

13. The Prime Minister asked whether any progress had been made towards a passports union since the matter had been dealt with in December 1974. On monetary matters Britain would accept any practical proposals for co-operation. As for direct elections we could accept the machinery of a report either from Foreign Ministers or from a Working Party: either would do for the purpose of examining the matter.
14. Herr Schmidt said that the Council had received a wise report from the European Assembly and outlined the recommendations it contained. With all respect to the British Liberals, we could not try to unify our election procedures. He urged that the Council should try to get a report by December 1975 and agree on it thereafter. Perhaps after 1980 we would be able to have a unified system.
15. Mr Thorn pressed the case for a study of the harmonisation of the various electoral systems. On the passports union, the Community should admit its guilt in failing to make more progress. As a remedy, he suggested, Foreign Ministers should take charge of the matter.
16. Mr Cosgrave expressed support for what Chancellor Schmidt had said on direct elections. He was glad that the British reserve seemed to have been lifted. Mr Jørgensen said that he too was willing to allow Foreign Ministers to consider direct elections, though he might have preferred a Working Party. The Foreign Ministers could draw up a report which the Council could then consider, taking into account the state of public opinion.
17. Signor Rumor enquired whether the European Council were in agreement. If so he would table a paper for Heads of Government to agree. Signor Moro commented that it was of course possible for there to be working groups as well, ie working to the Council of Ministers.

PART II (PM 16 JULY)

18. President Giscard said the recession had been deeper and longer than anyone had forecast. The technical decisions taken by different countries on floating were correct but Governments neglected the political and psychological factors which had led to profound disorganisation. Fluctuations in rates bore little relation to changes in industrial competitiveness. Member States had had little political reflection about this. His conclusions were:

(i) It was necessary to take new measures to support economic activity and employment, and these should be thought out at the Community level. This would have a positive effect on public opinion.

(ii) There should be a concertation between those responsible for major economies to arrange the monetary system in a co-ordinated manner. One should not be pessimistic about the "Snake"; two-thirds of trade were covered by it, since France had rejoined. It might be worth having studies with the UK on the techniques of floating.

19. President Ortolini said that we needed a Community of action on the exchange system. Herr Schmidt said he agreed the analysis made by Giscard. The weight of the recession could not be overstressed. His reasons were:

(i) Inflation in the United States, which through the Bretton Woods system was exported to Europe. The FRG were buying dollars until they could do so no longer. They had to create 18 billion marks in one week because of the par values system.

(ii) The breakdown of the Bretton Woods system produced uneasiness and loss of confidence among industrialists.

(iii) The oil price expansion which had

(a) aggravated price inflation and led to wage demands and central banks printing the money;

(b) led to further disruption of the balance of payments of more than 100 countries eg India, Sri Lanka etc, which had had to cut down oil and other imports, thus lowering the level of world trade;

(c) caused unprecedented surpluses in the Middle East and large central bank holdings.

If the Saudis etc were to withdraw or transfer sums they could drive the dollar up or the pound down. It was necessary to have an agreement with the Middle East before returning to fixed par values. (Comment: this was said with Giscard in mind.)

What was lacking was confidence in the future on the part of corporations; they saw themselves in deficit again next year. Furthermore deficit financing was being used to finance the regular outgoings of the state instead of financing investment. Germany, like France, was considering stepping up her economy in August, not by deficit spending for increased unemployment benefits, but to produce jobs. Germany's imports were 3% up on last year but her exports to the United States were only 50% of what they were a year ago. The United States was only just beginning to feel its responsibility because foreign trade was only 4½% of GNP, unlike the European states. Their Foreign Minister seemed to understand it better than their Finance Minister. (To Giscard he said: "We must bring the United States in - we cannot do it by ourselves.") How were we to bring the United States in? The Nine could hardly act in unison. Perhaps France, Germany and Benelux could do so, but the UK and Italy could not. In any case it would produce too small an effect.

20. These problems were more important than the CSCE. The situation could not cure itself. Some people in our own countries (not in Moscow alone) believed that we could not find the answer and that the system was at stake. In the long run the United States was not the best leader (because they could become self-supporting or nearly so in raw materials and oil) in dealing with the oil producers etc. Boumedienne did not understand what he was doing by another large increase in oil prices, in terms of the effect on developing countries.

21. President Giscard said we could have had a lower price increase if we had talked to and influenced the moderate oil producers. He agreed that we did not need more liquidity. Reducing the age of retirement would not create new jobs. Furthermore something was needed which was more effective than investment which involved too long a wait. There was a need to increase immediate consumer demand. But wage increases would mean more inflation. Therefore the answer was more social spending based on re-distribution etc in a suitable mixture with investment. Mr den Uyl said we would have lower growth. We needed incomes policies. The Snake must be strengthened. The US floating rate was a menace. They should decide in the autumn whether reflation should take place in countries with a favourable balance of payments.

22. Mr Wilson said he agreed with the analyses both of President Giscard and of Herr Schmidt. But he did not think it would be possible to pull out of the recession so quickly. There was a need for a world harmonisation of economic policies based on divergent national policies. Expansionary policies were needed in the United States and Japan. OPEC surpluses were smaller and some had already committed their surpluses. We could expect large increases in exports to the Middle East. The balance of payments was better because of (a) the reduced prices of raw materials and (b) smaller imports. UK exports had kept up (Herr Schmidt interjected that this was understandable because of the devaluation of Sterling). Mr Wilson then outlined the Government's anti-inflation measures referring to the NUM and the NUR; price controls; the local authorities; nationalised industries; statutory powers to be held in reserve; the £6 a week; reduced public expenditure etc. There was a need to increase industrial investment and the NEB was important for the re-generation of industry. We had witnessed a total discrediting of the economists, especially those who had based their theory on a market economy. He referred to Galbraith in The Times of 16 July.

23. Mr Cosgrave said that four months ago they had been told that GDP would increase by 1½% and now they were told it would be minus 3%. Unemployment in Ireland was 12%. They should take action in the Nine and with the United States and Japan if possible. Signor Rumor said that by the end of 1975 they hoped to halve their rate of inflation and the balance of payments had improved. The current account deficit in 1975 would be 2500 milliard lire. They had reduced both consumer imports and capital goods. Production was 18% down in May on a year ago. They had been drawing down stocks very heavily. Their unemployment was disguised at a low level. They agreed with Giscard about social payments. What was needed was harmonisation of policies on a world scale.

24. Herr Schmidt said he would act in August and he regarded this meeting as the consultation that he was obliged to make. He understood that France would act earlier. He did not know what Benelux would do. He said that one should not ask Italy and the UK to join the Snake prematurely. Once one joined one must be able to stay (comment: was he speaking to France?). Some had suggested that the United States should join the Snake, but this was not possible. Mr Jørgensen said why should not Sweden and Norway join the Snake? Exim banks were at present outbidding each other on credit. Consultation was needed with the Trades Union movement on a

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wider basis. He raised the question of a press communiqué. President Giscard said there was no need for a communiqué. The French Government would take measures to boost the economy in the months to come. He hoped this would be in conjunction with others who would do the same and with the Community. They were looking at the problem on too small a scale. It must be financed by a non-recurring deficit financing and the French would co-ordinate with their partners who would do the same. He wanted to get the Italians to confirm that they were looking for ways to join the Snake and the rest of us must help them to do so. The consultation with the US should not be too formal, to avoid hurting third countries. M. Tindemans said Belgium agreed with what Giscard proposed. Now they should find out what could be done. Mr den Uyl asked what were Giscard's measures? For example if he was thinking of credit this would have to be discussed, because he might be exporting unemployment. President Ortoli said there was a meeting on 18 July but one did not know whether any of these measures would affect the Community. Herr Schmidt said they would have to work them out in a coalition. They were not accountable to the Commission. He would have to have Parliamentary approval. The German measures would not go beyond 0.5% of German GNP. Mr Thorn said Luxembourg's measures would be of a non-recurring nature and of the same percentage as the Germans'. Herr Schmidt said that they would do nothing on export credits. Signor Moro said that they should come to a conclusion the next day. They had not touched on the monetary side or on the seven other items on the Agenda.

PART III (AM 17 JULY)

Trades Unions Delegation

25. Signor Moro reported on the request by the Trades Union delegation eg shorter hours, raise school leaving age etc and the three party Conference on unemployment. Mr den Uyl supported such a conference, as did President Ortoli. Mr Wilson asked at what Governmental level it would be held. He could see some attractions in the proposal. Signor Moro said it had not been made clear, but not at Heads of State and Government level, probably at the level of Economics Ministers. President Ortoli said the Trades Unions wanted an Economic and Social Council, and therefore Ministers of Social Affairs should be added. Signor Moro said the Council of Foreign Ministers should reflect on this. President Ortoli asked what the decision was. Mr Wilson said the view was in favour. Heads of Government didn't take decisions, but their strong view was in favour and the Council of Foreign Ministers and the Commission should work out ways and means. He hoped the European Council would give it a fair wind. Mr Jørgensen said they would have to intensify co-operation with both sides in the labour market and therefore he supported the idea. Signor Moro said the European Council was in agreement.

Portugal

26. Signor Moro said there had been two views the previous evening:

- (i) Those who saw the usefulness of making an offer of aid coupled with conditions under which it would be