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FRAME ECONOMIC

FM PARIS

TO IMMEDIATE FCO

TELNO 385

OF 101705Z APRIL 86

INFO ROUTINE UKREP BRUSSELS, BONN, THE HAGUE, WASHINGTON, TOKYO
 INFO ROUTINE UKDEL IMF/IBRD WASHINGTON, UKDEL NATO, BANK OF ENGLAND
 INFO SAVING OTHER EUROPEAN COMMUNITY POSTS, OTTAWA
 INFO SAVING CONSULS GENERAL IN FRANCE

MIPT (NOT TO ALL) : THE NEW GOVERNMENT'S ECONOMIC PROGRAMME

SUMMARY

1. CHIRAC DISPLAYED HIS GOVERNMENT'S RESOLVE TO IMPLEMENT THE ESSENTIALLY LIBERAL ECONOMIC PROGRAMME ON WHICH IT WAS ELECTED: PRIVATISATION OF ALMOST ALL THE NATIONALISED ENTERPRISES IN THE COMPETITIVE SECTOR, EASING OF STATE-IMPOSED REGULATION OF COMPANIES, AND ELIMINATION OF PRICE AND FOREIGN EXCHANGE CONTROLS. HIS PRESENTATION HIGHLIGHTS THE GOAL OF JOB CREATION.

DETAIL

2. THE TIMETABLE ESTABLISHED PROVIDES FOR THE PRESENTATION TO PARLIAMENT WITHIN THE NEXT FEW DAYS OF ENABLING LEGISLATION WHICH WILL EMPOWER THE GOVERNMENT TO ISSUE ORDINANCES PRIVATISING NATIONALISED COMPANIES, ABOLISHING PRICE CONTROLS AND INTRODUCING MEASURES TO INDUCE JOB CREATION. AN AMENDMENT TO THE 1986 BUDGET WILL ALSO BE PRESENTED TO PARLIAMENT BY THE END OF APRIL TO PROVIDE FOR A REDUCTION IN PLANNED EXPENDITURE OF F10 BILLION, OUT OF THE F15 BILLION ANNOUNCED BY BALLADUR FOLLOWING THE DEVALUATION OF THE FRANC ON 6 APRIL (MY TELNO 366).

3. BETWEEN NOW AND THE SUMMER, DRAFT LAWS WILL BE PRESENTED TO PARLIAMENT WHICH WILL:

- A) INCREASE THE FLEXIBILITY OF EMPLOYMENT
- B) ENCOURAGE INVESTMENT IN CONSTRUCTION AND FACILITATE HOUSE BUYING.
- C) CONTAIN MEASURES TO DEVELOP THE ECONOMIES OF FRANCE'S OVERSEAS TERRITORIES.

4. IN THE AUTUMN THE GOVERNMENT WILL PRESENT ITS 1987 DRAFT BUDGET WHICH PROMISES CUTS IN PUBLIC EXPENDITURE, TAXATION AND THE BUDGET DEFICIT. THE GOVERNMENT WILL THEN REVOKE THE 1945 ORDINANCE ON WHICH PRICE CONTROLS ARE BASED, AND INTRODUCE NEW COMPETITION LEGISLATION. IT WILL GIVE EFFECT PROGRESIVELY TO ITS PROMISE TO ABOLISH PRICE CONTROLS. THE MINISTER OF INDUSTRY IS QUOTED AS SAYING THAT SERVICE PRICES, OMITTED FROM THE MEASURES ACCOMPANYING THE DEVALUATION, WILL BE FREED IN THE MONTHS FOLLOWING THE REVOCATION OF THE 1945 ORDINANCE.

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5. EARLIER IN THE DAY, THE GOVERNMENT PRESENTED DETAILS OF THE ENABLING LEGISLATION TO THE COUNCIL OF MINISTERS. IT IS IN 2 PARTS:

1) FIRST, IT WILL ENABLE THE GOVERNMENT TO ENCOURAGE THE EMPLOYMENT OF YOUNG PEOPLE, PARTICULARLY BY REDUCING EMPLOYERS' COSTS, AND TO IMPROVE THE PUBLIC JOB-PLACING SERVICE. THERE WILL BE PROVISION FOR RELAXATION OF RESTRICTIONS ON PART-TIME AND TEMPORARY WORK AND ON FLEXIBLE WORKING PATTERNS. SPECIAL MEASURES (PROBABLY FISCAL) WILL ENCOURAGE JOB CREATIN IN PARTICULARLY HARD HIT AREAS. EMPLOYEE SHAREHOLDING AND PROFIT-SHARING WILL BE ENCOURAGED, AND HERE WILL BE PROVISION TO ALLOW PRIVATE COMPANIES TO HAVE EMPLOYEE REPRESENTATION ON OR MONITORING OF THE BOARDS.

11) SECOND, IT PROVIDES FOR THE PRIVATISATION WITHIN 5 YEARS OF THE BANKS AND INSURANCE COMPANIES NATIONALISED IN 1945/46, THE ADVERTISING AGENCY HAVAS AND THE OIL COMPANY ELF AQUITAINE, AND THOSE BANKS AND FIRMS NATIONALISED IN 1982. TRANSITIONAL ARRANGEMENTS WILL BRING THEIR STATUTES INTO LINE WITH THOSE OF PRIVATE COMPANIES, WHILE GUARANTEEING EMPLOYEE REPRESENTATION (THE FORM IS NOT SPECIFIED).

6. IN THE NATIONAL ASSEMBLY, CHIRAC ARGUED THAT THE FRENCH ECONOMY WAS NOT IN SUCH GOOD SHAPE AS THE SOCIALISTS HAD CLAIMED. A FORMER GOVERNOR OF THE BANK OF FRANCE, RENAUD DE LA GENIERE, HAD BEEN APPOINTED TO MAKE AN INDEPENDANT REPORT ON THE EXACT FIGURES OF THE NATIONAL DEBT, THE BUDGETARY DEFICIT, AND THE ACCOUNTS OF THE SOCIAL SECURITY. FRANCE HAD LOST GROUND TO ITS MAIN COMPETITORS. (THE NEED TO MAKE THE COUNTRY MORE COMPETITIVE IS MADE MORE EXPLICIT BY THE RIGHT THAN BY THEIR PREDECESSORS.) THE CONSTRAINT IMPOSED BY FRANCE'S POOR FOREIGN TRADE PERFORMANCE REMAINED AND AS A RESULT THE GOVERNMENT HAD TO BE CAREFUL NOT TO BOOST CONSUMPTION BECAUSE THIS WOULD INCREASE IMPORTS. BUT MOST WORRYING OF ALL WAS THE LEVEL OF UNEMPLOYMENT, ON WHICH FRANCE, HE SAID, HAD -THE SADDEST RECORD IN EUROPE-, ESPECIALLY OVER THE NUMBER OF YOUNG PEOPLE OUT OF WORK. JOB CREATION WOULD BE A LEADING OBJECTIVE FOR THE GOVERNMENT. HE ALSO EMPHASISED THE GOVERNMENT'S INTENTION TO PROCEED IN CONSULTATION WITH THE TRADE UNIONS AND TO WORK WITH THEM TO SAFEGUARD THE SOCIAL SECURITY SYSTEM.

COMMENT

7. THE START MADE BY THE GOVERNMENT IN ECONOMIC AFFAIRS HAS BEEN DECISIVE AND COHERENT, AND HAS STRUCK A CAREFUL BALANCE BETWEEN GIVING IMPETUS TO CHANGE IN A LIBERAL DIRECTION AND SAFEGUARDING THE PROGRESS MADE BY THE PREVIOUS GOVERNMENT IN DEALING WITH INFLATION AND INDUSTRIAL RELATIONS.

FRETWELL

FCO PASS SAVING TO ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, LISBON, LUXEMBOURG, MADRID, ROME, OTTAWA

PCLNAN 1919

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