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23rd September 1981

Secretary
Department of Foreign Affairs

The Cabinet Reshuffle

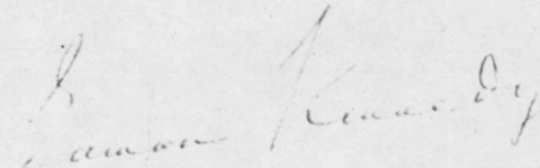
Mrs Thatcher's recent reconstruction of her Government has left more blood on the carpet of No. 10 than any reshuffle since Macmillan's Great Furge of 1962. In sacking or moving half the members of her Cabinet, she has weakened the wets, humiliated the old Tory guard and established the economic hawks in power. Now it's her kind of Cabinet.

2. One tends to forget that she broadly inherited Heath's shadow cabinet in opposition and then more or less retained it when she became Prime Minister in May 1979. On the whole she simply gave her front bench the portfolios they had been shadowing in opposition. For a Prime Minister with Mrs Thatcher radical economic views it was a mistake, and Cabinet meetings became divisive, abusive and profoundly unsettling. Indeed, on economic matters she tended to ignore the Cabinet altogether and to go direct to the Economic Ministers. The break-point came at the time of the Royal Wedding at the end of July when, as we reported, Cabinet Ministers were publicly disagreeing with her economic policies, and she and the Chancellor were dangerously alone in their determination to proceed with savage public expenditure cuts this autumn. She decided she would no longer preside over a seriously divided Cabinet and that she would shake-up the Government before the Conservative Conference next month. This she did. Now she has her own men in all the economic departments, and with Keith Joseph in

Education and Norman Fowler in Social Services she has them in the great spending ministries too. She even insisted on Jim Prior going to Northern Ireland and replaced him with the shark-like Norman Tebbit at Employment, all ready to rein back union power. (We have already telexed you on 15th September about the background of the Jim Prior transfer.)

3. But it would, I feel, be a mistake to assume that the Cabinet reshuffle has solved all the Prime Minister's problems. For one thing many of her original critics within the Cabinet are still there. Despite their concern with the consequences of her economic policies, Peter Walker is still in Agriculture and Michael Heseltine in Environment. Francis Pym, who has eloquently and publicly attacked those policies recently, has actually gained the Lord Presidency of the Council. Lord Carrington, William Whitelaw and Lord Hailsham, a trio of wets, are all in place, and Jim Prior has insisted on holding on to his membership of the Cabinet Economic Committee. Then again, the Prime Minister may now have greater difficulty in restraining her uneasy backbenchers. Many of them face certain defeat at the next election as a result of the Government's economic policies and since this is without doubt the last reshuffle before that event they have no hope now of joining the Government. So they have nothing to lose but their seats. But above all, the economic alarm-signals are continuing to flash. Inflation has started to rise again and interest rates went up by 2% this month to support sterling's sag. Unemployment stood at 1,240,000 when Mrs Thatcher gained power in May 1979 but it will crash past the 3 million mark this week - an all time British record. Both industrial and financial leaders are telling us that nothing recognisable as recovery is yet in sight, while trade union leaders are grimly preparing to break through the Government's pay limits this winter. And all the time the SDP - Liberal Alliance gains strength from the right and the left.

4. Perhaps we could sum up the significance of the recent shuffle by saying that Mrs Thatcher has indeed consolidated her hold on the Cabinet and the Party, but that this will not prevent her from leading it to electoral defeat. Ian Gilmour was not far off the mark when he said that dropping a few men overboard would not keep the ship off the rocks.

A handwritten signature in cursive script, appearing to read 'Eamon Kennedy', is written over a faint horizontal line.

Eamon Kennedy
Ambassador