

PRIME MINISTER

We had a long lobby this afternoon which pursued the following points:

- you had obviously been stunned by newspaper and other criticism to get out your cudgels at the Guardian lunch;
- not all your Cabinet Ministers are behind you;
- there is very substantial unrest on the backbenches about the Budget, with petrol the main cause of discontent, obviously with the rural lobby.

After the lobby, I discussed the whole problem with a small group who told me that, on the basis of their research, they would stand by six Members of the Cabinet being dissatisfied with the Budget but that they fully accepted that probably only three forcibly expressed their reservations in Cabinet. (Some very clear briefing is being given.)

Secondly, they think it likely that while MPs last evening were prepared to give the Government the benefit of the doubt, their disaffection has increased today having seen the Press.

I made the following remarks. So far as the Guardian speech was concerned, your general inclination was to speak extemporaneous but to put out a text for the convenience of Pressmen. You had in fact made the points contained in the Press Release but that the extemporaneous version (which has been recorded and transcribed for them) elaborated on this. There was nothing unusual in this given your inclination to speak freely without encumbrance of notes.

So far as Cabinet Ministers are concerned, I made the point that there was strong support for the Chancellor in Cabinet and that it never ceased to amaze me in this Government the extent to which people were prepared to be dissident outside Cabinet

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I said that I could only form impressions about backbench opinion on the basis of people I talked to. That impression suggested to me that they were deeply worried about petrol and derv duty, but that on the whole the Government's judgment would probably be vindicated that it was more politically acceptable to raise indirect rather than direct taxes. The Chancellor at his briefing of the lobby on Tuesday evening had made no bones about the fact that probably the least popular measure was indeed the increase in petrol duty of 20p. However, drawing on my energy experience, I made the point that the disparity as between the price of urban and rural motoring, might not be all that great bearing in mind the petrol mileage rural motorists obtained.

Finally, I was taken through the strong criticism of the Budget by Peter Tapsell who essentially repeats the charge of 'deflationary'. I took a number of correspondents through the Treasury note on the absurdity of the charge and drew attention to your remarks at the Guardian lunch. One journalist, Michael Jones - Sunday Times - made a serious point when he said that the Government now has ranged against it the CBI, the TUC and the City in the sense that Peter Tapsell represents City opinion.

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