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PRIME MINISTER'S VISIT TO PARIS : M. BARRE'S ECONOMIC STRATEGY.

1. IN PARA 2 OF MY TELNO 250 I REFERRED TO THE LIKELIHOOD THAT, DURING HER VISIT TO PARIS, THE PRIME MINISTER WOULD WISH TO ASK PRESIDENT GISCARD AND M. BARRE HOW THE BARRE PLAN WAS GOING. YOU MAY FIND IT USEFUL TO HAVE AN ACCOUNT OF WHAT THE BARRE PLAN AMOUNTS TO. THE ESSENTIAL POINT IS THAT THE CENTRE-RIGHT M. BARRE DOES NOT RUN ANYTHING LIKE AS FREE A MARKET ECONOMY AS THE SOCIAL DEMOCRAT CHANCELLOR SCHMIDT.

2. THE BARRE PLAN IS FREQUENTLY MENTIONED IN THE PRESS, BUT THERE IS NO PLAN BARRE IN THE SENSE OF PUBLISHED TARGETS AND DEADLINES. THE PRINCIPAL OBJECTIVES WHICH M. BARRE HAS SET ARE CLEAR ENOUGH. THEY ARE:

- (A) TO MAINTAIN EQUILIBRIUM OR A SURPLUS ON THE BALANCE OF PAYMENTS CURRENT ACCOUNT IN THE FACE OF A SHARPLY RISING ENERGY IMPORT BILL.
- (B) TO PRESERVE A STRONG AND STABLE FRANC, NOWADAYS WITHIN THE EMS,
- (C) TO ADAPT (RESTRUCTURE) AND STRENGTHEN FRENCH INDUSTRY, WITH PARTICULAR EMPHASIS ON HIGH TECHNOLOGY AND INNOVATION, TO ENABLE FRENCH COMPANIES TO COMPETE MORE EFFECTIVELY IN WORLD MARKETS,
- (D) TO SECURE A STEADY RATE OF GROWTH AND AS A LONG-TERM AIM, TO REDUCE STRUCTURAL UNEMPLOYMENT,
- (E) WITHIN THE EXISTING HIGHLY CENTRALISED ECONOMY, TO REDUCE THE DEGREE OF GOVERNMENT INTERVENTION AND TO ALLOCATE AN ENHANCED ROLE TO MARKET FORCES.

3. OVER THE PAST YEAR THE GOVERNMENT HAVE BEEN ACTIVE IN PROMOTING MEASURES TO LIBERALISE PRICES AND TO STIMULATE COMPETITION. LAST SUMMER CONTROLS ON FACTORY PRICES OF CAPITAL AND CONSUMER GOODS WERE REMOVED. RESTRAINTS ON RETAILER'S PROFITS HAVE BEEN LIFTED.

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CONSUMER CREDIT RULES HAVE BEEN LIBERALISED. A NUMBER OF MEASURES HAVE BEEN INTRODUCED TO STRENGTHEN THE FINANCIAL POSITION OF FRENCH COMPANIES. TAX INCENTIVES HAVE BEEN OFFERED TO PROMOTE EQUITY INVESTMENT THROUGH THE FRENCH STOCK MARKET. THE BURDEN OF THE PUBLIC SECTOR BORROWING REQUIREMENT HAS BEEN EASED BY INCREASING SOCIAL SECURITY CONTRIBUTIONS BY BOTH EMPLOYERS AND EMPLOYEES AND BY ALLOWING PUBLIC UTILITIES TO RAISE THEIR PRICES.

4. THE FRENCH GOVERNMENT HAVE BEEN LARGELY SUCCESSFUL IN RELYING UPON THE EFFECTS OF COMPETITION TO LESSEN THE INFLATIONARY IMPACT OF FREEING PRICE CONTROLS. BUT THE INFLATION RATE REMAINS HIGH (CURRENTLY 10.1% YEAR-ON-YEAR). UNEMPLOYMENT IS STILL A MAJOR PROBLEM, BUT M. BARRE MAINTAINS THAT THE ONLY LONG-TERM SOLUTION IS STRUCTURAL ADAPTION AND IMPROVED EFFICIENCY IN THE ECONOMY.

5. NEVERTHELESS, THE FRENCH ECONOMY REMAINS CENTRALISED AND IS FAR FROM BEING A PARADIGM OF LAISSEZ-FAIRE POLICIES. THE THREE BIG NATIONALISED BANKS AND GOVERNMENT-CONTROLLED SPECIAL CREDIT INSTITUTIONS PLAY A KEY ROLE IN FINANCING INDUSTRIAL INVESTMENT. THE PREFECTORAL SYSTEM ENSURES CENTRAL GOVERNMENT INVOLVEMENT IN ECONOMIC DECISION-MAKING DOWN TO LOCAL LEVEL. THE NETWORK OF HIGHLY PLACED ENA GRADUATES IN INDUSTRY AND THE PUBLIC SECTOR CAN SOMETIMES BE USED AS A LESS VISIBLE CHANNEL FOR GOVERNMENT GUIDANCE. THE GOVERNMENT HAS A STRONG GRIP ON PUBLIC SECTOR WAGE SETTLEMENTS AND IS ALSO ABLE TO INFLUENCE WAGE NEGOTIATIONS IN THE PRIVATE SECTOR BY WITHHOLDING CONCESSIONAL FINANCE TO COMPANIES GRANTING EXCESSIVE WAGE SETTLEMENTS, BY ITS CLOSE LINKS WITH THE EMPLOYERS' ORGANISATION AND BY THE RELATIVE FRAGMENTATION AND WEAKNESS OF THE TRADE UNION MOVEMENT.

6. THE FRENCH PUBLIC SECTOR EXTENDS WELL BEYOND THE TRADITIONAL AREAS OF PUBLIC TRANSPORT AND UTILITIES. THE FRENCH GOVERNMENT EITHER WHOLLY OWNS OR HAS A MAJORITY STAKE IN LARGE ENTERPRISES IN THE AUTOMOBILE, OIL AND GAS, AIR-FRAME AND AERO-ENGINE, SHIPPING, ATOMIC ENERGY, CHEMICALS AND FERTILISERS INDUSTRIES.

BUT THESE ENTERPRISES COMPETE ACTIVELY ON THE MARKET, AND THE FRENCH GOVERNMENT HAS SHOWN NO DISPOSITION TO DISPOSE OF ITS INVESTMENTS IN THEM. THE IDI (ROUGHLY EQUIVLENT TO THE NEB) CONTINUES TO TAKE SHARES IN SMALL COMPANIES WITH DEVELOPMENT POTENTIAL, AND THERE IS A WIDE RANGE OF SELECTIVE AIDS TO INDUSTRY.

7. M. BARRE STRESSES THE ASTRINGENT BENEFITS OF INDUSTRIAL COMPETITION, BUT IN THE CASE OF MAJOR INDUSTRIES IN DIFFICULTIES FRENCH POLICY HAS BEEN ACCOMMODATING. THE BANKRUPT STEEL INDUSTRY WAS VIRTUALLY NATIONALISED LAST SEPTEMBER AND THE AILING SHIPBUILDING INDUSTRY IS HEAVILY SUBSIDISED. AN INTER-DEPARTMENTAL COMMITTEE REGULARLY REVIEWS AIDS TO INDUSTRIES IN DISTRESS, AND IS ABLE TO MAKE CONCESSIONAL FINANCE AVAILABLE. THE FRENCH GOVERNMENT HAS NO SCRUPLES ABOUT INTERVENING DIRECTLY OR INDIRECTLY TO PREVENT FOREIGN COMPANIES FROM ACQUIRING A MAJORITY STAKE IN FRENCH COMPANIES IN KEY SECTORS, AS HAS BEEN DISCOVERED TO THE COST OF BRITISH INTERESTS IN THE CASE OF LUCAS/DUCELLIER.

8. FRENCH ECONOMIC STRATEGY IS UNLIKELY TO CHANGE IN THE SHORT RUN, THOUGH THERE WILL HAVE TO BE ADJUSTMENTS IF OIL PRICES CONTINUE TO RISE STEEPLY. M. BARRE SET HIMSELF THREE YEARS TO ACHIEVE HIS OBJECTIVES WHEN HE WAS APPOINTED IN SEPTMEBER 1976. THERE IS SPECULATION THAT PRESIDENT GISCARD MAY BRING IN A PRIME MINISTER LESS ASSOCIATED WITH STRINGENT ECONOMIC DOCTRINES IN THE RUN-UP TO THE PRESIDENTIAL ELECTIONS IN 1981. FOR THE MOMENT, HOWEVER, M. BARRE REMAINS VERY MUCH IN CONTROL.  
FCO PSE PASS SAVING TO ALL.  
HIBBERT.

[REPEATED AS REQUESTED]

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