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Chancellor's (Lawson) papers:
Visits and Bilaterals Between
British and French Ministers 1987-88

DD's: 25 Years



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Prof

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 February 1988

Dear dyn.

ANGLO-FRENCH SUMMIT

I enclose a record of the plenary session of the Anglo-French Summit on 29 January.

I am copying this letter and enclosure to Alex Allan (H.M. Treasury), Brian Hawtin (Ministry of Defence), Philip Mawer (Home Office), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Marjorie Davies (Minister of State for Trade's Office) and to Trevor Woolley (Cabinet Office).

Yours sincerely,
Charles Powell
CHARLES POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth office.

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RECORD OF THE PLENARY SESSION OF THE ANGLO-FRENCH SUMMIT, HELD
AT LANCASTER HOUSE AT 1200 ON FRIDAY 29 JANUARY 1988

Present:

The Prime Minister

President Mitterrand
M. Chirac

The Rt. Hon. Sir Geoffrey Howe, MP,
Secretary of State for Foreign
and Commonwealth Affairs

M. Raimond
Minister of Foreign
Affairs

The Rt. Hon. Douglas Hurd, MP,
Secretary of State for the
Home Department

M. Pandraud
Minister Delegate
for Security

The Rt. Hon. George Younger, MP
Secretary of State for Defence

M. Giraud
Minister of Defence

The Rt. Hon. John MacGregor, MP
Minister of Agriculture,
Fisheries and Food

M. Guillaume
Minister of
Agriculture

The Rt. Hon. Lynda Chalker, MP
Minister of State for Foreign
and Commonwealth Affairs

M. Bosson
Minister Delegate
for European
Affairs

The Hon. Alan Clark, MP
Minister of Trade

M. Noir
Minister Delegate
for Foreign Trade

Officials

Officials

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The Prime Minister said that her discussions with the President and Prime Minister had concentrated on two major issues: the forthcoming European Council and defence and arms control issues. Ministers had gone into more detail in separate discussion.

There was still no agreement in advance of the special European Council and much work remained especially on the important stabiliser mechanisms. Assuming the Council was held as planned, there would need to be a wide measure of agreement in advance, so that success was assured.

The second major theme had been the forthcoming NATO Summit and arms control. Such bilateral discussions were valuable: we did not talk enough about the detail of arms control. Arms control was a particularly vital matter for Western Europe, because it was there the threat of attack most applied. France and the UK, with independent nuclear deterrents, had shared interests and concerns about the next steps. We agreed on the need to retain nuclear weapons and to keep American nuclear weapons in Europe.

In discussion of the Gulf she and M. Chirac had agreed to press for a further Security Council Resolution, providing for an arms embargo on Iran. It was disappointing that, despite efforts over the last few years, there had been no major initiative to solve the Arab/Israel problem.

President Mitterrand said that the French side had stated their views on Community financing. They hoped that the Summit would be successful. France's position was "not aggressive". They had gone to the limit in seeking conciliation and could not go further. There were points of difficulty between the UK and France, also between the UK and almost all the other Member States. He and M. Chirac reserved further comment until Ministers of Agriculture had reported.

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FOREIGN AFFAIRS

The Foreign Secretary said that he and Raimond had discussed EC affairs with Mrs. Chalker and Bosson until the latter left for separate talks on the Internal Market (on which there was broad Anglo-French agreement). On agriculture he and Raimond had identified the biggest differences between us as being over stabilisers especially for cereals and oilseeds. Further work would be needed on these issues. They had also discussed the fourth resource. Britain and France had a very similar approach, but this caused difficulty for Italy. We were prepared to look at a wide range of options and adjust the Fontainebleau mechanism in the light of the effect of the fourth resource on our net contribution. We could not however accept any other change in Fontainebleau. We also had similar views on the Structural Funds. We wanted to limit the increase to one-and-a-half times the maximum rate. On budget discipline our views were close but not entirely the same.

Discussion of East/West issues had brought out a shared concern to avoid Soviet wedge-driving. We agreed on the importance of avoiding the denuclearisation of Europe and negotiations on non-strategic nuclear weapons. We had a tactical difference over including dual-capable weapons in conventional stability talks, and experts would be instructed to follow this up. On Chemical Weapons we shared the objective of a global ban and should keep in close touch. We also wanted to prevent the Russians from using their proposal of a Moscow Conference on Human Rights to divide the West. Britain was sceptical about holding any Moscow Conference. The French too did not want one but feared concessions by some of our Allies.

While agreeing on the value of WEU as a pillar for NATO, Raimond and he had not been able to agree on co-location. They had also welcomed the agreement on SSN visits. On Iran/Iraq they had also welcomed the work going on in New York on a draft arms embargo resolution. We should continue to press Iraq for restraint and reject the Soviet proposal for a

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UN naval force. He had thanked M. Raimond for French co-operation over the Eksund and reaffirmed the importance of making no deals with terrorists. We had identical views on Afghanistan and were sceptical about the Russians' real intentions.

M. Raimond confirmed that there was a difference of opinion on stabilisers. He had said that the present compromise proposal represented considerable progress on such aspects as price reductions and set-aside, and Sir Geoffrey Howe had agreed. We differed on MGQs for cereals and oilseeds and on the automaticity of price cuts for cereals. He had said that the French proposal to include a reference to third countries' trading practices in the clause on exceptional circumstances was not an attempt to weaken budget discipline. The British side had agreed on the need for the EC not to be disarmed against unfair competition. There was broad agreement on Structural Funds, but some gesture would be needed to Italy.

He confirmed that on conventional disarmament, experts should meet to discuss the inclusion of dual-capable vectors, to which France was opposed. There was a tactical difference over the Moscow Conference, and a difference on view over WEU co-location.

DEFENCE

Mr. Younger reported a useful exchange surveying deepening co-operation since the last Summit. On arms collaboration the first Anglo/French equipment conference had taken place in September 1987. This had covered co-operation in land systems. There would be further conferences in Paris in March and London in November on sea and air systems. They had concluded a reciprocal purchasing agreement under which each would offer the other opportunities for procurement of conventional equipment. This was consistent with other European initiatives. Other subjects covered were co-operation in research; possible joint components for EFA and Rafale; joint exercises; and nuclear matters. They had

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discussed possible co-operation on a future generation air-to-ground missile. There was agreement on attitudes to the INF treaty and the WEU "platform", welcome for the collaboration of Navies in the Gulf and for the role of WEU in that. The agreement on SSN visits was noted with approval. Agreement had been reached in December to prepare plans for the common defence of the Channel Fixed Link. Mr. Younger looked forward to carrying the consultations further. M. Giraud agreed.

AGRICULTURE

The Minister for Agriculture said that he and M. Guillaume had spent most of their time on stabilisers. They agreed on the need to introduce stabilisers, but M. Guillaume wished to do so only for three years so that the Community would have something in reserve for the GATT negotiations. He had replied that Britain could not agree to a permanent increase in own resources if stabilisers were to be introduced only on a temporary basis. On cereals, M. Guillaume had recommended the present formula as one agreed by ten Member States and one which had brought the Germans to accept price reductions. He had replied that it fell short of the effective measures which we required. It would not stabilise costs in the long term and put too much emphasis on co-responsibility. They had discussed this in some detail and had not reached agreement. On oilseeds M. Guillaume had said that the present formula was the most he could accept and its balance should not be changed. Mr. MacGregor had replied that in his view it would not limit costs in this sector and would cost 600 ecu more than the proposal at Copenhagen.

On set-aside, they were broadly in agreement on the place for this in the overall package and its main features. We regarded green fallow as difficult to apply, but M. Guillaume had agreed that it could be optional. M. Guillaume and he had agreed on the need to keep in close touch over the details of the negotiations with third countries over the import arrangements for sheepmeat. They had also agreed to pursue in

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Brussels more flexible arrangements for the transfer and allocation of milk quotas with the aim of implementation on 1 April 1989. M. Guillaume had raised the Oils and Fats Tax, but there had been no meeting of minds. Finally, M. Guillaume had stressed the importance of Dom Rum and Mr. MacGregor had explained the concerns of the UK spirits industry. The UK could lift its reserve on Dom Rum if the Spirits Directive could be agreed under the German Presidency. Officials would work with that aim.

M. Guillaume said that this was an accurate account of their discussions. Both delegations wanted the CAP to be more influenced by market realities, but France thought it necessary also to take account of the Community's diversity. The Presidency compromise agreed by ten Member States was the limit of the possible for them. They could accept it on two assumptions:

- (a) that the European Council would agree on adequate resources for the CAP; and
- (b) that stabilisers would be introduced for three years so as to press others to make an effort in the GATT context.

The Community should not put constraints on farmers without offering them some hope as well. It should be easy to get the experts to agree on Dom Rum and the Spirits Directive.

HOME AFFAIRS

Mr. Hurd said that he and M. Pandraud had reviewed recent terrorist developments. They welcomed the increasing collaboration between French and British agencies, of which Eksund was a good example. They had compared views on the future work of TREVI under the German Presidency and considered ideas for putting its work on a more formal basis. On drugs they agreed that a key instrument was powers to confiscate assets, but that this was not practicable without

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international agreement. Discussion could be carried forward bilaterally, and multilaterally through the Council of Europe. They had agreed on exchanges between officials concerned with the fight against drugs. They had also discussed harmonising visa regimes in Europe and the possibility of an agreement in TREVI on asylum. M. Pandraud agreed, adding that the struggle against drug trafficking needed high priority.

TRADE

Mr. Clark said that in discussion of the Geneva GATT round he had agreed with M. Noir that progress at the mid-term review should include that question of agricultural reform. They agreed in principle, but differed over tactics. The internal market would have important external consequences. Britain and France should keep in touch over ways of ensuring that the Community's interests were advanced. They were agreed that strong Community pressure was needed against unfair Japanese trading practices.

M. Noir said that the French agreed that any differences concerned only tactics. The French were afraid that in the GATT round we would be forced into premature concessions on agriculture, which would weaken our position on other subjects. Our views were close about trade relations with Japan and Asia and the external consequences of the internal market.

CONCLUSION

President Mitterrand, summing up, said that on defence and security views were close. We had a common status as nuclear weapon states and similar reflexes. We should not sacrifice any element of our nuclear deterrent without due return. This applied even after a major decrease in the capability of the Soviet Union.

In the Community, we were both ready to agree a fourth resource on the basis of Commission proposals. On the

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structural funds we were both cautious. We did not want to have to bow to the European Parliament. We wanted a procedure, which though difficult was both possible and desirable, of a global percentage less than the Commission's proposals, that would allow variations depending on the relative prosperity (or poverty) of Member States. On this point the difference between the UK and France was less than with other Members.

Both of us wanted a large element of responsibility ("serieux") on the budget, but it had to be adapted to the different situations of countries and farmers. There was no agreement on MGQs, on price reduction formulae and co-responsibility. Most countries, though not all, shared the French position. The Germans, as Presidency and proposers of the special European Council, were important. They were certainly not ready to move now in the UK's direction. As regards the UK abatement, it was agreed at Fontainebleau that this should not be permanent, but degressive. This remained a problem.

This added up to two points on which we could agree and two that were "more difficult". France wanted agreement at the European Council and still hoped for this.

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of course*

M. Chirac said he wished only to reinforce what the President had said about France having gone as far as she could on agriculture. It was not justifiable to ask them to go further. The UK position continued to give serious difficulty. We needed, however, to look at the overall future of the EC and its resources, and then at agriculture in the light of that. This was a question for Brussels.

The Prime Minister concluded that on major matters there was wide agreement between us: defence, nuclear questions, co-operation against terrorism, trade (a subject in the forefront of our minds in the year of agreement on the CFL Treaty). The Channel Tunnel would change the history of Europe. All this was positive.

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W/Book

On the future financing of the Community we had differences. The idea that stabilisers should be limited in time was very difficult to accept. She was in principle against granting permanent incomes for a temporary arrangement. Our differences over agriculture stemmed from attitudes towards tackling surpluses and handling their disposal and the proportion of EC income which should be spent on this. Time and much further effort were needed to solve these questions. Meanwhile, the emphasis should be on the measure of agreement between us on the big issues. She welcomed the Minister of Agriculture's description of his exchanges as "useful and constructive". They should be taken further before the European Council. If agreement were not possible, at least fundamental differences could be refined and clarified.

1 February 1988

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FM PARIS

TO IMMEDIATE FCO

TELNO 134

OF 011746Z FEBRUARY 88

INFO PRIORITY EC POSTS

ANGLO-FRENCH SUMMIT: FRENCH PRESS COMMENT

SUMMARY

1. THE FRENCH MEDIA HAVE REPORTED NEGATIVELY ON THE SUMMIT. BLAMING THE UK FOR LACK OF PROGRESS ON EC AND DEFENCE ISSUES. THE BRITISH POSITION IS VIEWED AS A THREAT TO THE SUCCESS OF THE EUROPEAN COUNCIL MEETING IN BRUSSELS.
2. TODAY'S LES ECHOS, THE BUSINESS DAILY CARRIED THE HEADLINE ON PAGE ONE: 'BRUSSELS SUMMIT THREATENED BY LONDON', AND LE QUOTIDIEN, RIGHT-WING DAILY, SAYS LAST FRIDAY'S SUMMIT 'BROUGHT OUT THE DEEP SPLIT BETWEEN THE TWO COUNTRIES ON DEFENCE PROBLEMS AND STRESSED LONDON'S DEEP HOSTILITY TO THE PARIS-BONN AXIS.'
3. ON DEFENCE ISSUES, LE QUOTIDIEN IS REPRESENTATIVE OF MOST PAPERS IN WRITING: 'THE BRITISH PRIME MINISTER HAS NEVER CONCEALED THE IRRITATION SHE FEELS AT THE PROSPECT OF A FRANCO-GERMAN AXIS.... AS FAR AS NUCLEAR FORCES ARE CONCERNED, SHE PREFERS BRITAIN'S CLOSE COOPERATION WITH THE USA.... ONE BEGINS TO WONDER WHAT LED THE BRITISH TO SIGN THE PLATFORM AGREEMENT REACHED UNANIMOUSLY LAST OCTOBER AT WEU.' THE RIGHT-WING DAILY LE FIGARO, WHOSE COVERAGE IS CLOSEST TO CHIRAC'S OFFICE, SAYS THAT ON THIS QUESTION: 'MARGARET THATCHER HAS REACTED AS IF IT WERE STILL A MATTER OF PREVENTING THE CONTINENTAL BLOC NAPOLEON ALWAYS DREAMED OF'.
4. ON EC MATTERS, VIEWS ARE NO LESS CLEAR-CUT. LES ECHOS COMMENTS THAT THE MEETING SHOWED 'ONCE AGAIN THAT THE GULF BETWEEN PARIS AND LONDON ON AGRICULTURE IS FAR FROM BEING BRIDGED.' ON THE BUDGETARY ISSUE, LE FIGARO'S EDITORIAL OF SATURDAY CLAIMS: 'MARGARET THATCHER AVOIDS THE ISSUE, BECAUSE SHE IS ONLY CONCERNED WITH DEFENDING A BRITISH ECCENTRICITY: THE PRESERVATION OF THE CHEQUE BRITAIN'S PARTNERS GRANTED HER.' THE PIECE CONCLUDES: 'ENGLAND IS AN ISLAND. THE OLD EXCUSE.' SATURDAY'S LIBERATION, THE LEFT-OF-CENTRE DAILY, QUOTES CHIRAC, IN AN ARTICLE ON EC QUESTIONS ALONGSIDE THE BRIEF COVERAGE OF FRIDAY'S SUMMIT, AS SAYING THAT THE PRESENT BRITISH 'BLOCK' ON FINANCING CAN BE PUT DOWN TO PRESIDENT MITTERRAND'S 'GIVING WAY OVER THE BRITISH CHEQUE' AT FONTAINEBLEAU IN 1984:

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'FONTAINEBLEAU WAS A VERY, VERY BAD SUMMIT. FOR FRANCE AND FOR EUROPE...NOW ENGLAND, SITTING HAPPILY ON HER LION, WATCHES THE TOADS FIGHTING AMONG THEMSELVES. AND I DON'T NEED TO TELL YOU WHO THE CHUMP IS WHO IS FOOTING THE BILL.'

5. HOWEVER, A MORE MEASURED VIEW OF THE OUTCOME EMERGES FROM THE LONG ARTICLE IN THE WEEKEND'S LE MONDE, THE INDEPENDENT DAILY, WHOSE SOURCES ARE CLOSER TO THE ELYSEE THAN TO MATIGNON. THE PIECE POINTS OUT THAT 'PERSONAL AFFINITIES PLAY THEIR PART IN THIS KIND OF MEETING. WHILE THE PRESIDENT WAS ABLE TO REFER TO THE BRITISH PRIME MINISTER'S COURTESY, THE SAME COULD NOT BE SAID OF M. CHIRAC.' LE MONDE SAYS IT WAS 'POLITE' OF MRS THATCHER TO REFRAIN FROM MENTIONING TO M. MITTERRAND HER CRITICAL VIEW OF THE FRANCO-GERMAN BRIGADE, AND RECALLS THAT IN HER INTERVIEW WITH L'EXPRESS, SHE HAD IMPLIED THAT THE UNIT WAS 'FOR THE GALLERY'. IT THEN QUOTES M. MITTERRAND'S IRONICAL COMMENT THAT 'FRENCH POLICY IS DECIDED IN PARIS, GERMAN POLICY IN BONN... AND NOT IN LONDON.' BUT THE LE MONDE PIECE STRESSES THE UNDERLYING AGREEMENT ON STRATEGIC ISSUES THAT EMERGED FROM THE THATCHER-MITTERRAND MEETING, QUOTING MITTERRAND AS SAYING 'WE THINK AND ACT IN A SIMILAR WAY.' LE MONDE INTERPRETS MRS THATCHER'S COMMENT THAT 'WE SHOULD NOT SEEK TO OBTAIN WHAT IS NOT POSSIBLE FOR THE MOMENT' AS REFERRING TO THE IDEA OF FRANCE'S RETURNING TO THE NATO INTEGRATED COMMAND.

6. LE MONDE ALSO REFLECTS MORE THE ELYSEE VIEW OF EC QUESTIONS. IT RECOGNISES THAT CHIRAC HAS A NEED 'FOR SOCIAL AND ELECTORAL REASONS' TO DEFEND THE CAP 'WITH A CERTAIN VIGOUR', BUT THAT MRS THATCHER, BECAUSE BRITISH FARMING IS DIFFERENT, 'DOES NOT SHARE THIS KIND OF CONCERN AND CAN CONCENTRATE RIGIDLY ON THE NEED TO CUT SURPLUSES AND CAP SPENDING.' THE ARTICLE GOES ON TO SAY THAT MITTERRAND SENT THE BALL BACK INTO THE GERMAN COURT: IT WAS UP TO THEM TO CONDUCT NEGOTIATIONS SO AS TO ACHIEVE AGREEMENT. LE MONDE COMMENTS THAT THE PRESIDENT IS THUS CONTRADICTING 'ALL THOSE WHO THINK THE BEST STRATEGY IS TO ISOLATE BRITAIN THE BETTER TO MAKE HER GIVE WAY.'

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MR HERVEY
MR FALL

ADDITIONAL 4

~~PS/CHANCELLOR OF THE EXCHEQUER~~
PS/SECRETARY OF STATE
(FOR DEFENCE)
PS/HOME SECRETARY

PS/SECRETARY OF STATE
(FOR AGRICULTURE FISHERIES)
(AND FORESTRY)

NNNN

SAVING TELEGRAM
FROM PARIS

TO FCO TELNO SAVING 5 OF 3 FEBRUARY 1988
SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDel NATO
HMCGs IN FRANCE

MY SAVING TELNO 3 OF 20 JANUARY : FRENCH INTERNAL POLITICS

Summary

1. Unlikely that Mitterrand will announce whether he is a presidential candidate until next month. Expectation is that he will stand but will meanwhile profit from the prestige of office. Barre and Chirac have stepped up their attacks on him, but their code of good conduct has been shown to be fragile. Barre will announce his candidacy on 8 February, which his supporters hope will give his campaign new impetus. They are increasingly perturbed by his response to Chirac's recent surge of support; and by his unenthusiastic attitude towards his UDF supporters, which they fear may be demobilising and self-defeating. Le Pen's support is holding up well; Lajoinie's bumps along the bottom. Mitterrand is the favourite if he runs, but the campaign has not yet reached a decisive phase.

Detail

2. Despite continuing pressure from the Right and from the media, Mitterrand refuses to be drawn on his presidential intentions. The assumption remains that he will declare his candidacy in March, meanwhile keeping open the options of making an emergency exit should circumstances suddenly conspire against him. But few expect that they will, and increasingly his decision to wait is seen as part of his strategy of profiting from the dignity of the presidential office as long as possible before descending to trade blows with Chirac and Barre in the dust of the political arena. His hope is probably that an electorate already accustomed to the idea of his implicit candidature will adjust easily when that candidature becomes explicit, and continue to view him predominantly as a rassembleur rather than as the partisan candidate of the Socialist Party.

3. The Right fear that this strategy could indeed pay off and have begun attacking Mitterrand more frequently and more directly in the hope of countering it. Barre has been criticising his economic record between 1981-86, when there was a Socialist majority and government, and Chirac has deliberately been referring to him as «Mitterrand the Candidate» with the aim of knocking him off his pedestal. So far Mitterrand has done little more than shrug, hoping that because he remains an elusive target the Right's two main contenders will turn on each other instead.


4. There were signs at the end of January that the Chirac and Barre camps might fall into this trap. The Chiraquiens announced with glee that a number of RPR «supporters' committees» included UDF parliamentarians and councillors who might more naturally have been expected to support Barre. Some in Barre's camp reacted angrily to what they claimed was provocation and a stab in the back of the code of good conduct agreed between the two candidates. Both sides have since been at pains to play down the incident and relations have been restored; but the underlying fragility of the Right has been thrown clearly into relief, and the Socialists will do all they can in the days ahead to play on these animosities and provoke new ructions.

5. Barre will announce his candidacy formally on 8 February in Lyon (his parliamentary constituency). His supporters are hoping that this will give his campaign a new impetus, aware that January was not a good month. The opinion polls suggest that in the last 3-4 weeks Chirac has closed the gap with Barre (the latest Le Point poll suggests they are neck and neck at 21% each). Publicly the Barre camp profess to be unconcerned, arguing that Chirac's formal declaration should have had an even greater impact on his popularity rating, and casting doubt on his ability to sustain his current pace. Privately, however, they are worried by what they regard as Barre's inadequate response to Chirac's surge, and in particular by his continuing reluctance to cultivate and enthuse a UDF from which he remains self-consciously aloof. They fear that if he does not come down off the mountain soon, and deign to find a few kind words for the parties within the UDF and their supporters (however much he may privately disdain them), his attitude will be self-defeating and will demoralise and demobilise his troops. They cling to the hope that his approach will change once his formal announcement is made, but without much conviction.

6. There has been an upsurge of interest in the last ten days in the «petits vins» of the campaign. The most recent polls suggest that Le Pen's support has climbed back to 11% with a reservoir of sympathy which might enable him to increase his score still further. This is an unwelcome complication for Chirac from whom he threatens to take most votes. It is also an unwelcome development for the orthodox Right as a whole since Le Pen is making no secret of the fact that what he wants is a big enough score in the first round to force the Right's candidate in the second round to make some sort of gesture towards him in return for Front National (FN) support. Whether Barre or Chirac (depending on which of them gets through to the run-off) would be prepared to make such a gesture is uncertain: not to do so would risk losing much of the NF's first round vote; on the other hand the price of satisfying Le Pen could well be the loss of votes in the centre.

7. On the other extreme, the Communist candidate, Lajoinie, continues to struggle. His campaign is going badly and the current polls suggest that his score may be nearer 5% than 10%. If the dissident Juquin can secure the 500 signatures of elected representatives he needs to become a candidate, he may not be far behind Lajoinie when the votes are counted. As some leading Communists are willing to admit privately, such an outcome could throw into doubt the PCF's continued existence as a national political party.

8. There are still twelve weeks to polling day and the campaign has yet to enter a decisive phase. Mitterrand remains the favourite but, with a theoretical Right wing majority in France (if the FN are counted on the right hand side of the ledger), he is currently defying political gravity. Assuming he runs, his hope is that a combination of his own political skills, and the Right's divisions, will ensure victory. But even racing certainties stumble: and if Mitterrand is now the best bet, neither Barre nor Chirac is yet out of the race.


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EUROPEAN POLITICAL
WED

SAVING TELEGRAM
FROM PARIS

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TO FCO TELNO SAVING 6 OF 11 FEBRUARY 1988

SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDel NATO,
HMCGs IN FRANCE

MY SAVING TELNO 5 OF 3 FEBRUARY : FRENCH INTERNAL POLITICS

SUMMARY

1. The focus recently has been on the Barre-Chirac duel, with Chirac getting the better of it. Barre, who is handicapped by his own contradictions, has begun to accelerate. His supporters hope that the tortoise with a turbo will now regain lost ground. Chirac will try hard to stop him. Mitterrand hopes their battle will hamper the Right's prospects. He does not want either to establish a commanding lead on the Right.

DETAIL

2. In recent days the political focus has been on the battle between Barre and Chirac for the support of the orthodox Right. Chirac's fast start has boosted him in the opinion polls to the point where most now show him to have a slight edge over Barre (a reversal of the position a month ago). Barre insists that this is a temporary phenomenon and that, in due course, he will retake the lead. His supporters hope he is right but their morale is currently fragile; the RPR in contrast can barely suppress its glee.

3. Private contacts confirm that, perhaps prematurely, the Chirac camp think that they have got Barre on the run. They believe he is caught in a series of contradictions of his own making:-

- he continues to deplore cohabitation and yet the opinion polls show that a majority of the electorate accept that it has been a temporary necessity, and give credit to Mitterrand and Chirac for making it work;
- he disapproves of some of the policies followed by the Chirac government since March 1986, yet political circumstances have obliged him to vote loyally for them in Parliament. At the same time he cannot attack the present government's performance without infuriating and alienating the leaders of the UDF who have participated in that government (indeed Léotard has made it a condition of his and the Parti Républicain's support that Barre does not challenge the government's record);

/- his

- he disdains political parties and yet needs their organization and expertise if he is to win the election. He insists on the direct link between the presidential candidate and the elector and yet is apparently unwilling or unable to do anything to soften a distant, pedagogic manner. The voters respect him but they do not find him appealing. (Barre's reluctance to make any gestures towards the press party that accompanies him everywhere is not best calculated to help his cause either);
- his self-conscious projection of himself as the man to whom France can now turn and so avoid national decline is, for the moment anyway, mistimed. After the student troubles of December 1986, or even last October after the stock market crash, the electorate was unsettled and looking for reassurance. That mood has passed. The signs are now that voters may find Chirac's promises of a dynamic future more seductive than Barre's promises of a safe one. (The cynics are saying that what Barre needs is another stock market collapse.)

4. Are Barre's difficulties temporary, as he claims, or is the campaign at a turning point? The last few days have seen determined efforts by the Barre camp to regain momentum following the formal announcement of his candidature in Lyon on 8 February. A series of media appearances and campaign rallies is planned over the next few days, as well as a large Convention designed to «enthroned» him as the UDF candidate. His supporters are hoping fervently that the polls will soon respond favourably to the tortoise with a turbo.

5. Chirac will do his best, short of creating a serious breach within the majority, to see that they do not. He is marking Barre at every turn, echoing his propositions, and trying to cap Barre's meetings with bigger and more spectacular ones of his own. The RPR machine is already in overdrive. Chirac has adopted an entirely new format at his rallies, sitting relaxed on stage in conversation with half a dozen «typical electors» and discussing their hopes and preoccupations. These are no doubt carefully choreographed, but they make Chirac appear comfortable and approachable, contrasting sharply with the formality of Barre.

6. It is rumoured that Mitterrand may announce his intentions on 8 March (two months before the second round: 25 April and 8 May have now been officially confirmed as the dates for the election). The polls have him solidly ahead in both rounds. The almost universal assumption remains that he intends to run again. Meanwhile he has kept himself in the limelight with a visit to Réunion which has provided useful publicity for him as the President rassembleur. He pays a State visit to Dublin at the end of the month - another «presidential» activity. He will be watching the Barre/Chirac contest closely, and will be pleased that Chirac has his nose in front since the polls suggest that he should be the easier of the two to beat in the second round. But he will not want either to open up a clear lead; much better from Mitterrand's point of view that the Right should remain almost evenly divided than that it should rally to a single champion who might more easily acquire the momentum needed to capture the Elysée.

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INFO IMMEDIATE UKREP BRUSSELS, BONN, THE HAGUE

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YOUR TELNO 90 TO BONN: BRUSSELS EUROPEAN COUNCIL: NON-ARABLE
AGRICULTURAL STABILISERS

SUMMARY

1. FRENCH INDICATE THEIR INTENTIONS ON OTHER AGRICULTURAL
STABILISERS.

DETIAL

2. GAUTIER-SAUVAGNAC (GUILLAUME'S DIRECTEUR DU CABINET) TOLD US
TODAY THAT THERE WERE TWO MAIN POINTS OF CONCERN TO FRANCE ON THE
NON-ARABLE STABILISERS REMITTED TO THE FAC FROM THE EUROPEAN
COUNCIL. THE FIRST CONCERNED WINE. ENDING THE GARANTIE DE BONNE FIN
DISTILLATION WOULD REPRESENT A SIGNICANT LOSS TO FRENCH WINE
PRODUCERS AND COULD BE POLITICALLY AWKWARD FOR CHIRAC AS THE AID WAS
INTRODUCED DURING HIS TIME AS AGRICULTURE MINISTER. SECOND, ON MILK,
FRANCE WAS NOT CONVINCED THAT CONSOLIDATION OF THE 1.5 PERCENT QUOTA
CUT SHOULD BE IMPLEMENTED AUTOMATICALLY. GAUTIER-SAUVAGNAC CLAIMED
THAT THE TEXT OF THE 1986 MILK REGULATION LENT SUPPORT TO THE FRENCH
VIEW AGAINST AUTOMATICITY.

3. WE ASKED GAUTIER-SAUVAGNAC HOW THE FRENCH INTENDED TO PLAY THIS
AT NEXT WEEK'S FAC. HE REPLIED THAT IT WAS NOT IN FRANCE'S INTEREST
TO PREVENT FINAL AGREEMENT TO THE BRUSSELS COMPROMISE. FRENCH
CONCERNS ON MILK AND WINE WERE TECHNICAL POINTS BEST DEALT WITH IN
DUE COURSE BY AGRICULTURE MINISTERS. THE FRENCH WOULD THEREFORE
EXPLAIN THE POINTS AT ISSUE AT THE FAC, BUT WOULD NOT HOLD UP
ADOPTION OF THE PACKAGE AS IT STOOD. THEREAFTER AGRICULTURE
MINISTERS WOULD BE ASKED TO EXAMINE THE ISSUES OF CONCERN TO FRANCE
IN THE COURSE OF THEIR NOMAL COUNCIL BUSINESS.

COMMENT

4. THERE ARE SIGNS THAT THE FRENCH ARE AWARE OF HAVING PUT THESELVES
IN AN AWKWARD POSITION. THEY CANNOT AFFORD TO LET THE COMPROMISE
COLLAPSE. BUT THERE ARE SECTORAL PRESSURES UPON THEM TO OBTAIN
CHANGES TO OTHER STABILISER REGIMES, OR AT THE VERY LEAST TO HAVE
THE PROBLEMS AIRED, PREFERABLY IN WHAT THE FRENCH SEE AS THE

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APPROPRIATE SPECIALIST COUNCIL. WE SHALL LOBBY AS IN PARAGRAPH 5 OF
TUR, BUT WOULD BE GRATEFUL TO KNOW IF THERE IS ANY ADDITIONAL POINT
WE SHOULD MAKE TO THE FRENCH IN THE LIGHT OF GAUTIER-SAUVAGNAC'S
DESCRIPTION OF LIKELY FRENCH TACTICS.

5. FCO PLEASE ADVANCE DESKBY 1130Z TO PS/ANDREWS, HADLEY, CARDEN
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FRAME ECONOMIC

FROM PARIS SAVING TELNO 08 OF 18 FEBRUARY 1988

TO FCO

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CONSULATES GENERAL FRANCE

FRANCE: ECONOMIC REPORT FOR JANUARY 1988

SUMMARY

1. The economy grew a little faster than officially predicted in Q4: 0.4% compared with a predicted 0.1%, to give marketed GDP growth in 1987 of 2.1%, the same as in 1986. In December INSEE had predicted 2.0%. The extra growth in Q4 was again the result of higher than expected consumption by households.
2. In 1987 households increased their borrowing by 40% to compensate for low increases in real incomes. Nevertheless the level of consumer credit is still low compared to many industrial countries and households may increase borrowing again in 1988 to compensate for another expected low increase in their real incomes.
3. There was a balance of trade deficit in 1987 of F31.4 billion continuing a deterioration in France's foreign trade performance since 1984. But there were some encouraging trends in trade volumes.
4. The retail price index rose by 3.1% in 1987 bettering the government's target of 3.4% but prices of services continue to outstrip other prices.
5. Unemployment rose slightly in December to 2.56 million sa (10.4%).
6. Share prices rose in February, following a steady decline since Christmas, as the market awoke to the possibility of takeover bids on undervalued companies. Meanwhile, much attention has been given to alleged irregularities, including accusation of insider dealing on the financial markets. Legislation reforming the Stock Exchange came into effect at the end of January and on 1 February the financial futures exchange and commodities exchanges were merged.
7. The central government budget deficit is likely to be F10 billion to F15 billion less than the planned F129.3 billion.
8. Although the economy is growing a little faster than officially predicted, prospects for 1988 remain uncertain.

DETAIL

Economic Activity

9. On a quarterly accounts basis marketed GDP grew by 2.1% in 1987. This is an improvement over the Government's September 1987 prediction of 1.5% but less than their September 1986 prediction of 2.8%.

10. Although the rate of growth of the economy slowed in Q4 it continued to exceed official predictions, chiefly because household consumption was more resilient than expected. In Q4 marketed GDP grew by 0.4% instead of 0.1% INSEE had predicted in December and consumption by households increased by 0.4% in contrast to a predicted fall of 0.1%. The resilience of consumption by households is confirmed by surveys showing a 4.2% increase in turnover in the retail trade in December, more than compensating for a 3.1% decrease in November, and car sales remaining at a high level in December and January.

11. The likely trend of consumption by households remains uncertain. Although it increased more quickly than expected in 1987 Q4 it nevertheless slowed in comparison with Q3 and retailers report a fall in demand for consumer durables in January. They are reducing orders from wholesalers because they judge their stocks to be excessive. Nevertheless, they remain moderately optimistic about prospects as do the Centre d'Observation Economique of the Paris Chamber of Commerce and Industry who predict that consumption by households will continue to increase during the first few months of 1988 as a result of an increase in real incomes at the end of 1987. A further rise in consumer spending might be partly financed by the continued increase in consumer borrowing predicted by a leading French bank, Indosuez. Despite an increase of almost 40% in 1987, consumer credit remains less important in France than in many industrial countries.

12. INSEE's industrial production index sa excluding building and public works remained stable in November at 105. (The index for October has been revised upwards from 104 to 105.) INSEE's three months moving average index September to November also remained stable at 105, 3% higher than in the same period in 1986.

13. Industrialists replying to INSEE's survey completed in January report that production has increased. They judge stocks in general to be below normal levels. Export demand has increased but demand in France has fallen chiefly because of a fall in orders for cars. Industrialists predict that the increase in production will slow.

14. 1987 was a particularly good year for the car industry. 3,051,830 cars were produced, the first time that more than 3 million cars have been produced in a year since 1979 when a record 3,220,394 cars were produced. Car production was 10.1%

2

higher in 1987 than in 1986. 1,681,132 cars were exported: 55.1% of total production and an increase of 8.4% over 1986. Imported cars share of the French market remained virtually stable at 36.1% in 1987 compared with 36.4% in 1986.

15. The financial situation of industry remains generally good. 83% of industrialists replying to an INSEE survey completed in December judge their company's financial situation to be normal or better than normal. This compares with 80% in December 1986 and 85% in March 1987.

16. The cost of imported raw materials (excluding precious metals) rose in 1987 in francs by 18.8% and in foreign currency by 21.3%.

17. There were 30,766 company bankruptcies recorded in 1987, 3,684 more than in 1986. The largest proportional increases were in transport and telecommunications 16.9% and building and public works, 16.0%. Bankruptcies recorded in industry increased by 3.2%, in services to households by 9.6% and services to companies by 14.2%.

Inflation

18. INSEE have confirmed that the retail price index rose by 0.1% in December and 3.1% in 1987 as a whole, higher than the 1986 outturn figure of 2.1% but below the 1987 target of 3.4%. A notable feature of 1987 was the 7.8% rise in the prices of private sector services, following the abolition of price controls on services at the end of 1986. Private sector service prices rose very rapidly in 1987 H1 before stabilising at an annual rate of 4.8% in 1987 H2 and 1987 Q4. By comparison the rate of increase of the general index was 2.0% in 1987 H2 and 1.6% in 1987 Q4.

19. The annual average increase in inflation in 1987 was also 3.1%.

Trade

20. There was a balance of trade deficit in 1987 of F31.4 billion FOB/FOB, following deficits of F30.7 billion in 1985 and F0.5 billion in 1986. The trade deficits in 1986 and 1987 were reduced by the sharp fall in the cost of imported oil. It is hard to gauge the underlying trend, since gains to the balance of trade from lower oil prices have been partly offset by reduced exports to the oil producing countries as a result of a fall in those countries' revenues. France's energy imports fell by F87 billion in 1987, for example. While French exports to OPEC countries fell by F43 billion.

21. Nonetheless, the foreign trade position appears to have deteriorated since 1984. At the heart of the problem is the steady decline in the balance on manufactured goods from a surplus of F97.3 billion in 1984 to a deficit of F8.6 billion in 1987, a decline aggravated in 1987 by a fall in the surplus on arms exports to F26.4 billion from F34.3 billion in 1986. Until 1987 the surplus on arms had remained comparatively stable.

22. The picture has become more gloomy with the publication by INSEE in January of figures showing that the important services sector saw a drop in its exports of F10 billion in 1986 to F24.4 billion, partly linked to the fall in large contracts. Firms of consultants saw their earnings from exports drop by about a third in 1986.

23. On the brighter side, however, the trend in trade volumes improved in 1987. The increase in import volumes slowed while the increase in export volumes accelerated, overtaking imports in Q3:

Percentage Increase in Imports (CIF) and Exports (FOB) Volumes

1987	Q1	Q2	Q3	Average of Oct/ Nov
Imports	4.2	2.4	2.2	1.6
Exports	0.4	1.5	3.7	2.3

24. In 1987 total French imports averaged F76.8 billion FOB per month compared with F72.0 billion in 1986 and exports averaged F74.2 billion FOB compared with F72.0 billion.

Labour Market

25. Unemployment rose slightly in December to end the year at 2,562,500 seasonally adjusted; 10.4% of the labour force (Table 2). This was slightly down on the end of 1986, when the seasonally adjusted total was 2,574,100. The age breakdown shows a significant improvement in the position of young people over the year, while unemployment among older workers rose:

	December 1986 (000s)	December 1987 (000s)
Under 25	862.0	790.2
25-40	1,336.3	1,391.1
50 and over	375.8	381.1
Total	2,574.1	2,562.5

26. In spite of continuing high levels of unemployment among young people, Community programme (TUC) organisers have reported difficulties in filling places. The Social Affairs and Employment Minister wrote in January to the Director General of the ANPE (the public employment service) reminding him that young people who refuse community programme places without good reason should be struck off the employment register.

27. A decree signed on 17 December allows the unemployed to register for benefit either at job centres or at unemployment benefit offices.

28. A new law on the employment of disabled people came into effect on 1 January. The law requires firms with 20 or more workers to employ at least 3% disabled people in 1988, rising to 6% in 1991, or to pay into a fund for the employment of disabled people. Renault has announced plans for over 1,200 job losses at its Flins plant, part of its 1988 redundancy programme, which involves over 3,000 jobs.

Pay

29. The 1988 public sector pay round opens in mid-February with negotiations in the banks, the railways (SNCF) and the civil service. For the first time since 1976, there has been no written directive from the Prime Minister to the Ministers responsible for public sector industries, but the overall rise in payroll is not expected to be much in excess of inflation (forecast to be 2.5% over the year). Renault management's first offer was 0.5%. In the private sector, general pay increases are also expected to be low - the chemical industries association has recommended its members to settle for 2%; the oil industry has recommended 2.5%. Commentators note that more companies are proposing individual, merit-based increases.

30. A study of the pay of graduate engineers working in France in 1986 found that the median salary was 242,000 francs a year. Lower paid jobs (around 200,000 francs) included the civil service, teaching and research. The highest paid were administrative and commercial managers (315,000 francs) and company directors (423,000 francs).

Social Security

31. A breakdown of 1987 results and 1988 forecasts for the régime général which provides social security cover for private sector employees, shows that the health care fund is expected to remain in surplus in 1988, following a significant fall in the rate of 'increase in health care spending'. Health care spending fell 0.8% at constant prices in 1987, compared to a rise of 8.1% in 1986.

LES COMPTES DES BRANCHES DU RÉGIME GÉNÉRAL Résultats 1986 — Prévisions pour 1987-1988

BRANCHES	RECETTES			DÉPENSES			SOLDES		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
<i>En millions de F</i>									
— maladie	319.322	335.177	346.933	326.869	332.292	346.432	- 7.547	+ 2.884	+ 500
— accidents du travail	39.300	40.662	40.510	36.841	38.116	38.827	+ 2.459	+ 2.546	+ 1.682
— vieillesse	176.919	196.202	201.614	192.523	205.947	220.983	- 15.604	- 9.745	- 19.369
— allocations familiales	159.224	164.255	169.177	158.568	164.080	171.226	+ 656	+ 175	- 2.049
Régime général/total	694.765	736.296	758.233	714.801	740.435	777.468	- 20.036	- 4.139	- 19.235

Financial Markets

32. Legislation reforming the stock exchange became effective on 23 January. The legislation is mainly concerned with dividing the responsibility for regulating and operating the stock exchange (previously held by the Chambre Syndicale des Agents de Change) between an elected Conseil de Bourse de Valeurs

on which representatives of Sociétés de bourse are in a majority and an Institution Financière Spécialisée (IFS) which will be set up by the sociétés de bourse who will share its capital. The Conseil de Bourse de Valeurs will regulate the stock exchange and the IFS will operate it. The legislation also reinforces the powers of the Commission des Opérations de Bourse (COB) who police the stock exchange.

33. This legislation complements a decision announced by the Ministry of Finance in March 1987 that they would authorise the opening up of the capital of sociétés de bourse to banks in stages of up to 30% from 1 January 1988, 49% from 1 January 1989 and 100% from 1 January 1990. This will be followed by the abolition on 1 January 1992 of the 180 year old monopoly for dealing on the stock exchange held by the sociétés de bourse (previously known as agents de change). A number of foreign banks including British banks are among those who have announced agreements to participate in the capital of sociétés de bourse.

34. Other legislation came into effect on 1 February merging the financial futures exchange (MATIF) with the smaller commodities exchange (see paragraph 27 of the MER for September). The Ministry of Finance said that the merger was necessary to help the commodities exchange meet competition from abroad particularly on new white sugar contracts opened in London and New York. In Paris the white sugar contract is the mainstay of the exchange.

35. Share prices drifted downwards between Christmas and the end of January with the exception of a brief rally in the middle of the month. Dealing on the stock exchange was thin and the atmosphere gloomy. Dealers blamed the fall in prices on the withdrawal of foreign investors and the disaffection of small shareholders. On 29 January the CAC index of French shares hit a low point of 251.3, almost 10% below the beginning of January and 39% below the level attained just before the stock exchange slump in October.

36. The market recovered some of its lost vitality in the first half of February when investors awoke to the possibilities of takeover bids on undervalued companies. Dealing increased in volume and share prices rose. The CAC index gained almost 9% in the first week of February. On 17 February the CAC index had risen to 290.9.

37. The privatisation of MATRA (see paragraph 43 of the MER for December) was successful. In all there were 300,000 applications for shares, considerably more than expected. Just over half of these (165,000) were from small shareholders. There were applications from 80% of MATRA's employees and 50% of former employees totalling 14,000. Applications for more than 10 shares from the general public and institutions had to be scaled down because there were insufficient shares to meet demand. When MATRA shares were readmitted to the stock exchange on 8 February they were quoted at F123 compared with the privatisation offer price of F110 and the price when quotation was suspended before the privatisation of F122. Partly because of fears of the continuing fragility of the market, and partly for technical reasons Monsieur Balladur has however ruled out further major privatisations before the presidential elections

in April/May.

38. There has been much press coverage of claims by a subsidiary of the French Atomic Energy authority COGEMA that they have been defrauded of F255 million (£25 million) by a French stockbroker, Buisson. According to the financial press the money has disappeared during dealing on the financial futures market conducted by a financial services company, Arbitrage SA on behalf of Buisson. COGEMA have brought charges against Buisson and Buisson have brought charges against Arbitrage SA.

39. This followed accusations in December by the Commission des Opérations de Bourse (COB) responsible for policing the stock exchange of insider dealing by two sociétés de bourse (dealers), Boscher and Puget.

40. Monsieur Balladur, the Minister for Finance, said in a speech on 2 February that it was important for the future of the markets that the authorities ensured that the regulations were respected and imposed sanctions on those who broke them.

Money Supply

41. M3 grew by 9.1% in 1987 (measured on the average for the last quarters of 1987 and 1986) exceeding significantly the Government's target range of 3% to 5%. M2 grew by 4% and was thus within the Government's target range of 4% to 6%. The Government has not fixed 1987 target ranges for the other aggregates. In 1988 it has fixed a target range for M2 only:- 4% to 6%.

The evolution of the money supply aggregates in 1986 and 1987 were as follows:

	Billions of francs at end December 1987 (unadjusted)	1987 % change	1986 % change
M1	1463.3	4.0	6.8
M2-1	1250.7	4.0	2.6
M2	2713.9	4.0	4.8
M3-M2	898.4	27.0	3.5
M3	3612.3	9.1	4.5
L-M3	473.2	35.5	40.3
L	4085.6	11.7	7.1
L-M1	2622.3	16.3	7.4

Interest Rates

42. On 25 January the Bank of France reduced its intervention rate from 7.5% to 7.25% and its seven day repurchase rate from 8.0% to 7.25%. This follows reductions made on 24 November, 3 December and 5 January (see paragraph 5 of the MER for December. The Bank of France said that the latest reduction had

7

/been

been facilitated by the stability of the franc on the foreign exchanges and by a favourable rate of inflation in France.

External Debt

43. France's medium and long term external debt fell by F9.5 billion in 1987 Q3 to F382.1 billion at the rates of exchange on 30 September 1987. F5.2 billion of the decrease was due to debt repayments and the remainder to a correction to previous estimates for the debt and to a slightly favourable movement in exchange rates. Calculated in dollars the external debt amounted to 62.5 billion dollars on 30 September 1987.

Fiscal Policy

44. 'Les Echos', a financial daily, reported on 5 February that the Ministry of Finance estimates the central government budget deficit 1987 to be F10 billion to F15 billion less than the planned deficit of F129.3 billion and the Government's November prediction of a deficit of F129.2 billion (see paragraph 44 of the MER for November). According to 'Les Echos' expenditure by some Ministries, particularly the Ministry of Defence, has been less than planned and tax receipts higher than expected.

45. Since the beginning of 1988 the Government has committed itself to two projects involving substantial medium term expenditure of public funds. In January they announced an order for 330 Rafale fighter aircraft from Dassault with the first aircraft due to be delivered in 1996. So far foreign aircraft constructors have not accepted invitations to join the project and share the cost. At the beginning of February the Government announced the construction during the next ten years of 2700 kilometres of toll paying motorway and 2000 kilometres of dual carriageway built to motorway standards but on which no toll would be levied. This would almost double the length of motorway type roads from the existing 6,500 kilometres to 11,300 kilometres.

46. A little over F40 billion of the privatisation receipts appears to have been used directly or indirectly to reimburse the 'emprunt 7% 1973', more commonly known as the 'emprunt Giscard', a controversial loan since it was indexed to gold. It raised F6.5 billion in 1973 but its reimbursement has cost the Government around F90 billion: F55 billion in capital repayments and F35 billion in interest. 'Le Monde' reports that the Government redeemed the loan as follows:

Before the due date:	F billion
'Emprunt Giscard' bonds bought by the Government	15.0
'Emprunt Giscard' bonds exchanged for other Government bonds	12.0
'Emprunt Giscard' bonds exchange for shares in privatised companies	0.5

'Emprunt Giscard' bonds redeemed on
18 January

47. The bonds bought by the Government before the due date and redeemed on 18 January totalled, according to 'Le Monde' F42.9 billion.

48. The nominal value of the national debt has only been reduced by F6.5 billion, the value of the original loan.

Assessment of Economic Prospects

49. Prospects for 1988 remain uncertain. Although the rate of growth of the economy slowed in 1987 Q4 it continued to grow faster than officially predicted, chiefly because of the resiliance of consumer spending. The first half of 1988 may see a continuation of this trend with consumers again increasing borrowing and drawing on saving to supplement a further modest increase in real incomes. (Consumer credit is still at a low level and the personal savings rates fairly high.)

50. The weakness of the economy remains the performance of foreign trade. An encouraging improvement in exports volumes in 1987 H2 (see paragraph 23) may be reversed if the growth in world trade slows in 1988. A further decline in the dollar would be damaging. French goods still appear to lack a competitive edge. A six-monthly survey by the Paris Chamber of Commerce and Industry published in February is pessimistic on this point.

51. If exports lose pace in 1988 constraints on consumer spending may become necessary to limit imports. But these are unlikely to be imposed before the presidential elections in May.

52. Although the prospects for the economy in 1988 are uncertain the longer term looks a little more encouraging. The foundations for a steady improvement in the economy are slowly being laid. Wage increases remain moderate, inflation is under control and investment is increasing. These gains ought eventually to translate into increased competitiveness for French industry. But much will depend on the development of the world economy.

FRAME ECONOMIC

ECO (1)

TABLE 1

ECONOMIC ACTIVITY
(% change on year earlier)

	Real GDP (Marketed) (1)	Nominal GDP (Marketed) (1)	Total Industrial Output (1)	Manufacturing (1)	Housing Starts Thousand (2)	Retail Sales (Volume) (3) 1978=100
1984	1.4	8.8	1.6	0.1	283.2	90.5
1985	1.4	7.7	1.6	-0.7	295.5	89.3
1986	2.2	7.1	2.0	1.1	295.5	90.3
1986 Q4	0.3	0.2	1.3	-0.6	88.2	90.1
1987 Q1	-0.2	1.0	0.1	-0.8	71.0	89.0
1987 Q2	1.1	1.7	0.2	3.0	75.8	88.6
1987 Q3	1.1	2.0	0.2	0.2		89.9
1987 Q4	0.4					

(1) Source: National Accounts

(2) Source: Bulletin Mensuel de Statistique (INSEE)

(3) Source: Tendances de Conjoncture: Graphique sur 10 ans (INSEE)

Annual
series

10

TABLE 1A

ECONOMIC ACTIVITY

	Industrial Production excluding building and civil engineering 1980 = 100 sa	Retail Sales value 1978 = 100 sa
1987		
January	99	181.2
February	102	174.6
March	103	165.9
April	102	179.9
May	103	174.6
June	105	168.6
July	104	180.0
August	104	172.9
September	105	177.8
October	105	181.4
November	105	175.6
December		183.0

Source: INSEE Informations Rapides

TABLE 2

LABOUR MARKET
(All figures seasonally adjusted)

	Unemployment (sa) (1)	Total Employment (2)	Employment in non- agricultural market sector (1)	Employment in Industry excluding construction (1)	Industrial Disputes working days lost (excluding agriculture and public administration (3))	
					Local Disputes	General Action
984	2,340,500 (Annual average)	(March) 21,350,000		(31 Dec) 5,002,200		
985	2,459,200 (Annual average)	(March) 21,319,000	(31 Dec) 13,482,800	(31 Dec) 4,876,800	726,717	158,175
986	(Annual average) 2,516,666	(March) 21,354,000	(31 Dec) 13,488,500	(31 Dec) 4,755,400	567,689	473,830
987		(March) 21,405,000				
June	2,645,400 (10.7%)		(31 Mar) 13,494,300	(31 Mar) 4,733,400	(Apr) 36,649	7,451
July	2,638,100 (10.7%)		(30 Jun) 13,515,400	(30 Jun) 4,710,600	(May) 38,568	18,396
Aug	2,649,200 (10.7%)		(30 Sep) 13,491,800	(30 Sep) 4,678,900	(Jun) 37,462	13,771
Sept	2,596,900 (10.5%)				(Jul) 34,310	-
Oct	2,571,700 (10.4%)				(Aug) 5,258	-
Nov	2,546,400 (10.4%)				(Sep) 40,212	1,335
Dec	2,562,500 (10.4%)				(Oct) 56,664	8,327

(1) INSEE Informations Rapides Employment figures revised to take account of 1982 census results.

(2) INSEE Annual Labour Force Survey

TABLE 3

- (1) Statistiques du Travail, Ministère des Affaires Sociales
 (2) INSEE: Informations Rapides
 (3) INSEE: Economie et Statistiques, January 1988

PRICES AND EARNINGS (% change)						
	Consumer Prices (2) Annual rate	Wholesale Prices: Metal Products (2) Annual rate	Average Earnings (1)	Unit Labour Costs: Mechanical and Electrical Industries (2)	Productivity (Annual average percentage rate of growth in the hourly productivity of labour for trading sectors excluding agriculture, housing and financial services (3))	
1984	6.7	7.3	(Apr) 7.9	8.5		
1985	4.7	-7.3	(Apr) 6.1	6.0		
1986	2.1	-4.8	(Apr) 5.3	4.5		
December			(Oct) 3.9		1967-73	5.2
					1973-79	3.6
					1979-85	2.5
					1985-87	2.3
					1987-91	2.9*
1987						
June	3.3	-3.7		0.0		
July	3.4	-2.4		0.6		
August	3.5	0.5		0.0		
September	3.2	1.3		0.3		
October	3.2	5.2		0.4		
November	3.2	5.2		0.3		
December	3.1	6.4		0.0		

* Forecast

TABLE 4

	M1* (Annual Growth) (1)	M3* (Annual Growth %) (1)	3-month interest rate % average on the money market TIOP (1)	Government Bond Yield % long term TME (2)	Franc/ Dollar (1)	Franc/ Pound (1)
1984	10.4	9.3	11.7	(Dec) 11.79	8.74	11.64
1985	8.2	6.6	9.95	(Dec) 10.47	8.99	11.55
1986	5.9	4.4			6.93	10.16
1987						
May	4.7	7.5	8.22	8.83	5.97	9.97
June	4.5	7.6	8.33	9.32	6.08	9.91
July	3.8	7.7	7.95	9.32	6.15	9.90
August	3.1	7.3	8.00	9.85	6.20	9.90
September	3.4	8.4	7.98	10.28	6.05	9.95
October	3.6	8.8	8.33	10.66	6.02	10.00
November			8.79	10.02		
December				10.00		

*Calculated on the basis of a 3-month average for the same period in each year (Bank of France)

(1) Source: Banque de France, Statistique Monétaires provisoires

(2) Source: Bulletin Mensuel de Statistique (INSEE)

TABLE 5

TRADE				
(All figures seasonally adjusted)				
	Exports (1) Billions of francs FOB sa	Imports (1) Billions of francs FOB sa	Trade Balance (1) Billions of francs Francs FOB/FOB sa	Current Account Balance (2) Billions of francs sa
1984	850.1	874.8	-24.7	- 7.3
1985	906.0	936.7	-30.7	- 1.5
1986	863.6	864.1	- 0.5	25.8
1987				(accumulated)
July	75.178	78.232	-3.054	
August	76.546	77.635	-1.089	
September	75.650	78.039	-2.389	
October	74.964	79.832	-4.868	
November	79.591	30.273	-0.682	-26.0
December	81.597	82.480	-0.883	

(1) source: INSEE Informations Rapides

(2) source: Ministry of Finance Communiqué

TABLE 6

TRADE				
Volumes and Value (1)				
	Volume of Exports billions of 1980 francs FOB	Volume of Imports billions of 1980 francs CIF	Value of Exports FOB 1980 = 100	Value of Imports CIF 1980 = 100
1986	551.8	633.1	154.6	140.4
1987				
April	45.9	55.4	156.0	139.9
May	45.9	56.1	151.7	138.4
June	46.3	56.3	158.0	140.1
July	46.1	57.7	158.2	139.2
August	46.7	57.3	159.8	139.0
September	47.2	57.1	154.3	140.5
October	46.4	58.5	156.3	140.2
November	49.0	58.1	156.6	141.7

(1) Source: INSEE Informations Rapides

16

TABLE 7

FRANCE: TRADE WITH UK (Billions of Francs)			
	Exports to UK (FOB)	Imports from UK (CIF)	Balance (FOB/CIF)
1984	64.284	72.888	-8.604
1985	71.592	78.936	-7.344
1986	72.708	58.068	14.64
1987			
June	6.343	5.636	0.707
July	6.403	6.013	0.39
August	6.694	6.098	0.596
September	6.565	5.414	1.151
October	6.627	6.097	0.530
November	6.966	5.740	1.226
December	7.387	5.708	1.679

Source: INSEE Informations Rapides

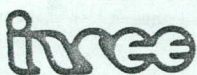
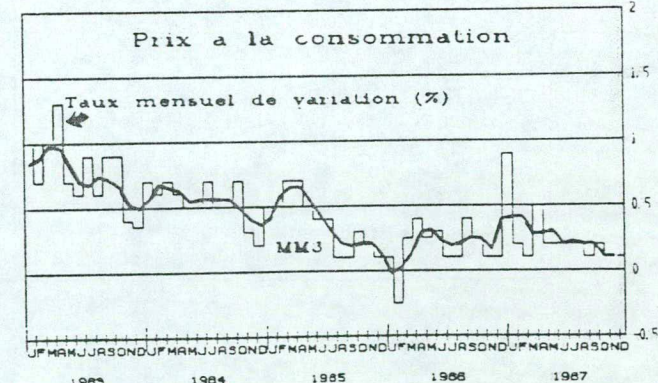
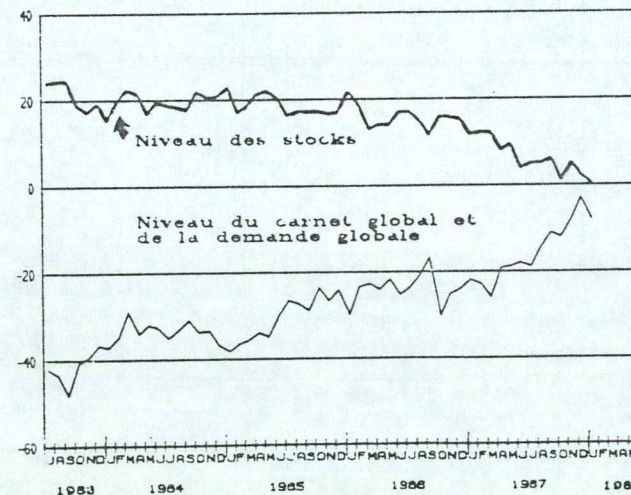
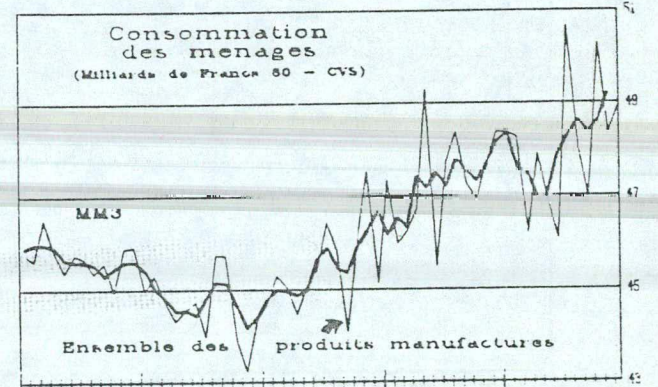
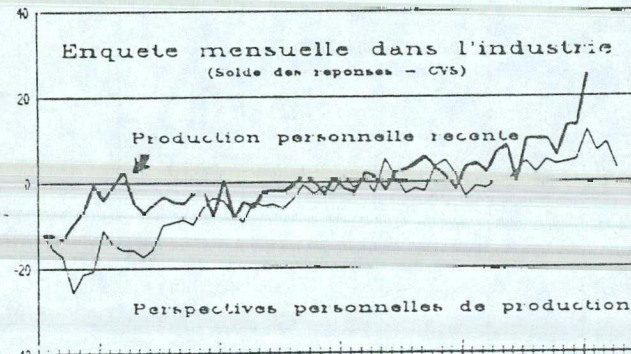
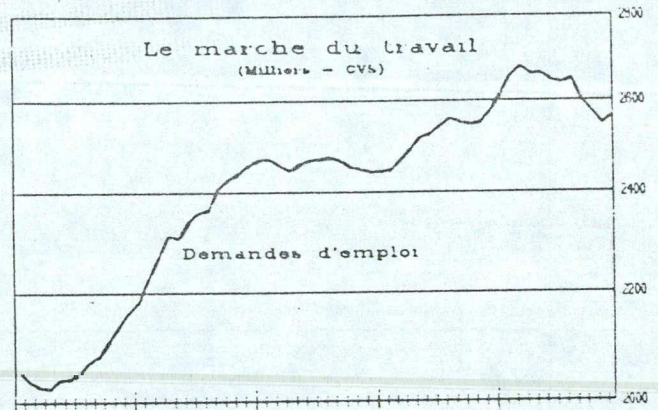
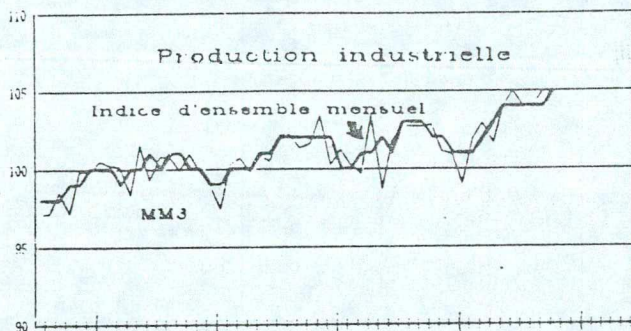
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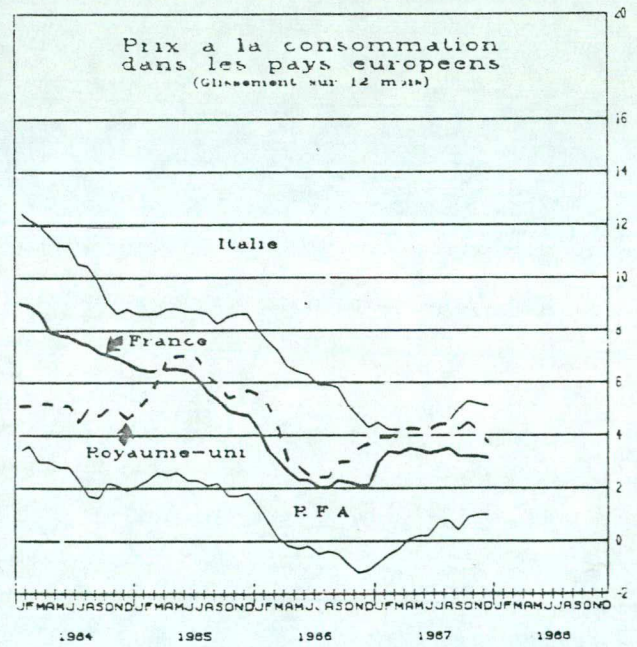
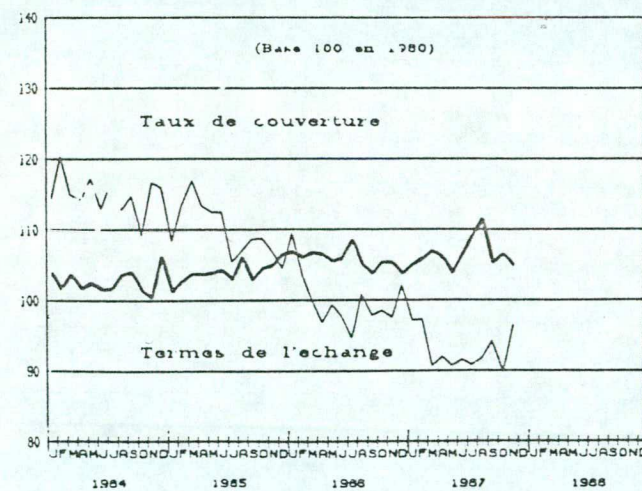
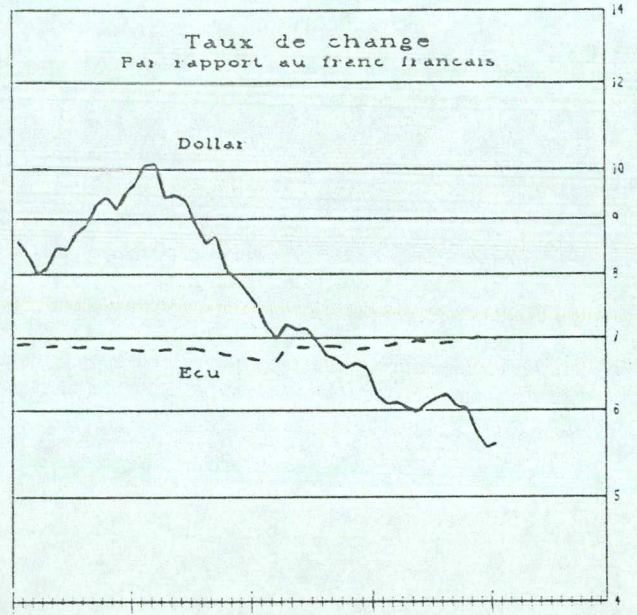
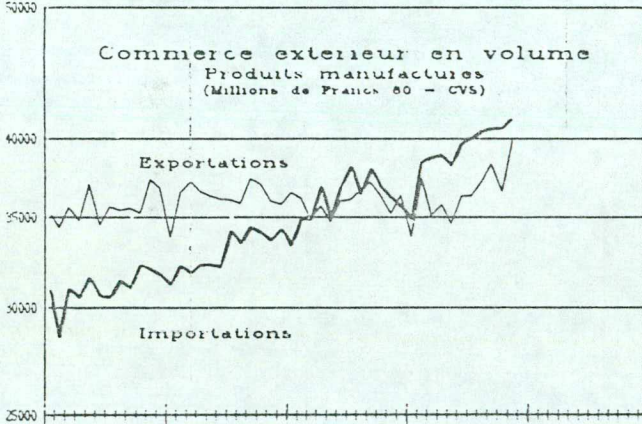
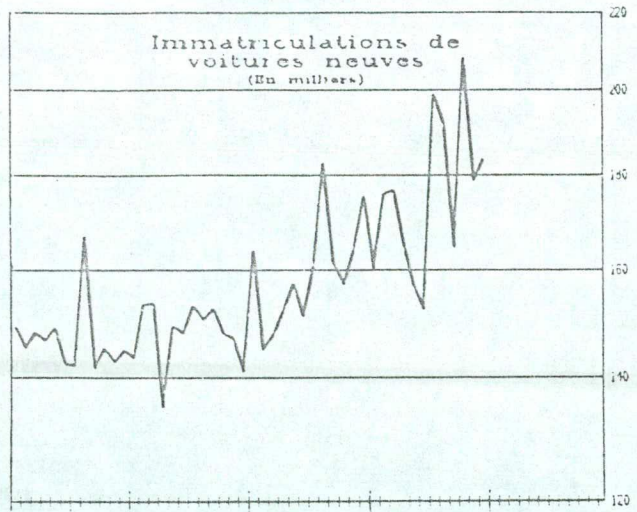
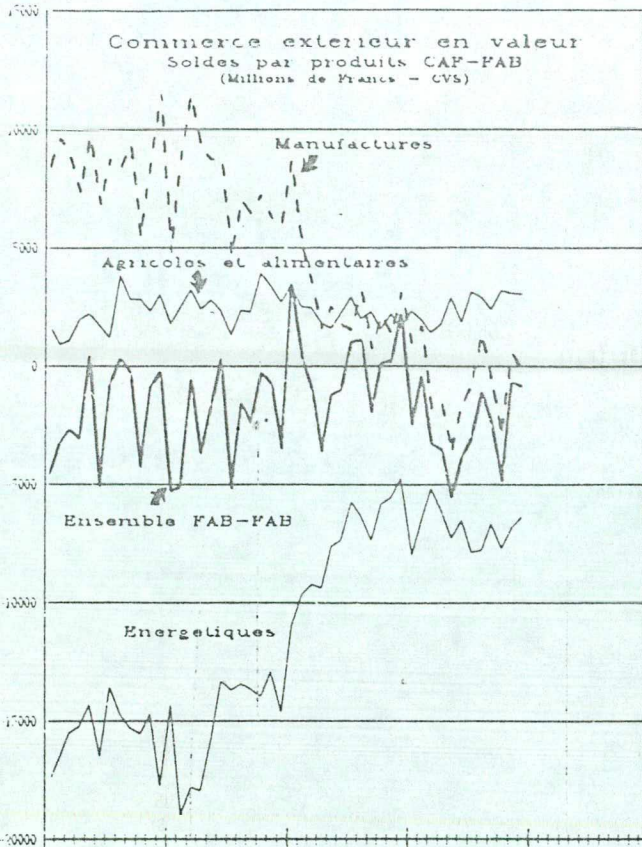
Selon l'enquête mensuelle de janvier la production industrielle a augmenté à un rythme soutenu au cours des derniers mois. Les stocks sont toujours inférieurs à leur niveau normal. Selon les industriels, la croissance de l'activité se ralentirait en début d'année.

Après une diminution d'environ 100.000 (- 4 %) au cours des trois mois précédents, le nombre de demandes d'emploi a augmenté de 16 000 (+ 0,6 %) en décembre et le taux de chômage est de 10,4 %.

L'indice mensuel des prix à la consommation est en hausse de 0,1 % en décembre, ce qui conduit à un glissement de 3,1 % pour l'ensemble de l'année. Dans le même temps, la consommation des ménages, en faible recul pour l'électronique grand-public et le cuir, progresse légèrement dans l'ensemble grâce aux postes automobile et textile.

Le déficit des échanges extérieurs FAB-FAB CVS-CJO atteint 0,9 Md de F en décembre, traduisant une progression comparable (resp. 2,7 et 2,5 %) des importations et des exportations. Le solde sur l'année est donc de - 31,4 Mds de F.







FROM: S P JUDGE
DATE: 19 February 1988

APS/CHANCELLOR

cc Mr Anson
Mr Kemp
Dr Freeman - CCTA
Mr Paynter - CCTA

COLLABORATION BETWEEN THE UNITED KINGDOM AND FRANCE

The Paymaster General thinks it would be sensible for the Chancellor to see the attached submission from Mr Paynter.

2. Mr Kemp suggested that I check whether the FCO have been kept in touch. Mr Paynter tells me that CCTA have kept the FCO's energy and science unit, and our Paris Embassy, informed.

Thanks. Looks good, but what does it/will it actually mean re practice?

S P JUDGE
Private Secretary

FROM: R M PAYNTER
DATE: 12 FEBRUARY 1988

PAYMASTER GENERAL

cc: Mr Anson
Mr Kemp
Dr Freeman

COLLABORATION BETWEEN THE UNITED KINGDOM AND FRANCE

You may remember that when we discussed the strategic importance of standards with you at the Agency on 2 February, we covered the Agency's activities in Europe. This minute is to advise you of an imminent development: the signing of a formal agreement with the French.

For some time now, Agency staff have been involved in Information Technology (IT) standardisation in Europe. We participate at all levels, managerial to technical, in such European Commission organisations as the Public Procurement Sub-Committee on IT. Our technical credibility coupled with the size of the Agency's procurement activity gives the UK a unique position of influence. The development of GOSIP (the Government OSI Profile) and its value in the environment created by recent EC legislation has further increased our visibility.

Through this participation in Europe, we have developed a close relationship with the French Government's top IT Committee, CIIBA. In conjunction with CIIBA, we have drawn up the attached agreement which puts our cooperation on a more formal basis. We are intending to sign the agreement by the end of this month, before meeting early in March with representatives of the West German government.

Although the agreement is simply a statement of existing practice and commits neither side to anything new (our current resources allocated to this work is considerably less than half a man year), its signature will be an excellent signal that the public sectors in Europe are pulling together: we will talk to the French about the appropriate publicity for the agreement. Apart from the pooling of technical experience and expertise, such visible cooperation between our major procurers of IT equipment and services (especially if the agreement should be extended to include the West Germans) could have a major impact on European standardisation activity.


R M PAYNTER

The CCTA, represented by

and

The CIIBA, represented by its vice-president, Mr Favier
have agreed as follows:

Whereas European administrations are obliged to refer, in their contracts, to European standards (and international standards where these are registered in their country), and the characteristics of the use of information technology are relatively specific and identical from one country to another, it would appear highly desirable for continuous consultation to become established among them in order to:

- define common functional specifications necessary for their activities;
- present an adequate market to obtain suitable products.

Consequently, the signatories to this agreement agree as follows:

- (1) They will act jointly on European, and if possible international standardisation, in particular within the OSITOP association, by proposing common profiles for administrative applications and by adopting concerted positions (to be presented both directly and through organisations such as OSITOP and EWOS).
- (2) They will co-ordinate their actions by means of regular quarterly meetings to do with national bodies sharing comparable or complementary responsibilities may be invited, as necessary.
- (3) They will present all the results of these exchanges in the form of projects between administrations for national and European use, in particular within the OSITOP association.

Done at

This

SAVING TELEGRAM

FROM PARIS

CONFIDENTIAL

TO FCO TELNO SAVING 9 OF 22 FEBRUARY 1988

SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDel NATO, HMGs IN FRANCE

MY SAVING TELNO 6 OF 11 FEBRUARY 1988

FRENCH INTERNAL POLITICS

SUMMARY

1. Mitterrand and Chirac have highlighted the Brussels Council as a cohabitationist success. The Barre and Chirac campaigns are well into their stride: the mood in Barre's camp has steadied; that in Chirac's remains confident, as Chirac exploits his several roles of Prime Minister, Mayor of Paris, and presidential candidate. Mitterrand will not announce his intentions before the NATO Summit: the general expectation remains that he will run. The polls show that if he does, he will start the comfortable favourite: but awareness is growing that he may not be unbeatable.

DETAIL

2. The European Council and its aftermath have provided the presidential elections with keen competition for press and public attention, even if Mitterrand and Chirac were quick to claim on their return from Brussels that their joint performance had been a model of cohabitationist virtue. Despite this distraction, the campaign is settling into its stride, with Barre and Chirac holding huge rallies in Paris and the provinces, and jostling for television time and advertising space. Mitterrand ensures that his presence is felt by maintaining his conspicuous absence from the official lists.

3. The mood in Barre's camp has steadied. The impact of his intense campaigning over the past ten days has yet to be measured by the opinion polls, but his entourage is hopeful that the slide has stopped and that it should now be possible to recapture ground lost to Chirac. Barre has been trying to inject more informality and humour into his style, while continuing to insist that his record of consistency and independence makes him «different» (an implied contrast with Chirac). He has also been attacking the Socialists' performance in government, putting forward policy proposals of his own, and making ostentatiously friendly gestures towards the parties within the UDF.

4. Chirac has sustained his usual frenetic pace, juggling his roles of Prime Minister, Mayor of Paris, and official candidate for maximum electoral impact. He continues to mark Barre tightly, insisting that the only «differences» between them are of style not substance (implying that he is the younger, more energetic, more exciting Right wing model). He has also drawn up a balance sheet of the government's performance since he became Prime Minister which the Socialists have been quick to attack, not least its claims of progress in tackling unemployment. We shall hear much more of such arguments in the weeks ahead as Chirac and Barre denigrate Mitterrand's achievements; as the Socialists denigrate Barre's performance as Prime Minister under Ciscard and Chirac's performance since 1986; and as Barre and Chirac try subtly to denigrate each other, without wrecking their «code of good conduct». There is already a war of posters presenting the images Barre and Chirac have chosen for themselves: Barre solid, reliable; Chirac dynamic, courageous.

5. Mitterrand has said he will not announce his decision until after the NATO Summit: Rocard has suggested that the declaration will be on 15 March. Other Socialists think it may be even later. Few in or out of the party now doubt that he means to stand. The polls indicate that he remains extremely popular and that his support goes considerably wider than the Socialist Party (PS) itself. However, there has been a detectable note of caution creeping into the articles of some of the more prominent political commentators in the last few days. They still make Mitterrand clear favourite, but they are more disposed than they were to acknowledge that he could be vulnerable on a number of counts: his age; boredom at the thought of another Mitterrand term; memories (which the Right are doing all they can to revive) of the PS government's performance from 1981-84; and doubts about what he would do if he were re-elected (so far he has given no hint). There is wider recognition than there was a few weeks ago that the outcome of the race is not a foregone conclusion.

Q
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FERGUSON

EUROPEAN POLITICAL

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FROM: MISS M P WALLACE

DATE: 22 February 1988

PS/PAYMASTER GENERAL

cc Mr Anson
Mr Kemp
Dr Freeman CCTA
Mr Paynter CCTA

COLLABORATION BETWEEN THE UNITED KINGDOM AND FRANCE

The Chancellor was grateful for your minute of 19 February. He has commented that this looks good, but he would like to know what it will actually mean in practice.

M.P.W.

MOIRA WALLACE

BR 26/5
papers etc
my own
to country

FROM: R M PAYNTER
DATE: 24 FEB 1988

APS/CHANCELLOR

*Mark
Sart*

cc Paymaster General
Mr Anson
Mr Phillips
Dr Freeman

COLLABORATION BETWEEN THE UNITED KINGDOM AND FRANCE

The purpose of the proposed collaboration between CCTA and CIIBA, the French Government's top IT committee, is to provide a clear signal to IT suppliers that two major European administrations intend to purchase computer communications equipment constructed to identical specifications based on international standards.

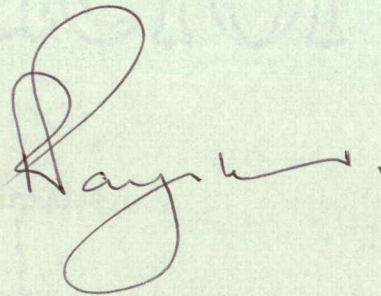
In practice, the basis for such a specification already exists. It is known as 'GOSIP' [Government OSI Profile] and has been developed by a cooperative UK venture led by CCTA, involving Departments and the computer trade. It is believed that the French intend to adopt this, and to cooperate in its further development. There are good prospects that GOSIP will also be adopted by other European administrations, by local authorities and by private sector organisations. This is being encouraged by the European Commission. The US Government team developing a similar specification has drawn on CCTA work and is also considering a collaborative arrangement. The eventual market size may thus be very large.

*unreliable
that mean*

*(by whom
+ why?)*

Three beneficial effects are expected from this work. Firstly, the choice of international standards for the specification of networks will allow any technically competent supplier to bid, thus providing higher levels of competition with consequential benefits to the purchaser. As a result, it will reduce our dependency on single or limited sources of supply and help protect existing IT investment. Lastly, the size of the market for products which conform to this specification will be increased, providing opportunities for European suppliers.

Overall, these initiatives are very important if flexibility is to be built in to the computer systems. This will insulate Departments from some of the risks of the changing technology and provide a stable platform for future developments, irrespective of whether the service is provided in-house or by an outside contractor.

A handwritten signature in dark ink, appearing to read 'R M Paynter', with a large, stylized initial 'R'.

R M Paynter

mp

FROM: MOIRA WALLACE

DATE: 29 February 1988

MR PAYNTER

cc Paymaster General
Mr Anson
Mr Phillips
Dr Freeman**COLLABORATION BETWEEN THE UNITED KINGDOM AND FRANCE**

The Chancellor was grateful for your minute of 24 February, and has commented that these are good developments.

mpw .

MOIRA WALLACE

SAVING TELEGRAM
FROM PARIS

CONFIDENTIAL

TO FCO TELNO SAVING 11 OF 4 MARCH 1988

SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDel NATO.
HMCGs IN FRANCE

MY SAVING TELNO 9 OF 22 FEBRUARY 1988 : THE FRENCH PRESIDENTIAL
ELECTIONS

SUMMARY

1. The presidential campaign is on hold, waiting for Mitterrand. Chirac's machine shows its class; Barre's is ramshackle in comparison. Mitterrand emphasises his presidential role, reinforcing the carefully cultivated image of national rassembleur. The Right know they must counter this if they are to win.

DETAIL

2. The momentum generated by Chirac's and Barre's formal declarations of their candidacies has spent itself. Both continue to give speeches and tour the country, but there is at present more sound than fury. The campaign is on hold as all await Mitterrand's announcement, now variously rumoured for 10, 15, 19 or 20 March. (Barre himself told us yesterday that he expects it to be earlier rather than later.)

3. There has been little change in the opinion polls in recent days, a reflection of the current lull. Mitterrand's ratings have slipped a point or two to 36 or 37% in the first round; Barre and Chirac remain locked together on about 20% each, some polls giving Barre the edge, others Chirac. For the moment the battle on the Right is too close to call, although a front-runner may emerge once the Socialists have an official candidate (which nearly all now assume will be Mitterrand) and a war of movement begins.

4. The first six weeks of the campaign have confirmed the supremacy of Chirac's RPR machine compared to the ramshackle UDF organisation available to (and despised by) Barre. The RPR are playing a team game: Le Pen is effectively marked by Pasqua, who delivers weekly successes on the law and order front which may have more to do with programming by the Interior Ministry than with regular breakthroughs by the police; and Balladur fulfills a similar «marking» role in respect to Barre, playing the stern, hard-headed economist, supervising the economy with a calm determination worthy of Professor Barre himself. In addition, Chirac is careful to give a prominent role to younger RPR Ministers who have made their mark in the past two years, such as Séguin, Juppé and the telegenic Mme Barzach, with the aim of projecting an image of youth and dynamism.


/5. Barre's

5. Barre's campaign has seemed plodding in comparison. To some extent this is inevitable: he has always made much of being his own man, neither the leader nor creature of any political party. Nevertheless the price of this independence is that he bears the brunt of electioneering himself and leaves the parties of the UDF uncertain how to deploy in support and quarrelling among themselves. He has made a self-conscious effort in the last ten days to associate the UDF more obviously with his candidacy, suddenly finding nice things to say about Léotard and taking him on a trip to Corsica, where they surprised the crowd by singing regional songs together. Such gestures may help, but overall Barre's campaign has so far lacked the orchestrated impact of Chirac's.

6. Mitterrand continues to capitalise on his presidential status, for the moment leaving it to others to be mere candidates. Highly publicised foreign visits to Ireland and to the NATO Summit, and eye-catching domestic initiatives to talk to a class of immigrant children in Paris or to inspect storm damage in Brittany, ensure constant and largely uncontroversial exposure. At present his strategy appears to be to emphasise his role as the guarantor of the nation's interests, able to calm passions and unite the country around his enlightened leadership.

7. This carefully constructed image of the philosopher king is attractive to many voters and both the Barre and Chirac camps are trying hard to counter it, reminding the electorate of the Mitterrand of 1981 who was swept to power with 110 Socialist propositions in his pocket tailored exclusively to the interests of the Left. So far their efforts to paint him as an old man with an aggressively ideological past and no programme for the future have shown little sign of hitting home. They argue that this will change if and when he becomes the Socialists' official candidate: the outcome of the election may turn on whether this calculation is correct.

8. To the extent that forecasts from me at this stage are worthwhile, the indications are for a messy rather than a tidy aftermath to the election on 8 May. I shall explore this prospect more fully in subsequent reporting.


FERGUSSON

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TELNO 283

OF 111807Z MARCH 88

INFO ROUTINE UKREP BRUSSELS, BONN, ROME, TOKYO, WASHINGTON, OTTAWA

THE FRENCH ECONOMY

SUMMARY

1. THE MODEST IMPROVEMENT IN THE ECONOMY CONTINUES, THOUGH UNEMPLOYMENT IS MOVING UP AGAIN AND THE FRANC HAS THE JITTERS. CHIRAC AND BARRE FENCE WITH EACH OTHER, SEEKING TO PERSUADE THE ELECTORATE THERE IS MORE BETWEEN THEIR ECONOMIC POLICIES THAN THERE REALLY IS, WHILE WAITING FOR MITTERRAND TO DECLARE HIS CANDIDATURE. SAVE IN RHETORIC, AND IN THE PACE OF PRIVATISATION, MITTERRAND'S POLICIES ARE THEMSELVES UNLIKELY TO DIFFER GREATLY FROM THOSE OF THE RIGHT WING CANDIDATES.

DETAIL

2. LATEST INDICATORS SUGGEST THAT THE IMPROVEMENT IN THE FRENCH ECONOMY APPARENT SINCE THE LAST QUARTER OF 1987 IS CONTINUING. CONTRARY TO MARKET EXPECTATIONS THE DELAYED JANUARY TRADE FIGURES (CURRENT ACCOUNT DEFICIT OF FO.6 BN) WERE AN IMPROVEMENT OVER DECEMBER (FO.9 BN) AND OVER 1987 AS A WHOLE, HELPED BY LOW ENERGY IMPORTS IN A MILD WINTER AND BY GOOD AGRO-FOOD EXPORT FIGURES. THE ANNUAL RATE OF INFLATION FELL FROM 3.1 PER CENT IN DECEMBER TO 2.4 PER CENT IN JANUARY. THE LATEST SURVEY OF INVESTMENT INDICATIONS SUGGEST THAT INDUSTRIAL INVESTMENT MAY, IN REAL TERMS, GROW SLIGHTLY FASTER THAN LAST YEAR'S FIGURE OF 4 - 5 PER CENT. INSEE HAVE REVISED UPWARDS THEIR ESTIMATE OF THE RISE IN HOUSEHOLD CONSUMPTION IN THE 4TH QUARTER OF 1987 FROM 0.4 TO 0.7 PER CENT, AND HOUSEHOLD CONSUMPTION CONTINUES TO BE STRONG, WITH NEW CAR REGISTRATIONS UP 11 PER CENT IN JANUARY AND SALES OF CONSUMER GOODS UP 10 PER CENT. WITH A SAVINGS RATIO STILL ABOVE THE G7 AVERAGE, AND HOUSEHOLD BORROWING LOW, THERE SEEMS FURTHER SCOPE FOR CREDIT LED GROWTH IN HOUSEHOLD CONSUMPTION.

3. THE BOURSE PERKED UP IN FEBRUARY AS THE MARKET REALISED THAT A NUMBER OF ATTRACTIVE COMPANIES WERE VULNERABLE TO TAKE OVER BIDS. SHARES IN THESE COMPANIES ROSE, TAKING THE INDEX UP WITH THEM. BALLADUR WILL HAVE BEEN PLEASED THAT THE INDEX OF PRIVATISED COMPANIES MOVED ABOVE PAR IN FEBRUARY FOR THE FIRST TIME SINCE THE

OCTOBER SLUMP. BUT HE IS CLEARLY UNEASY, AT LEAST DURING AN ELECTION PERIOD, ABOUT THE CURRENT WAVE OF TAKEOVERS, PARTICULARLY BY FOREIGN COMPANIES, AS HIS ATTEMPTS TO BLOCK THE PEARSON PURCHASE OF LES ECHOS SHOW. IN A FURTHER MOVE TO MODERNISE THE BOURSE THE GOVERNMENT HAVE ANNOUNCED THAT FIXED COMMISSIONS WILL BE ABOLISHED FROM 30 JUNE 1989.

4. ON THE DOWN SIDE, UNEMPLOYMENT HAS RISEN SLIGHTLY IN RECENT MONTHS TO 2.58 MILLION (10.4 PER CENT), AS THE EFFECT OF SPECIAL MEASURES TAKEN LAST YEAR WEARS OFF MORE QUICKLY THAN EXPECTED. EQUALLY WORRYING FOR THE GOVERNMENT, ELECTORAL UNCERTAINTY IS NOW AFFECTING THE FRANC/MARK PARITY, WITH THE FRANC WEAKENING NOTICEABLY ON 10 MARCH. BANK OF FRANCE CONTACTS ASCRIBE THIS PRIVATELY TO (UNWORTHY) SPECULATION ABOUT A POSSIBLE REALIGNMENT AFTER THE PRESIDENTIAL ELECTIONS, AND DISCOUNT ANY SIGNIFICANT LINK WITH THE CURRENT STRENGTH OF THE POUND STERLING. THE AUTHORITIES WILL AWAIT NEXT WEEK'S US TRADE FIGURES ANXIOUSLY, FOR FEAR THAT A FALL IN THE DOLLAR COULD PUT FURTHER PRESSURE ON THE FRANC. THE LAST THING THAT THE GOVERNMENT WILL WANT IS PRESSURE FOR AN EMS REALIGNMENT BETWEEN NOW AND THE ELECTIONS.

THE ECONOMY IN THE ELECTION CAMPAIGN.

5. IN THE ABSENCE OF UNEXPECTED SHOCKS, AND WITH THE EXCEPTION OF UNEMPLOYMENT, THE CURRENT ECONOMIC SCENE LOOKS BETTER THAN SEEMED LIKELY A FEW MONTHS AGO. CHIRAC AND BALLADUR WILL NOT, HOWEVER, HAVE AN ALTOGETHER EASY RIDE WHEN THE ELECTION DEBATE HOTS UP ABOUT THE PRESENT GOVERNMENT'S ECONOMIC RECORD. THEY WILL BE ABLE TO POINT TO A GREATER THAN FORECAST FALL IN THE BUDGET DEFICIT, TAX CUTS (THOUGH TAX AND SOCIAL SECURITY CONTRIBUTIONS COMBINED ROSE SLIGHTLY IN 1987 AS A PERCENTAGE OF GDP), DEREGULATION, THE LIFTING OF PRICE AND EXCHANGE CONTROLS AND PRIVATIZATION AS SUCCESSFUL AND NECESSARY FIRST STEPS ON THE ROAD TO A COMPETITIVE FRANCE BY 1992. BUT MITTERRAND (DIRECTLY) AND BARRE (MORE ALLUSIVELY, SO AS NOT TO CONTRAVENE THE PACT THAT HE AND CHIRAC WILL NOT OPENLY ATTACK ONE ANOTHER) WILL BOTH MAKE MUCH OF THE RELATIVELY LOW GROWTH RATE (2.1 PER CENT IN 1986 AND 1987), RISING UNEMPLOYMENT AND THE ALLEGATIONS THAT IN PUBLIC APPOINTMENTS AND IN PUTTING TOGETHER THE HARD CORE OF PRIVATIZED COMPANIES, THE RPR HAVE FAVOURED THEIR OWN MEN. THE SOCIALISTS WILL PREDICTABLY MAKE MUCH OF THE ABOLITION OF THE WEALTH TAX, AS REINFORCING THEIR VIEW OF CHIRAC'S SECTIONAL INTEREST AND CONTRADICTING HIS EFFORTS TO PUT ACROSS AN IMAGE OF BROAD NATIONAL APPEAL.

6. MEANWHILE, THE CAMPAIGN IS STILL HANGING FIRE, A GAME OF TENNIS

WITH NO BALL. MITTERRAND IS AHEAD IN THE POLLS BUT SILENT, AND BARRE AND CHIRAC SEEKING TO PERSUADE A SCEPTICAL ELECTORATE THAT THEIR ECONOMIC POLICIES DIFFER FROM EACH OTHER. BARRE ARGUES THAT INVESTMENT INCENTIVES, COMBINED WITH FISCAL REFORM AND AN EMPHASIS ON EDUCATION AND TRAINING, ARE ESSENTIAL TO LIFT THE ECONOMY ON TO A HIGHER GROWTH PATH (3 TO 4 PER CENT): BUT HIS POLICIES ARE UNLIKELY TO DIFFER GREATLY FROM THOSE OF CHIRAC AND BALLADUR. SO INDEED ARE MITTERRAND'S, SAVE IN ONE OR TWO RESPECTS, SUCH AS THE PACE OF PRIVATISATION: THOUGH THE RHETORIC WILL BE DIFFERENT, WITH MUCH EMPHASIS ON SOCIAL JUSTICE. CHIRAC AND BARRE ARE BOTH STRIVING TO RESURRECT MEMORIES OF THE DISASTROUS EARLIER MITTERRAND YEARS, BUT NO-ONE REALLY BELIEVES THAT A RETURN TO THOSE POLICIES IS LIKELY.

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CONSULATES GENERAL FRANCE

FRANCE: ECONOMIC REPORT FOR FEBRUARY 1988

SUMMARY

1. Consumption by households remains buoyant. The official estimate for 1987 Q4 has been revised upwards slightly to an increase of 0.7% and the signs are that in January it gathered pace. Although INSEE forecasts a gradual stabilisation there is still plenty of scope for households to compensate for modest wage increases and increase spending significantly by continuing to draw on savings and by borrowing.
2. Industrial production continues to increase, but industrialists probably underestimated the strength of consumer spending in 1987 H2 and lost market shares in France to foreign competitors. This is in spite of the ending at the beginning of 1987 of a steady deterioration in the competitiveness of French goods. In contrast French exporters of manufactured goods halted a steady decline in foreign market shares and made some gains in 1987 H2 and February.
3. Inflation fell to 2.4% in January/and the underlying trend is even better.
4. The fall in unemployment between March and November has given way to a gradual increase. There were 2,577,800 unemployed sa in January (10.4%). The impact of special measures taken last year is wearing off.
5. The government has announced a tightening of the rules on takeover bids and a closer surveillance of the financial futures market (MATIF). It has announced that fixed commissions on the Bourse will be abolished as from 30 June 1989.
6. The budget deficit in 1987 was F120 billion, lower than the budget estimate of F129.4 billion.

INDEX

	<u>Paragraph numbers</u>
Summary	1 - 5
Economic activity	6 - 12
National Accounts for 1987 Q4	6
Household consumption	7 - 8
Savings	9
Industrial production	10 - 11
Company bankruptcies	12
Trade	13 - 16
Inflation	17 - 18
Labour market	19 - 21
Pay	22 - 24
Financial markets	25 - 33
Fiscal policy	34 - 36
The budget deficit	37
Assessment of Economic Prospects	38
<u>Tables</u>	<u>Annex</u>
Economic activity	1
" "	1A
Labour market	2
Prices & Earnings	3
Monetary indications	4
Trade	5
Trade (volumes & Value)	6
Trade (France/UK).	7
Marketed GDP	8
Contribution to marketed GDP growth	9
Graphs	10

DETAIL

Economic activity

6. INSEE published national accounts for 1987 Q4 at the end of February. These and the figures for the earlier quarters of 1987 are at annex 8. INSEE has calculated that in 1987 as in 1986 the largest contributions to economic growth were from consumption by households and stockbuilding. Investment by companies made a modest contribution in both years. Exports made a small positive contribution in 1987 following a small negative contribution in 1986. See the figures at annex 9.

7. INSEE have revised their estimate of the increase in consumption by households in 1987 Q4 upwards from 0.4% to 0.7%. It strengthened further in January. New car registrations increased by 11.0% over December and sales of consumer goods by 10.0% helped by end of year bonuses paid to employees. Increased orders from industry suggest that retailers and wholesalers are expecting a further increase in demand.

8. In contrast INSEE are still forecasting a stabilisation of households consumption although more slowly than they had initially expected, having predicted earlier that it would stabilise in 1987 Q4. They argue that the continued modest increase in households real incomes will gradually moderate their consumption. In 1987 although households purchasing power increased by 1.0% their consumption increased by 2.4%. They financed the difference by drawing on savings and increasing borrowing. But they might do so again in 1988 because the savings ratio is still high: 12.8% in 1987 compared with a G7 average of 10.2% in 1986 (latest figure) and the borrowing ratio low: INSEE calculates it at 6.0% in September compared with 13.0% in Britain and 15.4% in West Germany.

9. Some economists have also argued that savings will increase as a result of the stock market slump but this appears unlikely now. Only 3% of 300 shareholders questioned by the Centre de Recherche Economique sur l'Epargne said that they planned to increase their savings. 13% said they would save less. 70% claimed that the slump had not changed their attitude to the stock market.

10. INSEE's monthly industrial production index sa excluding building and public works has remained stable at 105 sa between September and December inclusive. It measures around 65% of industrial production. The average of the index was 3% higher in 1987 Q4 than in the same period in 1986.

11. Industrialists replying to INSEE's monthly survey in February estimate that production over a wider range than that covered by the index above has increased steadily over recent months. Stocks have increased slightly, chiefly in intermediate goods, but orders have also increased. Nevertheless industrialists predict that the increase in production will slow or stabilise in the coming months.

12. In January 1988 2,622 company bankruptcies sa were recorded. This is 207 more than in January 1987. In the 12 months to January 1988 30,968 company bankruptcies were recorded, 2,845 more than in the preceding 12 months.

Balance of Trade

13. A deficit sa FOB/FOB of F0.6 billion in January following a deficit of F0.9 billion in December is an improvement over an average monthly deficit in 1987 of F2.6 billion. But these better figures are the result of reduced energy imports during a mild winter and above average agri-food exports. The balance on manufactured goods has remained in deficit. On an annual basis the balance on manufactured goods has deteriorated steadily from surpluses CIF/FOB of F88.9 billion in 1985 and F35 billion in 1986 to a deficit of F8.2 billion in 1987.

14. Nevertheless the export performance of manufactured goods has improved since the middle of 1987 following several years of deterioration. INSEE calculates that between 1985 and 1987 France lost annually foreign market shares in manufactured goods of between 3% and 4% but that the 1987 figure masks a significant new trend. Although the loss of foreign market shares accelerated in 1987 H1 to 4.7% there was a sharp improvement in 1987 H2 and a 3.3% recovery of market shares. INSEE calculates that this follows the ending at the beginning of 1987 of a steady deterioration in the competitiveness of French goods. INSEE's figures are as follows:

Manufactured Goods: (percentage change)

	annual average			Half yearly average 1987	
	1985	1986	1987	H1	H2
World demand	3.6	3.2	5.8	2.2	4.9
Exports	0.6	-0.5	2.1	-2.5	8.2
Market share	-3.0	-3.7	-3.7	-4.7	3.3

In contrast the loss of market shares in France by French manufacturers accelerated in 1987 H2 but this could be because they were as surprised as INSEE by the strength of households consumption (see paragraphs 7 & 8).

15. Prospects for exports are promising. Industrialists replying to an INSEE survey in December report a further moderate increase in export orders in 1987 H2.

16. However the potential for an improvement in the balance of trade must be measured against a substantial F47.4 billion deterioration in the current account in 1987 to give a deficit of F27.2 billion. This significantly exceeds the deterioration in the trade balance in 1987 of F31 billion to give a deficit of F31.4 billion. No details of invisibles have been published yet.

Inflation

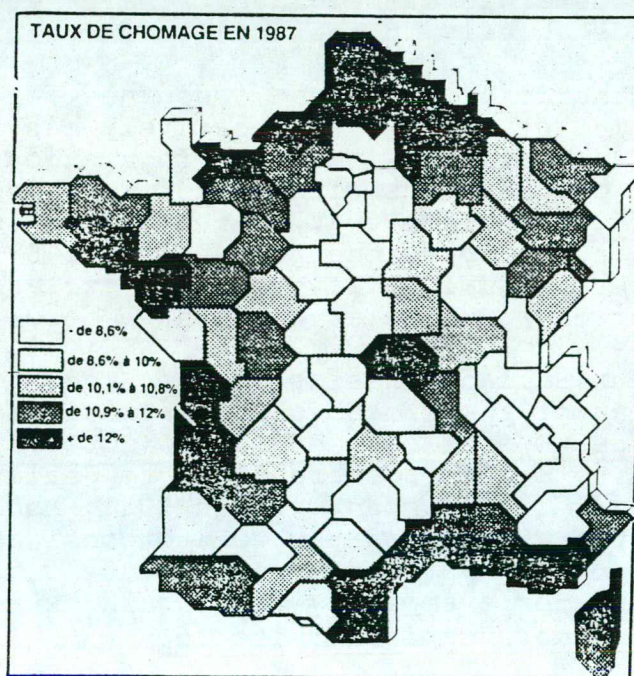
17. The annual rate of inflation fell from 3.1% in December to 2.4% in January and, following a 0.2% rise in February, in February too. This is close to the 2.1% achieved in December 1986. Thus the surge in inflation following the abolition of the remaining price controls at the end of 1986 has been virtually eliminated. The underlying trend is even better. In the six months to January prices rose at an annual rate of 1.8%.

18. However private sector services are still rising significantly faster: 0.7% in January and at an annual rate of 5.4% in the six months to January.

Labour Market

19. Unemployment rose slightly to 2,577,800 seasonally adjusted at the end of January (the revised December figure was 2,572,700). The unadjusted total was 2,689,300, compared with 2,676,600 in December. The unemployment rate has remained stable at 10.4% since October. Commentators suggest that the rise in the totals for December and January reflects a decline in the impact of special measures: existing programmes for young people and the long term unemployed were expanded and new schemes introduced in 1987.

20. INSEE's regional analysis of unemployment in 1987 shows that the rise has been greatest in the areas already worst affected. The regions with the highest unemployment rates in metropolitan France are the Nord-Pas-de-Calais (14.1%) and Languedoc-Roussillon (14%). A more detailed breakdown shows that most of the worst affected départements are on the Atlantic and Mediterranean coasts.



21. The latest provisional employment estimates (Table 2) indicate a very slight fall in the number of jobs in 1987, to 21,232,000, following a rise in 1986 to 21,247,000.

Pay

22. The government has awarded a 1% pay increase to civil servants with effect from 1 March, in advance of negotiations which have been deferred until after the presidential election. 'Family supplements' payable to civil servants with two or more children have also been raised, by 15% on average.

23. Other public sector 1988 pay increases are likely to be lower than forecast inflation: SNCF (railways) have offered 2%, the electricity and supply industry (EdF-GdF) 2.1%. The banks have imposed a 1% settlement with effect from 1 March.

24. The CNPF (the principal employers association) has renewed calls for a reform of the national minimum wage (SMIC): the latest proposal is that uprating should be not more than once a year and that bonuses should be taken into account in calculating minimum pay.

Financial Markets

25. On 14 March Monsieur Balladur, the Minister of Finance announced measures for tightening the rules on takeover bids.

26. In recent weeks there has been some nervousness on the stock exchange over possible hostile takeover bids for a number of attractive companies left undervalued by the October slump in share prices. Such companies saw their share prices soar in February, and have attempted to create hard core shareholdings which would strengthen their ability to resist a takeover. So far only two hostile bids have materialised - Schneider for Télématique and Bolloré Technologies for Rhin-Rhone - but the stock markets nervousness has been heightened by the protracted battle, widely reported in the French press, the Société Générale de Belgique. There have been several friendly bids chiefly in the agri-food sector, some from abroad.

27. The authorities have been concerned for some time that the French market could be a relatively easy prey for corporate raiders because of loose takeover regulations. At present a company can change hands without a formal declaration of a takeover bid. The rules require that shareholdings in companies should be declared when they pass the thresholds of 5%, 10%, 20%, 33.33% and 50%. If a formal takeover bid is declared, however, there are a number of formalities which have to be observed.

28. Monsieur Balladur has asked the Syndic des Agents de Change (the chairman of the stockbrokers' association) and the Commission des Opérations de Bourse (COB) to change the regulations to oblige a shareholder to declare his intentions if his holding in a company passes 10%. Monsieur Balladur has also asked the Syndic and the COB to consider ways in which a company might be enabled to protect itself against a hostile takeover bid, for example by calling an extraordinary general meeting to agree a capital increase.

The Syndic and the COB have been asked to report on this and on the rules concerning takeover bids in general by April.

29. Monsieur Balladur has also announced tighter surveillance of the financial futures market (MATIF) based on recommendations in the Deguen Report. He commissioned the report following suggestions that a steady increase in interest rates on the MATIF in the summer of 1987 had precipitated the October stock market slump. The report absolves the MATIF to blame but nonetheless recommends measures for tightening surveillance.

30. The report's chief recommendations, as reported by the press are:

(1) Companies (excluding banks) should be required to obtain the authorisation of their boards for intervention on the MATIF

(2) Portfolio managers and commission agents should be subject to the same official scrutiny as stock exchange dealers

(3) There should be a liaison committee to coordinate the different authorities in the financial markets

(4) Companies transactions on the financial markets should be clearly visible in their annual accounts.

31. The rapid rise in February in the share prices of companies vulnerable to takeover bids restored some vitality to the stock market. As a result the CAC index gained around 18% during the month. Since the beginning of March lethargy has set in again and dealing is thin.

32. Meanwhile in the second week of March the foreign exchanges displayed some nervousness about the franc. Between 4 March and 11 March it slipped from F3.3819 mark to F3.4090 market. There was an expectedly sharp and sudden fall on 10 March before recovering by 14 March to F3.3993. (Its floor rate in the exchange rate mechanism of the EMS against the mark is F3.4305.) The main reason for the weakness was probably nervousness in the run-up to the presidential elections. A single very large sale of francs into marks on 10 March has also been cited.

33. The weakening of the franc has been accompanied by a rise in short and long term interest rates reversing a general downward trend since November.

Fiscal Policy

34. On 2 March the government announced that the privatisation programme has raised F71 billion for public funds between its inception at the end of 1986 and the end of 1987. Of this two thirds had been used for repaying national debt and the remainder for investment in public enterprises. Out of 65 companies covered by the programme 29 companies employing 500,000 have been privatised. This does not include the television company TF1 privatised in September 1986 and

Crédit Agricole mutualised in January 1988. The government estimates that 65% of the original shareholders in privatised companies have retained their shares in spite of the stock market slump.

35. On 19 February the government fixed the price to be paid for the Caisse Nationale de Crédit Agricole by the regional banks of the Crédit Agricole at F7 billion.

36. The government has so far failed to achieve its objective of reducing tax and social security contributions by 1% of GDP per year: INSEE calculates that they rose from 44.7% in 1986 to 44.8% in 1987, a record level. Nevertheless they have remained relatively stable since 1983 following a steady increase since 1973 when they were equivalent to 35.7% of GDP.

The budget deficit

37. The government announced on 16 March that the 1987 budget deficit had fallen to F120 billion, compared with a budget estimate of F129.4 billion francs, and an 1986 outturn of F141 billion. The government announced that the deficit was equivalent to 2.3% of GDP, compared to 2.8% in 1986 and 3.3% in 1985. It also stated that the aim for the 1989 budget would be a deficit of F100 billion.

Assessment of Economic Prospects

38. Prospects for the economy in 1988 remain uncertain but there have been some encouraging signs since the beginning of the year:

i) inflation is well under control and the annual rate could fall somewhat below the 2.4% attained in January.

ii) the price competitiveness of French goods stopped deteriorating at the beginning of 1987, helped by the modest wage settlement since 1982. Results are already evident in the recovery of some lost market share by exporters of manufactured goods in 1987 H2 suggests that exports in general will continue to increase in 1988 H1. Although manufacturers continued to lose market shares in France this may well have been because they underestimated the strength of consumer demand. If this is so, and if in 1988 they stabilise or even improve their market shares in France, the government's prediction of a 1988 balance of payments deficit of around F30 billion may be too pessimistic. Much will depend on whether French exporters can match their improved price competitiveness with improvements in, for example, marketing and after sales service which the Paris Chamber of Commerce and Industry continues to identify as inadequate.

39. On the other hand, unemployment looks set to rise.

FRAME ECONOMIC

ECD (1)

TABLE 1

ECONOMIC ACTIVITY
(% change on year earlier)

	Real GDP (Marketed) (1)	Nominal GDP (Marketed) (1)	Total Industrial Output (1)	Manufacturing (1)	Housing Starts Thousand (2)	Retail Sales (Volume) (3) 1978=100
1984	1.4	8.8	1.6	0.1	283.2	90.5
1985	1.4	7.7	1.6	-0.7	295.5	89.3
1986	2.2	7.1	2.0	1.1	295.5	90.3
1986 Q4	0.3	0.2	1.3	-0.6	88.2	90.1
1987 Q1	-0.2	1.0	0.1	-0.8	71.0	89.0
1987 Q2	1.1	1.7	0.2	3.0	75.8	88.6
1987 Q3	1.1	2.0	0.2	0.2	70.6	89.9
1987 Q4	0.4					

(1) Source: National Accounts

(2) Source: Bulletin Mensuel de Statistique (INSEE)

(3) Source: Tendances de Conjoncture: Graphique sur 10 ans (INSEE)

TABLE 1A

ECONOMIC ACTIVITY

	Industrial Production excluding building and civil engineering 1980 = 100 sa	Retail Sales value 1978 = 100 sa
1987		
January	99	181.2
February	102	174.6
March	103	165.9
April	102	179.9
May	103	174.6
June	105	168.6
July	104	180.0
August	104	172.9
September	105	177.8
October	105	181.4
November	105	175.6
December	105	183.0

Source: INSEE Informations Rapides

TABLE 2

LABOUR MARKET
(All figures seasonally adjusted)

	Unemployment (sa) (1)	Total Employment (2)	Employment in non- agricultural market sector (1)	Employment in Industry excluding construction (3)	Industrial Disputes working days lost (excluding agriculture and public administration (3))	
					Local Disputes	General Action
				(31 Dec) 5,002,200		
	2,459,20 (Annual average)	21,228,000	(31 Dec) 13,482,800	(31 Dec) 4,876,800	726,717	158,175
	(Annual average) 2,516,666	21,247,000	(31 Dec) 13,488,500	(31 Dec) 4,755,400	567,689	473,830
	2,622,800	21,232,000				
			(31 Mar) 13,494,300	(31 Mar) 4,733,400		7,451
			(30 Jun) 13,515,400	(30 Jun) 4,710,600		18,396
			(30 Sep) 13,491,800	(30 Sep) 4,678,900		13,771
	2,649,200 (10.7%)				(Jun) 37,462	
	2,596,900 (10.5%)				(Jul) 34,310	-
	2,571,700 (10.4%)				(Aug) 5,258	-
	2,546,400 (10.4%)				(Sep) 40,212	1,335
	2,572,300 (10.4%)				(Oct) 56,664	8,327
Jan 1988	2,577,800 (10.4%)				(Nov) 43,872	287

(1) INSEE Informations Rapides Employment figures revised to take account of 1982 census results.

(2) INSEE estimates.

(3) Statistiques du Travail

- (1) Statistiques du Travail, Ministère des Affaires Sociales
 (2) INSEE: Informations Rapides
 (3) INSEE: Economie et Statistiques, January 198

PRICES AND EARNINGS
 (% change)

	Consumer Prices (2) Annual rate	Wholesale Prices: Metal Products (2) Annual rate	Average Earnings (1)	Unit Labour Costs: Mechanical and Electrical Industries (2)	Productivity (Annual average percentage rate of growth in the hourly productivity of labour for trading sectors excluding agriculture, housing and financial services (3))
	6.7	7.3	(Apr) 7.9	8.5	
	4.7	-7.3	(Apr) 6.1	6.0	
	2.1	-4.8	(Apr) 5.3	4.5	
			(Oct) 3.9		1967-73 5.2 1973-79 3.6 1979-85 2.5 1985-87 2.3 1987-91 2.9*
			(Apr) 3.3	0.0	
	3.3	-3.7		0.6	
	3.4	-2.4		0.0	
	3.5	0.5		0.0	
September	3.2	1.3		0.3	
October	3.2	5.2		0.4	
November	3.2	5.2		0.3	
December	3.1	6.4		0.0	
January	2.4				

	M1* (Annual Growth) (1)	M3* (Annual Growth %) (1)	3-month interest rate % average on the money market TIOP (1)	Government Bond Yield % long term TME (2)	Franc/ Dollar (1)	Franc/ Pound (1)
1974	10.4	9.3	11.7	(Dec) 11.79	8.74	11.64
1973	8.2	6.6	9.95	(Dec) 10.47	8.99	11.55
1972	5.9	4.4			6.93	10.16
1971						
1970	4.7	7.5	8.22	8.83	5.97	9.97
1969	4.5	7.6	8.33	9.32	6.08	9.91
1968	3.8	7.7	7.95	9.32	6.15	9.90
1967	3.1	7.3	8.00	9.85	6.20	9.90
1966	3.4	8.4	7.98	10.28	6.05	9.95
1965	3.7	8.8	8.33	10.66	6.02	10.00
1964	4.0	9.1	8.79	10.02		
December				10.00		

* Data are based on the basis of a 3-month average for the same period in each year (Bank of France)

(1) Source: Banque de France, Statistique Monétaires provisoires

(2) Source: Bulletin Mensuel de Statistique (INSEE)

TABLE 5

TRADE				
(All figures seasonally adjusted)				
	Exports (1) Billions of francs FOB sa	Imports (1) Billions of francs FOB sa	Trade Balance (1) Billions of francs Francs FOB/FCB sa	Current Account Balance (2) Billions of francs sa
1984	850.1	874.8	-24.7	- 7.3
1985	906.0	936.7	-30.7	- 1.5
1986	863.6	864.1	- 0.5	25.8
1987				(accumulated)
July	75.178	78.232	-3.054	
August	76.546	77.635	-1.039	
September	75.650	78.039	-2.339	
October	74.964	79.832	-4.858	
November	79.591	30.273	-0.682	
December	81.597	82.480	-0.833	-27.2
January			-0.6	

(1) source: INSEE Informations Rapides

(2) source: Ministry of Finance Communiqué

TABLE 6

TRADE				
Volumes and Value (1)				
	Volume of Exports billions of 1980 francs FOB	Volume of Imports billions of 1980 francs CIF	Value of Exports FOB 1980 = 100	Value of Imports CIF 1980 = 100
1986	551.8	633.1	154.6	140.4
1987				
April	45.9	55.4	156.0	139.9
May	45.9	56.1	151.7	138.4
June	46.3	56.9	158.0	140.1
July	46.1	57.7	158.2	139.2
August	46.7	57.3	159.8	139.0
September	47.2	57.1	154.3	140.5
October	46.4	58.5	156.3	140.2
November	49.0	58.1	156.6	141.7
December			157.1	139.5

(1) Source: INSEE Informations Rapides

15

TABLE 7

FRANCE: TRADE WITH UK (Billions of Francs)			
	Exports to UK (FOB)	Imports from UK (CIF)	Balance (FOB/CIF)
1984	64.284	72.888	-8.604
1985	71.592	78.936	-7.344
1986	72.708	58.068	14.64
1987			
June	6.343	5.636	0.707
July	6.403	6.013	0.39
August	6.694	6.098	0.596
September	6.565	5.414	1.151
October	6.627	6.097	0.530
November	6.966	5.740	1.226
December	7.387	5.708	1.679

Source: INSEE Informations Rapides

MARKETED GDP IN 1980 FRANCS						% change Q/Q-1				
1986						1987				
86.1	86.2	86.3	86.4	AA		87.1	87.2	87.3	87.4	AA
0.1	1.3	0.4	0.3	2.1	Marketed GDP	-0.2	1.1	1.1	0.4	2.1
-2.0	8.1	2.2	-4.4	6.9	Imports	3.6	1.4	3.2	2.1	6.4
1.0	0.9	1.0	-0.1	3.4	Households consumption	0.7	-0.3	2.0	0.7	2.4
0.9	1.3	1.4	0.4	5.0	Government consumption	1.5	0.9	1.8	1.6	4.9
0.5	2.8	-0.5	0.3	3.3	Total gross fixed capital formation	-0.5	1.8	2.1	1.2	2.9
1.3	3.6	-0.4	-0.1	4.3	of which companies and self-	-0.7	3.2	2.2	2.6	4.1
-0.6	0.7	-1.9	0.7	-1.1	employed	-0.3	-0.8	2.0	-1.0	-0.4
-1.7	0.4	1.0	-1.6	-0.7	households	-0.8	-0.1	3.9	3.0	1.2
0.9	1.4	0.7	0.1	3.5	Exports	0.4	0.3	2.0	0.9	2.6
-0.8	2.0	0.1	-0.6	0.7	Internal demand excluding stocks	0.5	1.3	-1.0	-0.7	0.9
					Change in stocks (contribution to					
					marketed GDP growth)					

MARKETED GDP IN 1980 FRANCS					% change Q/Q-1					
1986						1987				
86.1	86.2	86.3	86.4	AA		87.1	87.2	87.3	87.4	AA
0.1	1.3	0.4	0.3	2.1	Marketed GDP	-0.2	1.1	1.1	0.4	2.1
-2.0	8.1	2.2	-4.4	6.9	Imports	3.6	1.4	3.2	2.1	6.4
1.0	0.9	1.0	-0.1	3.4	Households consumption	0.7	-0.3	2.0	0.7	2.4
0.9	1.3	1.4	0.4	5.0	Government consumption	1.5	0.9	1.8	1.6	4.9
0.5	2.8	-0.5	0.3	3.3	Total gross fixed capital formation	-0.5	1.8	2.1	1.2	2.9
1.3	3.6	-0.4	-0.1	4.3	of which companies and self-	-0.7	3.2	2.2	2.6	4.1
-0.6	0.7	-1.9	0.7	-1.1	employed	-0.3	-0.8	2.0	-1.0	-0.4
-1.7	0.4	1.0	-1.6	-0.7	households	-0.8	-0.1	3.9	3.0	1.2
0.9	1.4	0.7	0.1	3.5	Exports	0.4	0.3	2.0	0.9	2.6
-0.8	2.0	0.1	-0.6	0.7	Internal demand excluding stocks	0.5	1.3	-1.0	-0.7	0.9
					Change in stocks (contribution to marketed GDP growth)					

21

CONTRIBUTION TO MARKETED GDP GROWTH (IN 1980 PRICES)										
										en %
1982	1983	1984	1985	1986		1987				1987
						87.1	87.2	87.3	87.4	
2,4	0,7	0,7	1,7	2,4	Household consumption	0,5	-0,2	1,4	0,5	1,7
0,2	0,1	0,0	0,2	0,3	Government consumption	0,1	0,0	0,1	0,1	0,3
-0,4	-0,9	-0,6	0,3	0,8	Total Gross fixed capital formation	-0,1	0,4	0,5	0,3	0,7
-0,0	-0,6	-0,3	0,2	0,5	of which: companies and self-employed	-0,1	0,4	0,3	0,3	0,5
-0,5	-0,2	-0,3	-0,2	-0,1	households	-0,0	-0,1	0,1	-0,1	-0,0
-0,7	0,7	-0,7	-1,2	-1,8	Imports	-1,0	-0,4	-0,9	-0,6	-1,8
-0,4	0,9	1,8	0,6	-0,2	Exports	-0,2	-0,0	1,0	0,8	0,3
-1,1	1,6	1,1	-0,6	-2,0	External Balance	-1,2	-0,4	0,1	0,2	-1,5
1,2	-1,0	0,1	-0,1	0,7	Change in stocks	0,5	1,3	-1,0	-0,7	0,9

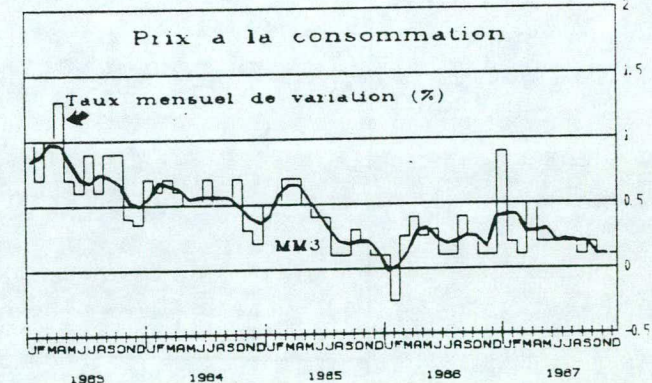
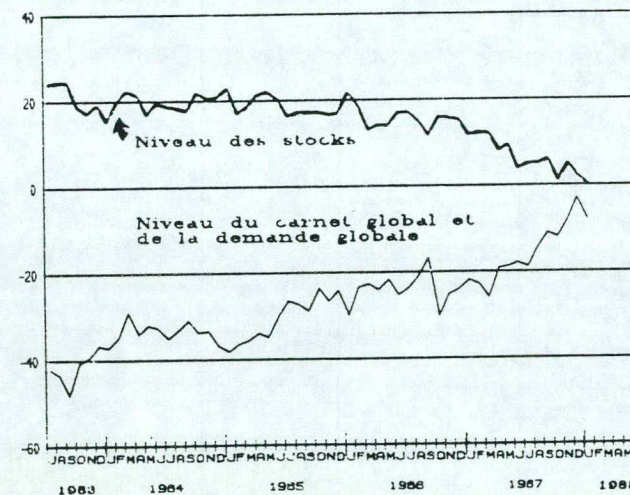
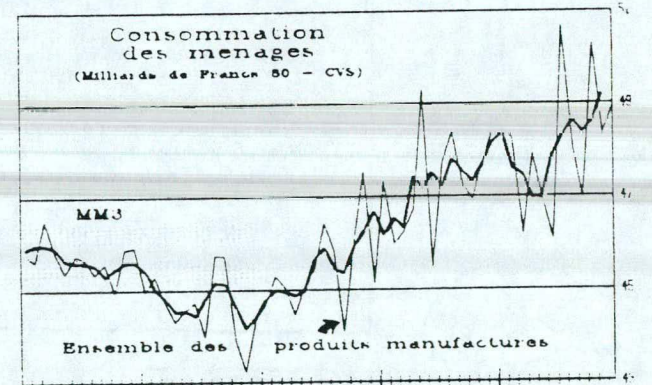
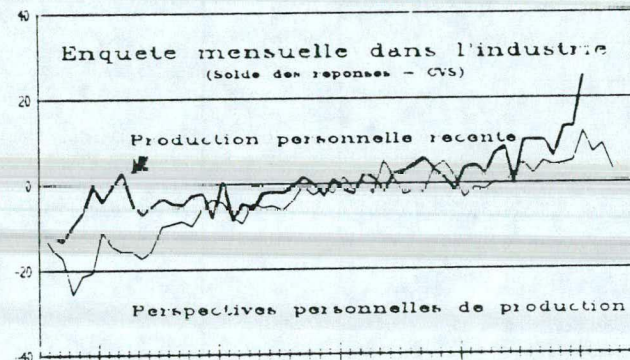
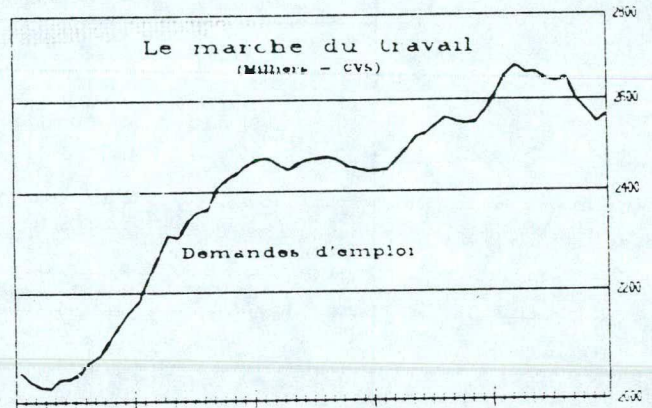
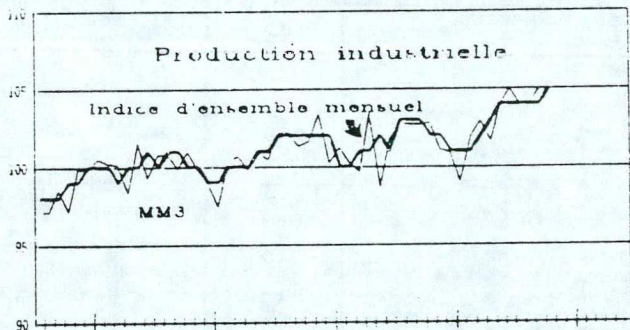
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De son enquête mensuelle de janvier, la production industrielle a augmenté à un rythme soutenu au cours des derniers mois. Les stocks sont toujours inférieurs à leur niveau normal. Selon les industriels, la croissance de l'activité se ralentirait en début d'année.

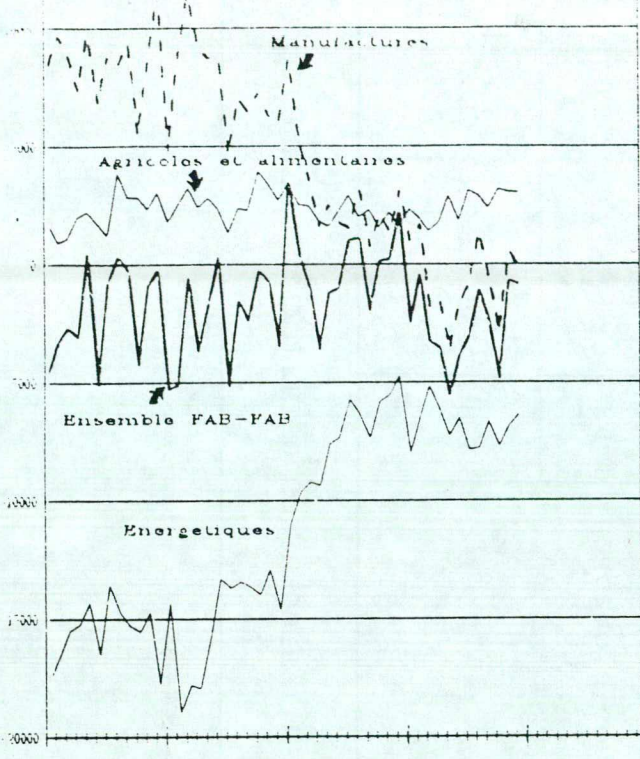
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L'indice mensuel des prix à la consommation est en hausse de 0,1% en décembre, ce qui conduit à un glissement de 3,1% pour l'ensemble de l'année. Dans le même temps, la consommation des ménages, en faible recul pour l'électronique grand-public et le cuir, progresse légèrement dans l'ensemble grâce aux postes automobile et textile.

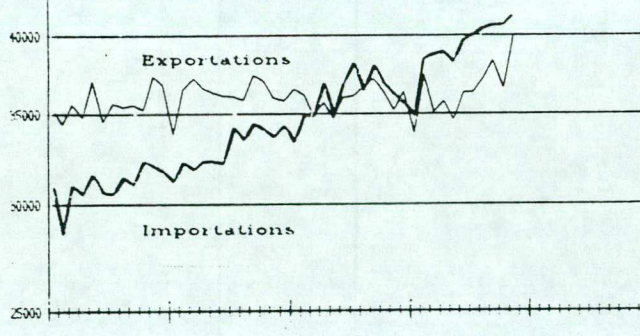
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Commerce extérieur en valeur
Séries par produits (CAF-FAB)
(Millions de Francs - CVS)

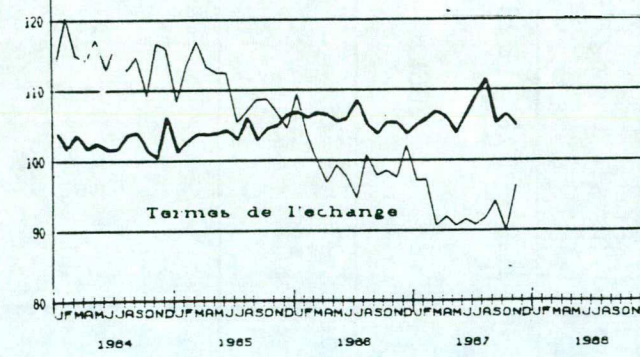


Commerce extérieur en volume
Produits manufacturés
(Millions de Francs 80 - CVS)

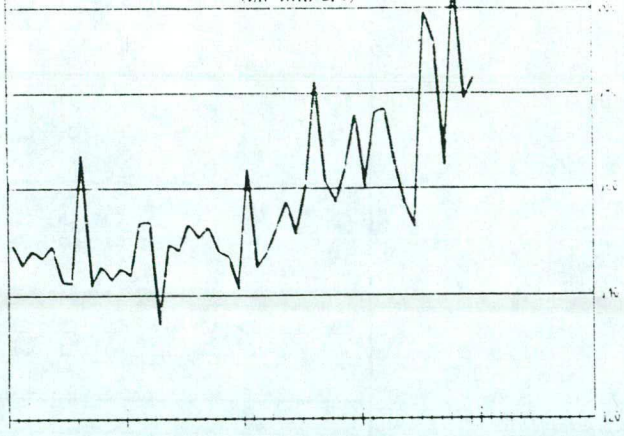


(Base 100 en 1980)

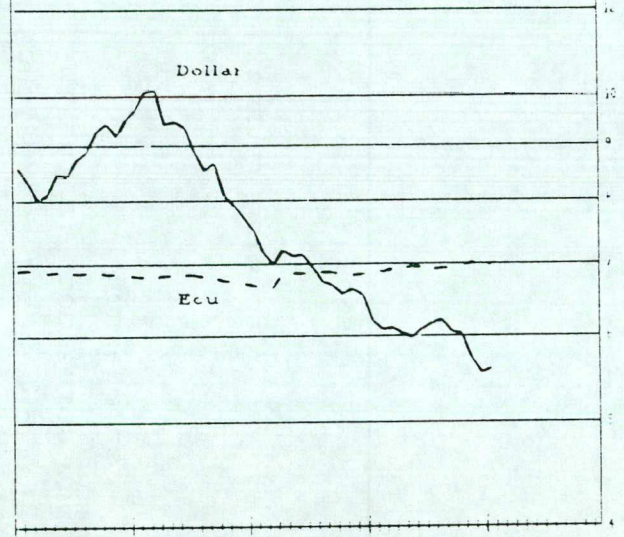
Taux de couverture



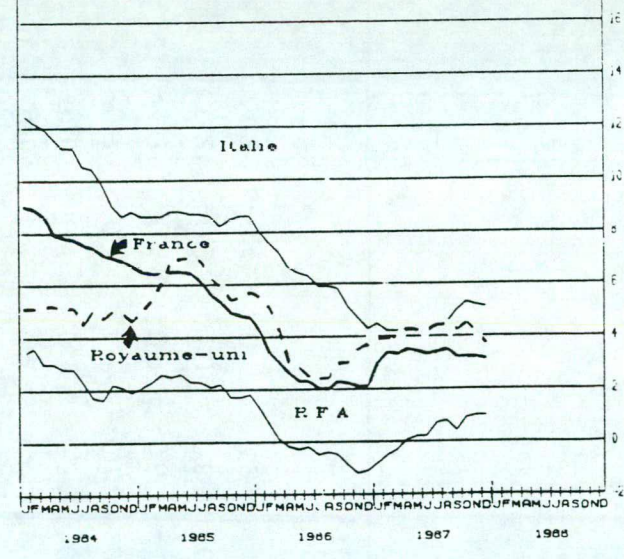
Immatriculations de
voitures neuves
(En milliers)



Taux de change
Par rapport au franc français



Prix à la consommation
dans les pays européens
(Glissement sur 12 mois)



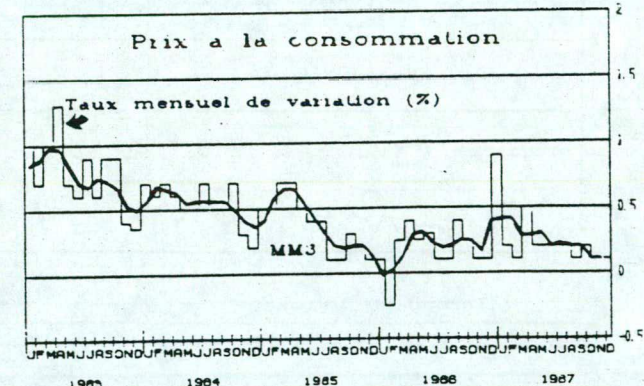
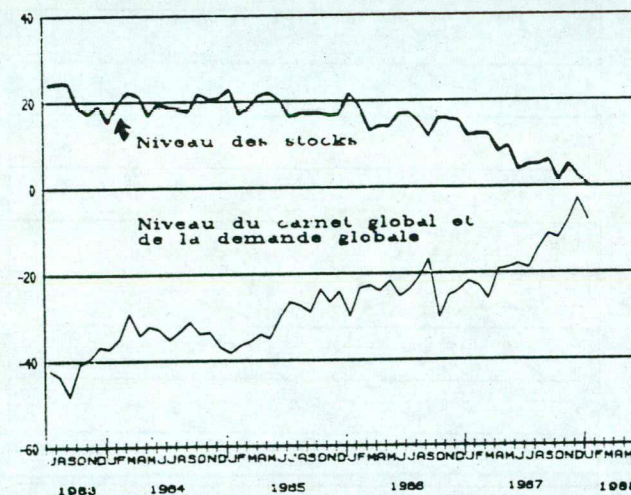
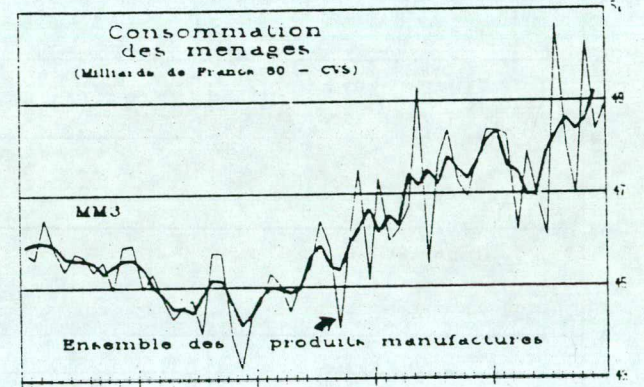
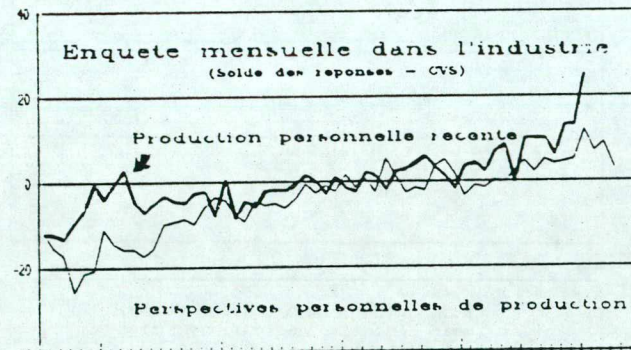
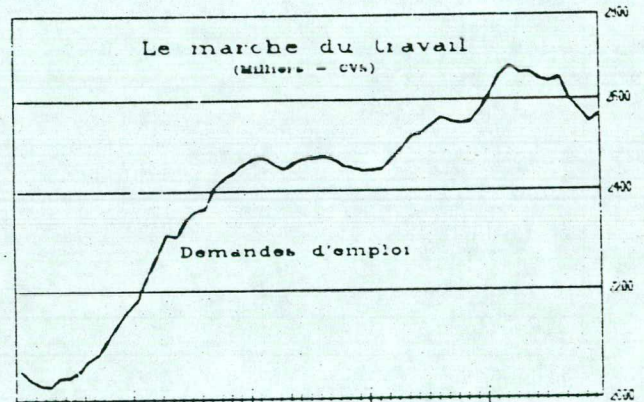
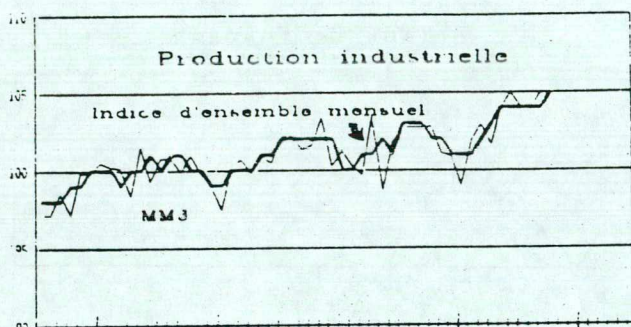
CONTRIBUTION TO MARKETED GDP GROWTH (IN 1980 PRICES)										
										en %
1982	1983	1984	1985	1986		1987				1987
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2.4	0.7	0.7	1.7	2.4	Household consumption	0.5	-0.2	1.4	0.5	1.7
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-1.1	1.6	1.1	-0.6	-2.0	External Balance	-1.2	-0.4	0.1	0.2	-1.5
1.2	-1.0	0.1	-0.1	0.7	Change in stocks	0.5	1.3	-1.0	-0.7	0.9

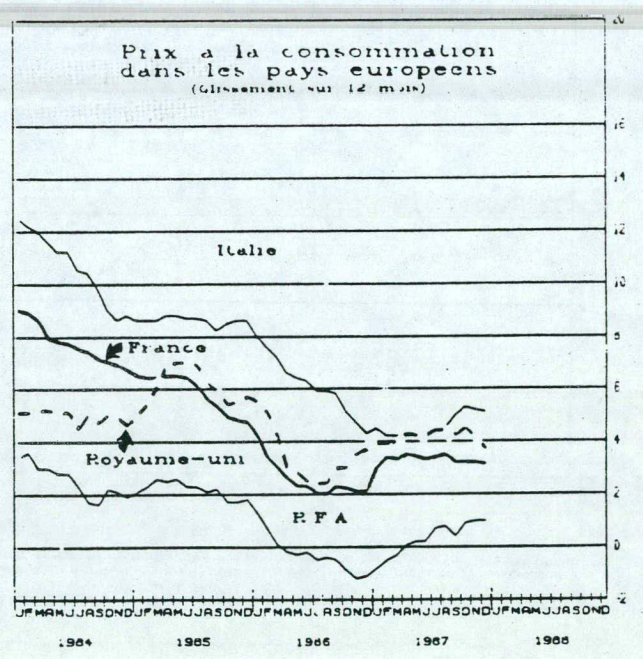
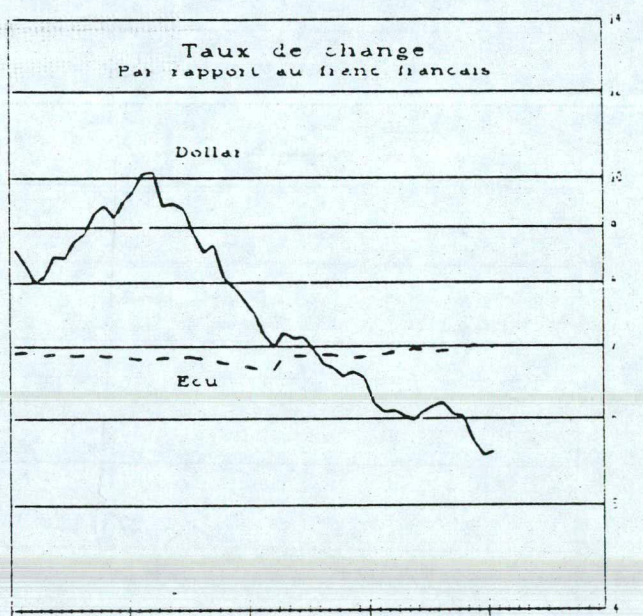
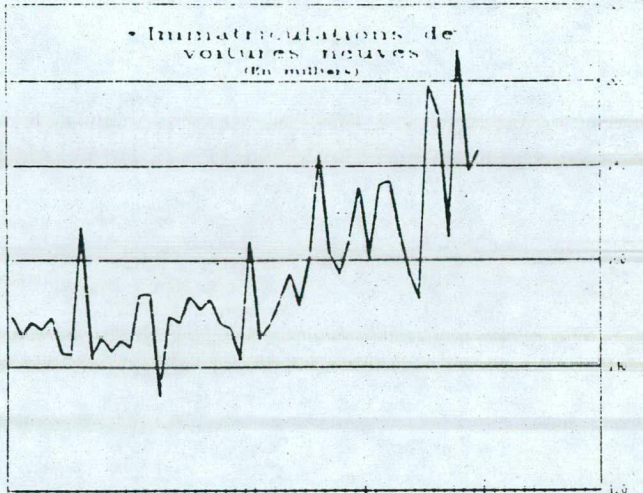
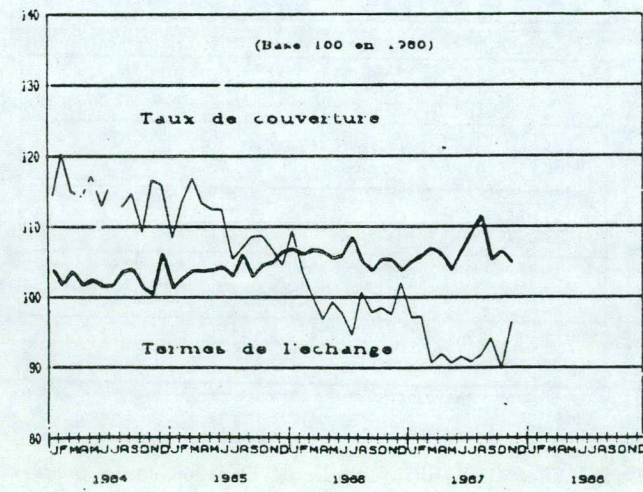
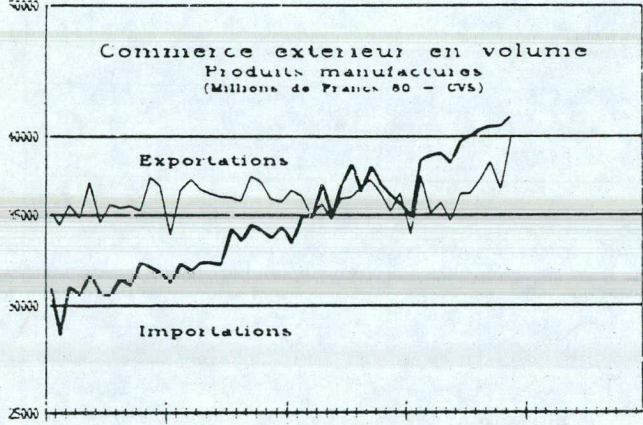
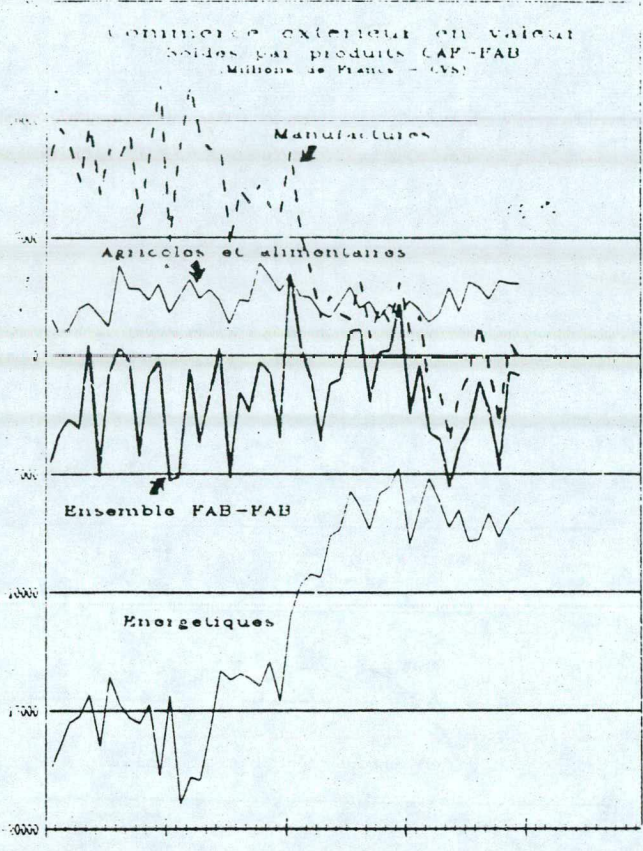
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Le déficit des échanges extérieurs FAB-FAB CVS-CVJ atteint 0,9 Md de F en décembre, traduisant une progression comparable (resp. 2,7 et 4,9%) des importations et des exportations. Le solde sur l'année est donc de -31,4 Md de F.





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OF 211244Z MARCH 88

INFO SAVING EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO, CGS IN FRANCE

MIPT: THE FRENCH PRESIDENTIAL ELECTIONS.

SUMMARY

1. BEREGOVY TELLS ME THAT MITTERRAND WILL ANNOUNCE HIS DECISION TO STAND AGAIN LATER THIS WEEK. HE INSISTS THAT MITTERRAND'S DECISION IS A RELUCTANT ONE, BUT THAT HE HAS CONCLUDED THAT ONLY HE CAN BAR THE ROUTE TO CHIRAC AND THE RPR. BEREGOVY EXPECTS MITTERRAND TO WIN AFTER A HARD FIGHT WITH CHIRAC, BUT TO AVOID DISSOLVING PARLIAMENT BEFORE THE AUTUMN AT THE EARLIEST.

DETAIL

2. BEREGOVY (PS-FORMER FINANCE MINISTER) DINED WITH ME ON 18 MARCH. APART FROM COMMENTING ON BALLADUR'S UDF/RPR MERGER INITIATIVE (MIPT), HE RANGED WIDELY OVER THE POLITICAL SCENE:

(I) MITTERRAND: HE LEFT NO DOUBT THAT THE PRESIDENT WILL RUN AGAIN AND CONFIRMED THAT THE ANNOUNCEMENT WILL BE THIS WEEK (BEREGOVY WILL BE CAMPAIGN MANAGER.) MITTERRAND HAD BEEN GENUINELY RELUCTANT TO STAND, AND DID NOT RELISH THE PROSPECT OF ANOTHER ELECTION CAMPAIGN, BUT HE HAD CONCLUDED THAT ONLY HE COULD PREVENT CHIRAC FROM WINNING, AND THE QUOTE BONAPARTIST UNQUOTE RPR WITH ITS QUOTE INSATIABLE GREED FOR POWER UNQUOTE FROM IMPOSING ITSELF ON THE COUNTRY.

(II) THE ELECTIONS: HE TEMPERED HIS CONFIDENCE IN A MITTERRAND VICTORY BY SAYING THAT IF THE TRICKLE OF SUPPORT AWAY FROM BARRE TO CHIRAC BECAME A FLOOD, THIS JUST MIGHT GENERATE ENOUGH MOMENTUM TO MAKE CHIRAC A SERIOUS THREAT IN THE SECOND ROUND. (THE LATEST POLLS SHOW CHIRAC OPENING A 4 OR 5 POINT LEAD OVER BARRE, BUT THEY CONTINUE TO POINT TO A COMFORTABLE MITTERRAND VICTORY OVER CHIRAC IN THE SECOND ROUND.)

(III) THE POST-ELECTION SCENE: HE THOUGHT THAT IF MITTERRAND WON, HE WAS UNLIKELY TO DISSOLVE THE NATIONAL ASSEMBLY IMMEDIATELY. INSTEAD HE WOULD LEAVE TIME FOR THE SOLVENT EFFECT OF DEFEAT TO WORK ON THE CURRENT UDF/RPR MAJORITY. BEREGOVY DID NOT BELIEVE THAT THAT

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MAJORITY WOULD IMMEDIATELY MOVE TO CENSURE A MODERATE GOVERNMENT PUT IN PLACE BY A NEWLY RE-ELECTED PRESIDENT (AS SOME IN THE RPR ARE THREATENING). ON THE CONTRARY HE EXPECTED SOME ON THE RIGHT TO AGREE TO JOIN SUCH A GOVERNMENT, IF NOT IMMEDIATELY THEN WITHIN A FEW MONTHS (THIS IS NOT IMPLAUSIBLE). HE ADDED HOWEVER THAT POLITICAL LOGIC DICTATED THAT WHOEVER WON, INCLUDING CHIRAC (DESPITE HIS PROTESTATIONS TO THE CONTRARY), WOULD DISSOLVE THE ASSEMBLY WITHIN 6 MONTHS TO A YEAR. HIS OWN GUESS WAS FOR NEW ELECTIONS THIS AUTUMN (I.E. IN SEPTEMBER).

3. GIVEN HIS CLOSENESS TO MITTERRAND, AND THE FACT THAT HE IS A FRONT RUNNER FOR THE PREMIERSHIP IF THE PRESIDENT IS RE-ELECTED, BEREGOVY'S ASSESSMENT IS OF CONSIDERABLE INTEREST. (IT IS AS CLOSE TO MITTERRAND'S AS WE SHALL GET.) I FIND THE ESSENCE OF HIS ANALYSIS PERSUASIVE, NAMELY THAT MITTERRAND WILL WIN A HARD BATTLE WITH CHIRAC, BUT WILL TRY TO DELAY A PARLIAMENTARY DISSOLUTION TO THE AUTUMN OR BEYOND. BUT THERE ARE STILL FIVE WEEKS TO GO, AND WE HAVE YET TO SEE WHAT EFFECT MITTERRAND'S FORMAL DECLARATION WILL HAVE. THE REAL BATTLE BETWEEN LEFT AND RIGHT IS ONLY JUST BEGINNING.

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OF 211202Z MARCH 88

INFO SAVINGS EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO
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MY SAVINGRAM 12 OF 16 MARCH: THE FRENCH PRESIDENTIAL ELECTIONS

SUMMARY

1. BALLADUR HAS SUGGESTED THAT THE UDF AND THE RPR SHOULD MERGE. THERE IS POLITICAL LOGIC BEHIND THIS PROPOSAL BUT ITS TIMING IS DESIGNED TO ADD TO BARRE'S DIFFICULTIES AND TO DESTABILISE THE UDF. CLEVER FOOTWORK BY THE RPR BUT, IN BEREGOVY'S VIEW (WHICH IS WIDELY SHARED), IT IS A MANOEUVRE WHICH IMPLIES THAT THE RPR EXPECTS THE RIGHT TO LOSE THE PRESIDENTIAL ELECTIONS.

DETAIL

2. THE BATTLE FOR DOMINANCE ON THE RIGHT HAS TAKEN A NEW TURN. ON 17 MARCH BALLADUR PUBLISHED AN ARTICLE IN LE MONDE ADVOCATING THAT, AFTER THE ELECTIONS, THE UDF AND RPR SHOULD MERGE TO FORM A SINGLE, LARGE PARTY. CLAIMING THAT THERE WERE FEW POLICY DIFFERENCES BETWEEN THE TWO GROUPINGS AND THAT THE DIVISION OF THE LIBERAL/CONSERVATIVE RIGHT INTO TWO BLOCKS WAS OF BENEFIT ONLY TO ITS OPPONENTS, HE SAID THE TIME HAD COME TO UNITE.

3. THE PROPOSAL HAS THE FORCE OF POLITICAL LOGIC. THE RIGHT'S INTERNAL DIVISION AND RIVALRIES FREQUENTLY MAKE FOR AN UNEDIFYING SPECTACLE WHICH ALIENATES THE VOTERS AND IS EXPLOITED BY THE SOCIALISTS (PS). THE FACT THAT ON THE OTHER SIDE OF THE POLITICAL DIVIDE THERE IS NOW ONLY ONE MAJOR POLE OF ATTRACTION ADDS TO THE WEIGHT OF THE ARGUMENT. THE COLLAPSE OF THE COMMUNIST PARTY HAS MADE THE SOCIALISTS DOMINANT ON THE LEFT (AND THE LARGEST PARTY IN FRANCE) AND BALLADUR MAY WELL BE CORRECT IN SAYING THAT THE RIGHT SHOULD REGROUP IF IT IS TO COUNTER THE PS TO BEST EFFECT.

4. WHILE THE SUGGESTION MAKES APPARENT POLITICAL SENSE, THE TIMING IS FAR FROM INNOCENT. BALLADUR'S IMMEDIATE PURPOSE IS TO EXACERBATE BARRE'S CURRENT ELECTORAL DIFFICULTIES. BY SUGGESTING A MERGER HE HOPES TO REINFORCE THE RPR'S CLAIMS TO BE THE CHAMPIONS OF UNITY, AND CHIRAC'S CLAIMS TO BE THE RIGHT'S NATURAL LEADER. THIS IS INTENDED TO CONTRAST WITH A BARRE WHO IS DISDAINFUL OF HIS UDF SUPPORTERS, MANY OF WHOM SHOW SIGNS OF BEING DEMORALISED BY HIS

PAGE 1
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LACKLUSTRE CAMPAIGN AND ARE QUARRELING AMONGST THEMSELVES. IN THE LONGER TERM, THE BALLADUR PROPOSAL IS DESIGNED AS THE FIRST STAGE IN WHAT AMOUNTS TO AN ATTEMPTED RPR TAKEOVER OF THE UDF. IMPLICIT IN IT IS THE CALCULATION THAT BARRE WILL LOSE IN THE FIRST ROUND OF THE ELECTIONS AND THAT THE UDF'S COMPONENT PARTIES WILL THEN HAVE TO RE-THINK THEIR FUTURE. THE RPR IS OFFERING A READY-MADE SOLUTION TO THEIR DILEMMA, NO DOUBT CONFIDENT THAT IT WOULD EASILY DOMINATE ANY ENLARGED GROUPING.

5. THE INITIAL REACTION OF THE UDF LEADERS TO THE PROPOSAL HAS BEEN TO REJECT IT. THE CENTRIST (BARRISTE) CDS HAS BEEN PREDICTABLY HOSTILE, INSISTING THAT THEIR POLITICAL VALUES ARE DISTINCT AND CANNOT BE CATERED FOR IN A SINGLE, MASS PARTY. LEOTARD'S PARTI REPUBLICAIN (PR) HAS ALSO BEEN DISMISSIVE BUT MORE ON THE GROUNDS THAT THE SUGGESTION IS ILL-TIMED, COMING FIVE WEEKS BEFORE THE ELECTIONS, THAN THAT ITS POLITICAL LOGIC IS NECESSARILY FAULTY. BALLADUR WILL BE UNSURPRISED BY THESE REACTIONS: INDEED HE WILL HAVE ANTICIPATED THEM AND WILL HOPE TO EXPLOIT THEM. THE CDS ARE NOW UNDER PRESSURE TO BALANCE THEIR REJECTION OF A MERGER WITH A REAFFIRMATION OF THEIR COMMITMENT TO THEIR CURRENT RIGHT-WING PARTNERS, A REAFFIRMATION WHICH COULD MAKE IT HARDER FOR A RE-ELECTED MITTERRAND TO TEMPT THEM INTO A SOCIALIST/CENTRIST COALITION. IF, HOWEVER, THE CDS REFUSE TO GIVE SUCH A COMMITMENT, IT WILL INCREASE THE STRAINS BETWEEN THEM AND THE PR WHO MIGHT BE WILLING TO DISCUSS A REALIGNMENT ON THE RIGHT AFTER THE ELECTIONS (AND ARE RUMOURED TO HAVE HAD SECRET DISCUSSIONS WITH THE RPR ABOUT THIS). SUCH PRESSURES MIGHT PROVE UNCONTAINABLE, LEADING TO THE BREAK-UP OF THE UDF AND LEAVING THE RPR DOMINANT ON THE RIGHT.

6. BALLADUR'S PROPOSAL IS THUS A CLEVER POLITICAL MOVE. IT ALLOWS THE RPR TO POSE AS THE CHAMPIONS OF RIGHT WING UNITY AT THE EXPENSE OF BARRE AND A DIVIDED UDF. AND AS THE RPR KNOW, THE IDEA MAY COME TO HAVE INCREASED ATTRACTIONS TO THOSE IN THE UDF NOW DENOUNCING IT, IF BARRE IS DEFEATED IN THE ELECTIONS. BUT AS A NUMBER OF COMMENTATORS HAVE POINTED OUT, THE FACT THAT THE RPR HAVE MADE THIS PROPOSAL NOW SUGGESTS THAT THEY DO NOT EXPECT THE RIGHT TO WIN THE PRESIDENTIAL ELECTIONS. IT IS A MANOEUVRE DESIGNED TO PRESS HOME CHIRAC'S CURRENT ADVANTAGE OVER BARRE SO THAT HE AND THE RPR WILL BE THE DOMINANT FORCE ON THE RIGHT AFTER 8 MAY.

7. THIS WAS CERTAINLY THE VIEW OF BEREGOVY (FORMER SOCIALIST FINANCE MINISTER) WHEN HE DINED WITH ME ON 18 MARCH. HE ARGUED THAT IF CHIRAC WAS EXPECTING TO WIN, HE WOULD HAVE KEPT THIS PROPOSAL UNTIL AFTER THE ELECTIONS: IT WAS BECAUSE HE DID NOT THAT HE HAD

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LAUNCHED BALLADUR. HIS AIM WAS TO INCREASE THE PRESSURE ON BARRE BEFORE THE ELECTIONS, BUT ALSO TO COUNTER A POSSIBLE THREAT FROM GISCARD AFTER THEM. THE LATTER, WHO WOULD LIKE TO RECLAIM THE LEADERSHIP OF THE RIGHT, HAS LONG ADVOCATED THE NEED FOR UNITY. CHIRAC HAS STOLEN HIS CLOTHES AND WILL BE BETTER ABLE TO RESIST A RESURGENT GISCARD IF HE LOSES ON 8 MAY, BLAMING HIS DEFEAT ON THAT LACK OF UNITY FOR WHICH BALLADUR IS NOW CALLING.

8. OTHER POINTS MADE BY BEREGOVY ARE REPORTED IN MIFT.

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MY SAVING TELNO 12 OF 16 MARCH :

THE FRENCH PRESIDENTIAL ELECTIONS : THE MITTERRAND SCENARIO

SUMMARY

1. Mitterrand's personal popularity is not the only reason that many on both Left and Right judge that he is well placed to secure re-election: the political arithmetic points the same way. If he does win, he may well avoid an immediate dissolution of the National Assembly, instead constructing a Centre-Left government with the Right wing of the Socialist party, non-political figures, and some members of the present Majority. Bérégovoy, Rocard, Delors or even Giscard might lead such a government. Dissolution might follow once the electorate was accustomed to the idea of Centre-Left government but probably with the aim of consolidating the formula, rather than replacing it with a Socialist alternative. Barre's and Chirac's prospects will be assessed separately.

DETAIL

2. Speculation on both Left and Right about a Mitterrand victory (my Savingram under reference), is in part prompted by his popularity ratings in the polls. With a score of around 60%, Mitterrand is now as popular as at any time in his septennat. But it is not just this popularity which leads many to conclude that, when he begins his campaign later this week, he will start favourite for a second term: it is also electoral arithmetic.

3. At present the polls suggest a first round result along the following lines:

Mitterrand (Socialist)	36-38%
Chirac (RPR)	21-23%
Barre (UDF)	18-20%
Le Pen (Front National)	9-10%
Lajoinie (Communist)	5- 7%
Juquin (Dissident Communist)	2- 3%
Laguiller (Trotskyist)	1- 2%
Waechter (Ecologist)	1- 2%

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These figures give Mitterrand a commanding first round lead, indicating that he will need to pick up 12-15% to secure victory in the second round. By contrast, Chirac or Barre on present showing will have to do better than double their first round scores, if one of them is to capture the Elysée in the second round. This is not impossible but it is a tall order.

4. Mitterrand can hope to obtain the additional 12-15% he will need for victory in the second round from a number of sources:

- the Communists: he is likely to attract about 80% of Lajoinie's first round total and most of Juquin's, ie 7-8% of the vote;
- Trotskyist: most of Laguiller's votes will probably move to Mitterrand, perhaps giving him an additional 1.5% in the second round;
- Ecologists: Waechter's supporters are likely to switch in high proportion to Mitterrand, perhaps worth 1% of the second round vote;
- The Right: if Barre loses in the first round, Mitterrand might attract 15-20% of his voters in the second: Mitterrand has been busy burnishing a Centrist/European image with this in mind. This could bring him an extra 3-4% nationally. There will also be some who voted for Barre in the first round who will abstain in the second, rather than support Chirac. This will also help Mitterrand. If Barre rather than Chirac is Mitterrand's second round opponent, there will be a similar pattern of defections and abstentions, although the numbers involved will probably be smaller, ie only 5-10% of Chirac's first round voters seem likely to take refuge in abstention and only 5% to switch to Mitterrand;
- Le Pen: about 25% of Le Pen's voters seem likely to switch to Mitterrand (particularly if his second round challenger is the Gaullist Chirac), with 25% abstaining and 50% voting for the candidate of the Right. This could be worth a further 2% to Mitterrand.

When these additional votes from defeated first round candidates are added to Mitterrand's score, they give him between 50.5% and 54.5% of the vote: the difference between a narrow victory and what would be a near landslide in French terms, but victory in either case.

5. These projections need to be treated with caution, particularly since more than 40% of the electorate are said by the polls to claim that they have still to make up their minds which way they will definitely vote. Nevertheless, the arithmetic has been weighing sufficiently heavily with la classe politique to prompt lively speculation on both Left and Right about what Mitterrand would do in the event of victory.

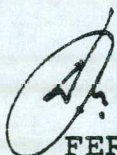
/6. Many

6. Many in the Socialist Party (PS), particularly on the Left, hope Mitterrand would dissolve the National Assembly and call new parliamentary elections immediately, as he did in 1981: the greater the margin of victory, the greater this pressure would be. But Mitterrand might well resist. Unlike 1981, he intends to fight this election from the Centre ground, and to govern from the Centre-Left if he is re-elected. This would be easier to do if his own Socialist party were obliged to co-operate with moderate, non-Socialist forces in parliament, rather than if it obtained a majority in the Assembly after early legislative elections called to capitalise on a Mitterrand victory. (An outright Socialist majority, though it looks unlikely at this point, would not be beyond the bounds of possibility in such circumstances: ironically the Chirac government's reintroduction in 1986 of majority voting over two rounds means that the PS might secure a majority of seats with 39-40% of the vote, only marginally more than the polls suggest Mitterrand will win in the first round of the presidential elections.)

7. Assuming Mitterrand did decide against immediate dissolution, he would be likely to try to build a government around the Right wing of the PS, perhaps choosing Bérégovoy, Rocard, Delors or Bianco as his «moderate» Prime Minister. He might also offer jobs to independent, non-political figures, while at the same time inviting some members of the present majority (particularly but not exclusively in the CDS) to join him in what he might call a «government for progress». Many would be tempted; and some might succumb. This worries the RPR, who are now trying to minimise the risk with proposals for a joint UDF/RPR Confederation (my telno 298 of 21 March) which they hope would prevent Centre-Right defections and deny Mitterrand the chance to construct such a coalition. It seems unlikely however that the idea of confederation would prosper in the immediate aftermath of defeat: the prospect is rather for a demoralised and disorientated Right which Mitterrand would find relatively easy to exploit. (One possibility which cannot be wholly dismissed is that Mitterrand would offer the Premiership to Giscard in the hope that, if he accepted, it would lead to the collapse of co-operation between UDF and RPR.)

8. Mitterrand's immediate aim in establishing such a coalition would be that it should survive the summer, so establishing the idea of a Centre-Left administration in the voters' minds, and getting the PS accustomed to the idea of co-operating with non-Socialists. Given that there is a strong urge for stability among the public at large, he would hope to throw the blame for bringing down such a government onto the opposition. Thereafter, as Bérégovoy has suggested (my telno 299 of 21 March), Mitterrand might look to a dissolution of the Assembly in the autumn (ie September) or spring 1989. But his purpose would probably be to consolidate the existence and authority of a Centre-Left government rather than to engineer a return to a PS administration and polarised politics. Some of those close to him believe that one of his foremost hopes for a second septennat is to promote wide national consensus, uniting a majority of voters around France's elusive Centre. Having accustomed the French to the idea of Socialists in government in 1981, and having steered the country successfully through cohabitation since 1986, it would make for a notable political hat-trick.

9. I shall consider the political arithmetic as far as it affects Barre and Chirac, and the prospects if either wins, in a separate savingram.



FERGUSSON

DISTRIBUTION.

EUROPEAN POLITICAL

WED

SAVING TELEGRAM

FROM PARIS

CONFIDENTIAL

TO FCO TELNO SAVING 15 OF 23 MARCH 1988

SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDel NATO, HMCGs IN FRANCE

MY SAVING TELEGRAM N° 14 OF 22 MARCH :

THE FRENCH PRESIDENTIAL ELECTIONS : THE RIGHT

SUMMARY

1. The polls make depressing reading for the Right. Chirac is trying to undermine Mitterrand and boost his own popularity by painting the President and the Socialists in lurid ideological colours; by posing as a rassembleur; and by wooing Le Pen's electorate. No sign so far that this will attract enough votes for a second round victory. Barre's chances in the second round might be marginally better than Chirac's, but the latest polls suggest that he is unlikely to progress beyond the first round. A Barre victory would lead to immediate parliamentary elections. In contrast, Chirac has said he will not dissolve the Assembly if he wins, although the temptation to do so will be strong. The political arithmetic means that Mitterrand starts his formal campaign favourite for re-election. If the Right are to stop him they must look to their own precarious unity; but they will also have to persuade some of those now committed to Mitterrand to move from Left to Right.

DETAIL

2. The current levels of popular support indicated by the opinion polls make depressing reading for the Barre and Chirac camps on several counts. They show that Mitterrand's level of support has remained high and relatively stable; that Le Pen's appeal remains constant at about 10%; and that, irrespective of whether Chirac is ahead of Barre or vice versa, the combined total of their first round vote (between 40-44%) is well short of the 50.1% needed for victory in the second round. Only the relatively large proportion of voters said to be uncommitted (around 40% in current polling) gives them grounds for hope.

3. The main preoccupation of Chirac and Barre in the last two months has been with the first round of the elections, when one will eliminate the other. It is only recently, with the potentially decisive 4-5 point gap that Chirac has opened over his rival, that his supporters have begun addressing the problem of how to put together sufficient votes to defeat Mitterrand in the second round and capture the presidency.

4. The Chirac team have adopted a three pronged strategy:-

- (i) they have tried to polarise the election along Left/Right lines, reminding the voters of the full-blooded Socialism of the 1981-83 period and asserting that neither Mitterrand nor the Socialist Party (PS) has

/changed.

changed. Their aim is to frighten supporters away from Mitterrand into the Chirac camp;

- (ii) they have insisted that Chirac is the natural leader and rassembleur of the Right, as his role as Prime Minister since 1986 demonstrates. They also claim that there are no policy differences between Chirac and Barre (which the increasingly irate Barristes attribute to the fact that as soon as Barre advances a proposition, Chirac hijacks it and presents it as his own). The Chirac camp's aim is to make Barre seem an irrelevant distraction to the battle with a Left painted in lurid ideological colours, so sapping his support in the first round and ensuring that his voters move en bloc behind Chirac in the second;
- (iii) they have been trying to attract Le Pen supporters into the Chirac fold. Chirac, Pasqua and others have been making some tough noises about immigration and race relations, while warning that a vote for Le Pen is wasted and risks helping Mitterrand back into the Elysée.

5. At present none of these lines of attack shows signs of shifting voters in decisive numbers towards Chirac. The popular view is that both Mitterrand and the PS have moved sharply away from the ideological socialism of the early years of the septennat, and there has so far been correspondingly little inclination to accept RPR scare stories. As for Chirac as the Right's natural rassembleur, this may have siphoned off some of Barre's less committed supporters, but it has also greatly irritated a significant number of Barre's convinced loyalists, and may make them more inclined to abstain, or even vote for Mitterrand, rather than rally to Chirac in the second round (they find the rassembleur image difficult to swallow against the background of Chirac's abandoning of Chaban in 1974 and Giscard in 1981). Le Pen's supporters too have shown themselves largely immune to RPR arguments. They remain doubtful about Chirac's attitude to immigration, despite his recent tough talk, and about his approach to law and order. While they admire Pasqua, they recall that Chirac is opposed to the death penalty. It also takes more than a few fine phrases to overcome their long-standing distrust of the Gaullists, which goes back to de Gaulle's «betrayal» of Algeria.

6. For Chirac therefore, who will have to double the 24-26% he may win in the first round, the electoral arithmetic looks highly problematic. If he secures 75% of Barre's first round support, this may be worth 14-15% to him in the second round. If he attracts 50-60% of Le Pen's first round vote this will give him another 5-6%. But the combined total only amounts to about 46-47%, which would allow Mitterrand a convincing victory. Only if Chirac can secure the near total support of Barre's and Le Pen's first round electors can he be confident of winning, something that would require a substantial shift in opinion in the weeks ahead.

7. If Barre can get there, the second round looks marginally easier for him than it does for Chirac. (At present however the polls suggest that he will be eliminated in the first round.)

/Assuming

Assuming that he emerged as the Right's champion with 24-26%, Barre would follow the mirror image of the Chirac strategy outlined above, beginning with an appeal to those who had supported Chirac and Le Pen in the first round. Chirac's supporters seem readier to switch to Barre than Barre's to Chirac, and Barre provokes less animosity among Front National supporters than Chirac, not least because he is not identified so closely by them with Gaullism. He might therefore collect 90% of Chirac's vote, worth perhaps 15-16% in the second round, and 60-70% of Le Pen's vote worth perhaps another 6-7%. Unlike Chirac, however, Barre might also take votes directly from Mitterrand if, between the two rounds, he could persuade some who opted hesitantly for a Centre-Left Mitterrand in the first to switch to a Centre-Right Barre in the second. If he managed a 2-3% switch of this kind, he might just reach the Elysée.

8. Barre and Chirac differ about what they would do in the event of victory. Barre says he would dissolve the Assembly and ask the country for a UDF-RPR majority with which he could govern for five years. The electorate would probably, but not certainly, give it to him. His administration would be composed of figures from the present Right-wing majority, but he would probably offer jobs to some outside politics, and perhaps to Right-wing Socialists (though whether any of the latter would accept is a moot point). Front runners for Matignon under Barre are currently François-Poncet and Méhaignerie.

9. If Chirac won he has said that he would not dissolve the Assembly, but would allow it to run its full term until 1991. He might keep his word, but the pressures on him to dissolve would be intense. The RPR would want to cash in on its victory to increase its parliamentary representation, for which the ground was carefully prepared with the reintroduction in late 1986 of majority voting over two rounds. (With proportional representation abolished, many of the Front National's thirty-two seats would be likely to go to the RPR.) Chirac might decide to compromise, avoiding an early dissolution but finding a pretext within six months to a year for holding new elections (which is what many, including some in his own party, expect). There are a number of possibles for Matignon in the event of a Chirac victory: Balladur, Pasqua and Jerome Monod (a former Secretary-General of the RPR) are among them. The job might also go to someone in the UDF if Chirac felt the need to cement the Majority after a bruising election battle.


CONCLUSION

10. The UDF and RPR have been insisting throughout this campaign that there is now a Right-wing majority in France, and that either Barre or Chirac should therefore emerge victorious. But their claim is faulty on two counts: the first is the assumption that Le Pen's supporters identify with the Right. A majority probably do, but a significant minority do not. Le Pen's electorate should more properly be consigned to a special unpredictable and extremist category, rather than seen as the natural second round supporters of Barre or Chirac. The second error is to suppose that Barre's and Chirac's sympathisers can be added together to give a clear indication of the level of Right-wing support. The antagonisms and rivalries that bedevil relations within and between the

/UDF

UDF and RPR make this far too simple. A proportion of Barristes is so hostile to Chirac that they would rather Mitterrand won again than that Chirac should capture the Elysée: a minority of Chiraquiens feel the same way about Barre. This is a considerable handicap to the Right, and one which may become more severe if bitterness between the Barre and Chirac camps grows during the course of the campaign, as it has shown signs of doing.

11. The current electoral arithmetic thus makes Mitterrand favourite for re-election. He starts from a higher base of popularity, and has greater scope for attracting second round votes. If the Right are to stop him, Barristes and Chiraquiens certainly need to make common cause in the second round, and persuade as many Front National supporters as possible to join them. But this is unlikely to be enough: they will also have the difficult task of persuading a proportion of those now committed to Mitterrand to move from Left to Right. Only if they succeed is Chirac or Barre likely to win the presidential elections.


BERGUSSON

EUROPEAN POLITICAL 2-9

WED

CONFIDENTIAL

From: Sir G.Littler
Date: 24 March 1988

MR ALEX ALLAN

*Thanks.
Norm.*

*Ch / See also latest
tel. from Paris (Haggard).*

*JR
24/3*

c.c. Economic Secretary
Sir P.Middleton
Mr Lankester
Mr Edwards
Mr Peretz
Mr Huw Evans

PIERRE BEREGOVOY

As it is by no means impossible that Beregovoy could turn up again as French Finance Minister if the elections lead to a Socialist government, the Chancellor may like to see the attached letter from Michael Jay at our Paris Embassy, and two telegrams.

2. Beregovoy's comments (reported in the letter) on sterling, ERM and capital liberalisation are not new ideas: they are much what I would expect almost any interested Frenchman to say. His comments on the political scene (first telegram) and the separate notes on progress of the Chirac campaign (second telegram) are of more interest.



(Geoffrey Littler)



BRITISH EMBASSY

35, rue du Faubourg Saint-Honoré - 75383 Paris Cedex 08

Telephone : 42 66 91 42

Sir Geoffrey Littler KCB
HM Treasury

Your reference

Our reference

Date 22 March 1988

Dear Geoffray.

BEREGEVOY ON EUROPEAN MONETARY CONSTRUCTION

1. You may have seen the telegrams which the Embassy sent after the dinner the Ambassador gave on 19 March for Pierre Bérégevoy. (In case not, I attach copies). Bérégevoy was, of course, Finance Minister from 1984 until the socialists lost power at the time of the spring 1986 legislative elections. He is regarded as one of the front runners to be Prime Minister if Mitterrand wins the Presidential elections this spring, but could also see himself back as Finance Minister if Mitterrand chooses someone else as Prime Minister.

2. During the dinner, Bérégevoy had a longish chat with the Ambassador, deliberately not recorded in the telegrams, about financial and monetary issues. Bérégevoy said that there was now an irreversible tide flowing in the direction of closer European monetary union. As we all moved towards a single market, with the reduction or removal of barriers to financial transactions, and freer capital movements, there would have to be moves towards a common currency - or at least greater use of the ECU - accompanied by some institutional development and perhaps by a European Central Bank. In his view, sterling's participation in the ERM, as this process developed, was highly desirable as a counterweight to the DM. He said that he well understood the arguments for and against - and the line up in London on them - and did not underestimate the problems over sterling's participation. He thought, however, that our concerns could be met by an acceptance of wider bands. Furthermore, if we continued to be reserved about membership of the ERM, he did not see that we would be able to make the progress we wanted on the issues - capital liberalisation, liberalisation of financial services - that mattered to us.

/3.



3. Finally, Bérégevoy said that he would be glad if his remarks could be passed to the Chancellor.

4. I am copying this to Huw Evans, in case it arrives while you are out of the country, to Anthony Loehnis at the Bank of England and to Rodric Braithwaite (FCO). Perhaps I could leave it to you to decide whether it should go elsewhere.

*Yours sincerely,
Michael Jay*

M H Jay

CONFIDENTIAL

FM PARIS

TO PRIORITY FCO

TELNO 299

OF 211244Z MARCH 88

INFO SAVING EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO, CGS IN FRANCE

CONFIDENTIAL

OUTWARD

MIPT: THE FRENCH PRESIDENTIAL ELECTIONS.

SUMMARY

1. BEREGOVY TELLS ME THAT MITTERRAND WILL ANNOUNCE HIS DECISION TO STAND AGAIN LATER THIS WEEK. HE INSISTS THAT MITTERRAND'S DECISION IS A RELUCTANT ONE, BUT THAT HE HAS CONCLUDED THAT ONLY HE CAN BAR THE ROUTE TO CHIRAC AND THE RPR. BEREGOVY EXPECTS MITTERRAND TO WIN AFTER A HARD FIGHT WITH CHIRAC, BUT TO AVOID DISSOLVING PARLIAMENT BEFORE THE AUTUMN AT THE EARLIEST.

DETAIL

2. BEREGOVY (PS-FORMER FINANCE MINISTER) DINED WITH ME ON 18 MARCH. APART FROM COMMENTING ON BALLADUR'S UDF/RPR MERGER INITIATIVE (MIPT), HE RANGED WIDELY OVER THE POLITICAL SCENE:

(I) MITTERRAND: HE LEFT NO DOUBT THAT THE PRESIDENT WILL RUN AGAIN AND CONFIRMED THAT THE ANNOUNCEMENT WILL BE THIS WEEK (BEREGOVY WILL BE CAMPAIGN MANAGER.) MITTERRAND HAD BEEN GENUINELY RELUCTANT TO STAND, AND DID NOT RELISH THE PROSPECT OF ANOTHER ELECTION CAMPAIGN, BUT HE HAD CONCLUDED THAT ONLY HE COULD PREVENT CHIRAC FROM WINNING, AND THE QUOTE BONAPARTIST UNQUOTE RPR WITH ITS QUOTE INSATIABLE GREED FOR POWER UNQUOTE FROM IMPOSING ITSELF ON THE COUNTRY.

(II) THE ELECTIONS: HE TEMPERED HIS CONFIDENCE IN A MITTERRAND VICTORY BY SAYING THAT IF THE TRICKLE OF SUPPORT AWAY FROM BARRE TO CHIRAC BECAME A FLOOD, THIS JUST MIGHT GENERATE ENOUGH MOMENTUM TO MAKE CHIRAC A SERIOUS THREAT IN THE SECOND ROUND. (THE LATEST POLLS SHOW CHIRAC OPENING A 4 OR 5 POINT LEAD OVER BARRE, BUT THEY CONTINUE TO POINT TO A COMFORTABLE MITTERRAND VICTORY OVER CHIRAC IN THE SECOND ROUND.)

(III) THE POST-ELECTION SCENE: HE THOUGHT THAT IF MITTERRAND WON, HE WAS UNLIKELY TO DISSOLVE THE NATIONAL ASSEMBLY IMMEDIATELY. INSTEAD HE WOULD LEAVE TIME FOR THE SOLVENT EFFECT OF DEFEAT TO WORK ON THE CURRENT UDF/RPR MAJORITY. BEREGOVY DID NOT BELIEVE THAT THAT MAJORITY WOULD IMMEDIATELY MOVE TO CENSURE A MODERATE GOVERNMENT PUT IN PLACE BY A NEWLY RE-ELECTED PRESIDENT (AS SOME IN THE RPR ARE THREATENING). ON THE CONTRARY HE EXPECTED SOME ON THE RIGHT TO AGREE TO JOIN SUCH A GOVERNMENT, IF NOT IMMEDIATELY THEN WITHIN A FEW MONTHS (THIS IS NOT IMPLAUSIBLE). HE ADDED HOWEVER THAT POLITICAL LOGIC DICTATED THAT WHOEVER WON, INCLUDING CHIRAC (DESPITE HIS PROTESTATIONS TO THE CONTRARY), WOULD DISSOLVE THE ASSEMBLY WITHIN 6 MONTHS TO A YEAR. HIS OWN GUESS WAS FOR NEW ELECTIONS THIS AUTUMN (I.E. IN SEPTEMBER).

3. GIVEN HIS CLOSENESS TO MITTERRAND, AND THE FACT THAT HE IS A FRONT RUNNER FOR THE PREMIERSHIP IF THE PRESIDENT IS RE-ELECTED, BEREGOVY'S ASSESSMENT IS OF CONSIDERABLE INTEREST. (IT IS AS CLOSE TO MITTERRAND'S AS WE SHALL GET.) I FIND THE ESSENCE OF HIS ANALYSIS PERSUASIVE, NAMELY THAT MITTERRAND WILL WIN A HARD BATTLE WITH CHIRAC, BUT WILL TRY TO DELAY A PARLIAMENTARY DISSOLUTION TO THE AUTUMN OR BEYOND. BUT THERE ARE STILL FIVE WEEKS TO GO, AND WE HAVE YET TO SEE WHAT EFFECT MITTERRAND'S FORMAL DECLARATION WILL HAVE. THE REAL BATTLE BETWEEN LEFT AND RIGHT IS ONLY JUST BEGINNING.

FERGUSSON

MASTER FILE

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FM PARIS

TO PRIORITY FCO

TELNO 298

OF 211202Z MARCH 88

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INFO SAVINGS CONSULS GENERAL IN FRANCE

CONFIDENTIAL
OUTWARD

MY SAVINGRAM 12 OF 16 MARCH: THE FRENCH PRESIDENTIAL ELECTIONS

SUMMARY

1. BALLADUR HAS SUGGESTED THAT THE UDF AND THE RPR SHOULD MERGE. THERE IS POLITICAL LOGIC BEHIND THIS PROPOSAL BUT ITS TIMING IS DESIGNED TO ADD TO BARRE'S DIFFICULTIES AND TO DESTABILISE THE UDF. CLEVER FOOTWORK BY THE RPR BUT, IN BEREGOVY'S VIEW (WHICH IS WIDELY SHARED), IT IS A MANOEUVRE WHICH IMPLIES THAT THE RPR EXPECTS THE RIGHT TO LOSE THE PRESIDENTIAL ELECTIONS.

DETAIL

2. THE BATTLE FOR DOMINANCE ON THE RIGHT HAS TAKEN A NEW TURN. ON 17 MARCH BALLADUR PUBLISHED AN ARTICLE IN LE MONDE ADVOCATING THAT, AFTER THE ELECTIONS, THE UDF AND RPR SHOULD MERGE TO FORM A SINGLE, LARGE PARTY. CLAIMING THAT THERE WERE FEW POLICY DIFFERENCES BETWEEN THE TWO GROUPINGS AND THAT THE DIVISION OF THE LIBERAL/CONSERVATIVE RIGHT INTO TWO BLOCKS WAS OF BENEFIT ONLY TO ITS OPPONENTS, HE SAID THE TIME HAD COME TO UNITE.

3. THE PROPOSAL HAS THE FORCE OF POLITICAL LOGIC. THE RIGHT'S INTERNAL DIVISION AND RIVALRIES FREQUENTLY MAKE FOR AN UNEDIFYING SPECTACLE WHICH ALIENATES THE VOTERS AND IS EXPLOITED BY THE SOCIALISTS (PS). THE FACT THAT ON THE OTHER SIDE OF THE POLITICAL DIVIDE THERE IS NOW ONLY ONE MAJOR POLE OF ATTRACTION ADDS TO THE WEIGHT OF THE ARGUMENT. THE COLLAPSE OF THE COMMUNIST PARTY HAS MADE THE SOCIALISTS DOMINANT ON THE LEFT (AND THE LARGEST PARTY IN FRANCE) AND BALLADUR MAY WELL BE CORRECT IN SAYING THAT THE RIGHT SHOULD REGROUP IF IT IS TO COUNTER THE PS TO BEST EFFECT.

4. WHILE THE SUGGESTION MAKES APPARENT POLITICAL SENSE, THE TIMING IS FAR FROM INNOCENT. BALLADUR'S IMMEDIATE PURPOSE IS TO EXACERBATE BARRE'S CURRENT ELECTORAL DIFFICULTIES. BY SUGGESTING A MERGER HE HOPES TO REINFORCE THE RPR'S CLAIMS TO BE THE CHAMPIONS OF UNITY, AND CHIRAC'S CLAIMS TO BE THE RIGHT'S NATURAL LEADER. THIS IS INTENDED TO CONTRAST WITH A BARRE WHO IS DISDAINFUL OF HIS UDF SUPPORTERS, MANY OF WHOM SHOW SIGNS OF BEING DEMORALISED BY HIS LACKLUSTRE CAMPAIGN AND ARE QUARRELING AMONGST THEMSELVES. IN THE LONGER TERM, THE BALLADUR PROPOSAL IS DESIGNED AS THE FIRST STAGE IN WHAT AMOUNTS TO AN ATTEMPTED RPR TAKEOVER OF THE UDF. IMPLICIT IN IT IS THE CALCULATION THAT BARRE WILL LOSE IN THE FIRST ROUND OF THE ELECTIONS AND THAT THE UDF'S COMPONENT PARTIES WILL THEN HAVE TO RE-THINK THEIR FUTURE. THE RPR IS OFFERING A READY-MADE SOLUTION TO THEIR DILEMMA, NO DOUBT CONFIDENT THAT IT WOULD EASILY DOMINATE ANY ENLARGED GROUPING.

5. THE INITIAL REACTION OF THE UDF LEADERS TO THE PROPOSAL HAS BEEN TO REJECT IT. THE CENTRIST (BARRISTE) CDS HAS BEEN PREDICTABLY HOSTILE, INSISTING THAT THEIR POLITICAL VALUES ARE DISTINCT AND CANNOT BE CATERED FOR IN A SINGLE, MASS PARTY. LEOTARD'S PARTI REPUBLICAIN (PR) HAS ALSO BEEN DISMISSIVE BUT MORE ON THE GROUNDS THAT THE SUGGESTION IS ILL-TIMED, COMING FIVE WEEKS BEFORE THE ELECTIONS, THAN THAT ITS POLITICAL LOGIC IS NECESSARILY FAULTY. BALLADUR WILL BE UNSURPRISED BY THESE REACTIONS: INDEED HE WILL HAVE ANTICIPATED THEM AND WILL HOPE TO EXPLOIT THEM. THE CDS ARE NOW UNDER PRESSURE TO BALANCE THEIR REJECTION OF A MERGER WITH A REAFFIRMATION OF THEIR COMMITMENT TO THEIR CURRENT RIGHT-WING PARTNERS, A REAFFIRMATION WHICH COULD MAKE IT HARDER FOR A RE-ELECTED MITTERRAND TO TEMPT THEM INTO A SOCIALIST/CENTRIST COALITION. IF, HOWEVER, THE CDS REFUSE TO GIVE SUCH A COMMITMENT, IT WILL INCREASE THE STRAINS BETWEEN THEM AND THE PR WHO MIGHT BE WILLING TO DISCUSS A REALIGNMENT ON THE RIGHT AFTER THE ELECTIONS (AND ARE RUMOURED TO HAVE HAD SECRET DISCUSSIONS WITH THE RPR ABOUT THIS). SUCH PRESSURES MIGHT PROVE UNCONTAINABLE, LEADING TO THE BREAK-UP OF THE UDF AND LEAVING THE RPR DOMINANT ON THE RIGHT.

6. BALLADUR'S PROPOSAL IS THUS A CLEVER POLITICAL MOVE. IT ALLOWS THE RPR TO POSE AS THE CHAMPIONS OF RIGHT WING UNITY AT THE EXPENSE OF BARRE AND A DIVIDED UDF. AND AS THE RPR KNOW, THE IDEA MAY COME TO HAVE INCREASED ATTRACTIONS TO THOSE IN THE UDF NOW DENOUNCING IT, IF BARRE IS DEFEATED IN THE ELECTIONS. BUT AS A NUMBER OF COMMENTATORS HAVE POINTED OUT, THE FACT THAT THE RPR HAVE MADE THIS PROPOSAL NOW SUGGESTS THAT THEY DO NOT EXPECT THE RIGHT TO WIN THE PRESIDENTIAL ELECTIONS. IT IS A MANOEUVRE DESIGNED TO PRESS HOME CHIRAC'S CURRENT ADVANTAGE OVER BARRE SO THAT HE AND THE RPR WILL BE THE DOMINANT FORCE ON THE RIGHT AFTER 8 MAY.

7. THIS WAS CERTAINLY THE VIEW OF BEREGOVY (FORMER SOCIALIST FINANCE MINISTER) WHEN HE DINED WITH ME ON 18 MARCH. HE ARGUED THAT IF CHIRAC WAS EXPECTING TO WIN, HE WOULD HAVE KEPT THIS PROPOSAL UNTIL AFTER THE ELECTIONS: IT WAS BECAUSE HE DID NOT THAT HE HAD LAUNCHED BALLADUR. HIS AIM WAS TO INCREASE THE PRESSURE ON BARRE BEFORE THE ELECTIONS, BUT ALSO TO COUNTER A POSSIBLE THREAT FROM GISCARD AFTER THEM. THE LATTER, WHO WOULD LIKE TO RECLAIM THE LEADERSHIP OF THE RIGHT, HAS LONG ADVOCATED THE NEED FOR UNITY. CHIRAC HAS STOLEN HIS CLOTHES AND WILL BE BETTER ABLE TO RESIST A RESURGENT GISCARD IF HE LOSES ON 8 MAY, BLAMING HIS DEFEAT ON THAT LACK OF UNITY FOR WHICH BALLADUR IS NOW CALLING.

8. OTHER POINTS MADE BY BEREGOVY ARE REPORTED IN MIFT.

FERGUSSON

YYYY
FCO PASS SAVING EXCEPT CG'S IN FRANCE

PCLNAN 5118

NNNN



FROM: J M G TAYLOR
DATE: 28 March 1988

A handwritten signature in blue ink, appearing to be 'JMG'.

SIR G LITTLER

cc PS/Economic Secretary
Sir P Middleton
Mr Lankester
Mr Edwards
Mr Peretz
Mr H Evans

PIERRE BEREGOVY

The Chancellor was grateful for your note of 24 March, the contents of which he has noted.

A handwritten signature in blue ink, appearing to be 'JMG'.

J M G TAYLOR



BRITISH EMBASSY

35, rue du Faubourg Saint-Honoré - 75383 Paris Cedex 08

Telephone : 42 66 91 42

Miss Moira Wallace
HM Treasury
Parliament Street
London SW1

Your reference

Our reference

Date 31 March 1988

Ch / more golden words!

*cc Mr RIG Allen
Mr H Bush*

upon 5/4

Dear Miss Wallace,

Thurs

FRENCH REPORTING ON THE BRITISH ECONOMY

1. I have sent you a number of very positive French press reports about the Budget, some of which commented favourably on the British economy more generally. This follows other articles from the French press which we have sent to the Treasury over the last few months.

2. I now attach two more striking examples of favourable French reporting of the British economy:

i. the text of remarks made by a journalist from Le Point on 22 March on an influential morning radio programme which has something of the characteristics of the Today programme. It is unusual to hear such positive remarks about any foreign country on the French radio

ii. an article in the influential fortnightly economic journal 'l'Expansion', which awards Britain top prize for economic management after a survey of the British, French, American and German economies under present management, with an emphasis on their commitment to free market forces. (And this is despite taking 1979 as the base year.)

3. There are, of course, less positive things said too about the economy, stressing, for example, the risk of overheating and the deteriorating trade balance. But the two articles attached, plus the reports I have already sent you on the budget, show that the improvement in British economic performance in the last few years is sinking well into the consciousness of French opinion formers.

Yours sincerely

Peter Jenkins

cc: S J Matthews, HM Treasury
News Dept, FCO

PP. M H Jay
Counsellor (Financial & Commercial)

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22 mars 1988

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On est injuste avec les journalistes :
il y en a de bons. Ainsi l'anglais
Nigel Lawson qui a quitté la presse pour
devenir ministre des Finances de Sa
Majesté britannique. Il vient de
présenter un budget époustouflant et de
faire baisser drastiquement l'impôt sur
le revenu. La livre remonte, l'industrie
anglaise renaît, le chômage baisse. Bref,
la verte Albion reverdit.

Il y a trois leçons à tirer de ce
retour en forme. La première, c'est la
vertu d'un diagnostic courageux. Quand il
y a quelques années, l'Angleterre
descendait la pente, sa classe politique
n'a pas poussé, comme le fait toute la
classe politique française, des cris
indignés de vieille femme pour nier la
réalité de son ^{de crise/} ~~stagnation~~. Elle voyait
le déclin, et elle disait le déclin.

Seconde leçon : l'Angleterre, dans
cette extrémité où elle se trouvait, n'a
pas choisi la mollesse oecuménique de la
cohabitation. Elle a donné le pouvoir à
Mme Thatcher, Dame de fer qui ne fait pas
dans la dentelle, le nègre-blanc et le
chèvre-chou. Sa médecine de cheval lui a
d'ailleurs valu plusieurs tempêtes
d'extrême impopularité. Mais elle les a
bravées avec le caractère et la constance

chef serv.	
éd. chef	
maquette	
correct.	
sec. éd.	

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dans l'adversité qui sont les plus fortes
vertus de sa race. Et, peut-être, qui
sait ? de son sexe.

Troisième leçon : la cure libérale à
la Thatcher n'est ^{sans doute} ~~vertueuse~~ pas une
panacée pour les temps de vaches grasses
mais elle est certainement indiquée
lorsqu'il faut se sortir du précipice.

L'Angleterre n'est pas la France. Mais, ^{un peu non,}
vous ne trouvez pas que nos candidats
devraient tout de même gamberger sur ce
joli cas d'école ?

C(7e C)

PREMIER JOURNAL ÉCONOMIQUE FRANÇAIS

1/14 AVRIL 1988/22

L'Expansion

JACQUES CHIRAC: "TOUT ME SÉPARE DE MITTERRAND"

ENTRETIEN Page 17



LE QUARTÉ DES LIBÉRAUX



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●Page 50



Groupe Expansion

●Thatcher●Reagan●Kohl●Chirac●
Qui gère le mieux l'économie ?

LES POLITIQUES LIBERALES AU BANC D'ESSAI

EN BREF Remarquable unanimité : aujourd'hui, tous les dirigeants des grands pays occidentaux se proclament libéraux. Pourtant, leurs politiques ne se ressemblent guère ; ainsi, la gestion reaganienne n'est en fait pas conservatrice, et celle du chancelier Kohl, peu libérale. Derrière les discours, on peut à présent juger et comparer les équipes au pouvoir à Londres, Washington, Bonn et Paris. Et se rendre compte sur place (page 64) des résultats concrets de leur action.



DESSINS P. RICORD

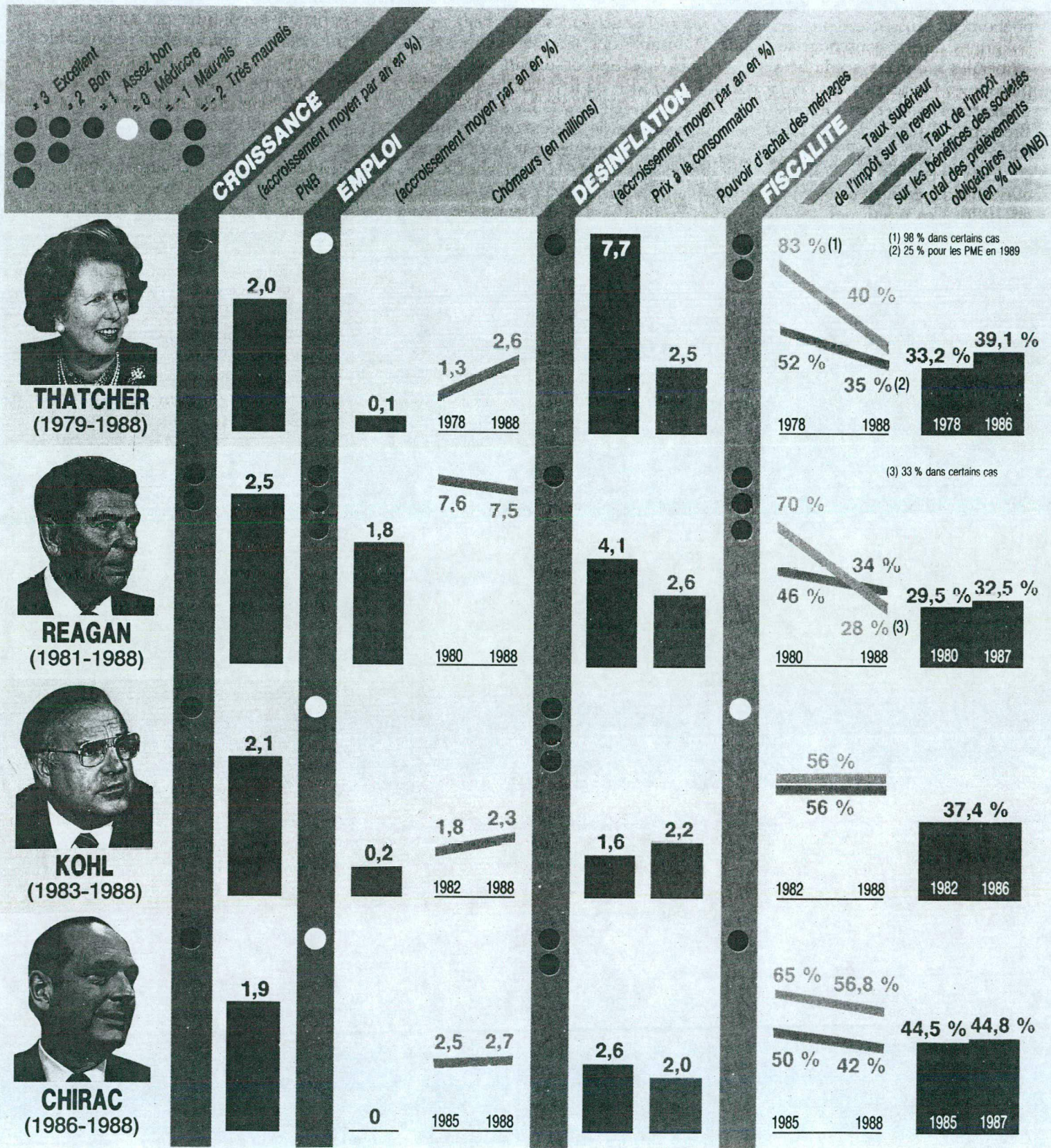
La saison française du printemps verra-t-elle le balancier repartir de l'autre côté ? Un changement de majorité est possible, mais la politique économique actuelle a des chances d'être poursuivie. Au cours des années 80, phénomène sans précédent, des politiques dites « conservatrices » ou « libérales » ont été appliquées partout en Occident : dès 1979 par Margaret Thatcher en Grande-Bretagne ; à partir de 1981 par Ronald Reagan aux Etats-Unis ; puis en 1983 par Helmut Kohl outre-Rhin ; enfin par Jacques Chirac en 1986. Ces politiques ont d'ailleurs essaimé dans le Tiers Monde, sans parler des réformes chinoises et de la perestroïka soviétique... S'agit-il d'une mode, ou bien la « révolution conservatrice » est-elle destinée à durer ? A un colloque organisé par la revue *Economic Policy* pour son numéro spécial sur le sujet, Daniel Cohen, un chercheur du Cepremap, a apporté la réponse : « Le laisser-faire l'emporte sur l'interventionnisme quand les perturbations affectant l'économie sont perçues comme permanentes ;

c'est l'inverse si elles sont transitoires. » Après une décennie où l'on a vainement cherché à surmonter la crise, le début des années 80 apparaît comme un tournant historique : on a pris conscience qu'elle était là pour durer, et par conséquent on a changé de politique. Ce changement sera aussi durable que la crise elle-même... La situation de départ était si dégradée qu'il fallait bien essayer « autre chose »... La stimulation continue de la demande, héritée des recettes exposées par lord Keynes pour sortir de la dépression des années 30, n'avait pu maintenir l'économie sur un sentier de croissance permanente et avait fini par engendrer la « stagflation » : la stagnation dans l'inflation. La perte de confiance dans l'Etat régulateur et dans l'Etat entrepreneur était générale. Cette déception et ce désarroi expliquent le succès des deux écoles de pensée qui se présentèrent alors : le monétarisme et l'économie de l'offre (*supply-side*). □ Pour maîtriser une inflation qui menaçait de devenir galopante, il fallait la tarir à sa source et casser

ainsi les anticipations : le monétarisme (qui vise à contrôler le volume des liquidités offertes et non leur prix) s'imposait. Avec la flambée des taux d'intérêt, la transition a été douloureuse. Maintenant que l'inflation a reflué, les autorités n'accordent plus une attention aussi stricte à l'évolution des agrégats monétaires, mais aucun responsable politique, de quelque bord qu'il soit, ne propose pour autant de faire tourner sans frein la planche à billets. □ Quant à l'économie de l'offre, elle reflétait la prise de conscience que l'intervention de l'Etat finit par être perverse et que le marché est plus efficace pour répartir les ressources, stimuler la production et rétablir le plein emploi, à terme. Ce second volet micro-économique était essentiel pour les libéraux. Ils veulent rendre l'initiative à l'individu, pour le plus grand bien de tous, croient-ils après Adam Smith. Cette confiance dans l'esprit d'entreprise et l'intérêt individuel pour assurer la prospérité à long terme est le trait commun de toutes les expériences menées par la droite dans les années 80. Avec d'énormes différences dans la mise en œuvre... et les performances.



LE MATCH



DES QUATRE

FINANCES

Solde du budget central
(en % du PNB)

Taux d'intérêt réel à long terme
(en %)

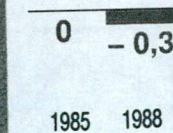
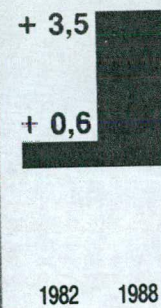
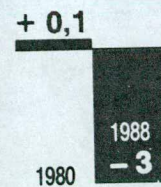
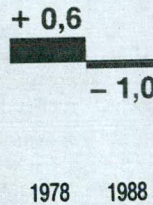
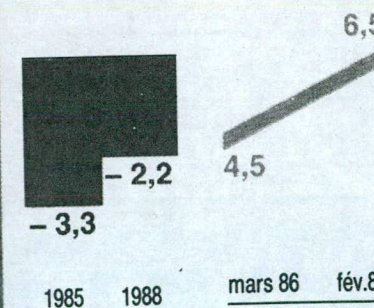
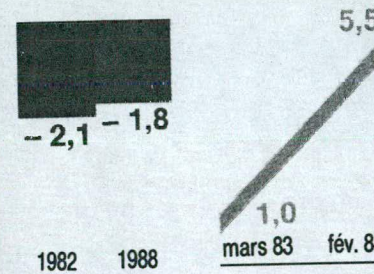
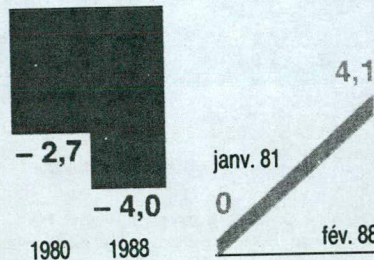
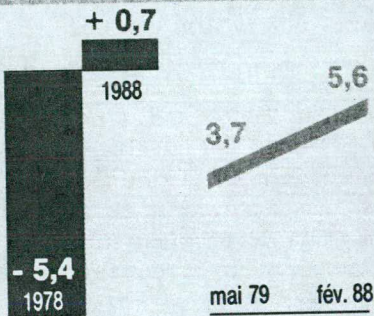
ECHANGES

Solde des paiements courants
(en % du PNB)

PRIVATISATION

DEREGLEMENTATION

CLASSEMENT



British Gas,
British
Telecom,
BP, Britoil,
British
Aerospace,
Jaguar, etc.

(secteur
public peu
développé)

Veba,
Volkswagen

12 opérations
de marché
(beaucoup ;
n'est-ce
pas trop ?)

Contrôle
des changes,
finances, prix,
emploi

Finances,
transport
aérien
(c'est
beaucoup ;
probablement
trop)

Emplois
temporaires
(seulement)

Prix, changes,
emploi,
finances,
crédit

1

3

4

2

1^{er} Thatcher : a commencé par intensifier l'inflation et le chômage, puis a réussi à rompre avec le stop and go traditionnel ; depuis 1981, obtient une croissance régulière qui fait refluer le sous-emploi.

3^e Reagan : a provoqué une profonde récession en 1982 ; a ensuite procédé à une relance qui a créé beaucoup d'emplois et a servi de locomotive au monde... au prix de déficits intenable.

4^e Kohl : a réduit l'inflation et le déficit des finances publiques ; faute de réformes structurelles, l'expansion s'essouffle, gonflant l'excédent extérieur... et le déficit intérieur.

2^e Chirac : a obtenu des résultats modestes compte tenu du contexte international plus porteur qu'au début de la décennie, mais a poursuivi une libération contrôlée dans un climat politique difficile.



THATCHER

La revitalisation par le marché

Margaret Thatcher s'est lancée la première dans la croisade libérale. C'était un pari historique. En proposant d'enrayer le déclin en 1979, elle engageait une véritable révolution culturelle, puisqu'il s'agissait de réhabiliter le travail, le gain, l'épargne, la propriété, valeurs tombées en désuétude depuis... la première révolution industrielle. Comme le raconte elle-même cette fille d'épicier, quelqu'un qui a été élevé dans une boutique ne peut pas être socialiste, car vous y apprenez qu'il faut produire avant de répartir et que, pour produire, il faut que certains soient récompensés mieux que d'autres...

Neuf ans après, un connaisseur, l'ambassadeur du Japon à Londres, Toshio Yamazaki, témoigne : « Des politiques hardies de déréglementation et de privatisation, les réformes des syndicats et des impôts et la stimulation de la concurrence ont rendu possible l'émergence d'une nouvelle culture d'entreprise en Grande-Bretagne. » Au-delà des discours, les chiffres le prouvent : depuis 1980, les bénéfices des sociétés ont crû de 150 %, deux fois plus vite que la production en valeur. Certes, dès l'origine, une centaine de mesures favorables aux entreprises (surtout les PME) ont été adoptées, mais elles reviennent de loin...

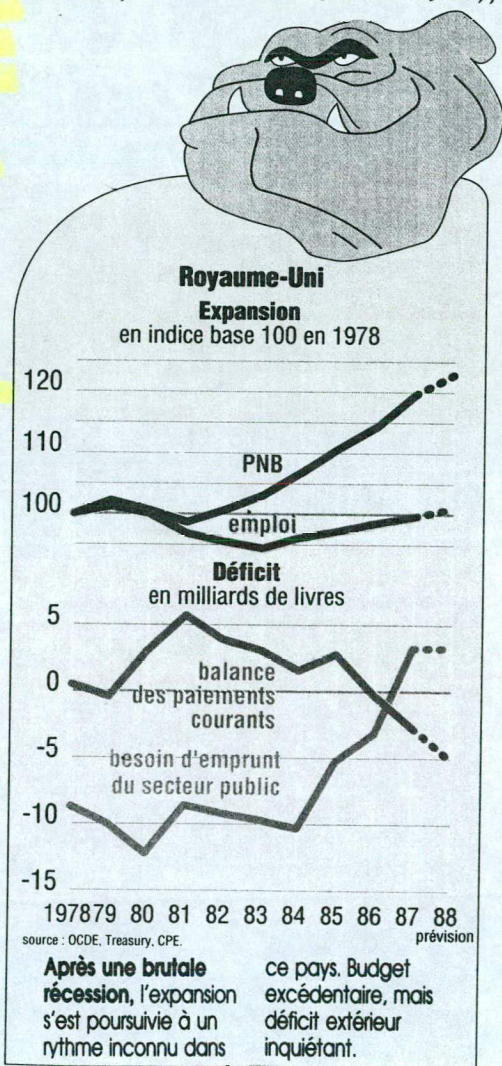
Un préalable était de maîtriser l'in-

flation. C'était d'autant plus difficile que des relèvements généreux concédés aux fonctionnaires à l'arrivée au pouvoir en juin 1979, s'ajoutant à la hausse massive de la TVA et des tarifs publics, ont poussé la hausse des prix à 13 % en 1979 et à 18 % en 1980. Malgré cet embrasement, une approche très monétariste a restreint sévèrement les liquidités, propulsant les taux d'intérêt... et la livre à des sommets, et aggravant par conséquent la récession pour les producteurs. La désindustrialisation s'est répandue ; 25 % des travailleurs des manufactures ont été licenciés entre 1980 et 1983. Mais « Tina » (« There Is No Alternative » est le surnom donné à la Dame de fer) a tenu bon.

Pour retourner les anticipations et réduire le coût de la transition, une « stratégie financière à moyen terme » a été adoptée : la part des besoins d'emprunt du secteur public dans le PIB ne devait jamais augmenter, mais au contraire être réduite les années suivantes, et l'objectif d'inflation devait être progressivement abaissé. Le moment le plus dur s'est situé en mars 1981 : le chancelier de l'Echiquier a diminué le déficit « structurel » du budget (en % du PIB), alors que l'économie était en pleine récession. 365 économistes de l'establishment (keynésien) ont envoyé une lettre au *Times* pour protester

contre ce suicide économique. En fait, le deuxième trimestre de 1981 a été le tournant. C'était Keynes à l'envers, mais cela a marché ! Grâce à l'austérité budgétaire, la Banque d'Angleterre a pu relâcher sa politique monétaire, la livre a baissé, les taux d'intérêt se sont détendus et le PIB s'est mis à augmenter... et n'a plus cessé de le faire. La Grande-Bretagne a le ruban bleu de la croissance en Europe depuis 1981, jusqu'à son record de l'année 1987 (+ 4,8 %).

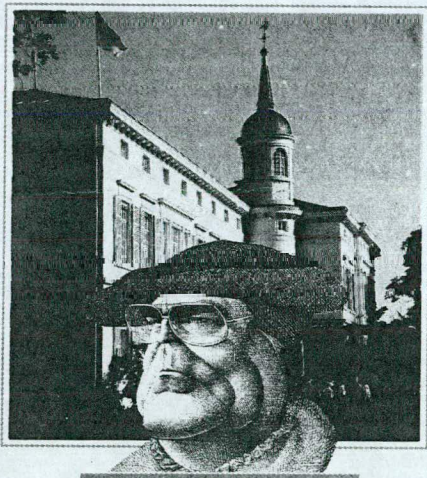
Les ventes de nombreux actifs nationalisés ont facilité l'exercice, au point que le Trésor britannique enregistre maintenant un excédent de plusieurs milliards de livres. Les normes monétaires strictes ont été abandonnées, sans dommage pour la confiance. Le moral des chefs d'entreprise est au plus haut. Les gains de productivité (0 de 1974 à 1980, + 40 % de 1981 à 1987),



conjointement aux allègements fiscaux (35 % de taux standard pour les sociétés, 20 % pour les PME), ont permis aux profits de s'envoler et aux investissements de redémarrer, et la dynamique bénéficie enfin au marché du travail. La proportion de firmes qui projettent d'accroître leurs effectifs est au plus haut depuis le boom éphémère d'Edward Heath en 1973-1974. Selon le NIESR (un institut sous influence keynésienne), le chômage diminuera à 2,2 millions en 1989. Cette régression - imprévue - n'est pas étrangère à une recrudescence des conflits et à un dérapage salarial.

La surchauffe est évidente. D'ailleurs, l'inflation, qui devait tendre vers zéro dans les années 90, approche toujours 4 %. Le commerce extérieur accuse un déficit record en 1987 : 100 milliards de francs... malgré une balance pétrolière excédentaire de plus de 40 milliards ! Il est vrai que les recettes de la City (qui a prospéré à la faveur de la déréglementation financière)

compensent aux deux tiers. Mais ce n'est pas en un jour qu'on reconstitue un appareil de production. Si brillante que soit sa performance récente, l'industrie britannique ne fait que du rattrapage. La création l'emporte tout de même sur la destruction. Le tissu repousse et l'emploi revit, comme le décrit Alain Murcier dans son reportage (page 64). Les charbonnages, enjeu d'affrontements acharnés entre le Premier ministre et les syndicats, sont devenus bénéficiaires ! La sidérurgie aussi. Cela permet de réduire les subventions... Quant aux privatisations, elles se poursuivent : celle de l'électricité vient d'être annoncée. Pour l'éducation et la santé, Mrs Thatcher se révèle beaucoup plus prudente, en dépit des exhortations des libéraux. Comme quoi elle peut faire main de velours dans un gant de fer... Car un long chemin reste à parcourir. Mais on ne peut contester que le renforcement du marché a amorcé en Grande-Bretagne une renaissance économique.

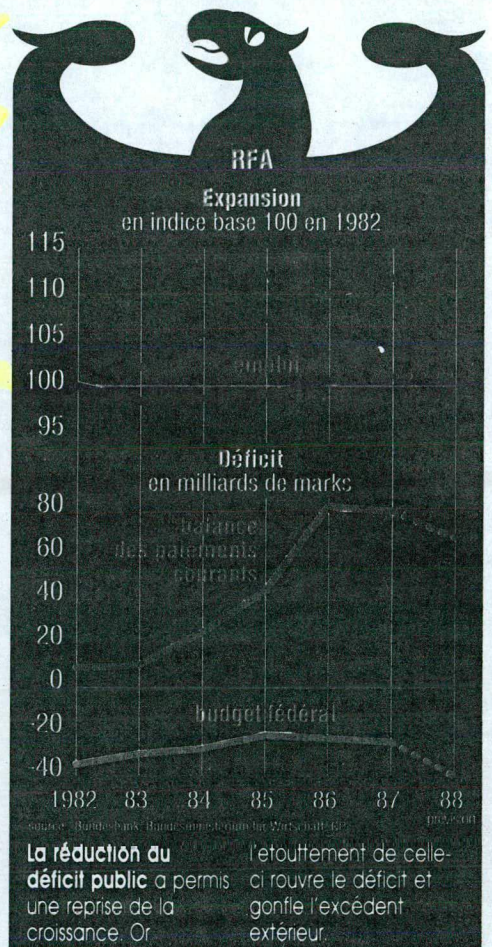


KOHL L'assainissement inachevé

Fin 1982, le gouvernement Schmidt a sombré dans la dette et la défiance (en allemand, dette se dit *Schuld* qui signifie aussi faute, culpabilité). Vainqueur aux élections, le chrétien-démocrate Helmut Kohl a formé avec les libéraux en mars 1983 une coalition, dont l'homme fort était Gerhard Stoltenberg, le ministre des Finances. Celui-ci a mis en œuvre une « consolidation » des finances pu-

bliques à moyen terme. Après cinq ans d'assainissement, que constate-t-on ? Le déficit du budget fédéral va augmenter d'un bon tiers cette année, atteignant un montant record de 40 milliards de marks, les taux d'intérêt réels (inflation déduite) approchent 5 % à long terme, et Stoltenberg se voit rebaptisé « Dr Schuldenberg » (montagne de dettes) ! Que s'est-il passé ?

L'expérience a pourtant bien débuté.



La détermination du ministre des Finances à maîtriser la dépense publique a fait graduellement refluer le déficit : de 4,5 % du PNB en 1981 à 1,9 % en 1986. Il est remarquable que cette compression de la dépense publique n'ait pas nui à l'économie, au contraire. Outre-Rhin comme outre-Manche, le renversement de Keynes a fonctionné : si l'excès de déficit public « évince » le secteur privé en faisant monter les taux d'intérêt (*crowding out*), sa réduction produit inversement un effet de « rentrée » (*crowding in*). La consolidation des finances publiques n'a pas réduit la demande ; elle a au contraire conduit à une augmentation de la production, grâce à son impact favorable sur les taux d'intérêt et les investissements. Le retour de la confiance associée à la politique de stabilisation financière a joué un rôle décisif dans l'amélioration des anticipations de 1983 à 1986.

Or cette confiance retombe, parallèlement au déficit : voici qu'elle est revenue au plus bas depuis 1982. Comment cette rechute s'explique-t-elle ? D'abord, par le passage à la seconde phase du programme du gouvernement. Celui-ci avait promis de

procéder, une fois comprimé le déficit, à des allègements fiscaux. Ils ont été effectués, début 1986 et début 1988, et ils ont naturellement réduit les recettes de l'impôt sur le revenu. Une « réforme fiscale » plus authentique est annoncée pour 1990 mais, en attendant, le ministère des Finances projette de relever les impôts indirects en 1989 ! Une deuxième raison de l'alourdissement du déficit fédéral est la baisse du bénéfice de la Bundesbank, qui a gagné à la montée du dollar et qui perd à sa chute.

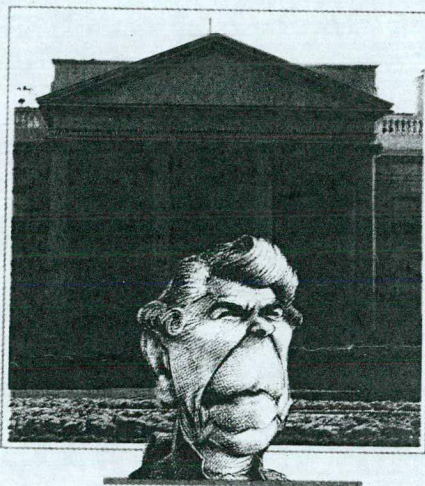
Enfin, la reprise spontanée de l'activité a été aidée par la locomotive américaine dans les années 1983 et 1984. Depuis que celle-ci a cessé de tirer, la croissance allemande s'essouffle et l'amenuisement des recettes contribue à rouvrir le déficit. Du coup, la République fédérale élargit son excédent... extérieur, non seulement avec les Etats-Unis, mais aussi avec tous ses partenaires européens, au premier rang desquels la France. On aborde là un problème essentiel posé à l'Europe : l'économie dominante, loin d'être un foyer d'expansion, devient une anti-locomotive. Cette incapacité de croissance autonome constitue une défaite pour le chancelier Kohl. Celui-ci avait promis « le changement » (*die Wende*), qui finalement ne s'est pas produit. « La stratégie d'action sur l'offre pour revitaliser l'économie n'a jamais été véritablement appliquée, juge Gerhard Fels, président de l'Institut der Deutschen Wirtschaft à Cologne. Bien qu'elles se soient engagées à réaliser un changement fondamental, les autorités n'ont pris que des mesures mineures pour réformer la structure économique dont elles avaient hérité. »

Pour assouplir les rigidités du marché du travail, le gouvernement est resté remarquablement inactif (lire page 68). A une exception près, toutes les réglementations sont restées en place. Les augmentations de salaires négociées centralement entre syndicats et patronat ne laissent aucune autonomie aux employeurs. Contrairement aux promesses, les subventions aux secteurs en déclin n'ont pas été supprimées ni même réduites : elles ont augmenté de 25 % ! Le fossé entre le nord du pays, en perte de vitesse, et le sud, dyna-

mique, qui est en voie de se combler en Grande-Bretagne, n'a cessé de se creuser en Allemagne.

Pour décloisonner les marchés, supprimer les obstacles à la concurrence, réduire les monopoles publics, privatiser, très peu à été accompli. Aussi un rapport des instituts de Munich et de Kiel conclut-il : « La République fédérale a enregistré davantage d'échecs que de succès dans son processus de mutation structurelle dans les années 80. Elle va entamer la prochaine décennie avec une lourde hypothèque. »

Si les mesures de libération promises avaient été prises, le PIB serait supérieur de 6 % à son niveau actuel, selon les experts, et l'emploi plus élevé de 2 millions. Le ministre de l'Economie, Martin Bangemann, avoue que le gouvernement a un « arriéré de réformes structurelles ». Pourquoi a-t-il si peu agi ? A cause de l'influence de l'aile « sociale » des chrétiens-démocrates. Il s'est contenté de gérer les institutions héritées des sociaux-démocrates. La « germanosclérose » n'a donc pas reflué et la consolidation s'en trouve fragilisée.



REAGAN Relance à crédit

Que reste-t-il des quatre piliers de la reaganomique conquérante ? En 1981, le climat avait changé d'un coup à Washington quand une dynamique nouvelle prétendait se construire sur : premièrement, la baisse des impôts ; deuxièmement, la baisse des dépenses ; troisièmement, la déréglementation des marchés ; quatrièmement, la modération des agrégats monétaires, afin de reprendre le contrôle de l'inflation (13,5 % en 1980). La désinflation a été accomplie en premier, avec un coût de transition très élevé : les taux d'intérêt ont grimpé à plus de 20 % et la récession de 1982, survenant après celle de 1980, a été la plus sévère depuis la guerre. Mais grâce à la ténacité de Paul Volcker (nommé par le président Carter à la tête de la

Réserve fédérale), les anticipations inflationnistes ont fini par être déracinées, ce que personne ne croyait plus possible.

Simultanément, l'administration est allée de l'avant dans son programme de réductions fiscales : allègement de 30 % en trois ans de l'impôt sur le revenu, et surtout crédit d'impôt pour les investissements des entreprises qui a produit en 1983-1984, la confiance aidant, le plus grand boom de dépenses d'équipement depuis la guerre. Par ailleurs, la déréglementation (amorcée par Carter) s'est répandue dans la banque et la finance, les transports, etc. Pour mater une grève des aiguilleurs du ciel, le président Reagan n'a pas hésité à en licencier des milliers sur-le-champ.

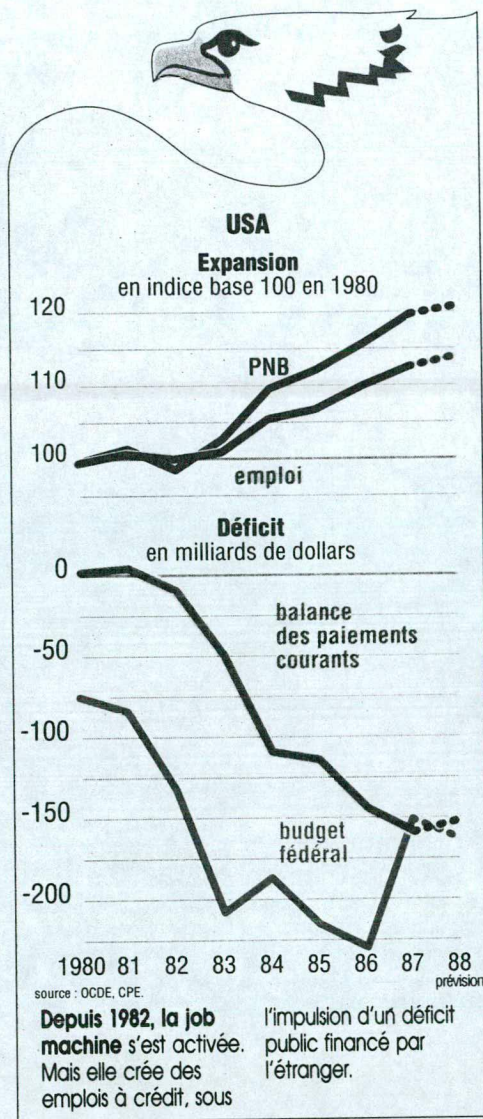
Ce qui ne s'est pas déroulé confor-

mément au plan initial, c'est la réduction des dépenses. Pour éviter le gonflement du déficit, elle devait être menée de pair avec l'allègement des impôts. Reagan s'était même engagé à équilibrer le budget à la fin de son premier mandat (1984). Hélas ! il a lui-même augmenté les crédits militaires et il n'a pu forcer le Congrès à sacrifier ses « vaches sacrées ». La part des dépenses fédérales est montée à 24 % du PNB, tandis que celle des recettes est descendue à moins de 20 %. La politique budgétaire s'avère ainsi libérale du côté des recettes... et social-démocrate du côté des dépenses. D'où une hypertrophie du déficit fédéral : pendant ses deux mandats, Reagan a creusé un trou supérieur aux déficits de tous ses prédécesseurs combinés (1 300 milliards de dollars).

La gestion reaganienne, caractérisée par un mélange de restriction monétaire et de stimulation budgétaire, a produit un double résultat intéressant : arrêt de l'inflation, forte reprise de la production et de l'emploi. Sur un marché du travail très fluide, plus de 13,5 millions d'emplois (nets) ont été créés depuis la fin de 1982. La vraie question est de savoir si ces emplois seront durables.

Arrêtant les comptes à aujourd'hui, beaucoup sont tentés de donner un satisfecit à Reagan, surtout les économistes keynésiens pour qui la reaganomique n'est en fait qu'une relance par le déficit public, camouflée. Dans son étude pour *Economic Policy*, Olivier Blanchard, du MIT, conclut ainsi que l'impact sur l'offre de la politique de Reagan est quasi nul, mais qu'en revanche le « mix » contraction monétaire-expansion fiscale ne mérite que des éloges : sans la seconde, l'économie ne se serait pas relevée de la première. Le dernier Prix Nobel d'économie, Robert Solow, du MIT, nous déclare de son côté : « Comme Mrs Thatcher, Mr Reagan a prétendu que l'Etat ne pouvait pas créer de vrais emplois... puis il a démontré le contraire ! »

Est-il possible que Keynes « à l'en-droit » fonctionne aux Etats-Unis, alors qu'il a fallu le renverser en Europe ? C'est que la reprise américaine construite sur les déficits jumeaux du budget et du commerce extérieur n'aurait pas pu se poursuivre sans prêteurs étrangers. Ceux-ci ont fait davantage confiance à l'Amérique de Reagan qu'à la France de Mitterrand. « Cette conversion au réalisme a été très dou-



loureuse, nous confie un haut responsable du PS à propos du changement de cap de 1983. Mais c'était aussi un aveu de faiblesse de l'économie française : Mitterrand a découvert qu'il n'avait pas les moyens de Reagan ! »

En attendant, Reagan a accumulé une montagne de dettes. La dette publique a plus que doublé, passant à 2 400 milliards de dollars. La dette extérieure aussi : 270 milliards de dollars (nets des créances américaines). Les Etats-Unis sont devenus le premier débiteur du monde. Ces tendances sont intenables, et pourtant elles se poursuivent. L'Amérique continue d'absorber l'épargne du reste du monde, puisqu'elle dépense plus qu'elle ne gagne. Depuis 1980, l'épargne intérieure privée diminue (en pourcentage du PNB) et l'investissement augmente : elle le couvre à peine ; la désépargne – ou le déficit – publique (plus de 3 % du PNB) doit par conséquent être

entièrement financée par l'étranger.

Au début, les capitaux se sont précipités et le dollar est monté à des hauteurs sans précédent (plus de 10 francs début 1985). Puis l'essoufflement de la reprise et le creusement du déficit commercial, au fur et à mesure que la demande injectée se transformait en importations, ont entraîné un repli encore plus brutal du billet vert. En 1987, l'afflux de capitaux privés s'est tari et ce sont les banques centrales étrangères, par leurs interventions pour soutenir le dollar, qui ont financé les quelque 160 milliards de déficit des paiements courants. Mais, replaçant leurs dollars en bons du Trésor à New York, elles dispensent les Américains de consentir à l'ajustement nécessaire. L'inflation de crédit et la tension sur les taux d'intérêt provoquée par cet accaparement de l'épargne mondiale sont la cause profonde du krach de Wall Street en octobre 1987. Dès 1984, Paul Volcker avait averti les Américains que le déficit budgétaire était un « pistolet braqué sur le cœur de l'économie ». Aujourd'hui, il répète qu'« emprunter à un rythme annuel de 150 milliards de dollars contient les germes de notre propre destruction » et que, s'ils continuent, les Etats-Unis se dirigent « vers un chaos financier et une récession ». Pas étonnant si la confiance des hommes d'affaires est retombée au minimum depuis 1982...

La stratégie dont se félicitent les Nobel démocrates du MIT ou de Harvard paraît donc risquée, à terme. Le mouvement sera pénible à inverser, car il faudra agir non seulement sur le flux des déficits mais aussi sur le stock de la dette. Au début des années 90, la charge des intérêts de la dette publique dépassera tout le déficit du budget, lequel devra donc être excédentaire (hors dette) ; la balance commerciale devra également enregistrer un surplus de 0,5 % du PIB pour compenser les versements d'intérêts sur la dette extérieure. Les générations futures n'auront pas le choix : il faudra se serrer la ceinture.

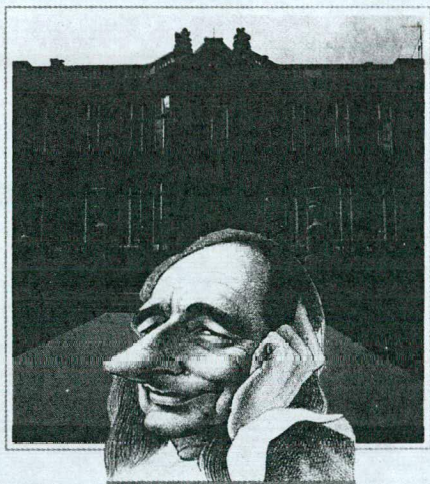
Tel est l'héritage de Reagan. Ce n'est pas celui d'un père de famille conservateur ! Pourtant, il est vrai aussi que, conformément à son slogan de 1981, il a donné « un nouveau départ ». Il voulait « stimuler l'activité en partant de la base ». Sur le terrain, l'esprit d'entreprise a fleuri et l'initiative individuelle s'est multipliée (lire page 72).

Mais son action reste ambiguë. Prenez l'audacieuse réforme fiscale de 1986, par exemple : suppression des déductions et deux taux seulement pour l'impôt direct (15 % et 28 %), mais transfert de charges de 120 milliards de

dollars des ménages vers les sociétés – est-ce cohérent avec l'économie de l'offre ? « L'économie américaine est en grande forme ! » a proclamé le président au lendemain du krach boursier. On aimerait le croire.

crétaire d'Etat au Trésor de Reagan, Marc Leland ; car celui qu'il faut saluer, c'est le président Mitterrand. Sous lui, une France dirigiste, toujours à l'écart, s'est en définitive ralliée. C'est cela qui restera. > Bel hommage du vice à la vertu !

Dans l'application de son programme, le gouvernement Chirac a préservé un équilibre qui le rapproche plus de Mrs Thatcher que de Reagan ou de Kohl. A la différence du premier, il a fait preuve d'une certaine prudence dans la gestion macro-économique, malgré la tentation de l'électoratisme. Il a certes distribué des faveurs à diverses catégories, sans consentir de baisses d'impôt surdimensionnées et tout en réduisant le déficit – les recettes des privatisations y ont bien aidé ; mais



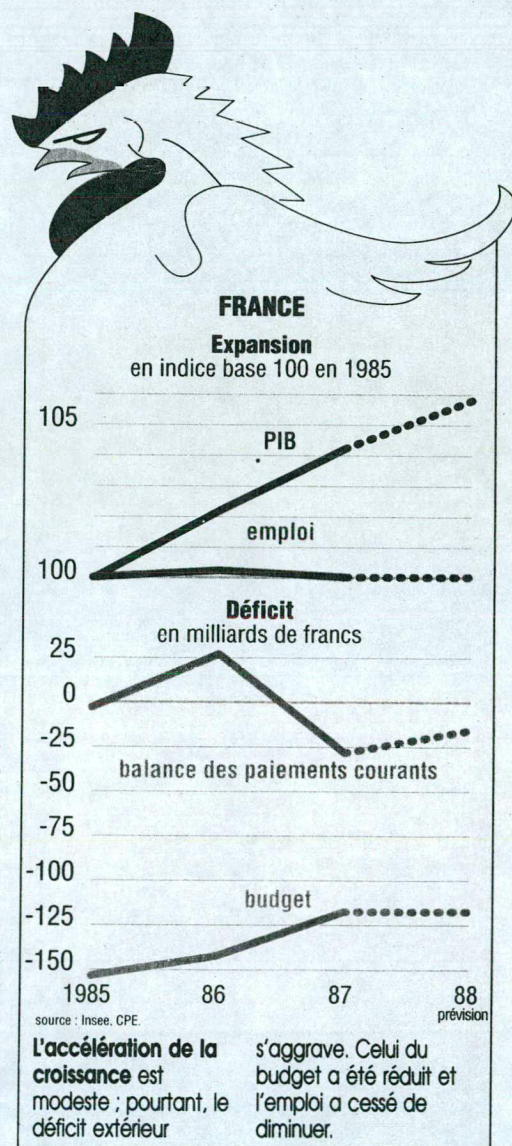
CHIRAC Un libéralisme bien tempéré

Comparé aux neuf ans de Mrs Thatcher, aux huit ans de Reagan et aux cinq ans de Kohl, Chirac, c'est le benjamin. Sa performance en matière de croissance, de chômage et de prix semble honorable. Mais il n'a subi ni le choc pétrolier ni la récession qui ont éprouvé les autres au début de leurs mandats. Il a profité, au contraire, du contre-choc pétrolier de 1986 et d'un raffermissement de la reprise mondiale. Cela relativise ses résultats et montre combien il est difficile de regagner le terrain perdu au début des années 80, lorsque la relance socialiste a affaibli les entreprises, leur compétitivité, leur investissement et leur emploi. Depuis 1982, la France n'a cessé de perdre des parts de marché, et la tendance paraît seulement avoir été enrayerée fin 1987, de sorte que le point noir du bilan chiracien concerne le commerce extérieur, qui a rechuté : non seulement la balance des paiements courants s'est dégradée de près de 50 milliards de francs en un an, mais les échanges de produits in-

dustriels sont devenus déficitaires, phénomène sans précédent depuis 1969.

La thérapeutique libérale n'a pas donné le coup de fouet espéré par certains. L'investissement redémarre, mais lentement. Il ne connaît pas le boom nécessaire pour débloquer notre potentiel de croissance, qui s'est contracté à 1 ou 2 % l'an au cours des années 80. Les bénéficiaires des entreprises n'en continuent pas moins de se redresser, grâce à l'amplification de deux évolutions amorcées dès avant 1986 : la libération des prix et surtout la modération des coûts (c'est Jacques Delors qui a cassé l'indexation des salaires). A cet égard, il y a plus de continuité en France dans le libéralisme de 1983 à 1988 que dans le socialisme entre 1981 et 1986.

On assiste ainsi à un curieux chassé-croisé où les Nobel de gauche donnent finalement leur bénédiction à la relance de Reagan, tandis que les reaganiens font l'éloge de... François Mitterrand. « J'ai du mal à qualifier de conservatrice la révolution en cours dans les politiques économiques, dit un ancien se-



les dépenses publiques ont été restreintes (pour la première fois depuis 30 ans, elles augmentent moins que les prix), et la masse monétaire est demeurée disciplinée.

Du côté de la micro-économie, l'équipe Chirac-Balladur a démontré une détermination qui éclipse le peu qu'a fait Kohl. Malgré un horizon politique raccourci, il a assoupli l'emploi : la suppression de l'autorisation administrative de licenciement n'a débouché ni sur les licenciements redoutés par ses adversaires ni sur les créations d'emplois promises par le CNPF - il faut du temps pour faire repousser l'offre... La libération des prix a été remarquablement absorbée, en dépit de dérapages dans les services. La déréglementation financière a continué sur la lancée de Pierre Bérégovoy, malgré le krach. Enfin, les dénationalisations n'ont pas débouché sur le désordre, grâce à la résistance des « noyaux durs » ; mais elles ont peut-être été trop amples compte tenu de l'épargne disponible : elles ont

contribué à faire monter les taux d'intérêt (réels) à des niveaux insupportables. Là est le reproche que peut encourir cette gestion : elle a trop « saupoudré » et pas assez concentré les ressources - rares - sur l'essentiel, la restauration de l'épargne et de l'investissement.

L'AUSTÉRITÉ NE SUFFIT PAS

Les gouvernements de droite au pouvoir en Occident ont beau être d'accord sur les fins, les moyens mis en œuvre divergent du tout au tout. Les Américains ont fait, en gros, le contraire des Anglais et des Allemands. Ils l'ont pu... parce qu'ils sont les Américains et que le reste du monde y a consenti. Mais leur politique se révèle aventureuse pour eux-mêmes et pour les autres. Elle nous a déjà infligé plusieurs chocs, et

ce n'est pas fini. On ne peut pas écarter indéfiniment la rigueur. C'est la leçon des années 80. Les Français en savent quelque chose... Certes, l'austérité ne suffit pas. Mille mesures doivent veiller à débrider et à stimuler l'initiative individuelle. C'est ce que les Anglais ont si bien réussi, et les Allemands, si mal.

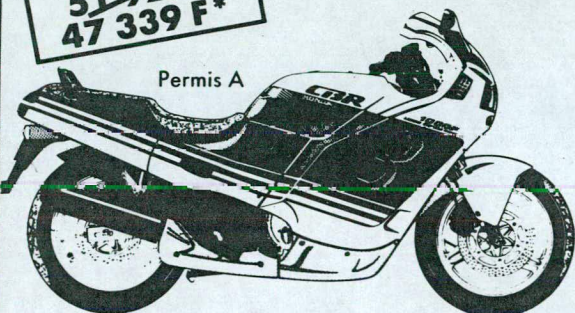
Sagesse macro-économique et souplesse micro-économique ne passeront pas de mode. Ces contraintes sur les politiques relativisent beaucoup la distinction droite-gauche. Quand l'opposition propose de tout défaire, elle perd, comme en Grande-Bretagne. Si elle assume ce qui a été fait avant elle, elle se met en situation de l'emporter. Cela peut arriver en France. La stabilité économique y gagne. Mais la continuité des politiques dites conservatrices signifie aussi que se perpétuent leurs causes, c'est-à-dire la crise. L'heureux moment où on pourra leur tourner le dos n'est pas venu !

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MY TELNO 340: FRENCH PRESIDENTIAL ELECTIONS.

SUMMARY

1. THE MOOD OF THE CAMPAIGN HAS CHANGED AND AS THE ELECTION APPROACHES IT IS PREDICTABLY LOOKING MORE LIKE A CLOSE FIGHT. MITTERRAND HAS LOST GROUND IN MOST OF THE POLLS ALTHOUGH THEY STILL PREDICT HIS RE-ELECTION. HE HAS RESPONDED BY URGING HIS SUPPORTERS TO REDOUBLE THEIR EFFORTS. CHIRAC MEANWHILE TAKES ENCOURAGEMENT FROM THE EROSION OF MITTERRAND'S SUPPORT, A SLIGHT INCREASE IN HIS OWN, AND EVIDENCE THAT BARRE'S SUPPORTERS WILL RALLY TO HIM IN THE SECOND ROUND MORE SOLIDLY THAN EARLIER SEEMED LIKELY. THREATS AND BLANDISHMENTS TO ENCOURAGE THEM: AND RUMOURS OF RPR NEGOTIATIONS WITH LE PEN. MITTERRAND REMAINS THE FAVOURITE BUT CHIRAC IS NOW PLACED TO MAKE A FIGHT OF IT.

DETAIL

2. THERE HAS BEEN A CHANGE OF POLITICAL MOOD IN FRANCE IN THE PAST FEW DAYS. A NEW RESTLESSNESS IS APPARENT, WHICH FINDS REFLECTION IN THE LATEST OPINION POLLS. THESE CONTINUE TO POINT TO A SECOND ROUND CONTEST BETWEEN MITTERRAND AND CHIRAC, AND TO A MITTERRAND VICTORY, BUT SEVERAL (THOUGH NOT ALL) SUGGEST THAT MITTERRAND MAY ONLY WIN BY 4-5 POINTS RATHER THAN BY THE 9-10 POINTS PREDICTED ONLY A WEEK OR SO AGO. ONE ALSO SUGGESTS A DROP IN HIS FIRST ROUND SCORE FROM AROUND 37-38 PER CENT TO 34-35 PER CENT (THAT COINCIDES WITH WHAT WE UNDERSTAND A FRENCH MINISTRY OF THE INTERIOR POLL FORECAST SOME WEEKS AGO).

3. THIS HAS PROMPTED MITTERRAND AND THE SOCIALIST PARTY (PS) TO A REVIEW OF STRATEGY IN THE PAST FORTY-EIGHT HOURS. THEY HAVE DECIDED TO INCREASE THE TEMPO OF THEIR CAMPAIGNING, AND HAVE SCHEDULED AN EXTRA, LARGE-SCALE MITTERRAND RALLY BETWEEN THE TWO ROUNDS. LEADING SOCIALISTS HAVE ALSO BEGUN CAUTIONING SUPPORTERS AGAINST OVER-CONFIDENCE, WITH ROCARD ALLUDING TO THE BRITISH LABOUR PARTY'S SURPRISE DEFEAT IN THE 1970 GENERAL ELECTION. WHILE MITTERRAND WOULD BE HAPPY ENOUGH WITH A VICTORY BY 52-48 PER CENT (A SLIGHTLY BIGGER

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MARGIN THAN HE ENJOYED WHEN HE BEAT GISCARD IN 1981), HE DOES NOT WANT TO SEE THE GAP NARROW FURTHER, HENCE THE WARNING TO THE LEFT TO REDOUBLE THEIR EFFORTS. HE WILL NOT BE HAPPY EITHER TO SEE ONE POLL SUGGESTING THAT HIS FIRST ROUND SUPPORT HAS FALLEN BELOW 35 PER CENT, THE LEVEL WHICH HIS ENTOURAGE HAVE ALWAYS SAID PRIVATELY HE NEEDS TO REACH TO BE CONFIDENT OF VICTORY IN THE SECOND ROUND. IF HE SECURES LESS THAN THAT, HE WILL HAVE A LOT OF WORK TO DO BETWEEN THE ROUNDS IF HE IS TO WIN. (FOR AN ANALYSIS OF ELECTORAL ARITHMETIC SEE MY SAVINGRAMS 14 AND 15.)

4. IN A WEEK OF POOR TRADE FIGURES AND CONTINUED FRUSTRATION OVER THE FRENCH HOSTAGES, THE POLLS ARE ENCOURAGING READING FOR CHIRAC. HE HAS INCREASED HIS OWN RATING SLIGHTLY TO ABOUT 24.5 PER CENT, DESPITE AN IMPROVEMENT OF 1-2 PER CENT IN BARRE'S SCORE. THE LATTER HAS AT LAST REVERSED WEEKS OF DECLINE, BUT HIS RECOVERY IS PROBABLY TOO LITTLE TOO LATE AND DOES NOT PUT HIM BACK IN STRIKING RANGE OF CHIRAC. HIS OWN SUPPORTERS CONCLUDE PRIVATELY THAT HIS CHANCE OF VICTORY HAS ALL BUT DISAPPEARED.

5. ALTHOUGH CHIRAC CAN TAKE ENCOURAGEMENT FROM THESE POLLS, THEY DO NOT DISGUISE THE RIGHT'S BASIC WEAKNESS: HIS VOTE COMBINED WITH BARRE'S STILL ONLY TOTALS 40-41 PER CENT, SOME TEN POINTS SHORT OF THE TOTAL NEEDED FOR VICTORY IN THE SECOND ROUND. EVEN THAT 40-41 PER CENT IS PROBLEMATIC SINCE IT ASSUMES THAT, IF BARRE IS DEFEATED, ALL HIS SUPPORTERS WILL MOVE SOLIDLY BEHIND CHIRAC IN THE SECOND ROUND. THIS THEY ARE MOST UNLIKELY TO DO EVEN THOUGH IN THE PAST WEEK OR SO THE CHIRAC CAMP (BACKED UP BY OPINION POLL EVIDENCE) HAVE BECOME NOTICEABLY MORE OPTIMISTIC ABOUT THE READINESS OF BARRE'S ELECTORATE TO VOTE FOR CHIRAC IN THE SECOND ROUND. (THE LATEST ESTIMATES ARE THAT UP TO THREE-QUARTERS OF BARRE'S VOTERS WILL DO SO, RATHER THAN THE TWO-THIRDS PREDICTED EARLIER). TO ENCOURAGE THEM CHIRAC HAS ADOPTED A POLICY OF BLANDISHMENTS AND THREATS. THERE ARE HINTS OF SENIOR MINISTERIAL POSITIONS FOR BARRE'S SUPPORTERS UNDER A CHIRAC PRESIDENCY: AND WARNINGS THAT IF THE CENTRISTS ARE EQUIVOCAL OR EXPRESS A WILLINGNESS TO WORK WITH MITTERRAND, THE RPR WILL ATTACK THEM HEAD-ON IN THE LOCAL ELECTIONS IN THE AUTUMN AND THE MUNICIPAL ELECTIONS NEXT SPRING. (THIS IS A POTENT THREAT: THE WEIGHT OF A FRENCH POLITICAL PARTY DEPENDS TO A SIGNIFICANT DEGREE ON THE STRENGTH OF ITS LOCAL BASE.)

6. ANNEXING BARRE'S VOTE, HOWEVER, IS NOT ENOUGH: CHIRAC MUST ALSO ATTRACT AS MUCH AS POSSIBLE OF LE PEN'S FIRST ROUND SUPPORT (CURRENTLY STANDING AT ABOUT 11-12 PER CENT) IF HE IS TO BEAT MITTERRAND IN THE SECOND ROUND. THERE ARE STRONG RUMOURS THAT PASQUA

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HAS NOW BEGUN BEHIND THE SCENES NEGOTIATIONS WITH LE PEN IN THE HOPE OF STRIKING A DEAL. THIS MIGHT TAKE THE FORM OF THE PROMISE OF 12-15 SAFE SEATS IN THE NATIONAL ASSEMBLY FOR LE PEN SUPPORTERS, AT THE NEXT LEGISLATIVE ELECTIONS, AND PERHAPS ONE OR TWO JUNIOR MINISTERIAL JOBS FOR HIS SYMPATHISERS IF CHIRAC BECOMES PRESIDENT. IN RETURN LE PEN WOULD CALL ON HIS ELECTORS TO RALLY TO CHIRAC IN THE SECOND ROUND. (THERE ARE ALSO SUGGESTIONS THAT THE RPR, WHICH CLEARLY HAS GREATER FINANCIAL RESOURCES THAN THE OTHERS, MIGHT OFFER THE FRONT NATIONAL SOME SORT OF FINANCIAL ASSISTANCE.) THE DIFFICULTY WITH THIS STRATEGY AS FAR AS CHIRAC IS CONCERNED IS THAT OVERTURES TO LE PEN (WHICH WILL BE VIGOROUSLY DENOUNCED ON THE LEFT), RISK ALIENATING PART OF BARRE'S CENTRIST VOTE TO MITTERRAND'S BENEFIT.

CONCLUSION

7. WITH A WEEK TO GO TO THE FIRST ROUND, THE VOTERS SHOW SIGNS OF INDECISION. MITTERRAND MUST SEEK TO STEADY THEM AND ACQUIRE RENEWED MOMENTUM. CHIRAC MUST PREVENT HIM FROM DOING SO, CAPITALISING ON THE CHANGE OF MOOD TO CLOSE THE GAP. THE BATTLE BETWEEN NOW AND 8 MAY IS LIKELY TO ACQUIRE A NEW INTENSITY. MITTERRAND REMAINS THE FAVOURITE, BUT CHIRAC'S CHANCES HAVE IMPROVED AND HE MAY NOW BE IN A POSITION TO MAKE A FIGHT OF IT. THE DOYEN OF THE BRITISH PRESS CORPS TOLD ME THAT THE 9 TO 2 ODDS AGAINST CHIRAC WHICH HE FOUND IN LONDON JUSTIFIED A SUBSTANTIAL BET. AND, WHATEVER THE POLLS MAY HAVE BEEN SAYING, IT IS NOT IN THE LEAST SURPRISING THAT AS THE ELECTION APPROACHES, THE MARGIN BETWEEN THE TWO MAIN CANDIDATES SHOULD HAVE NARROWED.

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MIP SAVING TELEGRAM : BARRE'S ELECTION COMMITMENTS

SUMMARY

1. Although Barre scorns party political programmes, he has advanced at least as many ideas as his opponents. He emphasises the need to make the French economy stronger and more competitive, through fiscal reform, investment incentives, and increased allocation of resources to R and D. Domestically he stresses the need for solidarity; internationally he advocates the construction of a confederal Europe. He takes a notably hard line on defence. His insistence on the need for an «impartial» state (implicit criticism of Chirac) is being exploited by Mitterrand. Barre's ideas provide the frame of reference for the campaign, but they seem more likely to last beyond the first round than he does.

DETAIL

2. Barre thinks party political programmes are a demagogic distraction (an attitude consistent with the role he cultivates of the politician hostile to, and distrustful of, the ways of the political world). Nevertheless he has put forward policy proposals on a wide range of issues over the past 6-9 months, many of which are drawn together in his campaign document «Projet Pour La France» (Project for France).

The Economy

- (i) Privatisation: there should be further privatisation, including banks and Renault, but only when market conditions are propitious, and through progressive injections of private capital. He dislikes the noyaux durs system which he believes (like the Socialists) is designed to benefit the RPR. (He would probably reform or even dismantle the noyaux durs as presently constituted, if he won the elections, although as far as we are aware he has not said so specifically.)
- (ii) Taxation: there must be a thorough review and reform of the tax system with a 5 year fiscal incentive to investment, corporation tax reduced to 33.33% and the maximum income tax rate reduced to 50%. VAT should be reduced as part of EC harmonization. Taxes on alcohol and tobacco should be raised. There should be no re-introduction of the wealth tax.
- (iii) Government spending: public expenditure must be reduced to finance tax cuts (although Barre is committed to higher spending on education and on Research - see below). There should be no systematic subsidies to industry.

Social Affairs

- (i) Guaranteed minimum income: this should be established for those unable to work; there should be a system of personalised social assistance for «the new poor». It is the state's duty to promote social justice.
- (ii) Social security: the standard of living of pensioners must be maintained, and support services for the elderly improved. There must be help for large families, with the doubling of the parental allowance for a parent at home with three children.
- (iii) Unemployment: unlike Mitterrand and Chirac, he gives a specific commitment to create jobs. He argues that the record of the present septennat (thereby implicating Chirac as well as Mitterrand) has been bad in comparison with France's partners: jobs will come through lower taxation, designed to promote investment and business start-ups, through review of the local payroll tax, and through increased technical and vocational training.

Education and Research

- (i) Education: like Mitterrand and Chirac he makes education a priority. He proposes a 10 year plan costing 16 billion francs during the first 6 years for the renovation of the education system; improvement in teachers' pay and conditions; and improved primary education. Like Chirac he is committed to maintaining state subsidies for Catholic schools (a controversial Left/Right issue in France).
- (ii) Research: present spending on R and D is inadequate. The science budget must be increased by 10% a year; the tax credit system must be extended to encourage more research in industry with the aim of raising total expenditure on science and technology to 3% of GNP by 1992. (Barre's commitments in this area are more specific than those of other candidates.)

Political Institutions

- (i) The Presidency: the term should not be shortened to 5 years. The President should be the guarantor of the Republic leaving considerable autonomy in day to day government to the Prime Minister and Cabinet. Parliament's role should be enhanced. (Barre has a thoroughly Gaullien conception of the presidency which alarms some of his UDF supporters, notably the Parti Républicain. This bow towards the government and Parliament is partly designed to reassure them.)
- (ii) Referenda: the use of referenda should be revived and their scope enlarged so that the people can give their opinion on a range of issues.
- (iii) Legislation: there must be better laws which means better debates and a less crowded legislative agenda.

/(iv) The

- (iv) The neutrality of the State: the State must not belong to any political party nor be subject to particular interests. It must guarantee the freedom of the media and of business. The civil service must not be politicised. The number of posts allocated by the political authorities must be sharply reduced. «If I am elected ... I shall consider it one of my major responsibilities to guarantee the impartiality of the State». (Barre's supporters claim that this is an important point of principle for him and that his insistence on it is not aimed at any group in particular. However it is widely interpreted as a veiled denunciation of Chirac, and has been exploited by Mitterrand who has been warning that Chirac is intent on establishing an RPR state.)

Agriculture

- (i) Rural development: there must be an active policy of rural development with encouragement for rural enterprises and job creation in the countryside.

Transport

- (i) Improvement programme: there must be improvement in France's transport and communications' network with the aim of developing the potential of all France's regions, as well as forging links with other areas of Europe in the context of 1992.

Defence

- (i) Deterrence: the French deterrent remains fundamental to the country's defence. The INF Agreement has weakened deterrence and therefore European security. France should acquire ERW.
- (ii) Defence co-operation: France must guard against a Maginot Line mentality of national sanctuary and increase co-operation with European partners, including nuclear collaboration with the UK. Special emphasis must be put on the Franco-German relationship and on the need for French defence solidarity with the FRG. As part of the construction of a confederal Europe, there must be a European pole of defence to which the French nuclear deterrent, and French conventional forces «whose modernisation would be assured» would make an essential (but undefined) contribution.

(One of the dogs that has so far failed to bark during the campaign is the old charge that Barre is «soft» on the Russians and on Western defence. This is partly because he has taken considerable care in recent months to strike a firm note and partly because his opposition to the INF Agreement now makes him sound tougher than either Mitterrand or Chirac.)

/Europe


Europe

- (i) European construction: the need is for a European confederation with a diplomatic and defence personality, and with a common currency. This would be a step towards the United States of Europe. France has assets that should enable her to capitalise on the creation of a Single Market; but weaknesses in economic performance that will be liabilities if they are not rectified.
- (ii) EMS: the EMS must be completed and made more equitable. There must be progress towards a common currency with a European Central Bank established within 5 years along the lines of the US Federal Reserve. Such a Bank would set parameters for Community domestic monetary policy, and determine the relationship with non-EC currencies. The ECU should develop into a true reserve currency which would ultimately be managed by the Bank.

Conclusion

3. Barre may scorn party political programmes but he has put forward at least as many proposals as Mitterrand and Chirac, and made more effort to cost them. Indeed he claims that many of his ideas have been plagiarised by one or both of them: eg the guaranteed minimum income; investment incentives; revival of referenda. There is a good deal of truth in the charge.

4. The election may well be won in the centre which should, in theory, help Barre. In practice, with Chirac and Mitterrand disputing the same territory, Barre seems likely to be crowded out. His ideas may in large measure provide the frame of reference for the campaign but, in an election that has been more of a political beauty contest than a debate about policies, they have a better chance of lasting beyond the first round than he does.


FERGUSSON

MAN 249

EUROPEAN POLITICAL 249

WED []

SAVING TELEGRAM
FROM PARIS

CONFIDENTIAL

TO FCO TELNO SAVING 18 OF 15 APRIL 1988

SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO,
HMCGs IN FRANCE

MIP SAVINGRAM: MITTERRAND'S ELECTION COMMITMENTS

SUMMARY

1. Mitterrand stresses solidarity at home, and with the third world. He puts particular emphasis on the importance of European construction, on disarmament, and on the need to spend more on education and research if France is to adapt successfully to the challenges of the 1990s. His proposals, designed to appeal both to the Left and the Centre, appear to be in line with the mood of the electorate.

DETAIL

2. Mitterrand's undertakings are given in his open letter (my telno 340). The main points are:

The Economy

- (i) Public and Private Sectors: there is a need for balance between State and private enterprise. Wealth creation is the task of private enterprise: the State must provide stable conditions and regulate the market place. There is a role for State finance in strategic high technology sectors;
- (ii) Privatisation: no further privatisations before 1992, but no new nationalisations either. (A striking contrast with his 1981 campaign promises.) France needs a period of calm if business and industry are to be fighting fit for the Single European Market;
- (iii) Taxation: a reduction in VAT, and harmonisation of VAT rates with EC partners, although it is unrealistic to expect completion of this task by 1992; others must make sacrifices too. No change to income tax but the reintroduction of a wealth tax (affecting the top 1% of tax payers) to help fund a guaranteed minimum income. Tax incentives to encourage business investment (a policy also favoured by Barre, a proportion of whose first round voters Mitterrand hopes to attract in the second round, assuming Barre has been eliminated);
- (iv) The Plan: the spirit and approach of the immediate post-war period towards centralized long-term planning should be restored.

/Social Affairs

Social Affairs

- (i) Guaranteed Minimum Income: introduction of a guaranteed minimum income for the long term unemployed to be largely financed by the re-imposition of a wealth tax (see above);
- (ii) Social Security Benefits: reintroduction of full reimbursement of health charges for old age pensioners and for the chronically sick;
- (iii) Immigration and Race Relations: he favours giving the vote to immigrants, as in «the UK, the Netherlands and the Scandinavian countries» in local elections. But he will not try to force this on the country since unfortunately the nation is not ready. (A characteristic Mitterrand ploy, raising the possibility if only to reject it is nevertheless designed to be grist to Le Pen's mill: Mitterrand calculates that the better Le Pen does, the more Chirac will be embarrassed.) He sees no need to alter (ie toughen up) the Nationality Code (a position designed to appeal not only to the Left, but to the Centre too).

Education and Research

- (i) Education spending: education must be a top national priority (a view shared by all three major candidates). An additional 15 billion francs must be devoted to education between now and 1992. At the same time the status of the teaching profession must be raised);
- (ii) Training Credits: credits should be made available to young people who left school early and wish to resume their studies for one or two additional years to obtain a vocational qualification;
- (iii) Research: research must become the Republic's «favourite child». French companies do not employ enough scientists; there is a need for more research in industry. The Chirac government's tendency to cut back its support for civil research, and to reduce funding for CNRS, must be reversed.

NB All three candidates put great emphasis on the importance of education and research for the future health of the French economy, and for medium/long term success in combatting unemployment.

Political Institutions

- (i) The Presidency: there should be a more equal balance of power between the Elysée, Matignon and Parliament. The President should be neither the «absolutist» figure of the early Fifth Republic (ie de Gaulle), nor the figurehead of the Fourth Republic. If a large parliamentary majority

/were to

were to vote for a reduction of the presidential term from seven to five years, he would accept their recommendation. No-one should be allowed to serve for more than two five-year terms;

- (ii) Referenda: the Constitution should be amended to provide for national referenda on social issues. There should be a debate on the possibility of holding referenda in response to popular demand;
- (iii) The Media: a body with constitutional authority should be set up to guarantee the independence of broadcasting. (This would replace the CNCL and would apparently be on a par constitutionally with the Conseil Constitutionnel.)

Defence

- (i) Nuclear Deterrence: France could not adopt a strategy of flexible response. If France was forced to defend itself with nuclear weapons it should deliver a single nuclear strike as a «warning» and then, if that failed, use its full nuclear arsenal.
- (ii) Disarmament: the choice is overarmament or disarmament. France must promote the latter. He supports the US/Soviet INF agreement. France will remain loyal to her alliances, while committed to her independent defence policy, based on nuclear deterrence. «The golden rule» is that disarmament and security are two sides of the same coin. (Mitterrand is putting greater emphasis on disarmament than either of his opponents, partly because he calculates that it is more popular than Barre and Chirac realise, and partly as a way of mobilising left-wing support. Disarmament rhetoric is designed to compensate those on the Left who might be disappointed by his moderation on social and economic issues.)

Overseas and Foreign Affairs

- (i) New Caledonia: independence is not the answer since this would lead to civil war. The only chance of peace at present is justice for both the Kanaks and Caldoches within the Republic. (This is a position which has disappointed some on the Left, but pleases the Centre-Right whose support Mitterrand needs.);
- (ii) The Developing Countries: there must be a development plan which does for the economies of third world countries what the Marshall Plan did for Europe. France must reach the aid target of 0.7% of GNP, although France's aid performance is already better than that of the US or Japan. There must be debt relief: some third world debt must be cancelled; some repayments should be tied to the prices of raw materials.

/Europe

Europe

The need for European construction, and the importance of 1992, are dominant themes of Mitterrand's campaign and extensively discussed in the open letter: «France is our country, Europe is our future» «The leading commercial power in the world, (Europe) could, if it wished, become the leading scientific and technological power, the leading agricultural power, and challenge the United States and Japan for the title of leading industrial power»

- (i) ECU: the ECU must become a genuine reserve currency, in due course managed by a Central Bank;
- (ii) Single Market: the opportunities will be immense, but French industry must prepare intensively for the challenges: «I do not think that we are sufficiently aware, at the moment, of the effort to adapt and modernise which free competition among the Twelve will demand of us.»; the Community must beware of allowing the unreciprocated exploitation of the Single Market by third parties. The Single Market will also give new impetus to «the European social space» (a favourite Mitterrand idea);
- (iii) Agriculture: European agriculture is potentially the most competitive in the world and France is potentially the most efficient producer in Europe. But there is a threat from the «milk and meat» factories of northern Europe, which profit from the import of cheap cereals substitutes from the US. This is a legitimate area for EC action in defence of Europe's interests;
- (iv) Transport: major transport infrastructure projects such as the high speed train network are a key element in the construction of Europe; the Channel tunnel «a project launched jointly by Mrs Thatcher and me» is the prime example;
- (v) European Defence: if Europe is to progress, it must be able to defend itself. The question of a common defence is set to become a major issue;
- (vi) References to the UK: JET, at Culham, is mentioned as evidence of scientific collaboration within the EC; and there is reference to the Channel tunnel (see (iv) above).

Conclusion

3. Mitterrand's proposals emphasise social solidarity at home, within the wider international context of European construction, disarmament, and aid to the third world. They are deliberately Laodicean with enough to rally the Left and far Left but moderate enough to attract the pinkish Centre-Right within the present majority too, especially those genuinely fearful of the Chirac «gang». Predictably, they have been attacked by his Right-wing opponents as vague and unconvincing, as the pious

/vapourings

vapourings of an ageing figure who should see out his remaining days in his slippers by the fire, rather than lead France towards the challenges of the 1990s. These accusations of «immobilism» may have some effect; but probably not much. In part this is because opinion polls suggest that Mitterrand is in tune with the electorate on issues such as Europe, disarmament, the wealth tax and the minimum social wage; in part because neither Chirac nor Barre have put forward proposals which mark them out as significantly more «dynamic». It is to their proposals that I turn in my two immediately following Savingsgrams.


FERGUSSON

MAIN 248
EUROPEAN POLITICAL 248
WED [-]

SAVING TELEGRAM

FROM PARIS

CONFIDENTIAL

TO FCO TELNO SAVING 19 OF 15 APRIL 1988

SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO, HMCs IN FRANCE

MIP SAVING TELEGRAM: CHIRAC'S ELECTION COMMITMENTS

SUMMARY

1. Chirac promises to transform France into the «motor of Europe». His formula is to privatise, cut taxes, and promote education and research, while maintaining social solidarity. He is firm on defence (and keen to promote nuclear cooperation with the UK), and enthusiastic about the EC. He claims to offer dynamism rather than decline, but public opinion is sceptical that he could make good his promise, or that he is offering anything radically different from Barre or even Mitterrand.

DETAIL

2. Chirac has developed his ideas in a document entitled «La Décennie du Renouveau» (the decade of renewal), and in his speeches. His main proposals are:

The Economy

- (i) Continuity: efforts to reduce the burden put on private enterprise by the State, and to create a more competitive environment, must be maintained. Particular attention must be paid to small and medium-sized companies, which are the most likely creators of future employment;
- (ii) Privatisation: the privatisation programme embarked on since March 1986 should be pursued and completed (36 companies scheduled for privatisation are still in the State sector, including two major banks and three large insurance companies);
- (iii) Taxation: VAT rates should be reduced and harmonised with France's EC partners although this is not a top priority. It is more important to reduce company taxation below 40% as soon as possible; top rates of income tax must fall;
- (iv) Government Spending: the budget deficit must be reduced by 15 billion francs each year from 1989-91 accompanied by an equal reduction in taxation.

Social Affairs

- (i) Guaranteed Minimum Income: there must be a guaranteed minimum income for the long term unemployed in return for work of community benefit, to eliminate «the new poverty»;

/(ii)

- (ii) The Family: the birth rate must be increased (a long standing Gaullist obsession) by providing a guaranteed income for parents of three children, and more support in the form of longer maternity leave, more crèches, schools and housing aids;
- (iii) Social Security: greater individual responsibility must be encouraged through the freer choice of retirement age, individual pension savings plans, and greater scope for private health care provision. The hospital system should be restructured and modernised and more effort concentrated on preventive medicine, with particular regard to drug and alcohol abuse, and AIDS;
- (iv) Immigration: there must be a halt to new immigration, and a determined crackdown on illegal immigration. Immigrants already in France must be encouraged to integrate into French society. The Nationality Code should be reformed; civic education must reinforce French national identity. (These proposals, much weaker than those advocated by the RPR before the 1986 legislative elections, are designed to deter defections to Le Pen without alienating support in the Centre.)

Education and Research

- (i) Education: there must be massive expansion of technical and vocational education with the aim of ensuring that 75% of secondary school students reach baccalaureat level by the year 2000. There must be more emphasis on the three Rs in primary schools, reform of the first two years of university education, and better teacher training;
- (ii) Research: priority must be given to research to enable France to become the most powerful and dynamic economic power in Europe by the end of the century. Industrial research must receive particular attention and spending should rise by 2.5 billion francs per annum over the next seven years.

Political Institutions

- (i) The Constitution: the Constitution of the Fifth Republic is excellent and must be honoured in both letter and spirit. The use of referenda should be revived and their scope enlarged so that «the French people can decide directly on major questions of national interest».

Agriculture

- (i) Farmers: social and fiscal charges paid by farmers must be reduced; the agricultural land tax must be reformed;
- (ii) The Future: farm restructuring must continue to contribute to the agricultural sector's growing efficiency. New products and new outlets for agricultural produce must be developed.

/Defence

Defence

- (i) Deterrence: a guarded welcome for the INF Treaty is balanced with a warning that Europe's interests must not be overlooked in future US/Soviet negotiations. The process of European denuclearisation which would lead to US withdrawal must be halted. The French deterrent makes an essential contribution to peace in Europe. Nuclear forces must be modernised as required. France, while loyal to de Gaulle's decision to leave NATO's integrated military structure, will play its full part in assuring European security. France (ie Mitterrand) should not criticise NATO's strategy of flexible response but should consider how distinct French and NATO strategies could reinforce each other. He is not opposed to French production and deployment of ERW;
- (ii) Disarmament: a US/Soviet agreement on the reduction of strategic weapons must be accompanied by measures to correct the conventional and chemical imbalances in Europe. As far as conventional weapons are concerned, the objective must be to eliminate the overwhelming Soviet superiority in tanks and artillery, and the concentration of their forces «near our frontiers». By the end of the century, there should be no country in Eastern or Western Europe where there are more foreign tanks than national ones;
- (iii) Defence cooperation: Franco-German cooperation is indispensable to Europe's construction and to the strengthening of its security. France must be ready to cooperate militarily with Italy and Spain for Mediterranean security «and to open up with the UK a cooperation in the nuclear field that is consistent with our common interests».
- (iv) WEU: the WEU Charter (Platform) should serve as reference for countries wishing to join the organisation, notably Spain and Portugal. There should be a more balanced relationship between Europe and the US. The WEU can play a role in promoting this, as can French ideas designed to help the Alliance seize the initiative in arms control talks, etc.

The Developing Countries

- (i) Overseas Aid: there should be greater aid and development assistance provided in an EC context; there needs to be a world food plan on the lines advocated by Guillaume (Agriculture Minister). There must be fixed interest rates for debt repayments by developing countries, flexibility over rescheduling, and repayments linked to export earnings.

Europe

- (i) EMS: the EMS must be completed. There should be a European monetary zone with a common currency which will, in due course, require the creation of a European Central Bank;


/(ii)

- (ii) France in Europe: France must be the hub of the Community («la plaque tournante»), and the motor of European construction. To prepare for 1992 there must be improvements in economic competitiveness, expansion of communications links with the rest of Europe, and development of rural areas.

Conclusion

3. Chirac puts his proposals in the context of a ten-year programme which he claims will make France the pre-eminent country within the Community. Arguing that this task was begun when he became Prime Minister in 1986, he is asking the voters to elect him President to carry on the good work. He claims to offer a dynamic, self-confident and (implicitly) an assertive France, in contrast to Mitterrand whom he characterises as the architect and manager of French economic and political decline.

4. Chirac puts his message across with his customary energy, but so far as the polls are concerned has not yet convinced the country that the choice is as stark as he suggests or that his is the formula for national success. His two years as Prime Minister have earned him high marks in the opinion polls for the handling of law and order and terrorism, but the score card is less favourable on other issues, not least the economy, which he promised to transform before the 1986 elections. There is scepticism about his claim that he alone is able to transform France into the dynamic heart of Europe, a scepticism born of recent experience but also of a sense that, despite the rhetoric, he is not offering anything radically different overall from Barre or even Mitterrand. Moreover, it is important not to underestimate the negative emotions Chirac provokes outside the RPR, increasing as one moves Leftwards, which mean that the prospect of a possible Chirac victory may shunt a significant number of waverers into the Mitterrand camp.


FERGUSSON

MAIN 248
EUROPEAN POLITICAL 248
WED [-]

SAVING TELEGRAM
FROM PARIS

CONFIDENTIAL

TO FCO TELNO SAVING 17 OF 15 APRIL 1988

SAVING TO (FOR INFO) EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO,
HMCGs IN FRANCE

MY TELNO 340: FRANCE: ELECTION COMMITMENTS


SUMMARY

1. A campaign dominated by personalities rather than policies, with an electorate now more influenced by pragmatism than promises.

DETAIL

2. The presidential election campaign has been dominated by personalities rather than policies. Unlike 1981, the French electorate is in no mood for extravagant promises or programmes, nor is it any longer inclined to believe that there are easy answers to national problems, eg unemployment. Right and Left have now both had turns at governing the Fifth Republic and both have in some measure been found wanting. As a result the old ideological fires are banked down, and the Left/Right divide is less pronounced than at any time since the Second World War.

3. Against this background the three main candidates Mitterrand, Chirac and Barre have avoided elaborate programmes, and have stood jostling one another on the centre ground, eg each is committed to the introduction of a guaranteed minimum income for the long-term unemployed. Nevertheless, while avoiding detailed or ideologically charged manifestos, each has put forward a number of propositions designed to attract votes, and each has given undertakings about what he would do if elected. These are summarised in my three following Savingrams.


FERGUSSON

MAIN 249

EUROPEAN POLITICAL 249

WED [-]

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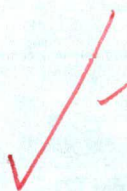
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TELNO 372

OF 191644Z APRIL 88

INFO ROUTINE EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO

INFO SAVING HMC GS IN FRANCE



MY TELNO 363: FRENCH PRESIDENTIAL ELECTIONS.

SUMMARY

1. ENCOURAGEMENT FOR MITTERRAND IN THE OPINION POLLS, AND IN CHIRAC'S DIFFICULTIES WITH LE PEN. MITTERRAND ENCOURAGES SPECULATION ABOUT A CHIRAC/LE PEN DEAL BETWEEN THE TWO ROUNDS OF THE ELECTIONS. LE PEN, WHOM POLLS SHOW WINNING 10 PER CENT OR MORE OF THE VOTE, BELIEVES HE HOLDS THE KEY TO THE RESULT. CHIRAC APPEARS TO BELIEVE HIM: MITTERRAND DOES NOT. THE BETTING IS STILL ON MITTERRAND.

DETAIL

2. TWO RECENT DEVELOPMENTS HAVE BROUGHT REASSURANCE TO MITTERRAND'S CAMP. THE FIRST WAS THE WEEKEND OPINION POLLS, WHICH SUGGESTED THAT MITTERRAND'S FIRST ROUND SCORE WOULD BE ABOUT 36 PER CENT. THIS REPRESENTS A DECLINE OF ABOUT 2 PER CENT ON THE PAST TWO OR THREE WEEKS BUT IS STILL A CONVINCING TOTAL AND GIVES HIM A LEAD OF ABOUT 13 PER CENT OVER CHIRAC. (THESE ARE THE LAST POLLS THAT ARE PERMITTED TO BE PUBLISHED BEFORE THE FIRST ROUND.)

3. THE SECOND ENCOURAGEMENT FOR MITTERRAND IS THE EMBARRASSMENT IN THE CHIRAC CAMP OVER LE PEN. MITTERRANDISTES ARE NEEDLING CHIRAQUIENS ABOUT THEIR AMBIVALENT ATTITUDE TO THE FRONT NATIONAL (FN). THE ROW HAS BEEN PROMPTED BY MITTERRAND'S OPEN LETTER (MY TELNO 340 AND MY SAVINGRAM 18), IN WHICH HE SAYS THAT HE FAVOURS VOTES FOR IMMIGRANTS IN LOCAL ELECTIONS (ALTHOUGH HE RECOGNISES THAT THE COUNTRY IS NOT YET READY FOR THIS). THIS HAS PROVOKED FIERCE DENUNCIATION FROM LE PEN WHO WARNS AT FULL THROTTLE OF THE DANGER OF FRANCE LOSING ITS IDENTITY IN A RISING TIDE OF IMMIGRANTS.

4. CHIRAC HAS BEEN CAUGHT IN THE MIDDLE, FORCED TO CHOOSE BETWEEN SAYING NOTHING, AND ALLOWING LE PEN TO ACCUSE HIM OF COMPLICITY WITH MITTERRAND, AND OF ATTACKING MITTERRAND'S PROPOSAL, AND ALLOWING THE LATTER TO ACCUSE HIM OF COMPLICITY WITH LE PEN. HE HAS CHOSEN THE SECOND COURSE, GAMBLING THAT HE WILL GAIN MORE BY PLAYING TO ANTI-IMMIGRANT AND FN SENTIMENT ON HIS EXTREME RIGHT THAN HE WILL

CONFIDENTIAL

111542
MDHIAN 6279

LOSE IN THE CENTRE.

5. MITTERRAND HAS EXPLOITED THE OPENING, LIKENING THE RPR AND THE FN TO QUOTE TWIN BROTHERS UNQUOTE. HIS CHARGES SEEM MORE PLAUSIBLE COMING AGAINST THE BACKGROUND OF RUMOURS (ENCOURAGED BY THE ELYSEE) THAT CHIRAC IS TRYING TO ENGINEER A DEAL WITH LE PEN BETWEEN THE TWO ROUNDS OF THE ELECTIONS. THERE ARE SUGGESTIONS THAT, IN RETURN FOR LE PEN'S ENDORSEMENT, CHIRAC MAY BE WILLING TO OFFER FINANCIAL INCENTIVES, SAFE SEATS FOR SOME FN MPS AT THE NEXT PARLIAMENTARY ELECTIONS, AND LOCAL AGREEMENTS BEFORE NEXT YEAR'S MUNICIPAL ELECTIONS. THERE ARE EVEN HINTS THAT CHIRAC MAY BE READY TO SCRAP THE MAJORITY VOTING SYSTEM HE REINTRODUCED IN 1986 IN FAVOUR OF SOME FORM OF PROPORTIONAL REPRESENTATION, IF THIS IS LE PEN'S PRICE. (THIS VOLTE FACE WOULD BE THE EASIER FOR CHIRAC TO STOMACH SINCE IT WOULD ALSO FIND FAVOUR WITH THE CENTRISTS, WHOSE VOTES HE NEEDS TOO.)

6. LE PEN'S DIFFICULTY OVER ANY BARGAIN IS IN BEING SURE THAT CHIRAC WILL HONOUR IT AFTER THE ELECTIONS. CHIRAC'S IS THAT, EVEN IF LE PEN DOES AGREE TO ENDORSE HIM, THERE CAN BE NO CERTAINTY THAT THE VOLATILE FN ELECTORATE WILL FOLLOW THEIR LEADER'S ADVICE IN THE SECOND ROUND. THE RISK FOR CHIRAC IS THAT THEY WILL NOT, AND THAT HIS ATTEMPTS TO WOO THE EXTREME RIGHT WILL NOT ONLY FAIL BUT WILL COST HIM VITAL VOTES IN THE CENTRE AT THE SECOND ROUND. A STATEMENT BY BARRE OVER THE WEEKEND OPPOSING ANY RPR/FN NEGOTIATIONS OR DEALS PROVIDED AN OMINOUS WARNING.

7. LE PEN IS REVELLING IN THE ATTENTION HE IS NOW ENJOYING, AND IN OPINION POLL FINDINGS WHICH SUGGEST THAT HE WILL SECURE 10-12 PER CENT IN THE FIRST ROUND. HE MAY DO EVEN BETTER. IN A CAMPAIGN IN WHICH THE THREE MAIN CANDIDATES HAVE BEEN COMPETING FOR THE CENTRE GROUND LE PEN'S STRIDENT ELECTIONEERING HAS STOOD OUT BY CONTRAST. LE PEN'S SCORE COULD BE THE SURPRISE OF NEXT SUNDAY'S VOTING.

CONCLUSION

8. LE PEN IS NOW CLAIMING TO HOLD THE KEY TO THE ELECTION. BY CHOOSING TO TAKE BARRE'S VOTE FOR GRANTED IN THE SECOND ROUND, AND GOING AFTER LE PEN'S, CHIRAC IS ACTING AS IF HE ACCEPTS THE CLAIM. MITTERRAND, ON THE OTHER HAND, DOES NOT. HE THINKS CHIRAC HAS FALLEN INTO A TRAP AND WILL NOT BE ABLE TO HOLD THE CENTRE WHILE APPEALING TO THE FAR RIGHT. THE RESULT OF THE ELECTION MAY DEPEND ON WHOSE ANALYSIS IS CORRECT. CHIRAC IS A NOTABLY AGILE POLITICIAN, BETTER THAN MOST AT RIDING TWO HORSES AT ONCE. BUT IT WILL NOT BE EASY FOR HIM TO KEEP HIS BALANCE, AND AT THE MOMENT THE BETTING IS STILL ON

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MITTERRAND.

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MAIN 248

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HP

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

20 April 1988

Michael Jay, Esq
Counsellor (Financial & Commercial)
British Embassy
35 rue du Faubourg Saint-Honore
75383 Paris

Dear Michael,

FRENCH REPORTING ON THE BRITISH ECONOMY

This is just to thank you and others for your various letters and faxes reporting overseas press reactions to the Budget. The Chancellor agrees that this has generally been most encouraging, and he is grateful to you for keeping him so closely in touch. Please keep this material flowing in - it is useful in a number of contexts.

Many thanks also, for the articles you sent earlier for the Budget Broadcast, though in the event the Chancellor decided not to use them, as the Broadcast was on the long side.

I am copying this letter to Richard Pratt in Washington, Adrian Thorpe in Bonn, and Stephen Gomersall in Tokyo.

Yours,

Maira Wallace

MOIRA WALLACE
Private Secretary



Moira P do fined

Sorry for delay. Do redraft if you wish.

AMH

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

7 April 1988

Michael Jay, Esq
Counsellor (Financial & Commercial)
British Embassy
35 rue du Faubourg Saint-Honore
75383 Paris

*Many thanks, also, for the articles
Andrew Hudson earlier
you sent for the Budget Broadcast,
though in the event the Chancellor
decided not to make this use them,
for reasons of ~~length~~ as the Broadcast
was on the long side. //*

overseas

**FRENCH REPORTING ON THE BRITISH ECONOMY
and others**

This is just to thank you for your various letters and faxes reporting the French press reaction to the Budget. The Chancellor agrees that this has generally been most encouraging, and he is grateful to you for keeping him so closely in touch. Please ~~keep~~ keep this material flowing in - it is useful in a number of contexts. //

and David Bell

I am copying this letter to Richard Pratt in Washington, Adrian Thorpe in Bonn, and Stephen Gomersall in Tokyo.

MOIRA WALLACE
Private Secretary

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FM PARIS

TO DESKBY 221000Z FCO

TELNO 382

OF 220849Z APRIL 88

INFO PRIORITY WASHINGTON, MOSCOW, UKDEL NATO, EC POSTS

INFO SAVING HMC GS IN FRANCE

MY TELNO 372: FRENCH PRESIDENTIAL ELECTIONS

SUMMARY

1. AT THE FIRST ROUND ON SUNDAY, 24 APRIL, MITTERRAND WILL COME IN WELL AHEAD. CHIRAC'S IMPRESSIVE CAMPAIGN WILL BRING HIM AHEAD OF BARRE TO CONFRONT MITTERRAND IN THE SECOND ROUND. LE PEN WILL DO WELL, MUCH BETTER THAN LAJOINIE ON THE OTHER EXTREME. THE MITTERRAND AND CHIRAC CAMPS ARE ALREADY PREPARING FOR THE SECOND ROUND RUN-OFF. MITTERRAND WILL START FAVOURITE BUT CHIRAC WILL BE MAKING AN ENERGETIC FINAL SPRINT.

DETAIL

2. THE CANDIDATES ARE MAKING THEIR FINAL EFFORTS BEFORE THE FIRST ROUND. BARRE HAD A LARGE RALLY IN LILLE YESTERDAY AND MITTERRAND HAS ONE IN PARIS TONIGHT. CHIRAC PREFERS TO CONCENTRATE ON THE MEDIA, TO WHICH HE IS GIVING NUMEROUS INTERVIEWS. VOTING TAKES PLACE ON SUNDAY. THE FINAL OUTCOME IS LIKELY TO BE CLEAR NOT LONG AFTER 2000 HOURS LOCAL TIME.

MITTERRAND

3. MITTERRAND'S CAMP ARE CONFIDENT THAT HIS DECISION TO FIGHT A SHORT CAMPAIGN HAS PAID OFF. HE HAS PLAYED DOWN HIS SOCIALIST PAST, PRESENTING HIMSELF AS A MODERATE AND SEASONED PRESIDENT IN WHOM THE NATION CAN PUT ITS TRUST. HE HAS EMPHASISED THE NEED FOR SOCIAL SOLIDARITY IN A FRANCE COMMITTED TO THE CONSTRUCTION OF EUROPE. HIS ATTACKS HAVE FOCUSED ON CHIRAC, AND SPARED BARRE, SOME OF WHOSE CONTRIST SUPPORT HE NEEDS TO ATTRACT IN THE SECOND ROUND. IT HAS BEEN A NICELY JUDGED PERFORMANCE AND EVEN IF HIS OPINION POLL RATINGS HAVE SLIPPED A LITTLE FROM THEIR EXCEPTIONAL LEVELS OF A MONTH AGO, HE REMAINS COMFORTABLY AHEAD OF THE FIELD. I EXPECT HIM TO SECURE BETWEEN 34 PERCENT AND 35 PERCENT ON SUNDAY.

CHIRAC

4. CHIRAC'S CAMP ARE EQUALLY CONFIDENT THAT HIS DECISION TO DECLARE HIS CANDIDACY EARLY WAS THE RIGHT ONE. HE HAS CRISS-CROSSED FRANCE

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SINCE JANUARY, PRESENTING HIMSELF AS THE NATURAL LEADER OF THE RIGHT WHO HAS BEGUN TO RESTORE FRENCH FORTUNES SINCE HE BECAME PRIME MINISTER DESPITE MITTERRAND'S OBSTRUCTIONISM. HE PROMISES THAT UNDER HIS DYNAMIC LEADERSHIP FRANCE WOULD BE PRE-EMINENT IN EUROPE BY THE END OF THE CENTURY. HIS ENERGETIC PERFORMANCE, SUPPORTED BY THE FORMIDABLE WELL OILED MACHINE, HAS ENABLED HIM TO CRUISE PAST BARRE BUT NOT TO NEUTRALISE THE CHALLENGE FROM LE PEN. THE LATTER WILL REMAIN AN EMBARRASSMENT AND COMPLICATION BEYOND SUNDAY'S FIRST ROUND WHEN I EXPECT CHIRAC TO OBTAIN 23 PERCENT TO 24 PERCENT AND BECOME MITTERRAND'S CHALLENGER IN THE SECOND.

BARRE

5. THOUGH HE STILL COMMANDS WIDE RESPECT PERSONALLY BARRE'S CAMPAGN HAS BEEN LITTLE SHORT OF DISASTROUS. IT HAS SUFFERED FROM BAD ORGANISATION, FROM UNDERESTIMATING CHIRAC, AND FROM AN INITIAL OVER-CONFIDENCE THAT BARRE WOULD HAVE THE CENTRE GROUND TO HIMSELF. INSTEAD MITTERRAND AND CHIRAC HAVE BEEN CHOPPING IT FROM UNDER HIM. BARRE'S CLAIM TO BE ABOVE POLITICAL PARTIES HAS ALSO BACKFIRED AS HE HAS DISCOVERED THAT POLITICAL PARTIES WIN ELECTIONS. HE HAS CHANGED DIRECTION, PACE AND HIS CAMPAIGN STAFF IN THE LAST TWO WEEKS BUT IT IS ALMOST CERTAINLY TOO LITTLE TOO LATE. UNLESS THERE IS AN EXTRAORDINARY LAST MINUTE SURGE IN HIS FAVOUR, I EXPECT HIM TO SCORE ABOUT 17 PERCENT ON SUNDAY AND THUS TO BE ELIMINATED FROM THE SECOND ROUND (HIS SERVIVAL IN POLITICAL LIFE REQUIRES HIM NOT TO DROP BELOW THIS FIGURE)

LE PEN

6. LE PEN HAS AGAIN DEFIED THOSE WHO PREDICTED THAT HIS CHALLENGE WOULD FADE AS THE ELECTIONS APPROACHED. PLAYING ON FEARS ABOUT IMMIGRATION AND LAW AND ORDER, AND PRESENTING HIMSELF AS THE CHAMPION OF THOSE WHO FEEL ALIENATED FROM OR EXPLOITED BY THE SYSTEM, HE HAS GAINED GROUND AS THE CAMPAIGN HAS PROGRESSED. HE IS A MAN OF MUCH GREATER FLAIR AND ENEGY THAN MOST PEOPLE IN THE FRENCH ESTABLISHMENT ARE HAPPY TO ADMIT AND HE ASKS THE QUESTIONS WHICH THE MAIN LINE PARTIES SHRINK FROM ASKING. HIS STRIDENCY HAS AN APPEAL (UNEVENLY DISTRIBUTED BY REGION) TO THOSE WITH STRONG STOMACHS, BORED BY AN ELECTION PITCHED AT THE MODERATE CENTRE. HIS SCORE COULD BE A SURPRISE ON SUNDAY. I EXPECT IT TO BE ABOUT 13 PERCENT: IT MIGHT BE MORE.

LAJOINIE, JUQUIN AND THE ALSO RANS

7. ON THE OTHER EXTREME, THE COMMUNIST CANDIDATE LAJOINIE HAS PLOUGHED RESOLUTELY ON, HAMPERED BY A DULL PERSONALITY AND HAUNTED BY MARCHAIS, WHO HAS SCARCELY LEFT HIS SIDE. HE HAS SET HIMSELF A

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TARGET OF 9-10 PERCENT AND, ALTHOUGH I EXPECT HIM TO FALL SHORT AND GET ABOUT 7 PERCENT, THIS IS BETTER THAN THE POLLS WERE SUGGESTING TWO OR THREE MONTHS AGO. NEVERTHELESS IT WILL MARK A FURTHER STAGE IN THE COMMUNIST PARTY'S DECLINE. JUQUIN, HIS DISSIDENT CHALLENGER, MAY GET ANOTHER 2 PERCENT, ABOUT THE LEVEL OF SUPPORT I EXPECT FOR TWO OTHER MINOR CANDIDATES, THE GREEN, WAECHTER, AND THE TROTSKYIST, LAGUILLER.

CONCLUSION

8. THE MITTERRAND AND CHIRAC CAMPS ARE CONFIDENT OF SUNDAY'S OUTCOME AND ARE ALREADY TURNING THEIR ATTENTIONS TO THE FINAL ROUND. MITTERRAND WILL THEN HAVE TO SAY AND DO ENOUGH TO RALLY ALL THE LEFT WING VOTE, AND SOME OF THE CENTRE. CHIRAC, IF HE HAS INDEED DEFEATED BARRE, WILL HAVE TO DENY MITTERRAND THE CENTRE, WHILE SIMULTANEOUSLY RALLYING LE PEN'S VOTE. MITTERRAND'S LOOKS THE EASIER TASK: PRIVATE POLLS TO WHICH WE HAVE ACCESS SUGGEST THAT HE WOULD BEAT CHIRAC BY 4-5 PERCENT. THIS IS A CONVINCING MARGIN BUT NOT UNASSAILABLE. MITTERRAND WILL START THE FINAL LAP AS FAVOURITE BUT HE WILL HAVE TO BEWARE OF CHIRAC SPRINTING ALL THE WAY.

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MY TELNO 382: FRENCH PRESIDENTIAL ELECTIONS: FIRST ROUND.

SUMMARY

1. A SATISFACTORY RESULT FOR MITTERRAND BUT A BAD ONE FOR CHIRAC, WHO WILL BE HIS CHALLENGER IN THE FINAL ROUND. CHIRAC SUFFERED FROM EVE-OF-POLL SET-BACKS, BUT HIS MAIN FAILURE WAS TO DEVISE A COHERENT STRATEGY TO COUNTER LE PEN, WHO IS THE MAIN VICTOR OF THE FIRST ROUND. AN HONOURABLE DEFEAT FOR BARRE, WHO RETAINS INFLUENCE. THE DECLINE OF THE FRENCH COMMUNIST PARTY GOES ON.

2. MITTERRAND MUST NOW RALLY THE LEFT AND SOME OF THE CENTRE: CHIRAC MUST RALLY THREE BLOCS OF MUTUALLY ANTIPATHETIC RIGHT WING VOTERS AND GALVANISE A CAMPAIGN ORGANISATION DEMORALISED BY A POOR FIRST ROUND SCORE. MITTERRAND'S LOOKS MUCH THE EASIER TASK. HE IS NOW ODDS-ON FAVOURITE FOR RE-ELECTION.

DETAIL

3. WITH MORE THAN 90 PER CENT OF THE VOTES COUNTED, THE RESULTS IN THE FIRST ROUND OF THE PRESIDENTIAL ELECTION HELD YESTERDAY (24 APRIL) ARE:

MITTERRAND (SOCIALIST)	34.1
CHIRAC (RPR)	19.0
BARRE (UDF)	16.5
LE PEN (FRONT NATIONAL)	14.4
LAJOINIE (COMMUNIST)	6.78
WAECHTER (GREEN)	3.78
JUQUIN (DISSIDENT COMMUNIST)	2.1
LAGUILLER (TROTSKYIST)	2.0
BOUSSEL (TROTSKYIST)	0.4

TURNOUT WAS 82 PER CENT, ALMOST IDENTICAL WITH THE FIRST ROUND IN 1981. MITTERRAND AND CHIRAC GO THROUGH TO THE FINAL ROUND ON 8 MAY.

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4. FOR MITTERRAND THIS IS A SATISFACTORY RATHER THAN A SPECTACULAR RESULT. HE HAS JUST FALLEN SHORT OF THE MINIMUM TARGET HE SET HIMSELF OF 35 PER CENT BUT HE FIXED THAT FIGURE IN THE EXPECTATION THAT CHIRAC WOULD OBTAIN ABOUT 25 PER CENT. INSTEAD CHIRAC HAS WON LESS THAN 20 PER CENT, GIVING MITTERRAND A COMMANDING 14 PER CENT FIRST ROUND LEAD. THE TASK FOR MITTERRAND NOW IS TO RALLY THE REST OF THE LEFT. HE HOPES TO ATTRACT 80-85 PER CENT OF LAJOINIE'S, JUQUIN'S, LAGUILLER'S AND BOUSSEL'S VOTE, WORTH ABOUT 10-11 PER CENT: TWO-THIRDS OF WAECHTER'S GREEN VOTE WORTH ANOTHER 2 PER CENT: ABOUT 20 PER CENT OF BARRE'S CENTRIST VOTE WHICH WOULD GIVE HIM ANOTHER 2-3 PER CENT: AND 20-25 PER CENT OF THE LE PEN VOTE, ALSO WORTH ABOUT 2-3 PER CENT. IF HE DOES, HE WILL BE RE-ELECTED ON 8 MAY.

CHIRAC

5. FOR CHIRAC THE RESULTS ARE A PERSONAL DISAPPOINTMENT AND A POLITICAL SETBACK. DESPITE AN IMPRESSIVE CAMPAIGN IN WHICH NEITHER EFFORT NOR MONEY HAS BEEN SPARED, HE HAS PERFORMED A LOT LESS WELL THAN EITHER HE OR HIS CAMPAIGN MANAGERS EXPECTED, OR THAN THE POLLS PREDICTED. HE HAS FALLEN SHORT OF THE PSYCHOLOGICALLY IMPORTANT 20 PER CENT MARK, AND HAS IMPROVED ON HIS FIRST ROUND SCORE IN THE 1981 ELECTIONS (WHEN HE WAS ELIMINATED) BY LESS THAN 2 PER CENT.

6. THERE ARE A NUMBER OF POSSIBLE REASONS FOR CHIRAC'S POOR SHOWING. EVE OF POLL VIOLENCE IN NEW CALEDONIA (MY TELNO 390 - NOT TO ALL) AND A BOMBING OUTRAGE IN CORSICA CAME AT A BAD MOMENT FOR A CANDIDATE WHO HAD CAMPAIGNED ON HIS LAW AND ORDER RECORD. CHIRAC MAY ALSO HAVE MISJUDGED HIS PACE IN THE FINAL WEEK OF THE CAMPAIGN, PREFERRING TO CONCENTRATE ON THE MEDIA RATHER THAN ON MEETINGS (MTUR). WHATEVER THE LAST-MINUTE EMBARRASMENTS, THE MAIN REASON FOR CHIRAC'S DISAPPOINTMENT IS LE PEN. THE FAILURE OF THE TRADITIONAL RIGHT (PARTICULARLY THE RPR) TO FIND ANSWERS TO THE QUESTIONS POSED BY LE PEN, AND TO DEFINE A STRATEGY TO DEAL WITH HIM, EMBARRASSED THEM IN THE 1984 EUROPEAN ELECTIONS, IN THE LEGISLATIVE ELECTIONS OF 1986, AND HAS NOW COMPROMISED CHIRAC'S CHANCES OF THE PRESIDENCY.

7. IT IS NOT IMPOSSIBLE FOR CHIRAC TO WIN ON 8 MAY BUT IT LOOKS VERY DIFFICULT. HE MUST RALLY BARRE'S VOTE AND LE PEN'S. IF HE DOES, AND IF HE PICKS UP A PART OF WAECHTER'S GREEN VOTE (WHICH SEEMS LIKELY) HE COULD JUST SQUEEZE HOME. BUT THE TASK OF UNITING THREE MUTUALLY ANTI-PATHETIC RIGHT WING BLOCKS BEHIND HIS LEADERSHIP, WHEN HIS AUTHORITY HAS SUFFERED FROM HIS OWN RELATIVELY POOR SHOWING, WILL REQUIRE EXCEPTIONAL SKILL. THE MORE HE APPEALS TO THE EXTREME RIGHT, THE GREATER THE RISK OF ALIENATING A SIGNIFICANT PART OF BARRE'S

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CENTRE VOTE TO MITTERRAND. ONLY IF CHIRAC CAN FIND SOME WAY OF RESOLVING THIS DILEMMA CAN HE HOPE TO WIN IN TWO WEEKS' TIME.

BARRE

8. BARRE HAS AVOIDED THE HUMILIATION THAT SOME POLLS WERE PREDICTING 2-3 WEEKS AGO. HIS SCORE IS RESPECTABLE, ONLY 3 PER CENT BEHIND CHIRAC, PRESERVING HIS POLITICAL AUTHORITY AND MAKING HIS ATTITUDE TO THE SECOND ROUND RUN-OFF IMPORTANT. HIS SUPPORT, PLEDGED TO CHIRAC LAST NIGHT ONLY FIFTEEN MINUTES AFTER THE POLLS CLOSED, WAS QUALIFIED WITH WARNINGS ABOUT THE NEED TO COUNTER RACISM AND XENOPHOBIA. THE MESSAGE TO CHIRAC - NO DEALS WITH LE PEN - HIGHLIGHTS CHIRAC'S DIFFICULTIES DISCUSSED ABOVE.

LE PEN

9. LE PEN HAS DONE SPECTACULARLY WELL. HIS SUPPORT IS STRONG IN THE SOUTH AND IN THE CITIES BUT GOES WIDER THAN THAT. THE FRONT NATIONAL (FN) CAN NOW CLAIM TO BE A NATIONAL PARTY. THE FIRST ROUND OF THE ELECTIONS IS TRADITIONALLY THE MOMENT WHEN THE ELECTORS VOTE ACCORDING TO THEIR PREJUDICES, SAVING THEIR MORE SOBER JUDGEMENT FOR THE DECISIVE SECOND ROUND. THIS THEY DID YESTERDAY. LE PEN'S TOUGH TALK ON IMMIGRATION, LAW AND ORDER, AND UNEMPLOYMENT HAS APPEAL IN THE SMARTER ARRONDISSEMENTS OF PARIS AS WELL AS IN THE GHETTOS OF MARSEILLES. THOSE WITH FEARS OR GRIEVANCES, FROM THE FAR LEFT (INCLUDING A SIGNIFICANT PROPORTION OF EX-COMMUNIST SUPPORTERS) TO THE EXTREME RIGHT, VOTED FOR LE PEN. HE BENEFITTED FROM MITTERRAND'S DELIBERATE REFERENCES TO THE NEED FOR VOTES FOR IMMIGRANTS, AND FROM THE VIOLENCE IN NEW CALEDONIA AND CORSICA.

10. WHAT LE PEN'S VOTERS DO IN THE SECOND ROUND WILL BE OF CRITICAL IMPORTANCE TO THE OUTCOME. LE PEN SAYS HE WILL MAKE HIS POSITION CLEAR AT A SPECIAL FETE HE IS ORGANISING IN PARIS ON 1 MAY TO COMMEMORATE JOAN OF ARC. THE ODDS ARE THAT HE WILL APPEAL TO HIS SUPPORTERS TO BACK CHIRAC AS THE LESSER OF TWO EVILS, BUT A SIGNIFICANT PROPORTION MAY IGNORE HIS ADVICE. (A FAIR GUESS MIGHT BE THAT HALF MAY SWITCH TO CHIRAC, A QUARTER MAY VOTE FOR MITTERRAND AND ANOTHER QUARTER ABSTAIN.) LE PEN MAY ALSO LINK HIS APPEAL TO CONDITIONS (EG ON IMMIGRATION) WHICH HE KNOWS CHIRAC WILL BE FORCED TO REJECT. IF HE DOES IT WILL BE BECAUSE HE CALCULATES PRIVATELY THAT A MITTERRAND VICTORY WILL BE MORE IN THE LONG TERM INTERESTS OF THE FN THAN A CHIRAC ONE. THE QUESTION OF WHICH ELECTORAL SYSTEM SHOULD BE RETAINED (THE FN BENEFITTED FROM PROPORTIONAL REPRESENTATION AS INTRODUCED BY THE SOCIALISTS) COULD BE VERY SIGNIFICANT.

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LAJOINIE

11. LAJOINIE'S 6.7 PER CENT MARKS A FURTHER STAGE IN THE DECLINE OF THE COMMUNIST PARTY (PCF). (MARCHAIS MANAGED 15.3 PER CENT IN 1981.) THERE IS MINIMAL CONSOLATION IN THE FAILURE OF JUQUIN'S DISSIDENT CHALLENGE TO ATTRACT MORE THAN 2.1 PER CENT, AND THE PCF IS MAKING THE MOST OF IT. BUT THERE COULD WELL BE FURTHER TURBULENCE AHEAD IN A PARTY SHOCKED TO FIND THAT LE PEN HAS ATTRACTED TWICE THE VOTE OF ITS OWN CANDIDATE. THE COMBINED TROTSKYIST VOTE WAS IN LINE WITH EXPECTATIONS. WAECHTER, THE GREEN, HAS DONE A LITTLE BETTER THAN PREDICTED, ALTHOUGH FRACTIONALLY WORSE THAN THE GREEN CANDIDATE IN 1981 WHO SECURED 3.9 PER CENT.

CONCLUSION

12. MITTERRAND'S CHANCES OF RE-ELECTION ON 8 MAY ARE VERY GOOD. HE WILL HAVE TO HOLD HIS OWN IN THE TELEVISED DEBATE THAT HE AND CHIRAC ARE TO HOLD WITHIN THE NEXT FEW DAYS. BUT HIS TASK OF RALLYING THE LEFT WHILE APPEALING TO THE CENTRE LOOKS MUCH EASIER THAN CHIRAC'S OF RALLYING A DISPARATE AND RATTLED RIGHT.

13. A MEASURE OF CHIRAC'S TASK IS THAT, IN THE HISTORY OF THE FIFTH REPUBLIC, NO-ONE WHO HAS OBTAINED LESS THAN 25 PER CENT IN THE FIRST ROUND HAS GONE ON TO WIN THE PRESIDENCY.

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FRANCE

FRANCE: ECONOMIC REPORT FOR MARCH 1988

SUMMARY -

1. There is no sign yet of the stabilisation of consumption by households predicted by INSEE. Instead preliminary indications are that it increased steadily in Q1 and that retailers expect it to continue to increase.
2. In contrast the increase in industrial production has slowed and industrialists expect it to slow further in the coming months. But investment in the competitive sector of industry has speeded up and industrialists predict that it will double in 1988 to between 7% and 8% in volume.
3. Foreign trade slumped to a deficit of F5.2 billion in February as a result of a sharp deterioration in the performance of manufactured goods.
4. The slow increase in unemployment begun in November continued in February to 2,581,900 (10.5%).
5. Inflation rose from 2.4% in February to 2.5% in March.
6. Lethargy has engulfed the stock market but share prices have remained relatively stable. The franc has also remained relatively stable.
7. The French presidential elections seem unlikely to result in a major change in the direction of French economic policy, at least in the short term.
8. The government has revised their forecast for marketed GDP growth in 1988 downwards from 2.2% to 1.9% and their forecast for consumption by households upwards. Two other forecasts put marketed GDP growth in 1988 lower.

INDEX

	<u>Paragraph numbers</u>
Summary	1 - 8
Economic Activity	
National accounts	9
Industrial production	10
Consumer spending	11
Investment	12
Balance of trade	13
Balance of payments	14
Inflation	15
Labour market	16-18
Pay	19-20
Social security	21
Financial Markets	
Shares	22-23
Financial futures	24
Bonds	25
New institutions	26
Takeovers	27
The franc	28
Fiscal Policy	
1987 budget	29
Draft 1989 budget	30
1988 budget	31
External debt	32
Assessment of Economic Prospects	33-36
Table 1	Economic activity
" 1A	Economic activity
" 2	Labour Market
" 3	Prices and Earnings
" 4	Monetary Indications
" 5	Trade
" 6	Trade
" 7	Franc: Trade with UK
" 8	Annual National Accounts
" 9	Government Forecasts for 1988 and 1989
" 10	BIPE Forecasts for 1988 and 1989

Graphs

Economic Activity

9. Provisional national accounts figures published by INSEE on 15 April show that measured in previous year's francs, total GDP grew by 2.0% in 1987 (1.9% in 1986). Marketed GDP growth, the measure usually cited by the French authorities, grew by 2.2% (1.9% in 1986).

10. The picture of economic activity in 1988 is mixed. INSEE's monthly industrial production index sa excluding building and public works (an index which accounts for 65% of industrial production) remained stable in January at 106, the index for December having been revised upwards from 105 to 106. Industrialists replying to INSEE's March monthly survey report a slowing of the steady increase in industrial production in recent months, and predict a continuing slowing down in the coming months. Stocks are below normal levels, and orders, though still higher than at end 1987, have fallen slightly.

11. Consumer spending, on the other hand, remains buoyant. There is not a complete picture, but 1988 Q1 VAT receipts were higher than the government expected, and new car registrations reached a record 538,478, 8.7% higher than 1987 Q1. (Registrations picked up strongly in March after dipping in February). Furthermore, households replying to an INSEE survey in January said they would favour spending over saving; and a March INSEE survey of the wholesale and retail trades showed that retailers are building or planning to build stocks in spite of existing high stock levels.

12. Investment in the competitive sector of industry looks buoyant too, with industrialists' replies to an INSEE survey suggesting a 1988 volume increase of 7-8% (3-4% - 1987). An analysis by Crédit National of investment patterns in 1987 suggests that large companies tended to acquire or join forces with competitors at home or abroad as a means of increasing their market share, rather than to invest. The largest proportionate increases in investment were by small and medium sized companies. Partly as a result of foreign acquisitions, there was a further increase in 1987 in French net investment abroad. Figures since 1982 are:

French Net Investment Abroad (F billions)

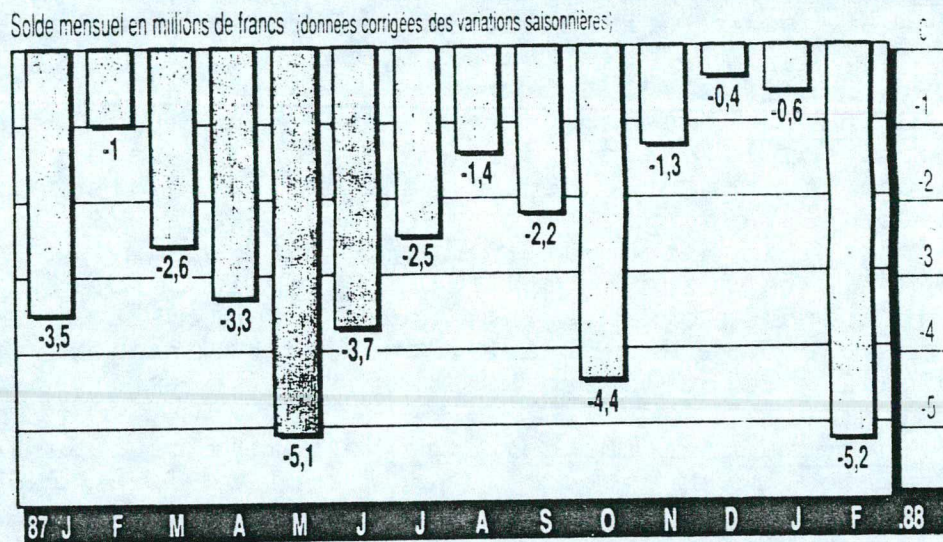
<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
20	14	18.5	20	36.2	45.9

/Balance of Trade

Balance of Trade

/and

13. There was a foreign trade deficit of F5.2 billion FOB/FOB sa in February. This follows deficits of less than F1 billion in each of the three preceding months and is substantially worse than the average F2.5 billion monthly deficit in 1987. The main reason for the poor figures was a deficit on manufactured goods of F6.5 billion CIF/FOB sa. This compares with a January deficit of F1.4 billion/an average monthly deficit in 1987 of F0.7 billion. Manufactured exports fell, while imports remained constant. The monthly trade figures have traditionally fluctuated widely (see following chart) so too much should not be read into one month's results. The cross-channel ferry strikes may be one explanation: exports to the UK were down 20%.



Balance of Payments

14. The balance of payments were in deficit by F11.17 billion in 1987 following a deficit of F31.5 billion in 1986 and a surplus of F26.22 billion in 1985. The current account was in deficit by F26.7 billion in 1987 following a surplus of F20.2 billion in 1986 and a deficit of F3.1 billion in 1985.

Inflation

15. The annual rate of inflation rose from 2.4% in February to 2.5 % in March. The retail price index rose by 0.3% in March, the first time that it has risen by more than 0.2% for 11 months. In March the annual rate of inflation in France was 1.5 percentage points higher than in West Germany.

The Labour Market

16. The latest INSEE estimates put total employment at just over 21,200,000 in 1987, more or less the same as 1986 and 1985. (Table 2 will be updated when detailed figures are available.) Falling employment in industry (100,000 jobs lost in 1987) has not been fully compensated by the rise in employment in the service sector: the balance has been achieved through an increase

in special employment measures.

17. Unemployment rose very slightly to 2,581,900 seasonally adjusted at the end of February, 10.5% of the labour force. The unadjusted total was 2,634,800. The age breakdown shows that young people's unemployment is continuing to fall, while unemployment among the 25-49 age group has risen over the past year:

	Feb 1987	Jan 1988	Feb 1988
Under 25	860,700	780,600	775,200
25-49	1,388,500	1,410,900	1,419,100
50+	396,300	386,300	387,500

18. A study of the unemployed in June 1987 found that 1,131,000 (40.5%) were not receiving benefits: of these, 21% had not applied; 37% had had applications rejected; 25% had run out of entitlements.

Pay

19. The civil service has been awarded a 1% pay increase with effect from 1 March 1988: negotiations on the rest of the 1988 award are expected after the presidential elections. The Civil Service Minister has also announced a new study of civil service pay bargaining methods, with particular reference to the scope for rewarding productivity gains. Outline plans for the 1989 budget provide for a saving of 37,500 civil service posts, following a saving of 20,000 in 1988.

20. An INSEE study of civil service pay found that real net incomes fell by 7.9% between 1978 and 1987. There was an improvement of 4.5% during 1987, principally because of a 'catching up' award by the government at the end of the year.

Social Security

21. A 10% rise in tobacco prices with effect on 18 April is expected to raise 2.4 billion francs in 1988: proceeds go to the health care system.

Financial Markets

22. Dealing in shares has been thin since the beginning of March except for a burst of activity following the announcement on 14 April of worse than expected United States trade figures for February. The average daily value of transactions fell steadily to reach F0.5 billion in the first week of April compared with F2 billion in the 10 months preceding the October stock market slump. This reflects a mixture of disillusionment as a result of the slump and uncertainty about the political scene following the presidential elections.

23. Share prices remained generally stable until the end of March when there was a small fall in prices, this was matched by an equivalent rise at the beginning of April. The CAC index reached 305 on 14 April but fell back to 296.8 on 15 April as a result of the disappointing United States trade figures.

24. On the financial futures market (MATIF) the number of contracts exchanged is averaging 1 million per month. Although this is less than a peak of 2.2 million reached in the month before the stock market slump it is more than the average for 1987 H1.

25. The bond market is thriving. Transactions totalled F246 billion in January and F292 billion in February compared with a monthly average of F198 billion in the 10 months to October 1987.

26. The new institution responsible for regulating the stock exchange, the Conseil des Bourses de Valeurs (CBV) was installed on 31 March. It will operate in conjunction with the newly created Société des Bourses Française (SBF) responsible for the day to day running of the stock exchange and the Association Française des Sociétés de Bourse responsible for relations between the dealers and the stock exchange staff.

27. The authorities have imposed a halt until after the presidential elections in the long running struggle by Schneider to takeover Télémécanique (two French companies). The takeover bid is opposed by the employees of Télémécanique and has contributed to the growing concern about the regulation of takeovers in France. (See paragraphs 25 to 28 of the MER for February). There is particular concern about what is seen as the vulnerability of French companies to takeovers by foreign companies. 72% of those replying to a survey by a leading financial magazine 'L'Expansion' said they were against foreign takeovers of French companies.

28. The franc has remained relatively stable in the run up to the presidential elections.

Fiscal Policy

29. The budget deficit in 1987 of F120 billion (2.3% of GDP) was less than the planned deficit of F129.4 billion because receipts were higher than predicted. The government also achieved its objective of making the first real cut in central government expenditure for 30 years (while cutting taxes). Receipts increased by 5.0% and expenditure by 2.5% (the retail price index increased by 3.1%). It has also succeeded in cutting total public expenditure (central and local government and social security) from 52.8% of GDP in 1986 to 52.1% in 1987 but there is strong upward pressure on social security spending, in particular on pensions.

30. The government has begun preparing the draft 1989 budget although its final form will depend on the outcome of the presidential elections. The government proposes to achieve the target it set when it was elected in March 1986 of reducing the deficit to the cost of servicing the national debt: F100 billion equivalent to 2.1% of GDP. It also plans to cut taxes by a further F15 billion. This is in keeping with a new target set in the autumn of 1987 of reducing taxes and the budget deficit by F15 billion per year until 1991.

The budget deficit would then be F70 billion.

31. The Ministry of Finance has calculated that receipts continue to be higher than expected and in 1988 Q1 were 6.7% higher than in the same period in 1987. In contrast receipts from privatisations are unlikely to attain the F50 billion provided for in the 1988 budget because of the halt in the privatisation programme following the October stock market slump. Receipts so far total F12.94 billion. These are chiefly from the sale of Matra shares and the mutualisation of Crédit Agricole. The government said on 18 April that they would be distributed as follows:

	<u>F billions</u>
Servicing and repaying the national debt	4.94
Payments outstanding to shareholders of companies nationalised in 1982	1.44
Capital grants to national enterprises	5.26
Held in reserve for use either as capital grants for motorways or the aeronautical industry	1.3
	<hr/> 12.94

The government had planned in 1988 to allocate F35 billion of privatisation receipts to servicing or repaying the national debt and F15 billion as grants to nationalised enterprises.

32. The Ministry of Finance estimates that France's medium and long term external debt diminished in 1987 by F30.7 billion to F365.6 billion. F14.6 billion of the reduction was the result of repayments and F16.1 billion the result of changes in exchange rates and revisions of previous estimates.

Assessment of Economic Prospects

33. Barring the unexpected, the prospects for the French economy look fairly stable, if unexciting, with the balance of payments likely to continue as a constraint and unemployment nagging worry. The latest government forecast is for marketed GDP growth in 1988 of 1.9%, down from the 2.2% forecast in September 1987 (see annex 9). The government predicts a 1.9% increase in household consumption, a 5.5% rise in investment, and 3.5% rise in exports, with imports up by 4.2%. Two private forecasting agencies, BIPE (see table 10) and GAMA take a slightly more pessimistic view, estimating GDP growth of 1.7% and 1.6% respectively.

34. All these forecasts imply a slowing of growth in the second half of 1988, and look if anything too pessimistic given in particular the buoyancy of consumer expenditure in 1988 Q1.

35. Much will depend on the international economic scene, and in particular growth in the United States and Germany. Furthermore a fall in the dollar could put renewed pressure on the franc/mark parity, particularly if an unsettled period follows the forthcoming Presidential elections, leading to pressures for a realignment or for higher interest rates. The balance of payments remains a worry too. A continuing run of poor figures could lead to pressure for restraints on consumer spending thereby slowing GDP growth.

36. The outcome of the Presidential elections seems unlikely to lead to a major change in economic policy, at least in the short term. Both remaining candidates, Mitterrand and Chirac, are likely to follow broadly similar market-oriented policies, although both will find it hard to keep public expenditure and the budget deficit under control, particularly given the pressure on the social security budget. There will, however, be some important differences, between a Mitterrand and a Chirac government, for example over privatisation (to continue under Chirac, but not - at least overtly - under Mitterrand), and taxation (wealth tax to be introduced by Mitterrand).

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TABLE 1

ECONOMIC ACTIVITY

(% change on year earlier)

	Real GDP (Marketed) (1)	Nominal GDP (Marketed) (1)	Total Industrial Output (1)	Manufacturing (1)	Housing Starts Thousand (2)	Retail Sales (Volume) (3) 1978=100
1984	1.4	8.8	1.6	0.1	283.2	90.5
1985	1.4	7.7	1.6	-0.7	295.5	89.3
1986	2.2	7.1	2.0	1.1	295.5	90.3
1987	:					
1986 Q4	0.1	0.2	-0.5	-0.6	88.2	90.1
1987 Q1	-0.2	1.0	-0.1	-0.8	71.0	89.0
1987 Q2	1.0	1.7	1.3	3.0	75.8	88.6
1987 Q3	1.2	2.0	0.8	0.2	70.6	89.9
1987 Q4	0.4					90.9

(1) Source: National Accounts

(2) Source: Bulletin Mensuel de Statistique (INSEE)

(3) Source: Tendance de Conjuncture: Graphique sur 10 ans (INSEE)

TABLE 1A

ECONOMIC ACTIVITY

	Industrial Production excluding building and civil engineering 1980 = 100 sa	Retail Sales value 1978 = 100 sa
1987		
February	102	174.6
March	103	165.9
April	102	179.9
May	103	174.6
June	105	168.6
July	104	180.0
August	104	172.9
September	105	177.8
October	105	181.4
November	105	177.0
December	106	180.3
1988		
January	106	178.6

Source: INSEE Informations Rapides

- (1) Statistiques du Travail, Ministère des Affaires Sociales
 (2) INSEE: Informations Rapides
 (3) INSEE: Economie et Statistiques, January 1988

TABLE 3

PRICES AND EARNINGS (% change)					
	Consumer Prices (2) Annual rate	Wholesale Prices: Metal Products (2) Annual rate	Average Earnings (1)	Unit Labour Costs: Mechanical and Electrical Industries (2)	Productivity (Annual average percentage rate of growth in the hourly productivity of labour for trading sectors excluding agriculture, housing and financial services (3))
1984	6.7	7.3	(Apr) 7.9	8.5	1967-73 5.2 1973-79 3.6 1979-85 2.5 1985-87 2.3 1987-91 2.9*
1985	4.7	-7.3	(Apr) 6.1	6.0	
1986	2.1	-4.8	(Apr) 5.3	4.5	
December			(Oct) 3.9		
1987				Monthly increase	
June	3.3	-3.7	(Apr) 3.4	0.0	
July	3.4	-2.4		0.6	
August	3.5	0.5		0.0	
September	3.2	1.3		0.3	
October	3.2	5.2		0.4	
November	3.2	5.2		0.3	
December	3.1	6.4		0.0	
1988					
January	2.4	8.3		1.0	
February	2.4				
March	2.5 (provisional)				

Table 2

LABOUR MARKET
(All figures seasonally adjusted)

	Unemployment (sa) (1)	Total Employment (2)	Employment in non- agricultural market sector (1)	Employment in Industry excluding construction (3)	Industrial Disputes working days lost (excluding agriculture and public administration (3))	
					Local Disputes	General Action
1984				(31 Dec) 5,002,200		
1985	2,459,20 (Annual average)	21,228,000	(31 Dec) 13,482,800	(31 Dec) 4,876,800	726,717	158,175
1986	(Annual average) 2,516,666	21,247,000	(31 Dec) 13,488,500	(31 Dec) 4,755,400	567,689	473,830
1987	2,622,800	21,232,000				
			(31 Mar) 13,494,300	(31 Mar) 4,733,400		7,451
			(30 Jun) 13,515,400	(30 Jun) 4,710,600		18,396
			(30 Sep) 13,491,800	(30 Sep) 4,678,900	(Jun) 37,462	13,771
Aug	2,649,200 (10.7%)				(Jul) 34,310	-
Sept	2,596,900 (10.5%)				(Aug) 5,258	-
Oct	2,571,700 (10.4%)				(Sep) 40,212	1,335
Nov	2,545,400 (10.4%)				(Oct) 56,664	8,327
Dec	2,572,800 (10.4%)				(Nov) 43,872	287
Jan 1988	2,577,800 (10.4%)				(Dec) 55,955	3,158
Feb	2,581,900 (10.5%)					

(1) INSEE Informations Rapides

(2) INSEE estimates

(3) Statistiques du Travail

Employment figures revised to take account of 1982 census results

TABLE 4

MONETARY INDICATIONS

	M1* (Annual Growth) (1)	M3* (Annual Growth %) (1)	3-month interest rate % average on the money market TIOP (1)	Government Bond Yield % long term TME (2)	Franc/ Dollar (2)	Franc/ Pound (2)
1984	10.4	9.3	11.7	(Dec) 11.79	8.74	11.64
1985	8.2	6.6	9.95	(Dec) 10.47	8.99	11.55
1986	5.9	4.4			6.93	10.16
1987						
May	4.7	7.5	8.22	8.83	5.97	9.97
June	4.5	7.6	8.33	9.32	6.08	9.91
July	3.8	7.7	7.95	9.32	6.15	9.90
August	3.1	7.8	8.00	9.85	6.20	9.90
September	3.4	8.4	7.98	10.28	6.05	9.95
October	3.7	8.9	8.33	10.66	6.02	10.00
November	4.1	9.1	8.79	10.02	5.71	10.14
December			8.63	10.00	5.39	10.13
1988						
January			7.81	9.86	5.76	10.05
February					5.74	10.07

*Calculated on the basis of a 3-month average for the same period in each year (Bank of France)

(1) Source: Banque de France, Statistique Monétaires provisoires

(2) Source: Bulletin Mensuel de Statistique (INSEE)

TABLE 5

TRADE				
(All figures seasonally adjusted)				
	Exports (1) Billions of francs FOB sa	Imports (1) Billions of francs FOB sa	Trade Balance (1) Billions of francs Francs FOB/FOB sa	Current Account Balance (2) Billions of francs sa
1984	850.1	874.8	-24.7	- 7.3
1985	906.0	936.7	-30.7	- 1.5
1986	863.6	864.1	- 0.5	20.2
1987	889.0	920.5	-31.4	(accumulated)
August	76.546	77.635	-1.089	
September	75.650	78.039	-2.389	
October	74.964	79.832	-4.868	
November	79.279	80.627	-1.348	
December	81.497	81.866	-0.369	-27.2
January	77.707	78.341	-0.634	

(1) source: INSEE Informations Rapides

(2) source: Ministry of Finance Communiqué

TABLE 6

TRADE				
Volumes and Value (1)				
	Volume of Exports billions of 1980 francs FOB	Volume of Imports billions of 1980 francs CIF	Value of Exports FOB 1980 = 100	Value of Imports CIF 1980 = 100
1986	551.8	633.1	154.6	140.4
1987	553.0	682.0	155.2	138.8
May	45.9	56.1	151.7	138.4
June	46.3	56.9	158.0	140.1
July	46.1	57.7	158.2	139.2
August	46.7	57.3	159.8	139.0
September	47.2	57.1	154.3	140.5
October	46.4	58.5	156.3	140.2
November	49.0	58.1	156.6	141.7
December	49.4	60.6	157.1	139.5

(1) Source: INSEE Informations Rapides

TABLE 7

FRANCE: TRADE WITH UK (Billions of Francs)			
	Exports to UK (FOB)	Imports from UK (CIF)	Balance (FOB/CIF)
1984	64.284	72.888	-8.604
1985	71.592	78.936	-7.344
1986	72.708	58.068	14.64
1987	75.504	67.176	8.328
July	6.403	6.013	0.39
August	6.694	6.098	0.596
September	6.565	5.414	1.151
October	6.627	6.097	0.530
November	6.844	5.755	1.089
December	7.242	5.694	1.548
1988			
January	7.302	5.106	2.196

Source: INSEE Informations Rapides

Table 8

Annual National Accounts (April 1988)	1986	1987			Value in millions of francs
	Value in millions of francs	Change over 1986 %			
		Volume	Prices	Value	
Total GDP	5.034.930	2.0	3.0	5.0	5.288.699
of which marketed GDP	4.189.772	2.2	3.1	5.4	4.415.111
Imports	1.022.639	8.5	1.3	7.0	1.094.317
Total Resources	6.057.569	3,1	2,2	5,4	6.383.016
Final household consumption	3.032.169	2.4	3.3	5.7	3.206.486
Final consumption by administrations*	978.632	2.3	2.1	4.4	1.021.827
Gross fixed capital formation	960.108	4.1	2.5	6.7	1.024.079
of which companies and self employed households	510.193	4.9	2.0	7.1	545.164
Administrations*	262.762	1,4	3,7	5,1	276.251
Change in stocks	158.631	4,2	2,2	6,5	168.918
Exports	12.054	-	-	-	30.782
Exports	1.074.606	2,4	- 0,1	2,3	1.099.842
Total	6.057.569	3,1	2,2	5,4	6.383.016

* Central government, local government, social security organisations, trade unions, employers' federation etc

Table 9

French Economy: Outturn for 1986 and 1987 and French Government's Forecasts for 1988 and 1989 (March 1988) (Les Comptes de la Nation)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
<u>International Environment</u>				
Average exchange rate of dollar in francs	6,93	6,01	5,70	5,70
Price of oil imported by France CIF (annual average in dollars per barrel)	15,1	18,0	18,0	18,7
<u>French Economy</u>				
	Percentage change unless otherwise stated			
GDP (marketed) (1)	2,0	2,1	1,9	1,9
Productive investment of companies in the competitive sector	5,6	5,4	5,5	5,5
Consumption by households	3,2	2,4	1,9	1,6
Exports	-0,6	1,6	3,5	3,7
Imports	6,1	7,3	4,2	4,1
Consumer prices:				
increase during the year	2,1	3,1	2,5	2,2
annual average increase	2,7	3,1	2,5	2,5
Purchasing power of households disposable income	3,3	1,0	1,5	1,3
Salaried employees of companies	0	0,1	0	0
Balance of trade FOB/FOB (bn of francs)	-0,5	-31,6	-30,5	-29,8
(a) Tax and social security contributions as a percentage of GDP	44,4	44,7	44,5	44,5
(b) Total deficit of central and local government and social security as % of GDP	2,9	2,3	2,2	1,9
(a) + (b) (2)	47,3	47,0	46,8	46,4
Public expenditure as a percentage of GDP	52,8	52,1	51,8	51,4

(1) Revised figure for 1987 published by INSEE in April (see table 8).

(2) This concept has been introduced into the Comptes de la Nation for the first time.

Table 10

Forecasts for the French Economy by the Bureau d'Informations et de Prévisions
Economiques (BIPE) March 1988

Percentage change unless
otherwise stated

	1988	1989
GDP (marketed)	1,7	1,3
Consumption by households	1,9	1,3
Gross fixed capital formation	2,7	1,3
of which large nationalised enterprises	0,8	5,6
companies in the competitive sector	4,6	1,2
housing	1,9	1,2
administrations	0,8	-1,1
Change in stocks (contribution to GDP: %)	(-0,3)	(0,1)
Imports	5,0	2,8
Exports	4,9	2,4
World demand for French goods	4,1	3,1
Balance of trade FOB/FOB (bn of francs)	-18,5	-24,0
Current account (bn of francs)	-11,5	-13,0
Average gross salary by head	1,5	0,3
Salaried workforce	-0,1	-0,4
Social security contributions	3,2	3,2
Households disposable income	1,8	1,1
Households savings ratio	12,7	12,5
Financial savings ratio	3,5	3,3
Companies gross profits as % of value added	31,6	32,2
Saving by companies as % of value added	14,1	14,2
Ratio of self financing by companies	82,2	82,2
Day to day money market rates (annual average)	7,5	7,2
GDP price deflators	2,7	2,7
Consumer prices: annual average	2,4	2,8
change during year	2,5	2,9

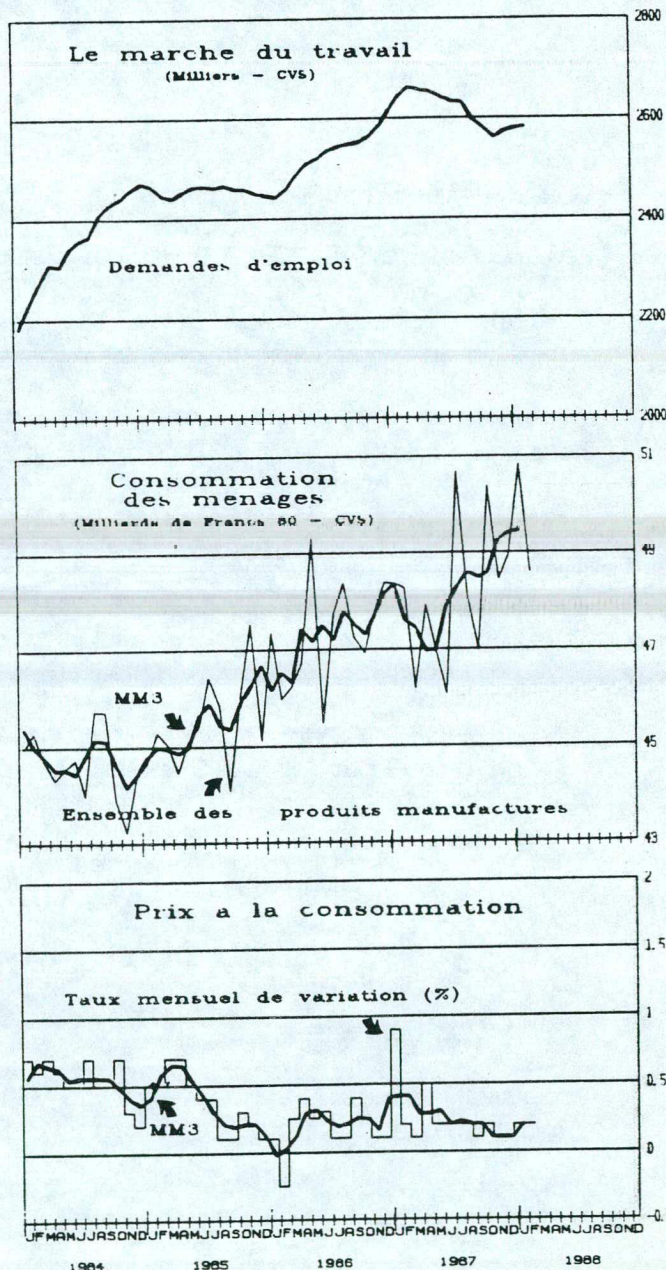
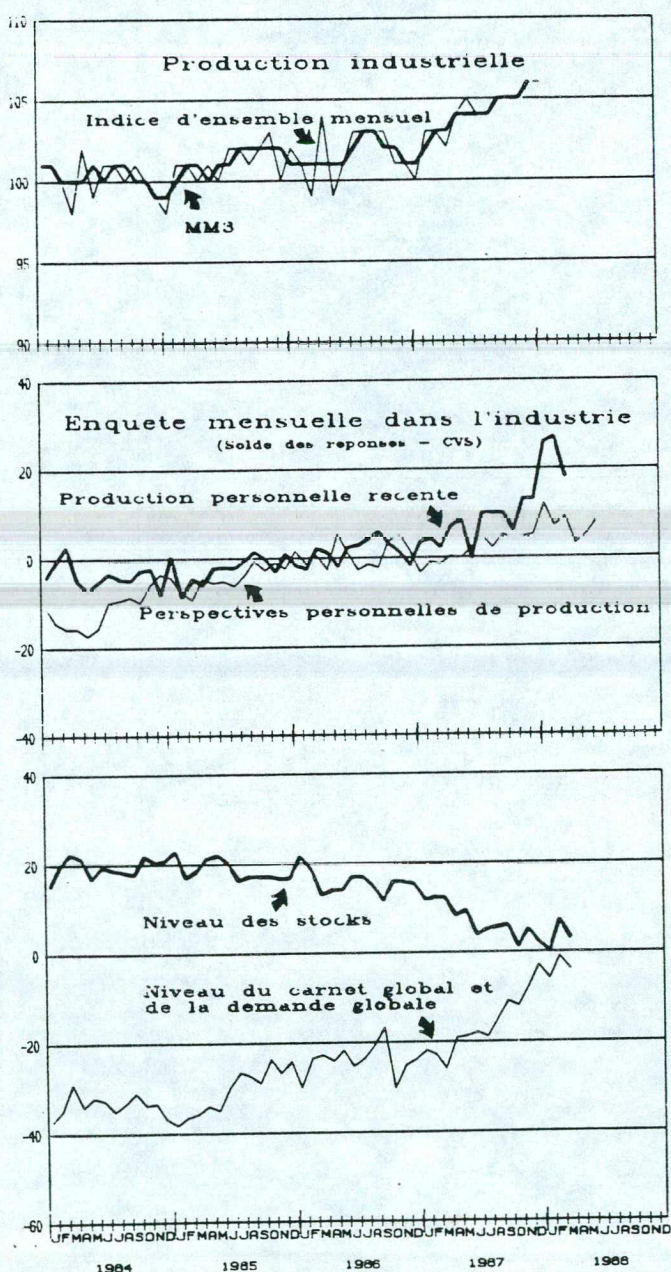
L'enquête mensuelle de mars fait apparaître une progression ralentie de l'activité industrielle, qui devrait se poursuivre au cours des prochains mois.

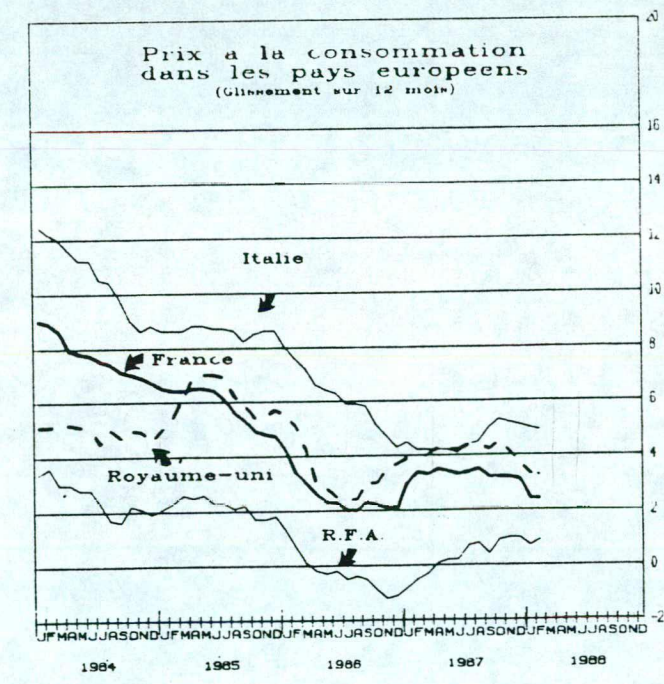
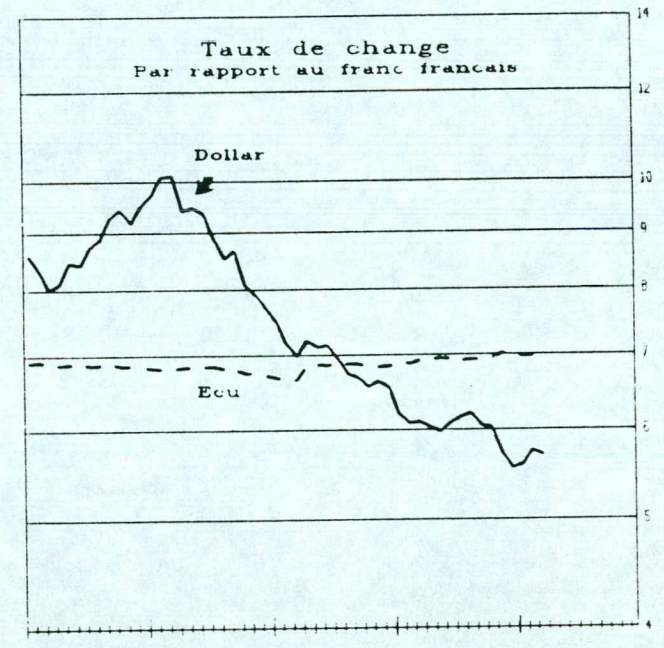
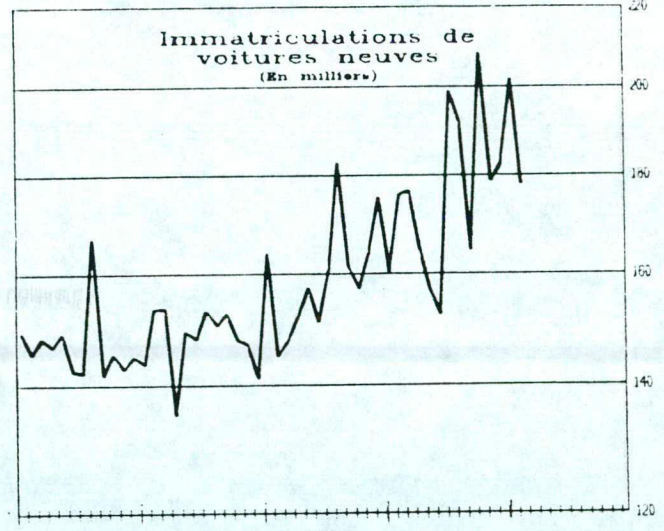
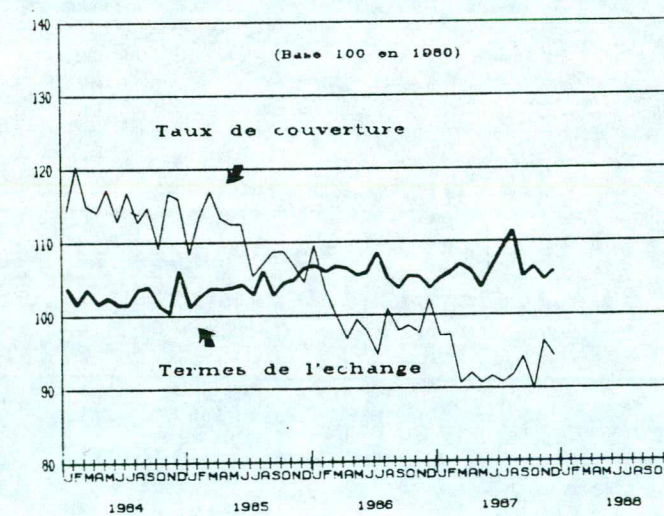
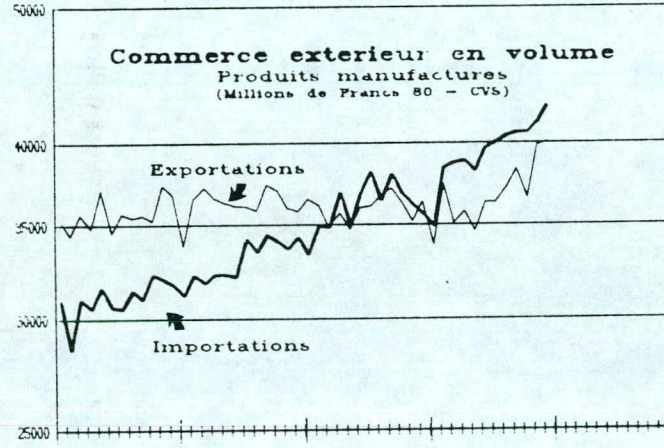
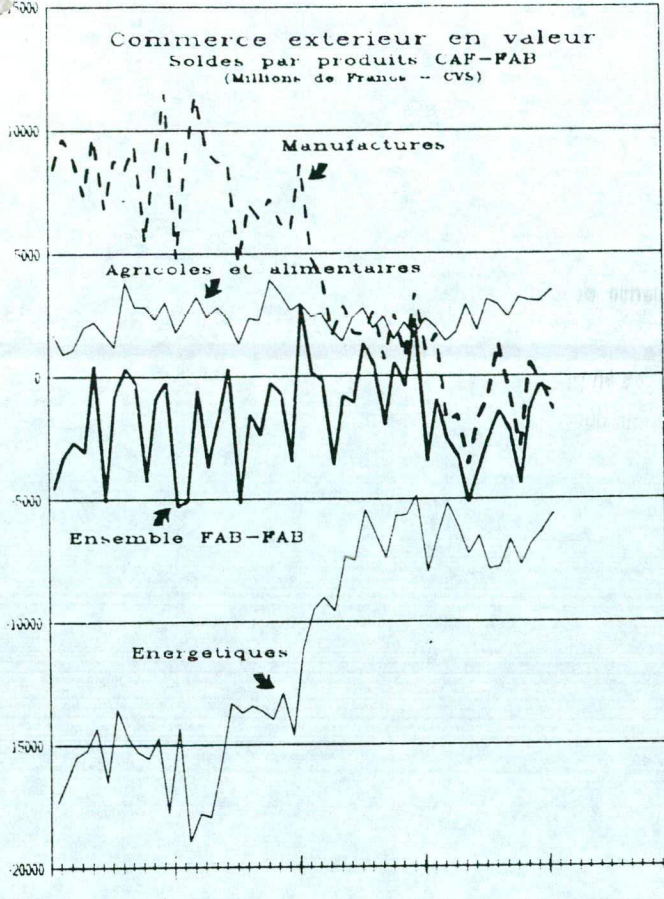
Après une hausse marquée en janvier, la consommation des ménages en produits manufacturés connaît une forte baisse en février. Ce repli concerne la quasi-totalité des produits et plus particulièrement les biens durables.

Le nombre des demandeurs d'emplois inscrits à l'ANPE progresse à nouveau très légèrement en février (+ 0,2% comme en janvier).

L'indice mensuel des prix à la consommation augmente en février, comme le mois précédent, de 0,2%.

Le solde extérieur global (FAB-FAB CVS CJO) se maintient en janvier à un niveau proche de l'équilibre (-0,6 Mds de F après -0,4 en décembre). Contrairement à la tendance des mois précédents, on observe une diminution parallèle des importations et des exportations.





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MIPT: FRENCH POLITICS AFTER THE PRESIDENTIAL ELECTION

SUMMARY

1. FRANCE FACES A PERIOD OF POLITICAL UNCERTAINTY. IF MITTERRAND IS RE-ELECTED HE HOPES TO CONSTRUCT A CENTRE-LEFT GOVERNMENT AROUND A SOCIAL DEMOCRATIC PS AND A CDS DETACHED FROM ITS UDF/RIGHT WING MOORINGS. IF CHIRAC WINS, HE WILL ENCOURAGE THE RIGHT TO SET ASIDE ITS DIFFERENCES AND UNITE IN A SINGLE PARTY. IF CHIRAC LOSES, GISCARD MAY TRY TO REASSERT HIS AUTHORITY OVER AN INDEPENDENT UDF: BARRE MIGHT ENCOURAGE THE EMERGENCE OF A CENTRE/LIBERAL BLOC. LE PEN WILL HAUNT THEM BOTH. THE FRENCH POLITICAL LANDSCAPE IS CHANGING.

DETAIL

2. FRANCE LOOK SET FOR A PERIOD OF POLITICAL TURBULENCE:

THE LEFT

3. MITTERRAND HAS INDICATED THAT IF HE IS RE-ELECTED HE WILL GOVERN FROM THE CENTRE-LEFT. WITH NO SOCIALIST (PS) MAJORITY IN PARLIAMENT, AND NO CERTAINTY THAT DISSOLVING THE ASSEMBLY AND CALLING LEGISLATIVE ELECTIONS WOULD PROVIDE ONE, POLITICAL ARITHMETIC OBLIGES HIM TO LOOK TO THE CENTRE. BUT, BEYOND THAT, MITTERRAND HAS BECOME CONVINCED THAT FRANCE CAN ONLY BE GOVERNED FROM THE CENTRE, ON THE BASIS OF BROAD CONSENSUS. THE CENTRE-LEFT DESIGN IS THEREFORE A QUESTION OF CHOICE AS WELL AS NECESSITY. AS GISCARD FOUND BEFORE HIM, HOWEVER, IT IS NOT AN EASY IDEAL TO REALISE.

4. MITTERRAND'S STRATEGY APPEARS TO BE TWO-STAGE. IN THE FIRST, HE WOULD FORM A MINORITY ADMINISTRATION COMPOSED OF MODERATE SOCIALISTS AND NON-POLITICAL FIGURES (PARA 5 OF MIPT), WHICH HE HOPES WOULD SURVIVE UNTIL THE AUTUMN, OR EVEN THE SPRING OF 1989. AMONG ITS PRIORITIES WOULD BE THE REINTRODUCTION OF A MEASURE OF PROPORTIONAL REPRESENTATION FOR PARLIAMENTARY ELECTIONS, DESIGNED TO HELP THE CENTRIST CDS (CURRENTLY PART OF THE UDF). THE SECOND STAGE WOULD BE TO HOLD ELECTIONS UNDER THE NEW SYSTEM AND TO INVITE A STRENGTHENED, AND GRATEFUL, CDS TO JOIN A CENTRE-LEFT GOVERNMENT AFTERWARDS.

PAGE 1
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5. DOUBTS HAVE ARISEN, HOWEVER, ABOUT THE TIMING. SOME IN THE PS NOW ARGUE THAT MITTERRAND CANNOT REINTRODUCE PROPORTIONAL REPRESENTATION BECAUSE AS WELL AS BENEFITTING THE CDS IT WOULD HELP SUSTAIN LE PEN'S FRONT NATIONAL. INSTEAD, MITTERRAND SHOULD CASH IN ON VICTORY BY DISSOLVING PARLIAMENT AND HOLDING NEW ELECTIONS, AFTERWARDS INVITING ELEMENTS OF THE MODERATE RIGHT (CDS BUT OTHERS TOO) CHASTENED BY A DOUBLE DEFEAT, TO JOIN A NEW CENTRE-LEFT GOVERNMENT. THEY CLAIM THAT HE CANNOT GAMBLE THAT THE CENTRE-RIGHT WILL FALL APART: HE MUST ENCOURAGE THE PROCESS.

6. MUCH WILL DEPEND ON THE SIZE OF MITTERRAND'S MAJORITY IF HE WINS. BUT HIS INTENTION IS TO COMPLETE THE TRANSFORMATION OF THE PS INTO A SOCIAL DEMOCRATIC PARTY THAT IS THE NATURAL PARTNER FOR CENTRISTS DETACHED FROM THEIR CURRENT RIGHT-WING MOORINGS. IF HE SUCCEEDS HE WILL HAVE TRANSFORMED THE POLITICAL LANDSCAPE AT THE ORTHODOX RIGHT'S EXPENSE.

THE RIGHT

7. MOST OF THOSE ON THE RIGHT SEE THE NEED FOR UNITY BUT THERE IS NO AGREEMENT ON HOW TO ACHIEVE IT, CHIRAC'S AIM IS TO UNITE ALL THE ELEMENTS OF THE PRESENT UDF/RPR MAJORITY IN A SINGLE CONSERVATIVE PARTY. LEOTARD AND HIS PARTI REPUBLICAIN (PR) LOYALISTS ARE ATTRACTED BY THE IDEA OF A SINGLE PARTY BECAUSE THEY BELIEVE THAT THEIR OWN IDEAS AND CAREERS ARE LIKELY TO PROSPER IF THEY MAKE COMMON CAUSE WITH CHIRAC. THE CDS (THE PR'S MAIN UDF PARTNERS) HAVE BEEN MUCH LESS ENTHUSIASTIC: THEIR ECONOMIC AND SOCIAL POLICIES ARE TO THE LEFT OF THE RPR'S AND PR'S: THEIR COMMITMENT TO EUROPE IS DEEPER THAN CHIRAC'S: THEY ARE ALLERGIC TO GAULLISM. IT IS THROUGH THESE ISSUES THAT MITTERRAND HOPES TO SEDUCE THEM: AND HE IS BEING HELPED BY THE UNEXPECTED WEAKNESS OF CHIRAC'S POSITION FOLLOWING THE VOTE ON 24 APRIL. ACROSS THE SPECTRUM THE DAGGERS ARE OUT.

8. IF, IMPLAUSIBLY, CHIRAC WINS ON 8 MAY, THE PROBLEM MAY RESOLVE ITSELF RELATIVELY EASILY. A SINGLE CONSERVATIVE PARTY COMPOSED OF THE RPR AND UDF (WITH OR WITHOUT THE CDS), IS LIKELY TO EMERGE.

9. IF CHIRAC LOSES, THE PROBLEM WILL BE MORE DIFFICULT. ONCE THE PRESENT GOVERNMENT RESIGNS, ITS MEMBERS WILL HAVE NO PARLIAMENTARY VOICE (SINCE MINISTERS CANNOT BE DEPUTIES) THE RPR IN THE NATIONAL ASSEMBLY WILL BE WITHOUT EFFECTIVE LEADERSHIP. GISCARD (WHO REMAINS A DEPUTY) MAY TRY TO ASSERT HIS LEADERSHIP OVER THE UDF, ARGUING THAT IT SHOULD REMAIN DISTINCT RATHER THAN THROW IN ITS LOT WITH A DEFEATED CHIRAC. IT WOULD THEN BE IN A POSITION TO BARGAIN BLOC TO BLOC WITH CHIRAC OR MITTERRAND. BARRE, (ALSO DEPUTY) WHOSE

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RELATIVELY NARROW FIRST ROUND DEFEAT BY CHIRAC SEEMS TO HAVE CONVINCED HIM THAT HE SHOULD REMAIN IN POLITICS, MAY TRY TO EMERGE AS THE POLE OF ATTRACTION OF A NEW CENTRE-LIBERAL GROUPING COMPOSED OF THE CDS, ELEMENTS OF THE PR AND EVEN OF THE RPR. LE PEN AND HIS GROUP OF FRONT NATIONAL DEPUTIES WILL HAVE A DISPROPORTIONATE SIGNIFICANCE WHATEVER HAPPENS, LE PEN MAY FIND A FERTILE HUNTING-GROUND AND THE RPR RISKS BEING MARGINALISED, WHICH IS PART OF CHIRAC'S CALCULATION AS HE REDOUBLES HIS EFFORTS TO CAPTURE THE ELYSEE.

CONCLUSION

10. THERE IS GREAT UNCERTAINTY AND APPREHENSION. THE POLITICAL MAP IS CHANGING BUT NO-ONE CAN YET DISCERN THE NEW OUTLINES. THE RESULT ON 8 MAY WILL HELP DETERMINE THE OUTCOME: SO WILL LE PEN ON WHOSE DRAMATIC APPEARANCE AT CENTRE-STAGE I SHALL COMMENT SHORTLY. THE IMMEDIATE IMPLICATION IS THAT, IN THE EVENT OF MITTERRAND'S VICTORY, WE SHOULD BE PREPARED FOR GOVERNMENTAL UNCERTAINTY AND DIFFICULTIES OVER DECISION MAKING IN THE RUN UP TO THE MADRID NAC AND THE HANOVER EUROPEAN COUNCIL.

FERGUSSON

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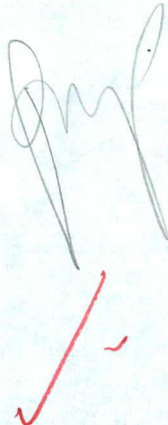
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MY TELNO 395: THE FRENCH PRESIDENTIAL ELECTIONS

SUMMARY

1. IF MITTERRAND WINS, THE NEW PRIME MINISTER AND HIS CABINET SHOULD BE KNOWN BY ABOUT 14/15 MAY. IF, AGAINST THE ODDS, CHIRAC WINS, IT WILL BE AROUND 21 MAY, THE DATE FOR THE FORMAL TRANSFER OF POWER. A MITTERRAND GOVERNMENT WOULD PROBABLY BE COMPOSED OF SOCIALISTS AND NON-PARTY FIGURES: THE CURRENT FRONT-RUNNER AS PRIME MINISTER IS BEREGOVY. A CHIRAC GOVERNMENT WOULD CONTAIN RPR AND UDF FIGURES, AND PROBABLY SOME NON-PARTY ONES TOO. HE MIGHT OFFER THE POST OF PRIME MINISTER TO THE UDF: MEHAIGNERIE IS MENTIONED. PARLIAMENT WILL GET BACK INTO ITS STRIDE IN JUNE, IF THE NEW PRESIDENT DOES NOT DISSOLVE THE ASSEMBLY. THE PROSPECTS FOR AN EARLY DISSOLUTION AND AN ASSESSMENT OF THE LONGER TERM ARE IN MIFT.

DETAIL

2. IT MAY BE HELPFUL IF I DESCRIBE THE FRENCH POLITICAL TIMETABLE FOR THE NEXT 3-4 WEEKS.

3. THE SECOND AND FINAL ROUND OF THE PRESIDENTIAL ELECTIONS TAKES PLACE ON 8 MAY. THE RESULT SHOULD BE KNOWN SHORTLY AFTER 20:00 HOURS LOCAL TIME. IT WILL NOT, HOWEVER, BECOME OFFICIAL UNTIL THE CONSTITUTIONAL COUNCIL HAS SATISFIED ITSELF THAT THERE HAVE BEEN NO IRREGULARITIES. THIS USUALLY TAKES 3-4 DAYS DURING WHICH THE POLITICAL PROCESS IS EFFECTIVELY IN A STATE OF SUSPENDED ANIMATION.

IF MITTERRAND WINS

4. IF MITTERRAND WINS, THE ELYSEE EXPECT CHIRAC TO AWAIT THE CONSTITUTIONAL COUNCIL'S FORMAL DECLARATION BEFORE RESIGNING. (HE WILL NOT BE CONSTITUTIONALLY OBLIGED TO OFFER HIS RESIGNATION BUT NO-ONE DOUBTS THAT IN PRACTICE HE WILL DO SO.) MITTERRAND WILL THEN NOMINATE A NEW PRIME MINISTER (IE ON ABOUT 12-13 MAY) WHO WILL PROBABLY ANNOUNCE HIS GOVERNMENT DURING OR JUST AFTER THE WEEK-END OF 14/15 MAY,

5. THERE IS INCREASING SPECUTLATION ABOUT THE SHAPE A NEW MITTERRAND

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GOVERNMENT WOULD TAKE. HE WILL BE MUCH INFLUENCED BY THE SIZE OF THE MAJORITY AND EVIDENCE OF A STRONG SWING IN HIS FAVOUR. THE EXPECTATION IS THAT HE WOULD TRY TO PUT TOGETHER A CABINET THAT IS DRAWN PREDOMINANTLY FROM THE SOCIALIST PARTY (PS) BUT THAT ALSO INCLUDES A NUMBER OF NON-POLITICAL FIGURES, A SIGNAL THAT HE INTENDS TO GOVERN FROM THE CENTRE-LEFT. THERE IS ALSO SPECULATION ABOUT PERSONALITIES: BEREGOVY IS CURRENTLY SEEN AS THE FRONT-RUNNER FOR PRIME MINISTER, ROCARD FOR EDUCATION, DUMAS FOR JUSTICE, AND JOSPIN FOR THE QUAI. THERE IS NO FIRM FAVOURITE FOR FINANCE, DEFENCE OR INTERIOR, ANY OR ALL OF WHICH MIGHT GO TO NON-PARTY FIGURES, ALTHOUGH DELEBARRE, BIANCO, JOXE, MME CRESSON AND A NUMBER OF OTHER PS HEAVYWEIGHTS WILL ALL BE HOPING FOR JOBS. FABIOUS SEEMS LIKELY TO REPLACE JOSPIN AS FIRST SECRETARY OF THE PS RATHER THAN RETURN TO GOVERNMENT.

IF CHIRAC WINS.

6. IN THE INCRASINGLY UNLIKELY PROSPECT THAT CHIRAC WINS, HE WILL PROBABLY REMAIN CARETAKER PRIME MINISTER UNTIL THE FORMAL TRANSFER OF POWER ON 21 MAY (THE DATE ON WHICH MITTERRAND'S CURRENT TERM ENDS). HIS FIRST ACT WOULD THEN BE TO NOMINATE HIS PRIME MINISTER WHO WOULD SUBSEQUENTLY ANNOUNCE THE NEW CABINET. HE IS LIKELY TO FORM A GOVERNMENT COMPOSED MORE OR LESS EQUALLY OF THE RPR AND UDR, POSSIBLY WITH SOME NON-PARTY FIGURES. CHIRAC IS RUMOURED ALREADY TO HAVE PROMISED JOBS TO A NUMBER OF UDF LEADERS, INCLUDING POSSIBLY MATIGNON (PRIME MINISTER) TO MEHAIGNERIE, LEADER OF THE CDS.

7. THE NATIONAL ASSEMBLY (WHOSE SESSION IS CURRENTLY SUSPENDED) IS LIKELY TO GET BACK INTO ITS STRIDE AT THE BEGINNING OF JUNE AND TO SIT IN EXTRAORDINARY SESSION UNTIL THE END OF JULY. THIS ASSUMES THAT THE NEW PRESIDENT DOES NOT DISSOLVE IT AND CALL NEW ELECTIONS, A PROSPECT EXPLORED IN THE MEDIUM/LONGER TERM ASSESSMENT OF FRENCH POLITICS PROVIDED IN MIFT.

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POSSIBLE VISIT TO LONDON BY FORMER PRESIDENT GISCARD D'ESTAING

SUMMARY

1. GISCARD HAS ASKED FOR A MEETING WITH THE PRIME MINISTER END MAY - EARLY JUNE ON THE SUBJECT OF EUROPEAN MONETARY CONSTRUCTION. RECOMMEND ACCEPTANCE, IF DIARIES FIT: GOOD OPPORTUNITY TO TALK MORE GENERALLY TO GISCARD ON THE FRENCH SCENE AFTER THE PRESIDENTIAL ELECTIONS.

DETIAL

2. SAUVET, GISCARD'S DIRECTEUR DE CABINET, CONFIRMED TODAY (LLEWELLYN SMITH'S LETTER OF 19 APRIL TO DAIN, WED) THAT GISCARD WOULD LIKE TO CALL ON THE PRIME MINISTER AT THE END OF MAY OR EARLY JUNE IN HIS CAPACITY AS JOINT CHAIRMAN (WITH SCHMIDT) OF THE COMMITTEE FOR EUROPEAN MONETARY UNION. SAUVET SAID THAT GISCARD'S AIM WOULD BE TO REPORT TO THE PRIME MINISTER ON THE WORK OF THE COMMITTEE IN GOOD TIME BEFORE THE END-JUNE HANOVER EUROPEAN COUNCIL, AT WHICH MONETARY CONSTRUCTION WAS LIKELY TO BE ON THE AGENDA. SAUVET SAID THAT GISCARD'S DIARY WAS FILLING UP, BUT THAT HE WOULD HOPE TO BE ABLE TO FIT IN WITH WHATEVER DATES WOULD SUIT THE PRIME MINISTER. HE CONFIRMED THAT ON THIS OCCASION GISCARD WAS THINKING OF A CALL ONLY ON THE PRIME MINISTER.

3. I HOPE THAT THE PRIME MINISTER MAY BE ABLE TO SEE GISCARD. WHETHER OR NOT MONETARY CONSTRUCTION IS ON THE AGENDA AT HANOVER, IT SEEMS SET TO REMAIN A LIVE TOPIC IN THE MONTHS AHEAD. GISCARD IS A POWERFUL, BUT NOT ALWAYS REALISTIC ADVOCATE OF IT, AND IT WOULD BE USEFUL IF HE WERE TO HEAR OUR VIEWS FIRST HAND. AND IF NOT MORE IMPORTANT, A MEETING AT THE END OF MAY/BEGINNING OF JUNE WOULD PROVIDE A GOOD OPPORTUNITY TO DISCUSS THE POST ELECTIORAL POLITICAL SCENE IN FRANCE, IN WHICH HE MAY HAVE AN IMPORTANT ROLE TO PLAY.

FCO PLEASE ADVANCE BRAITHWAITE, KERR, DAIN, FCO. LITTLER, TREASURY AND LOEHNIS, BANK OF ENGLAND.

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THE FRENCH ECONOMY AND THE PRESIDENTIAL ELECTIONS

SUMMARY

1. RECENT INDICATORS REASONABLY GOOD, BUT THE MEDIUM TERM STILL LOOKS DULL, LEAVING LITTLE ROOM FOR MANOEUVRE FOR A NEW GOVERNMENT AFTER THE 8 MAY PRESIDENTIAL ELECTIONS. BROAD CONSENSUS BETWEEN MITTERRAND AND CHIRAC OVER THE DIRECTION OF ECONOMIC POLICY, AND NO SUDDEN OR SHARP CHANGE LIKELY IN THE SHORT TERM, WHOEVER WINS. BUT SOME IMPORTANT DIFFERENCES TOO, EG OVER PRIVATISATION AND FISCAL POLICY, AND PATHS MAY DIVERGE IN THE LONGER TERM.

DETAIL

2. NOT A BAD PRE-ELECTION MONTH FOR THE FRENCH GOVERNMENT. GROWTH REMAINS MORE BUOYANT THAN EXPECTED, WITH CONSUMER SPENDING REMAINING STRONG AND INVESTMENT INTENTIONS ENCOURAGING. FEBRUARY'S BAD TRADE FIGURES MAY HAVE BEEN DUE IN PART TO PROBLEMS IN INTRODUCING THE SINGLE ADMINISTRATIVE DOCUMENT AND TO THE CHANNEL FERRY STRIKE: TOO MUCH SHOULD NOT PERHAPS BE READ INTO THIS. INFLATION, THOUGH UP SLIGHTLY IN MARCH ON AN ANNUAL BASIS TO 2.5 PERCENT, REMAINS WELL UNDER CONTROL. CONVENIENTLY FOR THE GOVERNMENT AND DUE AT LEAST IN PART TO SPECIAL MEASURES, UNEMPLOYMENT FELL IN MARCH FOR THE FIRST TIME THIS YEAR, AND IS NOW BACK TO THE LEVEL (10.3 PERCENT) OF APRIL 1986, WHEN THE CHIRAC GOVERNMENT TOOK OFFICE.

3. NONETHELESS, THE OUTLOOK REMAINS DULL. THE LATEST GOVERNMENT FORECAST IS FOR 1.9 PERCENT GDP GROWTH IN 1988, AND PRIVATE FORECASTERS PUT IT A BIT LOWER. DESPITE A BETTER EXPORT PERFORMANCE IN RECENT MONTHS, THE BALANCE OF PAYMENTS PROSPECTS CONTINUE TO LOOK WORRYING. AND WILL ACT AS A CONSTRAINT ON MEASURES ANY NEW GOVERNMENT MIGHT BE TEMPTED TO TAKE TO STIMULATE THE ECONOMY. THE FRANC HAS REMAINED UNUSUALLY STEADY FOR AN ELECTION CAMPAIGN, WITH LESS SPECULATION THAN NORMAL ABOUT A POST-ELECTION DEVALUATION, BUT REMAINS VULNERABLE TO EXTERNAL PRESSURES, PARTICULARLY A FALL IN THE DOLLAR. DESPITE LAST MONTH'S FIGURES, THE UNEMPLOYMENT TREND MAY STILL BE UPWARD, WITH FORECAST GROWTH UNLIKELY TO ABSORB A LABOUR

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FORCE GROWING BY 200,000 A YEAR. SOCIAL SECURITY EXPENDITURE, PARTICULARLY ON PENSIONS, CONTINUES TO BE A WORRY, AND TO ADD TO THE PRESSURE ON PUBLIC EXPENDITURE OVERALL.

4. WHOEVER WINS ON MAY 8 WILL, AS A RESULT, HAVE LITTLE ROOM FOR MANOEUVRE. THE TWO PRESIDENTIAL CANDIDATES, MITTERRAND AND CHIRAC, ARE COMMITTED TO MODERATE ECONOMIC POLICIES. WE ARE UNLIKELY TO SEE ANY SUDDEN OR SHARP CHANGE IN THE DIRECTION OF POLICY AFTER 8 MAY.

5. BROAD CONTINUITY WOULD BE ASSURED IN THE UNLIKELY EVENT THAT CHIRAC WERE ELECTED PRESIDENT. BALLADUR'S PROSPECTS OF BECOMING PRIME MINISTER ARE WANING FOLLOWING CHIRAC'S POOR SHOWING LAST SUNDAY. HE MIGHT JUST STAY AS FINANCE MINISTER, OR HE MIGHT BE REPLACED BY HIS DEPUTY JUPPE WHOSE STAR IS RISING. THESE ARE JUST TWO OF THE MANY RUMOURS DOING THE ROUNDS. WHAT IS CERTAIN IS THAT WHOEVER BECAME FINANCE MINISTER UNDER CHIRAC AS PRESIDENT WOULD AIM TO CONTINUE WITH THE POLICIES OF THE LAST TWO YEARS, STRENGTHENING THE ECONOMY BY LOWERING THE TAX BURDEN, CONTROLLING EXPENDITURE AND TAKING MEASURES TO STIMULATE ENTERPRISE AGAINST THE BACKGROUND OF THE CHALLENGE OF 1992 AND BEYOND. CHIRAC HAS SAID HE WOULD REDUCE THE BUDGETARY DEFICIT BY 15 BILLION FRANCS A YEAR OVER THE NEXT 3 YEARS, AND CONTINUE WITH THE PRIVATISATION PROGRAMME: BUT GIVEN BUDGETARY PRESSURES, AND THE UNCERTAIN STATE OF THE MARKETS, HE WOULD NOT FIND THESE EASY PLEDGES TO FULFIL.

6. THERE IS - NO DOUBT CONSCIOUSLY - RATHER LESS CLARITY ABOUT THE ECONOMIC POLICIES THAT MITTERRAND, THE CURRENT FAVOURITE, WOULD FOLLOW IF ELECTED PRESIDENT. BUT IT IS CLEAR THAT THERE WILL BE NO RETURN TO THE DISASTROUS POLICIES OF 1981 - 84. MITTERRAND IS ALMOST CERTAINLY SET TO FOLLOW THE MORE PRAGMATIC AND MARKET-ORIENTED POLICIES OF THE FABUS AND BEREGOVY YEARS OF 1984-86, A PERIOD WHICH SAW THE BEGINNING OF THE LIBERALISATION (EG OF THE FINANCIAL MARKETS) WHICH CHIRAC AND BALLADUR DEVELOPED AND EXTENDED AFTER THE RIGHT CAME TO POWER TWO YEARS AGO.

7. TO THIS EXTENT THERE WOULD BE NO FUNDAMENTAL DIFFERENCE FROM CHIRAC'S LIKELY POLICIES. BUT A MITTERRAND PRESIDENCY WOULD BRING A DIFFERENCE OF EMPHASIS IN SOME RESPECTS, EG PRIVATISATION AND FISCAL POLICY. WHILE ACCEPTING THE ROLE OF THE PRIVATE SECTOR IN WEALTH CREATION, MITTERRAND HAS SPOKEN OF THE NEED FOR ''BALANCE'' BETWEEN THE STATE AND PRIVATE SECTORS AND HAS SAID HE WILL HALT THE PRIVATISATION PROGRAMME (THOUGH INJECTIONS OF PRIVATE CAPITAL TO ALLOW STATE ENTERPRISES ''TO BREATHE'' IS NOT RULED OUT, AND THERE WILL BE NO RE-NATIONALISATION). HE IS PLEDGED TO INTRODUCE A WEALTH

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TAX, TO AFFECT 1 PERCENT OF THE POPULATION, AND HAS SAID HE WILL LEAVE INCOME TAX UNCHANGED. HE HAS ACCEPTED THE CASE FOR AN OVERALL REDUCTION IN THE TAX BURDEN, IN ORDER TO PROVIDE AN INCENTIVE FOR INDUSTRY, BUT (REALISTICALLY PERHAPS) HAS RECOGNISED THE DIFFICULTY OF DOING SO IN THE FACE OF STRONG BUDGETARY PRESSURES AND IN THE ABSENCE OF PRIVATISATION RECEIPTS. HE HAS SPOKEN TOO OF AN ENHANCED ROLE FOR THE PLAN.

8. WE ARE UNLIKELY TO GET ANY GREATER PRECISION ABOUT THE ECONOMIC POLICIES OF A MITTERRAND GOVERNMENT UNTIL AFTER 8 MAY, AND IF LEGISLATIVE ELECTIONS FOLLOW IN THE SUMMER OR AUTUMN, THE PICTURE MAY REMAIN UNCLEAR FOR SOME WEEKS OR MONTHS. NOR IS IT CLEAR WHO A MITTERRAND FINANCE MINISTER MIGHT BE. ROCARD MIGHT FILL THE JOB UNDER BEREGEVOY AS PRIME MINISTER. CONCEIVABLY THE ROLES MIGHT BE REVERSED. NALLET (FORMER SOCIALIST AGRICULTURE MINISTER) HAS BEEN MENTIONED. BUT MITTERRAND MIGHT ALSO LOOK FOR A POLITICAL FIGURE OR A TECHNOCRAT FROM OUTSIDE THE SOCIALIST PARTY. WHATEVER HAPPENS, THE PROBABILITY IS THAT FRENCH ECONOMIC POLICY WOULD CONTINUE IN THE SAME BROAD DIRECTION UNDER A MITTERRAND AS UNDER A CHIRAC PRESIDENCY, THOUGH WITH SOME DIFFERENT TWISTS AND TURNS ALONG THE ROUTE, AND AT A SLOWER PACE OF CHANGE. THE DIFFERENCE MAY NOT BE ALL THAT APPARENT OVER, SAY, THE NEXT NINE MONTHS, BUT MAY WELL BE SIGNIFICANT OVER THE NEXT FIVE YEARS OR SO.

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INFO SAVINGS CONSULS GENERAL IN FRANCE

MY TELNO 395: THE FRENCH PRESIDENTIAL ELECTIONS: SECOND ROUND

SUMMARY

1. MY TELNO 413-141 OF 28 APRIL LOOKED AHEAD TO PROBABLE DEVELOPMENTS AFTER 8 MAY. THIS TELEGRAM COVERS THE FIRST WEEK OF THE SECOND-ROUND CAMPAIGN.

2. CHIRAC IS RUNNING FLAT OUT TO TRY TO CLOSE THE GAP WITH MITTERRAND, BUT YESTERDAY'S TELEVISION DEBATE IS UNLIKELY TO HAVE MADE MUCH DIFFERENCE. NOR IS THE RITUAL ENDORSEMENT OF UDF LEADERS WHO PRIVATELY EXPECT HIS DEFEAT. MITTERRAND IS PROJECTING HIMSELF AS THE BULWARK OF A DEMOCRATIC FRANCE THREATENED BY AUTHORITARIANISM AND INTOLERANCE. HIS CAMP ARE CONFIDENT OF VICTORY AND ARE SPECULATING ABOUT A DISSOLUTION OF THE NATIONAL ASSEMBLY. CHIRAC'S HOPES OF SPRINGING A SURPRISE LOOK SLIM: HE IS CONCERNED NOW TO MINIMIZE THE SCALE OF PROBABLE DEFEAT. THE OPINION POLLS MAKE GRIM READING FOR HIM.

DETAIL

3. SINCE 24 APRIL CHIRAC HAS BEEN STRUGGLING TO GIVE THE IMPRESSION OF A MAN WHO STILL BELIEVES HE WILL WIN ON 8 MAY. HIS RESPONSE TO THE SHOCK OF HIS POOR FIRST ROUND SCORE HAS, TYPICALLY, BEEN TO ENGAGE IN A FRENETIC PROGRAMME OF MEETINGS AND MEDIA APPEARANCES AT WHICH HE HAS INSISTED THAT VICTORY IS IMMINENT.

4. HE AND HIS ENTOURAGE HAD HIGH HOPES OF THE TELEVISED DUEL IN WHICH HE AND MITTERRAND SLUGGED IT OUT FOR TWO HOURS LAST NIGHT (28 APRIL). CHIRAC ATTACKED MITTERRAND'S RECORD, PARTICULARLY ON ECONOMIC ISSUES, AND ALLEGED THAT HIS POLICIES FOR THE FUTURE WERE VAGUE OR MUDDLED. BUT MITTERRAND SOAKED UP THE PUNCHES AND THREW SOME TELLING ONES OF HIS OWN, NOTABLY ON CHIRAC'S HANDLING OF TERRORISM AND NEW CALEDONIA. THE MORNING-AFTER CONSENSUS IS THAT IT WAS A DRAW OR PERHAPS A NARROW WIN FOR MITTERRAND ON POINTS. CHIRAC NEEDED A KNOWCK-OUT.

5. CHIRAC REMAINS COUGHT BY THE NEED TO ATTRACT LE PEN'S VOTERS

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WITHOUT ALIENTATING BARRE'S. HIS STRATEGY HAS BEEN TO INSIST THAT HE WILL DO NO DEALS WITH LE PEN, WHILE SIMULTANEOUSLY SHARPENING HIS LANGUAGE ON IMMIGRATION IN THE HOPE OF APPEALING TO FRONT NATIONAL ELECTORS. AT THIS HALF-WAY POINT OF THE SECOND ROUND CAMPAIGN, HE APPEARS TO BE MAKING LITTLE IMPRESSION EITHER TO THE LEFT OR THE RIGHT. THE LATTER ARE MORE LIKELY TO HAVE BEEN INFLUENCED BY LE PEN'S SCATHING COMMENTS ON THE GOVERNMENT'S CURRENT EMBARRASMENTS IN NEW CALEDONIA (MY TELNO 405 - NOT TO ALL), WHICH INCLUDE THE KIDNAPPING OF THE COMMANDER OF AN ELITE GENDARME FORCE BY THE KANAK REBELS HE WAS SENT TO QUELL.

6. CHIRAC HAS ALSO BEEN INSISTING ON THE UNITY OF THE TRDITIONAL RIGHT, SECURING ENDORSEMENTS FROM UDF LEADERS (INCLUDING GISCARD) TO PILE ON TOP OF BARRE'S (MTUR). BUT THERE HAS BEEN A RITUAL QUALITY ABOUT THESE, AND BARRE HAS SAID SOME HARD THINGS ABOUT THE RPR'S BEHAVIOUR BEFORE THE FIRST ROUND WHILE REFERRING QUITE FAVOURABLY TO MITTERRAND.

7. PRIVATELY, MANY WITHIN THE UDF ARE CONVINCED THAT IT WILL REQUIRE A POLITICAL MIRACLE FOR CHIRAC TO WIN. DEFEATISM IS DETECTABLE TOO AMONG SOME CHIRAC SUPPORTERS WHO DISCOUNT THE POSSIBILITY THAT HE CAN ATTRACT AN EXTRA 30 PERCENT OF THE VOTE BY 8 MAY. THERE IS SPECULATION THAT EVEN SOME WITHIN THE RPR MIGHT BE WILLING TO SERVE EVENTUALLY IN A MITTERRAND COALITION GOVERNMENT.

8. MITTERRAND'S STRATEGY IS TO PRESENT HIMSELF AS THE RAIYING POINT FOR ALL WHO ARE UNEASY AT THE PROSPECT OF A CHIRAC PRESIDENCY THAT RESTS, IN PART AT LEAST, ON LE PEN'S VOTES. THE SOCIALISTS (PS) ARE CONFIDENT THAT IT IS WORKING. TALK IS NO LONGER ABOUT WHETHER MITTERRAND WILL WIN BUT BY HOW MUCH, AND ABOUT WHAT HE WILL DO WITH VICTORY. PRESSURE HAS BEEN BUILDING UP IN THE PARTY FOR A QUICK DISSOLUTION OF THE NATIONAL ASSEMBLY IF THE WINNING MARGIN IS A LARGE ONE. THE PS HOPE THEY COULD CAPITALISE ON MITTERRAND'S SUCCESS TO MAKE GAINS IN JUNE PARLIAMENTARY ELECTIONS WHICH, EVEN IF NOT ON THE 1981 SCALE, MIGHT NEVERTHELESS BE CONSIDERABLE. IN LAST NIGHT'S DEBATE MITTERRAND REAFFIRMED HIS INTENTION NOT TO DISSOLVE AT ONCE, BUT HE MIGHT BE SWAYED BY THE ARGUMENT THAT AN ENLARGED SOCIALIST BLOC IN THE ASSEMBLY WOULD BE A USEFUL INVESTMENT.

CONCLUSION

9. CHIRAC WILL RUN FLAT OUT IN THE NEXT FEW DAYS, NOT SIMPLY IN THE HOPE OF PULLING OFF A SURPRISE VICTORY, BUT ALSO TO MINIMISE THE SCALE OF ANY DEFEAT. IF HE LOSES NARROWLY HE WILL EMERGE WITH MUCH OF HIS POLITICAL CAPITAL INTACT. IF HE LOSES BADLY HIS POLITICAL

PAGE 2
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PROSPECTS AND THOSE OF THE RPR WILL BE COMPROMISED. AT PRESENT THE
OPINION POLLS MAKE OMINOUS READING FOR HIM. THE MOST FAVOURABLE
SUGGESTS HE WILL LOSE BY 47-53, THE LEAST FAVOURABLE BY 43-57.

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2 May 1988

From the Private Secretary

POSSIBLE VISIT BY FORMER PRESIDENT GISCARD D'ESTAING

I have seen the Paris Telegram No. 412 about the proposed visit of former President Giscard d'Estaing. It seems to be most unlikely that a discussion of the subjects which Giscard d'Estaing wishes to pursue with the Prime Minister would be fruitful, and the period in question is an exceptionally busy one. I think we may have to stall on this.

I am copying this letter to Alex Allan in the Treasury.

C. D. POWELL

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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Phf

FROM: S M RESZETNIAK
DATE: 3 MAY 1988
EXT: 6797

POLICY DIVISION 5
INLAND REVENUE

c Mrs Smyth
Mr Williams FIS

Mr J Taylor
HM Treasury

MARGINAL RATE OF TAX FOR APW IN FRANCE

1. You asked for an explanation of the low rate of tax paid by the French Average Production Worker (4.32 per cent as per our note of today's date).
2. A technical explanation (in manuscript) is attached. The other point to bear in mind is that social security rates in France are comparatively high, and would add another 14.6 per cent to the figure shown.

Steven Reszetaiak

S M RESZETNIAK

Mr Reszetaiak From D.I. WILLIAMS

3 May 88

FOREIGN INTELLIGENCE SECTION

X 6643

Ref: fIS/Comp 88/32

FRANCE

Nominal marginal rate on taxable income of ₣ 55127. (which is estimated from APW gross wage of ₣ 89.666) is 14.4% according to tax table. This represents an amount of tax of ₣ 2642.

The following reductions are allowed:

A. ("Décote") Tax is reduced by the difference between ₣ 4400 and the tax (in this case ₣ 1742); tax is therefore ₣ 884.

B. ("Minoration") If the ^{original} tax is under ₣ 23 280 it is ^{further} reduced by 11%, in this case ₣ 884 - 11% = ₣ 786.

Therefore in this case tax has been reduced by $\frac{1856}{2642} \approx 70\%$. Effective marginal rate is therefore $14.4\%(-70\%) = 4.32\%$ DW.

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INFO SAVING CONSULS GENERAL IN FRANCE

MY TELNO 414: THE FRENCH PRESIDENTIAL ELECTIONS

SUMMARY

1. LE PEN HAS HINTED THAT HIS SUPPORTERS SHOULD ABSTAIN IN THE SECOND ROUND. HIS APPEAL CONSISTS OF OFFERING SIMPLISTIC AND NATIONALISTIC SOLUTIONS TO COMPLEX ECONOMIC AND SOCIAL PROBLEMS. THIS ATTRACTS THOSE WHO BELIEVE THEIR FEARS AND CONCERNS ARE IGNORED BY OTHER POLITICIANS. THE PROBLEM OF LE PEN LOOKS LIKE DOMINATING FRENCH POLITICS AFTER THE ELECTIONS. THE TRADITIONAL RIGHT WILL HAVE TO DECIDE WHAT TO DO ABOUT HIM: SO WILL MITTERRAND.

DETAIL

2. LE PEN STAGED A RALLY IN PARIS ON 1 MAY TO COMMEMORATE JOAN OF ARC. (THIS IS AN ANNUAL FRONT NATIONAL (FN) EVENT, HELD EARLY THIS YEAR SO THAT IT WOULD FALL BETWEEN THE TWO ROUNDS OF THE ELECTION.) DESPITE HEAVY RAIN IT DREW CROWDS OF 25-30,000. INTEREST CENTRED ON WHAT ADVICE LE PEN WOULD GIVE HIS SUPPORTERS FOR THE SECOND ROUND. IN THE EVENT HE ADVISED FIRMLY AGAINST VOTING FOR MITTERRAND: SAID HE COULD UNDERSTAND A VOTE FOR CHIRAC ON THE BASIS OF CHOOSING THE QUOTE BAD UNQUOTE RATHER THAN THE QUOTE WORSE UNQUOTE: BUT HINTED THAT HIS OWN PREFERENCE WAS FOR ABSTENTION. IT WAS A CAREFUL FORMULATION DESIGNED TO AVOID ACCUSATIONS OF HELPING MITTERRAND WHILE DOING NOTHING TO PROMOTE A CHIRAC VICTORY.

3. LE PEN TOUCHED ON OTHER THEMES, WHICH HE WRAPPED IN A HEADY MIXTURE OF NATIONALISM, HISTORICAL MYSTICISM AND HINTS OF DIVINE INSPIRATION. HE REFERRED (IN RELATIVELY RESTRAINED TERMS) TO UNEMPLOYMENT, LAW AND ORDER, AND IMMIGRATION. HE DENOUNCED THE MEDIA AND THE POLITICAL ESTABLISHMENT. HE CLAIMED THAT AS CHAMPIONS OF HARD WORK AND FAMILY VALUES, HE AND HIS SUPPORTERS WERE THE AUTHENTIC VOICE OF TRADITIONAL, CATHOLIC, FRANCE. (BEFORE DELIVERING HIS SPEECH AGAINST THE BACKDROP OF A GIANT DRAWING OF A TRIUMPHANT JOAN OF ARC, LE PEN ATTENDED A LATIN MASS CELEBRATED BY FOLLOWERS OF THE TRADITIONALIST ARCHBISHOP LEFEBVRE.)

4. THESE THEMES, DELIVERED BY LE PEN'S DIRECT AND FORCEFUL ORATORY, ILLUSTRATE THE RANGE OF HIS APPEAL. WITHIN THE ELECTORATE, THE FOLLOWING FACTORS MAY EXPLAIN HIS SUCCESS:

(I) HE PROVIDES A RALLYING POINT FOR THE QUOTE OUTSIDERS UNQUOTE, THE DIVERSE ELEMENTS OF THE TRADITIONAL (NON-GAULLIST) AND AUTHORITARIAN FRENCH RIGHT. HE APPEALS TO FRINGE GROUPS SUCH AS MONARCHISTS, TO CATHOLIC TRADITIONALISTS, AND TO THE CURRENT OF OPINION ATTRACTED BY THE PETAINIST SLOGANS OF QUOTE FAMILY, WORK AND MOTHERLAND UNQUOTE. HIS ANTI-SEMITISM FINDS A READY ECHO AMONG THOSE FOR WHOM DREYFUS STILL LIVES.

(II) HE SPEAKS OUT STRONGLY ON ECONOMIC AND SOCIAL PROBLEMS, SUCH AS UNEMPLOYMENT, LAW AND ORDER, AND IMMIGRATION, OFFERING SIMPLISTIC BUT COMPREHENSIBLE SOLUTIONS TO THOSE WORKING CLASS AND LOWER MIDDLE CLASS VOTERS MOST DIRECTLY AFFECTED. BY ARGUING THAT EXPELLING IMMIGRANTS WOULD SOLVE UNEMPLOYMENT, HE APPEALS TO THOSE WHO ARE OUT OF WORK OR FEAR FOR THEIR JOBS, AND TO THOSE ALARMED BY THE HIGH CONCENTRATION OF NORTH AFRICAN, MUSLIM IMMIGRANTS IN THE BIG CITIES. HE ALSO ATTRACTS SMALL BUSINESSMEN, SHOPKEEPERS AND ARTISANS WHO REACT WITH QUOTE POUJADISTE UNQUOTE HOSTILITY TO THE LINKING OF FRANCE'S FUTURE WITH THE EC, WHICH THEY SEE AS A RISK TO THEIR LIVELIHOOD AND IDENTITY. HE THUS PROFITS FROM THE INNATE CONSERVATISM OF MANY FRENCHMEN WHO SEE THE MUCH PUBLICIZED APPROACH OF "'1992'" AS A THREAT AND NOT A CHALLENGE.

(III) HE EXPRESSES AN EXASPERATION WITH THE POLITICAL ESTABLISHMENT ACROSS THE TRADITIONAL PARTY SPECTRUM WHICH IS SHARED BY MANY (PARTICULARLY ON THE RIGHT) WHO BELIEVE THAT FRENCH POLITICIANS ARE OUT OF TOUCH WITH ORDINARY PEOPLE, AND MORE CONCERNED WITH THEIR OWN AMBITIONS THAN WITH NATIONAL PROBLEMS. HE IS THE SELF-PROCLAIMED QUOTE OUTSIDER UNQUOTE APPEALING TO THOSE WHO BELIEVE THAT THEY HAVE BEEN MADE OUTSIDERS BY A SYSTEM WHICH NEITHER CARES ABOUT NOR UNDERSTANDS THEM.

(IV) GAULLISM, COMMUNISM AND THE CATHOLIC CHURCH HAVE ALL TO SOME DEGREE LOST THEIR MODERN RELEVANCE. TO VOTERS WHO HAVE LOST THEIR POINTS OF POLITICAL AND MORAL REFERENCE, LE PEN'S NATIONALISM HAS CONSIDERABLE ATTRACTION.

5. LE PEN HAS ALSO BEEN LUCKY. THE DIVISIONS AND QUARRELS OF THE TRADITIONAL RIGHT, AND THE LIMITED RANGE OF CHIRAC'S PERSONAL APPEAL, HAVE PROVIDED HIM WITH A GOOD OPENING. WITH 14.4 PER CENT OF THE VOTE NATIONALLY, AND NEAR 30 PER CENT IN SOME MAJOR CITIES HE HAS ACQUIRED A POLITICAL WEIGHT WHICH PUTS HIM ON ALMOST EQUAL TERMS WITH THE UDF AND RPR. THE LATTER MUST NOW DECIDE HOW TO ADJUST TO HIM IN A POLITICAL LANDSCAPE WHICH WILL CHANGE SIGNIFICANTLY AFTER

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THE ELECTIONS (MY TELNO 413) AND WHICH LE PEN WILL HELP TO SHAPE. REACTIONS WILL VARY. SOME WILL OPPOSE LE PEN VIGOROUSLY WHILE OTHERS (MAINLY ON THE RPR'S RIGHT-WING) WILL BE TEMPTED TO DO DEALS. LE PEN MAY MAKE IT EASIER FOR THOSE INTERESTED IN AN ALLIANCE WITH HIM BY MODERATING HIS RHETORIC AND STANCE. DESPITE HIS DENUNCIATIONS OF THE FRENCH POLITICAL CLASS, THERE ARE SIGNS THAT LE PEN WANTS RECOGNITION AND RESPECTABILITY.

6. THE ''BALKANISATION'' OF THE RIGHT INTO THREE ROUGHLY EQUAL GROUPINGS SUITS MITTERRAND WELL IN THE SHORT-TERM. IT SHOULD FACILITATE HIS RE-ELECTION ON 8 MAY, AND HELP HIM TO DIVIDE AND RULE THERAFTER. BUT IN THE LONGER TERM SOME (INCLUDING SOCIALISTS) ARE WORRIED THAT IT MAY PROVE DIFFICULT TO RE-ESTABLISH A STRONG, MODERATE CENTRE-RIGHT, THE COUNTERBALANCE FOR THE SOCIAL DEMOCRATIC PARTY WHICH THE PS HAS BECOME. THEY ASK WHETHER THE LE PEN GENIE (PARTLY ENCOURAGED BY MITTERRAND'S INTRODUCTION OF PROPORTIONAL REPRESENTATION FOR THE 1986 PARLIAMENTARY ELECTIONS) CAN NOW BE PUT BACK INTO THE BOTTLE. AND THEY ARE CONCERNED ABOUT FRANCE'S IMAGE ABROAD (MY WEST GERMAN COLLEAGUE, WHO STOOD IN THE FN CROWD ON 1 MAY, THOUGHT THAT THE RALLY QUOTE SMELT HORRIBLY OF WEIMAR UNQUOTE). THE PUNDITS ARE NOW GRAPPLING WITH THE SOCIOLOGY OF LE PEN'S VOTERS AND THE POLITICAL IMPLICATIONS OF HIS SUCCESS. THERE WILL BE MORE TO SAY ON THIS: E.G. THE DEGREE TO WHICH THE NEXT FRENCH GOVERNMENT WILL FEEL CONSTRAINED IN ITS EUROPEAN POLICIES BY THE ATTITUDES OF LE PEN'S FOLLOWERS. THESE ARE AMONG THE QUESTIONS WHICH WILL DOMINATE FRENCH POLITICS AFTER 8 MAY.

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TO DESKBY 061100Z FCO

TELNO 445

OF 061032Z MAY 88

INFO PRIORITY WASHINGTON, MOSCOW, UKDEL NATO, EC POSTS
INFO SAVING HM CONSULS GENERAL IN FRANCE

MY TELNO 424: THE FRENCH PRESIDENTIAL ELECTIONS

SUMMARY

1. THE RELEASE OF THE HOSTAGES, AND EVENTS IN NEW CALEDONIA, HAVE BROUGHT LATE UNCERTAINTY TO THE ELECTION. THE CHIRAC CAMP, WHOSE MORALE HAS SOARED, HOPE THAT POPULAR RELIEF WILL TRANSLATE INTO POLITICAL SUPPORT. BUT THE EQUATION MAY BE MORE COMPLICATED. THE CENTRE ARE UNEASY ABOUT CHIRAC'S HANDLING OF BOTH CRISES AND, ALTHOUGH LE PEN HAS APPLAUDED THE DENOUEMENT IN NEW CALEDONIA, HE HAS CONDEMNED CHIRAC FOR NEGOTIATING OVER THE HOSTAGES. I STILL EXPECT MITTERRAND TO WIN.

DETIAL

2. THE RELEASE OF THE THREE FRENCH HOSTAGES IN BEIRUT (MY TELNOS 430, 432 AND 433 OF 5 MAY, NOT TO ALL), AND THE LIBERATION OF THE KIDNAPPED GENDARMES IN NEW CALEDONIA (MY TELNO 442 OF 5 MAY, NOT TO ALL) HAVE BROUGHT LAST MINUTE UNCERTAINTY TO THE ELECTION CAMPAIGN.

3. UNTIL 4 MAY THE PATTERN WAS CLEAR. MITTERRAND'S PROMISE TO UNITE THE COUNTRY AROUND MODERATE POLICIES HAD GIVEN HIM A COMMANDING LEAD. CHIRAC'S ATTEMPTS TO DENT IT, BY CONCENTRATING HIS ATTACKS ON MITTERRAND PERSONALLY, SHOWED LITTLE SIGN OF SUCCESS. (PRIVATE OPINION POLLS SUGGESTED THAT HE WAS TRAILING BY 8-10 PERCENT.) THE HOSTAGES' RELEASE AND THE ACTION IN NEW CALEDONIA HAVE SUDDENLY CHANGED THE PICTURE. THE QUESTION NOW IS WHETHER POPULAR RELIEF, AT WHAT CHIRAC'S CAMP IS CLAIMING AS A DOUBLE SUCCESS, WILL TRANSLATE INTO A SURGE OF POLITICAL SUPPORT THAT WILL ENABLE HIM TO CATCH AND PERHAPS OVERTAKE MITTERRAND.

4. CHIRAC'S SUPPORTERS HOPE SO. THEIR MORALE, BADLY BRUISED BY HIS POOR FIRST ROUND SCORE, HAS BEEN RESTORED. THEY ARE CONVINCED THAT THERE WILL BE A SWING TOWARDS HIM AS HE IS GIVEN CREDIT FOR SOLVING THE LONG-RUNNING LEBANESE HOSTAGE PROBLEM. THEY ALSO BELIEVE THAT HIS DISPLAY OF FIRMNESS OVER NEW CALEDONIA WILL APPEAL TO ELECTORS LOOKING FOR A STRONG, NATIONALIST LEADER, IN PARTICULAR THOSE WHO VOTED FOR LE PEN IN THE FIRST ROUND. BUT THERE ARE FEW CHIRAC

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SUPPORTERS WHO ARE OPTIMISTIC ENOUGH TO COUNT ON VICTORY. GENERAL RELIEF AT THE HOSTAGES' RELEASE IS QUALIFIED BY DOUBTS ABOUT THE PRICE WHICH CHIRAC MAY HAVE PAID, AND SUSPICIONS THAT HE MANIPULATED THE TIMING FOR ELECTORAL REASONS. PRIVATELY THE CENTRE RIGHT ARE UNEASY, WHILE PUBLICLY LE PEN HAS CONDEMNED CHIRAC FOR DOING DEALS WITH TERRORISTS. (THIS ATTACK COULD COST CHIRAC SOME OF THOSE FRONT NATIONAL (FN) VOTES WHICH HE HOPES TO ATTRACT AS THE RESULT OF THE ACTION IN NEW CALEDONIA.)

5. THE NEW CALEDONIA ISSUE MAY ALSO BE LESS STRAIGHT-FORWARD THAN IT APPEARS. THE USE OF FORCE APPEALS TO FN AND RPR VOTERS BUT THE IMPACT ON THE REST OF THE ELECTORATE IS MUCH LESS CERTAIN. SOME IN THE CENTRE ARE CRITICAL OF THE NUMBER OF CASUALTIES INVOLVED IN THE OPERATION (NOW GIVEN AS 21 DEAD). THEY MAY WONDER WHETHER MITTERRAND IS RIGHT TO WARN THAT CHIRAC'S POLICIES RISK PROVOKING SOCIAL CONFRONTATION, NOT ONLY IN NEW CALEDONIA BUT IN METROPOLITAN FRANCE AS WELL. THEY ARE ALSO MORE CONSCIOUS THAN THEIR RPR PARTNERS APPEAR TO BE OF THE RISK OF A BLOODY KANAK REACTION IN THE NEXT 36 HOURS WHICH WOULD OVERSHADOW THE RECENT SUCCESS OF RECOVERING THE KIDNAPPED GENDARMES.

7. THE FALL-OUT FROM THE HOSTAGES' RELEASE AND EVENTS IN NEW CALEDONIA WILL CONTINUE UNTIL VOTING TAKES PLACE. IT IS DIFFICULT TO CALCULATE THE EFFECT, MY GUESS IS THAT CHIRAC WILL BE HELPED BY WHAT HAS HAPPENED BUT NOT DRAMATICALLY, AND NOT ENOUGH TO AFFECT THE OUTCOME OF THE ELECTION. I STILL THINK THAT MITTERRAND WILL WIN. A VICTORY OF 9-10 PERCENT IS NOW LESS LIKELY THAN IT WAS BEFORE THE HOSTAGES WERE RELEASED. MY MONEY IS ON A RESULT IN THE AREA OF 52 PERCENT MITTERRAND 48 PERCENT CHIRAC.

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OF 080919Z MAY 88

INFO PRIORITY EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO

INFO PRIORITY WELLINGTON

WELLINGTON FOR LORD GLENARTHUR

THE FRENCH PRESIDENTIAL ELECTIONS

SUMMARY

1. MITTERRAND HAS BEEN RE-ELECTED BY 54-46 PERCENT. A BAD RESULT FOR CHIRAC BEATEN TWICE AS BADLY AS GISCARD IN 1981. FRANCE HAS PLAYED SAFE, OPTING FOR MITTERRAND'S EXPERIENCE AND REASSURED BY HIS PROMISE TO GOVERN FROM THE PRAGMATIC CENTRE. THE SOCIALIST PARTY WILL PUT PRESSURE ON HIM TO DISSOLVE THE NATIONAL ASSFMRLY. HE MAY PREFER TO WAIT AND SEE HOW THE RIGHT REACT TO DEFEAT AND TO THE CHALLENGE FROM LE PEN. THE NEW PRIME MINISTER MAY BE KNOWN SHORTLY. I RECOMMEND MESSAGES OF CONGRATULATION.

DETAIL

2. MITTERRAND HAS BEEN RE-ELECTED. COUNTING WILL CONTINUE FOR SOME TIME BUT COMPUTER PROJECTIONS SUGGEST THAT HE HAS BEATEN CHIRAC BY A 54-46 PERCENT MARGIN. THIS IS A LANDSLIDE IN FRENCH TERMS. MITTERRAND WILL TAKE PARTICULAR PLEASURE IN BEING THE FIRST PRESIDENT OF THE FIFTH REPUBLIC TO BE DIRECTLY ELECTED TWICE (DE GAULLE'S FIRST ELECTION WAS BY INDIRECT SUFFRAGE). HIS ONLY REGRET MAY BE THAT HE HAS JUST FALLEN SHORT OF A VICTORY OVER HIS GAULLIST CHALLENGER BY THE 10 PERCENT MARGIN BY WHICH DE GAULLE BEAT HIM IN 1965.

3. FOR CHIRAC THIS IS A VERY BAD RESULT. NEITHER THE ADVANTAGES PROVIDED BY MATIGNON, NOR THE SUPPORT OF THE WELL-OILED AND WELL HEELED RPR MACHINE, HAVE PREVENTED HIM FROM BEING BEATEN MORE THAN TWICE AS BADLY AS GISCARD IN 1981. HIS EFFORTS TO APPEAL TO LE PEN'S FIRST ROUND VOTERS ON THE EXTREME RIGHT WITHOUT ALIENTATING BARRE'S VOTERS IN THE CENTRE HAVE FAILED. IN TRYING TO PLEASE BOTH HE HAS SATISFIED NEITHER.

4. THE FRENCH HAVE PLAYED SAFE, OPTING FOR EXPERIENCE RATHER THAN TAKING A CHANCE ON CHIRAC'S SELF-PROCLAIMED DYNAMISM (WHICH MANY

VOTERS SUSPECT MIGHT BE SYNONYMOUS WITH ADVENTURISM). MITTERRAND'S ABANDONMENT OF IDEOLOGICAL SOCIALISM, AND HIS COMMITMENT TO UNITE THE COUNTRY AROUND THE PRAGMATIC CENTRE, HAVE PROVED MORE REASSURING THAN CHIRAC'S ACTIVISM. MITTERRAND HAS ALSO BENEFITTED FROM DISQUIET ABOUT CHIRAC'S TEMPERAMENT AND JUDGEMENT. THERE WAS NERVOUSNESS THAT THE LATTER'S POLICIES AND STYLE WOULD HAVE STRAINED THE SOCIAL FABRIC, PARTICULARLY IF HE HAD DONE DEALS WITH LE PEN. THE "COUPS DE THEATRE" IN THE FINAL HOURS OF THE CAMPAIGN (THE RELEASE OF THE HOSTAGES, THE POLICE ACTION IN NEW CALEDONIA, AND THE LAST MINUTE REPATRIATION OF THE GREENPEACE SABOTEUR, CAPTAIN PRIEUR, IN DEFIANCE OF FRANCE'S AGREEMENT WITH NEW ZEALAND) MAY HAVE REINFORCED SUCH DOUBTS, ESPECIALLY AMONG CENTRIST SUPPORTERS OF BARRE.

5. MITTERRAND IS SET TO DOMINATE THE POLITICAL SCENE FOR THE FORESEEABLE FUTURE. THE LEFT OWE TO HIM A SECOND CONSECUTIVE PRESIDENTIAL VICTORY, WHILE THE RIGHT WILL BE DEMORALISED AND DIVIDED BY A SECOND CONSECUTIVE PRESIDENTIAL DEFEAT. THERE WILL BE PRESSURE ON HIM FROM WITHIN THE SOCIALIST PARTY (PS) TO DISSOLVE THE ASSEMBLY AND CALL LEGISLATIVE ELECTIONS AT WHICH, EVEN UNDER THE PRESENT CONSTITUENCY BASED SYSTEM, THE PS WOULD HOPE TO GAIN A CONSIDERABLE NUMBER OF SEATS. MITTERRAND MAY RESIST, ANYWAY FOR A TIME, UNTIL HE SEES HOW THE RIGHT REACT TO THE CHALLENGES OF DEFEAT AND OF LE PEN. HIS AIM IS TO ATTRACT PART OF THE CENTRE-RIGHT INTO GOVERNMENT WITH THE PS, BUT SUCH A REALIGNMENT WILL TAKE TIME TO ENGINEER. HE MAY THEREFORE JUDGE IT BEST TO HASTEN SLOWLY.

6. WITHIN THE RIGHT ITSELF THE PICTURE WILL BE CONFUSED FOR SOME TIME TO COME. CHIRAC AND THE RPR WILL TRY TO MAINTAIN THE DOMINANCE THEY HAVE ENJOYED SINCE MARCH 1986 BUT WILL FIND IT DIFFICULT. BESIEGED ON THE RIGHT BY LE PEN, AND REPUDIATED BY MANY IN THE UDF WHO BLAME CHIRAC FOR GISCARD'S 1981 DEFEAT AND WILL NOW HOLD HIM RESPONSIBLE FOR GIVING MITTERRAND ANOTHER 7 YEARS, CHIRAC'S POLITICAL AUTHORITY WILL BE SHARPLY DIMINISHED. AND IN A MEDIA-DOMINATED ELECTION, HIS OWN PERSONALITY HAS FAILED TO ATTRACT THE ELECTORS. THE FAILURE IS THEREFORE CLEARLY ATTRIBUTABLE TO HIM. THE KNIVES WILL BE OUT FOR HIM, FROM THOSE SUCH AS LEOTARD WHO SEE THEMSELVES AS POTENTIAL LEADERS OF A REGROUPED RIGHT.

7. THE RESULT OF THE ELECTION WILL BE FINALLY DECLARED BY THE CONSTITUTIONAL COUNCIL IN 3-4 DAYS. THERE IS SOME DOUBT WHETHER CHIRAC WILL RESIGN BEFORE OR AFTER THIS ANNOUNCEMENT. ONCE HE DOES SO, MITTERRAND WILL APPOINT A NEW PRIME MINISTER. HE HAS AS YET GIVEN NO INDICATION AS TO WHO THIS WILL BE, **ALTHOUGH THERE ARE STRONG RUMOURS THAT ROCARD IS FAVOURITE.** BUT BEREGOVY, DELORS AND

OTHERS ARE STILL HOPEFUL. IT DOES NOT SEEM LIKELY THAT MITTERRAND
WILL LOOK OUTSIDE THE SOCIALISTS.

8. I RECOMMEND THAT HER MAJESTY THE QUEEN AND AND THE PRIME MINISTER
SHOULD SEND MESSAGES TO MITTERRAND. I SEE NO NEED TO AWAIT THE
FORMALITY OF THE CONSTITUTIONAL COUNCIL'S ANNOUNCEMENT BEFORE
DELIVERING THEM.

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REC.	10 MAY 1988
ACTION	Mr H. P. EVANS,
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	Sir G. LITTLE,
	Mr LANKESTER,
	Mr A. J. C. EDWARDS,
	Mr PERETZ,
	Mr MOUNTFIELD.

From the Private Secretary

9 May 1988

Dear Lyn,

DWP

PRIME MINISTER'S TALK WITH PRESIDENT MITTERRAND

The Prime Minister telephoned President Mitterrand this evening to convey her congratulations on his re-election as President.

The Prime Minister said that she had sent a formal message of congratulations but wanted to convey personally to the President her good wishes. It had been a remarkable victory. She understood that it was the first time that anyone had been directly elected to the Presidency twice during the Fifth Republic. She was particularly pleased because the President's re-election was an extra element of continuity in the West's leadership. She looked forward to continuing to work with him.

The President thanked the Prime Minister for her very welcome initiative in telephoning him. He and the Prime Minister now both had a lot of time ahead of them in office, which was very welcome from the point of view of what Britain and France could do together. He was moved by the Prime Minister's gesture and hoped that they could meet soon. The Prime Minister agreed that it might be useful to have a talk ahead of the Economic Summit in Toronto. She suggested that M. Attali and Mr. Powell should be in touch to fix a date. President Mitterrand said that this would be an excellent idea.

The No. 10 Press Office have subsequently released the text of the Prime Minister's message to the President and informed the press that the telephone call has taken place.

I am copying this letter to Alex Allan (H.M. Treasury), Brian Hawtin (Ministry of Defence), Stephen Ratcliffe (Department of Trade and Industry), Shirley Stagg (Ministry of Agriculture, Fisheries and Food), Nick Sanderson (Home Office) and Trevor Woolley (Cabinet Office).

Yours sincerely,

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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TO DESKBY 101900Z FCO

TELNO 461

OF 101558Z MAY 88

INFO PRIORITY EC POSTS, WASHINGTON, MOSCOW, UKDEL NATO, WELLINGTON
INFO SAVING HMGCS IN FRANCE

WELLINGTON FOR LORD GLENARTHUR.

FRENCH INTERNAL POLITICS: ROCARD APPOINTED PRIME MINISTER.

SUMMARY

1. CHIRAC HAS RESIGNED. MITTERRAND HAS APPOINTED ROCARD TO REPLACE HIM. HE WILL BE A POPULAR CHOICE, WELL RECEIVED BY THE CENTRE. HE IS WELL DISPOSED TOWARDS TO UK.

DETAIL

2. CHIRAC PRESENTED HIS RESIGNATION TO THE PRESIDENT THIS AFTERNOON. THE ELYSEE AGREED TO HIS REQUEST NOT TO AWAIT THE CONSTITUTIONAL COUNCIL'S FORMAL DECLARATION OF THE ELECTION RESULT (MY TELNO 414 OF 28 APRIL).

3. MITTERRAND HAS APPOINTED ROCARD TO SUCCEED HIM, THEREBY DRAWING A LINE UNDER THE DIFFICULTIES THAT BEDEVILLED THEIR PERSONAL RELATIONS, AND EFFECTIVELY MARGINALISED ROCARD, DURING MITTERRAND'S FIRST TERM. ROCARD'S DIGNIFIED WITHDRAWAL FROM THE PRESIDENTIAL RACE THIS TIME, AND HIS IRREPROACHABLE LOYALTY TO MITTERRAND DURING THE RECENT CAMPAIGN, HAVE BEEN REWARDED.

4. HIS APPOINTMENT HAS A NUMBER OF ADVANTAGES FROM MITTERRAND'S POINT OF VIEW. ROCARD REMAINS ONE OF THE MOST POPULAR POLITICANS IN FRANCE, WHICH SHOULD HELP THE NEW GOVERNMENT GET OFF TO A GOOD START. HE SHOULD ALSO BE A CONSIDERABLE ELECTORAL ASSET IF MITTERRAND DISSOLVES THE NATIONAL ASSEMBLY WITHIN THE NEXT FEW WEEKS OR MONTHS AND CALLS NEW ELECTIONS. IN ADDITION, ROCARD IS IDENTIFIED WITH THE PRAGMATIC, SOCIAL DEMOCRATIC WING OF THE SOCIALIST PARTY (PS) AND COMMANDS THE RESPECT OF THE CENTRE. HIS POLITICAL PROFILE IS THEREFORE NICELY CALCULATED TO APPEAL TO THE CENTRE AND CENTRE-RIGHT WHOM MITTERRAND HOPES IN DUE COURSE TO ATTRACT INTO A COALITION GOVERNMENT WITH THE SOCIALISTS. (IT IS PROBABLY THIS THAT FINALLY DECIDED MITTERRAND TO CHOOSE HIM IN PREFERENCE TO BEREGOVY).

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5. MITTERRAND HINTED DURING THE ELECTION CAMPAIGN THAT, IF RE-ELECTED, HE WOULD LEAVE THE DETAILS OF DAY-TO-DAY DOMESTIC POLICY TO HIS PRIME MINISTER WHILE CONCENTRATING HIMSELF ON DEFENCE AND FOREIGN POLICY (NOTABLY EUROPE). ROCARD IS THEREFORE LIKELY TO CONCENTRATE MORE ON ECONOMIC AND SOCIAL ISSUES THAN ON INTERNATIONAL AFFAIRS. ALTHOUGH HE PROVED A COMPETENT DEPARTMENTAL MINISTER DURING MITTERRAND'S FIRST TERM, THERE ARE SOME DOUBTS ABOUT HOW EFFECTIVE HE WILL BE IN CO-ORDINATING POLICY AND MANAGING THE GOVERNMENT. (THE EDITOR OF LE MONDE TOLD ME TODAY THAT HE THOUGHT ROCARD WAS TEMPERAMENTALLY UNSUITED FOR THE JOB AND MIGHT EASILY GET BOGGED DOWN IN DETAIL.)

6. ROCARD'S APPOINTMENT SHOULD BE GOOD FOR OUR BILATERAL RELATIONS. HE IS WELL DISPOSED TOWARDS US, AND HAS BEEN A KEEN ADVOCATE WITHIN THE PS OF PROMOTING A RELATIONSHIP BETWEEN PARIS AND LONDON THAT IS AS CLOSE AS THAT OF PARIS AND BONN. HE HAS ALSO BEEN FAIRLY FREQUENTLY TO BRITAIN AND WAS LAST THERE IN JANUARY AS A CATEGORY I SPONSORED VISITOR WHEN HE MET THE PRIME MINISTER, YOU, THE CHANCELLOR OF THE EXCHEQUER, AND THE SECRETARY OF STATE FOR DEFENCE. WE KNOW THAT HE WAS DELIGHTED BY HIS RECEPTION.

7. THE NAMES OF AT LEAST SOME OF ROCARD'S MINISTERS MAY BE ANNOUNCED TOMORROW (11 MAY). MEANWHILE I RECOMMEND THAT THE PRIME MINISTER SHOULD SEND A MESSAGE OF CONGRATULATION.

8. FCO PLEASE ADVANCE TO NO 10.

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cc Mr RIG Allen
Mr SW Matthews
Mr Pickford

Miss Moira Wallace
APS Chancellor of the Exchequer
11 Downing Street
London SW1

Your reference

Our reference

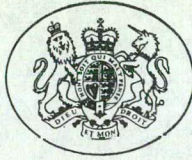
Date 10 May 1988

Dear Moira,

FRENCH REPORTING ON THE BRITISH ECONOMY

1. In your letter of 20 April, you asked us to keep sending you the more important French press articles on the British economy.
2. I attach three recent articles, all interesting in their different ways, from Le Figaro (right wing), Le Monde (centre-left) and La Croix (Catholic).
3. The article from Le Figaro (actually from its weekly colour magazine) appeared in between the two rounds of the Presidential elections, and has a clear (if subsequently disregarded) political message: only by voting for Chirac can the French be sure of the kind of economic success that Britain now enjoys. The article follows a fairly detailed briefing which we gave the journalist concerned, but I would not want to claim credit for more than the facts and figures: the comment is Lacontre's. You may feel it goes over the top here and there (we suggested he might say that inflation was «well under control» rather than »stamped out», for example) but he errs in the right direction.
4. More significant, in some ways, is Bruno de Thomas' article in Le Monde. Le Monde has not in the past found it easy to say anything very nice about the British economy, and any positive comment has usually been outweighed by criticism. This article is a serious piece of work and is pretty favourable by Le Monde's standards. It argues, as one would expect, that inequalities remain, and concludes as you will see that British experience may not be a model for France. But it recognizes too that there have been real and positive changes in the last few years. The statement in the initial summary that Britain has been «the most dynamic European nation since the beginning of the 80's in terms of growth and job creation» is very helpful. Bruno de Thomas recently went, at our suggestion, on a COI Category I sponsored visit to Britain, which seems to have paid off.

Which you saw the other day.



5. Finally, **La Croix**: a Catholic paper which, like *Le Monde*, has tended to criticise rather than praise our economic performance. Here too, **a change of heart in a thoughtful article**. It is worth noting in particular the argument that in tackling the problem of the social security system, Britain is showing the way for others, including France - even if, once again, it is not necessarily a model. Note also the argument that the aim is not just to cut the budget, but to «reintegrate the most disadvantaged people into economic and social life».
6. All three articles will, in their different ways, and to their different audiences, help reinforce the image of a strong economy, based on sustained and durable underlying change.

Yours,
Michael Jay

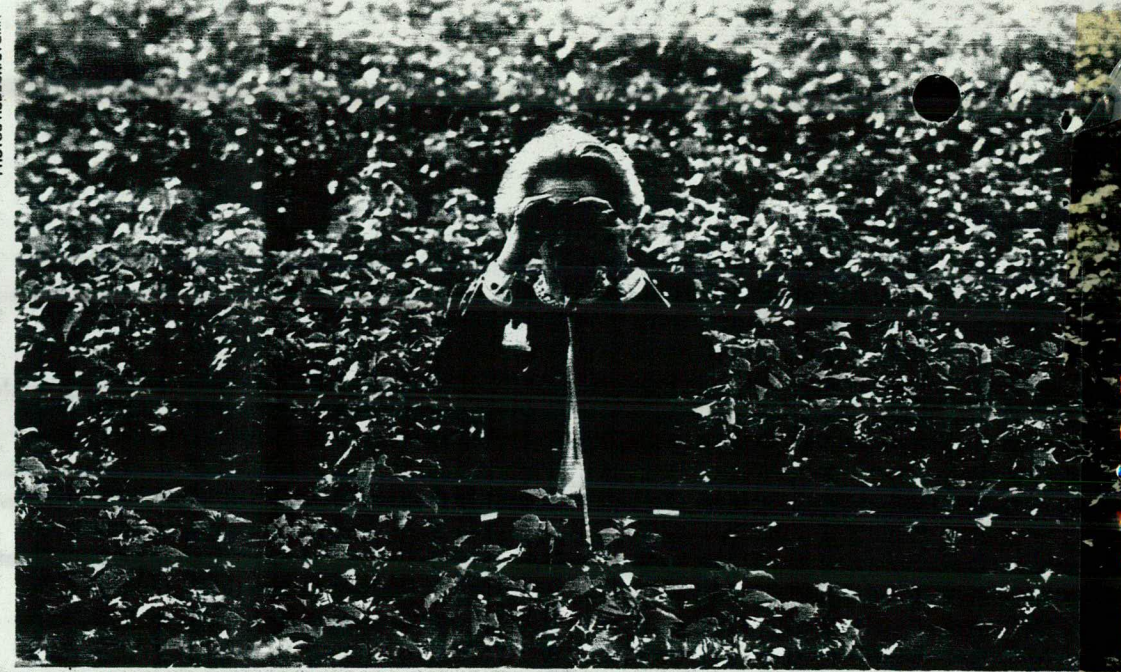
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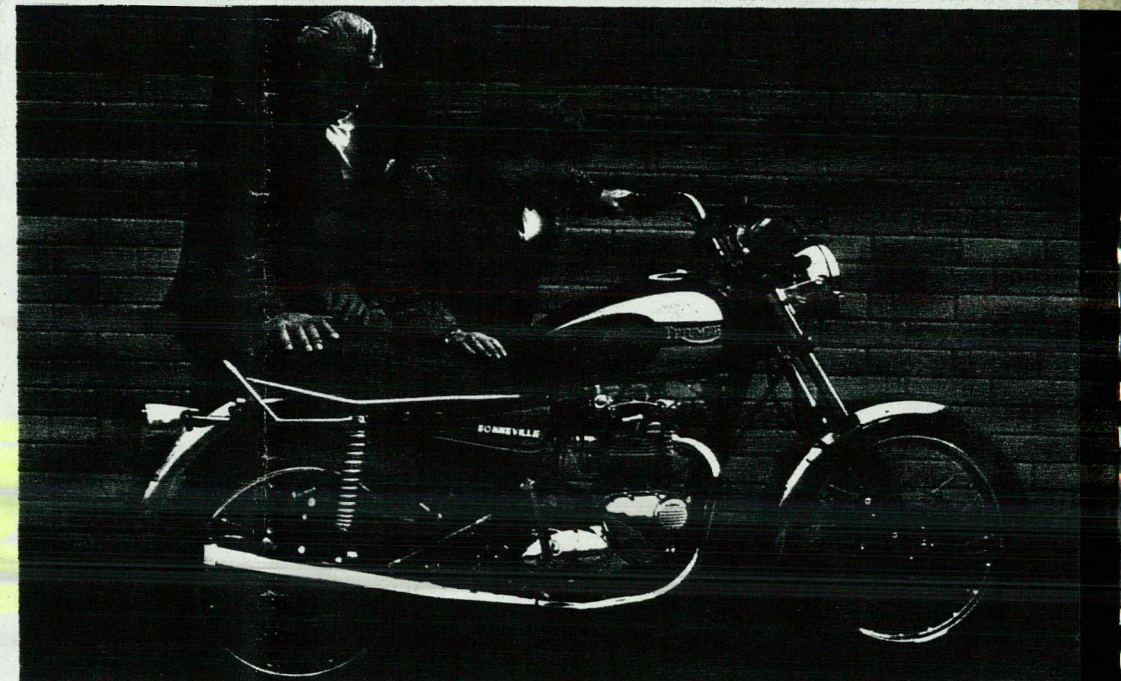
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Comment battre le socialisme : la recette Thatcher

PHOTOS HUDSON/STYOMA



L'œil à tout.



▲ En selle avec Denis.

▼ Le coup de collier.



Eau toujours, whisky rarement.



▲ Le ciment de la nation.

▼ Le ciel s'éclaircit.



ces publiques. En cas d'infraction, les amendes pleuvent.

● Croissance record

Le plus haut taux de croissance depuis quatorze ans, le plus haut taux d'Europe : 3,2 % probablement en 1988 (France 1,6 %, Allemagne 2,4 %, Italie 3,1 %), 4,8 % en 1987, le record absolu.

Remèdes : de nouvelles mesures économiques, libéralisation de la réglementation, allègements fiscaux, stimulants, syndicats jugulés, paix sociale, restructuration du chômage, remplacement des grandes industries dépassées et en déficit constant par une myriade de petites et moyennes entreprises en expansion, remise en ordre des droits de cession entre vifs pour les entreprises en vue de renforcer l'esprit d'initiative, etc.

● Privatisations massives

D'abord les seize plus importantes entreprises du pays, soit une réduction de 40 % de la participation de l'Etat dans l'industrie britannique, d'où une rentrée colossale d'argent, 5 milliards de livres, immédiatement réinvestis. L'Etat fait ensuite des économies sans précédent en mettant fin à l'existence d'entreprises depuis longtemps déficitaires. British Airways était déficitaire depuis quarante ans, privatisée, elle est déjà en pleine expansion et fait des bénéfices. 655 000 employés de l'Etat dépendent désormais du secteur privé. Maggie va continuer à privatiser : l'eau, l'électricité, le charbon, l'acier, etc.

● Chômage en baisse

Les résultats ne se sont pas fait attendre. Baisse d'un demi-million de chômeurs en un an (3 millions en mars 87, 2,5 millions en mars 88). Lutte sévère contre le travail au noir, ce qui est très populaire, car les gens qui travaillent ne supportent pas ceux qui trichent. Le taux de chômage est passé de 11 % à 9 %. Ce qui est déjà en dessous de celui de certains partenaires européens. La tendance à la baisse doit se poursuivre et le gouvernement a déjà créé un million et demi d'emplois (arrivés des jeunes et des femmes sur le marché).

● Inflation jugulée

Elle était de 20 % il y a quelques années. Elle est de 3,5 %

● Salaires en hausse

+ 8,25 %, un record dans les pays industrialisés.

● Actionnariat pour tous

Neuf millions de nouveaux actionnaires. 80 % des employés des entreprises privatisées sont devenus actionnaires. En fait, il y a autant d'actionnaires parmi les petits salaires que d'ouvriers syndiqués. C'est un des dadas de Maggie : élargir la propriété des richesses à tout le petit peuple. C'est ainsi qu'elle a favorisé l'achat des H.L.M. par les locataires. 63 % des foyers britanniques sont aujourd'hui propriétaires de leurs appartements.

● Impôts : réduction

Les taux de l'impôt sur le revenu ont baissé. Le taux de base est passé de 33 % à 30 % en 1979, à 29 en 1986, à 27 en 1987. Il passera à 25 % en 1988. Une des plus

fortes baisses du monde industrialisé. La tranche supérieure qui était de 83 % est redescendue à 60 %. Elle sera bientôt à 40 %. Ajoutons qu'un million et demi de foyers supplémentaires sont exonérés d'impôts.

● Immigration stoppée

Mme Thatcher a réactivé l'Immigration Act : visa d'entrée obligatoire, suppression de tous les abus, renvoi des illégaux par bateau. Il y a actuellement 2,3 millions de non-British, deux fois moins qu'en France pour une population plus nombreuse, soit 4 %. Surtout des Asiatiques, 700 000 Indiens d'Inde et d'Afrique de l'Est, des Pakistanais, des Antillais, des Africains anglophones 4 %, des Arabes 3 %, des Chinois d'Hong-Kong. On compte même parmi les immigrés deux cent milliardaires.

● Une presse agressive

La radio, la télévision, la plupart des journaux ont toujours été contre Mme Thatcher. Cela ne l'a pas empêchée d'être élue quatre fois. Bref, pendant des années, les médias ont pris un malin plaisir à décorifier le marasme économique anglais. Aujourd'hui, les commentateurs ne sont pas pour autant satisfaits. J'ai relevé un titre significatif : « Attention, danger, l'économie est en trop bonne santé » (sic). « Les journalistes sont des snobs invertis », affirme Mme Thatcher. C'est sûrement vrai, mais cela ne se dit pas.

* * *

Le roi Arthur (Arthur Scargil, président du syndicat des mineurs) a perdu les trois quarts de sa couronne au détriment de son nouveau rival modéré John Walsh, à la suite d'une grève qui a duré un an, parce que Maggie n'a pas cédé. La Dame de fer n'a pas cédé non plus à la grève de la faim des rebelles irlandais dont certains sont morts en prison. Pour les seize mille chauffeurs de taxi de Londres, qui ne sont tous que Britanniques bon teint : l'homme fort de la Grande-Bretagne, c'est une femme. Quand à Neil Kinnock, le leader socialiste, il s'est bel et bien trompé en annonçant l'apocalypse sous le règne de Mme Thatcher. En dix ans, la preuve est faite : la Grande-Bretagne a retrouvé sa dignité et son niveau de vie ne cesse de grimper. Le géant roux, gallois de surcroît, a beaucoup de mal à regrouper ses troupes. Bien sûr tout n'est pas aussi rose que cet énoncé de succès chiffrés. Il reste beaucoup de pauvres. Il y a encore des régions défavorisées. Il y a surchauffe économique. La bigarrure de l'immigration risque toujours de déclencher des problèmes raciaux. Les socialistes divisés entre extrémistes et modérés sont toujours là, même affaiblis. Et puis la concurrence internationale est terrible et très bientôt l'Europe sera sans frontière, ce qui va imposer de nouveaux réajustements.

ROBERT LACONTRE

(1) Les Thatcher ont aussi une maison de poupée au 19 Flood Street dans Chelsea.

(2) Qui s'était perdu dans le désert lors du Paris-Dakar. Pour la première fois on avait vu le premier ministre profondément bouleversé.

Comment battre le socialisme : la recette Thatcher

PHOTO GAMMA

M. Smith est tout content. Il trouve plus facilement un emploi, paie moins d'impôts, devient actionnaire comme les riches, peut acheter son logement H.L.M. Il a plus d'argent dans sa poche pour consommer plus de pudding, de whisky et de vin de Bordeaux et peut envisager des vacances au soleil. Bref, son pays a retrouvé sa grandeur et sa dignité.

PAR ROBERT LACONTRE
notre envoyé spécial

DIS-MOI, mummy, qui est ce monsieur qui s'agite à la télé ?
- C'est Nell Kinnock, le numéro un de l'opposition, le leader du Labor, qui voudrait devenir premier ministre.
- Mais c'est impossible, mummy, ce n'est pas une femme...

Quatorze ans chef de parti, dix ans premier ministre, Margaret Thatcher, dite TINA par ses fans (There Is No Alternative) ou la Dame de Fer par les Russes, détient le record absolu de longévité en régime démocratique. En 1987, elle a été classée par les chief-editors de deux cent cinquante journaux : première femme du monde devant Corazon Aquino et Mère Térèse. La reine Elizabeth n'en est pas revenue. Elle n'était qu'en cinquième position.

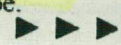
Personne n'aurait pu imaginer que la petite-fille d'un cordonnier, la fille d'un petit épicier de l'Angleterre perdue, l'Angleterre profonde, exactement à Grantham, un village sans histoires, allait bouleverser toutes les données de l'économie moderne. Licenciée de chimie, un temps avocat, la voilà farouche politicienne au milieu des costumes rayés, des œillets à la boutonnière et des chapeaux melon.

Le boom Thatcher ébranle le libéralisme haletant de la plupart des dirigeants occidentaux. Maggie, c'est à la fois une révolution économique et une révolution culturelle. Elle change les chiffres et les lettres et surtout les mentalités. Elle réduit les syndicats, devenus un État dans l'État, privatise le pays, brise les grèves, domine le chômage et l'inflation, chausse les bottes de Wellington et s'en va-t-en guerre à dix mille kilomètres de l'île, offre à la Grande-Bretagne des victoires militaires et un taux de croissance qui est le plus élevé d'Europe.



Dans les bottes de Wellington

Margareth Thatcher a chaussé les bottes de Wellington en partant en guerre à 10 000 km de son île. A son pays, elle a offert des victoires militaires et le taux de croissance le plus élevé d'Europe.



Ord de croissance et de création d'emplois

Y a-t-il un modèle britannique ?

M^{me} Margaret Thatcher entrera, le 5 mai, dans sa dixième année de pouvoir, à la tête du gouvernement britannique. Un record de longévité. Appuyée sur une bourgeoisie qui désormais s'enrichit, elle a fait de son pays la nation la plus dynamique d'Europe, depuis le début des années 80, en termes de croissance et de créations d'emplois. Une révolution dans ce pays longtemps déclinant, mais pas forcément un modèle.

LONDRES
de notre envoyé spécial

C'est un mardi, à la Chambre des communes, le temps des questions des députés au premier ministre. Les travaillistes harcèlent Margaret Thatcher à propos du cas d'une certaine M^{me} Williams, veuve diabétique de soixante-treize ans qui ne touche que 50 livres par semaine et qui va perdre, du fait de la réforme de l'aide sociale, 12 % de ses revenus. « Comment voulez-vous qu'elle mette de l'argent de côté », scandent les députés travaillistes, qui finiront par obtenir un débat extraordinaire sur cette réforme pour le lendemain.

Guère émue par ces attaques, la Dame de fer répond, elle aussi comme un leitmotiv, que le budget de l'aide sociale continuera d'augmenter de 2 milliards de livres (20 milliards de francs) l'an prochain, mais qu'il convient de concentrer cette aide sur ceux qui en ont réellement besoin. En ce qui concerne l'aide sociale au logement - où deux tiers des Britanniques payaient pour le troisième tiers, - la réforme (suppression de l'aide à tous ceux qui ont plus de 50 000 francs d'économies), qui touche surtout des gens âgés, a suscité quelques états d'âme jusque chez les « Tories ». Mais, comme souvent, le premier ministre est passé en force avant de faire quelques concessions, notamment sur le niveau des économies. Mais réduction des retraites et concentration de

l'aide au logement sont entrées en vigueur à la mi-avril.

Un mois plus tôt, le chancelier de l'Echiquier Nigel Lawson avait, lors de la présentation du budget, annoncé une spectaculaire baisse de l'impôt sur le revenu : compliqué et élevé, avec six tranches dont la plus haute avait déjà été ramenée de 83 % à 60 %, cet impôt est désormais simplifié et réduit puisqu'il ne reste que deux tranches (de 15 200 à 24 000 livres le barème est de 25 %, au-dessus, de 40 %).

La révision - fortement contestée - de la taxe d'habitation, la réforme du système éducatif et de la formation, et nombre d'autres projets laissent à penser que le troisième mandat de Margaret Thatcher sera consacré aux réformes dites de société (même si elle avoue : « La société n'existe pas, il y a seulement des hommes, des femmes et leur famille »).

BRUNO DETHOMAS.

(Lire la suite page 40.)

(Suite de la première page.)

Et comme, à en croire M. John B. Wood, directeur adjoint de l'Institut des affaires économiques, « le gouvernement est loin encore d'avoir établi l'avantage de travailler par rapport à celui de ne pas travailler », la protection sociale ne sera pas oubliée dans un pays qui avait créé le Welfare State, et qui l'avait poussé plus loin qu'ailleurs. Trop loin sans doute.

Mais cette période de réformes ne serait pas possible si au désespoir et à la « déréliction » du passé n'avait succédé désormais le « sense of confidence », une confiance qui semble avoir gagné les coins les plus reculés du Royaume, ceux qui avaient été touchés par la purge du premier mandat de « TINA » (pour « There Is No Alternative »).

Les quelques principes simples qui ont fondé l'action de Margaret Thatcher - contrôle de l'inflation, réduction du rôle de l'Etat par privatisation, déréglementation et suppression de subvention, croyance que le marché est mieux à même de répartir les richesses et de stimuler les initiatives, - après avoir eu pour effet de mettre sur le pavé deux millions de travailleurs (il y avait un million de chômeurs en 1979), portent aujourd'hui leurs fruits et font taire une partie des critiques qu'ils avaient soulevés tant à l'intérieur (on se souvient de la lettre de 350 économistes keynésiens au Times en 1981 pour dénoncer la politique alors menée comme suicidaire) qu'à l'extérieur. Comme le titre l'*Economist* : « La bourgeoisie anglaise devient de nouveau riche », « sa prospérité retrouvée lui donne une confiance en soi que la Grande-Bretagne n'avait pas connue depuis Edouard VII. »

Les changements structurels apportés au pays depuis bientôt neuf ans - le plus long terme d'un premier ministre britannique en ce siècle - n'ont pas seulement ramené la confiance. Ils ont

obtenu des résultats. Comme on le souligne au Trésor, depuis le début de la décennie, la croissance est la plus forte des pays européens, avec près de 3 % en moyenne. En 1987-1988, elle a même atteint 4,8 %, soit le plus haut taux enregistré depuis la brève embellie de 1973 et ramené l'espoir que le « stop-and-go », si longtemps caractéristique de l'économie britannique, appartienne désormais aux livres d'histoire.

Parmi les « bonnes nouvelles » présentées tant à la Midland Bank qu'au CBI (patronat britannique) figurent aussi l'amélioration de la productivité (+ 4,2 % par an en moyenne entre 1979 et 1987), l'accélération de la profitabilité des entreprises, la baisse relative du coût unitaire de travail, la maîtrise de l'inflation, une augmentation de la part du marché mondial, et surtout la création d'emplois, plus de 1,3 million depuis 1983, ce qui a permis de faire retomber le chômage de plus de 13 % à quelque 9 % de la population active. Même si une partie de ces emplois sont à temps partiel, l'évolution, comparée notamment à la France, est impressionnante. De là à dire que « la voie que nous avons suivie en Grande-Bretagne peut être bonne aussi pour la France », il n'y a qu'un pas, que Margaret Thatcher a évidemment franchi.

Surchauffe ?

Pourtant, si la vision présentée par les organismes gouvernementaux est quasi idyllique, d'autres économistes soulignent l'arrivée de nuages sur le court terme comme sur le plus long terme. A la Midland Bank, M. Andrew Brain est formel : « La demande croît trop vite, la surchauffe menace. » Les revenus, avec une progression de 8,5 %, augmentent trop vite (les infirmières viennent même d'obtenir une hausse salariale de 15,3 %) et l'augmentation de 7 % des services et du logement dans l'indice du coût de la

vie « est bien la preuve que l'inflation guette ».

D'autre part, la forte dégradation, pour les premiers mois de l'année, des comptes extérieurs malgré des exportations de pétrole encore importantes n'est pas sans inquiéter. « J'ai le sentiment, dit l'un des économistes du département d'économie appliquée de Cambridge, Ian Clegg, de voir se rééditer le modèle américain des années 1983-1984 », avec un livre fort estimée par le marché, comme l'était le dollar naguère, des taux d'intérêt élevés, une demande intérieure forte et un déficit commercial qui s'accroît (il pourrait atteindre 2 % du PNB l'an prochain).

Même si la comparaison est jugée sans fondement au Trésor — « le déficit américain finançait la consommation, ici il alimente l'investissement », — les difficultés monétaires accentuent indéniablement les problèmes de l'industrie britannique.

Des inégalités

Telle est bien la contradiction actuelle de la politique monétaire menée — sans beaucoup de rigueur il est vrai — à Londres. La lutte contre la surchauffe et la reprise de l'inflation nécessiterait le maintien de taux d'intérêt à court terme élevés quand la vigueur de la livre, jugée par beaucoup préjudiciable (le redressement britannique s'est fait pour partie grâce à une dévaluation non dite du sterling), devrait pousser à la baisse des taux. D'où la politique de petits pas menée par la Bank of England.

Sur le plus long terme, les inquiétudes ne manquent pas non plus. Ne serait-ce que du fait de la forte inégalité qui résulte du boom actuel.

Géographiquement d'abord. Une étude récemment publiée par l'université de Warwick montre la région qui s'accroît entre le Nord et le Sud.

Sur le terrain, toutefois, pour être sensible, l'inégalité du développement apparaît plus relative. Autour de Newcastle-upon-Tyne, région de mines — restructurées dès les années 60, — de chantiers navals et de la métallurgie, même les représentants syndicaux ont le sentiment que « le plus dur est passé ». Les chiffres du chômage, même s'ils sont jugés manipulés, montrent bien l'évolution en cours : de plus de 20 % aux heures es plus sombres, lorsque les chantiers navals licenciaient par milliers, ils sont retombés à à peine plus de 13 %. Les quais de la Tyne voient naître de nouvelles usines et le « metrocentre » — centre commercial le plus important d'Europe — est là pour montrer qu'ici « ceux qui ont du travail vivent bien ». L'arrivée de vingt et un investisseurs japonais — Nissan à Washington, Komatsu à Birtley — dans des activités plus proches de l'assemblage que de la production (si l'on en croit une rapide visite de l'usine d'engins de travaux publics de Komatsu) a permis de créer quelques milliers d'emplois.

Aussi, avec un mélange d'admiration et de répulsion, un professeur de l'université de Newcastle et un représentant local du TUC reconnaissent : « La révolution de Margaret Thatcher, cela a été de s'attaquer à tous les « establishments ». Les syndicats bien sûr, mais aussi les propriétaires terriens, qui ici étaient très hostiles au développement. » Bref, sans mésestimer les problèmes du Nord, l'optimisme revient.

Alors qu'à Cambridge, à 100 km à l'est de Londres, la surchauffe est là. « Notre taux de chômage est de 3,5 % », dit-on chez Segal Quince Wicksteed, une firme de consultants qui a rédigé naguère un rapport sur « The Cambridge Phenomenon », cette implantation en une décennie de quatre cent cinquante entreprises de haute technologie autour d'une université qui

compte dans son histoire plus de prix Nobel scientifiques que la France. Des firmes comme Schlumberger ou Northern Telecom côtoient de petites entreprises de software, de biotechnologie ou de robotique avancée dont le rythme de croissance approche 50 % l'an.

Le taux de croissance local (15 %), trois fois plus rapide que celui — déjà élevé — du pays, oblige pourtant à repenser la croissance. Déjà il est impossible de trouver les employés nécessaires aux hôtels et restaurants chargés d'accueillir les trois mil-

lions et demi de touristes qui viennent chaque année visiter l'université. Et la pénurie de logements est telle — les coûts ont augmenté de 30 % en un an — qu'il va falloir casser la ceinture verte qui fait le charme de la ville. Le phénomène Cambridge y résistera-t-il ?

Enrichissez-vous

La seconde inégalité, non moins criante, est sociale. Les travailleurs au programme par ailleurs bien indigent, ont raison de dénoncer une politique par laquelle « les riches deviennent

plus riches et les pauvres plus pauvres » (en tout cas relativement). La taxe d'habitation (poll tax), qui divise actuellement jusqu'aux conservateurs, étant individuelle et peu proportionnelle, pénalisera plus les membres d'une famille vivant dans un taudis qu'un lord célibataire habitant un château, et toute la réforme fiscale a pour but d'enrichir les riches. Une politique au demeurant, délibérée et non masquée, un côté « enrichissez-vous » très dix-neuvième siècle. Là réside l'efficacité économique selon Mme Thatcher. Dans un pays où jadis une réelle égalité a été réalisée par le bas, c'est-à-dire par l'appauvrissement de tous, l'enrichissement de la middle class tirera tout le monde vers le haut. « Tant pis, affirme un de nos interlocuteurs, si la différence entre riches et pauvres doit pour cela s'accroître. »

Encore ces inégalités — à même de désintégrer le tissu social — ne portent-elles pas forcément en elles l'arrêt du processus de redressement en cours. L'investissement et les dépenses de recherche-développement paraissent en revanche, faibles au regard des performances économiques générales. Certes l'investissement privé continue de croître et devrait même être en 1988 (+ 10 %) l'un des moteurs de la croissance (et du déficit commercial), mais, comme l'investissement public ne cesse de baisser, c'est au Royaume-Uni que la proportion du PNB consacrée à la formation brute de capital fixe est la plus faible des grands pays industrialisés (13,7 % sur la période 1980-1985 contre 13,9 % aux Etats-Unis, 14,2 % à la France, 14,7 % à l'Allemagne fédérale et 23,8 % au Japon).

Les dépenses consacrées à la recherche civile et au développement sont, elles aussi, un bon critère de l'arbitrage entre court et long termes. Or, là encore, la Grande-Bretagne est à la traîne

puisqu'elle y consacre 1,5 % de son PNB contre 2,5 % pour l'Allemagne fédérale.

Voilà qui laisse sceptique sur l'état actuel de l'industrie britannique, qui a certes retrouvé son taux de profit d'avant le premier choc pétrolier, mais qui soit bien amaigrie de sa cure d'austérité thatcherienne, un amaigrissement des industries traditionnelles souligné par le déficit commercial croissant de ces derniers mois et dont la haute technologie n'a pas pris le relais.

« C'est une grande erreur, affirme cependant M. Wood, de penser que le Royaume-Uni est une nation manufacturière. C'est une perspective incorrecte de l'économie britannique. De 1810 à 1975 notre balance commerciale n'a enregistré un surplus qu'à trois reprises. Les « invisibles » ont toujours payé la moitié de nos importations. D'ailleurs l'industrie n'occupe que 6 millions des 26 millions de travailleurs du pays et ne compte que pour le tiers du PNB. »

Les invisibles, ce sont d'abord les services financiers. La réforme de la Bourse de Londres (le Big Bang), un an avant le krach, n'en est pas moins jugée aujourd'hui positive. « Elle a permis d'accroître la compétition, de réduire les coûts et de maintenir le rôle international de la place de Londres », explique A. Stuart Valentine au Stock Exchange, même s'il reconnaît que depuis le 19 octobre le volume des transactions a baissé de près d'un tiers, ce qui oblige la City à réduire son personnel. Et, souligne M. Wood, « les Japonais sont jusqu'à présent restés discrets dans ce domaine, mais le Big Bang leur a ouvert la porte ».

Succès et ombres de la politique Thatcher, qu'un journaliste résume en disant : « Il y a désormais plus d'actionnaires que de syndiqués en Grande-Bretagne. » Une révolution, sans nul doute. Mais un modèle ?

BRUNO DETHOMAS.

LA CROIX

Honni soit qui mal y pense

Que cela plaise ou non, il faut bien constater que la politique de Mrs Thatcher s'est accompagnée jusqu'ici d'un redressement de l'Angleterre. Il est sensible jusque dans les transports publics. Ils sont mieux tenus et l'on y retrouve en prime une politesse et une dignité toutes britanniques.

Dans les rues, on voit moins que par le passé des jeunes désemparés. C'est que le chômage, malgré l'arrivée de près de 400 000 personnes supplémentaires par an sur le marché du travail, continue à décroître : de plus de 3 millions, le nombre de chômeurs est tombé à 2,5 millions, ce qui est, certes, encore beaucoup.

Le niveau de vie paraît s'améliorer bien qu'existent toujours des poches de misère, régions et grandes banlieues où les conditions de vie sont inhumaines. L'augmentation de la production se confirme; elle atteint aujourd'hui 3,5 % l'an. Sans doute la relative faiblesse de l'investissement et des crédits de recherche scientifi-

que sont des menaces pour l'avenir. Mais actuellement la Grande-Bretagne jouit d'une santé assez exceptionnelle dans l'ensemble morose de l'Europe de l'Ouest.

Mrs Thatcher, qui pratique le libéralisme le plus radical en Occident, y est pour quelque chose; la toute-puissance syndicale, l'étatisation de l'économie avaient paralysé l'économie britannique. La dame de fer a cassé le monopole syndical. Elle a rendu au secteur privé une partie des grands secteurs nationalisés y compris des services publics en monopole, transports, production d'énergie et distribution d'eau. La majorité de l'opinion publique paraît ratifier ces politiques bien que les méthodes

employées pour y parvenir ne soient guère appréciées. L'opposition n'en conteste plus le bien-fondé. Le programme de renationalisation du « Labour » est considérablement amendé même pour les services publics en monopole comme les transports et l'énergie. Son projet actuel ne touche qu'aux entreprises qui se montreraient à l'expérience incapables de faire face à leurs obligations, encore leurs actionnaires ne seraient privés que du droit de vote non de leur capital. Il est vrai que même les Chinois désétatisent largement!

Mrs Thatcher s'attaque maintenant au système de sécurité sociale. Il est désuet comme tous les systèmes des pays occidentaux qui datent



PAR PIERRE BAUCHET

de près d'un demi-siècle et protègent mal les plus pauvres. Le projet, loin d'être parfait, se heurte à une violente opposition. Mais il serait injuste d'oublier que son objectif n'est pas seulement de limiter la croissance des dépenses qui ont augmenté de 30 % en termes réels depuis l'arrivée des conservateurs au pouvoir. Il tend aussi à réinsérer les plus défavorisés dans la vie économique et sociale, ce que les systèmes actuels de protection ne parviennent pas à réaliser.

Il est stérile de condamner purement et simplement cette tentative de réforme comme les autres aspects de la politique britannique. Sans a copier, il est, pour nous qui aurons un jour aussi à réformer notre Sécurité sociale vieillie, très précieux de voir ce qui se passe au-delà de la Manche. Le mérite de l'Angleterre est d'être la première à la tenter. Et puis nous sommes ensemble embarqués dans le Marché commun et tout ce qui se fait là-bas ne manquera pas d'avoir sur nous des effets.

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WELLINGTON FOR LORD GLENARTHUR.

MY TELNOS 424 AND 464: THE EXTREME RIGHT.

SUMMARY

1. LE PEN HAS LAID CLAIM TO THE LEADERSHIP OF THE TRADITIONAL RIGHT THUS ENCOURAGING THE CENTRISTS TO MOVE TOWARDS THE SOCIALISTS (PS). WITHIN THE PARTI REPUBLICAIN (PR) AND RPR, SOME ARE HOSTILE TO LE PEN, SOME FAVOUR AN ACCOMMODATION, SOME FAVOUR AN ALLIANCE. CO-OPERATION WITH THE FRONT NATIONAL (FN) AT LOCAL LEVEL IS INEVITABLE FOR ELECTORAL REASONS. THIS ALARMS LE PEN'S OPPONENTS LESS THAN IT DID. FOR SOME, A VOTE FOR LE PEN IN THE FIRST ROUND WAS A ONE-OFF PROTEST. LE PEN WILL NEVERTHELESS BE A PROBLEM FOR THE RIGHT FOR THE FORESEEABLE FUTURE, AND FOR MITTERRAND. ROCARD'S GOVERNMENT MUST NOW TACKLE THE PROBLEMS ON WHICH LE PEN THRIVES.

DETAIL

2. MITTERRAND IS NOT THE ONLY FORCE TRYING TO RESHAPE THE FRENCH RIGHT IN THE WAKE OF CHIRAC'S DEFEAT. LE PEN IS ENERGETICALLY ENGAGED IN A SIMILAR EXERCISE, ALBEIT FROM AN ENTIRELY DIFFERENT STAND POINT AND WITH ENTIRELY DIFFERENT AIMS.

3. BUOYED UP BY HIS 14.4 PER CENT SCORE IN THE FIRST ROUND, LE PEN LOST NO TIME AFTER CHIRAC'S SEVERE SECOND ROUND DEFEAT IN LAYING CLAIM TO THE LEADERSHIP OF THE RIGHT AS A WHOLE. HE CONDEMNED THE PARTIES OF THE TRADITIONAL RIGHT, IN PARTICULAR CHIRAC AND THE RPR, FOR HAVING LOST TOUCH WITH THE ELECTORATE AND THEIR PROBLEMS, FOR OSTRACIZING THE FN, AND FOR HAVING ALLOWED MITTERRAND TO CAPTURE THE ELYSEE IN 1981 AND STAY THERE IN 1988. HE ARGUED THAT THE TIME HAD COME FOR THE RIGHT TO RALLY TO HIM AS ITS ONLY CREDIBLE CHAMPION. IN MAKING HIS CLAIM, HE PLAYED DOWN THE EXTREMIST THEMES OF THE FN (EG RACISM AND ANTI-SEMITISM) AND PLAYED UP NATIONALISM, THE BETTER TO APPEAR AN AUTHENTIC ALTERNATIVE.

4. MITTERRAND HAS BEEN PLAYING THE LE PEN CARD FOR SOME TIME TO WEAKEN THE RPR AND LE PEN'S RECENT SUCCESS NOW MAKES HIM THE OBJECTIVE ALLY OF MITTERRAND IN THE LATTER'S EFFORTS TO DRAW THE

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CENTRE INTO PARTNERSHIP WITH THE PS. THE CENTRIST CDS ARE INTENSELY HOSTILE TO LE PEN AND WORRIED THAT THEIR CURRENT PARTNERS WITHIN THE TRADITIONAL RIGHT MAY BE INCLINED TO DO DEALS WITH HIM. ONE WAY FOR THEM TO AVOID BECOMING IMPLICATED IN ANY COMPROMISE WITH THE FN IS FOR THEM TO SWITCH ALLEGIANCES AS MITTERRAND IS SUGGESTING.

5. ELSEWHERE ON THE TRADITIONAL RIGHT THE POSITION IS LESS CLEAR CUT. SOME IN THE PR AND RPR ARE AS HOSTILE TO LE PEN AS THE CDS (EG MALHURET, NOIR, CARIGNON). OTHERS ARE AMBIVALENT, ATTRACTED BY THE ARGUMENT OF SUCH AS PASQUA THAT THE POLITICAL VALUES OF LE PEN'S ELECTORATE (IF NOT OF LE PEN HIMSELF) ARE NO DIFFERENT FROM THOSE OF THE PR AND RPR. THEY ARE INCLINED TO ACCEPT THAT SOME SORT OF ACCOMMODATION MAY BE NECESSARY WITH THE FN IF ONLY TO SQUEEZE THE LIFE OUT OF IT, AS MITTERRAND DID TO THE COMMUNIST PARTY IN THE 1970S BY MEANS OF THE UNION OF THE LEFT. THERE IS ALSO A SMALL GROUP (MAINLY IN THE RPR) THAT GOES FURTHER, AND IS OPENLY IN FAVOUR OF JOINING FORCES WITH LE PEN ON THE GROUNDS THAT HE HAS GOT IT RIGHT AND THEY HAVE GOT IT WRONG. MOREOVER, ONLY LE PEN ON THE RIGHT HAS THE AURA OF STRONG POLITICAL LEADERSHIP AND AN OBVIOUS PERSONAL APPEAL.

6. THESE DIFFERENCES WILL BE DIFFICULT TO RESOLVE. THE PROBLEM OF HOW TO CONTAIN LE PEN AND THEN REDUCE HIS APPEAL WILL PLAGUE THE PR AND RPR LEADERSHIPS FOR MONTHS TO COME. LEOTARD AND CHIRAC ARE HOSTILE TO HIM AND MAY TRY TO ENSURE THAT THEIR PARTIES (OR JOINT PARTY IF THEY UNITE) REFUSE TO DEAL WITH HIM. BUT AS LE PEN KNOWS, EVEN IF THAT REMAINS THE OFFICIAL POSITION AT NATIONAL LEVEL, AT LOCAL LEVEL DISCIPLINE IS CERTAIN TO BREAK DOWN.

7. IT IS ALL THE MORE LIKELY TO DO SO IF MITTERRAND CALLS LEGISLATIVE ELECTIONS IN THE NEXT FEW MONTHS WITHOUT FIRST CHANGING THE ELECTORAL SYSTEM. UNDER THE PRESENT SYSTEM OF MAJORITY VOTING OVER TWO ROUNDS, MANY PR AND RPR DEPUTIES WOULD LOSE THEIR SEATS IF THEY COLD-SHOULDERED THE FN RATHER THAN COME TO LOCAL AGREEMENTS. THIS IS BECAUSE CANDIDATES DEFEATED IN THE FIRST ROUND WITH MORE THAN 12.5 PER CENT OF THE VOTE ARE ALLOWED TO STAND AGAIN IN THE SECOND ROUND AND PLAY A SPOILING ROLE IF THEY CHOOSE. THIS IS WHAT FN CANDIDATES WOULD DO UNLESS BETTER PLACED PR AND RPR CANDIDATES OFFERED THEM RECOGNITION AND INFLUENCE WITHIN THE CONSTITUENCY ONCE THEY HAD BEEN ELECTED. EARLY ELECTIONS MIGHT THEREFORE SEE LE PEN'S OWN PARLIAMENTARY GROUP SHARPLY REDUCED (IT CURRENTLY STANDS AT 32 AND MIGHT GO DOWN TO 5 OR 10) BUT HE COULD ENSURE THAT THE PR AND RPR PRESENCE WAS GREATLY REDUCED TOO.

PAGE 2
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004201
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8. MUCH THE SAME CALCULATION WILL APPLY FOR THE DEPARTMENTAL ELECTIONS THIS AUTUMN AND THE MUNICIPAL ELECTIONS NEXT SPRING. THE FN LOOKS SET TO GAIN LARGE NUMBERS OF SEATS AND TO BE IN A POSITION TO DETERMINE THE OUTCOME IN MANY OTHERS. AT LOCAL LEVEL THE PR AND RPR WILL BE UNABLE TO IGNORE THE FN AND WILL BE OBLIGED TO DO DEALS WITH IT, WHATEVER THE PARTY LINE MAY BE IN PARIS.

9. THIS PROSPECT DEPRESSES MANY ON THE LEFT AND IN THE CENTRE, BUT THEY ARE LESS ALARMED THAN THEY WERE IMMEDIATELY AFTER LE PEN'S SPECTACULAR FIRST ROUND PERFORMANCE. MITTERRAND'S CONVINCING RE-ELECTION, AND THE PROSPECTS OF A NEW CENTRE-RIGHT GROUP EMERGING TO GOVERN WITH HIM, MEAN THAT THERE IS A LARGE MAJORITY BARRING THE WAY TO LE PEN'S EXTREMISM. THE PROFOUND DISMAY ACROSS THE MODERATE POLITICAL SPECTRUM AT LE PEN'S SUCCESS HAS NOW BEEN SOMEWHAT MODIFIED. ANALYSES OF THE VOTES BOTH IN THE FIRST ROUND AND IN THE SECOND SUGGEST THAT PERHAPS HALF OF LE PEN'S 14.4 PER CENT WAS A PROTEST AGAINST OTHER CANDIDATES RATHER THAN A VOTE FOR FN EXTREMISM. OPINION POLLS TAKEN IN THE LAST FEW DAYS ALSO SUGGEST THAT ONLY A HALF TO TWO-THIRDS OF THOSE WHO SUPPORTED LE PEN IN THE PRESIDENTIAL ELECTION WOULD VOTE FOR HIM IN THE LEGISLATIVES. THIS HAS REASSURED LE PEN'S OPPONENTS ALTHOUGH, GIVEN THE RISE OF THE FN OVER THE LAST FIVE YEARS, NO-ONE IS IN A MOOD TO BE COMPLACENT.

CONCLUSION

10. LE PEN WILL REMAIN A MAJOR POLITICAL PROBLEM FOR THE RIGHT FOR THE FORESEEABLE FUTURE. HIS CONSIDERABLE POLITICAL GIFTS WILL BE HARD TO NEUTRALISE. HIS AUDIENCE NOW UNDOUBTEDLY EXTENDS FROM THE EXTREME RIGHT WELL INTO THE TRADITIONAL RIGHT, AND HE COMMANDS ATTENTION FROM ALL THOSE INVOLVED IN POLITICS. I SUSPECT THAT MUCH OF THAT TRADITIONAL RIGHT WILL CONTINUE TO HESITATE UNEASILY BETWEEN CONDEMNATION OF LE PEN AT NATIONAL LEVEL AND CO-OPERATION WITH HIM AT LOCAL LEVEL.

11. FOR MITTERRAND TOO HE IS A CHALLENGE. EVEN IF HIS EFFECT IS TO PROPEL THE CENTRISTS TOWARDS THE PS, THE PROTEST VOTE HE ATTRACTS IS EVIDENCE OF A SERIOUS POPULAR DISQUIET, FUELLED BY SOCIAL AND ECONOMIC PROBLEMS AND OF DISILLUSION WITH THE TRADITIONAL POLITICAL CLASS. LE PEN'S IMPORTANCE WILL ONLY DIMINISH IF THESE PROBLEMS DO TOO. FINDING SOLUTIONS TO THEM IS ONE OF THE KEY TASKS FACING MITTERRAND AS HE BEGINS HIS SECOND TERM. THE FACT THAT ROCARD IS KNOWN TO BE PARTICULARLY INTERESTED IN SOCIAL ISSUES IS A FURTHER REASON FOR HIS CHOICE AS PRIME MINISTER. HE IS THERE TO ATTRACT THE CENTRE, BUT HE IS ALSO THERE TO CALM THE PASSIONS AND FEARS OF THOSE WHO THINK THE POLITICAL SYSTEM HAS FAILED THEM AND WHO HAVE TURNED

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WELLINGTON FOR LORD GLENARTHUR.

MY TELNO 461: THE FUTURE OF THE FRENCH RIGHT.

SUMMARY

1. ROCARD'S APPOINTMENT IS PROOF THAT MITTERRAND WANTS AN OPENING TO THE CENTRE. THE CENTRISTS ARE TEMPTED TO RESPOND. IF THEY HAVE THE COURAGE TO SWITCH ALLIANCES, MITTERRAND WILL PROBABLY GIVE THEM TIME TO PREPARE. NEW LEGISLATIVE ELECTIONS WOULD THEN BE LIKELY IN SEPTEMBER. GISCARD WILL TRY, PROBABLY UNSUCCESSFULLY, TO HOLD THE UDF TOGETHER. LEOTARD CLAIMS THE LEADERSHIP OF THE OPPOSITION. CHIRAC WILL CONTEST THE ROLE ALTHOUGH HE FACES SERIOUS DIFFICULTIES IN THE RPR. MITTERRAND'S CHANCES OF REDRAWING THE POLITICAL LANDSCAPE ARE GOOD, BUT NOT CERTAIN.

DETAIL

2. THE PRESENT COMPOSITION OF THE ASSEMBLY (577 SEATS IN ALL) IS:

FRONT NATIONAL	33	
RPR	158	
PR	60)
CDS	48) UDF 128
UDF OTHER	20)
PS	214	
COMMUNISTS AND MISC	44	

3. IN CHOOSING ROCARD AS PRIME MINISTER, MITTERRAND HAS GIVEN A CLEAR SIGNAL THAT HE WANTS TO RECONSTRUCT FRENCH POLITICS, BREAKING WITH THE TRADITIONAL LEFT-RIGHT DIVISION IN ORDER TO GOVERN FROM THE CENTRE-LEFT. HE PROMISED DURING THE ELECTION CAMPAIGN THAT HIS PURPOSE WOULD BE TO UNITE FRANCE. ROCARD'S APPOINTMENT IS PROOF THAT HE MEANT IT.

4. ROCARD HAS LONG BEEN THE CHAMPION OF SOCIAL DEMOCRATIC MODERATION WITHIN THE SOCIALIST PARTY (PS). HE WAS REVILED IN THE EARLY PERIOD

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OF MITTERRAND'S FIRST TERM FOR HIS WARNINGS AGAINST DOCTINAIRE ECONOMIC AND SOCIAL POLICIES. EVENTS PROVED HIM RIGHT. RESPECTED FOR HIS INTELLECTUAL HONESTY AND POLITICAL INDEPENDENCE, AND POPULAR ACROSS THE POLITICAL SPECTRUM, HE HAS THE CREDENTIALS NEEDED TO ATTEMPT THE OPENING TO THE CENTRE TO WHICH MITTERRAND IS COMMITTED.

THE CENTRE

5. THE QUESTION IS WHETHER THE CENTRE WILL RESPOND. MEHAIGNERIE'S CDS ARE TEMPTED. SO ARE OTHER ELEMENTS WITHIN THE LOOSE CONFEDERATION OF THE UDF AND EVEN ONE OR TWO YOUNGER MEMBERS OF THE RPR. THE CDS HAVE BEEN UNCOMFORTABLE IN CHIRAC'S GOVERNMENT, AND INCREASINGLY AT ODDS WITH THEIR NOMINAL UDF PARTNERS, LEOTARD'S PARTI REPUBLICAIN (PR). THEIR EMPHASIS ON SOCIAL WELFARE, THE DEPTH OF THEIR COMMITMENT TO EUROPE, AND THEIR ALLERGY TO GAULLISM'S HIGH-HANDED METHODS HAVE CAUSED STRAINS. IN THEORY THEY HAVE AS MUCH, IF NOT MORE, IN COMMON WITH ROCARD AS THEY DO WITH CHIRAC AND IT SHOULD NOT BE DIFFICULT TO SWITCH ALLEGIANCE. BUT AS MITTERRAND KNOWS THEY NEED COURAGE AND TIME.

6. MITTERRAND CANNOT GIVE THEM COURAGE. THE CDS IS NOT A BRAVE PARTY AND MEHAIGNERIE FINDS IT HARD TO LEAD FROM THE FRONT. NEVERTHELESS, MITTERRAND HOPES THAT THE PROSPECT OF EMERGING AS THE CORE OF A NEW CENTRE-RIGHT, SHARING POWER WITH A SOCIAL-DEMOCRATIC LEFT, WILL PERSUADE THE CDS TO MOVE. HE ALSO HOPES THAT BARRE AND MME VEIL WILL HELP NUDGE THEM IN HIS DIRECTION. (BOTH ARE CENTRIST IN SYMPATHY, ALTHOUGH NOT MEMBERS OF THE CDS, AND BOTH WOULD BE HAPPY TO SEE THE PRESENT RPR-DOMINATED CONFIGURATION ON THE RIGHT BREAK UP. BARRE, WHO HAS EMERGED FROM THE ELECTORAL PROCESS WITH HIS REPUTATION MORE OR LESS UNIMPAIRED, MAY EVEN HOPE THAT A PERIOD OF CENTRE-LEFT GOVERNMENT NOW WOULD GIVE HIM A FURTHER CHANCE AT THE PRESIDENCY WHEN MITTERRAND RETIRES.)

7. MEHAIGNERIE'S ANNOUNCEMENT ON 10 MAY THAT HE HAS ESTABLISHED A QUOTE GROUPE D'INITIATIVE ET DE REFLEXION UNQUOTE (GIR) AND INVITED ALL CENTRISTS TO JOIN IT WILL ENCOURAGE MITTERRAND. IT MARKS A FIRST, IF TENTATIVE, STEP AWAY FROM THE PR AND RPR AND LOOKS LIKE A POSITIVE SIGNAL IN RESPONSE TO ROCARD'S APPOINTMENT. THIS MAY DECIDE MITTERRAND TO GIVE THEM WHAT IS IN HIS POWER, NAMELY TIME. THE CDS ARE ANXIOUS TO AVOID JUNE LEGISLATIVE ELECTIONS, FRIGHTENED THAT THEY WOULD LOSE HALF THEIR SEATS. MITTERRAND MAY BE WILLING TO DELAY DISSOLVING THE ASSEMBLY UNTIL SEPTEMBER, GIVING THE CDS LEADERS TIME TO PREPARE THEIR PARTY AND ELECTORATE FOR A CHANGE OF ALLIANCE, IF HE IS CONFIDENT THAT AFTER AUTUMN ELECTIONS THEY WILL BE READY TO JOIN A COALITION GOVERNMENT.

PAGE 2
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CONFIDENTIAL

003773
MDHIAN 9072

8. MITTERRAND IS UNLIKELY TO GIVE THEM MORE TIME THAN THAT. HE WILL PROBABLY WANT TO CASH IN SOON ON HIS PRESIDENTIAL SUCCESS TO SECURE A NATIONAL ASSEMBLY THAT IS MORE FAVOURABLY DISPOSED TOWARDS HIM. IF HE HELD ELECTIONS IN JUNE (IN WHICH CASE HE WOULD HAVE TO DISSOLVE BY THE END OF MAY), HE MIGHT OBTAIN AN OUTRIGHT SOCIALIST MAJORITY. BUT THAT WOULD LIMIT HIS FREEDOM OF MANOEUVRE. HE PROBABLY THINKS THAT HIS INTERESTS WILL BE BEST SERVED BY WAITING UNTIL SEPTEMBER IF THAT ENSURES A LEFT TURN BY THE CDS AND ITS SUBSEQUENT ENTRY INTO GOVERNMENT. (MITTERRAND MIGHT FURTHER BAIT THE HOOK BY INTRODUCING A SYSTEM OF PROPORTIONAL REPRESENTATION BEFORE SEPTEMBER DESIGNED TO HELP THE CDS, OR BY OFFERING THEM AN ELECTORAL PACT.)

GISCARD

9. GISCARD WILL TRY TO PERSUADE THE CDS TO REMAIN WITHIN THE CURRENT UDF. HIS AIM IS TO KEEP THE GROUP TOGETHER, IN THE HOPE THAT HE CAN ESTABLISH HIMSELF AS ITS LEADER, BARGAINING WITH MITTERRAND AND ROCARD TO HIS LEFT, AND CHIRAC TO HIS RIGHT. LIKE BARRE, BUT UNLIKE OTHER CENTRE OR RIGHT WING LEADERS WHO WERE MEMBERS OF THE CHIRAC GOVERNMENT, GISCARD IS A DEPUTY AND CAN THEREFORE HOPE TO EXERT PARTICULAR INFLUENCE IN THE ASSEMBLY. (DEPUTIES MUST RESIGN THEIR SEATS WHEN APPOINTED TO MINISTERIAL OFFICE AS CHIRAC, LEOTARD ETC WERE AFTER MARCH 1986.) BUT GISCARD'S CHANCES DO NOT LOOK GOOD. HE IS RESPECTED WITHIN THE UDF BUT NOT LIKED, A GENERAL WITHOUT TROOPS. THE UDF IS UNLIKELY TO HOLD TOGETHER AT HIS BEHEST.

LEOTARD

10. LEOTARD ALSO HAS PRETENSIONS TO LEAD THE RIGHT. HE HAS TAKEN AN UNCOMPROMISINGLY HOSTILE LINE TO MITTERRAND SINCE HIS RE-ELECTION, WITH THE AIM OF BECOMING LEADER OF THE OPPOSITION AND POSITIONING HIMSELF FOR THE NEXT PRESIDENTIAL ELECTIONS. HE IS PROBABLY RECONCILED TO THE BREAK UP OF THE UDF, HOPING TO CONSTRUCT IN ITS PLACE A RIGHT WING LIBERAL/CONSERVATIVE PARTY COMPOSED OF HIS OWN PR AND THE RPR. (THIS IS A VARIANT ON THE PROPOSAL PUT FORWARD BY BALLADUR IN HIS LE MONDE ARTICLE ON 17 MARCH: MY TELNO 298.) SOME IN THE RPR ARE ATTRACTED BY THIS PROPOSITION ALTHOUGH THE ABLEST OF THE YOUNG RPR LEADERS (EG SEGUIN OR JUPPE) WOULD CERTAINLY RESIST LEOTARD'S CLAIM TO LEAD THE NEW PARTY. SO WOULD CHIRAC.

CHIRAC

11. CHIRAC IS DOWN, BUT NOT OUT. THE SCALE OF HIS ELECTION DEFEAT, THE WORST RECORDED BY A RIGHT WING CANDIDATE IN THE HISTORY OF THE FIFTH REPUBLIC, IS A SEVERE SETBACK. (MITTERRAND EVEN BEAT CHIRAC IN HIS OWN DEPARTMENT OF CORREZE.) NEVERTHELESS HIS AMBITION IS

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BOUNDLESS AND HE WILL TRY TO BOUNCE BACK. HIS IMMEDIATE CONCERN IS THE RPR. AWARE OF THE RISKS OF DEFECTIONS AND SPLITS, HE HAS BEEN WORKING FEVERISHLY SINCE THE ELECTIONS TO HOLD THE RPR TOGETHER. ON THE ONE HAND HE IS TRYING TO COUNTER THE TEMPTATION OF RPR MODERATES TO MOVE TOWARDS THE CENTRE (ALREADY CARIGNON, THE RPR MAYOR OF GRENOBLE, AND FORMER MINISTER OF THE ENVIRONMENT, HAS ANNOUNCED THAT HE WILL TAKE PART IN GIR): ON THE OTHER HE FEARS DEFECTIONS TO LE PEN'S FRONT NATIONAL. HE WILL ALSO BE AWARE OF RUMBLINGS OF DISCONTENT ABOUT HIS LEADERSHIP AND SUGGESTIONS FROM SOME THAT THE PARTY SHOULD TURN TO SEGUIN. HIS DIFFICULTIES ARE CONSIDERABLE, PARTICULARLY THE PROBLEM POSED BY LE PEN (SEE SEPARATE TELEGRAM), BUT I EXPECT HIM TO HANG ON TO THE LEADERSHIP OF THE RPR FOR THE MOMENT, WORK TO BE CONVINCINGLY RE-ELECTED AS MAYOR OF PARIS IN NEXT YEAR'S MUNICIPAL ELECTIONS AND IN DUE COURSE TRY TO ASSERT HIMSELF AT LEOTARD'S EXPENSE OVER A PR-RPR CONFEDERATION.

CONCLUSION

12. THE RIGHT IS BREAKING UP AND REFORMING UNDER THE IMPACT OF MITTERRAND'S MASSIVE VICTORY, GIVING HIM THE CHANCE TO PLAY POLITICAL ARCHITECT. HIS DESIGN IS CLEAR: HAVING UNITED THE SOCIALISTS AND MARCHED THEM TOWARDS THE MODERATE CENTRE, HE WANTS THEM TO GOVERN IN PARTNERSHIP WITH A NEW CENTRE-RIGHT GROUPING BUILT AROUND THE CDS. IF HE CONCLUDES IN THE NEXT TWO-THREE WEEKS THAT THIS IS FEASIBLE, HE IS LIKELY TO HOLD LEGISLATIVE ELECTIONS IN SEPTEMBER AND FORM A NEW PS-CENTRIST GOVERNMENT THEREAFTER. HIS POLITICAL AUTHORITY, AND ROCARD'S POLITICAL MAGNETISM, MEAN THAT THE CHANCE OF SUCCESS IS GOOD. BUT WE LOOK LIKE BEING IN FOR A PERIOD OF SOME UNCERTAINTY.

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THE NEW FRENCH GOVERNMENT.

SUMMARY

1. THE NEW GOVERNMENT SIGNALS MITTERRAND'S WISH FOR AN OPENING TO THE CENTRE, BUT LESS CLEARLY THAN HE MIGHT HAVE LIKED. JOSPIN IS REWARDED WITH EDUCATION AND RESEARCH, TWO OF MITTERRAND'S PRIORITIES. DUMAS GOES BACK TO THE QUAI, BEREGOVY TO FINANCE, JOXE TO INTERIOR AND NALLET TO AGRICULTURE. MME CRESSON, A MITTERRAND ALLY, GETS EUROPE. THE LEFT WING CHEVENEMENT'S APPOINTMENT TO DEFENCE IS UNLIKELY TO BE POPULAR WITH THE MILITARY. HOW LONG THE GOVERNMENT LASTS, AND WHETHER THERE ARE EARLY LEGISLATIVE ELECTIONS, MAY DEPEND ON THE RECEPTION IT GETS FROM THE CENTRE-RIGHT.

DETAIL

2. ROCARD'S GOVERNMENT HAS TAKEN LONGER TO ANNOUNCE THAN EXPECTED. THERE SEEM TO HAVE BEEN TWO REASONS FOR THE DELAY. THE FIRST IS THAT A FIERCE BATTLE HAS DEVELOPED IN THE PAST 2-3 DAYS BETWEEN FABIUS AND MAUROY OVER WHICH OF THEM SHOULD SUCCEED JOSPIN AS FIRST SECRETARY OF THE SOCIALIST PARTY (PS). THE OUTCOME IS NOT YET CLEAR, ALTHOUGH THE PS IS EXPECTED TO DECIDE THIS WEEKEND.

3. THE SECOND DIFFICULTY APPEARS TO HAVE BEEN A RELUCTANCE ON THE PART OF MOST LEADING CENTRE-RIGHT POLITICIANS TO JOIN THE GOVERNMENT SO SOON AFTER THE RIGHT'S PRESIDENTIAL DEFEAT, DESPITE RUMOURS THAT MITTERRAND HAS BEEN KEEN FOR SOME OF THEM TO DO SO. THEY ARE SAID TO HAVE REFUSED HIS OVERTURES ON THE GROUNDS THAT THEY DO NOT YET KNOW WHAT POLICIES THE ROCARD GOVERNMENT WILL FOLLOW. THEY ARE ALSO NERVOUS THAT MITTERRAND MAY DISSOLVE THE ASSEMBLY IN THE NEXT FEW WEEKS, WHICH WOULD LEAVE THEM IN CONSIDERABLE POLITICAL DIFFICULTY SINCE THEY WOULD HAVE ABANDONED THEIR RIGHT WING ALLIANCES WITHOUT HAVING HAD TIME TO BUILD SUBSTANTIAL LINKS WITH THEIR NEW SOCIALIST ALLIES.

PAGE 1
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4. THE NEW GOVERNMENT NEVERTHELESS INCLUDES A FEW NON-SOCIALIST FIGURES AS EVIDENCE OF MITTERRAND'S COMMITMENT TO AN OPENING TO THE CENTRE. FAURE (ONE OF THE FOUR SENIOR MINISTRES D'ETAT) IS A RADICAL. HE IS ALSO A LONG-TIME INTIMATE OF MITTERRAND AND MAY NOW PLAY A CRUCIAL ROLE IN THE PRESIDENT'S ATTEMPTS TO FORGE AN ALLIANCE WITH THE CENTRE AND CENTRE-RIGHT. THE NEW MINISTER OF JUSTICE, ARPAILLANGE, IS NOT A SOCIALIST EITHER, BUT A JURIST WITH A REPUTATION FOR PROFESSIONAL EXCELLENCE AND FOR RESISTING POLITICAL PRESSURE ON THE JUDICIARY (A COMMON PHENOMENON IN FRANCE). FAUROUX, WHO GOES TO THE IMPORTANT MINISTRY OF INDUSTRY, TRADE AND LOCAL GOVERNMENT IS CURRENTLY DIRECTOR OF ENA, AND IS FROM THE CATHOLIC CENTRE. DURAFOUR, CURIEN, DOUBIN AND MME TASCA ARE NON-SOCIALISTS TOO (DURAFOUR WAS A MINISTER UNDER GISCARD AND CURIEN, ALTHOUGH A MINISTER IN FABIUS' GOVERNMENT, IS A SCIENTIST NOT A PROFESSIONAL POLITICIAN.) ALTHOUGH THE RPR AND PARTI REPUBLICAIN HAVE BEEN QUICK TO CONDEMN THE LINE-UP AS EVIDENCE THAT MITTERRAND'S PROFESSED DESIRE FOR AN OPENING TO THE CENTRE IS A POLITICAL FICTION, THE SIGNS ARE THERE FOR THOSE WHO WANT TO SEE, EVEN IF THEY MAY BE LESS STRIKING THAN MITTERRAND AND ROCARD MIGHT HAVE LIKED.

5. THE OTHER MINISTRIES HAVE GONE LARGELY TO SOCIALIST HEAVYWEIGHTS WHO PLAYED IMPORTANT GOVERNMENT AND PARTY ROLES DURING MITTERRAND'S FIRST TERM. THE NOMINATION OF JOSPIN AS THE SECOND MINISTER IN THE GOVERNMENT AFTER ROCARD IS A STRIKING REWARD FOR HIS SEVEN YEAR TERM AS FIRST SECRETARY OF THE PARTY. HE HAS NOW BEEN GIVEN CHARGE OF TWO OF THE AREAS WHICH MITTERRAND HAS SAID WILL BE AMONG HIS PRIORITIES IN HIS NEW TERM: EDUCATION AND RESEARCH. BEREGOVY'S RETURN TO THE ECONOMY AND FINANCE IS NO SURPRISE. HE PROVED A SUCCESSFUL FINANCE MINISTER UNDER FABIUS AND HIS REAPPOINTMENT WILL REASSURE THE BOURSE AND FINANCIAL CIRCLES.

6. DUMAS' RETURN TO THE QUAI AS MINISTRE D'ETAT IS A REWARD FOR SOMEONE WHO HAS A GOOD TRACK RECORD IN THE JOB BUT WHO HAS NOT BEEN SHORT-LISTED IN RECENT SPECULATION. THE FACT THAT MITTERRAND HAS PUT HIM BACK IN CHARGE OF FOREIGN AFFAIRS, AND HAS MADE ANOTHER OF HIS MOST TRUSTED INTIMATES, MME CRESSON, MINISTER FOR EUROPE, SUGGESTS THAT THE PRESIDENT IS DETERMINED TO KEEP A FIRM GRIP ON FOREIGN AND EUROPEAN POLICY AND THAT MATIGNON MAY HAVE TO STRUGGLE TO MAKE ITS VOICE HEARD.

7. JOXE'S REAPPOINTMENT TO THE INTERIOR MINISTRY PUTS ANOTHER MITTERRAND TRUSTEE BACK IN A KEY MINISTRY, AND ONE THAT WILL BE PARTICULARLY IMPORTANT IN THE COMING MONTHS GIVEN ITS RESPONSIBILITY FOR ELECTIONS. THE RIGHT DETEST HIM, CLAIMING THAT HE IS SECTARIAN

. PAGE 2
. CONFIDENTIAL

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AND DOCTRINAIRE, AND THEY WILL CERTAINLY POINT TO HIS RETURN TO BOLSTER THEIR CLAIM THAT MITTERRAND IS NOT GENUINELY INTERESTED IN OPENING TO THE CENTRE. THEY WILL CITE THE MERMAZ AND POPEREN APPOINTMENTS AS FURTHER PROOF, ON THE GROUNDS THAT THEY TOO ARE ASSOCIATED WITH THE LEFT WING OF THE SOCIALIST PARTY.

8. SO IS CHEVENEMENT, WHOSE APPOINTMENT TO DEFENCE IS UNLIKELY TO BE WELCOMED BY THE MILITARY. HIS REPUTATION FOR NATIONALISM (HE IS KNOWN AS A LEFT WING GAULLIST) IS UNLIKELY TO OFFSET THEIR DOUBTS ABOUT HIM AS THE LEADER OF A LEFT WING GINGER GROUP THAT ESPOUSES MARXIST ECONOMICS. NEVERTHELESS THERE IS NO DOUBT ABOUT HIS INTELLIGENCE, THE FORCEFULNESS OF HIS PERSONALITY, NOR HIS COMPETENCE AS A DEPARTMENTAL MINISTER. BY CHOOSING HIM, MITTERRAND APPEARS TO BE SIGNALLING TO THE LEFT OF THE SOCIALIST PARTY THAT, ALTHOUGH HE IS PURSUING AN OPENING TO THE CENTRE, HE IS SERIOUS IN HIS DETERMINATION TO MAKE DISARMAMENT A PRIORITY IN HIS NEW TERM.

9. RESPONSIBILITY FOR THE DOM-TOMS AND THEREFORE FOR THE DIFFICULT NEW CALEDONIA DOSSIER STAYS AT MATIGNON, WITH STIRN THE JUNIOR MINISTER WORKING TO ROCARD. (STIRN'S APPOINTMENT IS ANOTHER EXAMPLE OF MITTERRAND'S OPENING TO THE CENTRE: HE IS A CENTRIST WHO CONVERTED TO SOCIALISM DURING MITTERRAND'S FIRST TERM.) NEW CALEDONIA IS ONE OF THE MOST DIFFICULT ISSUES FACING THE NEW GOVERNMENT AND ITS HANDLING WILL COUNT CRUCIALLY IN DETERMINING THE PUBLIC VIEW OF ROCARD'S ADMINISTRATION. SOCIAL AFFAIRS WILL SIMILARLY BE OF GREAT SENSITIVITY. IT COMES AS NO SURPRISE THAT DELEBARRE HAS BEEN CHOSEN FOR THE POST. HE WAS A CONSPICUOUS SUCCESS AS MINISTER OF LABOUR IN THE FABIUS GOVERNMENT AND IS A RISING STAR.

10. MY INITIAL IMPRESSION IS THAT THIS IS A GOVERNMENT THAT WE SHOULD FIND IT RELATIVELY EASY TO DO BUSINESS WITH. ROCARD IS WELL DISPOSED, AND DUMAS WAS SOMEONE WITH WHOM WE COULD WORK EFFECTIVELY DURING THE FABIUS PERIOD. I BELIEVE THAT THE HOME SECRETARY ALSO HAD GOOD WORKING RELATIONS WITH JOXE. CHEVENEMENT WILL BE A SHARP CHANGE AT DEFENCE: FROM OUR POINT OF VIEW HE KNOWS THE UK (AND SPEAKS GOOD ENGLISH). (WASHINGTON MAY HOWEVER BE UNEASY: CHEVENEMENT HAS HAD HARD THINGS TO SAY ABOUT THE UNITED STATES IN THE PAST.) BEREGOVY HAS BEEN COMPENSATED FOR HIS WORK IN THE CAMPAIGN, AND FOR MISSING THE PRIME MINISTERSHIP, BY A POSITION AS NUMBER THREE. HIS RETURN AND THAT OF NALLET MEAN FAMILIAR AND SENSIBLE FACES IN THE KEY MINISTRIES OF FINANCE AND AGRICULTURE.

11. NEITHER MME CRESSON, NOR MME AVICE HAVE DIRECT FOREIGN POLICY EXPERIENCE (ALTHOUGH MME CRESSON WAS FABIUS' MINISTER FOR TRADE) AND

PAGE 3
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011605
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WE SHALL NEED TO MAKE EARLY CONTACT. IT WILL BE WORTH TAKING PARTICULAR TROUBLE OVER MME CRESSON SINCE SHE IS PARTICULARLY CLOSE TO MITTERRAND. MME AVICE HAS BEEN A DEPUTY FOR PARIS SINCE 1978, AND HAS RECENTLY WORKED WITHIN THE PS ON WOMEN'S RIGHTS. SHE BELONGS TO A LEFT WING STRAND OF THE PARTY.

CONCLUSION

12. THIS IS PROBABLY NOT THE GOVERNMENT MITTERRAND WOULD IDEALLY HAVE LIKED TO FORM. IT DEMONSTRATES HIS DESIRE TO KEEP AN OPENING TO THE CENTRE BUT, APART FROM FAURE, CONTAINS NO CENTRISTS OR RADICALS OF NATIONAL STATURE. BUT IT LEAVES HIS OPTIONS OPEN.

13. MITTERRAND WILL NOW WATCH TO SEE HOW THE CENTRE-RIGHT REACT. THEIR RESPONSE WILL HELP TO DETERMINE WHETHER HIS HOPE OF CONSTRUCTING A CENTRE-LEFT GOVERNMENT IS LIKELY TO BE PRACTICAL POLITICS IN THE MONTHS AHEAD, OR WHETHER HE WILL HAVE TO ABANDON THE IDEA, ANYWAY IN THE SHORT TERM. IF THEIR REACTION IS POSITIVE, HE IS UNLIKELY TO DISSOLVE THE ASSEMBLY IMMEDIATELY (IE IN JUNE). HE MAY HOPE THAT BY SEPTEMBER THE TIMING WILL BE MORE FRUITFUL. IF IT IS NEGATIVE, THE ODDS WILL SHORTEN ON EARLY DISSOLUTION AND JUNE PARLIAMENTARY ELECTIONS. HE IS UNLIKELY TO WANT TO BE TIED DOWN BY A CLEAR SOCIALIST MAJORITY, BUT THAT MAY BE HIS ONLY CHOICE IF HE SEES A DIMINISHING PROSPECT OF BRINGING THE CENTRE-RIGHT ON BOARD.

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MIPT: NEW FRENCH GOVERNMENT

1. THE NEW GOVERNMENT INCLUDES FOUR MINISTERS OF STATE, CONTRASTING WITH ONE (BALLADUR) IN CHIRAC'S GOVERNMENT. THEY ARE: - LIONEL JOSPIN (MINISTER OF STATE, MINISTER FOR NATIONAL EDUCATION, RESEARCH AND SPORT). BORN 1937. ENA. OFFICIAL IN THE PARTI SOCIALISTE SECRETARIAT SINCE 1973. FIRST SECRETARY OF THE PS SINCE 1981. DEPUTY SINCE 1981. CLOSE TO MITTERRAND. HIS SERVICE TO THE PARTY HAS BEEN REWARDED BY HIS APPOINTMENT TO THE NUMBER TWO POSITION IN THE GOVERNMENT. (LPR 91)

- PIERRE BEREGOVY (MINISTER OF STATE, MINISTER OF THE ECONOMY, FINANCE AND THE BUDGET). BORN 1925. MEMBER OF THE RESISTANCE. TRADE UNION BACKGROUND. FOUNDER MEMBER OF THE PS. SECRETARY GENERAL AT THE ELYSEE 1981-82. MINISTER OF SOCIAL AFFAIRS 1982-84. MINISTER OF FINANCE 1984-86. ON THE SHORT-LIST FOR PRIME MINISTER, BUT NOW RETURNS TO HIS FORMER MINISTRY. (LPR 26)

- MAURICE FAURE (MINISTER OF STATE, MINISTER OF EQUIPMENT AND HOUSING). BORN 1922. DEPUTY 1958-83. UNDER FOURTH REPUBLIC WAS A JUNIOR MINISTER FOR FOREIGN AFFAIRS AND LATER MINISTER OF THE INTERIOR. MEP 1959-67 AND SINCE 1973. BRIEFLY MINISTER OF JUSTICE UNDER MAUROY IN 1981. SENATOR SINCE 1983. LONG-STANDING FRIEND OF MITTERRAND'S.

- ROLAND DUMAS (MINISTER OF STATE, MINISTER OF FOREIGN AFFAIRS). BORN 1922. MEMBER OF THE RESISTANCE. BARRISTER. DEPUTY IN THE PARLIAMENTS OF 1956, 1965, 1981 AND 1986. JOINED MITTERRAND'S PS IN 1971. MINISTER FOR EUROPEAN AFFAIRS 1984, MINISTER OF FOREIGN AFFAIRS 1984-86. ONE OF MITTERRAND'S CLOSEST FRIENDS AND POLITICAL ALLIES. (LPR 64)

2. THE GOVERNMENT CONTAINS 14 MINISTERS:

- PIERRE ARPAILLANGE (MINISTER OF JUSTICE). BORN 1924. MAGISTRATE FOR OVER 40 YEARS, CURRENTLY PROCUREUR GENERAL IN THE APPEAL COURT. HAS SPENT A LARGE PART OF HIS CAREER IN THE CABINET OF GAULLIST MINISTERS. WIDELY RESPECTED IN HIS PROFESSION.

- JEAN -PIERRE CHEVENEMENT (MINISTER FOR DEFENCE). BORN 1939. ENA. LEADER OF THE LEFT-WING CERES FACTION OF THE SOCIALIST PARTY SINCE

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1965. DEPUTY SINCE 1973. MINISTER OF RESEARCH 1981. MINISTER OF STATE FOR INDUSTRY AND RESEARCH 1982. MINISTER OF EDUCATION 1984-86. IDEOLOGICAL SOCIALIST AND A CONTROVERSIAL PERSONALITY. ESPECIALLY IMPRESSTVF AT FDUICATION. VIEWS ON DEFENCE NEVERTHELESS LIKELY TO REFLECT THE GAULLIST TRADITION. (LPR 44)

- PIERRE JOXE (MINISTER OF THE INTERIOR). BORN 1934. ENA. PS SECRETARIAT 1971-79. DEPUTY SINCE 1973. MINISTER OF INDUSTRY 1981. MINISTER OF THE INTERIOR 1984-86. ON LEFT-WING OF PS. KNOWN FOR HIS SHARP PERSONALITY. (LPR 92)

- ROGER FAUROUX (MINISTER OF INDUSTRY, FOREIGN TRADE AND LOCAL GOVERNMENT). BORN 1926. ENA. CAREER MAINLY IN BUSINESS SINCE 1961. PRESIDENT OF SAINT-GOBAIN INDUSTRIES 1980-86. DIRECTOR OF ENA SINCE 1986. BROUGHT INTO THE GOVERNMENT AS A PROFESSIONAL ADMINISTRATOR. A SOLID CITIZEN.

- EDITH CRESSON (MINISTER FOR EUROPEAN AFFAIRS). BORN 1934. LONG TIME ASSOCIATE AND FAVOURITE OF MITTERRAND'S. PS SECRETARIAT 1975-81. MEP 1979-81. MINISTER OF AGRICULTURE 1981-83. MINISTER OF EXTERNAL TRADE 1983-86. (LPR 52)

- LOUIS MERMAZ (MINISTER OF TRANSPORT). BORN 1931. PS SECRETARIAT 1971-81. MINISTER OF EQUIPMENT AND TRANSPORT FOR A BRIEF PERIOD IN 1981. PRESIDENT OF THE NATIONAL ASSEMBLY 1981-86. (LPR 124)

- MICHEL DURAFOUR (MINISTER FOR THE CIVIL SERVICE AND ADMINISTRATIVE REFORM). BORN 1920. EARLY CAREER AS A JOURNALIST AND WRITER. MINISTER OF LABOUR 1974-76. JUNIOR MINISTER OF FINANCE 1976-77. SUBSEQUENILY, AS DEPUTY AND THEN SENATOR (SINCE 1983) WORKED WITHIN THE UDF MACHINE. ONE OF THE FIRST CENTRISTS TO DECLARE FOR MITTERRAND AFTER THE FIRST ROUND OF THE 1988 ELECTION.

- MICHEL DELEBARRE (MINISTER OF SOCIAL AFFAIRS AND EMPLOYMENT). BORN 1946. DEPUTY DU NORD AND HAS WORKED CLOSELY WITH MAUROY IN HIS REGION AND WHEN HE BECAME PRIME MINISTER IN 1981 (HIS CABINET DIRECTOR 1981-84). MINISTER OF LABOUR AND EMPLOYMENT UNDER FABIUS 1984-86. (LPR 56)

- JACQUES PELLETIER (MINISTER OF COOPERATION AND DEVELOPMENT). BORN 1929. JUNIOR MINISTER OF EDUCATION 1978-80. SENATOR SINCE 1966: PRESIDENT OF FRANCO-CENTRAL AFRICAN PARLIAMENTARY GROUP IN THE SENATE SINCE 1980 AND OF THE ANGLO-FRENCH PARLIAMENTARY GROUP SINCE 1982. A GISCARDIEN MEMBER OF THE UDF, HE HAS BEEN BROUGHT INTO THIS GOVERNMENT AS A CENTRIST. (LPR 139)

- JACK LANG (MINISTER OF CULTURE AND COMMUNICATIONS). BORN 1939. A MIXED LEGAL AND POLITICAL CAREER. MEMBER OF THE PARIS CITY COUNCIL SINCE 1977. MINISTER OF CULTURE 1981-86. WAS EXPECTED TO BE GIVEN NEW RESPONSIBILITIES, BUT HAS RETURNED TO FAMILIAR GROUND. (LPR 100)

- HENRI NALLET (MINISTER OF AGRICULTURE AND FORESTS). BORN 1939. SENIOR OFFICIAL AT THE NATIONAL FEDERATION OF FARMERS 1966-70,

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SUBSEQUENTLY DIRECTOR OF RESEARCH AT THE NATIONAL INSTITUTE OF AGRONOMIC RESEARCH. PRESIDENT OF THE WORLD FOOD COUNCIL 1985. FOLLOWED ROCARD AS MINISTER OF AGRICULTURE 1985-86.

- PAUL QUILES (MINISTER OF POSTS, TELEGRAPH AND SPACE). BORN 1942. BUSINESSMAN UNTIL 1978. PS SECRETARIAT 1979-83. MINISTER FOR URBAN AFFAIRS AND HOUSING 1983-85, DEFENCE 1985-86. AN EXPERT ON ENERGY QUESTIONS, HIS NEW MINISTRY HAS BEEN WIDENED TO INCLUDE RESPONSIBILITY FOR SPACE. (LPR 148)

- LOUIS LE PENSEC (MINISTER FOR THE SEA). BORN 1937. EARLY CAREER IN BUSINESS (AERONAUTICS). PROFESSOR OF ECONOMIC SCIENCE 1970-73. DEPUTY 1973-81. MINISTER OF THE SEA 1981-83, WHEN HE RESIGNED OVER THE DOWNGRADING OF HIS MINISTRY.

- JEAN POPPEREN (MINISTER FOR PARLIAMENTARY RELATIONS). BORN 1925. JOINED FRENCH COMMUNIST PARTY IN 1943, WORKING FOR THE COMINFORM IN BUCHAREST 1952-54. LEFT THE PARTY IN 1958. FOUNDER MEMBER OF THE PS IN 1971, HE HAS WORKED IN THE PS SECRETARIAT EVER SINCE. NUMBER TWO TO JOSPIN SINCE 1981. THE MOST LEFT WING MEMBER OF THIS NEW GOVERNMENT. (LPR 147)

3. A NUMBER OF JUNIOR POSITIONS HAVE STILL TO BE ANNOUNCED. WE SHALL ONLY SEND COMMENTS TELEGRAPHICALLY IF THERE ARE SURPRISES.

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pmg

*Thanks.
is hard like
is drop her
Balladum*

Ch.

French govt.
— govt.

- ① Bérézovoy will not be attending ELOFIN this w/e. The French team will be Trichet + de Larosière only;
- ② Bérézovoy has, so far, only one junior Minister — a Mme. Véronique Neiertz. She is charged with the 'consumer affairs' portfolio. There is as yet no Budget minister;
- ③ The new Minister 'du Plan', Stolera (a Barreiste) will work direct to Rozard ;
- ④ The 'Foreign Trade' portfolio has gone to the Minister of Industry

as UK!

wer

(M. Roger Faroux).

Michael Jay says that, while it is too early to make a firm assessment, (2), (3) + (4) imply that Berezovskiy's powers may be fairly heavily circumscribed. He looks unlikely to be as influential a figure as Balladur.

JT

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WELLINGTON FOR LORD GLENARTHUR.

THE NEW FRENCH GOVERNMENT.

SUMMARY

1. THE MINISTERS IN THE NEW ROCARD GOVERNMENT WERE ANNOUNCED THIS
EVENING (12 MAY). JUNIOR MINISTERS WILL BE ANNOUNCED TOMORROW.

DETAIL

2. THE FOLLOWING HAVE BEEN APPOINTED MINISTERS IN THE NEW
GOVERNMENT:-

PRIME MINISTER : MICHEL ROCARD

SENIOR MINISTERS (QUOTE MINISTRE D'ETAT)

EDUCATION, RESEARCH AND SPORTS : LIONEL JOSPIN
ECONOMY, FINANCE AND BUDGET : PIERRE BEREGOVOY
EQUIPMENT AND HOUSING : MAURICE FAURE
FOREIGN AFFAIRS : ROLAND DUMAS

MINISTERS

JUSTICE : PIERRE ARPAILLANGE
DEFENCE : JEAN-PIERRE CHEVENEMENT
INTERIOR : PIERRE JOXE
INDUSTRY, FOREIGN TRADE AND LOCAL
GOVERNMENT : ROGER FAUROUX
EUROPEAN AFFAIRS : EDITH CRESSON
TRANSPORT : LOUIS MERMAZ
CIVIL SERVICE AND ADMINISTRATIVE
REFORM : MICHEL DURAFOUR
SOCIAL AFFAIRS AND EMPLOYMENT : MICHEL DELEBARRE
CO-OPERATION AND DEVELOPMENT : JACQUES PELLETIER
CULTURE AND COMMUNICATION : JACK LANG

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AGRICULTURE AND FORESTS : HENRI NALLET
POSTS AND FOR SPACE : PAUL QUILES
SEA : LOUIS LE PENSEC
RELATIONS WITH PARLIAMENT : JEAN POPERCN

JUNIOR MINISTERS (QUOTE MINISTRES DELEGUES UNQUOTE)

ATTACHED TO THE PRIME MINISTER WITH
RESPONSIBILITY FOR DOM-TOMS (IE
FRENCH OVERSEAS TERRITORY) : OLIVIER STIRN
MINISTRY OF EDUCATION, RESEARCH AND
SPORTS WITH RESPONSIBILITY FOR
RESEARCH : HUBERT CURIEN
MINISTRY OF FOREIGN AFFAIRS : EDWIGE AVICE
MINISTRY OF INDUSTRY, TRADE AND
LOCAL GOVERNMENT, WITH RESPONSIBILITY
FOR LOCAL GOVERNMENT AND INDUSTRIAL
RECONVERSION : JACQUES CHEREQUE
MINISTRY OF INDUSTRY, TRADE AND
LOCAL GOVERNMENT : FRANCOIS DOUBIN
MINISTRY OF SOCIAL AFFAIRS WITH
RESPONSIBILITY FOR THE FAMILY,
WOMEN'S RIGHT, SOCIAL SOLIDARITY
AND QUOTE REPATRIES UNQUOTE : GEORGINA DUFOIX
MINISTRY OF SOCIAL AFFAIRS WITH
RESPONSIBILITY FOR HEALTH AND
SOCIAL WELFARE: : CLAUDE EVIN
MINISTRY OF CULTURE AND
COMMUNICATION, WITH RESPONSIBILITY
FOR COMMUNICATION : CATHERINE TASCA

3. THE REMAINING JUNIOR MINISTERIAL APPOINTMENTS (QUOTE SECRETAIRES
D'ETAT UNQUOTE) WILL BE ANNOUNCED TOMORROW.

4. FOR BACKGROUND AND COMMENT, SEE MY 2 IFTS (SAVING TO SOME).

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FROM: J M G TAYLOR

DATE: 12 May 1988

SIR G LITTLER - 2

cc PS/Economic Secretary
Mr Lankester
Mr H P Evans
Mr Mountfield

PRESIDENT MITTERRAND'S "MANIFESTO"

M. Camdessus told the Chancellor that President Mitterrand's personal "Manifesto" for the recent Election could be used to encourage French support for the Chancellor's SSA initiative.

... 2. I attach the relevant extracts from the document (called "Lettre à tous les Français"). What Mitterrand actually says is:

"Je continue de recommander l'annulation de nos créances sur les plus pauvres, des aménagements de toute sorte pour la dette des autres, et de lier les modalités de remboursement aux variations des cours des matières premières".

J M G TAYLOR

Mr Taylor
I think this is not helpful:
- "writing-off" of debt of the poor (except official aid) is not
what we propose;

Eh bien, j'y pense...

L'EQUILIBRE DES FORCES, DESARMEMENT ET LA PAIX

La paix dépend d'abord de l'équilibre des forces entre les blocs militaires qui, malheureusement, quarante-trois ans après la fin de la Seconde Guerre mondiale, demeurent face à face. Que l'un de ces blocs prenne l'avantage sur l'autre ou que l'autre le craigne et le conflit Est-Ouest devient possible.

C'est pour sauvegarder l'équilibre des forces, menacé par l'installation en Union soviétique de nouvelles armes nucléaires, les SS 20, capables de détruire en un quart d'heure la totalité des dispositifs de sécurité de l'Europe de l'Ouest, mais d'une portée insuffisante pour traverser l'Atlantique, ce qui montrait bien à qui elles étaient destinées, qu'en 1983, à Bonn, devant le Parlement de la République fédérale d'Allemagne, j'ai demandé l'implantation en Europe des fusées américaines Pershing II, capables à leur tour d'atteindre le territoire soviétique.

C'est par le même raisonnement, mais en sens inverse, qu'en 1987, j'ai approuvé sans réserve l'accord de Washington signé par MM. Reagan et Gorbatchev en vue d'éliminer, sous contrôle mutuel, l'intégralité de leurs missiles nucléaires de moyenne portée, allant de 500 à 5 500 kilomètres.

C'est encore ce raisonnement qui m'a conduit à décliner l'invitation faite à la France par M. Reagan de participer à la préparation de la "guerre des étoiles", qui transporte dans l'espace la course aux armements.

Mais l'équilibre sans le désarmement ne résout rien. Les deux plus grandes puissances possèdent, chacune, près de cinquante mille charges nucléaires, de quoi faire sauter la terre. Il faut qu'elles désarment. L'accord de Washington qui vise moins du dixième de leur arsenal nucléaire va dans la bonne direction. Cela ne suffit pas. MM. Reagan et Gorbatchev envisagent maintenant de diminuer de 50% leurs armes stratégiques. Nous devons les encourager. Mais en raison de la supériorité sovi-

... dans les armes classiques (avions, chars d'assaut, canons, etc.) et chimiques situées en Europe, l'urgence, pour nous, Européens, est d'obtenir d'une négociation qu'elle établisse l'équilibre dans ce domaine comme dans les autres. J'ai défendu cette thèse dans les enceintes internationales où je me suis rendu et les dirigeants de l'Alliance Atlantique l'ont adoptée au récent "sommet de Bruxelles" qui les a réunis.

"Le désarmement et la sécurité sont les deux faces d'une même pièce."

Pourtant des voix s'élèvent un peu partout pour enrayer ce processus qui accroît, disent-elles, notre insécurité. Elles expriment à la fois de puissants intérêts et de vraies convictions.

Permettez-moi d'insister, mes chers compatriotes. Il s'agit là d'un choix capital, l'un des plus importants de l'époque, et ce choix vous devez le faire vous aussi. Je vous ai exposé ma façon de penser : ou bien le désarmement global, simultané et contrôlé, sera poursuivi et la paix gardera ses chances, ou bien la course au surarmement reprendra, avec, au bout, la guerre. Dans une telle affaire il n'y a pas de juste milieu.

Bien entendu, tant que Russes et Américains n'auront pas franchi les étapes décisives que nous sommes en droit d'espérer dans la destruction de leurs armes, et il y faudra du temps, la vigilance, pour nous Français, s'imposera. Fidèle à ses alliances et forte de sa propre stratégie autonome, fondée sur la dissuasion nucléaire, la France maintiendra sa règle d'or : le désarmement et la sécurité sont les deux faces d'une même pièce. On ne peut avoir l'une sans l'autre. Mais partout où elle pourra se faire entendre, elle travaillera pour la paix.

LE DEVELOPPEMENT DU TIERS MONDE

Il faut s'en convaincre : le fossé, qui s'élargit, entre les pays riches et les pays pauvres, représente pour l'humanité un risque plus pressant que la menace nucléaire, car celle-ci peut être contrôlée tandis que celle-là échappe encore à tout remède. L'extrême pauvreté croît en Afrique, en Amérique latine et dans de nombreuses régions d'Asie, engendrant guerres, révolutions, famines, épidémies. La misère naît de la misère,

comme s'il était fatal que deux milliards d'êtres humains descendent les marches de l'enfer. Les causes de cet état de choses sont multiples, causes naturelles (rigueur du climat, aridité des sols, ravages des eaux), causes sociales (manque d'organisation administrative, technique ou médicale, dérèglement démographique), causes économiques (spéculation des places financières du Nord sur le cours des matières premières du Sud, destruction des forêts, absence d'industries de transformation capables d'exploiter sur place les richesses du sol et du sous-sol, poids de la crise mondiale), causes politiques (l'ordre des dictatures plaqué sur le désordre des économies).

Afin de survivre les pays pauvres s'endettent puis s'endettent de nouveau pour honorer leurs dettes dont les remboursements dépassent en valeur les prêts qu'ils reçoivent. Il n'est pas excessif d'écrire que les pauvres financent les riches puisque, tous comptes faits, on a constaté l'an dernier que les transferts financiers du Sud au Nord ont dépassé de 30 milliards de dollars les transferts financiers inverses. Cruelle vérité : ce sont les pauvres qui nous aident.

Si l'Europe souffre de la crise de l'économie occidentale, de ses taux d'intérêts, de ses déficits, de son gâchis, de son protectionnisme, de son chômage, de ses bourrasques monétaires et boursières, les pays pauvres en souffrent davantage. C'est le cas de l'Afrique noire qui voit baisser d'un quart en un an ses recettes d'exportation et s'effriter l'espoir d'accéder à l'autosuffisance alimentaire. Si l'Afrique consacre ses maigres disponibilités en devises à importer des céréales, du sucre ou des produits laitiers, il ne lui restera rien pour importer les machines et les techniques qui lui sont nécessaires ; et l'aide alimentaire elle-même deviendra pernicieuse parce qu'à la longue elle dissuadera de produire.

Aux sommets des sept plus grands pays industrialisés, au Fonds monétaire international, à la Banque mondiale, un peu partout, on a tourné ces deux questions dans tous les sens : faut-il créer de nouvelles liquidités destinées au tiers monde ? Pourquoi les pays qui disposent d'excédents

"Cruelle vérité : ce sont les pauvres qui nous aident"

financiers comme le Japon et l'Allemagne n'en useraient-ils pas au bénéfice des pays pauvres ? Une autre approche m'a amené, après MM. Edgar Faure, Giscard d'Estaing et Pierre Mauroy, à soumettre aux Nations unies l'idée d'affecter au développement les ressources que dégagera le désarmement. C'était sans doute prématuré. J'ai le sentiment désormais qu'il n'y a pas d'autre issue qu'un plan mondial de développement qui serait à l'économie du tiers monde ce que le plan Marshall a été à la construction de l'Europe.

J'espère qu'on se souviendra alors de cette réflexion du Professeur Gros : "La qualité des échanges Nord-Sud dépendra de la façon dont seront transférés la connaissance scientifique, le savoir-faire et les technologies tout autant que l'argent et les ressources alimentaires. La plupart des solutions aux pénuries les plus criantes existent dans les biotechnologies, en biomédecine ou, pour certains, dans une agriculture assistée par télédétection..."

Quant à la France, elle refuse l'indifférence où s'enferment ses partenaires.

En proportion de son revenu national elle fournit aux pays les plus pauvres l'aide la plus importante, loin devant les Etats-Unis et le Japon.

Si cette aide stagne aujourd'hui à 0,54% de notre produit intérieur brut, elle a, de 1981 à 1985, progressé de façon constante.

En 1988, il faudra rétablir la courbe interrompue qui nous mènera sous peu d'années aux 0,7% demandés par les institutions internationales et auxquels nous nous sommes engagés.

Mais, comparés aux 0,23% américains et aux 0,24% japonais, on admettra que nous ne faisons pas mauvaise figure.

En raison des responsabilités particulières qui sont les nôtres en Afrique, j'avais beaucoup insisté pour qu'une session spéciale des Nations unies fût

consacrée à ce continent. La session s'est tenue, a pris des résolutions. Hélas, rien n'a suivi. Et le mal s'étend. Comment ne pas envisager le problème autrement ? D'autant plus que l'endettement des pays pauvres jette une lumière crue sur leur dénuement chronique. Je continue de recommander l'annulation de nos créances sur les plus pauvres, des aménagements

te sorte pour la dette des autres, de lier les modalités de remboursement aux variations des cours des matières premières. Il y a quelque chose d'insupportable dans ce paradoxe que l'ajustement financier bloque le développement économique et humain qu'il a pour objet de favoriser.

Devant cette carence, les esprits généreux se cabrent. Des milliers de jeunes aspirent à donner quelques années de leur vie et beaucoup de leur peine aux formes diverses de coopération. J'ai rencontré, au Burkina Faso, des volontaires envoyés par le Centre national des jeunes agriculteurs afin de diffuser les techniques des petits travaux hydrauliques. Au-delà de l'acte matériellement utile, on sentait que se nouaient des solidarités où l'âme avait la meilleure part.

Ecrivant cela qui paraîtra peut-être très éloigné de nos propres problèmes, je suis sûr d'être compris par celles et ceux d'entre vous qui veulent vivre leur idéal. Mais il ne s'agit pas que de beaux sentiments. C'est aussi notre intérêt, à nous, pays du Nord, dont les marchés se rétrécissent, que d'ouvrir aux échanges internationaux des centaines de millions d'hommes, prêts à produire, à transformer, à acheter et vendre, à consommer.

Le tiers monde n'est pas un autre monde. Comme il est écrit dans un livre célèbre : "Nous n'avons qu'une terre", et nous en sommes responsables.

L'ECONOMIE

Contrairement aux thèses que répandent des polémiques sectaires, la majorité de 1981 a laissé la France de 1986 en meilleur état qu'elle ne l'avait trouvée. Une exception majeure, le chô-

mage dont la dégradation a été constante, ou presque, avant, pendant et après la gestion socialiste. Je ne ferai le procès de personne. Plutôt que de se perdre, de part et d'autre, dans les anathèmes, on ferait mieux d'analyser pourquoi, à partir de 1974, il s'est installé dans notre société, pourquoi il s'est aggravé et pourquoi il s'aggrave encore.

La santé de notre économie repose largement sur la santé des entreprises. Or, les pays où la technologie est la plus avancée et qui possèdent une base industrielle forte sont ceux qui

comptent le moins de chômeurs ; là où l'on ne craint pas l'évolution des habitudes et des techniques, la prospérité revient plus vite qu'ailleurs. C'est vrai du Japon, des Etats-Unis, de l'Allemagne. La lenteur d'une société à épouser le mouvement incessant des idées et des faits, à diffuser les progrès de la science dans la vie quotidienne, et donc le temps qu'il faut pour adapter la production à la demande nouvelle, temps dramatiquement perdu pour les entreprises et pour les travailleurs rejetés hors de la compétition pour cause de désuétude, voila ce qu'on appelle la crise. Prise aux mirages de la croissance de l'après-guerre et alourdie par des structures et des modes de penser d'une autre époque, la société française s'est réveillée trop tard. Sortie de sa torpeur, elle bouge ou veut bouger. Se pose alors cette question : que faire ? La réponse vient aussitôt : former les hommes, privilégier la recherche et, grâce à ces deux apports, moderniser l'appareil industriel. Du moins, pour commencer.

Toutes les familles politiques françaises font de l'éducation et de la formation leur priorité. Cette unité de vue me remplit d'espoir. Elle m'apparaît comme le prélude, au-delà des préférences doctrinales, d'un consentement national sur un sujet majeur. Le Collège de France que j'avais consulté et qui m'avait remis en 1985 un remarquable rapport intitulé

Propositions pour l'enseignement de l'avenir, avait insisté sur l'importance qu'il y aurait à abolir les hiérarchies traditionnelles entre la science pure et la science appliquée, l'enseignement général et l'enseignement professionnel, les travaux de l'esprit et les travaux manuels. La

conquête de l'avenir ne peut qu'être le fruit d'un élan national, toutes forces confondues.

Je n'ai pas à décider du nombre de jeunes diplômés qu'il faudrait à la France en l'an 2000, ni du niveau et du déroulement de leurs études, même si je pense qu'il n'était pas juste, à la fin de 1986, de dresser un nouvel obstacle, après le bac, devant les lycéens désireux d'entrer à l'université. Mais je sais que l'Etat doit payer d'exemple et placer au premier rang de ses impératifs budgétaires celui de l'éducation nationale, quitte à comprimer ses

autres dépenses quelle qu'en soit l'importance. Les estimations sérieuses fixent à 15 milliards, d'ici à 1992, l'augmentation minimale des crédits nécessaires à la modernité des enseignements, à la revalorisation de la fonction enseignante, à la qualité des équipements.

J'ai également retenu, parmi les suggestions intéressantes, la création d'un crédit-formation offert aux

jeunes qui auraient besoin d'une ou deux années de formation supplémentaires pour acquérir une qualification professionnelle, faute d'avoir disposé, à seize ou dix-sept ans, du temps d'école suffisant. D'autant plus que la demande de ces jeunes est forte. Visait-il y a

quelques semaines une école publique de Belleville, comme je m'étonnais de la qualité du langage et des connaissances d'une classe de cinquième qui comptait trente-quatre élèves, tous enfants d'immigrés et de seize nationalités différentes, les deux instituteurs auxquels était dû cette sorte de miracle se bornèrent à dire : "Ils ont soif d'apprendre." J'en parlai à l'un de mes amis, professeur dans un CEG de province, en observant que ces fils et filles d'immigrés, en France depuis peu, avaient sans doute, plus que d'autres, la volonté de prouver ce qu'ils valaient, d'entrer par la grande porte dans la société des adultes. "C'est le même phénomène chez moi, avec des élèves très enracinés dans le terroir local, me répondit-il. Vous ne pouvez imaginer à quel point ils aiment l'école. Ils savent que tout passe par là. Ils ont envie de réussir. Je comprends cela comme une révolution de nos mentalités."

Encore la formation ne s'arrête-t-elle pas à la jeunesse. Elle est l'affaire de toute la vie, pendant l'activité professionnelle, pour s'adapter aux changements technologiques ou aux changements de métier, après l'activité professionnelle pour qui veut continuer d'être utile. La loi sur l'éducation permanente de 1971 que l'on doit à Jacques Delors compte parmi les plus grandes lois du dernier demi-siècle. La puissance d'un pays dépendra moins, demain, de ressources naturelles et de richesse financière que de matière grise.

J'entendais, lors d'une conversation amicale, quelqu'un dire : "Si la France veut réussir, la recherche doit

devenir l'enfant chéri de la République." La formule m'a fait sourire. Mais elle m'a plu par sa simplicité. La recherche est la marque même de l'esprit de l'homme, curieux de connaître, pour les maîtriser, les secrets de la matière. Sans elle, pas de progrès intellectuel, spirituel, esthétique, matériel. C'est elle qui a provoqué l'extraordinaire bond en avant de la productivité agricole. Elle explique

la place d'un pays dans le palmarès international de la production industrielle.

Ne craignons pas, ne critiquons pas la recherche qui ne trouve rien. De la masse des investigations sort la découverte, la recherche qui trouve. Prenant la parole devant la Commission "Science et

"La recherche doit devenir l'enfant chéri de la République."

Technologie" de la Conférence des lauréats du prix Nobel qui s'est tenue à Paris cet hiver, le Pr. Dausset, lui-même prix Nobel de médecine, et plusieurs de ses collègues avaient exposé à leurs auditeurs, dont j'étais, les progrès stupéfiants de la recherche fondamentale en génétique. Il devenait possible, selon eux, de déceler par l'examen des deux filaments lovés à l'intérieur de chaque cellule de notre organisme, les carences du corps humain et d'y porter remède. Certes, nos savants en sont encore à s'interroger sur la signification des caractères (il en est plus de trois milliards) que compte chacun des filaments. Mais ils en savent de jour en jour davantage, au point que des laboratoires japonais ont déjà conçu des méthodes pour faciliter le diagnostic, ce qui leur ouvrira bientôt un marché gigantesque. Rien ne devrait être plus important à l'homme que sa longévité. Eh bien non ! Mener à bien cette recherche coûterait moins cher que le voyage sur la lune. Mais aucun de nos pays d'Europe n'y consacre une part sérieuse de son budget.

Cet exemple, que je pourrais étendre à d'autres disciplines telles que la biologie, la physique des solides, l'optique fondamentale et tant d'autres, fera comprendre pourquoi je souhaite que soient davantage aidés, encouragés, les instituts, les laboratoires, les centres d'essais, que les grands établissements comme le CNRS (Centre national de la recherche scientifique), l'INSERM (Institut national de la santé et de la recherche médicale) et l'INRA (Institut national

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INFO SAVING HM CGS IN FRANCE

MY TELNOS 470-472 AND 474: THE NEW FRENCH GOVERNMENT.

SUMMARY

1. THE LIST OF JUNIOR MINISTERS BALANCES MITTERRAND'S WISH FOR AN OPENING TO THE CENTRE WITH REWARDS FOR SOCIALIST STALWARTS. ROCARDIEN REPRESENTATION IN THE GOVERNMENT IS THIN. THIS IS MITTERRAND'S TEAM. HE HAS SIGNALLED THAT HE WILL CO-OPERATE WITH THE CENTRE IF THEY WILL CO-OPERATE WITH HIM. THE OPTION OF EARLY ELECTIONS IS OPEN.

DETAIL

2. AS WITH SENIOR MINISTERS, JUNIOR APPOINTMENTS REFLECT MITTERRAND'S DESIRE FOR AN OPENING TO THE CENTRE. STOLERU (PLAN), A JUNIOR MINISTER UNDER GISCARD, LALONDE (ENVIRONMENT), ESSIG (HOUSING), BIASINI (MAJOR PROJECTS), BEAUCE (CULTURAL RELATIONS AND QUOTE FRANCOPHONIE UNQUOTE), AND KOUCHNER (HELP FOR THE DISADVANTAGED) ARE NONE OF THEM PROFESSIONAL SOCIALIST POLITICIANS.

3. ALONGSIDE THEM, AS IN THE LIST OF SENIOR MINISTERS, ARE A NUMBER OF SOCIALIST STALWARTS DRAWN FROM THE VARIOUS DIFFERENT STRANDS WITHIN THE PARTY. THE INCLUSION OF SARRE (AN ALLY OF CHEVENEMENT'S) AND OF LAIGNEL (LEFT WING MITTERRANDISTE) WILL PROVOKE CRITICISM FROM THE RIGHT, BUT THEY BOTH HAVE LONG YEARS OF PARTY SERVICE BEHIND THEM AND ARE NOW BEING REWARDED WITH OFFICE. (MITTERRAND MAY ALSO CALCULATE THAT BY INCLUDING THEM, AND SUBJECTING THEM TO COLLECTIVE GOVERNMENT RESPONSIBILITY, THEY WILL BE EASIER TO HANDLE. LIKE CHEVENEMENT AND POPEREN, THEY ARE NOT ENTHUSIASTIC ABOUT THE OPENING TO THE CENTRE AND MIGHT HAVE CAUSED TROUBLE IN THE PARTY OR IN PARLIAMENT.)

4. THERE ARE FOUR ROCARDIENS IN THE LIST WHEREAS THERE WERE ONLY TWO IN THE LIST OF SENIOR MINISTERS (LE PENSEC AND EVIN), BUT OVERALL ROCARDIEN REPRESENTATION IN THE GOVERNMENT IS THIN. ROCARD MAY BE PRIME MINISTER, BUT THE TEAM IS MITTERRAND'S. IT IS DESIGNED TO SHOW THE CENTRE THAT HE IS SERIOUS ABOUT A RAPPROCHEMENT, BUT IT ALSO

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GIVES HIM A STRONG SOCIALIST TEAM TO FIGHT ELECTIONS IF HE CONCLUDES
THAT THE CENTRISTS WILL NOT SWITCH ALLEGIANCES, OR NOT YET.

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MY TELNO 470: THE NEW FRENCH GOVERNMENT: CORRECTION

1. IT IS NOW CLEAR THAT FAUROUX IS MINISTER FOR INDUSTRY, TRADE AND REGIONAL DEVELOPMENT (NOT LOCAL GOVERNMENT): THAT CHEREQUE IS JUNIOR MINISTER FOR INDUSTRY, TRADE AND REGIONAL DEVELOPMENT, WITH RESPONSIBILITY FOR REGIONAL DEVELOPMENT AND INDUSTRIAL RECONVERSION: AND THAT DOUBIN IS JUNIOR MINISTER FOR INDUSTRY, TRADE AND REGIONAL DEVELOPMENT.

2. LOCAL GOVERNMENT IS THE RESPONSIBILITY OF THE MINISTRY OF INTERIOR AND HAS ITS OWN JUNIOR MINISTER (QUOTE SECRETAIRE D'ETAT UNQUOTE), JEAN-MICHEL BOUCHERON. (SEE SEPARATE TELEGRAM FOR LIST OF OTHER JUNIOR MINISTERIAL APPOINTMENTS.)

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MY TELNOS 470-472: THE NEW FRENCH GOVERNMENT.

1. A FURTHER 15 JUNIOR MINISTERS (QUOTE SECRETAIRES D'ETAT UNQUOTE)
HAVE BEEN ANNOUNCED TODAY:-

ATTACHED TO THE PRIME MINISTER WITH RESPONSIBILITY FOR THE PLAN	: LIONEL STOLERU
ATTACHED TO THE PRIME MINISTER WITH RESPONSIBILITY FOR THE ENVIRONMENT	: BRICE LALONDE
ATTACHED TO THE PRIME MINISTER WITHOUT PORTFOLIO	: TONY DREYFUS
JUNIOR MINISTER RESPONSIBLE FOR WAR VETERANS	: JACQUE MELLICK
ATTACHED TO THE MINISTER FOR EDUCATION, RESEARCH AND SPORTS, WITH RESPONSIBILITY FOR TECHNICAL EDUCATION	: ROBERT CHAPUIS
ATTACHED TO THE MINISTER FOR EDUCATION, RESEARCH AND SPORTS, WITH RESPONSIBILITY FOR SPORTS	: ROGER BAMBUCK
ATTACHED TO THE MINISTER FOR THE ECONOMY, FINANCE AND BUDGET, WITH RESPONSIBILITY FOR CONSUMPTION	: VERONIQUE NEIERTZ
ATTACHED TO THE MINISTER FOR EQUIPMENT AND HOUSING, WITH RESPONSIBILITY FOR HOUSING	: PHILIPPE ESSIG
ATTACHED TO THE MINISTER OF EQUIPMENT AND HOUSING, WITH RESPONSIBILITY FOR MAJOR PROJECTS	: EMILE BIASINI
ATTACHED TO THE MINISTER OF FOREIGN AFFAIRS, WITH RESPONSIBILITY FOR INTERNATIONAL CULTURAL RELATIONS AND FOR QUOTE FRANCOPHONIE UNQUOTE	: THIERRY DE BEAUCE
ATTACHED TO THE MINISTER OF THE INTERIOR WITH RESPONSIBILITY FOR LOCAL GOVERNMENT	: JEAN-MICHEL BOUCHERON
ATTACHED TO THE MINISTER OF TRANSPORT	

WITH RESPONSIBILITY FOR WATERWAYS AND
ROAD TRANSPORT : GEORGES SARRE
ATTACHED TO THE MINISTER OF SOCIAL
AFFAIRS AND EMPLOYMENT WITH RESPONSIBILITY
FOR PROFESSIONAL TRAINING : ANDRE LAIGNEL
ATTACHED TO THE MINISTER OF SOCIAL
AFFAIRS AND EMPLOYMENT WITH RESPONSIBILITY
FOR SPECIAL HELP FOR THE DISADVANTAGED : BERNARD KOUCHNER
ATTACHED TO THE MINISTER OF SOCIAL
AFFAIRS AND EMPLOYMENT WITH RESPONSIBILITY
FOR THE ELDERLY AND THE HANDICAPPED : CATHERINE TRAUTMANN

2. COMMENT FOLLOWS.

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FROM: J M G TAYLOR

DATE: 13 May 1988

SIR G LITTLER

cc PS/Economic Secretary
Mr Lankester
Mr H P Evans
Mr Mountfield

PRESIDENT MITTERRAND'S "MANIFESTO"

The Chancellor has now seen President Mitterrand's "Manifesto". He has commented that the references to Third World debt are not all that precise, but we should nonetheless make use of them.

JMGT

J M G TAYLOR

*Please check
my minutes of
this am*

From: Sir G.Littler
Date: 13 May 1988

MR J M G TAYLOR

c.c. PS/Economic Sec.
Mr Lankester
Mr Huw Evans
Mr Mountfield

PRESIDENT MITTERAND'S "MANIFESTO"

I am afraid this is not helpful:

- "writing-off" of debts of the poorest (except for the conversion of old aid loans to grants) is not what we are proposing;
- "amenagements" in relation to debts of others could be read as new devices going well beyond what we are ready to accept; and
- the link with commodity prices - an old French demand - is one we reject.

2. A pity!



(Geoffrey Littler)