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CONFIDENTIAL

25th February, 1974

Dear Secretary

A point has now been reached in the Election campaign where close observers regard the outcome with much greater uncertainty than they would have speculated on privately during the past week. While the real crunch in the campaign has probably yet to come, there seems to be a growing feeling that neither the Prime Minister nor Mr. Wilson has so far acquitted himself as well as might have been expected. They have failed to explain their policies convincingly and have indulged too much in a slanging match. Mr. Thorpe's campaign on the other hand, has concentrated much more on issues with a conscious avoidance of personal attacks on the other party leaders. Lack of previous experience in Government by the Liberals seems, however, to be increasingly regarded by the man in the street as a handicap, particularly in view of the grave economic problems facing the country. Not even the greatest optimist would, of course, see the Liberals coming out on top. One gets the view almost everywhere that the Prime Minister's walk-about has done him more damage than good.

The Committee of Lloyd's gave a luncheon for me on Tuesday last. The attendance included about 20 of Lloyd's top underwriters. While the majority view around the table clearly was that the Government will get back with an improved showing, at least five of those present contemplated voting Liberal for the first time and would see merit in an outcome in which the Liberals would hold the balance of power. This would be on the assumption that a Tory Government would be returned and that, with the Liberals in a new position, the Government would have to adopt a more flexible line on some of its policies.

Later in the week, I had a long meeting with Alastair Burnet

.../...

So much for
the possibility
of Lloyd's
underwriting!

of The Economist and his senior colleagues. As might be expected from them, they would regard a return of Labour as an unmitigated disaster. In their view, it will take this country not less than two years to emerge from its present economic difficulties - and even that may be optimistic. A Conservative Government is the only hope.

Firm handling of the economy is vitally essential. It must not be based on deflation and the objective of growth must be pursued even though it may not be possible to do much about it in the short term.

The Labour programme would be a prescription for ruin. It could only bring stagnation in industry and a serious discouragement of the new investment so badly needed. It could bring the Common Market to a halt and, maybe worse, if Mr. Wilson were to go ahead in due course with his suggestion of a referendum. On top of all this, Labour's foreign policy generally is out of tune with the requirements of the present day.

On the basis of their detailed and up-to-date coverage of the campaign throughout the country, the view of the people in the Economist at the end of last week was that the Government is likely to come back with an over-all majority, with perhaps as many as 50 seats to the good. This was on the assumption that the Liberals would not end up with more than 20 seats.

The surprising information over the weekend if it can be relied on could prove the Economist wrong. The conclusions being drawn from it are these:-

- (i) The Liberals may now be reaching a break-through point. If this is the case, then Jeremy Thorpe's forecast of 60 seats may not be over-optimistic;
- (ii) In the case of marginal seats, the Liberals are probably doing somewhat more damage to Labour than to the Conservatives;
- (iii) The Liberals could be a serious threat to the Conservatives in a limited number of their previously safe seats;

So much for the prediction of the Economist.

- (iv) If the situation develops on the lines now forecast, a further and early General Election is a strong possibility.

Contrary to expectations, the Labour Party is so far playing the Common Market card on a fairly low key. There is still time to change that. The general view seems to be that Enoch Powell's reappearance on the political scene has not, at any rate as yet, had a serious impact on the Government's chances. What is widely felt is that he has sounded his own political death knell.

Yours sincerely

DONAL O'SULLIVAN

Ambassador

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