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PRIME MINISTER

MS

THE WEEKEND PRESS

The talks between the Chief Whip and Sir Humphrey Atkins - which I have described as constructive - have taken a bit of steam out of the Westland affair. I have tried to portray the process as two reasonable men looking for an arrangement which meets their different interests.

This is not to suggest that the issue will not command a lot of coverage this weekend, but to judge from my Sunday Lobby, it will be more of an analytical than news nature. Their most likely approach, assuming they have uncovered no more new stuff, will be to speculate how these interests will be reconciled.

Interestingly, no one at either Lobby today mentioned the Economist piece giving the DTI account, which piles the blame on to No 10. I met this obliquely by saying, in another context, that we would have to put up with a lot of gossip to which we could not reply; and urged the media to be careful about gossip which seemed to point the finger.

More generally, I get the feeling that there is a great deal of gossip going on in the party and that Cabinet Ministers are participants. They are described as extremely worried about the next election and in need of rallying; but there is no automatic successor to you in mind.

This year is seen as the real test for you - with unemployment, the £/interest rates, a constrained Budget, poor Fulham by-election and local election results and a long hot summer culminating in a fractious July - as the millstones on the way. All this is regarded as presenting a formidable problem of political management if you are to get the troops into the Summer Recess in good heart and to

minimise the risk of a leadership challenge to you in the autumn.

By way of reply, I have said that all this assumes that there is no response to events by the Government. I feel a natural response to Mr Heseltine's activities would be more rather than less Cabinet discussion, though too much should not be made of this since Cabinet already took the big issues.

One of your assets was an ability to buckle down and summon up great determination and drive in times of adversity.

In the meantime I said that the Westlands business had been damaging but it had not done Labour much good either. The immediate objective must be to reach an accommodation of interests with the Select Committee, though judging from the Oman affair and the Falklands it was unrealistic to suppose that it would end there; there would be a lot of attempts to blow on the embers.

It was also important to realise that there were limits to what the Government could do about jobs if those in work kept pricing those out of work out of jobs. I gave the current relative movements in unit labour costs underlining all this, and emphasised the responsibility of those in work to the unemployed.

All this shows that the Government is currently seen tossing on a sea of trouble. But even the Mirror Group volunteered that you had the limpest Labour Opposition in living memory. A huge depression has settled over the Labour Party after Kinnock's Westland and Wapping/Lobby journalists gaffes this week. Michael Jones, of the Sunday Times, is intending to write Kinnock off as a Labour leader.

He told me that the Labour Party do not believe they can win the election with Kinnock. Your side, he says, are worried about losing it to the SDP/Liberal Alliance



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