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PAGE 01 LONDON 15816 271323Z
ACTION EUR-12

INFO	OCT-00	COPY-01	ADS-00	INR-10	SS-10	CIAE-00	EB-08
	DODE-00	H-01	NSC-01	NSAE-00	COME-00	HA-08	L-03
	TRSE-00	PM-08	PA-01	OMB-01	ANAE-00	USIE-00	SP-02
	SNP-01	PRS-01	/068 W				

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R 271317Z JUL 83
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6032
INFO NATO COLLECTIVE
AMEMBASSY DUBLIN
AMCONSUL BELFAST POUCH
AMCONSUL EDINBURGH POUCH

C O N F I D E N T I A L LONDON 15816

E. O. 12356: DECL: OADR
TAGS: PGOV, EGEN, SOCI, UK
SUBJECT: BRITAIN AFTER THE ELECTIONS: THATCHER IN LOW-GEAR

REF: (A)✓LONDON 13662, (B)✓LONDON 1395, (C)✓LONDON 15364

1. C' - ENTIRE TEXT.

2. SUMMARY: WITH HER MASSIVE MAJORITY IN THE COMMONS, SOME THOUGHT THATCHER WOULD COME ROARING BACK WITH A PROGRAM OF TOUGH ECONOMIC AND SOCIAL INITIATIVES. BUT SO FAR SHE HAS NOT. SHE MAY BE HOLDING FIRE UNTIL THE AUTUMN, BUT THERE IS SCANT EVIDENCE YET OF A NEW MASTER PLAN. MORE LIKELY IS CONTINUED PURSUIT OF ESTABLISHED POLICIES WITH EMPHASIS ON REDUCING THE BUDGET DEFICIT, INCREASED PRIVATIZATION AND FURTHER TRADE UNION REFORM. THE ANNUAL STRUGGLE OVER THE LEVEL OF GOVERNMENT EXPENDITURES HAS BEGUN. THATCHER'S PRE-EMINENCE IS ESTABLISHED, BUT SHE WILL HAVE TO GIVE SOME ATTENTION TO WHIPPING THE FLOOD OF NEW TORY BACKBENCHERS INTO LINE. END SUMMARY.

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PAGE 02 LONDON 15816 271323Z

3. AMBITIOUS GOVERNMENT AND THINK TANK PAPERS LEAKED DURING THE CAMPAIGN CONVINCED SOME THAT THATCHER HAD A TOUGH HIDDEN AGENDA FOR HER SECOND TERM, INCLUDING CUTS IN SOCIAL SERVICES TO ACCOMMODATE TAX CUTS LATER IN THE TERM. OTHERS BELIEVED THAT THE NEW GOVERNMENT WOULD REASSESS ECONOMIC POLICIES, E.G., THAT DECREASING

CONFIDENTIAL

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92

INFLATION AND PERSISTENT UNEMPLOYMENT WOULD LEAD THATCHER TO RELAX HER FISCAL AND MONETARY POLICIES. BUT WHAT WE HAVE SEEN SO FAR IS A GOVERNMENT OPERATING ALONG FAMILIAR LINES IN A PRAGMATIC AND LOW-KEY MANNER AND CONTINUING TO EMPHASIZE DENATIONALIZATION, REDUCTION OF THE BUDGET DEFICIT, AND HOLDING DOWN INFLATION.

4. THERE ARE REASONS FOR THIS INITIAL MODERATION. SINCE THE TURN OF THE YEAR, THE TORIES HAVE FOCUSED ON THE ELECTIONS -- LEAVING THE LEGISLATIVE PLATTER PRETTY BARE. RETURNING FOR A BRIEF POST-ELECTION SESSION, HMG AND PARLIAMENT HAVE BEEN PREOCCUPIED WITH RESHUFFLING RESPONSIBILITIES AND SETTLING IN. AND WITH PARLIAMENT RISING THIS WEEK FOR THE SUMMER, WORK HAS BEEN WINDING DOWN. NOW, THE LONG RECESS UNTIL OCTOBER WILL GIVE THATCHER AND HER ADVISERS REALLY THEIR FIRST OPPORTUNITY TO TAKE STOCK AND DO SOME HARDTHINKINGABOUT WHERE THEY GO IN THEIR NEW TERM.

5. THE CONTENTIOUS DOMESTIC ISSUES AT PLAY SINCE THE ELECTION PROVIDE ONLY PARTIAL CLUES TO THE FUTURE. THE GOVERNMENT HAS PURSUED TRADE UNION REFORM, OUTLINING ITS INTENTIONS IN A WHITE PAPER BUT LEAVING LEGISLATION FOR FURTHER DISCUSSIONS. RATHER THAN CONFRONTING THE UNIONS, HMG HAS BEEN MOVING DELIBERATELY AND CAREFULLY. ON THE EMOTIONAL QUESTION OF RESTORING CAPITAL PUNISHMENT, HMG

CONFIDENTIAL

CONFIDENTIAL

PAGE 03

LONDON 15816 271323Z

HAS ALSO BEEN FLEXIBLE. WHEN STRONG PARLIAMENTARY FEELING AGAINST HANGING BECAME CLEAR, THE GOVERNMENT STEPPED BACK AND ALLOWED A FREE VOTE-- DESPITE THATCHER'S OWN PREDILECTIONS FOR THE ROPE. SIMILARLY ON MP'S PAY, HMG WAS QUICK TO SEEK A COMPROMISE SOLUTION.

6. THE TREASURY HAS BEEN SKIRMISHING WITH THE DEPARTMENTS OVER THE LEVELS OF GOVERNMENT SPENDING AND THIS BATTLE SHOULD INTENSIFY IN THE AUTUMN. DEPARTMENTAL SPENDING PROPOSALS ARE RUNNING 5 BILLION POUNDS ABOVE THE GOVERNMENT'S 126 BILLION POUND TARGET, A ROUGHLY AVERAGE OVER-RUN FOR SUCH BIDS AT THIS TIME IN THE BUDGET CYCLE. CHANCELLOR NIGEL LAWSON, THE AUTHOR OF THE GOVERNMENT'S FINANCIAL STRATEGY, IS DETERMINED TO KEEP TO THE TARGET LEVEL FOR THE NEXT FINANCIAL YEAR AND HAS ALREADY INTRODUCED MEASURES TO CUT ONE BILLION POUNDS FROM CURRENT SPENDING TO GET BACK WITHIN THIS YEAR'S TARGET.

7. WITH LABOR'S NUMBERS DIMINISHED, THATCHER WILL HAVE TO JUDGE HOW TO PLAY HER OWN BACKBENCHES. AS FRANCIS PYM

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92

SAID DURING THE CAMPAIGN, LANDSLIDE MAJORITIES DO NOT NECESSARILY MAKE FOR PLACID PARLIAMENTS. WITH THE GOVERNMENT SAFELY ENSCONCED, TORY MP'S MAY FEEL FREER TO STRAY FROM THE PARTY WHIP. THE NEW TORIES -- WHO ACCOUNT FOR ALMOST 1/6 OF THE WHOLE STRENGTH OF PARLIAMENT -- SEEM TO HAVE A FAIR NUMBER OF POTENTIAL REBELS IN THEIR MIDST. WHETHER THEY MAKE COMMON CAUSE WITH THE MORE SENIOR CONSERVATIVE "WETS" REMAINS TO BE SEEN.

8. WE WILL HEAR MORE ABOUT THATCHER'S PLANS WHEN PARLIAMENT RESUMES AFTER THE PARTY CONFERENCES IN OCTOBER. BUT IT SEEMS DOUBTFUL THAT SHE WILL COME FORTH WITH DRASTICALLY NEW PROGRAMS. SUBJECT TO TACTICAL ADJUSTMENTS, THE BASIC LINES OF HER ECONOMIC PROGRAM ARE SET. LOUIS

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