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10 DOWNING STREET

7 March, 1985

From the Private Secretary

PRIME MINISTER'S MEETING WITH MONSIEUR RAYMOND BARRE ON
7 MARCH, 1985 AT THE HOUSE OF COMMONS

The Prime Minister saw Monsieur Barre in her Room at the House of Commons this afternoon.

Economic Prospects

The Prime Minister said that the simple message which she had brought back from her visit to the United States was that Europe was choosing unemployment by spurning enterprise. In their view we paid people to be unemployed rather than provide incentives to them to work.

M. Barre said that he was familiar with these arguments and that there was a fair amount of truth in them. But the most important contribution the Americans could make in the present situation was to correct progressively their budget deficit. There was no doubt that they had been pursuing a policy of benign neglect on this. It simply did not make sense for the strongest economic power in the world to be a net debtor. He expected the US dollar to remain strong this year but thought that the US economy would slow down in 1986. The European countries must maintain cautious economic policies this year in order to be able to offset the slow-down in US activity next year. It would be foolish to reflate now. But the policy being pursued by the British and German governments and, belatedly, by the French government would allow a further margin of manoeuvre in 1986. The Prime Minister commented that the German government had shown itself strong-minded in cutting public expenditure and holding back increases in benefits. M. Barre agreed, that adding he expected the German government to bring in fiscal reform and tax reductions in 1986/87.

The Prime Minister said that there was a risk of protectionist measures in the US. President Reagan had so far resisted pressure for this but the position in Congress was less easy to predict. She had encountered much criticism of the protectionism of the Common Agriculture Policy. She had pointed out that agriculture was even more highly subsidised in the United States than in Europe. None the less she saw a risk of confrontation between the United States and the European Community in this area.

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M. Barre said that the ending of the miners' strike had been a turning point for Britain and for Europe. The jinx of trade unionism had been broken. In his view, far too many benefits had been handed out in response to trade union pressure in France and elsewhere in Europe in recent years. Trade unions had to choose between rising wages and fuller employment: and they unerringly chose the former. The only way out was to seek exceptions from collective agreements entered into earlier for periods of two or three years. The notion of a minimum wage for young people should be eliminated. They must accept lower pay while they acquired expertise.

Political situation in France

M. Barre said that President Mitterrand expected that, with the present electoral law, the Socialists would lose their majority in the National Assembly elections. He was therefore working on a revision of the elected law to substitute either a fully proportional system or a mixed one. If there were to be a majority against him he would not be able to remain as President since it would be a vote of no confidence in him. By changing his economic policies, President Mitterrand had alienated many of his own party and the Communists. His standing in the opinion polls was lower than that of any president in the Fifth Republic. The Socialist Party had lost all elections over the last two years held under the present electoral system.

M. Barre continued that the real watershed would be the Presidential Elections in 1988. He foresaw a period of confusion between 1986 and 1988. President Mitterrand might appoint a rightist government which would face a difficult economic situation and be unable to correct it. He would then be able to go to the country in 1988 claiming that conservative policies did not work. Although President Mitterrand had changed his economic policy quite considerably it was still inspired by socialism with incomes policy, regulation, and price controls. The budget deficit was increasing every year.

Europe

The Prime Minister said that the Community was once again in a difficult situation. President Mitterrand had secured the Fontainebleau agreement but there were still problems over implementing it. At the heart of the Community's difficulties lay the amount of resources devoted to agriculture. Germany was the villain here, dragging up prices for the rest of Europe. The German Government paid lip service for the need for economic and financial discipline but in practice was one of the worst for incurring extra expenditure. M. Barre said that the unhappy state of the Common Agricultural Policy could be traced to 1964 when the French Government had accepted a rise in wheat prices of some 30 per cent to satisfy marginal producers in Germany. The Common Agricultural Policy had to be progressively reshaped.

The Prime Minister said that the nature of the Community would change after enlargement with a belt of socialist Mediterranean countries demanding an ever increasing share of resources. M. Barre said that four things were necessary in the Community (in the event he only had time to mention three of them). The Common Agricultural Policy had to be progressively reshaped, a genuine domestic market created and the European monetary system consolidated. On this third point he was not thinking of a European currency, though it would be desirable if the United Kingdom could enter the exchange rate mechanism. He had in mind rather an increasing convergence of economic policies and measures to obtain a wider use of the ecu. He saw the ecu as a new financial instrument.

The conversation had to break off at this point. But the Prime Minister urged M. Barre to come to see her again when next in London.

I am sending a copy of this letter to Rachel Lomax (HM Treasury), Callum McCarthy (Department of Trade and Industry) and to Richard Hatfield (Cabinet Office). The Prime Minister does not wish it to be given a wide circulation.

(C.D. Powell)

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