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FAREWELL CALL ON THE CHANCELLOR

1. I paid my farewell call on the Chancellor this morning. He was in a relaxed and expansive mood and kept me for an hour and a quarter.

ANGLO-GERMAN RELATIONS

2. The Chancellor started off on his well-known tack: he had started life, like all Hamburgers, as an Anglophile. This had continued up to about the mid-sixties. He had then come to the conclusion that Britain was really indifferent to what was happening on the Continent. The political leadership in the UK simply did not share the thoughts and aspirations of the members of the Community. During his official dealings as Defence and Finance Minister and subsequently as Chancellor he had found no real feeling for Europe from British governments whether under Harold Wilson or Jim Callaghan.

3. He went on to say he felt this was still basically true. He felt that the instinctive reaction of any British government was to say that whatever suited the American Administration suited Britain. This was an instinctive reaction. He could well understand it but it meant that,

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in his view, Britain was no more than a half-hearted member of the European Community and tended to see the world from an Atlantic rather than a European perspective.

4. I challenged this interpretation of events. I said that our basic problem with the Community was that we had joined too late. We had spent ten years trying to join the Community and had suffered two vetos. Psychologically this was bound to have had an impact: why should the British be so enthusiastic about people who did not want to have them. Secondly, when we had finally joined, the world went into recession as a result of the first oil price shock. Our experience in the Community had therefore been one of recession, whereas for the first 15 years of the Community's existence the experience of the six founder members had been one of growth and prosperity. I went on to say that now that the budget problem was at last temporarily settled, British ministers had set about the serious business of rallying public opinion and pointing out the importance of the Community to Britain.

5. The Chancellor said that perhaps he had expected too much, but he had really hoped that the accession of Britain to the Community would have given Europe a new impetus. But we seemed to be without any ideas or concept of what we wanted Europe to become. He had hoped that Britain would take a lead in bringing about the reform of the common

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1?? agricultural policy but we seemed to be totally without ideas. We now faced the immense problem of re-structuring the Community Budget, but again, he was waiting in vain to hear some British ideas on the subject. I replied that this was very unfair. The reform of the CAP was not a purely British concern but a Community concern and it had to be solved on a Community basis. For my part, I was not aware that the Federal German Government had any particularly profound ideas. The Chancellor said that his Government had two guidelines: first, that the one per cent VAT ceiling should not be breached; and secondly, that Community expenditure on the CAP should progressively be a smaller total of total Community expenditure. The Chancellor added, with a smile, that he was not convinced that the present British Government actually wanted a reform of the CAP. I said that this was not so: we had every interest in the reform of the common agricultural policy, and indeed we agreed with the two guidelines that the Chancellor had laid down. The Chancellor asked: are you sure? As for the re-structuring of the Community Budget, I said that we had in fact some very radical ideas and indeed British officials had recently visited Bonn to put them to German officials. The Chancellor professed not to have heard of them.

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6. I went on to say that what the Chancellor had told me had confirmed me in my one regret on leaving the Federal Republic. It was that the Germans had consistently undervalued the British contribution to the safety of Berlin and to our joint defence in NATO. There were without doubt problems

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in the Community. But they were Community problems, not British problems, nor Anglo-German problems. They should not blind our German friends to the contribution we made in Berlin: the Quadripartite Agreement was part of Ostpolitik. We were in Berlin and would be four-square with our German partners if there were any repercussions in Berlin from Poland. I went on to say that we were the only ally with a treaty obligation under WEU to station 65,000 soldiers and airmen on German soil. Moreover, they were professional soldiers and airmen and were known to be first-class by their military colleagues in NATO. As far as the Royal Air Force was concerned, the NATO "tacevals" proved this: as far as the Rhine Army was concerned, Cruasder 80 proved it. Moreover, in all politico-military matters - TNF modernisation, arms control, MBFR - there was an almost total identity of view between Britain and the Federal Republic. I hoped that the Chancellor would keep these matters in balance when he surveyed Anglo-German relations and not undervalue the British contribution to our joint defence.

7. As far as the American connection was concerned, I was disturbed to hear the Chancellor speaking the way he did. In joining the European Community we had committed our fate as a nation with that of our European partners. We saw things from a European perspective. Obviously we wanted Europe to have the best possible relationship with the United States: so, I believed, did the Federal Republic. But the facts showed that we had a European perspective. We wanted

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Europe to play a larger role in world affairs. The UK had taken the lead in promoting political cooperation. If political cooperation failed to get the administrative infrastructure it needed, it would not be because of British obstruction. Moreover we had played our full part in the formulation of a European view of the Middle East: we were closer to our European partners than to the Americans. The meeting between the Foreign Ministers of France, the FRG and Britain which had recently taken place in Bonn was at British initiative. We knew that all three countries would shortly be making contact with the Reagan Administration and had wanted to be satisfied that the three nations saw things the same way. I hoped therefore that the Chancellor would keep an open mind about our transatlantic relationships and see whether the facts did not show that we saw our future from a European perspective. The Chancellor said that he would keep an open mind. But in general he agreed that over the whole field Anglo-German relations were good.

RELATIONS WITH THE REAGAN ADMINISTRATION

8. The Chancellor's mood turned sombre when I asked him about the prospects for the transatlantic relationship. He said that he had not made up his mind and would not make up his mind until he had visited Washington and had his talks with the President. It was, moreover, reasonable to give the new Administration time to make up its mind: they had only been in

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office one month. But from what he had seen so far, he was encouraged. He thought the emphasis that the Reagan Administration appeared to be placing on military strength was misplaced. Military strength was important and the United States had a lot of catching up to do. He himself was totally convinced of the need for military balance. But equally important and perhaps more so was the question of the world economy. The Americans simply had no concept at all of the fact that they had a leadership role in the world economy. (Here the Chancellor spoke so forcibly that he momentarily lost his cool). Ever since the days of John Connolly at the beginning of the seventies, the American recipe for the world economy had been one of "benign neglect". But the world economy simply would not function if the largest economy in the world adopted a policy of benign neglect towards it.

9. As far as the domestic American economy was concerned, he hoped the Americans knew what they were doing. He said that high interest rates in the United States were tending to cripple the rest of the world. Monetary policy was all right as far as it went, but it had to be balanced by the correct fiscal and budgetary policies. It was simply not sensible to allow the whole strain to be taken by interest rates and the exchange rate. The consequences for the United States itself were likely to be serious; and in view of the importance of the United States economy to the world economy, the consequences for their trading and other partners could well be little short of disastrous. If, as a result of these policies, unemployment continued to grow in the Western industrialised world, then there



would be demands for Keynesian policies of reflation, which would not provide the answer either. But it was to be doubted whether the Western industrial system could indefinitely accept unemployment on the scale which was in prospect and survive. And so on. Much more in this strain.

THE WORLD ECONOMY

10. When I then asked the Chancellor what his recipe would be for getting the Western world out of its present recession, he said that I was quite wrong to use so mild a word as recession. What we were all facing was a major structural upheaval in the world economy due to the second oil price shock. The OPEC countries now had surpluses of one hundred thousand million dollars a year. Every year a fresh one hundred thousand million dollars would be circulating around the world. Three-fifths of the countries of the world were in as parlous a state as Poland. He wondered whether some people knew what they were doing. Certainly the United States showed no signs of being aware of what was going on in the world economy, let alone taking any steps to bring the situation under control. And here the Chancellor repeated again: military strength was not the whole answer. The world economy was in deep trouble and yet, he said, he had heard it suggested that the Americans were not keen on going to the world economic summit. I asked him whether he meant the Mexico or the Ottawa summit and he confirmed that he meant the Ottawa summit. This led him on to a further attack on the misguidedness of American policy towards the Third World,

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Soviet malpractices were not the sole problem and the overall problem could not be handled as if they were.

11. I asked the Chancellor: What about Russia?

He said: they were born dumb and hadn't learned anything since. He then retracted what he had said. He went on that the Soviet Union was as much affected by what was happening in the world economy as anyone else. But the Soviet leadership seemed to be as unaware as everybody else of the problems in store. They had not got the answers either.

POLAND

12. I asked the Chancellor how he assessed the situation in Poland and whether he thought the Russians would be forced to intervene. He said he did not know. He thought the Russians would do all they could to avoid intervention, since they knew that any intervention would have tremendous repercussions around the world. But if law and order broke down in Poland and if it seemed as if a civil war were about to break out, then the Russians would march in. They would have no alternative. The Chancellor then took a one mark coin out of the right hand drawer of his desk and tossed it. "It's 50-50", he said.

ANGLO-GERMAN CULTURAL RELATIONS

13. As I was leaving, the Chancellor said that more ought to be done about cultural relations between Britain and Germany. In the theatre, dramatists like Shakespeare and

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Shaw were frequently played but they really were not associated with Britain: they were part and parcel of the general cultural scene. Britain needed to manifest itself more in Germany. The Chancellor said that he had recently purchased Henry Moore's "Large Two Forms" for the courtyard outside his office. It had aroused some controversy, but it had been a quite deliberate attempt on his part to make public this British outstanding contribution to modern sculpture.

14. In reply I said that money was scarcer. But the British Council was active in the FRG. And as the Chancellor knew, since he had taken a particular interest in it, the Royal Shakespeare Company had taken part in the "Theatre of the Nations" event in Hamburg two years ago, and the Company had gone on to tour Germany, visiting Berlin and Munich. There would be a new "Theatre of the Nations" in Koln this summer and British companies would be taking part. Moreover, the Koln Opera was putting on Benjamin Britten's "Peter Grimes" in May under its chief conductor, John Pritchard. The Chancellor said he was delighted to hear this. I asked him whether he would like to attend the premiere of "Peter Grimes". He said he would if he were free and instructed his assistant to find out more about the precise dates. (I will myself get in touch with John Pritchard about this.)

FISHERIES

15. The Chancellor gave me stick on fisheries which I have reported separately by telegram.

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TORNADO

16. I delivered the Prime Minister's message on the sales of Tornado aircraft to Saudi Arabia. I have reported his reaction by telegram.

OLIVER WRIGHT
17 February 1981

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