

Subject.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER, THE RIGHT HONOURABLE MARGARET THATCHER MP AND THE SENATE MAJORITY LEADER, SENATOR HOWARD BAKER OF TENNESSEE, IN THE SENATE, WASHINGTON DC, AT 1520 HRS ON THURSDAY, 26 FEBRUARY, 1981

Present:-

Prime Minister
Secretary of State for Foreign and Commonwealth
Affairs

Sir Michael Palliser
Sir Nicholas Henderson
Mr C A Whitmore
Mr M O'D B Alexander
Mr J S Wall

Senator Howard Baker (Senate Majority Leader)
Senator Charles Percy (Chairman, Foreign Relations
Committee)
Senator John Tower (Chairman, Armed Services Cttee)
Senator Paul Laxalt (R. Nevada)
Senator Mark Hatfield (Chairman, Appropriations Cttee)
Senator James McClure (Chairman, Energy & Natural
Resources Cttee)

Senator Baker noted a remarkable change in international attitudes. He was fascinated by Mr Brezhnev's suggestion of a summit meeting. Given the previous attitude of the Soviet Union, he thought this represented a remarkable change. Senator Percy commented that he had found President Brezhnev very much in control during his own recent visit to Moscow.

Lord Carrington said that Mr Brezhnev's speech was very interesting and subtle and contained all the ingredients of advantage to Mr Brezhnev: it made him look very reasonable to the Third World; it had the potential of dividing the United States from Europe if talks were rejected; but to accept talks too soon would be against the Western interest. Senator Baker commented that the speech was nonetheless remarkable in that it was at variance with everything that President Brezhnev had said previously. It was perhaps a reflection of the changes which had taken place in the United States and was a good sign, indicating that the Soviet Union was not quite as resistant to dealings on US terms as people

had been led to believe. Senator Percy thought that President Brezhnev had made a shrewd move in making a concession on advance notification of military manoeuvres. Lord Carrington commented that Mr Brezhnev's speech was open to the interpretation that he was prepared to concede verification as far as the Urals provided the US allowed verification on her own territory as well.

Senator McClure commented on the Soviet advantage in not having to worry about public opinion. The Prime Minister said that this was a factor in the Polish situation. Public opinion filled a unique role in informing leaders. Mrs Gandhi had found during her first period in office that censorship had meant that she did not know what was going on within the country. Mrs Thatcher added that what was happening in Poland was much more fundamental than anything that had occurred in Afghanistan; we were witnessing the creation of a new centre of power in a communist state. Senator Hatfield commented that one of the keys to what had happened in Poland was the fact that the Catholic Church had maintained control of the schools and had thus given a focus for political developments. Lord Carrington said that during his recent visit to Poland some of the Polish leaders had said that they thought that they could settle their own affairs peacefully but that they could not be sure, because they were Poles.

Senator Laxalt said that the Prime Minister had pioneered the economic course now being followed by the new Administration. Were there any lessons to be drawn? The Prime Minister said that the single most important thing was to put through large expenditure cuts at the outset which then left room for tax cuts. Everyone was in favour of expenditure cuts until they started to take effect. Such cuts would be difficult to carry through if the US increased defence expenditure and there would be a rough period. Senator Laxalt asked whether the Prime Minister believed in supply side economics. The Prime Minister said that the supply side theory was absolutely valid. The weakness of demand economics was shown by the fact that increasing demand by 10 - 12% did not increase supply. A policy of pumping more money into the economy did not work.

The meeting ended at 1540 hrs.