

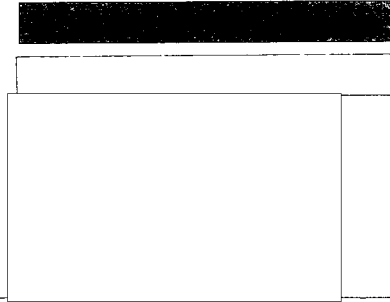


Director of
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23 December 1981

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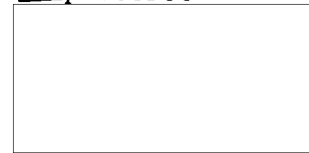
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SPECIAL ANALYSIS

3.5(c) ARGENTINA: A New President

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Lt. Gen. Leopoldo Galtieri, who assumed the presidency yesterday, has a much stronger power base in the military than his predecessor, President Viola. Nonetheless, he will face formidable difficulties overcoming popular discontent, managing the economy, and resolving territorial disputes with Chile and the UK. The most important underlying concern for the new leadership is the growing sentiment that the military government has exhausted itself. [REDACTED]

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Galtieri, who also will remain head of the Army, should enjoy solid backing from his Navy and Air Force counterparts on the three-man military junta. Earlier this month, Galtieri strengthened his position by replacing key officials in the Army hierarchy. [REDACTED]

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The new President lacks Viola's ties to important civilian groups and this will hamper him in rallying support for unpopular government measures. He also will be handicapped by his inexperience in policymaking and his tendency to act on impulse. [REDACTED]

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Political parties, whose meetings officially have been proscribed since the armed forces seized power in 1976, recently have been calling for an early return to constitutional rule and urging talks between party leaders and the junta. The independent press, which had been practicing self-censorship on most sensitive issues, also is leveling unprecedented criticism against the regime. [REDACTED]

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Since June, the Church has issued two major pronouncements criticizing government policies. Although the regime has maintained tight constraints on organized labor, discontent is growing in that sector as well, and some Argentines describe the labor situation as the worst since the depression. [REDACTED]

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Economic Problems

Galtieri inherits an economy beset by soaring prices and declining production. Inflation almost doubled to about 160 percent in 1981 and national output has fallen an estimated 3.5 percent. In addition, a succession of ineptly managed devaluations has spurred capital flight.

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Galtieri has named Roberto Alemann, a proponent of free market economics, to preside over a newly consolidated economic ministry that now covers major sectors except public works and services. The military's unwillingness to cede control over state enterprises and allow Alemann the power to sell inefficient public industries indicates that strong interest groups are already setting limits on the economic program.

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Foreign Policy Issues

The country's principal diplomatic concern is the Beagle Channel dispute with Chile, where the Argentines' intransigence and inability to accept Pope John Paul II's proposed solution threaten to scuttle the three-year mediation. The two sides are so far apart that the talks could break down completely. If this happens, extremists in Buenos Aires could resume demands for a military solution.

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Argentina also is engaged in talks with the UK concerning sovereignty over the Falkland and other islands, located some 300 miles from Argentine shores. The UK believes that any solution ought to respect the desires of the islanders, who do not want to be ruled by Argentina. The apparent determination of Buenos Aires to force the issue could create a diplomatic imbroglio.

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Outlook

The junta's continued failure to restore economic stability would heighten popular discontent and reinforce demands for an early return to constitutional rule. An

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economic program that seeks to remedy longstanding structural distortions would tend to threaten the privileged position of powerful interest groups. On the other hand, if the new administration chooses a hybrid program of regulating financial and foreign exchange markets and providing industry bailouts, recurrent economic crises are likely. [redacted] 3.5(c)

Galtieri and the military reportedly share major concerns about any quick return of civilian government. They fear that the Peronists and other discredited party officials could return to power. The military also fears reprisals for its widespread violations of human rights. If Galtieri abruptly dismisses the clamor for greater civilian participation, the current polarization of Argentine society would deepen, leading to a return to authoritarian rule. [redacted] 3.5(c)

The new president's tougher approach to domestic concerns probably will apply equally to foreign policy. Although he is likely to lend strong support to US initiatives on Central America, he may be less flexible in dealing with problems closer to home. [redacted] 3.5(c)

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