALLY LONG SPEECHES - REFLECTED IN DEEDS, NOR IN GOODS IN THE SHOPS. SOME FEEL HE SHOULD DEVOTE HIS ATTENTION TO THE ECONOMY AND THE BALTIC AND CAUCASIAN REPUBLICS, RATHER THAN TO GOING ON FOREIGN JAUNTS.

4. BUT HIS TRIP WILL HAVE A DOMESTIC AS WELL AS AN INTERNATIONAL PAY-OFF FOR HIM. HE USUALLY POINTS TO FOREIGN AFFAIRS WHEN ASKED WHAT PERESTROIKA HAS ACHIEVED. AND RUSSIANS LIKE TO SEE THEIR MAN TREATED AS AN EQUAL WITH WORLD STATESMEN. HE IS THE FIRST SOVIET LEADER SINCE KHRUSHCHEV TO ADDRESS THE UN: AND RUSSIANS WOULD LIKE TO EFFACE THEIR STILL VIVID MEMORY OF KHRUSHCHEV BANGING HIS SHOE. IF HE MAKES A GENUINE GESTURE ON HUMAN RIGHTS (WHICH THE AMERICANS HERE THINK IS A REAL POSSIBILITY) THAT WILL GO DOWN WELL AT HOME AS WELL AS ABROAD. AND ALTHOUGH THE AMERICANS MAY HAVE WANTED THE GOVERNOR'S ISLAND LUNCH TO BE MERELY A SOCIAL AFFAIR, IT WOULD BE CHARACTERISTIC OF GORBACHEV TO EXPLOIT IT FOR A MOVE, EG ON ARMS CONTROL, AS WELL AS TO DEMONSTRATE THE CONTINUITY OF HIS RELATIONSHIP WITH THE PRESENT AND FUTURE US GOVERNMENTS. IT IS DOUBTLESS SIGNIFICANT THAT SHULTZ AND SHEVARNADZE ARE NOW APPARENTLY TO HAVE A PREPARATORY MEETING BEFORE THE LUNCH (MY TELNO 1942).

5. CUBA CARRIES LITTLE DOMESTIC RESONANCE HERE: MOST RUSSIANS PROBABLY REGARD IT AS A MERE WASTE OF MONEY. THERE HAVE BEEN NO HINTS ABOUT THE PURPOSE OF THE VISIT TO HAVANA. BUT IT SEEMS LIKELY THAT GORBACHEV HOPES TO PERSUADE CASTRO TO SPEND SOVIET AID MORE SENSIBLY. HE MAY NEED TO MEND FENCES OVER THE ANGOLA SETTLEMENT. AND HE MAY WANT TO REVIEW THE CENTRAL AMERICAN ADVENTURE.

6. RUSSIANS SEE GORBACHEV'S RELATIONSHIP WITH THE PRIME MINISTER AS UNIQUE. THEY UNIVERSALLY ADMIRE HER DETERMINED AND DOWNRIGHT STYLE. THE LIBERALS HERE BELIEVE THAT HER OUTSPOKENESS ON HUMAN RIGHTS AND THE INFLATED SOVIET MILITARY ESTABLISHMENT (ON MOSCOW TV FOR EXAMPLE) ARE A POSITIVE BOOST TO GORBACHEV'S REFORMS. THIS HAS AN OBVIOUS SPIN-OFF ON ANGLO-SOVIET RELATIONS, WHICH ARE IN UNUSUALLY GOOD SHAPE. THE SOVIET VIEWER WILL WATCH THE COVERAGE FROM LONDON WITH ESPECIAL ATTENTION. THIS TOO WILL HAVE A DOMESTIC PAYOFF FOR GORBACHEV.

7. GORBACHEV WILL OF COURSE HAVE MORE CONCRETE OBJECTIVES IN LONDON AS WELL. I WOULD EXPECT HIM TO SEEK TO

- PLUG THE SOVIET LINE ON ARMS CONTROL, ESPECIALLY IN EUROPE IN PREPARATION FOR THE CONVENTIONAL STABILITY TALKS.

- DEFUSE THE PRIME MINISTER'S PRESSURE ON HUMAN RIGHTS,

- GET A SECOND OPINION FROM THE PRIME MINISTER ON THE PROSPECTS FOR A BUSH PRESIDENCY.
- SEEK THE PRIME MINISTER'S VIEWS ON DEVELOPMENTS IN EUROPE.
- UNDERMINE OUR POLICY OF LIMITING SOVIET OFFICIAL RESIDENTS IN BRITAIN.
- SHOW THAT HE IS WORKING EFFECTIVELY FOR AN INCREASE IN BILATERAL TRADE.

8. MIFT EXAMINES THESE OBJECTIVES IN MORE DETAIL. MY 2ND IFT EXPANDS ON THE CURRENT ECONOMIC AND POLITICAL SCENE IN THE SOVIET UNION.

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MY TELEGRAM 1949

GORBACHEV VISIT: POLITICAL AND ECONOMIC BACKGROUND

1. WITH HIS POSITION IN THE LEADERSHIP APPARENTLY SECURE, AND THE FIRST INSTALMENT OF CONSTITUTIONAL REFORM UNDER HIS BELT, GORBACHEV NOW HAS A PUBLIC PROGRAMME FOR POLITICAL CHANGE MAPPED OUT INTO THE MIDDLE OF NEXT YEAR. A PARTY PLENUM WILL TAKE PLACE IN FEBRUARY TO CONSIDER THE FURTHER REFORM OF AGRICULTURE. FROM NEXT APRIL THE SOVIET UNION WILL HAVE A SUPREME SOVIET WHICH WILL MEET FOR UP TO SIX MONTHS A YEAR, INSTEAD OF SIX DAYS AS AT PRESENT. GORBACHEV HIMSELF WILL BECOME EXECUTIVE PRESIDENT. IN JUNE THERE WILL BE ANOTHER PLENUM TO DISCUSS THE RELATIONSHIP BETWEEN THE UNION AND ITS CONSTITUENT REPUBLICS. IN PARALLEL WE ARE PROMISED A MAJOR PROGRAMME OF LEGISLATION - ON THE COURTS AND THE CRIMINAL, SOCIAL AFFAIRS, CIVIL RIGHTS AND THE ECONOMY. THE WHOLE AMBITIOUS PROGRAMME IS BEING DRIVEN FORWARD BY A FREE-RANGING PUBLIC DEBATE WHICH GORBACHEV IS DELIBERATELY ENCOURAGING TO RELEASE THE LONG REPRESSED CREATIVE ENERGY AND INITIATIVE OF THE SOVIET PEOPLE. IT IS A BRAVURA PERFORMANCE.

2. BUT THE HECTIC PACE AT WHICH GORBACHEV IS DRIVING THE REFORM FORWARD CANNOT HIDE, AND TO A SIGNIFICANT DEGREE ACTUALLY EXACERBATES, TWO UNDERLYING CRISES - THE CRISIS WITH THE NATIONALITIES AND THE ECONOMIC CRISIS.

3. THE CRISIS IN ARMENIA AND AZERBAIDJAN HAS NOW BEEN IN THE NEWS FOR TEN MONTHS. AS GORBACHEV LEAVES FOR NEW YORK, THE VIOLENCE SEEMS TO BE - JUST - UNDER CONTROL. THE RELIGIOUS AND NATIONAL ROOTS OF THE CONFLICT GO DEEP. THE ONLY OPTION IS TO APPEAL TO REASON, BUT TO KEEP ENOUGH TROOPS AROUND TO ENSURE ORDER. IT IS AN UGLY SITUATION. BUT IT RAISES ONLY LIMITED ISSUES OF PRINCIPLE AND - BARRING A MAJOR ESCALATION IN VIOLENCE - SHOULD NOT POSE A THREAT TO GORBACHEV HIMSELF OR TO THE MAIN LINE OF HIS POLICIES.

4. THE TROUBLE IN THE BALTIC STATES DOES INDEED POSE FUNDAMENTAL QUESTIONS - ABOUT THE SECURITY OF THE SOVIET UNION AND THE BASIS OF ITS CONSTITUTION. THE BALTS WANT MORE AUTONOMY THAN GORBACHEV CAN

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AFFORD TO GIVE THEM. THE ESTONIAN CLAIM TO OVERRIDE UNION LAW WAS A PROVOCATION GORBACHEV COULD NOT IGNORE: IT IS THE SAME ISSUE THAT TRIGGERED THE AMERICAN CIVIL WAR. AFTER A CLUMSY START MOSCOW HAS OFFERED CONCESSIONS WHICH THE BALTS WERE PRUDENT ENOUGH TO ACCEPT. BUT IT IS A TEMPORARY FIX. IT IS AN OPEN QUESTION WHETHER NEXT YEAR'S PLENUM WILL BE ABLE TO SETTLE ON A MORE PERMANENT BASIS THE DEEP PASSIONS WHICH HAVE BEEN AROUSED.

5. THE ECONOMIC CRISIS IS PERHAPS ON A SLOWER FUSE. BUT IT IS POTENTIALLY JUST AS SERIOUS, NOT LEAST BECAUSE IT AFFECTS THE WHOLE OF THJE SOVIET PEOPLE. THE REFORM IS GOING AHEAD IN THEORY: ALL ENTERPRISES ARE TO GO ONTO THE NEW COST ACCOUNTING SYSTEM NEXT YEAR: THE COOPERATIVE SECTOR IS GROWING AND NOW EMPLOYS NEARLY A MILLION PEOPLE: A VIGOROUS CAMPAIGN HAS BEGUN TO LEASE LAND BACK TO THE PEASANTS. ECONOMIC LEGISLATION IS BEING DRAFTED, PARTICULARLY FOR THE PRIMITIVE BANKING SECTOR. THE ECONOMY IS EXPECTED TO GROW AT A RESPECTABLE 3-4% THIS YEAR.

6. BUT THE MACROECONOMIC INDICATORS ARE SADLY AWRY. AGANBEGYAN TOLD ME A FEW DAYS AGO THAT THE BUDGET DEFICIT IS NOW TWICE THAT OF THE USA, AND SECOND ONLY TO ISRAEL'S AS A PROPORTION OF GNP. PARTLY BECAUSE OF THE DECLINE IN THE OIL PRICE, HE SAYS, DEBT SERVICE IS NOW ABOUT 25% OF HARD CURRENCY EARNINGS. WAGES ARE INCREASING MUCH FASTER THAN PLANNED AND ARE FAR OUTSTRIPPING PRODUCTIVITY. THE RESULTING EXCESS IN THE MONEY SUPPLY, AND THE SHORTAGE OF CONSUMER GOODS, HAS EMPTIED THE SHOPS.

7. AND THE REFORMS THEMSELVES ARE NOT YET WORKING PROPERLY. THE PLANNED DECENTRALISATION OF ECONOMIC POWER IS RESULTING IN BUREAUCRATIC TURF BATTLES AND CONFUSION ABOUT WHO IS IN CHARGE OF WHAT. THE RETAIL PRICE REFORM IS BEING POSTPONED AS TECHNICALLY AND POLITICALLY TOO DIFFICULT. THERE IS A SERIOUS LACK OF SKILLED MANAGERS TO RUN ENTERPRISES UNDER THE NEW SYSTEM. AND THE AGRICULTURAL REFORM HAS BARELY BEGUN. THE NEW COOPERATIVES ARE DEEPLY UNPOPULAR AMONG THE POPULATION AT LARGE, WHERE THEY ARE REGARDED (NOT ALWAYS UNFAIRLY) AS A PLAYGROUND FOR ORGANISED CRIME AND RACKETEERING. AND ORDINARY PEOPLE ARE VERY UNWILLING TO TAKE THE RISK OF SETTING UP IN BUSINESS FOR THEMSELVES, NOT LEAST BECAUSE THEY FEAR THE GOVERNMENT WILL CHANGE THE RULES TO THEIR DISADVANTAGE, AS HAS HAPPENED SO OFTEN BEFORE.

8. THE ECONOMIC REFORMS WERE ALWAYS BOUND TO LEAD AT FIRST TO DIFFICULTIES. GORBACHEV HAS WARNED PEOPLE OF THIS MORE THAN ONCE. BUT THERE IS NO DOUBT THAT POPULAR DISILLUSION WITH PERESTROIKA IS INCREASING. THE MASS OF ORDINARY PEOPLE FIRMLY BELIEVE THAT THEY WERE BETTER OFF UNDER BREZHNEV OR EVEN TWO YEARS AGO. THEY SEE EMPTY SHOPS, INADEQUATE HOUSING, AND A SERIOUSLY DETERIORATING HEALTH SERVICE. THE IMPRESSION IS NOT WHOLLY FAIR BUT THAT DOES NOT LESSEN

THE POLITICAL IMPACT. PERHAPS ONLY THE INTELLIGENTSIA REMAIN FULLY BEHIND THE REFORMS. BUT THEY WORRY ABOUT POPULAR DISSATISFACTION OR THE DISAPPEARANCE OF GORBACHEV HIMSELF.

9. THIS DOES NOT AMOUNT TO A CRISIS. IN THE LONG RUN, THERE IS PROBABLY NO SENSIBLE ALTERNATIVE TO THE GORBACHEV POLICIES. IN THE SHORT RUN, HIS TACTIC OF MOVING SO FAST AS TO KEEP THE OPPOSITION OFF BALANCE AND OUT OF BREATH SHOULD CONTINUE TO WORK. BUT HE WILL HAVE TO PULL SOME VERY SUBSTANTIAL ECONOMIC RABBITS OUT OF HIS HAT OVER THE NEXT TWO OR THREE YEARS IF POPULAR DISCONTENT IS NOT TO REACH SERIOUS PROPORTIONS

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