

NOTE OF UNATTRIBUTABLE BRIEFING BY THE PRIME MINISTER TO IVAN FALLON,
SUNDAY TELEGRAPH ON 6 AUGUST, 1981

The Prime Minister made it clear that one speech by Mr. Pym (containing only a few controversial sentences) and one press conference by Lord Thorneycroft, which ought never to have taken place, did not change the situation. But for those two things, this week would not have been a low point but a point from which we could look forward.

She was damned if she was going to change her views because of such a speech and press conference. If she did, there would be no hope for the country or the Party. She was in good heart, would persevere and would win through because her policies were correct.

The whole record of history showed that politicians had interfered in trade cycles just at the point when they should have left it alone. This Government had introduced small selective help for the unemployed, partly for psychological reasons; but in addition to bringing forward measures to relieve unemployment it had done two other things - one to pull down the level of wages for the young to get more into employment and to bring forward the peak for retirement which would occur between '84 and '86.

The Prime Minister said that there had never been such a shake out of overmanning during a recession and it was remarkable what the Government had achieved in this and other areas. Had it not done this, it would have had no chance whatsoever of competing with countries like Germany. British industry was now in a position to take advantage of world expansion.

In response to questions on the David Blake article this morning about the wets being in the ascendency and whether, in fact, the Government had now time to win the next Election, the Prime Minister made the following points:

- No decision had been taken at the Cabinet a fortnight ago on which stories/wets in the ascendency were based; it was right at that stage to have the discussion;
- the Labour Government called in the IMF in 1976 and there had been a great transformation by 1978 but they then

threw it away; in other words, the Prime Minister believed that the Government had done a lot of fundamental things and that it had time to turn it round. The seeds and bulbs which had been planted were growing.

On the Government's achievements, the Prime Minister emphasised the extent to which price, exchange, dividend/profit and wage control had been swept away and management put in a position to manage. Other things in place were enterprise zones, urban development corporations; direct taxation, especially the ridiculous top levels of taxes, had been reduced and a lot had been done to stimulate the development and expansion of small businesses. All these would bear fruit.

On inflation, the Prime Minister said that we were now importing some because of the level of the pound vis-a-vis the dollar but she believed that the United States was right to fight inflation. Now that President Reagan had got through Congress both his expenditure and tax reductions, there was hope that US interest rates would eventually come down, although there was argument as to whether this would be seen before the end of the year.

On whether the PSBR is an intractable problem, the Prime Minister said there was a much wider range of instruments to finance it; we would certainly have been in difficulty if these instruments had not been introduced.

On Government spending the Prime Minister admitted it was too high and the real "devils" were nationalised industries, which President Reagan did not have to contend with. Within this, one of the biggest disappointments was the whole area of energy.

This led into nationalised industries as a whole and the extent to which the public sector bulks large in public expenditure. She said the high level of public expenditure was inevitable when unemployment was high and there was limited room for manoeuvre when there had to be higher spending on defence and law and order. Heavy cuts had therefore to be made elsewhere, but that could not go on indefinitely.

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The Prime Minister emphasised the extent to which the Government had developed its privatisation/de-monopolisation policies and she believed that the Government had achieved a very great deal indeed; it had certainly not done too badly over a period of two years.

She added that by the time the Election came she would be able to justify what the Government had done and to demonstrate that what it had done was going to be worth it.

Mr. Fallon was given the Communiques from the Ottawa, Luxembourg and OECD (June 17) meetings and an extract from a speech by M. Larosiere, Managing Director of the IMF, at the Ministerial OECD meeting.



B. INGHAM

6 August, 1981

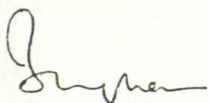
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PRIME MINISTER

You have agreed to see Ivan Fallon, Sunday Telegraph, at 2.15 tomorrow. He wants a private briefing from you before you go on holiday against the background of the weekend's events and the argument over whether the recession is over.

He is, of course, a friend and, in my experience, can be trusted with confidences and to present things positively from your point of view. I attach

- at Annex I, my minute of last weekend on Lord Thorneycroft's remarks to the Sunday lobby;
- Annex II, Francis Pym's speech at Alnwick, Northumberland last Saturday;
- Annex III, the Chancellor's assertion in Questions that the recession is over; and
- Annex IV, Peter Shore's letter on that point and the Chancellor's reply to Peter Shore.



B. INGHAM

5 August, 1981

F.R.

Thursday is quite tight
but next Sunday Telegraph
is speaking to me
convinced.

- 1. MISS STEPHENS
- 2. PRIME MINISTER

Will do
me

Ivan Fallon, Sunday Telegraph,
wonders whether you could give him
a private briefing before you go on
holiday. He is, of course, a valued
friend.

If you saw him unattributably,
you could get over some telling points
without necessarily perpetuating the
weekend story of dissention in the
Government.

B. INGHAM
4 August, 1981

Bernard
14.15 return
tomorrow.

C.S. = 18.

Telephoned Ivan Fallon's office
- 15/8.