

8/5

Reading (PL)

RECORDS OF
EUROPEAN COUNCIL 29/6/81

CONFIDENTIAL

Private Secretary

All handwritten PP
—
attached — the
majority typed up.

EUROPEAN COUNCIL

29 / 6 / 81

VAN AGT The meeting started punctually at 1532 precisely.

Welcome to Mitterrand, Spadolini and Eyskens. Proposes order of Agenda:

Social and Economic

Preparations for Economic Summit

Suggest deal jointly with those. Then

Mandate

Then

Middle East problems

North South relations

Would we not be advised to proceed as far as Middle East and do North South tomorrow?

Proposes to meet union demonstrators. Schmidt asks which union demonstrators. Our staff or others?

Thatcher happy with order of Agenda. Agrees he should meet demonstrators. Mitterrand and others agree.

ECONOMIC AND SOCIAL

Thorn

Introduces Commission document.

"What did he talk about?"

"I don't know; he didn't say"

But thinks economic part of Community collapsing. Investment not coming forward from industrialists who no longer think EC operates??

Ortoli

Sees signs of recovery. But more difficult than hitherto supposed. Europe not well placed. Inflation high but varied as between one country and another. Unemployment. Balance of payments deficits etc.

We must accept

deficits not put right too quick.

budgetary manoeuvre possible. But variable again, but must control budgets.

exchange rates

exchange rates - with US seek to avoid excessive fluctuations.
Dollar rates very difficult for Europe. Therefore we must explain to Americans interest and rate of exchange vital to us.

Ortoli

Must balance monetary and taxation techniques. Countries are responsible for own problems. But common strategy can help.

Investment - 22% of GDP in Europe

32% in Japan.

Particularly in energy below US and Japan.

Recycling. Community must use all influence to encourage.
Multi-lateral organisations to help. Press forward on energy bank.

Employment. Active policy. Training etc. Overtime. Part-time. Early retirement. Should be examined.

But we must have common diagnosis. Then millenium if not imminent will approach.

Jorgensen

Unemployment so bad cannot wait for economic upturn. Must have EC initiative. Energy important. Recycling raw materials etc etc. Otherwise very predictable interventionist and depressing dreaded danish dialogue. In spite of all this increase aid beyond 0.7% at once.

Eyskens

Community has succeeded in holding together in spite of difficulties. Juste retour would threaten community. No solution must move toward indecision. Monetarists and Keynesian have no room for manoeuvre so get on with it. Differences should disappear. They are false. Has gone on so long it really can't be important.

Van Agt

His dilemma is that everybody is going on too long (quite right).

Schmidt

World economy is in a mess

Development aid hopelessly inadequate and increase would only mean more purchase of oil.

German balance of payments deficit appalling

Must be reduced. High Priority.

Agrees about American interest rates.

Middle East problems make things worse (bombing of Iraq may mean oil hike)

Ottawa will be unpleasant. One ^{govt.} ~~govt.~~ monetarist others Keynesian. German has used mixed remedies. With help of unions and employers.

Can't criticize Japan. They work better.

There are dangers of Nationalist policies in Community.

Steel, ^{govt.} ~~govt.~~ subsidies madness. Price increases necessary.

Market must not be damaged otherwise things will get worse.

✓ American policy will not change but at Easter there will be next election in prospect. ✓

At Ottawa we must pledge ourselves to open trading and internationalism, not take advantage of each other by interest rates or competitive devaluation.

Thatcher

Agrees with Helmut.

Ortoli's analysis good. Countries vary enormously. Can't deal ^{on} ~~on~~ financial formula. Diff ^{erent} ~~erent~~ in each country.

For example, with us, inflation paramount.

Three reasons for unemployment

- (1) world recession (oil prices possibly stable)
- (2) structural change
pattern of trade is changing
- (3) ? wages

Where are new jobs coming from? Competitiveness. Small businesses. Help from EIB.

Public spending responsible for many ills. Should control /it

it. But not enough. Public expenditure control essential. Investment money must come from curtailment of public expenditure.

No financial formula can solve problems.

Lower working week means more overtime.

There is hope. No oil increases. Time to cope with structural change. Public expenditure and investment.

Agrees with Schmidt about steel.

No magic formula. Sound policies. Have to get on with it.

Spadolini

Has appealed to Unions to help beat inflation.

They are also in wage and price spiral, largely due to public expenditure.

Isolation must be renounced. Essential for well being of Community.

Will control internal demand. Serious deficit. 1981 going to be bad year, therefore EC harmonisation essential.

Uncontrolled public spending very bad.

Common action necessary. EG spending on research.

Lenihan

Should go to Ottawa with united stance.

Employment policies vital.

Mitterrand

French policy will play its part. Community solidarity main French aim.

Doesn't want to judge policies of others. Problems same but temperaments differ.

No ideological debate but reconciliation necessary and possible.

In France election proved reason triumphed over passion!

Bankruptcies and unemployment were rising. Difficult to live with all this and social inequality. (Dig at inflation causing unemployment *viz* Belgium.)

Therefore France have to react. Agrees with main lines of report. Not having polemical debate. But France has decided to practice policy of revival. Believes growth possible.

/Thus

Thus will pursue

(1) revival through demand. Consumers to buy French products but we must tighten belts (?)

(2) revival through investment. Decisions through public sector.

Nationalisation not a theory. Anyway Renault very competitive.

Also invest in small and medium enterprises.

(3) revival not through excessive public expenditure. Share of GDP less than in other countries here.

(4) Investment in science and technology. Be more adventurous.

Reduction of working hours a necessary element.

French industry works at 70% of capacity. Productivity should increase. Rich should pay for poorer workers increase in standard of living.

Measures to take

Loans to finance investment. Choosing sectors of industry with development potential.

Energy. Telecommunications etc.

Improvement of working conditions . Dismissals etc.

Agrees, ~~we~~ mustn't beg Japan to change.

No protectionism. Or excessive safeguards.

Japanese market impenetrable. Suzuki ambivalent.

~~But~~ Japanese never specific, just general.

Discussion with Suzuki impossible.

Agrees about US with Schmidt and Prime Minister.

American economics pursued in spite of themselves. They see disadvantages but think they will beat inflation this way.

They see evil but think its a passing evil.

Agrees contradiction between French and US policy - hope they will change before Easter but won't happen at Ottawa.

High interest rates will ruin us all.

We should have a look at Third World. Revival in France by trade will help Third World. France has privileged position in Africa.

Americans not interested in North/South.

Must pursue policies supported by working classes in all our
/countries

countries. Reduction in working hours. Believes in Community.

Werner

Quite nice but not important.

Rallis

They have no unemployment but 25% inflation. ~~H~~ hopes all will be well.

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Unemployment. Balance of payments deficits - etc

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Small businesses. help from E.I.B.

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control it. Printing money etc. monetarism is
right & believes in it. But not ^{enough} enough. future ^{public}
expansion control essential. investment money must
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→ all this + social inequality → Therefore we (France) have to react. Agrees with main lines of report.

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17 October (cont)

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9.45. photographs.