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8 November 1989

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Dear Assistant Secretary

MRS THATCHER'S PRESENT DIFFICULTIES

While it is not possible to draw firm conclusions in regard to the consequences which may follow, a brief enumeration of the extent of the problems which at present beset Mrs Thatcher may be useful.

Her personal image: After ten years of strong leadership her image is now that of an obstinate, shrill and ageing woman, lacking judgment and unable to get on with her colleagues in Government. She is accused of a particularly damaging instance of lack of judgment in volunteering (in an interview in last Sunday's Correspondent) that, while she will lead the Tories into the next election (in 1991 or 1992), she will not serve the full fourth term.

Cabinet disunity - amply illustrated by the July shuffle and by Chancellor Lawson's departure. Though many (including the Whips) would say that the team is now stronger with Hurd at the Foreign Office and Major at the Treasury, dissenters from her view of things remain in the Cabinet. Public manifestations of Cabinet dissent include Howe's speech of 28 October urging a new commitment to Europe and signalling continued support for ERM membership; and Kenneth Baker's comments after the lunch with senior backbenchers at No. 10 on 30 October that "they had told

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her to get her act together", while she was saying she found the occasion "very supportive".

(She is unlikely to add to the appearance of Cabinet disunity by having a row with Peter Brooke, even though the way in which he formulated his recent remarks is seen in No 10 as unfortunate).

Unpopular domestic policies: The Government is locked into a number of highly unpopular and very Thatcherite policies - the community charge (poll-tax); water and electricity privatisation; the reform of the Health Service.

The economy: While Mrs Thatcher is given credit for forcing industry to improve productivity in recent years and for controlling the power of the unions, the key economic indicators - 7.6% inflation; 15% interest rates and a £20 billion trade deficit are very damaging to the credibility of her economic policies. Although her Ministers maintain that the economy is on track and that interest rates may begin to come down in 1990, continuing trouble, in regard to wage settlements for example, can be foreseen. A (mild) recession is forecast in the short term.

Europe - a particular issue at the heart of her problem which is guaranteed a high public profile at least every six months on the occasion of Summits. Not only is it clear that she does not have the support of the Ministers most concerned for her deeply felt antipathy to the developing Community, but she has lost public support also. Both the results of the European elections and subsequent opinion polls show that public opinion is more favourably inclined to Europe than she is.

All of this has led to a situation in which Mrs Thatcher's personal approval rating, even before the Lawson departure and Sunday Correspondent interview, is the lowest for any Prime Minister since polls began: and Labour enjoy a 10-point lead over the Tories.

Sources at a high level in Central Office have told us that the emphasis in the coming months will be on "maintaining unity in the face of adversity". The worst case scenario according to our contacts would be one of continuing bickering and dissension within the Cabinet. One figure close to the Prime Minister admitted to us that the strains in the relationship between the Prime Minister and the Chancellor had been there for "months past". He described the Lawson resignation in positive terms as "the necessary lancing of a running sore". His hope now was that with the new team the Prime Minister can put the difficulties of recent weeks safely behind her.

Her opponents in the party are uncertain about her ability to do this. Figures on the centre left insist that she has learned nothing from the Lawson affair. They criticise her excessive dependence on people like Charles Powell who is seen as increasingly yielding a disproportionate and malign influence. They doubt if she is really close to any member of the Cabinet other than perhaps John Major who is generally regarded as a technocrat with limited political abilities.

Senior sources in the party have told us that the results of privately commissioned opinion polls in recent days show a very high level of disaffection with her leadership. The results, one senior figure informed us, "have Central Office screaming in pain." There was "no doubt", he said, that if there were an election tomorrow, Labour would win, possibly a modest margin of gains in the North West and Central areas but nonetheless the opinion poll returns indicate a clear victory.

Her supporters in Central Office and in Government argue however that the Labour lead is still "soft" to the extent that those expressing a preference for Labour are not as yet committed supporters but disaffected Tories who can be won back to the fold. They emphasise the need for time to

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consolidate and win back this lost support. A senior party strategist said that the expectation is that the next election will be delayed until the last possible moment, "probably late 1991 although we are gearing ourselves for early 1991 as a target date".

No one seriously expects a "kamikaze" style opponent to stand against her in the pre-session November election. Central Office fear that some may be tempted to abstain as a form of protest but that would be the extent of the protest. Even her opponents on the centre left do not see Howe or Heseltine - the two most likely candidates - declaring their hand at this point. There is however some puzzlement at Howe's speech last weekend. "This was deeply disloyal" we were told by one figure close to the Prime Minister. The text was not cleared in advance with Central Office although apparently Howe did discuss it with Douglas Hurd. Our source informed us that she was "furious" and saw it as "a stab in the back". Despite this unexpected show of disaffection by Geoffrey Howe, no-one however expects him to oppose her since he would be likely to be heavily defeated and forfeit any chance of eventual victory.

Surprisingly there are those among her supporters who would welcome a contest. One source made the point that victory in a leadership contest would clear the air and strengthen her hand for the future.

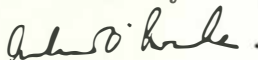
On the other hand it may be of interest that a well-informed media source has suggested to us that there may be a real leadership challenge in December, within a few days of her return from Strasbourg. Soundings by this contact among backbenchers suggest, he says, that a specific dark horse candidate - an ex-Minister - is envisaged. The organiser of this move is reportedly a member of the executive of the influential 1922 Committee. The strategy would be to persuade MPs to abstain in the vote thereby placing the Prime Minister in an embarrassing position and increasing the pressure on her to resign.

In regard to the Prime Minister's recent public pronouncements, we know of at least one senior Cabinet Minister who has openly expressed concern about her inability to manage the media in recent days. "She must stay away from the media" he told one of our backbench sources. It is said in Central Office however that she refuses to admit that the interview in any way damaged her. Her view was that she "had a case to state, it was the right one and people will come to see the correctness of her actions".

The current strategy in Central Office, in summary, appears to be one of calming and re-assuring the backbenchers and party associations; reminding them that the Prime Minister has been through worse days viz the Westland affair; stressing that they have time on their hands; playing down the strength and depth of the Labour lead and concentrating on the message for the next election. This we were told would be a forward looking one. The theme of many of the speeches at the Party Conference in Blackpool were in retrospect too backward looking, reminding delegates of the mistakes of a Labour Government which no-one could remember or cared about. The task for the next election is to remind people of their relative prosperity and of how this can further improve by sticking with the Conservative team.

The centre left have a different view. The feeling among those to whom we spoke is that if the Labour lead is not reduced in the short term, the Prime Minister will go. Many of our contacts insist she cannot last until the next election and suggest that someone like Heseltine might make a push next summer.

Yours sincerely



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