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Date Printed:
22-Oct-2001

DOC_NBR: 1987LONDON12510

CHANNEL: n/a
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 INFO USMISSION USBERLIN IMMEDIATE
 AMEMBASSY REYKJAVIK IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 04 LONDON 12510

BERLIN FOR PRESIDENT'S PARTY; REYKJAVIK FOR SECRETARY'S PARTY;
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SUBJECT: THATCHER'S THIRD TERM: WHAT'S IN IT FOR US?

1. C - ENTIRE TEXT
2. SUMMARY: WITH YESTERDAY'S LANDSLIDE CONSERVATIVE VICTORY, THE US-UK DEFENSE RELATIONSHIP REMAINS INTACT AND BRITAIN'S

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ALLIANCE ROLE ASSURED. ON THE DOMESTIC FRONT, THE PROMISE OF ANOTHER FIVE YEARS IN GOVERNMENT MEANS THAT THATCHER CAN VIGOROUSLY PURSUE HER REFORMIST AGENDA. BUT UNDERLYING THE TRIUMPH, THE DEBATE OVER THE "HUMAN COST" OF THATCHERISM WILL CONTINUE TO RAGE; AND IN MOVING FORWARD ON SOME OF THEIR MORE RADICAL SOCIAL PROGRAMS, THE TORIES MAY FIND COMPROMISE INEVITABLE. FOR NEIL KINNOCK AND THE LABOR PARTY, THE PROSPECT OF A THIRD TERM IN OPPOSITION TAKES THE GLOSS OFF ANY ATTEMPT TO RATIONALIZE DEFEAT. FOR THE ALLIANCE, THEY WILL SURVIVE, BUT THE QUESTION MUST BE WHETHER THEY HAVE LOST THE SPARK.

END SUMMARY.

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[REDACTED] THE UK WILL CONTINUE TO MAINTAIN ITS INDEPENDENT NUCLEAR DETERRENT AND TO MAKE A MAJOR CONTRIBUTION TO NATO'S CONVENTIONAL DEFENSES. U.S. BASES HERE WILL REMAIN, AND WE CAN EXPECT A COOPERATIVE APPROACH ON THE PART OF THE BRITISH TO FUTURE DECISIONS TO MODERNIZE U.S. NUCLEAR SYSTEMS BASED IN THE UK.

[REDACTED] THERE WILL BE CONTINUITY IN BRITISH FOREIGN POLICY ACROSS THE BOARD (OF SPECIAL NOTE ARE THOSE AREAS -- E.G. ARGENTINA, CENTRAL AMERICA, AND SOUTH AFRICA -- [REDACTED])

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[REDACTED] ON THE ECONOMIC SIDE, THATCHER'S WIN MEANS THE UK WILL CONTINUE TO TRACK ALONGSIDE THE U.S. ON INTERNATIONAL ECONOMIC AND TRADE POLICY.

4. ABOVE ALL, THE FACT THAT NATO WILL NOT HAVE TO COPE WITH THE SHOCKS THAT WOULD HAVE FOLLOWED A LABOR VICTORY IS THE PRINCIPAL POSITIVE RESULT. DURING THE CAMPAIGN, LABOR NUANCED ITS POSITION ON U.S. NUCLEAR BASES SOMEWHAT AND MADE A STRONG DECLARATORY COMMITMENT TO STRENGTHENING NATO'S CONVENTIONAL DEFENSES. BUT KINNOCK'S FUNDAMENTAL REJECTION OF NUCLEAR DETERRENCE NEVER WAVERED. EVEN THOUGH DEFENSE DID NOT PROVE THE CENTRAL ISSUE IN THE CAMPAIGN (AND THE DEBATE OVER DEFENSE POLICY WAS OFTEN CONDUCTED AT AN EMBARRASSINGLY SILLY LEVEL), IT WAS CLEAR THAT A MAJORITY OF VOTERS HARBORED SERIOUS RESERVATIONS ABOUT PUTTING THE NATION'S SECURITY IN LABOR'S HANDS. IF LABOR EVER HOPES TO REGAIN POWER, IT WILL ALMOST CERTAINLY HAVE TO CONFRONT THE NEED TO RETHINK ITS COMMITMENT TO UNILATERAL NUCLEAR DISARMAMENT.

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AS HER MINISTERS AND BUREAUCRATS INCREASINGLY LOOK TOWARD EUROPE AND EUROPEAN INSTITUTIONS LIKE THE EC AND WEU, SHE REMAINS A FIRM ATLANTICIST. THIS IS NOT TO SAY THAT SHE TOO HAS NOT TAKEN ON A MORE EUROPEAN PERSPECTIVE. BUT MRS. THATCHER KNOWS THE IMPORTANCE OF THE UNITED STATES TO BRITAIN, AND SHE CONTINUES TO PRIZE HER RELATIONSHIP WITH PRESIDENT REAGAN -- A RELATIONSHIP SHE WENT OUT OF HER WAY TO HIGHLIGHT AT THE VENICE SUMMIT. THAT SAID, AS THE REAGAN ADMINISTRATION ENTERS ITS FINAL 18 MONTHS, THE PRIME MINISTER WILL SEE HERSELF MORE AND MORE AS "THE" MOST EXPERIENCED STATESMAN IN THE WEST. WE CAN EXPECT HER TO CONTINUE TO FOCUS VERY HARD ON EAST/WEST RELATIONS AND TO DEMAND THAT HER NATO ALLIES PLAY A MORE

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SUBJECT: THATCHER'S THIRD TERM: WHAT'S IN IT FOR US?

CREATIVE ROLE IN THEIR DEALINGS WITH THE SOVIET UNION.

A TRIUMPHANT THATCHERISM

6. NOTWITHSTANDING THATCHER'S THUMPING NEW MAJORITY, MANY HERE HAVE PERSUADED THEMSELVES SHE WILL HAND OVER THE REINS OF LEADERSHIP AFTER THREE YEARS OR SO. WE ARE NOT AT ALL CONVINCED. SHE LIKES BEING PRIME MINISTER, THRIVES ON IT, AND HAS PROMISED TO CARRY ON TO THE END OF THE TERM. INDEED, SHE HAS SPOKEN OF CARRYING THIS PARLIAMENT THROUGH TO A FULL FIVE YEARS AND STANDING FOR ELECTION A FOURTH TIME.

7. THATCHERISM, THEN, IS ALIVE AND WELL, AND HER GOVERNMENT CAN BE EXPECTED TO DRIVE FORWARD WITH A STRONG COMMITMENT TO ECONOMIC GROWTH THROUGH THE WORKINGS OF THE FREE MARKET, FURTHER PRIVATIZATION AND EXPANSION OF MIDDLE-CLASS SHARE OWNERSHIP, CONSTRAINTS ON TRADE UNION POWER, THE PROMOTION OF ALTERNATIVE OR PRIVATE EDUCATION AND HEALTH CARE, AND A CONTINUED EFFORT TO LIMIT THE SCALE OF SOCIAL WELFARE PROGRAMS -- ALL COUPLED WITH A COMMITMENT TO A STRONG DEFENSE. THATCHER'S AVOWED AIM IS TO ENSURE THAT THE CONSERVATIVE POLICIES WHICH SHE HAS PRESSED SINCE 1979, AND WHICH HAVE TRANSFORMED THE BRITISH ECONOMY AND BRITISH POLITICS THESE PAST EIGHT YEARS, WILL BE IRREVERSIBLY ENTRENCHED BY THE TIME SHE DEPARTS FROM THE POLITICAL STAGE.

BUT A PHILOSOPHY OF GOVERNMENT WITH WHICH ONLY A MINORITY AGREE

8. AT THE SAME TIME, THE PAST MONTH'S HARD-FOUGHT CAMPAIGN COULD NOT HELP BUT REMIND VOTERS OF EVERY STRIPE THAT THE

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COUNTRY IS FAR FROM UNITED BEHIND THATCHER. SHE REMAINS A MINORITY PRIME MINISTER, WITH ALMOST 60 PERCENT OF BRITONS PREFERING SOMEBODY ELSE; AND THE EXTENT OF HER MAJORITY IS DUE ONLY TO THE QUIRKS OF BRITAIN'S FIRST-PAST-THE-POST VOTING SYSTEM. NEARLY A QUARTER OF THE PEOPLE IN THIS COUNTRY VOTED FOR THE SDP/LIBERAL ALLIANCE, YET THE ALLIANCE ENDED UP WITH FEWER THAN FOUR PERCENT OF THE SEATS.

9. ALTHOUGH THE CONSERVATIVES CAN AND WILL CLAIM THE VOTERS HAVE REJECTED LABOR'S OLD-TIME SOCIALIST RELIGION, THERE ARE FIERCELY DIVERGENT VIEWS IN BRITAIN TODAY AS TO WHETHER THE STATE OF THE NATION IS IMPROVING OR WORSENING. REFLECTING THE SHARP GEOGRAPHICAL DISTRIBUTION OF SEATS (NOTABLY THE CONSERVATIVE DRUBBING IN SCOTLAND AND WALES, AND THEIR CONTINUED WEAKNESS IN THE ECONOMICALLY BLIGHTED NORTH OF ENGLAND), THE COUNTRY IS DIVIDED BETWEEN THOSE WHO CANNOT ABIDE THE PRIME MINISTER AND THOSE WHO ADMIRE HER FERVENTLY. AND AS THE VOTING MAP SHOWED, THAT DIVISION CORRESPONDS ALMOST EXACTLY WITH THE DIVISION BETWEEN AREAS OF "HAVES" AND "HAVE-NOTS," EMPLOYED AND UNEMPLOYED. THAT DIVISION MAY ALSO SUGGEST THAT, DESPITE THE 102-SEAT MAJORITY, THERE COULD BE A GOOD AMOUNT OF POLITICAL TENSION BELOW THE SURFACE, WHICH COULD EASILY BREAK LOOSE INTO WESTLAND-LIKE FLAREUPS.

10. THROUGHOUT THE CAMPAIGN, SHE WAS FORCED AGAIN AND AGAIN TO CONFRONT THE FACT THAT A MAJORITY OF BRITONS ARE DEEPLY SKEPTICAL OF THE CONSERVATIVES' COMMITMENT TO, AND POLICIES FOR, IMPROVING HEALTH AND EDUCATION, NO MATTER HOW IMPRESSIVE-SOUNDING THE STATISTICS THEY ADDUCED DURING THE CAMPAIGN. AT THE OUTSET, THATCHER DESCRIBED THE TORY MANIFESTO AS RADICAL. FOR THE CONSERVATIVES, ONE LESSON OF THE CAMPAIGN SHOULD BE THAT THERE WILL HAVE TO BE CONSTRAINTS: IMPLEMENTATION OF THE MANIFESTO CAN'T BE SO RADICAL AS TO FORGET THE NEEDS OF THE MAJORITY OF CITIZENS.

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THE LOSERS -- FIRST REACTIONS, SECOND THOUGHTS

11. THE MORNING-AFTER LABOR LINE IS THAT THE SDP/LIBERAL
ALLIANCE WAS THE BIG LOSER AND THAT LABOR'S RESULT IS MORE

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AMBIGUOUS, THAT IT HARBORS CERTAIN PROMISING ELEMENTS. LABOR NOTES THAT IT -- AND NOT THE ALLIANCE -- GAINED SEATS. LABOR SPEAKS OF KINNOCK'S HAVING FOUGHT THE MOST EFFECTIVE CAMPAIGN, OF HIS NOW STRONGER HOLD OVER THE PARTY, OF THE NOW GREATER LIKELIHOOD THAT KINNOCK WILL ONE DAY BE BRITAIN'S PRIME MINISTER.

12. BUT LABOR'S HYPE CANNOT CONCEAL PROFOUND PROBLEMS HIGHLIGHTED BY THE RESULTS. 1983 EXCEPTED, IT WAS THE WORST LABOR SHOWING IN 50 YEARS. THE REASONS? AS NOTED, DOUBT OVER LABOR'S RELIABILITY ON DEFENSE WAS ONE FACTOR; PROSPERITY FOR THE 87 PERCENT IN EMPLOYMENT WAS ANOTHER. BUT LABOR ALSO FAILED TO CONVINCED VOTERS THAT ITS RATHER OLD-FASHIONED AGENDA OF INCREASED SOCIAL SPENDING WOULD NOT RETURN BRITAIN TO THE BAD-OLD DAYS OF HIGH-INFLATION AND TRADE UNION EXCESSES. AS A RESULT, LABOR'S DEMOGRAPHICS ARE WORSE THAN EVER. KINNOCK DID NOT MAKE THE HOPED-FOR BREAKTHROUGH AMONG YOUNG VOTERS, LOWER MIDDLE-CLASS HOMEOWNERS OR FORMER ALLIANCE SUPPORTERS, WHO APPEAR TO HAVE RESPONDED TO TORY APPEALS NOT TO "LET" LABOR "WRECK" BRITAIN AGAIN. AND LABOR'S SHOWING IN LONDON WAS DISASTROUS, DECLINING AN AVERAGE OF FIVE POINTS IN LONDON CONSTITUENCIES DESPITE A GAIN IN POPULAR VOTE NATIONALLY -- AND DEMONSTRATING THAT RADICAL CANDIDATES AND LOCAL GOVERNMENT PROFLIGACY HAVE COST THE PARTY DEARLY.

13. WITH MORE POTENTIALLY EMBARRASSING HARD-LEFT RENEGADES THAN THE LABOR PARTY KINNOCK LED IN THE LAST PARLIAMENT, LABOR'S
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DILEMMA IS TO FIND STANDS WHICH APPEAL NOT ONLY TO ITS HAVE-NOT CONSTITUENCY ON THE CELTIC PERIPHERY AND IN DECAYING INNER CITIES, BUT MORE IMPORTANTLY TO THE UN-YOUNG, UN-POOR, UN-BLACK MAINSTREAM VOTERS IN THE LONDON-MIDLANDS HEARTLANDS WHERE BRITISH ELECTIONS ARE WON AND LOST. LACK OF TRADE UNION CLOUT IN DELIVERING VOTES IN MARGINAL SEATS WAS ANOTHER DISAPPOINTMENT -- BUT AT LEAST SOME TRADE UNION LEADERS MAY BE ASKING WHETHER THE FAULT LIES NOT WITH THEM BUT WITH THE PARTY. IN SUM, NEIL KINNOCK HAS ESTABLISHED HIMSELF IN THIS ELECTION AS A POLITICIAN TO BE TAKEN SERIOUSLY, BUT IN THE END DID NOT GIVE VOTERS ANYTHING TO BE TAKEN SERIOUSLY ABOUT.

14. AS FOR THE ALLIANCE, HAVING LOST FIVE OF THEIR SCANT 27 SEATS -- AMONG THEM, MAJOR FIGURES LIKE SDP CO-FOUNDER ROY JENKINS -- THURSDAY'S RESULT IS A MAJOR DISAPPOINTMENT. AFTER THE GREENWICH BY-ELECTION, ALLIANCE LEADERS BEGAN TO SPEAK OF THE POSSIBILITY OF REAL POWER, OF THE LIKELIHOOD THAT THE ALLIANCE WOULD FINISH SECOND IN THE POPULAR VOTE AND THEREBY TRIGGER A LONG-OVERDUE REALIGNMENT OF BRITISH POLITICS -- WITH MODERATES FROM THE LABOR PARTY JOINING THE ALLIANCE TO FORM A

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NEW PRINCIPAL OPPOSITION PARTY OF THE CENTER-LEFT. JENKINS CORRECTLY WARNED US AT THAT TIME, HOWEVER, THAT THE ALLIANCE WAS LIKE A SAILBOAT, GRACED WITH MAGNIFICENT SAILS AND VERY LITTLE IN THE WAY OF A KEEL. THE '87 ELECTION SHOWS THAT MOST BRITONS ARE NOT PREPARED TO ABANDON THE TRADITIONAL TORY-LABOR DOMINATION AT THE NATIONAL LEVEL.

15. ALL IS NOT NECESSARILY GLOOM FOR THE ALLIANCE, HOWEVER. THROUGHOUT A CAMPAIGN WHICH ALL ACKNOWLEDGE THEY FOUGHT POORLY, THE ALLIANCE HELD A SOLID 20 PLUS PERCENT OF THE ELECTORATE (WHICH, THEY POINT OUT, WOULD HAVE EARNED THEM 125-150 SEATS IF THERE WERE PROPORTIONAL REPRESENTATION IN BRITAIN). AND THE LIBERALS AND SDP REMAIN A REAL POLITICAL FORCE IN LOCAL GOVERNMENT ACROSS BRITAIN. IN THE COMING MONTHS, THE ALLIANCE WILL LIKELY BE DEBATING WHETHER THEIR POOR PERFORMANCE ARGUES FOR A

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MERGER OF THE TWO ALLIANCE PARTIES (THEIR DUAL LEADERSHIP WAS CLEARLY A LIABILITY IN THE CAMPAIGN). BUT THE MORE IMMEDIATE QUESTION IS WHETHER EITHER OF THE DAVIDS, BOTH NOW VERY DISPIRITED, DECIDES TO THROW IN THE TOWEL. IF NEITHER DOES, THE ALLIANCE'S IMPACT AT WESTMINSTER, AND IN THE 10-15 BY-ELECTIONS TO BE FOUGHT IN THIS PARLIAMENT, MAY BE LITTLE CHANGED. BUT FOR NOW, THE INCREASING OPTIMISM SINCE 1983 THAT THEY REPRESENTED THE RISING FORCE IN BRITISH POLITICS IS GONE.

AN AMERICANIZED CAMPAIGN

16. THE CAMPAIGN ITSELF WILL LEAVE ITS MARK ON BRITISH POLITICAL PRACTICES. BOTH MAJOR PARTIES USED SOPHISTICATED ADVERTISING TECHNIQUES. THE CONSERVATIVES HAD DONE SO IN 1983, AND LABOR CLEARLY LEARNED ITS LESSON. THE ALLIANCE LEARNED THE LESSON TOO, BUT COULD NOT AFFORD TO PUT IT INTO PLAY. LABOR'S CAMPAIGN WAS REMARKABLY EFFECTIVE -- VERY AMERICAN AND VERY "PRESIDENTIAL" BY BRITISH STANDARDS. THE SCRIBBLERS FROM FLEET STREET WERE CAST ASIDE, AS THE FOCUS WAS ALMOST EXCLUSIVELY ON TELEVISION AND PHOTO OPPORTUNITIES. AFTER ONE REMARKABLE AD CREATED BY THE PRODUCER OF "CHARIOTS OF FIRE," KINNOCK'S PERSONAL STANDING JUMPED 20 PERCENT OVERNIGHT. IN THIS TRADITIONAL COUNTRY, THERE IS NO LITTLE APPREHENSION ABOUT WHAT THIS TYPE OF MEDIA CAMPAIGN MEANS FOR THE FUTURE OF BRITISH POLITICS. ALL THAT ONE CAN SAY AT THIS POINT IS THAT THE GROUND HAS CHANGED.

THE PARTIES AND THE EMBASSY

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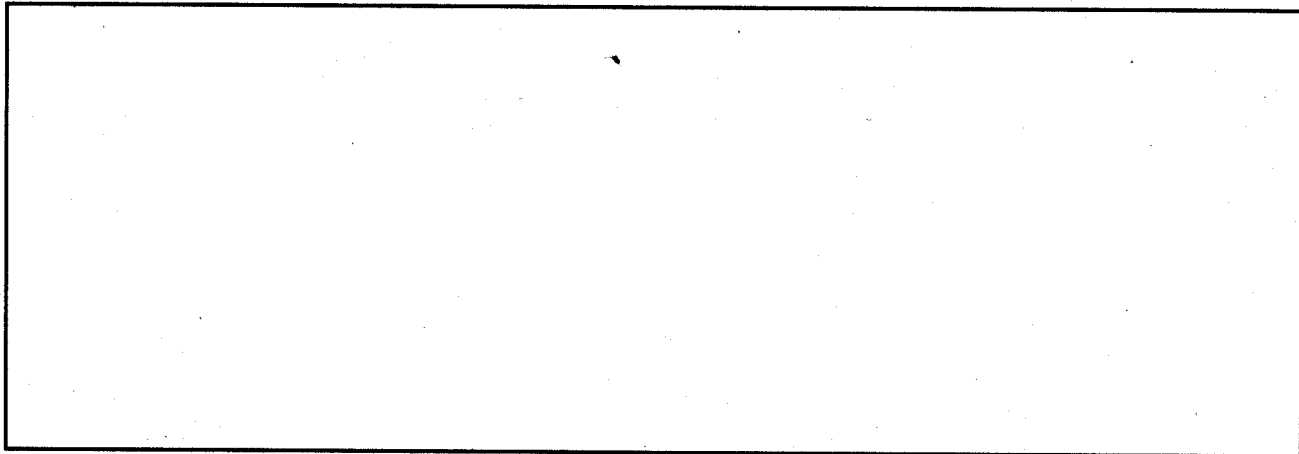
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