



The President's Daily Brief

July 12, 1975

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FOR THE PRESIDENT ONLY

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Table of Contents

UK: The Labor government can expect about a six-month grace period for its program to cut inflation. (Page 1)

Portugal: The Socialist Party is waiting for the ruling Armed Forces Movement's response to the party's conditions for returning to the government. The Revolutionary Council began a nonstop meeting yesterday. (Page 3)

Argentina: President Peron's cabinet changes are such that it will be difficult for her to convince the opponents of Lopez Rega that he does not retain a determining influence in the cabinet. (Page 5)

Notes: Apollo-Soyuz Project; Cyprus; Philippines-USSR (Pages 6 and 7)

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UNITED KINGDOM

Prime Minister Wilson Thursday announced the details of his program to cut inflation from the current 40-percent annual rate to 10 percent by next summer. The new policy features a "voluntary" ceiling on wage increases of \$13.20 a week--about 10 percent--with a wage freeze for all workers earning more than \$18,700 a year.

Nothing in the new policy will directly reduce Britain's rising unemployment. Indeed, if it becomes necessary to enforce sanctions against employers, there will be more, rather than less, unemployment.

Although formal union support for the program is problematical, a union-wide confrontation with the government probably can be avoided. The unions have achieved their major goal, at least for the time being, of avoiding statutory limits on wage increases and legal sanctions against unions that violate the pay guidelines.

The weaker unions, faced with shrinking employment, will be willing to trade wage gains of uncertain value for greater job security. Even if militant unions with strong market positions persist in outsized wage demands, the new measures will stiffen employer resistance.

Public opinion is ripe to support the government's program. The sharp acceleration in wages and prices since the first of the year has created widespread feelings that firm government action is required. Even some unions have come to believe that unemployment is wiping out the gains their members have made in keeping wage increases ahead of price boosts.

The Labor government can expect about a six-month grace period for its new policy. Major wage negotiations do not resume until October. By then, much of the cost pressure built up by past increases in wages, taxes, and depreciation of the pound will probably have been translated into higher consumer prices. Unions, employers, and the government all realize that the new program will mean that prices will rise faster than wages for a while at least.

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By early next year, however, unemployment probably will have risen to about 6 percent--the highest in 35 years--and inflation, while moderated, still will exceed an annual rate of 10 percent. In these circumstances, public support for the government's policy will erode and the unions are apt to increase pressures to loosen controls and stimulate the economy. If Wilson gives in too hastily to avoid a confrontation with labor, he will risk losing whatever gains have been made in controlling inflation.

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PORTUGAL

The Portuguese Socialist Party appears to be waiting to see if the ruling Armed Forces Movement will respond to the party's conditions for returning to the government before moving toward open opposition. The Revolutionary Council began a meeting yesterday that continued into the night.

At a press conference last night, Socialist leader Soares made no calls for mass demonstrations, but pointed to Portugal's serious economic condition and its need for assistance from Western Europe. Soares noted that the Socialists' withdrawal from the government would not affect the party's role in the constituent assembly, which has a clear mandate from the people. The Communist Party, however, has reportedly served warning that it may withdraw from the assembly if the moderates continue to smother debate on "fundamental questions of the revolutionary process."

[redacted] the Socialists believe [redacted] their withdrawal from the government will strengthen their bargaining position. This is based on the assumption that military leaders who have visited other European countries have been convinced that suppression of the Socialists or the Popular Democratic Party would eliminate the possibility of obtaining much needed economic assistance from Western Europe.

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[redacted] the Popular Democrats [redacted] plan to withdraw from the government, but will delay their move in order to avoid charges of collusion [redacted]

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A delegation of Popular Democratic leaders met with President Costa Gomes yesterday and will now wait until Monday for the Revolutionary Council to respond to the party's conditions for staying in the government.

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Sources close to Prime Minister Goncalves are quoted in the press as saying that if the Popular Democrats withdraw, leaving only the Communists and their sympathizers in the Popular Democratic Movement in the coalition with the military, Goncalves could no longer continue. In fact, any reorganization of the government as a result of the Socialists' withdrawal is likely to be used by Goncalves' opponents in the military to renew their efforts to oust him.

Soares will have difficulty controlling militant members of his party if he elects to hold to a soft line in the hope that he can get the military to reverse their decisions on *Republica* and the formation of popular assemblies. The Socialist Party [redacted] plans to move to a policy of direct opposition with strikes and mass demonstrations. So far, Soares has refused to allow the plans to be implemented.

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ARGENTINA

President Peron yesterday yielded to strong pressure from the military, politicians, and labor and removed her controversial adviser, Lopez Rega, from his posts as welfare minister and presidential private secretary. She failed to strengthen her position substantially, however, because she filled the vacated posts with men close to the former minister.

Taking over the welfare portfolio is a former private secretary to Lopez Rega, and more recently the number-two official of the ministry. The president's new private secretary has until now held a post within the office of the presidency, where he reportedly was one of Lopez Rega's close associates.

The president has retained Economy Minister Rodrigo, a protege of Lopez Rega and the target of bitter criticism for his attempts to implement austerity measures. Several other cabinet officers who remain in office are said to be linked to the ousted minister.

It will be difficult, if not impossible, for the president to convince the opponents of Lopez Rega that he does not in fact retain a determining influence on her and the cabinet. Pressure for more changes and possibly for the exile of Lopez Rega are likely.

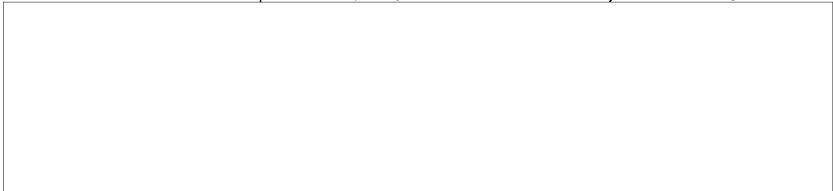
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Preparations for the Soviet portion of the Apollo-Soyuz Project seem to be proceeding smoothly.

Seven ships in the Pacific and four in the Atlantic are in position for the Tuesday launch.



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Tensions on Cyprus are likely to increase next week when the two ethnic communities stage mass demonstrations to mark the first anniversary of the July 15 coup against Makarios and the Turkish invasion of July 20.

Officials on both sides intend to take precautions to avoid major violence, but some disturbances are likely, and these could escalate into serious incidents. US officials in Nicosia have already been informed that a demonstration will take place in front of the embassy. More than the usual number of firing incidents along the cease-fire line are probable during the coming week, but neither side appears to be considering any major military activity. Both sides, however, will probably place their forces on alert as a precaution. Turkish Cypriot forces are already on a low-level alert.

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Philippine President Marcos has decided to follow up his successful diplomatic mission to China with a trip to the USSR in late August.

Marcos wants to move quickly on establishing diplomatic ties with the Soviet Union and concluding a trade agreement. He said some time ago that recognition of the Soviet Union and China would be virtually simultaneous, and the Soviets reportedly have been pressing him to keep to this announced timetable. Most of the preliminary discussions for diplomatic ties with Moscow were completed over a year ago, but Marcos delayed taking the final step until he had things wrapped up with Peking.

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