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Director of Central Intelligence

# NATIONAL INTELLIGENCE DAILY

Wednesday, 14 November 1990



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## Special Analysis

UK:

### Outlook for Thatcher Grim

*Prime Minister Thatcher's position looks increasingly precarious after former Deputy Prime Minister Howe's withering attack yesterday, opening her up to a probable leadership challenge from Michael Heseltine next Tuesday. If Thatcher survives unscathed and leads the Conservatives into the next general election, her hostility to EC integration will remain a serious Tory liability, and the odds are against the economy recovering sufficiently to help her. The unpopularity of the government so late in its term portends a tight race.* [redacted]

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To the astonishment of the House of Commons, Howe impugned Thatcher's fitness to govern and accused her of undermining the UK's international standing with her hostility to European integration. Press reports indicate Heseltine, Thatcher's major rival, is on the verge of announcing a bid for the party leadership. Howe's lambasting of Thatcher puts Heseltine under pressure; he probably risks losing the support of longtime allies if he does not mount a challenge, and the deadline for announcing a bid is tomorrow. Heseltine is still likely to worry that an unsuccessful challenge would doom his chances in the future; many Tory members of Parliament would blame him for any electoral damage later. [redacted]

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### Tories Deeply Split Over Europe

Howe's recent resignation, one of many Cabinet defections in the past 18 months, is symptomatic of the turmoil in the party over the UK's ties to Europe. Although a large majority of Tory members of Parliament agree with Thatcher on the EC, close to half favor British participation in a European central bank, something Thatcher strongly opposes. Even many who approve of Thatcher's approach probably fear she is increasingly out of step with the mood of the public. Although the UK continues to be among the least enthusiastic EC member nations, Britons nevertheless believe their country's future, particularly its economic well-being, depends on closer ties to its EC partners. Despite public apprehension about the EC, recent polls show a large majority of voters believe that a single European currency is inevitable within 10 years and that the UK will participate. Popular support for a European central bank is even greater. [redacted]

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Opinion surveys show Labor is better positioned than the Tories to respond to the public mood. Although it was deeply split in the 1970s over British entry into the Community, its supporters are now less hostile to monetary union and more willing to scrap the pound than are Conservatives. Having criticized the government for its delay in

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### **Mechanics of a British Leadership Challenge**

Any Tory member of Parliament sponsored by two of his colleagues can mount a challenge at the beginning of a new legislative session. In this case, nominations must be made by tomorrow because a leadership election has already been scheduled for next Tuesday. To win on the first ballot, Thatcher needs the support of a majority of the 371 Tory members of Parliament and a margin of at least 15 percent over any other candidate. Some observers are speculating, however, that if as many as 100 to 150 abstain or vote against her, she will be so wounded that she will have to step aside; nominations for a second round would then be taken. (In a challenge mounted last year by backbencher Sir Anthony Meyer, 60 opposed Thatcher or abstained.) If no contestant wins an overall majority on the second ballot, usually held a week after the first, a final runoff of the top three candidates is held two days later. In this ballot, an election is ensured by recording both first and second choices; if no winner emerges immediately, the votes of the third-place candidate are divided between the others according to the second preference.

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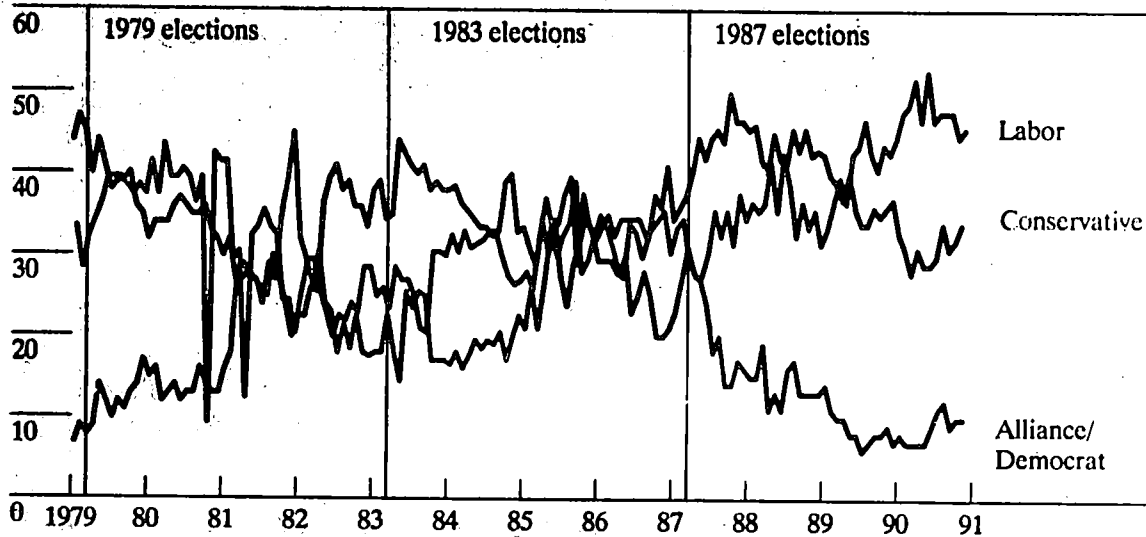
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### United Kingdom: Factors Dimming Tories' Electoral Prospects

#### Party Support During 11 Years of Thatcher

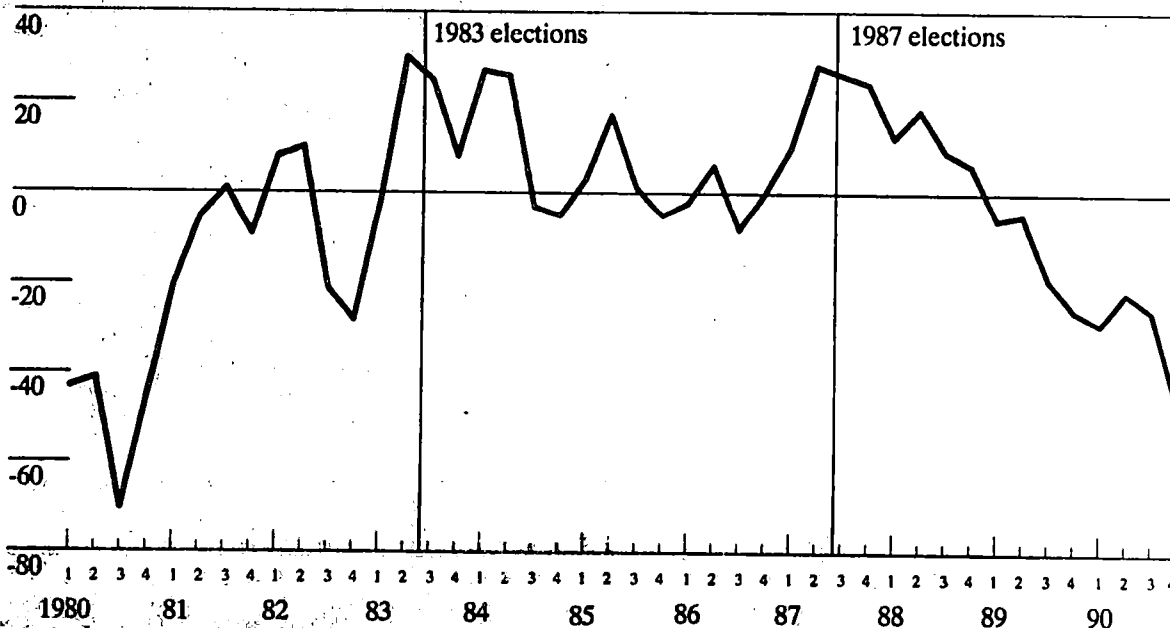
Percent



Source: Social Surveys (Gallup Poll) Ltd.

#### Business Confidence in the Economy

Percentage difference between those who are more optimistic about business prospects and those who are less optimistic compared to four months ago



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entering the European exchange-rate mechanism (ERM), Labor leader Kinnock already is hinting his party will support a European central bank. [redacted]

In all Thatcher's years in office, the British economy has never been in such poor shape this close to a general election. One must be called by June 1992, and she probably now has less than a 50-50 chance of turning the economy around in time. Prolonged high interest rates tipped the economy into a recession in the third quarter of this year, and Chancellor of the Exchequer Major forecast growth of only 0.5 percent next year. Inflation is currently approaching 11 percent.

The hoped-for boost from taking sterling into the ERM and cutting interest rates early last month has failed to materialize. The UK's commitment to the ERM may constrain the Tories from lowering interest rates as rapidly as they would like next year. In addition, public anger is likely to erupt again next spring when new and almost certainly higher poll tax rates are announced and an 11-percent hike in the uniform business tax hits small businessmen, who have formed a solid base of Tory support in the past. [redacted]

#### Thatcher's Prospects for Survival

Although [redacted] reports from London suggest that Thatcher stands a good chance to withstand a challenge, some MPs are considering abstaining on the first ballot, a strategy that could make it difficult for Thatcher to defeat Heseltine. If the contest goes into a second round, Thatcher's chances of winning will drop significantly because many Tory MPs probably would prefer a compromise candidate to end intraparty strife. If Thatcher survives a challenge from Heseltine, she is likely to moderate her anti-EC rhetoric to try to unite the party, but the EC intergovernmental conferences on monetary and political union, set to complete their work by mid-1991, may force the government to take a clear stance before the next general election. [redacted]

Polls suggest a decision not to participate in economic and monetary union would be very unpopular, particularly with businessmen. On the other hand, Thatcher risks undermining her position and alienating the Tory right wing by reversing her stance. The poor state of the economy also leaves her little maneuvering room. In the past, memories of Labor mismanagement in the 1970s and a buoyant economy have paved the way for Tory electoral success. Although polls continue to show the Tories are more trusted to run the economy, the length of the current slowdown may begin to sway voter opinion, particularly because Labor has moderated many of its radical views and is now seen by many as an acceptable alternative.

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