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FILE TITLE: LADY THATCHER		SERIES EX-PRIME MINISTERS
		PART: 1
PART BEGINS: September 1992 April 1991	PART ENDS: March 1993	CAB ONE:

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PART

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EX PRIME MINISTERS

LADY THATCHER PART 1

DATE	FROM	TO	SUBJECT	S/TS No
10.9.92	W'ton	tel 1973	protection for Lady Thatcher in USA	
10.9.92	FA/PS	CO	threat to Lady Thatcher in USA	
10.9.92	CO	FA/PS	threat to Lady Thatcher in USA	
19.9.92			speech : Washington	
18.9.92	HMA W'ton		calls at the White House	
25.11.92			speech : Frankfurt	
15.1.93	FCO int		1993 travel plans	
20.4.93	Warsaw	tel 152	visit to Poland	
			PART CLOSED	

EX PRIME MINISTERS

LADY THATCHER PART 1

DATE	FROM	TO	SUBJECT	S/TS No
9.4.91	UKMIS, New York	tel 661	call on Secretary General	
27.5.91	Moscow	tel 1095	talks with Gorbachov	
29.5.91	Moscow	tel 1112	talks with Gorbachov	
29.5.91	Moscow	tel 1121	visit to Moscow	
31.5.91	Prof Pollock	FA/PS	meeting with Gorbachov	
4.6.91	FA/PS	Prof Pollock	Thanks	
10.6.91	BHC Lagos	FCO	lecture	
13.6.91			speech: New York	
13.6.91			draft speech : Chicago	
20.11.91	H/PR	PM	speech	
12.9.91	Peking	tel 1535	visit to China	
15.5.92			speech - The Hague	
3.6.92	HMA Paris	FCO Minister	lunch with Pres. Mitterrand	
18.6.92	PPS	FA/PS	visit to Taiwan	
18.6.92	FCO	FA/PS	briefing for Lady Thatcher - Taiwan	
30.6.92	Lady Thatcher	PM	introduction to Lords	
29.7.92	Lady Thatcher	PM	Yugoslavia	
30.7.92	Lady Thatcher	FCS	Yugoslavia	
30.7.92	Lady Thatcher	PM	Yugoslavia	
10.9.92	W'ton	tel 1973	protection for Lady Thatcher in USA	

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OF 200702Z APRIL 93
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LADY THATCHER'S VISIT TO POLAND

SUMMARY

1. LADY THATCHER'S PRIVATE VISIT INCLUDED MEETINGS WITH SUCHOCKA AND MAZOWIECKI AND A NUMBER OF PUBLIC APPEARANCES. BOSNIA AND THE NEED TO HELP THE DEMOCRATIC REFORM MOVEMENT IN RUSSIA WERE HER TWO MAIN THEMES BOTH IN PUBLIC AND PRIVATE, BUT NO NEW ELEMENTS IN THE BOSNIA CASE.

DETAIL

2. LADY THATCHER PAID A THREE DAY PRIVATE VISIT TO WARSAW FROM 16-18 APRIL. HER FULL PROGRAMME INCLUDED MEETINGS WITH PRIME MINISTER SUCHOCKA AND MAZOWIECKI, AND OTHER POLITICIANS: OPENING THE REFURBISHED HOTEL BRISTOL (A TRUSTE HOUSE FORTE JOINT VENTURE): OPENING THE MARGARET THATCHER FOUNDATION OFFICE IN WARSAW: A SPEECH TO THE NEW BRITISH CHAMBER OF COMMERCE IN POLAND AND POLISH BUSINESSMEN: AND A FASCINATING MEETING WITH MAREK EDELMAN, ONE OF THE FEW SURVIVORS OF THE WARSAW GHETTO UPRISING. SHE LAID A WREATH AT THE MONUMENT TO THE UPRISING, WHICH IS BEING OFFICIALLY COMMEMORATED TODAY, 19 APRIL, IN THE PRESENCE OF VICE PRESIDENT GORE AND PRIME MINISTER RABIN.

3. BOSNIA WAS A THEME IN MOST OF HER PRIVATE MEETINGS, AND IN HER SPEECHES AND PRESS INTERVIEWS. I DO NOT THINK SHE DEVELOPED ANY NEW IDEAS. HER MAIN POINTS WERE :

- THIS WAS A MORAL QUESTION AT THE HEART OF EUROPE. THE WEST COULD TAKE ACTION TO HALT THE KILLING OF THE INNOCENT IF ONLY THEY HAD THE WILL:
- THE ARMS EMBARGO SHOULD BE LIFTED SO AS TO GIVE THE BOSNIAN MUSLIMS A FAIR CHANCE, CONSISTENTLY WITH THEIR INHERENT RIGHT OF SELF-DEFENCE. (IN RESPONSE TO

SUGGESTIONS THAT AIR STRIKES WOULD NOT BE DECISIVE. LADY THATCHER ARGUED, BY ANALOGY WITH ALLIED SUPPORT FOR TITO DURING THE WAR AND GREECE DURING THE GREEK CIVIL WAR, THAT THE COMBINATION OF ARMS SUPPLIES AND SELECTIVE AIR STRIKES COULD BE SUCCESSFUL WITHOUT THE INTERVENTION OF GROUND TROOPS.)

- THE UN WAS BEING HUMILIATED. IT WAS WRONG TO PUT OFF VOTING ON A SANCTIONS RESOLUTION UNTIL AFTER THE RUSSIAN REFERENDUM (THOUGH IT WAS VERY IMPORTANT THAT YELTSIN SHOULD WIN, AND IT WAS RIGHT FOR THE WEST TO HELP HIM).

POLISH OFFICIAL INTERLOCUTORS DID NOT SERIOUSLY CONTEST HER POINTS BUT DID NOT ENDORSE THEM ALL EITHER. FOR THE MOST PART, THEY EXPRESSED GENERALISED CONCERN.

4. I ACCOMPANIED LADY THATCHER ON HER CALLS ON MS SUCHOCKA AND MAZOWIECKI. SHE WAS IMPRESSED BY SUCHOCKA'S GRIP AND DETERMINATION TO PUSH ON WITH THE ECONOMIC REFORM PROGRAMME. HER DISCUSSION WITH MAZOWIECKI COVERED POLAND, RUSSIA, THE EC (WHERE SHE AGREED STRONGLY THAT THE COMMUNITY SHOULD OPEN ITS MARKETS MORE QUICKLY) AND NATO. LADY THATCHER AGREED WITH HIM THAT POLAND SHOULD BE INVITED TO JOIN THE ALLIANCE AND DISMISSED THE ARGUMENT ADVANCED BY SOME THAT THIS WOULD CREATE DIFFICULTIES IN RUSSIA'S RELATIONS WITH THE WEST. SURPRISINGLY SHE DID NOT EXPLORE IN ANY DETAIL MAZOWIECKI'S ROLE AS UN RAPPORTEUR ON HUMAN RIGHTS IN THE FORMER YUGOSLAVIA.

COMMENT

5. LADY THATCHER COMMANDS ENORMOUS RESPECT IN POLAND FOR HER POLITICAL ACHIEVEMENTS AND ESPECIALLY HER CONTRIBUTION TO THE TURNING BACK OF COMMUNISM. HER PUBLIC ENDORSEMENT OF MS SUCHOCKA WILL HAVE BEEN HELPFUL TO THE PRIME MINISTER. HER REFERENCES TO BOSNIA WILL ALSO HAVE HAD AN EFFECT IN BRINGING HOME THE TRAGEDY, BUT SOME OF HER LISTENERS WERE AWARE THAT THE ISSUES ARE MORE COMPLEX THAN SHE SUGGESTED. THE SAME APPLIES TO THE EC, WHERE HER STRICTURES ON MAASTRICHT WERE LISTENED TO POLITELY BUT WITHOUT EFFECT ON POLISH DESIRE TO JOIN THE COMMUNITY (IN WHATEVER FORM IT TAKES).

6. IT WAS VERY GOOD THAT LADY THATCHER WAS ABLE TO
COMMEMORATE THE 50TH ANNIVERSARY OF THE WARSAW GHETTO
UPRISING AS SHE DID.

LLEWELLYN SMITH

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CAOFF//MR PAXMAN
MODUK//MAJOR TENNANT DIC

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.HOUSE E4A
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(KINGSGATE HOUSE)
HMT//MR DEANE

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Rene Mook
AK *PL*
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Lady Thatcher's 1993 Travel Plans

Julian Seymour in Lady Thatcher's office telephoned on 15 January to tell me the results of their recent meeting with Lady Thatcher to plan her foreign travel for the next six months or so. She has to fit this around the final editing of her autobiography. He mentioned the following plans:

- United States. Lady Thatcher had two visits planned. Sir R Renwick was fully in the picture. No further action or advice needed from us.
- Russia. A trip on 14-16 April was now firmly in her diary. Sir B Fall knew the details. One aim was to see Gorbachev and do some filming for a TV documentary. It had not proved possible to arrange this outside Moscow, since Gorbachev was no longer intending to travel any time soon. Lady Thatcher would welcome Brian Fall's suggestions to fill the remaining gaps in her programme.
- Poland. On 16 April Lady Thatcher now planned a private weekend visit to Warsaw. They already had an embryo Thatcher Foundation office there, and she had a commitment to the Forte Group to preside at the re-opening of the Bristol Hotel, which they had acquired. She would arrive either Friday evening, 16 April or early Saturday morning, and stay until Sunday night or Monday morning. They would welcome advice from us or HMA Warsaw on other elements for a programme. I undertook to alert the Ambassador to these plans and suggested that Julian Seymour might be in direct contact next week with him. I gave Julian the Embassy's telephone and fax numbers.
- Mexico. Julian Seymour confirmed that there was an opening for a visit to Mexico City in August, though

he recognised the possible difficulties of this. We again agreed that he should be in direct touch next week with the Ambassador. I gave him the details.

- Malaysia, Thailand, Singapore. A trip to these three might be possible in September, though it was only a thought at this stage. Citibank were pressing Lady Thatcher to go on their behalf, after her splendid efforts for them last year elsewhere in the Far East.
- Denmark and Sweden. Finally, Julian Seymour mentioned her plans to visit Copenhagen and Stockholm next week. (18-19 Jan.) She would be making speeches in both capitals, on familiar themes! Both Ambassadors were in the picture. For obvious reasons they were not looking to us for anything further on these.

I said that we were most grateful for all this information and would want to help in any way we could.

Comment. This exercise has got off to a good start. I would be grateful for any steer about handling this contact in the future. It would seem most sensible for Lady Thatcher's office to deal direct with Embassies about the details of in-country programmes. But any strategic direction which we might wish to give might perhaps be passed down this channel.

Chris Prentice

15 January 1993

(C N R Prentice)

cc : PS x3
 PS/Ministers
 Mr Appleyard
 Sir J Coles
 Mr Logan
 Mr Beamish
 Mr Masefield
 Mr Jay
 Mr Greenstock

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MARGARET, THE LADY THATCHER, O.M., P.C., F.R.S.

HOUSE OF LORDS

LONDON SW1A 0PW

25th November 1992

Dear Allen

I attach a copy of a speech to be delivered by Lady Thatcher in Frankfurt tonight. It will not be released to the Press here until first thing tomorrow morning.

We must lunch. I will call early in the New Year and hope that you might have a free hour.

Yours sincerely

Julian

JULIAN SEYMOUR

Director, Lady Thatcher's Private Office

A. Allen Esq.

Prime Minister cc JSW
What we have come Jibh
to expect Alan G.D.
WEC

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SPEECH BY BARONESS THATCHER OF KESTEVEN OM PC FRs
TO THE BOYDEN FORUM IN FRANKFURT, GERMANY
ON WEDNESDAY 25TH NOVEMBER 1992

(Mr Chairman, Ladies and Gentlemen)

It is a great privilege to address this distinguished audience. It is you, who within a framework of law favourable to enterprise, create the wealth of nations. That wealth not only enhances material standards of living but raises the quality of life; enriching the arts, music, literature and the environment. Germany has a cardinal place in such matters.

It is fitting that we should be meeting in the historic city of Frankfurt, once the capital of the Holy Roman Empire, and the birth-place of Goethe. It was also the town where, in 1848, Germany saw the contest between the liberal and the authoritarian philosophies that did so much to shape her modern history. It was in St Paul's Church, after the revolutions of that year, that liberals debated Germany's future; alas their words were stronger than their actions. And as the English poet Yeats observed in another connection: "The centre cannot hold, the best lack all conviction and the worst are full of passionate intensity". How often history has reflected those words. Incidentally, I am delighted to see Professor Lothar Gall among you to-night: his outstanding biography of Bismarck has been a key document which illuminates that bygone era.

Perhaps I should not have said 'bygone', for the contest between the liberal and the authoritarian views is ever-present. Modern Germany has been a splendid exponent of liberal values. The Ordoliberalen, who were responsible for the German recovery inherited the mantle of that liberal tradition of 1848. Their concept of the state was moral, not mechanical. Freedom was established under the rule of law. Honest money in the form of a hard currency put an end to the nightmares of inflation which Germany had known so well. She became a nation built on sound money and the energy of trade.

In his recent Ludwig Erhard Memorial Lecture on economic and monetary union Dr Hans Tietmeyer pointed out that in the mid 1950s "no other country called so strongly for comprehensive liberalisation as did Germany". He also reminded us that Ludwig Erhard's goal of free trade "was never restricted to Europe. He always saw matters from a global perspective." Erhard's vision should be just as applicable to the Europe of the 1990s as it was in the 1950s.

I greatly admire the liberalism that is enshrined in the post-war constitution. It was this which led Germany to be extremely generous in granting refuge to the victims of the killing-fields in Bosnia. Frau Inge Trautluft, in Zagreb, who has organized much of this, has been one of the saints of our time and the journalists of the Frankfurter Allgemeine Zeitung in particular have been brave and outspoken on the side of right. Germany has generously taken on a burden which most other European countries have refused. But how much better it would have been if the West had not only given humanitarian aid but had struck at this problem's very root by preventing the terrible atrocities which have occurred. Alas, we

tried to act on the basis of consensus and, as so often happens, consensus led to paralysis when effective leadership was needed. The contrast with the Gulf War is all too apparent, for then we had the United States willing to take the lead and the aggressor was stopped. In the new world order Europe must have the courage to show conviction. As the poet Grillparzer said, of the old Habsburg Monarchy: 'This is the curse of our old house/ half-way means and half-way steps/warily treading to half-way aims.'

Tonight I shall deal first with the economic aspects of the challenge ahead and then go more deeply into the political problems in the context of both history and the present. We all understand that this is a time for deep reflection about the future of your country, of mine, and indeed of Europe.

The monetary challenge of the late 20th century.

Since the discovery of money in the Ancient Near East about 850 BC, the management of the currency has been one of the most difficult tasks facing mankind. The problems and the debates sometimes appear to be entirely theoretical in character, but they always have important practical consequences. I want to talk today about perhaps the greatest ever challenge in currency management.

For most of recorded history Man chose a commodity to serve as his money, a precious metal, such as gold. The choice of precious metals has been ridiculed as primitive and superstitious, even in one of John Maynard Keynes' famous phrases - as "barbarous". But the gold standard had one overwhelming virtue which must never be forgotten. The quantity of gold was limited to the stock of the metal inherited from the past and the small annual increases in that stock due to mining. Apart from the chance discovery of rich new sources, these increases were only a tiny fraction of the existing stock. This was of immense benefit to mankind. When gold was the only kind of money, and when later paper money had to be converted into gold at a fixed rate, the slowness of the increase in the quantity of money prevented inflation. While gold was the basis of nations' currencies, no currency suffered from high and systematic inflation over a prolonged period.

Britain was the traditional defender of the gold standard, but it abandoned this role in 1931. Nevertheless, gold remained the bedrock of the Bretton Woods system of fixed exchange rates in the 1950s and 1960s, with the American Government pledged to maintain the fixed gold price of \$35 an ounce. Since 1971, when President Nixon suspended the dollar's convertibility into gold, no major currency has been pegged to a precious metal. Inflation is no longer checked, as it had been for all those centuries, by keeping the value of a currency stable in terms of gold. We have to find new ways of providing a sound currency, which is both stable in value and widely acceptable in payment. That is the monetary challenge of the late 20th Century. Man has to develop a stable currency based exclusively on paper and his intelligence, rather than on a precious metal and his superstitions. Keynes saw this new problem in his short 1923 book, *A Tract on Monetary Reform*. He said, "And - most important of all - in the modern world of paper currency and bank credit there is no escape from a 'managed' currency, whether we wish it or not".

The achievement of the Bundesbank: a role-model for other central banks

The task of management falls on governments and central banks, with the relative importance of the government's and central bank's role varying from country to country. In Germany you have decided that the stability of the currency should be entrusted mainly to an independent central bank, the Bundesbank. In Britain we decided after the Second World War that our central bank, the Bank of England, should have a subordinate position in monetary policy, taking its instructions from the government of the day. There is an active and lively debate in our country on whether that was a good decision.

Here may I pay you a tribute. From the 20 years of experience since the Americans broke the link with gold it is clear that the Bundesbank - more than any other central bank in the world - has understood how a fiat currency system can be made to work. You realised early on that the best way to maintain the value of money was to keep the quantity of money under tight control. You were right to introduce money supply targets in late 1974 and you have been right to continue to base interest rate decisions primarily on domestic monetary trends since then. The Bundesbank has gone further than any other central bank in meeting the monetary challenge of the last part of the 20th century.

I should perhaps add that usually it has been free from political interference and its actions have not been undermined by a lax fiscal policy.

External versus domestic objectives in monetary policy.

Compared with Germany you may wonder why Britain has had a poor record of monetary management in the last 40 years. There are many possible answers. One is that the German people are frightened of inflation because they have suffered from two catastrophic hyperinflations in the 20th century and are therefore willing to accept the disciplines of sound monetary control. But I wonder whether that identifies the root of the explanation for the contrasting inflation performances of our two countries. We British have shown over the last 20 years that we are prepared to undergo severe recessions in order to combat inflation, far more severe recessions than those seen in Germany in the same period. Instead I think that much of the answer reflects the beliefs of influential economists, both in British universities and Whitehall.

The standard British economist's answer to the inflation problem is to fix the exchange rate and to impose an incomes policy, because - as far as he is concerned - a falling exchange rate and rapid wage increases are responsible for inflation. The standard German economist's answer is to recommend a reduction in monetary growth. Perhaps I am simplifying. But I think that I am being fair - I have had to listen to far too many economists in the last 15 years! Fortunately, I had Alan Walters as my advisor who took the monetary view, as did the famous Liverpool six. But there were 364 economists on the other side!

European Economic and Monetary Union

Britain has not been alone in failing to find an adequate response to the monetary challenge of the late 20th Century. Most European currencies have been devalued against the DM at some point or other in the last 20 years and every European country has suffered from a measure of continuous inflation. The question arises, "why have the governments of Europe been so inadequate in their efforts to control inflation?". Is the explanation to be sought in a lack of political will or in widely-shared weaknesses of analysis and interpretation?

Large Countries

It should not be controversial that the only viable approach for a large country, an economic superpower, is for monetary policy to focus on the quantity of money, by a deliberate policy of money supply targets. The United States of America is clearly in this position. The American Federal Reserve cannot sensibly let the dollar's exchange rate against any other country dominate the behaviour of its own interest rates, because the American economy is more than twice the size of the world's second-largest, namely Japan. Similarly, Japan has such a large economy that it must - to a large degree - be autonomous in monetary policy.

Small Countries

At the other extreme are some small countries, where the share of traded goods in economic activity may be remarkably high and cross-border capital flows can dwarf domestic savings. They have sometimes chosen to fix the value of their currencies to that of a larger country because the level of economic activity depends on that of their larger neighbours.

Medium Sized Countries

But where does that leave medium-sized countries like Germany, France, Britain and Italy? In particular, what is the appropriate monetary regime for the four significant European nations, which - in a world context - are all only medium-sized countries? There is no obvious criterion for choosing between a domestic focus for monetary policy and an external focus.

In practice, the nations of Europe have met this challenge by associating themselves, to a greater or lesser degree, with the monetary policies of Germany with the consequences we now know. At the time Britain joined the ERM in 1990, it was not a rigid system. Recent events since then have confirmed the view that Britain would do best to organize its monetary policies with its own domestic economic situation as its central concern just as the Bundesbank does.

An even more dangerous response to our monetary problems is to try to overcome the dilemmas created by our medium-sized status by forging a larger monetary area, by concocting an ambitious scheme for European economic and monetary union in which we adopt the same currency. I think that the most generous interpretation of this enterprise is that it is intended to ensure that all European nations play their fair share in international monetary matters. Specifically, the thinking may be that, when the dollar is weak, the

obligation to intervene in its defence should be shared between the central banks of Germany, France, Britain and Italy, and even some of the smaller countries. This was, after all, the original motive for creating the ERM in 1978, when Mr Helmut Schmidt thought that Germany was having to do too much intervention to help the dollar. One theme in the case for EMU today is undoubtedly that Europe would have a currency which in global importance may match, or even exceed, the dollar. My view is that these technical arguments about desirable patterns of foreign exchange intervention are minor compared with the wider consequences of EMU.

EMU would involve the massive upheaval, not just in our monetary affairs but in our economic and political institutions.

As Karl Blessing pointed out as early as 1963, after the first proposal for monetary union "the final goal of the Commission is a European Monetary Union... As a European, I would be ready to approve of European Monetary Union and to accept a centrally directed federal banking system; as a responsible central banking practitioner, and realist, I cannot however avoid pointing out the difficulties which stand in the way. A common currency and a federal central banking system are only feasible if, apart from a common trade policy, there is also a common finance and budget policy, a common economic policy, a common social and wage policy - a common policy all round. In brief, this would only happen if there was a [European] Federal State with a European parliament with a legislative power in respect of all member countries."

Got it in one!

Europe - where next? - The political choice

This point brings us face to face with the political choices between the two different visions of Europe.

First, a Europe of nation states based upon the idea of co-operation between independent sovereign countries, loosely linked in a free trade area with competition between tax and regulatory systems and their own currency.

Second, the federalist vision of Europe, run increasingly from Brussels, united by a common citizenship, harmonised by bureaucratic regulation, equipped with common economic, foreign and defence policies, using a single currency, and acquiring all the flags, anthems and symbols of nationhood.

I. It was the first vision that inspired the post-War international order and led to the formation of the United Nations, the IMF and the GATT. In such a world, multi-lateral and non-discriminatory, a small nation had nothing to fear because it was small - its independence was unimpaired.

This kind of Europe would accommodate the countries of Eastern Europe and give them reasonable stability. It would maintain and not jeopardise our relations with our great friend and defender the United States. But some people object to this vision: they equate

nationhood to nationalism which they argue has been responsible for many of the world's troubles.

But the concept of nationhood is as old as the Bible itself.

"Righteousness createth a nation" (Prov. 14).

"Nation shall not lift up sword against nation" (Isaiah 2).

National pride in combination with liberty and the rule of law powerfully strengthen democratic government. The vital ingredient of democracy - public opinion - can then come into being. People will consent to be governed and accept common sacrifices most readily when they feel themselves to be part and parcel of one another, with a shared history, similar institutions and loyalties, above all a common language and culture. This is precisely what has happened with the unification of East with West Germany.

It is true that nations can fall under the sway of a tyrant like Saddam Hussein. But, as we discovered in the Gulf War, it takes nation states to defeat the despot.

We must not confuse the nation state with whatever unstable status-quo happens to be at hand. There were those who wanted to retain the Soviet Union as a structure, as others wanted to keep Yugoslavia. They were wrong. What we are witnessing is the collapse of Communism and artificial states with no real roots and precious little freedom. The fact is, we have now seen the collapse of both the Versailles and the Yalta Treaties. We should by now have learned that national sentiment cannot be created by bureaucratic fiat.

The conventional objection to this approach is that it creates a multitude of economically inefficient small states. But free trade under the GATT creates its own economic network regardless of the size of the nation. Taiwan, a nation of 20 million, is a bigger creditor nation than China - or for that matter the United States. With free trade you can have both large scale economic efficiency and small scale political decentralisation. People then enjoy the stability of their own nationhood, the benefits of free trade and local and international co-operation.

It is only socialism that requires government to be large, remote and bureaucratic to contain people and companies over a wide area.

II. This argument leads me to address the second vision, that of a European Union with rights of citizenship, a single currency, monetary and economic policy, a common defence and foreign policy, and an enlarged bureaucracy.

As I have already pointed out - and events this week have once again demonstrated - fixed exchange rates between countries with vastly different economies just won't work; and the suggestion that they could, especially in today's circumstances, has led to deeper recession than we need have suffered and to turmoil in the markets.

At least under the ERM there is an escape hatch which would not be the case with a single

currency. In my view, the Bundesbank cannot and should not be blamed for carrying out its statutory duty of protecting the value of the DM. But as the ERM transmits your high interest rates to other countries when their need is for a low interest rate, the answer has to be to realign or to leave the system. And there should be nothing unusual or shameful about that. There is no substitute for each nation taking responsibility for running its own economic and financial and fiscal affairs.

Naturally your own people wish to keep the DM and so would I in their position!

During the debate on the matter in the Bundestag all parties agreed on the necessity of another vote before Germany decides whether or not to join EMU. I think that is sensible and right; but with respect that's not what the Treaty of Maastricht says. The UK has a protocol to that effect before the 3rd stage of EMU but Germany did not request one. The UK also has a protocol against the Social Charter.

Why do some people contend that every new European initiative requires the participation of all members of the Community? It will sometimes be the case - especially after enlargement - that only some Community members will want to move forward to another stage of integration. For an enlarged Community can only function if we build in flexibility of that kind.

Within a common market, we should aim at a multi-track Europe in which ad hoc groups of different states, such as the Schengen Group already, forge varying levels of co-operation and integration, on a case by case basis. We should not try to pour different countries into the same mould. The test should be: will it work? And do the peoples of those countries want it? That way you avoid the strains and fractures that will otherwise occur.

The fact is that the people of many European countries are unhappy about the Maastricht Treaty. Scepticism is on the increase. People feel that their governments have gone ahead too fast - and they are not sure about the direction either. The trouble is that European Ministers spend so much time in each others' company, they get out of touch with the people and too much in touch with themselves. People do not want to become citizens of a European superstate. Denmark exercised her freedom to say No. And let no one try to bully her out of it. The veto is at the root of the Rome Treaty. Each nation, large or small, must have equal rights in this respect.

It is argued that the undefinable word "subsidiarity" will prevent the centre from becoming stronger. On the contrary, that thought is based on the notion that the Community has the power which it then parcels out to Member States. The true situation should be the reverse. Maastricht is much more than just a technical adjustment to the Treaty of Rome. That provides for the Commission to have sole right of initiative in 11 areas of policy. In Maastricht that reaches 20 to which have to be added 5 other areas of co-operation where the Commission is fully involved, monetary, judicial and immigration matters as well as foreign policy and defence. This alternative model is spawning bureaucracy at the expense of democracy.

Further, most federal states have experienced a steady trend towards centralisation as central governments have a natural appetite for more expenditure and therefore more taxation. The

Commission is already demanding more resources and yet more again for 'cohesion'. Germany is the largest contributor, but has enough to cope with at present without being called upon for more. The UK is second largest. This year £2.6 billion net (DM 6.25 billion) will go to the EC; that exceeds the amount we give to the developing world. And already both we and Germany are having to borrow more than we think wise.

Which Europe?

In deciding between the two visions of Europe it is not a question of whether we are 'European' or not but of what kind of a Europe we wish to build.

We are all bound - and will remain bound - by the Treaty of Rome and by the Single European Act which does not fully take effect until next year.

No member nation can be excluded from these two Acts.

But in considering the future and especially the Maastricht Treaty we must learn from past experience and take into account the vastly changed circumstances and the feelings of the people.

Would it not be better to pause and consider the matter afresh?

There are so many urgent tasks requiring our immediate attention.

For you there is still the problem of the full integration of East Germany. You know only too well the strains this has caused. We have all watched with great distress some of the extreme demonstrations in your country. We share your anxieties and I know that you are profoundly aware of the importance of defending Germany's liberal culture.

But we must look further afield too. In Central Europe memories of the rule of law, parliamentary institutions and private property were still just alive in 1989. They have returned now - and with some vigour - in countries such as Poland, Hungary and in the Czech Republic. But in Russia where since 1917 Communism, the most total tyranny of all, has been enforced, recollection of these traditions was virtually dead. And although the Communist system has collapsed there are still Communists around who can frustrate political freedom and the emergence of an enterprise economy. Yet there is something astonishing about Russia. If her talent and resources were harnessed she would be one of the richest nations in the world. She has the second largest oil reserves, and is the largest exporter of natural gas - of which you are a big consumer; and there is hardly a raw material, rare or abundantly encountered, that she does not produce.

When, before 1914, the rule of law extended across Tsarist Russia, her economy flourished. In the old days, we maybe accepted the Stalinist lies that old Russia had been backward. Not so. When she had a gold standard in place, with a legal system and a growth of private property, she did astonishingly well. In fact, she had the highest growth rates in the world, and if you go to some of the old cities - Kiev, St Petersburg - you can still see quite easily that these were European cities of energy and promise. That excellent German historian,

Professor Heinz Dietrich Loewe, even tells us that the Russian peasants had more calories in their diet in 1900 than the West German population of 1952!

It was a German Chancellor, Bethmann Hollweg, who said in 1914: "Russia grows and grows, and weighs upon us like a nightmare". In Bethmann Hollweg's time this caused panic in Central Europe, and an alliance against Russia. Now our problem is quite different: it is how to bring Russia back to the Concert of European nations that Communism forced her to abandon. The task is enormous. Yes, she has gained political liberty thanks to President Gorbachev's reforms and President Yeltsin's courage. But the fruits of economic liberty are far harder to win and it can only be achieved with international co-operation.

In Germany, at the heart of Europe, you understand this more than others. East Germany, plugged into the whole economic structure of liberty, central bank, single currency, rule of law, private property, available financial resources. Nevertheless she is encountering very real human and practical difficulties in making the transition. But in East Germany whatever the faults of the one-to-one exchange between your own and the old Communist currency, you have not had to face hyper-inflation along with everything else. That is the danger in Russia now and in other countries of the former Soviet empire. I feel that we should all be doing far more than we have done to help untangle the financial chaos there.

If Russia does not succeed economically and politically then future generations may apportion quite a lot of the blame to us. Should we not therefore be more generous in our help? And may I say at once that Germany has set an example. But let them not say we hid our heads in the Maastricht sands and haggled with the Americans over rape seed oil, while Russia burned.

Conclusion

Ladies and Gentlemen

Germany is the greatest economic power in Europe and will for the foreseeable future remain so. Her post-War success in entrenching democracy and building prosperity is one of the wonders of our age. I have said that a multi-track Europe, in which Germany finds herself on one track and Britain on another, holds no worries for me - nor should it for you. But, that said, Germany is in a special way the heart of Europe - culturally, geographically and now, more than ever, economically. It is, therefore, vital to Europe that Germany's approach to Europe's future development is sound - and not just for your people but for mine. There is always a danger that countries come to forget the sources of their security and strength. We did so in 1960s and 1970s in Britain - and then had to retrace once more the path back to liberal economics from which we had strayed. It is vital that you in Germany do not make the same mistake. Complacency, corporatism and consensus - these three perpetual temptations to all successful, civilised countries - are always waiting to do their worst: and they must be resisted.

This is even more important at a time when extremists are challenging our institutions. For there is no more favourable climate for extremism than one in which the respectable established political parties become remote from the worries of ordinary people.

The main threat to Germany's, Britain's and Europe's well being is a failure to remember the foundations of past success - compounded by a failure to look outwards to the new world emerging beyond our shores and frontiers.

The nineteenth century liberals who met in Frankfurt were unsuccessful. Until 1945 Germany chose under different regimes to adopt various formulae of cartels, state intervention and protectionism. But since then the principles of the liberal economy and the limited state have brought Germany to a pinnacle of prosperity and influence. Germany sets the tone in Europe, even more than she sets the monetary disciplines. I would like to hear the arguments for free enterprise and open trade put still more vigorously - and then carried through - by Europe's most powerful participant.

I would also like to see Germany and Britain ensure that truly global thinking replaces the narrow Europeanism which plagues the European Community. The Community has to realise that the world is changing fast. Economic power is passing to the far East: it is crucial that we combine, not to keep their products out, but to bring our ideas in, ensuring that freedom and democracy march side by side with economic liberty and growing wealth. And let us not have any doubt that Russia will remain a great power. It is in our interests, as well as being our moral duty, that she looks to our European countries as a source of help and ideas.

Nor are these matters of global policy to be left to learned professors or smooth talking diplomats. Global issues are now national issues.

If we lose sight of the arguments for global free trade, excluding the products of the poorer ex-Communist countries, desperate for access to our markets, then those streams of immigrants will, legally or illegally, pour across our borders, fuelling a racist reaction.

If we fail to export democracy along with our goods, then armed dictators may come to power and pose new threats to our security.

If we indulge in the fantastic nonsense of seeking to create a European super-state, competing with the United States, we will have only ourselves to blame if our countries have to raise taxes to pay for stronger armaments necessitated by American withdrawal from the defence of Europe and from the leadership of NATO.

That flame of liberal democracy which flickered in Frankfurt all those years ago has since lit up Germany and the rest of Europe too. Of course, the enemies of freedom remain - Nazis chanting hatred on the streets, crypto-Communists slipping quietly back into power. The totalitarian tendency is always with us. But it is only a tendency. The bracing creed of liberty is the more potent. In memory of the Frankfurt liberals - and in memory of all those other Germans who lost their lives in the prison camps and torture chambers devised with equal, devilish ingenuity by Left and Right - let us resolve to mark the coming millenium with freedom's triumph in every corner of our earth.

MARGARET, THE LADY THATCHER, O.M., P.C., F.R.S.



19.9.92.

Dear Mr Allen

Please forgive the hand-written note but I wanted to ensure you received a copy of Lady Thatcher's speech. We've only had it a short time and following my conversation with Julian Seymour I want to get it to you as soon as possible.

You can reach me on 235-6600.

Yours sincerely

Desirée Fletcher (Miss)

EMBARGO TIME: 0855 EST
PLEASE CHECK AGAINST DELIVERY

SPEECH BY THE RT HON BARONESS THATCHER OM FR
TO THE CNN WORLD ECONOMIC DEVELOPMENT CONGRESS

ON SATURDAY, 19TH SEPTEMBER 1992

WASHINGTON D.C.

INTRODUCTION

Mr Chairman, may I begin by warmly congratulating whoever decided to schedule an Economic and Financial Conference at the end of this past week. It showed foresight of an almost astrological order - maybe some country should ask him to be its Finance Minister! It also forced us to re-write our speeches - well, some more than others!

What we have lived through this past week has been a lesson in practical economics. As my favourite poet wrote:

"Let us admit it frankly,
As a business people should,
We have had no end of a lesson,
It will do us no end of good".

It has been, in particular, a lesson for Governments. The role of Government in trade and commerce, as in much else, is to create a framework of stability within which enterprise can flourish. But the rigid stability of fixed exchange rates threatened to stifle enterprise and obstruct commerce. It required heavy burdens to be placed on companies, including efficient companies. It made imports artificially cheap and exports artificially expensive. It starved firms of capital. It was bad for business. And it meant that home owners watched anxiously as the cost of their investment rose inexorably.

Yet the stability which fixed rates offered was a false one. It prevented currencies from adjusting gradually to market realities, and in the end it produced wild swings of instability. There's nothing new about fixed exchange rates collapsing. What might be new is to finally learn the lesson that fixed rates don't - and can't - work in free markets.

So I congratulate John Major and Norman Lamont for taking off this economic straitjacket and letting the pound find a level at which it can be sustained without imposing intolerable burdens and disrupting economic life.

Not all political leaders have shown such realism. In 1931 a Labour Government lost power through trying to stick to an over-valued rate of exchange. When the incoming national Government went off gold and floated the pound, a member of the previous Labour Cabinet said plaintively "They never told us we could do that"!

That Minister would have been extremely popular with the European Commission! Just imagine the things they wouldn't have told him he could do!

Once that lesson is learned, however, it cannot be unlearned. If a Government could alter its exchange rate in 1931, it could do so again in 1949, in 1967, in 1971 when Bretton Woods itself foundered, this week, or whenever its currency comes under strong market pressures. No system of fixed rates will ever again have the prestige of the pre-1914 gold standard. Nor will there ever again be a general acceptance by the voters and by politicians of the harsh deflationary medicine that its prestige made possible.

We all know - currency markets above all - that Government cannot achieve stability by fiat in the face of the speed and volume of capital movements in today's world. We now need to rediscover, or re-invent, a framework of stability that encourages growth, enterprise and trade rather than strangling them.

THE 80's

That framework of stability is especially needed today because the 1980's unleashed a burst of creative enterprise and capitalist endeavour unequalled in this century.

If I may be permitted a personal note, in the last decade Ronald Reagan and I found ourselves pioneering the same great causes in economic, social and foreign affairs.

We started a revolution almost without realising it. And our policies led to a freer society, one of the longest periods of economic growth with stable prices, and the victory of freedom over communism.

Our first task was to restore economic vitality. We both had to confront dispirited peoples and stagnant economies, marked by low growth and high inflation.

We set about creating a framework favourable to enterprise. In Britain that meant cutting penal rates of Income Tax, cutting the tax on companies, and abolishing some taxes altogether.

It meant cutting back trade union privileges that had multiplied strikes and restrictive practices, put up industrial costs and increased unemployment.

As a result productivity in Britain rose faster than in Japan and by the mid-80's our rate of growth outpaced that of our European competitors.

I need hardly remind this audience of the success of Reaganomics in America - or perhaps I do need to remind you. For in the United States, a myth of the Eighties as a decade of individual greed and national bankruptcy seems to have been widely disseminated and accepted. The actual record - increased economic well-being for all classes at the cost of a manageable increase in national indebtedness - is now regularly dismissed as the 'illusions' of the Reagan years.

We are asked to treat the millions of jobs, houses, cars, consumer goods, new companies, personal computers, VCR's, original technologies, modern industries and greatly increased charitable giving as 'transient phantoms' while regarding an increase in the federal deficit as the only solid economic reality.

Mr Chairman, I am reminded of a remark by George Orwell: 'You have to be an intellectual to believe such nonsense. No ordinary man could be such a fool'.

Our second step was to secure sound money and the reduction of inflation. We had learned at Milton Friedman's knee that inflation is a monetary phenomenon; that it can only be controlled and reduced by a gradual squeezing of the money supply; and that a successful cure for inflation will inevitably be accompanied by a temporary rise in unemployment.

To cut inflation, therefore, required some courage as well as the right principles. But we succeeded. Inflation, in Britain, fell from over 20% to less than 4% by mid-1983. And all this outside the E.R.M.

Thanks to President Reagan and Paul Volker there was a similar achievement here.

Indeed, in my last four years of office, we had a budget surplus and were able to reduce debt - thus lightening the burden on our children and grandchildren.

Thirdly, I faced a problem which Ronald Reagan did not. Long years of socialism in Britain had created two complimentary phenomena: sluggish, inefficient, subsidised state-owned industries and a people with little prospect of accumulating capital.

We solved both problems with the same policy. We privatized state industries - steel and airlines, for example, which once absorbed billions in subsidies, began paying taxes rather than swallowing them - and we did so in ways that spread shares as widely as possible among workers and small investors: and we did so in ways that spread shares as widely as possible among workers and small investors.

Mr Chairman, we created millions of new shareholders, new homeowners, new entrepreneurs. The impact of this was not just economic. It brought about a profound change in the attitudes, social, political, even spiritual, of our people. They became more self-reliant, more responsible, more independent, more forward-looking. They have a stake in the future. And they are more resistant to the tenets of socialism.

That is why our Labour Party, like the socialists of Eastern Europe, are hastily abandoning or at least concealing their socialist principles.

Socialism has a very limited appeal to a capital-owning democracy. Americans have long known that. But in the 1980's America ceased to be exceptional in its deafness to the siren call of socialism. We are all anti-socialists now - even the Swedes!

But not even, this audience, Mr Chairman, is likely to appreciate the sheer scale of global privatization. Some \$400 billion of major sales have either taken place or are in progress. The total number of employees transferred from the state to the private sector is about equal to the population of a medium-sized European country.

The rate of privatization, moreover, is speeding up. It is now sweeping through Latin America and Central Europe and, at long last, even the former Soviet Union.

Indeed, in Eastern Europe Communist elites that treated state property as their own and political power as their birthright were forced to surrender these to the mass of people. In international affairs, the revival of western economies and the defence build-up launched by President Reagan forced the Soviet Union to abandon its aggressive military posture and to embark on internal reforms.

By the end of the 1980s, the former communist countries had become democracies but were still struggling to transform themselves into market economies.

Even China is pursuing a vigorous enterprise policy. For practical purposes the World economy is almost entirely capitalist.

But this achievement is marred by serious recession; by the slowness of GATT negotiations on world trade; and by the instability induced by artificial constraints hindering trade and commerce - an instability all too vividly encapsulated in this week's events.

AN UNUSUAL RECESSION

The recession, into which we have drifted, is therefore, quite different in origin and nature from those of the 70's and early 80's.

It was not imposed on us by external forces like the two OPEC oil price shocks of the 70's and early 80's.

It was not a necessary side effect of long overdue economic reforms to restrain inflation and revive enterprise such as President Reagan and I pushed through a decade ago.

It is not weeding out only inefficient, overmanned and subsidised companies. Our trade union and supply side reforms had already brought about a fundamental economic restructuring in the mid-80's. This recession is attacking healthy and profitable companies - generally those of small or medium size. And it is doing so savagely. Personal bankruptcy and company liquidations in Britain are running at levels significantly higher than those of early recessions.

For all these reasons, the psychology of this downturn is different.

When I was navigating my way through the 1982 recession, I found people understood that certain fundamental changes were necessary and in fact overdue - that there had to be an economic restructuring, and the transformation of industry to fit it for the information age. People will endure hardships if they understand the reason for them and if they can see that the changes will make life better for the future.

But they find the same hardships intolerable when they have done all the right things - when companies have invested in new technology, when homeowners have taken out mortgages at interest rates which seemed reasonable at the time, when workers on the factory floor have co-operated in better working practices, and when they still find themselves out of work, bankrupt or facing repossession.

And when the recession seems not only inexplicable, but is also prolonged beyond the time they had been led to expect, then tend to lose hope and confidence in the future.

WHAT WENT WRONG?

What went wrong. The achievements of the 1980's were based on a marriage of two principles. Stability in financial policy and the encouragement of enterprise. Both were essential.

No-one can subsist on a diet of change and competition alone. We would all suffer a nervous breakdown without some stability in our lives. A successful policy of enterprise requires, above all, the financial and monetary stability we enjoyed in the 80's.

That stability disappeared in the late 1980's. The 1987 stock market crash convinced Western governments that a sharp increase in the money supply was needed to avert a slump of 30's dimensions. But the crash was merely a market correction of overvalued stocks. The money thus fed directly into high inflation.

Meanwhile, in Britain, attempts to 'shadow the Deutschmark' attracted funds into the country and expanded the money supply further.

Inflation duly occurred. Among its effects were rises in asset and property prices, large-scale borrowing on inflated assets, and what the British columnist William Rees-Mogg called 'the financing of nonsense'.

Nonsense cannot be sustained. In due course, governments had to prick this inflationary bubble with monetary restraints and high interest rates. When they did so, property prices fell, over-debted businesses went broke, homeowners received larger mortgage bills, and the euphoric expectation that asset values would go on rising forever evaporated.

Recession followed inflation.

Fixed exchange rates - now embodied in the E.R.M. - were having a damaging secondary effect. They acted as a transfer mechanism transmitting the problems of one country to its partners in the system.

Germany's reunification had been purchased with a vast injection of money into East Germany financed by borrowing. That duly threatened inflation throughout the country. To prevent this, the Bundesbank raised interest rates, and through

the perverse alchemy of the E.R.M., German's anti-inflationary pressure was transformed into deflation throughout the rest of Europe.

Nations like Britain have found themselves raising interest rates in a recession - real interest rates in Britain this week rose to over 10%. But, in the end, reality was bound to burst through these barriers - and this week Britain resumed control of its own economic destiny.

In effect, the conservative revolution went wrong by forgetting some of its own principles. By making a well-intentioned attempt (that owed more to Keynes than to either Friedman or Hayek) to stimulate demand, conservative governments blundered into monetary instability. By attempting to rig the markets, they perpetuated their error.

And the monetary instability they reaped then undermined the successful enterprise on which their other economic and social achievements were based.

A NEW BEGINNING

Yet if I may coin a phrase, Mr Chairman, we have nothing to fear but fear itself. What we have seen this week is not the destruction of European unity and international cooperation but the inevitable collapse of rigid economic structures that could not accommodate change and diversity, did not reflect popular wishes, and inflicted unnecessary recessions. As the rise in the London share market demonstrated, we in Britain have been liberated. We are now free to pursue an economic policy that will reduce interest rates to stimulate recovery as the Fed has done here.

More vital, we in the West as a whole are free to devise looser, more flexible but more durable arrangements for European and international cooperation: flexible exchange rates, free trade under a revived GATT, incorporating all the countries of the Pacific Rim, a Europe of nation-states encompassing the new democracies of Central Europe, a more active assistance to Russia by the IMF and the G7 countries, and continuing U.S. leadership of a NATO prepared to uphold international law in and out of area, and strengthened by moves towards trans-Atlantic free trade. We have it in our power today to establish a framework of stability for the world economy so that world enterprise can flourish.

APRES MAASTRICHT

The third lesson concerns the Maastricht Treaty aimed at creating a "European union". Even before the unnerving events of the last few days, I believe that sentiment in European and particularly in Britain was moving against ratification.

It was already difficult for people to harbour affection for Maastricht. Indeed the Government itself considered our exemption from EMU and the Social Chapter to be its main negotiating success - and yet urged the French to endorse the treaty without those same exemptions. People were also indignant that the French were allowed a referendum while we were denied one.

It is high time to make as complete a reversal of policy on Maastricht as has been done on the ERM. And of course the connection is very close, economically and politically.

If the divergence between different European economies is so great that even the ERM cannot contain them, how would those economies react to a single European currency? The answer is that there would be chaos and resentment of the sort which would make the difficulties of recent days pale by comparison.

Huge sums would have to be transferred from richer to poorer countries and regions to allow them to take the strain. Even then unemployment and mass migration across now open frontiers would follow. And a full-fledged Single currency would allow no escape hatch.

The political consequences can already be glimpsed: the growth of extremist parties, battering on fears about mass immigration and unemployment, offering a real - if thoroughly unwelcome - alternative to the Euro-centrist political establishment.

If in addition you were to create a supra-national European federation, and the people could no longer hold their national parliaments to account, extremism could only grow further.

It is time for the European politicians to sit up and take note. Time to stop their endless rounds of summits - summitry is fast becoming a substitute for decision-making - and observe the reality around them.

There is a growing sense of remoteness, an alienation of people from their institutions of government and their political leaders. There is a fear that the European train will thunder forward, laden with its customary cargo of gravity,

towards a destination neither wished for, nor understood by electorates. But the train can be stopped.

Tomorrow, the French people will vote on the future of Europe. It is not for me to instruct them on French interest.

But I must stress that the referendum is not a vote on whether we should have a European Community - but on what kind of European Community it should be.

Whatever the result, France will continue to build Europe because Europe cannot be built without France. But is it to be a Europe des Bureaux? Or a Europe des Patries? The Europe of Delors? Or the Europe of De Gaulle? If I were a Frenchwoman, I would rally to the General's standard and cry: "Vive L'Europe Libre!".

NATIONHOOD AND EUROPE'S FUTURE

What kind of Europe should that be? Any policy or programme which fails to recognise the power of national loyalties is doomed to ultimate failure.

The larger Europe grows, the more diverse must be the forms of co-operation it requires. We should aim at a multi-track Europe in which groups of different states forge varying levels of co-operation and integration on a case-by-case basis. Such a structure would lack graph paper neatness. But it would accommodate the variety of post-Communist Europe.

Instead of a centralised bureaucracy laying down identical regulations, national governments should offer different mixes of taxes and regulations, competing with each other for foreign investments, top management and high earners. Such a market would impose a fiscal discipline on governments because they would not want to drive away expertise and business. It would also help to establish which fiscal and regulatory policies produced the best overall economic results.

And that Europe must not only be diverse internally, it must be outward-looking in trade and foreign policy. It will be no real gain if greater trade within Europe is bought at the cost of less trade between Europe and the rest of the world.

Still more serious, however, are the political risks. And these are barely grasped.

EASTERN APPROACHES

We in Britain wish to enlarge Community membership to include the new East European democracies. That would help to bring greater prosperity and much-needed stability to a region which has twice this century generated conflicts drawing both our countries into world wars, and which today suffers from both political and economic troubles.

Communism may have been vanquished but Communists themselves have not. From the powerful positions they retain in the bureaucracy, security apparatus and the armed forces, from their places in not-really-privatised enterprises, they are able to obstruct, undermine and plunder.

The systems of proportional representation in these countries here allowed such tactics to succeed, leading to weak governments and a bewildering multiplicity of parties. All these risks bringing democracy into discredit.

But we can help by allowing them free access to our markets. I would like to welcome President Bush's far-sighted proposal in his Detroit speech to extend free trade to Central Europe. I see it as perhaps the first step towards the goal of trans-atlantic free trade to which I shall return. But in any event it is a typically American combination of generosity and far-sighted self-interest.

I am also delighted that Association agreements have been signed between the EC and several of these countries. But two years is too long to wait before restrictions of trade are removed. I would like to see these countries offered full membership of the Community as rapidly as possible.

If the EC does not respond rapidly to the needs of Eastern Europe, the problem will still arrive on our doorstep, because the people of Eastern Europe will join the Community even if their governments cannot. They will vote with their feet and arrive in vast numbers.

TRADING & GATT

Our final challenge is to prevent the world slipping back into protection and instead to give a new momentum to freer trade.

We must ensure that the Uruguay Round is completed - and soon. But other moves towards free trade should be encouraged.

Free trade is the truest form of international co-operation, daily enabling people in different continents to contribute to the manufacture and distribution of goods as varied as a computer or a matchbox. It enables nation-states, large and small, to form a complex economic network, co-operating in their mutual interest, without the need for any centralised bureaucracy to direct the process or level the playing field.

Indeed, in conditions of free trade, the size and extent of government need not be dictated by economies of scale; they can be built instead on democratic efficiencies of closeness to the people. With free trade, you can have both large-scale economic efficiency and small-scale political decentralisation.

I welcome the creation of a US-Canada free trade area and its extension to Mexico. These reforms should strengthen the economies of your two neighbours and hold down the cost of living for Americans.

It is vital, however, that these should not be steps towards a world of three protectionist blocs built around the US, the European Community and Japan. There are those in Europe who regard the prospect of two such blocs, engaging in managed trade with a new European Superstate, with apparent equanimity and even enthusiasm.

I am not among them. Nor, I believe, should anyone who has at heart the interest of America or the West as a whole. For it would undermine the sense of Western solidarity under American leadership which is the only sure foundation of any new world order built to last.

So these new blocs must be steps not towards protectionism but towards a world of freer trade. When the Uruguay Round has been successfully completed therefore - we must take the next step towards wider economic integration.

We must begin to lay the foundations of an Atlantic Economic Community - embracing Europe (namely the European Economic Community, EFTA and the new democratic states of Eastern Europe) on the one hand and North America on the other.

This proposal has all the merits which are attached to any extension of free trade - greater economic efficiency leading to greater wealth, benefiting all those taking part. But it has two other important advantages, as well.

Given the liberal economic tradition of the US, Britain and several European Community countries, and given the fierce commitment to free market economics

of the former communist states - such a bloc would be imbued with the philosophy of free trade.

And because it would account for no less than 58 percent of world GNP, other trading blocs and potential trading blocs would have to follow its lead in such matters. It would give the GATT real clout - halting and reversing the drift towards a world of protectionist blocs.

The second advantage is that, by moving in this direction, it would strengthen the vital ties of defence and culture which link America and Europe, and which the drift to protectionism and trade wars threatens to undermine.

It would, in effect, be the economic underpinning of NATO - and make a great deal more sense than the various schemes for giving a defense identity to the European Community.

For, as the Gulf War showed, when the chips are down, American leadership and American military technology are essential to decisive military intervention. A common European defence and foreign policy is both a recipe for paralysis and an excuse for others to avoid action.

Most threats however to both the West's strategic interests and to world order are nowadays likely to occur out of NATO's area. NATO's constitution needs to be revised to take that into account.

But the American people - and who can blame them - will not be the policeman of the world alone. This has to be a collective task with the burdens, both financial and military, fairly shared and agreed in advance.

CONCLUSION

Mr Chairman, to some people these last few days may have seemed like a nightmare. But that is a wrong perception. The trauma and the turbulence have brought home to governments the limits of their ability to shape the world on lines of political convenience. That is profoundly healthy.

This was the week when the British and other economies broke free of largely self-imposed constraints. And, as a result, new possibilities have opened up - not just to end our recessions but for more enduring and productive international co-operation.

The histrionics of this time will soon be forgotten. The benefits will be increasingly appreciated. Dire warnings of what will happen when the economic straitjacket is removed will quickly prove false. The patient may perhaps wave his arms around a bit at first. He may even make a noise. But his odd behaviour reflects the torture of the straitjacket, not an inherent disordered condition. And the long concealed truth quickly dawns that this patient was perfectly sane all the time.

Mr Chairman, let us never again forget that the market has its own spontaneous order, on which the most effective economic co-operation will always be based. Free trade, flexible exchange rates, domestic policies to encourage enterprise and sound money - these amount to an open international system of co-operation that can accommodate both the dynamic capitalist economies of the far east and the new democracies of Eastern Europe struggling towards a market order. And on that foundation let us go forward to overcome the remaining obstacles to our prosperity and progress bringing a better, stabler, freer future within our grasp.

THE END

STRICTLY PERSONAL AND CONFIDENTIAL

Prime Minister

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BARONESS THATCHER : CALLS AT THE WHITE HOUSE

1. Lady Thatcher called this morning at the White House to see the Vice-President. The President subsequently called her into his office for a brief conversation.
2. The President seemed physically fit, but seemed mentally a bit tired. He thought that the campaign had been going better, but that there was heavy media bias against the Administration. White House surveys showed very negative coverage of his and the Administration's positions on all the main television channels. This was quite a handicap to overcome.
3. His opponent was "facile". He was quite a likeable person. But he was on all sides of most of the issues eg. NAFTA, the sale of F15s to Saudi Arabia etc. The White House would be seeking to exploit this further as the campaign continued. The country was mad at the Administration about the economy, even though the U.S. was in fact in slightly better shape than several of the other key western economies. There was a continuing argument with the Clinton camp about the format for television debates. The President believed he would win, but he had a tough fight on his hands.

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4. Lady Thatcher asked why he felt it necessary to take a position on abortion. This should not be a party political issue. The President thought that abortion was not as important an issue as the press suggested. People mostly decided their vote on other grounds.

5. The President asked about the currency crisis in Europe. Lady Thatcher said that it had simply not been possible to keep sterling in the ERM. She thought Maastricht was dead and certainly hoped it was. The President gave me a large wink, apparently unnoticed by his visitor, but otherwise did not comment.

6. There was more of the same with the Vice-President. Quayle was frank about the prospects : "we could lose". He did not think that the President could win California. They would have to direct their efforts elsewhere. This meant that they had to win states like Michigan, Illinois, Missouri, Indiana, Ohio and Pennsylvania. It was there that the election would be decided.

7. Quayle also said that the mood of the country was for change. Clinton's support was soft but Bush was blamed for the state of the economy : "people are mad at us".

STRICTLY PERSONAL AND CONFIDENTIAL

The gap with Clinton had been narrowed. The President had set out his agenda in his Detroit speech. But as the campaign went on, it would assume a more negative tone. They would have to exploit the character issue against Clinton. Clinton was evasive both about his past, as he was about the issues.

8. Lady Thatcher discussed foreign policies issues with Scowcroft; nothing of any great note emerged.

Robin Renwick

Robin Renwick

18 September 1992

cc: Mr Wall, No 10 Downing Street (by fax)
Mr Gozney, PS/Secretary of State, FCO

NB No further circulation

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Prime Minister

BARONESS THATCHER : CALLS AT THE WHITE HOUSE

Call
8/17

1. Lady Thatcher called this morning at the White House to see the Vice-President. The President subsequently called her into his office for a brief conversation.
2. The President seemed physically fit, but seemed mentally a bit tired. He thought that the campaign had been going better, but that there was heavy media bias against the Administration. White House surveys showed very negative coverage of his and the Administration's positions on all the main television channels. This was quite a handicap to overcome.
3. His opponent was "facile". He was quite a likeable person. But he was on all sides of most of the issues eg. NAFTA, the sale of F15s to Saudi Arabia etc. The White House would be seeking to exploit this further as the campaign continued. The country was mad at the Administration about the economy, even though the U.S. was in fact in slightly better shape than several of the other key western economies. There was a continuing argument with the Clinton camp about the format for television debates. The President believed he would win, but he had a tough fight on his hands.

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4. Lady Thatcher asked why he felt it necessary to take a position on abortion. This should not be a party political issue. The President thought that abortion was not as important an issue as the press suggested. People mostly decided their vote on other grounds.

5. The President asked about the currency crisis in Europe. Lady Thatcher said that it had simply not been possible to keep sterling in the ERM. She thought Maastricht was dead and certainly hoped it was. The President gave me a large wink, apparently unnoticed by his visitor, but otherwise did not comment.

6. There was more of the same with the Vice-President. Quayle was frank about the prospects : "we could lose". He did not think that the President could win California. They would have to direct their efforts elsewhere. This meant that they had to win states like Michigan, Illinois, Missouri, Indiana, Ohio and Pennsylvania. It was there that the election would be decided.

7. Quayle also said that the mood of the country was for change. Clinton's support was soft but Bush was blamed for the state of the economy : "people are mad at us".

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The gap with Clinton had been narrowed. The President had set out his agenda in his Detroit speech. But as the campaign went on, it would assume a more negative tone. They would have to exploit the character issue against Clinton. Clinton was evasive both about his past, as he was about the issues.

8. Lady Thatcher discussed foreign policies issues with Scowcroft; nothing of any great note emerged.

Robin Renwick

Robin Renwick

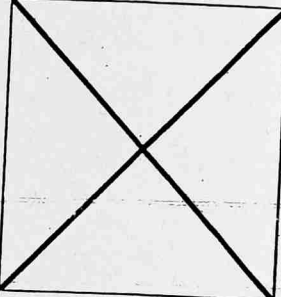
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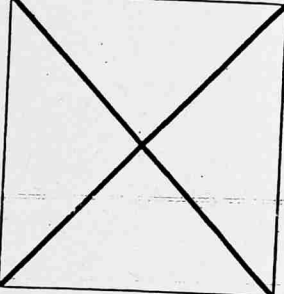
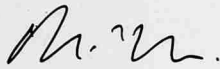
cc: Mr Wall, No 10 Downing Street (by fax)
Mr Gozney, PS/Secretary of State, FCO

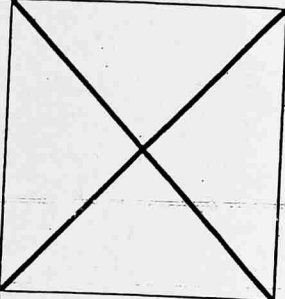
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3

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>4408</i> (one piece/item number)	
Extract details: <i>minute from Bevan to Wall dated 10 September 1992</i>	
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MARGARET, THE LADY THATCHER, O.M., P.C., F.R.S.



Thursday
30th July 1952

Dear Prime Minister,

As the Foreign Office knows I have been disheartened about the situation in Poland recently for months. The slaughter and brutality is now so terrible, and of a nature which the last war was fought to prevent, that I have prepared and sent the enclosed letter to Douglas on the facts, and course of action which can be taken.

As far as I personally am concerned

I am trying to help relieve the
suffering a little by assisting Lady Noel
in her efforts to have a British
camp to look after some of the refugees.
but that is not a solution. These
people want to live peacefully in
their own land.

Yours ever

Margaret

MARGARET, THE LADY THATCHER, O.M., P.C., F.R.S.

Coverage letter



Thursday

30 July 1992

Dear Douglas,

I am appalled that the countries of the west have taken no effective action to deal with the massacres taking place in the midst of Europe. It isn't that we can't; it's that we won't. I have spent some time this week getting as many of the facts as I can and talking to recent observers. Here the enclosed letter.

No one with a conscience can let this go on. Previously, in Hungary and Czechoslovakia, we were not able to take action because of the risk of a

third world war. No such explanation
exists now. At that time ⁽¹⁹⁵⁶⁾, I remember
visiting a Hungarian woman saying
'the West will not help us, freedom is
selfish.' At the time I thought she
was wrong. Now, I am beginning to
think she was right.

I shall be away in Switzerland
from Sunday - but my office will be in
touch. Please do not give me a
brush-off letter.

Yours ever

Margaret



29th July 1992

Dear Douglas.

I have been giving much thought - as I know you will have done - to the terrible situation in Bosnia-Herzegovina. I have also been making every effort to find out precisely what is happening and to consider what should be done. I have no illusion about the difficulties. But I believe that urgent action to save the situation is both necessary and possible and I am confident that no one is better able than you, during this crucial British Presidency, to oversee it. There are five basic propositions I would make.

1. Something needs to be done urgently about the situation in Bosnia, which is deteriorating daily. While the talks in London have been taking place this week, another Serb offensive has started in northern Bosnia near the key river port of Brčko. Another is taking place in the region of Cazin, Velika Kladusa and Bosanski Novi, close to the Serb-controlled areas in Croatia, presumably with the aim of strengthening Serbia's direct link across Bosnia with those areas right down to the Adriatic coast near the city of Zadar.

These operations are being carried out in the framework of the policy of "ethnic cleansing" - the expulsion of the non-Serb population. In many cases, the deportees, prior to being moved out (often at short notice), are obliged to sign papers confirming that they are selling their property voluntarily.

In eastern Bosnia, the town of Goražde on the Drina river, which forms the border between Serbia and Bosnia, is besieged. A large number of Moslem refugees from other towns along the Drina are in the town, which could fall any day. A large-scale

massacre is feared. New refugees are also arriving in Sarajevo from other areas being "ethnically cleansed" by Serbian forces.

Independent observers blame the sudden deterioration in northern Bosnia on the decision to withdraw by the Croats, who had been fighting there together with Moslems but were then frightened by talk of Western sanctions against Croatia.

Serbian representatives at the talks in London and elsewhere are pressing for a ceasefire, supervised by the UN. This is seen by many observers as an attempt to achieve the "freezing" of the present situation now that the Serbs have captured about two-thirds of Bosnia's territory (they make up 31% of the total population as against 43% for the Moslems and 17% for the Croats).

The Moslems are resisting Western attempts to make them sit down with the Serbs and negotiate, on the grounds that they are being asked - as is indeed being put to them - "to accept that they have lost the war and face the consequences". They deeply resent Western pressure on them in this direction.

2. It is misleading to talk, as some in the West do, of "equal guilt" by all the "warring parties". In the first place, the government of President Alija Izetbegović in Sarajevo is the only legal government of the republic and has been recognised as such by the European Community, by the United States and by many other governments (including those of the Arab and Islamic countries).

In the second, it was Serbia that planned and carried out an aggression against Bosnia in April from its own territory. The pretence that Serbia has nothing to do with what goes on in Bosnia should not be taken at face value. There is still, as at the beginning, close coordination between the forces in Bosnia (now supposedly independent) and the Serbian high command in Belgrade. Belgrade is providing financial and military means for the war in Bosnia - including the all-important petrol

for the Serbian forces. It has been reported this week that 60 - 100 Serbian tanks from across the border have joined the offensive in northern Bosnia.

The Americans, who are closely monitoring the war in the former Yugoslavia, know all this from satellite surveillance. They also know that Croatia has been helping militarily the government in Sarajevo, not just in northern Bosnia but also in Hercegovina. This Croatian-Bosnian cooperation was formalised in an agreement between Presidents Tudjman and Izetbegovic in Zagreb earlier this month.

Extraordinary statements from UN staff in Sarajevo, including that by General Lewis Mackenzie that the Moslems as well as the Serbs are shooting at their own positions (presumably, in the Moslem case, to provoke outside military intervention), have not been backed by any published evidence. Western reporters in Sarajevo think that UN people may be trying to rationalise the failure of their own mission by putting the blame on the "local barbarians".

3. It is not correct to say that nothing can be done by the West (except by persuasion) without being sucked into a Vietnam- or Lebanon-style conflict involving Western casualties and very large land forces. Serbia could - and should - be given an ultimatum to comply with certain key Western demands concerning Bosnia. These should include:

- cessation of Serbia's economic and military support for the war in Bosnia to be monitored by international observers placed on the Serb-Bosnian border (as demanded by the government in Sarajevo);
- recognition of Bosnia's independence and territorial integrity by Belgrade and a formal renunciation of any territorial claims against it;
- formal guarantees of access from Serbia into Bosnia for international humanitarian teams;

- formal agreement to the demilitarisation of Bosnia within a broader demilitarisation agreement for the whole region;
- promise of Serbian cooperation with the return of refugees to Bosnia - including Serbian ones.

It should be made clear to Serbia that if those demands (which should be precisely formulated and be accompanied by a deadline) were not met, military retaliation would follow including aerial bombardment of bridges on the Drina linking Bosnia with Serbia, of military convoys, of gun positions around Sarajevo, Goražde and some other towns and of military stores and other installations useful in the war effort. It should be made clear that this was not war against the Serbian people, but that even installations on the Serbian side of the Bosnian-Serbian border could be attacked if they played an important role in the war.

Serbia is weak, sanctions have been biting despite some sanction-busting (particularly along the Danube) and there are no powerful outside backers such as the Soviet Union might have been or a possible neo-Communist Russia might be some time in the future. Serbia should not have been allowed to get away with all that. It has up to now been encouraged by Western inaction, not least explicit Western statements that force would not be used. A clear threat of military action would at long last send the right signal and force Serbia into thinking of pulling of the war.

4. The West's aim should be the restoration of the Bosnian state, backed by international guarantees within a regional pact, perhaps under CSCE supervision. This would be an internationally supervised regime, guaranteeing the rights of all the three main groups in Bosnia (but not allowing for its formal partition into three cantons).

Such a solution for Bosnia would prevent future irredentist wars that its partition between Serbia and Croatia would lead to. Also, keeping the Moslems in a united Bosnia would prevent that community's inevitable radicalisation that would happen

if the Moslems were dispersed and placed under alien rule. In such a situation, a desperate Moslem diaspora could turn to international terrorism. Europe would have created an Islamic time-bomb right in its centre. In other words, a problem not unlike the Palestinian one in the Middle East.

5. Britain as the current EC Chairman has two options. It can go for a "quick fix" - in effect, ratify Serbia's victory and ease the Moslems' lot by help for refugees and some help for those staying on under Serbia. This would not work. Britain would end up by being associated with a Munich-style deal.

The other option is to take the lead - no such crisis can be resolved without someone leading - in a more long-term solution that would involve not just diplomatic brokering a la Carrington as up to now but also the military sanction. Germany's participation could be necessary along with that of France, Italy and other Europeans as well as the United States. Serbia will not listen till it is forced to listen. Why should it? But if it is forced to do so, this will help with the resolution of other problems such as that in Kosovo. Only the prospect of defeat will lead to political change in Serbia that would bring to power a more democratic and peaceful leadership. The alternative - leaving it all to developments, waiting till the conflict "burns itself out" - will be not only dishonourable but also very costly - refugees, terrorism, wars in the Balkans affecting other countries and so on. Hesitation up to now had already proved costly. The matter is urgent. There are perhaps a few weeks left for a serious initiative before it is too late and the Serb victory is complete with terrible long-term consequences.

PA

1992

THE RT. HON. MARGARET THATCHER, O.M., F.R.S.

Tuesday 30 June

Dear Prime Minister,

✓ [CPM
seen]

Ranting on so much
for your kind letter. Of course I
understand that you couldn't possibly
have come to 'the Lords' today when
Question time loomed before you. I
only hope that proceedings in their
Lordships House will sometimes be
as exciting as question time in the
Commons!

The House was packed with

old friends and many sparkling partners.
But scarlet- and cerise is not the
most- appropriate- clothing for-
a hot- summer day. All good wishes

Yours ever

Raymond



Foreign &
Commonwealth
Office

RESTRICTED

18 June 1992

London SW1A 2AH

Dear Stephen,

Alex Allen
2 1/2

Lady Thatcher's Visit to Taiwan: FCO Briefing

You said that Alex Allen had been lobbied over briefing for Lady Thatcher before she goes to Taiwan. I said I thought that John Coles would be briefing her. He is - towards the end of July. She does not go to Taiwan until September.

Yours ever,
R. H. T. Gozney

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

Stephen

*Thanks. As well
as political stuff, there's
also point about whether
she can be of help on trade
side.*

Moz

1/ via office

1 by 10 pm
[Signature]

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MR. WALL

MRS. THATCHER'S VISIT TO TAIWAN

As I mentioned to you, Julian Seymour filled me in yesterday with more information about Mrs. Thatcher's visit to Taiwan. She is going as the guest of Citicorp in a tour which includes speaking engagements in Korea and Taiwan. (She was also going to Singapore, but that has now been dropped.) Julian Seymour himself had been to both Korea and Taiwan last week and said he had been very well received in Taiwan. Mrs. Thatcher will see the President, I think for breakfast, but it will be made clear that the purpose of her visit is to fulfil a private sector speaking engagement. She will stay in a hotel, rather than with our Trade Mission there.

Julian Seymour said that in his discussions with the Taiwanese they had made it very clear that they would not exploit her visit for propaganda purposes, though we shall have to see how much that is worth in practice.

Mrs. Thatcher has asked for briefing on both the situation in Taiwan and also the latest state of play on Hong Kong. You said you would see what suitable arrangements could be made. She is going in late August and would, I think, like to be briefed before the end of July.

A First Secretary at the Chinese Embassy in London has already been round to deliver what Julian Seymour described as "a rather ritual protest" to him. The Chinese Ambassador is due to see Mrs. Thatcher shortly (and I believe has already spoken to Charles Powell about Mrs. Thatcher's visit).

Mrs. Thatcher is keen to use the visit to develop British trade links with Taiwan and it may be that DTI can provide some help with this.

For the visit to Korea, Julian Seymour has been liaising with David Wright. I gather the awkwardness over her close relationship with one of the Presidential candidates has been finessed by saying she would be happy to see any of the Presidential candidates while she is in Korea, coupled with a visit to the shipyards which will be a perfectly natural part of her schedule.

I am sure Julian Seymour would be quite ready to provide any further information if that would be helpful. But it would be better if you or I (or someone from the FCO Private office) spoke to him: he had not been much impressed by a rather peremptory request from someone he described as a "desk officer" in the FCO who had rung up and asked him to cancel the visit!


(ALEX ALLAN)

18 June 1992

tmw a:\pps\thatcher

Amélie [©]

Sally

FROM: Ambassador

DATE: 3 June 1992

V. interesting - 9
good read, C

Minister
H of C

LUNCH WITH MRS THATCHER AT THE ELYSEE: 2 JUNE

1. President Mitterrand visibly enjoyed seeing Mrs Thatcher again. He looked perky and was as relaxed as I have seen him, often smiling at both the substance and style of Mrs Thatcher's contributions. She was in ebullient and discursive form, scarcely leaving herself time to eat her lunch. The President's interventions therefore were relatively few. Pierre Morel and Christopher Thierry were the others at the table.

2. There was scarcely a topic of present current affairs on which Mrs Thatcher did not touch, though the leit-motiv was the danger of resurgent Germany and the need to keep the Germans down, regret that President Gorbachev had been so feeble at the end of 1989 and early 1990 ("he extracted far too low a price from the Germans for reunification"), and so on. It would be possible by intuition, rather than by his rather sparse remarks, to divine that President Mitterrand had a good deal of sympathy with what she said.

3. Mrs Thatcher argued that Western aid was insufficient to bail Russia out, against the background of past Russian history and limited experience and understanding of market mechanisms. There were various anecdotal exchanges about Marx, Engels and Lenin which proved, for me, how very well read the President is. He commented on his particular interest in philosophie sociologique. After an amusing analysis of Marxism in present-day political life, President Mitterrand commented that the ex-Marxist leaders whom he met were now rather pathetic figures. As an ideology, Communism was now a busted flush. As a mechanism for achieving and maintaining political power it still had its adherents. He feared that, in Russia and other Eastern countries, there was real danger that the fragmentation of political authority might lead to military takeovers.

4. On Yugoslavia President Mitterrand said that had the Community been able to agree in Summer 1991, it might have been possible to impose new procedures which would have given

a better chance of maintaining the peace. His constant fear had been of a recurrence of 1914, with the European powers lining up against each other, some supporting Croatia and some supporting Serbia. Mrs Thatcher, as her Hague speech brings out, is a pro-Croat. For his part, M Mitterrand emphasised that the fault by no means lay exclusively on the Serbian side.

5. After one of Mrs Thatcher's recurrent explosions about Delors, the European Community, federalism etc, M Mitterrand, who was ironically patronising about M Delors but not dismissive, said that he thought that a federal Europe, as portrayed by Mrs Thatcher, was just "not possible". He "could not accept that hypothesis".

6. Mrs Thatcher complained about the Article 8A problem; she would only have accepted that text in the Treaty because of the clear understanding that the associated declaration which she had made at the time permitted us to maintain security controls. She blamed the Commission for their grasping ambitions. M Mitterrand replied that he was opposed to giving increased power to the European Commission; he would not want to see them having the rôle of European Government.

7. M Mitterrand referred to the growing power of Japan, in the context of Japanese claims for a Security Council seat. On the other hand, the Germans, for the time being, were being very cautious. Without referring specifically to our collaboration in the Security Council, he then joined with Mrs Thatcher, at the very end of the discussion, in an affirmation of the importance of building up Anglo-French bilateral relations, not least as a means of maintaining an effective balance in Europe (against Germany). Of course, he said, events forced France into having a close, perhaps over close, relationship with Germany. But then, viewed from France, the British perhaps put an undue weight on their relationship with the United States. Mrs Thatcher had talked about the Germans as a people but not as a nation and the Italians as barely nothing. M Mitterrand enthusiastically reinforced her views, talking about France and Britain as the only two nation states in Europe which had a sense of their own history; it was true, he went on, that Spain and Portugal (very small) were old nation states but both were geographically set apart and neither really formed part of the European tradition. This reinforced his view of the need for Britain and France to stand close together.

8. This is a summary note of a very discursive lunchtime discussion. On Mrs Thatcher's side much of it covered ground which her earlier discussions with M. Mitterrand have made

familiar in tone as much as in substance. The good point is that both obviously like each other and M Mitterrand said that he would always be glad to talk again with her. Just before leaving Mrs Thatcher passed on Sir Denis' good wishes. He was 77 but still in very good shape. M Mitterrand commented on his own age but Mrs Thatcher will have gone with the impression that he too "is in very good shape".

E

Ewen Fergusson

bcc: S Wall Esq, No. 10.

EMBARGO: 0830 HOURS (local time) 15TH MAY 1992

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SPEECH BY RT HON MRS MARGARET THATCHER OM FRs
TO THE GLOBAL PANEL IN THE HAGUE,
FRIDAY 15 MAY 1992.

"EUROPE'S POLITICAL ARCHITECTURE"

Introduction

Mr Chairman,

We are fortunate to be meeting in the Hague, a beautiful city kept beautiful by a country which values its architectural heritage. Goethe described architecture as 'frozen music'. And in a city like this it is not hard to imagine the grand symphonic melodies that might be released if we could defrost the Town Hall and the great urban squares.

Architecture tells us a lot about ourselves, about our idea of God, about our relationship with our fellow-men, and about our vision of Man's destiny.

The great medieval cathedrals gave us an exalted spiritual view of Man's place in a universe governed by an all-loving and all-seeing Creator.

The Age of Reason pictured civilised man in a neat geometrically ordered landscape dotted with neo-classical structures at regular intervals - with no more than one small folly to each estate.

And in our own day, the vision of New European Man walking purposefully towards the Common Agricultural Policy was exquisitely realized in the Berlaymont building in Brussels.

What music would Goethe hear if he could look upon the Berlaymont, perhaps while acting as an advisor to the Commissioner responsible for developing a policy

for European culture (which has languished so long without one)?

And what a climax of discord and disharmony! For the Berlaymont - its halls lined with cancer-causing asbestos - is to be pulled down.

Look at the architecture of the last fifty years - in particular, at the architecture that went beyond the modern to the futuristic. It was certainly very dramatic but the one thing it no longer expresses is the Future. What it expresses is yesterday's vision of the future - one captured by the poet John Betjeman in 1945:

I have a vision of the future, chum.
The workers' flats, in fields of soya beans,
Tower up like silver pencils, score on score.

But the Berlaymont school of architecture is a convenient symbol for the political architecture of the European Community. For it too is infused with the spirit of "yesterday's future."

Mr Chairman, the European Community we have today was created in very different circumstances to deal with very different problems. It was built upon very different assumptions about where the world was heading. And it embodied political ideas and economic theories that in the light of recent history we have to question. Today I want to do exactly that. In particular, I shall try to answer three questions.

First, how can we best deal with the imbalance in Europe created by the reunification and revival of Germany?

Second, how can we reform European institutions so that they provide for the diversity of post-Communist Europe and be truly democratic?

Third, how can we ensure that the new Europe contributes to - rather than undermines - the world's economic prosperity and political stability?

Our answers to these questions can no longer be bound by the conventional collectivist wisdom of the 1940's and 50's. That is yesterday's future. We must

draw on the ideas of liberty, democracy, free markets and nation-hood that have swept the world in the last decade.

The Beginning of the Community

It was Winston Churchill who, with characteristic magnanimity in 1946, with his Zurich speech, argued that Germany should be rehabilitated through what he called 'European Union' as 'an association between France and Germany' which would 'assume direction'. This could not be done overnight, and it took American leadership. In 1947, after travelling through Europe in that terrible winter, when everything froze over, George Marshall, the then Secretary of State, promoted the idea of American help. Marshall Aid was administered by institutions set up ad hoc - it had to be, if only because most European states did not have adequate machinery, the Greek delegate being found one day simply making up figures for his country's needs - and I expect there were others besides.

The initial impetus was for European recovery. It owed much to simple American good-heartedness. It owed something to commercial calculation: the prosperity of Europe, in free-trade conditions, would also be the prosperity of America. But the main thing was the threat from Stalin. Eastern Europe had shown how demoralized peoples could not resist cunningly executed Communist take-overs, and Marshall Aid was intended to set Western Europe back on its feet. It was a prodigious success. Who, in 1945, would have guessed that defeated and ruined Germany would, by 1951, be exporting more than the British?

But we have found, again and again, that institutions devised for one set of problems become obstacles to solving the next set - even that they become problems in their own right. The Common Agricultural Policy is an example. As originally devised, it had a modest aim that was not unreasonable. Over-numerous peasant farmers had been unable to earn a decent living between the wars, and in those days subsidy and regulation were the conventional wisdom.

We in Great Britain had not suffered nearly as badly as our continental neighbours, because we had, even in 1900, almost no peasants: nonetheless, in the 1930's we had a Milk Marketing Board which was supposed to control prices, and therefore had the precise function of not marketing milk - instead, pouring it down mine-shafts and regulating various cheeses out of existence.

Yet we all know that the CAP, is now an expensive headache, and one quite likely to derail the Uruguay Round. Because of agricultural protection we stop food-imports from the poorer countries. They themselves are nowadays vehement supporters of market-principles: it is from the Cairns Group of developing countries that you hear demands for free trade. Yet in the industrialized part of the world, the tax-payer and the consumer stump up \$270 billion in subsidies and higher costs; and the World Bank has calculated that, if the tariff and other barriers were cut by half, then the poorer countries would gain at once, in exports, \$50 billion. In case you might think that these sentiments are somehow anti-European, I should say that they come from an editorial in the economic section of the Frankfurter Allgemeine Zeitung of 4 May.

Here we have a prime example of yesterday's solutions, becoming to-morrow's problems. You could extend this through the European institutions as a whole. They were meant to solve post-war problems, and did so in many ways extremely well. Western Europe did unite against the Soviet threat, and, with Anglo-American precepts, became free and very prosperous. That prosperity, denied to the peoples of eastern Europe and Russia, in the end caused demoralization among their rulers, and revolt from below. We are now in a quite different set of circumstances, with the Cold War over.

Looking at European institutions today, I am reminded of a remark made about political parties in the French Third Republic. Some of them had names which reflected radical republican origins from the 1870's, but years later they had become conservative. These radical names, ran the remark, were like the light reaching Earth from stars that were long extinct. Equally with the end of the Cold War we have to look again at the shape of Europe and its institutions.

The German Question

Mr Chairman, let me turn first to the new situation created by the re-unification of Germany. And let me say that if I were a German today, I would be proud - proud but also worried. I would be proud of the magnificent achievement of rebuilding my country, entrenching democracy and assuming the undoubtedly preponderant position in Europe. But I would also be worried about the European Community and its direction. The German taxpayer pays dearly for his place in Europe. Britain and Germany have a strong joint interest in ensuring

that the other Community countries pay their fair share of the cost - and control the Community's spending more enthusiastically - without leaving us to carry so much of the burden.

Germany is well-equipped to encourage such financial prudence. Indeed I would trust the Bundesbank more than any other European Central Bank to keep down inflation - because the Germans have none too distant memories of the total chaos and political extremism which hyper-inflation brings. The Germans are therefore right to be increasingly worried about the terms they agreed for economic and monetary union. Were I a German, I would prefer the Bundesbank to provide our modern equivalent of the gold standard rather than any committee of European central bankers.

But there is an understandable reluctance on the part of Bonn to defend its views and interests so straightforwardly. For years the Germans have been led to believe by their neighbours that their respectability depends on their subordinating their national interest to the joint decisions of the Community. It is better that that pretence be stopped. A reunited Germany can't and won't subordinate its national interests in economic or in foreign policy to those of the Community indefinitely. And sometimes Germany will be right, when the rest are wrong, as it was over the recognition of Croatia and Slovenia. Indeed, if the Federal Republic had led the way in recognising these countries earlier, Serbian aggression might have been deterred and much bloodshed prevented. Whether rightly or wrongly exercised, however, Germany's new pre-eminence is a fact. We will all be better off if we recognise that modern democratic Germany has come of age.

Nevertheless Germany's power is a problem - as much for the Germans as for the rest of Europe. Germany is too large to be just another player in the European game, but not large enough to establish unquestioned supremacy over its neighbours. And the history of Europe since 1870 has largely been concerned with finding the right structure to contain Germany.

It has been Germany's immediate neighbours, the French, who have seen this most clearly. Both Briand in 1929 and Schuman after the Second World War proposed structures of economic union to achieve this. Briand's proposal was made just at the moment when the rise of the Nazis made such a visionary scheme

impossible and it failed. But Schuman's vision of a European Community was realised because of an almost unique constellation of favourable circumstances.

The Soviet threat made European co-operation imperative. Germany was itself divided. Other Western nations sought German participation in the defence of Western Europe. West Germany needed the respectability that NATO and the Community could give. And American presence in, and leadership of, Europe reduced the fears of Germany's neighbours.

With the collapse of the Soviet Union and reunification of Germany, the entire position has changed. A new Europe of some 30 states has come into being, the problem of German power has again surfaced and statesmen have been scrambling to produce a solution to it. At first France hoped that the post-War Franco-German partnership, with France as the senior partner, would continue. Chancellor Kohl's separate and successful negotiations with Mr Gorbachov quickly showed this to be an illusion.

The next response of France and other European countries was to seek to tie down the German Gulliver within the joint decision-making of the European Community. Again, however, this quickly proved to be an illusion. Germany's preponderance within the Community is such that no major decision can really be taken against German wishes. In these circumstance, the Community augments German power rather than containing it.

Let me illustrate this point with two examples where I agree with the German position. The first, as I have mentioned, was the German decision to recognise Croatia and Slovenia which compelled the rest of Europe to follow suit. The second, is the refusal of the Bundesbank to pursue imprudent financial policies at the urging of some of the countries of the G7. However much I may sympathise with these policies, the blunt fact is that Germany has followed its own interests rather than the advice of its neighbours who have then been compelled to adjust their own stance.

The Balance of Power

What follows from this is that German power will be best accommodated in a looser Europe in which individual nation-states retain their freedom of action. If Germany or any other power then pursues a policy to which other countries

object, it will automatically invite a coalition against itself. And the resulting solution will reflect the relative weight of the adversaries. A common foreign policy, however, is liable to express the interests of the largest single actor. And a serious dispute between EC member states locked into a common foreign policy would precipitate a crisis affecting everything covered by the Community.

The general paradox here is that attempts at co-operation that are too ambitious are likely to create conflict. We will have more harmonious relationships between the states of Europe if they continue to have room to make their own decisions and to follow their own interests - as happened in the Gulf War.

But it would be idle to deny that such a balance of power - for that is what I have been describing - has sometimes broken down and led to war. And Europe on its own, however organised, will still find the question of German power insoluble. Europe has really enjoyed stability only since America became a European power.

The third response therefore is to keep an American presence in Europe. American power is so substantial that it dwarfs the power of any other single European country. It reassured the rest of Europe in the face of Soviet power until yesterday; and it provides similar comfort against the rise of Germany today - as the Germans themselves appreciate.

Why aren't we worried about the abuse of American power? It is difficult to be anxious about a power so little inclined to throw its weight around that our principal worry is that American troops will go home.

And there's the rub. There is pressure from isolationist opinion in the USA to withdraw from Europe. It is both provoked and encouraged by similar thinking in the Community which is protectionist in economics and "little European" in strategy. In trade, in the GATT negotiations, in NATO's restructuring, we need to pursue policies that will persuade America to remain a European power.

Europe Free and Democratic

If America is required to keep Europe secure, what is required to keep Europe

free and democratic?

When the founders of the European Community drew up the Treaty of Rome, they incorporated features from two quite different economic traditions. From Liberalism they took free trade, free markets and competition. From Socialism (in guises as various as Social Catholicism and Corporatism) they took regulation and intervention. And for thirty years - up to the signing of the Single European Act - these two traditions were in a state of perpetual but unacknowledged tension.

Now - with the Commission exploiting the Single European Act to accumulate powers of greater direction and regulation - Europe is reaching the point at which it must choose between these two approaches. Is it to be a tightly -regulated, centralised bureaucratic federal state, imposing uniform standards throughout the Continent? Or is it to be a loose-knit decentralised free-market Europe of sovereign states, based upon competition between different national systems of tax and regulation within a free trade area?

The federalists at least seem to be clear. The Maastricht Treaty met the Commission's requirement for a "single institutional framework" for the Community. Yet, before the ink was even dry on the Treaty, it was reported that the President of the European Commission was seeking more money and more powers for the Commission which would become the Executive of the Community - in other words a European Government. There would seem to be no doubt about the direction in which the European federalists are now anxious to proceed - towards a federal Europe.

Nor is there any mystery about the urgency with which they press the Federalist cause. Even though they may wish to defer the "enlargement" of the Community

with the accession of Eastern Europe, they realise it is impossible. A half-Europe imposed by Soviet tyranny was one thing; a half-Europe imposed by Brussels would be a moral catastrophe depriving the Community of its European legitimacy.

The Commission knows it will have to admit many new members in the next few decades. But it hopes to construct a centralised super-state in advance - and irrevocably - so that the new members will have to apply for entry on federalist terms.

And it's just not on.

Imagine a European Community of 30 nations, ranging in their economic productivity from Germany to Ukraine, and in their political stability from Britain to Poland,

- all governed from Brussels;
- all enforcing the same conditions at work;
- all having the same worker rights as the German Unions;
- all subject to the same interest rates, monetary, fiscal and economic policies;
- all agreeing on a common Foreign and defence policy;
- and all accepting the authority of an Executive and a remote foreign Parliament over "80% of economic and social legislation".

Mr Chairman, such a body is an even more utopian enterprise than the Tower of Babel. For at least the builders of Babel all spoke the same language when they began. They were, you might say, communautaire.

Mr Chairman, the thinking behind the Commission's proposals is essentially the thinking of "yesterday's tomorrow". It was how the best minds of Europe saw the future in the ruins after the Second World War.

But they made a central intellectual mistake. They assumed that the model for future government was that of a centralised bureaucracy that would collect information upwards, make decisions at the top, and then issue orders downwards. And what seemed the wisdom of the ages in 1945 was in fact a primitive fallacy. Hierarchical bureaucracy may be a suitable method of organising a small business that is exposed to fierce external competition - but it is a recipe for stagnation and inefficiency in almost every other context.

Yet it is precisely this model of remote, centralised, bureaucratic organisation that the European Commission and its federalist supporters seek to impose on a Community which they acknowledge may soon contain many more countries of widely differing levels of political and economic development, and speaking more than fifteen languages. "C'est magnifique, mais ce n'est pas la politique."

The larger Europe grows, the more diverse must be the forms of co-operation it requires. Instead of a centralised bureaucracy, the model should be a market - not only a market of individuals and companies, but also a market in which the players are governments.

Thus governments would compete with each other for foreign investments, top management and high earners through lower taxes and less regulation. Such a market would impose a fiscal discipline on governments because they would not want to drive away expertise and business. It would also help to establish which fiscal and regulatory policies produced the best overall economic results. No

wonder socialists don't like it.

To make such a market work, of course, national governments must retain most of their existing powers in social and economic affairs. Since these governments are closer and accountable to their voters - it is doubly desirable that we should keep power at the national level.

The Role of the Commission

Mr Chairman, in 1996, when the arrangements agreed at Maastricht are due to be reviewed, and probably a good deal earlier, the Community should move in exactly the opposite direction to that proposed by the European federalists.

A Community of sovereign states committed to voluntary co-operation, a lightly regulated free market and international free trade does not need a Commission in its present form. The government of the Community - to the extent that this term is appropriate - is the Council of Ministers, consisting of representatives of democratically elected national governments. The work of the Commission should cease to be legislative in any sense. It should be an administrative body, like any professional civil service, and it should not initiate policy, but rather carry it out. In doing this it should be subject to the scrutiny of the European Parliament acting on the model of Commons Select Committees. In that way, whatever collective policies or regulations are required would emerge from deliberation between democratic governments, accountable to their national parliaments, rather than being imposed by a bureaucracy with its own agenda.

Co-operation in Europe

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But need this always be done in the same "single institutional framework"? New problems arise all the time. Will these always require the same level and type of co-operation in the same institutions? I doubt it. We need a greater flexibility than the structures of the European Community have allowed until very recently.

A single institutional framework of its nature tends to place too much power with the central authorities. It is a good thing that a Common Foreign Policy will continue to be carried on under a Separate Treaty and will neither be subject to the European Court nor permit the Commission to fire off initiatives at will. If "Europe" moves into new areas, it must do so under separate treaties which clearly define the powers which have been surrendered.

And why need every new European initiative require the participation of all members of the Community? It will sometimes be the case - especially after enlargement that only some Community members will want to move forward to another stage of integration.

Here I pay tribute to John Major's achievement in persuading the other 11 Community Heads of Government that they could move ahead to a Social Chapter, but not within the treaty and without Britain's participation. It sets a vital precedent. For an enlarged Community can only function if we build in flexibility of that kind.

We should aim at a multi-track Europe in which ad hoc groups of different states - such as the Schengen Group - forge varying levels of co-operation and integration on a case-by-case basis. Such a structure would lack graph paper neatness. But it would accommodate the diversity of post-Communist Europe.

The European Parliament

Supporters of federalism argue, no doubt sincerely, that we can accommodate this diversity by giving more powers to the European Parliament. But democracy requires more than that.

To have a genuine European democracy - you would need a Europe-wide public opinion based on a single language; Europe-wide political parties with a common programme understood similarly in all member-states; a Europe-wide political debate in which political and economic concepts and words had the same agreed meaning everywhere.

We would be in the same position as the unwieldy Habsburg Empire's Parliament.

The Habsburg Parliament

That parliament was a notorious failure. There were dozens of political parties, and nearly a dozen peoples were represented - Germans, Italians, Czechs, Poles and so on. For the government to get anything through - for instance, in 1889 a modest increase in the number of conscripts - took ages, as all the various interests had to be propitiated. When one or other was not satisfied, its spokesmen resorted to obstruction - lengthy speeches in Russian, banging of desk-lids, throwing of ink-wells and on one occasion the blowing of a cavalry trumpet by the Professor of Jurisprudence at the German University of Prague.

Measures could not be passed, and budgets could only be produced by decree. The longest-lasting prime minister, Count Taaffe, remarked that his highest ambition in politics was the achievement of supportable dissatisfaction on all sides

- not a bad description of what the European Community risks becoming.

And because of the irresponsibility of parliaments, the Habsburg Monarchy could really only be ruled by bureaucrats. It took twenty-five signatures for a tax-payment to be validated; one in four people in employment worked for the state in some form or another, even in 1914; and so many resources went to all of this that not much was left for defence: even, the military bands had to be cut back, Radetzky March and all. Of course it was a tremendous period in cultural terms both in Vienna and in Budapest. We in England have done mightily well by the emigration, often forced, to our shores of so many talented people from Central Europe. But the fact is that they had to leave their native lands because political life became impossible.

This example could be multiplied again and again. Belgium and Holland, which have so much in common, split apart in 1831. Sweden and Norway, which have even more in common, split apart in 1905. It does seem simply to be a straightforward rule in modern times that countries which contain two languages, even if they are very similar, must in the end divide, unless the one language absorbs the other. It would be agreeable to think that we could all go back to the world of the Middle Ages, when the educated classes spoke Latin, and the rulers communicated in grunts. But we cannot. Unless we are dealing with international co-operation and alliances, freely entered-into, we create artificial structures which become the problem that they were meant to address. The League of Nations, when the Second World War broke out, resolved to ignore the fact and to discuss, instead, the standardization of level-crossings.

A Federal Europe

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Mr Chairman, I am sometimes tempted to think that the new Europe which the Commission and Euro-federalists are creating is equally ill-equipped to satisfy the needs of its members and the wishes of their peoples. It is, indeed, a Europe which combines all the most striking failures of our age.

The day of the artificially constructed megastate has gone. So the Euro-federalists are now desperately scurrying to build one.

The Swedish style welfare state has failed - even in Sweden. So the Euro-statists press ahead with their Social Chapter.

Large scale immigration has in France and Germany already encouraged the growth of extremist parties. So the European Commission is pressing us to remove frontier controls.

If the European Community proceeds in the direction which the majority of Member State Governments and the Commission seem to want, they will create a structure which brings insecurity, unemployment, national resentment and ethnic conflict.

Insecurity - because Europe's protectionism will strain and possibly sever that link with the United States on which the security of the continent ultimately depends.

Unemployment - because the pursuit of policies of regulation will increase costs, and price European workers out of jobs.

National resentment - because a single currency and a single centralised economic policy, which will come with it, will leave the electorate of a country angry and

powerless to change its conditions .

Ethnic conflict - because not only will the wealthy European countries be faced with waves of immigration from the South and from the East. Also within Europe itself, the effect of a single currency and regulation of wages and social costs will have one of two consequences. Either there will have to be a massive transfer of money from one country to another, which will not in practice be affordable. Or there will be massive migration from the less successful to the more successful countries.

Yet if the future we are being offered contains so very many risks and so few real benefits, why it may be asked is it proving all but irresistible ?

The answer is simple. It is that in almost every European country there has been a refusal to debate the issues which really matter. And little can matter more than whether the ancient, historic nations of Europe are to have their political institutions and their very identities transformed by stealth into something neither wished nor understood by their electorates. Yet so much is it the touchstone of respectability to accept this ever closer union, now interpreted as a federal destiny, that to question is to invite affected disbelief or even ridicule. This silent understanding - this Euro-snobism - between politicians, bureaucracies, academics, journalists and businessmen is destructive of honest debate.

So John Major deserves high praise for ensuring at Maastricht that we would not have either a Single Currency or the absurd provisions of the Social Chapter forced upon us: our industry, workforce, and national prosperity will benefit as a result. Indeed, as long as we in Britain now firmly control our spending and

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reduce our deficit, we will be poised to surge ahead in Europe. For our taxes are low: our inflation is down: our debt is manageable: our reduced regulations are favourable to business.

We take comfort from the fact that both our Prime Minister and our Foreign Secretary have spoken out sharply against the forces of bureaucracy and federalism.

The Choice

Our choice is clear: Either we exercise democratic control of Europe through co-operation between national governments and parliaments which have legitimacy, experience and closeness to the people.

Or, we transfer decisions to a remote multi-lingual parliament, accountable to no real European public opinion and thus increasingly subordinate to a powerful bureaucracy. No amount of misleading language about pooling sovereignty can change that.

Europe and the Wider World

Mr Chairman, in world affairs for most of this century Europe has offered problems, not solutions. The founders of the European Community were consciously trying to change that. Democracy and prosperity in Europe were to be an example to other peoples in other continents. Sometimes this view took an over-ambitious turn with talk of Europe as a third force brokering between two superpowers of East and West. This approach was always based upon a disastrous illusion - that Western Europe could at some future date dispense with

the military defence offered by the United States.

Now that the forces of Communism have retreated and the threat which Soviet tanks and missiles levelled at the heart of Europe has gone, there is a risk that the old tendency towards de-coupling Europe from the United States may again emerge. This is something against which Europeans themselves must guard - and of which the United States must be aware.

This risk could become reality in several ways.

Trade

First, there is the question of trade. It is a terrible indictment of the complacency which characterises the modern post-Cold War world that we have allowed the present GATT round to be stalled for so long. Free trade is the greatest force for prosperity and peaceful cooperation.

It does no good to the Western alliance when Europe and the United States come to regard each other as hostile interests. In practice, whatever the theory may be, economic disputes do sour political relations. Agricultural subsidies and tariffs lie at the heart of the dispute, which will not go away unless we in Europe decide that the Common Agricultural Policy has to be fundamentally changed. That will go far to determine what kind of Europe we are building.

For, as I have said before, I would like to see the European Community - embracing the former Communist countries to its East - agree to develop an Atlantic free trade area with the United States. That would be a means of pressing for more open multi-lateral trade throughout the world. Europe must

seek to move the world away from competing regional trade blocs - not promote them. In such a trading arrangement, Britain would have a vital role bridging that Atlantic divide - just as Germany should provide Europe with a bridge to the East and to the countries of the former Soviet Union.

Eastern Europe

Secondly, we must modify and modernise our defence. The dangers on Europe's Eastern border have receded. But let us not forget that on the credibility of NATO's military strength all our wider objectives depend - reassurance for the post-Communist countries, stability in Europe, trans-Atlantic political co-operation.

Communism may have been vanquished. But all too often the Communists themselves have not. The chameleon qualities of the comrades have never been more clearly demonstrated than in their emergence as democratic socialists and varieties of nationalist in the countries of Central and Eastern Europe. From the powerful positions they retain in the bureaucracy, security apparatus and the armed forces, from their places in not-really-privatised enterprises, they are able to obstruct, undermine and plunder.

The systems of proportional representation which so many of these countries have adopted have allowed these tactics to succeed all the more, leading to weak governments and a bewildering multiplicity of parties. All this risks bringing democracy into discredit. If Eastern European countries which retain some links with a pre-communist past, and have some sort of middle class on which to draw, falter on the path to reform, how will the leaders of the countries of the former Soviet Union dare to proceed further upon it ?

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We can help by allowing them free access to our markets. I am delighted that Association agreements have been signed between the European Community and several of these countries. I would like speedy action to include the others in similar arrangements. But, ten years is too long to wait before the restrictions on trade are removed. And I would like to see these countries offered full membership of the European Community rapidly.

Above all we must offer these countries greater security. Russian troops are still stationed on Polish territory. Moreover, it is understandable that the central and eastern European countries are alarmed at what conflict in the old USSR and the old Yugoslavia may portend. Although I recognise that the North Atlantic Cooperation Council has been formed with a view to this, I still feel that the European ex-Communist countries are entitled to that greater degree of reassurance which a separate closer relationship with NATO would bring.

Security

But, Mr Chairman, most of the threats to Europe's and the West's interests no longer come from this Continent. I believe - and I have been urging this on NATO members since 1990 - that the Americans and Europeans ought to be able to deploy our forces under NATO outside the area for which the present North Atlantic Treaty allows. It is impossible to know where the danger may next come. But two considerations should make us alive to real risks to our security.

First, the break up of the Soviet Union has led to large numbers of advanced weapons becoming available to would-be purchasers at knock-down prices: it would be foolish to imagine that these will not, some of them, fall into the worst possible hands.

Second, Europe cannot ignore its dependence for oil on the Middle East. Saddam Hussein is still in power. Fundamentalism is as strong as ever. Old scores are still unsettled. We must beware. And we must widen our ability to defend our interests and be prepared to act when necessary.

The Community's Wider Role

Finally, the European Community must come to recognise its place in what is called the new world order.

The ending of the Cold War has meant that the international institutions created in the post-War years - the UN, the IMF, the World Bank, the GATT - can work much more effectively. This means that the role for the Community is inevitably circumscribed. Within Europe, a wider role for NATO and the CSCE should also be reflected in more modest ambitions for the Community's diplomacy. In Yugoslavia, the Community has shown itself incapable of dealing effectively with security questions. Outside Europe, GATT with its mandate to reduce trade barriers should be the body that establishes the rules of the game in trade. The Community must learn to live within those rules. All in all, the Community must be prepared to fit in with the new internationalism, not supplant it.

Conclusion

Mr Chairman, I end as I began - with architecture. The Hague is a splendid capital, and how much we should admire the Dutch for keeping it together so well, as they have done with so many other of their towns. The Mauritshuis is a testimony to the genius which they showed. It was here, and in Amsterdam, that so much of the modern world was invented in the long Dutch fight for freedom.

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Dutch architecture has its own unmistakable elegance and durability - it was copied all around the north-European world, from Wick in northern Scotland to Tallinn in Estonia. Some architecture does last. Other architecture does not. Let us make sure that we build a Europe as splendid and lasting as the Mauritshuis, rather than one as shabby and ephemeral as the Berlaymont.

NB

PLEASE NOTE CHANGES.

PERSONAL

cc Stephen Wall

PRIME MINISTER

MRS THATCHER'S SPEECH

Charles Powell telephoned me early this morning to say that Mrs Thatcher had arrived back yesterday. She had decided against using the draft that Charles Powell had prepared. However he persuaded her that her speech was also not appropriate. The draft she has at the moment is in Charles' view not too bad but he said that Messrs Hamilton, Cash and Tebbit were all visitors last night and were likely to return to the fray to try and toughen up the language.

Her speech starts with the paragraph saying: "I rise to support the Government Motion ...". She goes on to say these are very crucial issues and tough negotiations. "I have no doubt there may be times when I would have had to get out my handbag and my successor may need to produce the same effect with his cricket bat. Dare I say there may even be times when he has to say 'No, no, no'."

She will go on to say that the present Presidency text represents an enormous and unacceptable transfer of responsibility away from national parliaments. Charles has told her this is something of an exaggeration but he doubts whether he will get it amended. She will argue that the Single European Act was not as much an infringement of sovereignty as some people have suggested. (This section will follow the line of argumentation in Charles Powell's article in The Times).

She will explain why the Government is right to resist any moves on the social front and say that she never regretted being isolated on this issue.

On EMU she will argue that the current proposals are very dangerous. A single currency is not in this country's interests. Even if there is an opt-out clause we will be being asked to sign up to the goal of a single currency. She will point out that everyone was opposed to the idea of a single currency in 1979.

PERSONAL

PERSONAL

Mrs Thatcher will argue that if ever we get to the point where we would be choosing whether or not to have a single currency and if at that time all parties felt a single currency was a good idea, then it would be essential to have a referendum to allow the people to decide whether such a loss of sovereignty is acceptable.

Mrs Thatcher intends to speak after Neil Kinnock and before Mr Ashdown and Sir Geoffrey Howe.

Charles Powell had lunch yesterday with a number of Euro-sceptics and was rather re-assured by the number who said they would support the Government. He only knew of one or two who would vote against. He identified John Biffen as someone who, at the moment at least, intended to vote against the Motion.



A T O'DONNELL
20 November 1991

PERSONAL

RESTRICTED

FM PEKING

TO IMMEDIATE F C O

TELNO 1535

OF 120505Z SEPTEMBER 91

INFO IMMEDIATE HONG KONG

VISIT TO CHINA BY THE RIGHT HONOURABLE MRS. MARGARET THATCHER MP,
10-12 SEPTEMBER.

1. MRS. THATCHER LEFT PEKING FOR HONG KONG THIS MORNING (12 SEPTEMBER) AFTER A 36-HOUR VISIT AT THE INVITATION OF THE PEOPLE'S INSTITUTE FOR FOREIGN AFFAIRS (PIFA). SHE HAD MEETINGS WITH JIANG ZEMIN, LI PENG, QIAN QICHEN, AND RONG YIREN (PRESIDENT OF CTIC AND VICE-CHAIRMAN OF THE NATIONAL PEOPLE'S CONGRESS). RONG GAVE HER LUNCH AT HIS FAMILY HOME. JIANG ZEMIN ENTERTAINED HER TO DINNER AFTER THEIR EARLY EVENING MEETING. MRS. THATCHER ALSO ASKED FOR A MEETING WITH ZHAO ZIYANG BUT WAS TOLD BY LI PENG AND OTHERS THAT THIS WAS NOT POSSIBLE.

2. MRS. THATCHER WAS ACCOMPANIED BY MARK THATCHER, HER PERSONAL SECRETARY AND DETECTIVES. JOHN GERSON ATTENDED HER MEETINGS AS RECORD TAKER. I WAS AT THE AIRPORT FOR HER ARRIVAL AND DEPARTURE: HAD A BRIEF MEETING WITH HER ON THE MORNING OF 11 SEPTEMBER: AND ATTENDED JIANG ZEMIN'S BANQUET WITH MY WIFE. I WAS NOT PRESENT FOR ANY OF HER FORMAL MEETINGS.

3. I UNDERSTAND THAT MRS. THATCHER'S DISCUSSIONS RANGED WIDELY, COVERING THE SITUATION IN THE SOVIET UNION, HONG KONG, THE PROSPECTS FOR ECONOMIC AND POLITICAL REFORM IN CHINA, AND HUMAN RIGHTS. I ALSO UNDERSTAND THAT MRS. THATCHER SPOKE STRONGLY ON THE LATTER SUBJECTS AND THAT THERE WERE SOME ANIMATED EXCHANGES.

4. MRS. THATCHER DID NOT MEET THE PRESS WHILE IN CHINA THOUGH THERE WERE THE USUAL REPORTERS AND CAMERAS PRESENT AT THE BEGINNING OF HER MEETINGS. SHE WILL HOWEVER BE GIVING SOME INTERVIEWS AND PERHAPS A PRESS CONFERENCE IN HONG KONG. SHE TOLD ME AT THE AIRPORT ON DEPARTURE THAT SHE HAD AGREED WITH LI PENG THAT SHE WOULD NOT GO INTO DETAIL ABOUT THEIR DISCUSSIONS BUT WOULD MENTION THE SUBJECTS COVERED, INCLUDING HUMAN RIGHTS, AND WOULD SAY THAT THE TALKS WERE HELD IN A VERY FRANK AND FRIENDLY ATMOSPHERE.

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5. TODAY'S PEOPLE'S DAILY GIVES FRONT PAGE COVERAGE TO THE MEETINGS WITH JIANG ZEMIN AND LI PENG, BUT WITH LITTLE INDICATION AS TO THE CONTENT OF HER DISCUSSIONS APART FROM HONG KONG. THE MEETINGS WERE ALSO REPORTED ON THE TELEVISION NEWS ON 11 SEPTEMBER.

MCLAREN.

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SECOND REVISION SECOND DRAFT

13/06/91

DRAFT SPEECH TO CHICAGO COUNCIL ON FOREIGN RELATIONS: 17TH JUNE

Tuesday

It is a great honour to be asked to speak to you today.

My theme is wide ranging. It is the future of the post-Cold War world.

How can we secure the great gains which have been made?

How can we help the former communist countries and the Soviet Union make the painful and difficult transition to democracy and free enterprise?

And how and on what basis can we achieve peace and stability in a world where so much of the political map is changing?

The Advance of Democracy

When I first became Leader of my Party, books were being written predicting the collapse of democracy.

But today freedom and democracy are advancing across the world. Not at a uniform pace. And not at a predictable rate. But the

direction is clear.

From continent to continent that will bring prosperity and peace

- prosperity because free enterprise alone can generate wealth and jobs;

- peace because democracies do not make war on one another.

I believe that those of us here today can seriously expect to see freedom and democracy triumph from the Atlantic to the Pacific in our lifetime.

Who could have expected that communism would have crumbled in Eastern Europe, that the Berlin Wall would have come down and that in free elections the Russian people would have chosen a non-communist President?

Already, and for the first time, almost all Latin American countries are now democracies.

Freedom and democracy are slowly advancing in Asia.

India, the world's largest democracy, has just suffered a terrible blow in the assassination of Rajiv Gandhi. But its reaction has proved its democracy secure, in spite of the doubts some raised at the time.

China still seems impervious to political change: but, I believe, that the progress of economic reforms will ultimately change its politics too.

In Africa, South Africa is, of course, heading for full democracy and already has a free economy, the strongest in the whole of Africa. Let us hope that other African countries now make better progress towards multi-party democracies with a true rule of law. For that offers them the best hope of prosperity and stability.

There is nowhere more in need of prosperity and stability than the horn of Africa. The fall of the Mengistu communist Government in Ethiopia removes one of Africa's most bloody and oppressive tyrannies. We want to see governments in this area which are responsible democracies, genuinely committed to political and economic freedom. That is vital for tackling the terrible plight of so many suffering and starving families in the region.

There should be no doubt about why communist regimes have fallen. There should be no doubt either about why freedom and free enterprise are on the march. It is because we in the West set our course by the compass of liberty; that we were prepared to defend our principles in argument and in arms - and because those principles are true.

Democracy, the rule of law and free enterprise triumph when they are put to the test because they satisfy Man's deepest aspirations and ambitions.

His desire to control his own life.

His instinct for fairness.

His wish to improve his own, his family's and his country's well being.

We must nourish our own conviction of the rightness of these things if we now wish others to value and enjoy them.

Not that we should expect plural democracy, the rule of law and free enterprise themselves to provide solutions to every problem. After all, we in the free and democratic West have plenty of political, social and economic difficulties.

But democracy, law and economic freedom are the minimum requirement.

[Characteristics of Democracy]

Different countries must find different paths. That is only to be expected: and indeed it is their right. But when they reach their appointed destination with democratic freedom in its

fullness they will all satisfy three broad conditions.

First, they will be governed through the consent of the majority - expressed in free elections, which must take place regularly within a specified period. And let us remember, for a true democracy, there must always be a party or a combination of parties sufficiently strong to replace the government of the day if the electorate so decides.

Second, freedom requires a fair and just law which applies to everybody - rich and poor, citizens, politicians and government alike. It must guarantee the fundamental rights of everyone. And it must be enforceable by an impartial and independent judiciary, which cannot be dismissed by government. These things we tend to take for granted: others barely know them.

Third, there has to be a free economy in which private ownership and enterprise prevail - and in which state ownership, intervention and controls are minimised.]]

These three are also the pillars of the international structure which we in the West are determined to build.

But we will only be in a position to do that if we keep our own economies and our defences strong.

The Need for Strong Defence

Perhaps the clearest lesson of the 1980s was the oldest lesson of all - that if you wish for peace, you must be prepared for war.

It was a lesson which our leaders forgot in the 1970s, when Western armed forces were scaled down at the very time that Soviet arms stock piles were soaring. And it was a lesson which our political opponents at home refused to learn in the 1980s, when strong defences were the basis for a break through in East-West relations.

You recall how when we deployed Cruise Missiles in response to the Soviet build-up in Europe of SS-20s we were told that we would destroy the chances for arms control. But we refused to be intimidated by the then Soviet leadership. And our determination led to the achievement of the INF Treaty - the first ever treaty to reduce the number of nuclear weapons.

Only through military strength, not weakness, can satisfactory arms control agreements be secured. And even then we have to be vigilant in ensuring that they are fully implemented. Both the spirit and the letter of the CFE agreement have to be honoured.

We welcome the prospect of an early agreement on strategic nuclear weapons. But we must recognise that for the foreseeable

future our defence forces must include nuclear weapons, even though fewer than now. They have proved their ability to keep the peace in Europe, even in times of great political tension.

We should never fail to recall the advice of Winston Churchill:

"be careful above all things not to let go the atomic weapon until you are sure, and more than sure, that other means of preserving peace are in your hands".

So this is the first point to be made about defence - that strong defence will continue to be necessary - and costly.

For technology does not stand still. And let us recall that it was technological superiority which, with the courage of our fighting men, enabled us so swiftly to defeat Iraq's aggression in the Gulf.

All too often, after wars, democracies rush to cut back defence only to find themselves unprepared to face a new threat. We must resolve to resist this temptation. As President Bush has recently reminded us (and I quote)

"The Soviet Union retains enormous military strength. It will have the largest land force in Europe for the foreseeable future.....and be ready for yet another round of strategic modernisation by the mid-1990s."

We must always keep in mind that the only real peace dividend is, quite simply, peace.

But that dividend only comes from sufficient investment in defence and new technology.

NATO and the WEU

Mr Chairman, NATO has been uniquely successful in maintaining liberty. It is not just a military alliance but an alliance in defence of a way of life. NATO must continue to be the heart of our defence, binding each and every member, transcending any other agreements its members may make.

It is in the interests of Europe that the United States should continue to play that dominant role in NATO for which only she is fitted.

The pursuit of a new defence role for the countries of Europe is much discussed. It is certainly true that, within NATO, the European countries should make a greater contribution.

But we should be wary of creating new institutions to replace or put at risk its unique and indispensable role.

The Western European Union has been a valuable forum in which different European countries can discuss their contribution to

NATO. But it would be a dangerous error to give the WEU wider responsibilities than it currently has.

Political institutions, both domestic and international, must reflect the realities of power. And the balance of military power in NATO will for the foreseeable future incline heavily to the United States which alone has the technology and the power to defend the freedom of the West.

It would send quite the wrong signals both to the United States and indeed to the Soviet Union if the WEU began to be regarded as either an alternative to NATO or as an independent and equal partner with the United States in Europe's defence.

Regional Wars and the Middle East

Let me also mention one specific task in which I believe that we have to cooperate more effectively. That is to prevent regional wars, which have had such terrible consequences for the people of Africa and the Middle East. Regional wars also constantly threaten to draw the nations of the world into wider conflicts.

But an aggressor must not be allowed to succeed by the device of making a claim which has little or no legal foundation to a territory belonging to another.

We have to work together to deprive unstable countries, run by

dictators and extremists, of access to advanced military technology and weapons of mass destruction. So I warmly welcome President Bush's initiative to curb the supply of arms to the Middle East.

This is an area of the world which has been fought over more than any other. It is the home of the world's three great religions. It is full of age old tensions and emotions.

For that reason we cannot expect its problems to be resolved quickly. But I give my strong support to those who are now trying to find a resolution to the Palestinian problem. It is right to try to promote negotiations between Israel and the Palestinians and to persevere until the difficulties are overcome.

There is also the outstanding question of Iraq. It is vital that the cease-fire agreement, reached through the United Nations, should be carried out in every particular. Every one of Iraq's undertakings has to be strictly monitored. We must be vigilant in ensuring that Iraq abides by the United Nations Charter of Human Rights, to which she is a signatory.

Many of us consider that so long as Saddam Hussein is in control Iraq cannot be trusted. We will only be able to turn over a new page in history when he is no longer in power.

Transition in the Soviet Union

Let me turn now to a subject which should be on the minds of every lover of freedom: that is the future of the Soviet Union.

If ten years ago President Reagan or I had suggested that we should see by the end of a decade a free election for a President of Russia and for the Mayoralities of Moscow and Leningrad we would not have been believed. Nor would it have been believed that the people should have voted to restore the historic name of St Petersburg to communist Leningrad. But it has happened: the people have spoken. All this is the answer to those who doubted the reforming fervour of the people of Russia.

It was in 1917 that Lenin and the Bolsheviks successfully derailed fifty years of economic advance. Russia before the communist revolution knew a pace of economic progress as fast as the United States. Of course, there as elsewhere, society was far from perfect. But it is interesting to consider how different the future of Russia and the rest of what constitutes the Soviet Union might have been - indeed how different the history of our troubled twentieth century might have been - without the October Revolution of 1917.

Now a true revolution of freedom and free enterprise must undo the damage and liberate the Soviet people from the poverty which communist bondage has left them.

Today's difficulties with reform in the Soviet Union arise because too much still remains of the old system. And there are too many powerful vested interests hostile to change.

There is a wide measure of agreement about the direction of the economic reforms. But to succeed, the main elements must go forward together; for the effects of a partial reform would distort everything. The evidence from Eastern Europe is that the countries which are making the most far-reaching reforms are now furthest on the way to recovery and prosperity.

Devolving Power

Devolving power to the individual republics of the Soviet Union is also vital. We look forward to the treaty between the Soviet Union and the nine major republics which is at present being drafted. I believe it will go ahead faster since Mr Yeltsin's election by the people. We look forward, as well, to the day when the Baltic Republics of Lithuania, Estonia and Latvia are able to exercise their right of self-determination and decide their own future.

But, desirable as devolution of power is, it is not enough just to redistribute it between the centre and the republics. The power of government itself has to be severely limited and the

freedom of people and businesses enlarged. Voluntary institutions of the sort that flourish in our Western democracies must be allowed to emerge. And all of this has to happen within a rule of law administered by an independent judiciary - something totally outside the experience of the people of the Soviet Union.

Changing Attitudes

However, the transition from the command economy to economic freedom requires more than government action: it requires a whole change of attitude: taking the initiative, responding to opportunities, accepting responsibility. It is by convincing people that they can influence their destiny by their own efforts, that you get the best results.

It does not come easily, especially when people have been accustomed for decades to the state taking decisions for them. That has masked - but not removed - their inherent talent. And, I believe, the young people in the Soviet Union are much more willing to seize opportunities and build a better life.

But they can only do so if the Governments of the Soviet Union and the separate republics themselves create the conditions for enterprise. At present, they are often lacking.

What can the West do to help?

How can we support the reforms which have begun?

How can we help the people of the Soviet Union create the structures of political and economic freedom - without just shoring up the old, failed system?

Last year I proposed that a way be found to associate the Soviet Union with the Economic Summit of industrial countries to be held in London in July. I am glad to see the proposal has now been accepted by the countries concerned. I trust that President Gorbachev's presence following the Summit will be beneficial to reform in the Soviet Union.

I have always made it clear that I do not believe that endless credits are the answer to the Soviet Union's problems. But that does not mean we should be inactive.

Twelve years ago, when President Reagan and I took office, we would have given almost anything to see communism crumble, bringing with it all the huge benefits which we knew would follow. The effect of anything we in the West can do now will be comparatively small by the side of the enormous changes which the Government and people of the Soviet Union themselves have to bring about. Small - yes. But crucial. If we fail to make our contribution we should bear some of the blame if this historic opportunity is missed. And not only the people of the Soviet Union would suffer: future generations everywhere would lose out.

So in order to advance our goal of a world of freedom and free enterprise we have to remain strong and we have also to help the Soviet Union accomplish the reforms which are necessary in order to join the comity of democratic nations.

But there is one other condition for peace and stability which is too little recognised: that is the free and full expression of nationhood. For the lesson of history is clear: you can suppress national sentiment, but you cannot extinguish it.

The Power of National Loyalties

Any policy or programme which fails to recognise the power of national loyalties is doomed to failure. Since Metternich devised the Concert of Europe, this is a truth which has consistently first irritated and then defeated diplomats.

Just a few years ago it seemed the height of progressive wisdom to maintain -

that the days of the nation state were numbered;

that a new young generation of pseudo-cosmopolitans would discard the pride and prejudice of their parents;

And that a vast European Superstate would constitute a kind of third force between the United States and a United

Soviet Union, itself still a superpower.

In 1972 in a speech commemorating the Fiftieth Anniversary of the formation of the USSR, Mr Brezhnev uttered these words:

"the national question, as it came down to us from the past, has been settled completely, finally, and for good".

Instead his successors are today more likely to believe that the "national question" is on the point of settling communism - "completely, finally, and for good".

National awareness always attracts the disdain of left wing intellectuals. Others have disliked it too because nationalism has so often been blamed for the bloody conflicts of Europe's past.

But let us remember that throughout history it was because the Continent of Europe was never subject to one political master that freedom survived and progress was made possible.

It was the old continental European Empires - their ambitions and their weakness - as much as national fervour that lay behind the First World War.

It was the ambitions of the Nazis to impose a perverted racial order and of the Communists to impose a perverted social order -

as much as nationalism - that brought about the Second World War.

Nationalism, like any kind of commitment - political or religious - is capable of fanatical extremes. But to aim for a Continent without nations because nations disagree is thoroughly illiberal - and it flies in the face of history.

Nations in the USSR and Eastern Europe

In the Soviet Union, national pride among the people of the individual republics has certainly led to tension and sometimes violence, particularly against vulnerable local minorities. Those problems have been substantially worsened by the policies pursued by the Soviet Government over many years - policies of shifting populations at the whim of politicians and of ruthlessly suppressing cultural identity.

Even now the best hope for implementing the necessary economic reforms throughout the Soviet Union is to disperse power to the governments of the Republics. This will allow new talents to emerge. And it will recruit patriotism to rally people behind necessary programmes of painful reform.

East Europeans attach even greater importance to national pride. In Poland, for example, patriotism and faith together have allowed the people to hold fast to the path of radical economic reform in spite of great hardships.

Yes - there are tensions between differing nationalities in Eastern Europe; nor do I minimise the seriousness of these. But when you try deliberately to construct artificial states, you will always create tensions. For you will run up against the loyalties and hopes of real people.

And if in order to keep an artificial state together, you rely on terror or compulsion exercised from the centre, in the end the whole edifice will shatter - and then the suppressed animosities between its different parts will break out in greater bitterness than ever.

Our best - our only - hope is that the coming of true democracy with strict limitation of central power and maximum local autonomy will, over time, provide a new and better framework for the different peoples to learn to live together.

Nationhood and Europe's Future

It is against this background that we must be wary of the attempt to create a new federal Superstate out of the European Community - twelve nations speaking at least as many languages, each with its own distinctive history and culture. It is a curious folly that just as the Soviet Union is forced to recognise reality by dispersing power to its separate states and limiting government, some people in Europe are trying to concentrate powers at the centre away from national states.

It may seem to those far removed from the centre of debate about the European Community's future that the issues under discussion today are principally economic. But that is not so. They are deeply political - and deeply concerned with relations between Europe and America.

There are risks - of which you will be well aware - that the new Europe could help plunge the world economy into a 1930s bout of protectionism. If that were to happen, it would endanger the prosperity which free enterprise and free trade have created.

Still more serious in the longer term than these risks, however, are the political risks. And these are barely grasped.

We in Britain joined the European Community because among other things we passionately believe in open trade; and that is why we are determined to ensure that the Community should not build barriers against it. For the same reason, we want to enlarge its membership to include the new East European democracies, lending stability to a region that has all too often created a conflict which has eventually involved our two countries.

I believe passionately in true international cooperation - that is cooperation between nation states. And I do not want to see greater cooperation in building a protectionist Europe if the price of that is - as it would be - the collapse of cooperation across the Atlantic.

The cooperation I want to see goes far beyond the confines of the present European Community. What I reject is not internationalism - the internationalism embodied in NATO, in the GATT, in the CSCE and in the alliance which helped win the great victory of Desert Storm. I believe profoundly in such internationalism. That is cooperation between nations, not subjugation to a non-democratic Superstate. It is time to recognise, even in Brussels, that the age of Empire is past.

The United States and Britain

To return to a wider canvas.

The United States and Great Britain have achieved the most beneficial cooperation of nation states in the history of liberty. We must stand together to grasp the opportunities and avoid the risks which the end of the Cold War has brought. And I believe we will.

Fifty years ago our peoples joined together in what Winston Churchill called "the Grand Alliance". That alliance, forged in the heat and intensity of war, has lasted through the trials of peace.

In recent months, once again, American and British servicemen have fought tyranny and injustice shoulder to shoulder. Once again, our two nations have been bound together in a common and

noble cause - to reverse and punish aggression.

I believe that it must continue to be the primary objective of British foreign policy to seek to preserve and strengthen not only the special relationship between Britain and America but also the Atlantic Alliance as a whole.

National interest will rightly continue to be the prime mover of foreign policy on both sides of the Atlantic. But we would be foolish to ignore those things which engage the hearts as well as the minds of the British and American people.

Let us not forget the ties of language.

But beyond shared language, history and culture, there is another force which binds us. It is the force of a shared ideal - our common belief in freedom, based on traditional and democratic institutions.

Winston Churchill put it so well in that famous speech of 1942 in Fulton, Missouri:

"...we must never cease to proclaim in fearless tones the great principles of freedom and the rights of man which are the joint inheritance of the English-speaking world and which through Magna Carta, the Bill of Rights, the Habeas Corpus, Trial by Jury and the

English Common Law find their most famous expression in the American Declaration of Independence.

"All this means that the people of any country have the right and should have the power by constitutional action, by free unfettered elections, with secret ballot, to choose or change the character of the form of government under which they dwell; that freedom of speech and thought should reign; that courts of justice, independent of the executive, un-biased by any party, should administer laws which have received the broad assent of large majorities or are consecrated by time and custom. Here are the title deeds of freedom which should be in every cottage home. Here is the message of the British and American peoples to mankind".

Ladies and Gentlemen, that is still our message. And mankind is listening.

EMBARGO: 1230 NEWYORK EST
1730 LONDON GMT
CHECK AGAINST DELIVERY

SPEECH BY THE RT HON MARGARET THATCHER OM FRs MP TO THE ECONOMIC
CLUB OF NEW YORK ON TUESDAY, 18TH JUNE 1991

Mr Chairman, ladies and Gentlemen.

It is a great honour to be asked to address this distinguished audience - and a great pleasure also to be back in New York which never ceases to astonish, delight, intimidate, inspire, elevate, and widen one's horizon's.

Mr Chairman, New York remains the economic and financial capital of the world's greatest military power, the world's greatest defender of liberty and, despite your real but short-term difficulties, the world's greatest economic power.

So this is the right place to discuss the future direction of economic policy and, following the great victory of Desert Storm, the right place to discuss the economic aspects of President Bush's "New World Order".

INFLATION AND THE ECONOMY

It is also the right time to do so.

For, after a decade of rising prosperity, both our countries are suffering from a recession that has been more prolonged than some expected.

I am delighted to hear that some economists are forecasting a speedy recovery - and even some central bankers have been detected smiling in private.

But many of the businessmen I meet are more cautious.

Recovery will, of course, come - and with it revived investment and higher living standards.

Let us hope it will match the long period of growth of the 1980s. But there is bound to be another recession in the course of time.

For the trade cycle is a permanent fact of economic life, which politicians can ameliorate by sensible policies, or aggravate by foolish ones, but which they can't abolish altogether.

It should be the aim of a prudent government to improve the nation's general economic performance at all stages of the cycle by removing obstacles to enterprise and mobility.

In that way, growth will be more sustainable, the inevitable setbacks less painful, and inflation less of a temptation to short-sighted administrations.

What government should not do is attempt to compensate for the trade cycle by fiscal and monetary manipulation.

This policy has been likened to bringing out "sunshades in October", either stimulating the economy when recovery is already under way, or pushing an incipient recession even deeper.

The facts of financial life make this a hopelessly hit-or-miss affair.

A central bank inevitably has difficulties in controlling money supply growth, principally in predicting the demand for money. This is extremely difficult to achieve in the very short term. But over a period of three or six months - and certainly on an annual basis - it is much easier and, indeed, can be done.

So there is a strong case, as Milton Friedman has long argued,

for a regular and predictable increase in the money supply calculated on a long-term basis.

And there is no case at all for any attempt at "fine tuning".

What, then is the proper role of government in a free enterprise economy?

Government has the fundamental duty to provide a sound financial framework by controlling monetary growth in pursuit of a currency which holds its value.

It must control its budget deficit so as not to build up debt for future generations.

And it must do so mainly by controlling its expenditure.

These are not truths of merely temporary application. They go to the root of government's fundamental tasks at all times and in all places.

As soon as politicians, economists or bankers devise ways to try to circumvent them - the trouble begins.

It is no good departing from financial orthodoxy when political pressures mount.

That is precisely the time you must stick to it.

If you tolerate a little inflation, it quickly leads to a lot of inflation.

As with any addictive drug, increasing the doses is required to achieve the same results.

If you ease up in the battle to curb public spending and allow

government budget deficits to rise, you put an unnecessary interest burden on business borrowers and starve the wealth-creating industries.

Or if your response to increased public spending is to put up taxes, you lose out even sooner, as talent departs, investment is postponed and hard work discouraged.

BRITAIN IN THE 1980S

Britain was a perfect demonstration of that lesson.

For most of the post War period the British economy had been in relative decline.

Some argued that this was inevitable, that it reflected fundamental weaknesses in British society or even the British character.

Government intervention was therefore regarded as the answer to these alleged weaknesses.

It only slowly dawned on people that the exact opposite diagnosis was the correct one.

Government was doing too much, and the wrong things.

It was stoking up the money supply and therefore inflation in order to prop up companies that otherwise would have priced themselves out of the market.

And when inflation took hold, it then intervened ad hoc to fix specific costs and prices and to bail out particular companies.

Whitehall - not the British people - was to blame for the

resulting stagflation.

We had to reverse all that.

We provided a sound financial framework to beat inflation.

We cut back government borrowing.

But in the words of my friend and colleague, Keith Joseph, contained in a lecture at that time, we realised that "monetarism is not enough".

So we also set out to create a framework favourable to enterprise:

We cut penal rates of income tax and the tax on companies and we abolished some taxes altogether.

We slashed burdensome regulations to encourage small businesses, the seedcorn of economic growth.

We restored the balance in law both between trade unions and employers, and between unions and their members.

We embarked on a vigorous programme of privatisation - forty-four major businesses so far - spreading ownership of capital and property ever more widely.

These policies were dramatically successful.

The performance of the British economy was transformed.

And in spite of the difficulties of our present recession, the great gains made in the 1980s are not being lost.

Britain now has a soundly based free enterprise economy.

EXPERIENCE - THE NAME WE GIVE TO OUR MISTAKES.

But how, if we learned those lessons in the 1980s, did we allow the renewed inflation - which prompted this recession - to occur?

Why was money supply allowed to grow too rapidly?

Part of the explanation lies in the general response of all Western countries to the collapse of the Stock Market in late 1987.

Some people were talking of a Great Depression on the scale of the 1930s.

It seemed imperative that all Western countries should respond by making sure that the financial market and the banking system were not short of liquidity.

And we did.

But though this may have contributed something to the inflationary pressures we have seen, I do not believe it accounts for them fully.

For the real explanation, we must go back to first principles. We must rethink the basis of coordination of policies within the G-7 -and especially the coordination of exchange rate intervention.

With the Louvre and Plaza Agreements in the mid-1980s, we sought to put the objective of greater stability of international exchange rates above that of the control of inflation.

In Britain, we compounded this error when in 1987-88 we tried to shadow the deutschmark.

Again the objective of a stable exchange rate was pursued at the expense of monetary discipline.

These policies led to falls in interest rates to artificial and unsustainable levels, which in turn prompted excessive monetary and credit growth.

That produced the inflation with which we are all too familiar, and which is the underlying cause of the present recession.

"Experience," said Oscar Wilde, "is the name we give to our mistakes."

And the conclusion to be drawn from our experience in both the 1970s and the 1980s is that governments should commit themselves to price stability - which can only be achieved by reduced monetary growth - and leave it to companies and individuals in the marketplace to calculate the various other risks in the business of wealth creation.

Targeting exchange rate injects excessive monetary pressure when central bankers "guesstimate" the wrong rate and, like fine-tuning, can produce wild swings towards inflation or deflation when the rate is either undervalued or over-valued" as East Germany is currently discovering.

When that happens, the "Stability" that makes fixed exchange rates superficially attractive to businessmen is either abandoned in dramatic devaluation or maintained at the cost of far more damaging instabilities like rapid inflation and higher interest rates.

In the ERM Britain is fortunate to have a margin of six per cent

to accommodate variations in the exchange rate.

In general, however, I recall the words of Karl Otto Pohl, former governor of the Bundesbank: "Interest rates should be set according to domestic monetary conditions and the exchange rate should be left to go where it will".

To which I will add: if you fix the exchange rate, then interest rates and domestic monetary conditions go where they will.

And finance ministers are left like innocent bystanders at the scene of an accident.

INTERNATIONAL ORDER

Let me now attempt to draw from the economic experience of the past fifteen years four broad lessons.

They are: -

- 1). An economy will work best when it is built on a framework of clear and predictable rules on which individuals and companies can depend when making their own plans.
- 2). Government's primary economic task is to frame and enforce such rules.
Its own discretionary interventions should be kept to a minimum.
- 3). Within such rules individuals, families, companies, and other social organisations should be free to pursue success at the risk of failure.
And -
- 4). Although governments will sometimes break the first three rules, public opinion should as far as possible make them ashamed of doing so and eager to return to observing them.

But do not the same rules - or something very like them - apply also to the "New World Order" envisaged by President Bush in the aftermath of America's two great victories in the Cold War and the Gulf War?

For make no mistake: America now has a unique, even awesome, responsibility.

It alone occupies the position of the three wartime allies in 1944 and 1945 when the blueprints for the great international

institutions like the GATT, the IMF, the World Bank, and the U.N. were laid down.

It will be an American President and Congress who will have the dominant voice in drawing up any new blueprints.

Some of those institutions are flourishing - notably the U.N. now that the automatic Soviet veto has been removed.

Some, like the International Atomic Energy Agency, will need strengthening to take on a greater role in combatting nuclear proliferation to "rogue" states.

And some face the challenges of new organisations - like the GATT facing the erosion of free trade as regional economic blocs attempt to assert their identities.

And what is true for organisations is also true for the rules of world order laid down in 1945.

One of those rules - that states should not commit unprovoked aggression against other states - has just been triumphantly vindicated by President Bush's successful liberation of Kuwait. So triumphantly, indeed, that it is unlikely to be challenged in any clear-cut way for some considerable time to come.

But should there perhaps be new - and more ambitious - rules in the future?

Must we continue to turn a blind eye to utterly appalling violations of human rights provided that they are confined within a country?

Even if those violations send thousands of people like the Kurds fleeing into neighboring states as refugees, destabilising those neighbours in the process?

And if we are to have such wider rules - which would surely be a step towards a more civilised world - who is to enforce them? And under what authority?

Then there is the erosion of existing rules - principally in the field of trade and economics.
Can GATT be given a new lease of life?
Does it need strengthening?

Or the support of new organisations committed firmly to free trade?
And if so, what?

And perhaps the biggest question of all: will the American people be prepared to undertake the role of Atlas holding up this new world order? Or, as in the 1920s, will the ingratitude of the rest of the world persuade them to retreat into a hemispheric economic isolationism?

Let me answer that last question at once!

I believe that the American people will be prepared to accept this burden of world leadership and to act as the international community's enforcer of last resort - but only if the United States can rely on the support of its allies, not only in ad hoc military coalitions but in a wider alliance encompassing trade and economic relations as well as the occasional rare military action.

I think you know I am not a Marxist! So I do not think that economics determines everything.
But I do believe that you cannot have political and diplomatic unity in a West that is bitterly divided over trade and economic

relations.

TRADE POLITICS

Let us remember that the world order established in 1945 was sustained on the basis of Western economic cooperation. The West's military alliance and post-war prosperity could never have been achieved without, first, the Marshall Plan, and, later, the growth of trade within the orderly framework of rules provided by the GATT, the IMF and the World Bank.

However, that picture has to be qualified.

Since the mid-1970s the volume of trade has continued to grow - but at a slower rate in relation to total world output than before.

This is in part, because there has been a growth in covert forms of protection.

Our current challenge is to prevent the world slipping back into protection and instead to give a new momentum to freer trade.

How is this to be done?

WE must honour the rules of the GATT and, where possible, widen their application.

We must ensure that the problems over agriculture, services and intellectual property rights - but above all agriculture - are resolved.

And that the Uruguay Round is thereby salvaged.

For there is a harsh rule of politics to which international bodies are not immune.

If things are not going forward, then they are going backwards.
At present in trade they are going backwards.

Other moves toward free trade - provided these conform to GATT rules - should therefore be encouraged.

I welcome the creation of a US-Canada free trade area and the prospect of its extension to Mexico.

These reforms should strengthen the economies of your two neighbours and hold down the cost of living for Americans.

It is vital, however, that these should not be steps towards a world of three protectionist blocks built around the US, the European Community and Japan.

There are those in Europe who regard the prospect of two such blocs, engaging in managed trade with a new European Superstate, with apparent equanimity and even enthusiasm.

I am not among them.

Nor, I believe, should anyone who has at heart the interests of America or the West as a whole.

For it would undermine the sense of Western solidarity under American leadership which is the only sure foundation of any new world order built to last.

So these new blocks must be steps not towards protectionism but towards a world of freer trade.

When the Uruguay Round has been successfully completed therefore - and that will require the full cooperation of the European Community - we must take the next step towards wider economic integration.

We must begin to lay the foundations of an Atlantic Economic Community - embracing Europe (namely the European Economic Community, EFTA and the new democratic states of Eastern Europe) on the one hand and North America on the other.

This proposal has all the merits which are attached to any extension of free trade - greater economic efficiency leading to greater wealth, benefiting all those taking part. But it has two other important advantages, as well.

Given the liberal economic tradition of the US, Britain and several European Community countries, and given the fierce commitment to free market economics of the former communist states - such a block would be imbued with the philosophy of free trade.

And because it would account for no less than fifty-eight per cent of world GNP, other trading blocks and potential trading blocks would have to follow its lead in such matters. It would give the GATT real clout - halting and reversing the drift towards a world of protectionist blocks.

The second advantage is that, by moving in this direction, it would strengthen the vital ties of defence and culture which link America and Europe, and which the drift to protectionism and trade wars threatens to undermine.

It would, in effect, be the economic underpinning of NATO - and make a great deal more sense than the various half-baked schemes for giving a defense identity to the European Community.

This proposal is only the beginning of what would be a very long road.

It certainly needs close and detailed study.

We would need to lay out very carefully the steps to merging a European Single Market and a North American Free Trade Area and what mechanisms would be required to settle disputes over obstacles to trade.

No one with experience of negotiating the Single Market in Europe would pretend that will be easy.

We would need also to work out transitional arrangements for some industries, particularly steel, agriculture and some services.

But none of those need be insuperable obstacles.

I hope that in the months ahead a group could be formed to look at all these matters with a view to a practical time-table for such a scheme.

Because, to repeat the political law I quoted above: if things are not going forward, then they are going backwards.
And in matters of free trade they are going backwards.

THE FUTURE

But I am encouraged, Mr Chairman, by remembering the role that America and Britain played at the end of the Second World War at Bretton Woods in laying earlier foundations for the Free World's economy.

Our countries were both closely involved in setting up the IMF, the IBRD, the OECD and, of course, the GATT.

Like NATO, these international institutions have stood the tests of time and stress.

Like NATO, they have always depended on trust and on common goals.

And no matter how many institutions you create - or how elaborate their acronyms - if they do not have such a basis they will not long endure.

One such basis is provided by the special relationship between the United States and Britain.

Our shared commitment to free enterprise capitalism, to free trade and to liberal democracy - will be tested in many ways in the years ahead.

So let us now resolve that the triumph of these Western values should not be some transient phenomenon.

Let us hold fast to the truths by which we set our compass.

And let us extend a helping hand to those who follow us on the glorious trail to a freer and more peaceful world.

SEVENTH (AND FINAL FROM GCS) (DRAFT)

13/06/91

MRS THATCHER'S NEW YORK SPEECH*ECONOMIC CLUB OF NEW YORK
Tuesday 18 June*

It is a great honour to be asked to address this distinguished audience. The United States of America is today, without question, the world's greatest defender of liberty and its greatest military power. And, in spite of your real but short-term economic difficulties, also the world's greatest economic power. So this is the right place to discuss the future direction of economic policy.

Recession and Recovery

It is also the right time. For, after nearly a decade of rising prosperity, both our countries are suffering from a recession deeper and more prolonged than many expected. Moreover, whereas much of the restructuring and de-manning of the early 1980s was a long overdue necessity, that is not the case in the present recession.

I am delighted to read that some economists and even central bankers here are now forecasting a speedy recovery. However, many of the businessmen I meet are more cautious.

But economic recovery will come. Consumer spending will start rising. And companies will once again find it worth their while to invest.

Our economies have always been affected by the trade cycle. But our task is steadily to improve our economic performance whatever the stage of the cycle. In that way, setbacks will be less painful and growth more sustainable.

To achieve that, we have to do three things.

First, we must hold on to the fundamental principles which underpin our free enterprise system.

Second, we have to be prepared to learn the lessons of past successes - and past mistakes.

And third, we have to grasp new opportunities for prosperity.

I want to say something about each of these topics today.

But on the old principle of "know your enemy", I would like to say a word about socialism first.

Mr Chairman, we live in the Post-Communist Era.

The freedom revolutions of 1989 in Eastern Europe,

the slow but inevitable replacement of communism in the Soviet Union,

the spread of democratic governments in Latin America,

and the conversion of Third World regimes to ideas of privatization and market economics

- all these testify to the collapse of the Marxist ideology which has so destructively dominated world politics since 1917.

Socialism, the half-way house to communism, was badly damaged by that collapse. For socialists shared the basic idea that the State, not the individual, was the fount of all values and the solution to all problems. And the failures of communism undermined the appeal of its first cousin, socialism.

In its strict ideological form - the notion that the State should control and regulate all aspects of life - socialism is in retreat.

But in practice, it returns in many different guises.

For example, in my country with rising unemployment, it comes in demands for subsidies and other intervention to save jobs. But saving yesterday's jobs only delays the creation of tomorrow's.

We see the "green socialism" which takes environmentalism to extremes, ignoring both scientific evidence and human welfare in its determination to halt growth.

We see a kind of "consumer-socialism" that by law suit after law suit has taken product liability beyond all rhyme and reason and distorted the interest which real consumers have in good quality products and services.

And then there is fanatical feminism - a kind of "socialism-in-drag" - which seeks to determine jobs, salaries and promotions not on the basis of merit but on the the basis of gender.

The common theme underlying all these and other forms of socialism is no longer the greater efficiency that used to be their own yardstick.

They now claim that their particular form of socialism will produce a fairer and more decent society, while capitalism offers no more than an efficient but soulless and inequitable one. And their claims are increasingly heard, listened to and acted upon for one simple reason: they are rarely contested.

We must contest them.

THE ETHICS AND PRINCIPLES OF CAPITALISM

That brings me to my first main theme, the ethics and principles of capitalism.

We must proclaim both the moral virtues that underpin capitalism, that capitalism requires, and indeed that capitalism fosters -

as well as the clear benefits which capitalism brings.

For let us recall that economics is not some dessicated science, devoid of human content: it is about politics, and it is about human nature.

Adam Smith realised that. He was not just the founding father of free enterprise; he was also a moral philosopher. The Wealth of Nations was not his first book; before that, he wrote The Theory of Moral Sentiments. So when he talked about self-interest as the great force for economic progress, he was not just talking about selfishness.

It included things such as self-reliance: indeed that is the first duty we owe to other people. There is far more moral virtue in working to be self-reliant and actively taking responsibility for your own family than there is in being reluctant to take advantage of opportunity and becoming dependent upon others - a new dependency culture.

But some have played upon the word self-interest, deliberately distorting it. People may have many reasons for wanting to get ahead and become wealthy. But the state has no right to prevent them from fulfilling their talents in their chosen way.

Of course, some people may behave badly and misuse their wealth. But, as John Wesley put it, "the fault does not lie in money but in them that use it".

The fault will also lie in us, Ladies and Gentlemen, if we fail to explain the great benefits which capitalism brings.

First, it is said that capitalism is only interested in individuals and not in the community. But businesses can only survive and prosper if people work together at every stage of production and distribution and if they provide goods and services of the price and quality customers want. And most people are both consumers and producers.

Second, capitalism is economic democracy. Every time individuals make a purchase they are casting a cash vote, registering a preference. And capitalism is a necessary - though not sufficient - condition for political democracy: it gives people the financial independence to stand up to the State.

Third, free enterprise gives people a potential choice of jobs in a great variety of companies: they are not just restricted to working for the State or a huge monopoly employer. Either of which would severely curtail their freedom.

Fourth, private property is a pillar of free enterprise - indeed of freedom. People have the chance to save and pass on property to future generations, again encouraging a long term interest. Where there are no property rights, there are usually no human rights. And our privatization programme, now being followed the world over, has been used to give employees a special preference in purchasing shares. So earners have become owners.

Fifth, capitalism produces profits. Profits show that the product and price are right. They provide investment for the future. And taxing them provides resources to pay for such things as education and social services.

Sixth, successful companies are of necessity committed to the long-term view, to research and developing new products. They show a lively interest in improving the environment and the life of the local community. They have real concern for the welfare and training of their employees.

I was struck by the contents of a speech of a leading Swiss industrialist which summed up so eloquently what real capitalist ethics are about:

"No industry and no company can successfully do business in the long run against the prevailing public opinion. Doing business efficiently and effectively in a mere technocratic sense is no longer sufficient to preserve the acceptability of business by society....in order to regain trust and acceptance we must demonstrate the highest professional competence in all areas.....

"We are committed to a policy whereby we regard long term economic success, recognition of the needs and values of society and the respect for the environment as three equally important entrepreneurial responsibilities."

Seventh, socialists have always pretended that capitalism just relies on the law of the jungle. But capitalism is not unfettered, unchecked competition. It is based on a rule of law. There are laws to protect the customer, the investor and the worker. There are laws to ensure fair competition. And, of course, in modern capitalist economies there is a safety net of benefits - paid for by the wealth which free enterprise capitalism generates.

The people in the former communist countries know that socialism - whatever its original design-serves the elite and not the ordinary citizen. It is free enterprise capitalism which serves the masses.

Why is all this worth restating?

Because we have to be utterly certain about the morality and the fundamental principles of capitalism and its practical benefits.

But what precisely is the task of government in a modern economy?

It is to help create the conditions for enterprise to flourish. It has to set the rules: sometimes it must act as umpire: but it is not a player in the game. And all our experience is that once it gets onto the pitch, it is extraordinarily difficult to banish to the sidelines.

With free enterprise capitalism, the State, therefore, has a limited role - but a vital one.

It sets the legal framework within which business is conducted.

And it has the fundamental duty to provide a sound financial framework by controlling monetary growth, by controlling public spending and by keeping down budget deficits.

However tempting the short-term options may seem, they have a habit of turning into long-term headaches.

If you tolerate a little inflation, it quickly leads to a lot of inflation. As with any addictive drug, increasing the doses is required to achieve the same results.

If you ease up in the battle to curb public spending, catering for an endless stream of deserving causes, budget deficits will rise and you will put an unnecessary interest burden on business borrowers.

Or if your response to increased public spending is to put up taxes, you soon lose out, as talent departs, investment is postponed and incentives diminished.

Mr Chairman, that brings me to my second heading:

LEARNING THE LESSONS OF THE PAST

All experience shows that holding to the principles of financial orthodoxy and taking the longer view are difficult tasks. They may be unpopular. But in the end the policy works.

As soon as politicians, economists or bankers devise ways to try and circumvent them, the trouble begins. It is no good departing from financial orthodoxy when political pressures mount. That is precisely the time when you must stick to it.

And when government neglects its own tasks and instead takes on the duties which are properly the role of private enterprise then economic policy is in trouble.

Lessons of the Past: Britain

Britain was a perfect demonstration of that lesson.

For most of the post War period the British economy had been in relative decline. Socialists argued that this was inevitable, that it reflected fundamental weaknesses in British society or even the British character. Government intervention was therefore regarded as the answer to these alleged weaknesses.

Gradually it dawned on people that the opposite diagnosis was the correct one. Government was doing too much; its priorities were wrong; and it was policy rather than the British people that was to blame for our economic problems.

So we had to reverse all that and provide a sound financial framework.

But in the words of my friend and colleague, Keith Joseph, contained in a lecture at that time, we realised that "monetarism is not enough". So we also set out to create a framework favourable to enterprise:

- cutting tax rates
- slashing regulations
- encouraging small businesses
- restoring the legal balance between trade unions and employers.

These policies were dramatically successful and the performance of the British economy was transformed.

In spite of the difficulties of the recession, the great gains which were made in the 1980s will not be lost. Britain now has a soundly based free enterprise economy.

And although we now have a modest budget deficit, it follows three years of surplus which have enabled us to redeem debt.

The lesson is clear: low inflation and maximum freedom for enterprise is a winning combination. If countries in the Third World and countries throwing off the shackles of communist command economies wish to enjoy Western standards of living they

too must concentrate on making capitalism work - on financial orthodoxy and free enterprise within a rule of law. There are increasing signs that they are determined to do so.

Lessons of the Past: The World Economy

But how, if we learned those lessons in the 1980s, did we allow the renewed inflation - which prompted this recession - to occur?

Why was money supply allowed to grow too rapidly?

Technical difficulties in controlling the money supply do not explain the rise in inflation.

Part of the explanation lies in the general response of all Western countries to the collapse of the Stock Market in late 1987.

Some people were talking of a Great Depression on the scale of the 1930s. It seemed imperative that all Western countries should respond by making sure that the financial market and the banking system were not short of liquidity. And we did - which in itself showed that we had learnt an important lesson from the experience of the 1930s.

But nor do I believe that this can account for the inflationary pressures which we have seen - though it may have contributed something to them.

For the real explanation, we must go back to first principles; we must rethink the basis of coordination of policies within the G-7 - and especially the coordination of exchange rate intervention.

We had already learned the lessons of international attempts at a co-ordinated reflation in the 1970s. We knew that the result of such policies was both higher inflation and higher unemployment.

So in the 1980s our economic summits were rightly dominated by discussion of how to make markets work better, how to curb government budget deficits and how to boost small businesses.

But we did fall into one trap: and we are still suffering the consequences. With the Louvre and Plaza Agreements in the mid-1980s, we sought to put the objective of greater stability of international exchange rates above that of the control of inflation.

In Britain, we compounded this problem when in 1987-88 we tried to shadow the deutschmark: again the objective of a stable exchange rate was pursued at the expense of monetary discipline. These policies led to falls in interest rates to artificial and unsustainable levels, which in turn prompted excessive monetary and credit growth. That produced the inflation with which we are all too familiar. And it is mastering this inflation which is the reason for today's deep recession.

The conclusion to be drawn from our experience in both the 1970s and the 1980s is that governments should commit themselves to price stability: and this can only be achieved by reduced monetary growth. Targetting exchange rates puts excessive monetary pressure on some countries. Although superficially attractive, that policy is no substitute for explicit monetary control.

I recall the words of Karl Otto Pohl, former governor of the Bundesbank: "Interest rates should be set according to domestic monetary conditions and the exchange rate should be left to go where it will".

I would add: I don't believe that you gain confidence in your exchange rate by going contrary to the monetary signals. We in Britain in the ERM have a latitude of 6 per cent which with firm financial policies should be sufficient in present circumstances.

I believe that reflection on both the considerable successes and the limited - though real - failures of the 1980s can help us create a better framework for prosperity, not only in the next decade but in the century which opens up before us.

THE BENEFITS OF FREE TRADE AND THE COST OF PROTECTION

My third theme today is the need ceaselessly to promote international prosperity through free trade.

The West's post-War prosperity could never have been achieved without free trade within the orderly framework of rules provided by the GATT.

The world's response to the Stock Market Crash of 1929 was to put up trade barriers in an attempt to protect industries and employment. But the effect was to transform that crisis into a catastrophic economic depression. The world's trade in manufactured goods slumped by some 40 per cent.

Our response to the world recession of the early 1980s was different. We struggled to resist pressures for protection. And when the recession ended, our economies, enjoying the benefits of open trade, entered upon a long period of sustained growth.

However, that picture has to be qualified. Since the mid-1970s the volume of trade has continued to grow - but at a slower rate in relation to total world output than before. This is, in part, because there has been a growth in covert forms of protection. We can argue about where the blame for this should principally lie. But the challenge is to prevent the world slipping back into protection and instead to give a new momentum to freer trade.

How is this to be done?

We have to restate with conviction the case for free trade.

Free trade offers the best hope for low cost producers in the Third World to improve their lot.

What folly it is for Western countries to keep Third World countries in poverty by excluding them from our markets! Is it not hypocrisy then to provide billions of dollars worth of aid to palliate the consequences?

These countries need trade as much as aid.

With the crumbling of communism and the newly independent Eastern European countries are in danger of receiving a large influx of immigrants from the Soviet Union which their economies can ill-afford to sustain. Free trade with the Western European countries would offer their people new hope and would enable them to build up the resources to deal with the problem.

But free trade also benefits rich countries because it increases the total amount of trade between them to the advantage of all.

Perhaps the main victims of protectionist measures are the consumers in the country which is imposing tariff or other barriers. Their living standards are reduced.

Even the industries on whose behalf protection is practised are damaged in the long run. They are shielded from competition. So they rely on their protected home market, and become inefficient. Although there may be tactical advantages in

threatening protection in order to open markets which would otherwise be closed, protectionist measures, if actually implemented, in the longer run benefit noone.

But we have to do more than argue this case. We have to act on it. That means that we must honour the rules of the GATT and, if possible, widen their application.

We must ensure that the problems over agriculture, services and intellectual property rights - but above all agriculture - are resolved.

There can be no doubt that agricultural subsidy and protection practised on the present scale in America, Europe and Japan are wasteful and unwarranted.

We must restore international confidence that the richest countries are genuinely committed to free trade.

But other moves towards free trade - provided these conform to GATT rules - should be encouraged.

I welcome the creation of a US-Canada free trade area and the prospect of its extension to Mexico. These reforms should strengthen the economies of your two neighbours and hold down the cost of living for Americans.

It is vital, however, that these should not be steps towards a

world of three protectionist blocs built around the US, the European Community and Japan, but rather steps towards a world of free trade.

Progress consists of enlarging our ideas and our understanding.

There are those in Europe who regard the prospect of a new European Superstate, engaging in managed trade with two such blocs, with apparent equanimity. I am not among them. Nor, I believe, should anyone be who has at heart the interests of America or the West as a whole.

How can that outcome be avoided?

First, the Uruguay Round must be successfully completed and this will require the full cooperation of the European Community.

Then we should begin to lay the foundations of an Atlantic Economic Community - embracing Europe (namely the European Community, EFTA and the new democratic states of Eastern Europe) on the one hand and North America on the other.

This proposal has all the merits which are attached to any extension of free trade - greater economic efficiency leading to greater wealth, benefiting all those taking part. But it has two other important advantages, as well.

Given the liberal economic tradition in trade of the US, Britain

and several European Community countries, and given the commitment to market economies of the former communist states - such a bloc would be a strong force for free trade. And because it would account for no less than 58 per cent of world GNP, other trading blocs and potential trading blocs would have to follow its lead in such matters. And it would give the GATT more clout. It would halt and reverse the creation of a world of protectionist blocs..

The second advantage is that, by moving in this direction, it would strengthen the vital ties of defence and culture which link America and Europe, by underpinning NATO economically.

This proposal certainly needs close and detailed study. We would need to consider how to merge a European Single Market and a North American Free Trade Area and what mechanisms would be required to settle disputes over obstacles to trade. We would need also to work out transitional arrangements for some industries, particularly steel, agriculture and some services. But none of those need be insuperable obstacles. I hope that in the months ahead a group could be formed to look at all these matters with a view to a practical time-table for such a scheme.

THE FUTURE

Mr Chairman, the international economic institutions of the post-War world have proved their worth. And I am proud of the role that America and Britain played at the end of the Second World War at Bretton Woods in laying the foundations for the Free World's economy. We were both closely involved in setting up the IMF, the IBRD, the OECD and, of course, the GATT.

Like NATO, these international institutions have always depended on trust and on common goals. And no matter how many institutions you create - or how elaborate their acronyms - if they do not have such a basis they will not long endure.

One such basis is provided by the special relationship between the United States and Britain, so important and so beneficial to the modern world. Our shared commitment to free enterprise capitalism - to its continued health and to its spread - will be tested in many ways in the years ahead.

We have to provide selected help to the former communist countries in Eastern Europe and to the Soviet Union, not to shore up their old system but to reform it.

We have to do this while keeping our own economies and defences strong.

So let us make this resolution.

Let us ensure that the triumph of our Western way of life is not some transient phenomenon.

Let us hold fast to the truths by which we set our compass.

And let us extend the hand of friendship to those who otherwise risk stumbling on the glorious trail to freedom.

FROM: THE HIGH COMMISSIONER



BRITISH HIGH COMMISSION
LAGOS

IN CONFIDENCE + PERSONAL.

Michael Cook Esq
WAD
FCO

File

10 June 1991

Dear Michael,

POSSIBLE LECTURE BY MRS THATCHER

1. I mentioned in para 8 of my telno 556, of 29 May that I would be calling on the Minister of Justice, Prince Bola Ajibola, on 7 June. I duly did so, to be presented with a full set of Nigeria's laws and treaties, as well as their legal publications, in recognition of the UK's recent efforts to help strengthen the judiciary in the run-up to the return to civilian rule. It was a very warm occasion.

2. At the end, Ajibola did (as I predicted) return to his charge over a top-level British speaker for the major Conference he is planning in the autumn. The occasion is the "Second Conference of Attornies-General", to be held in Abuja in the second week of September, the general theme of which is "The Law and the transition to Civilian Rule". But he plans for the highlight to be a lecture on "Democracy: What is it all about?", which he wants to feature two outside speakers, one British and the other American. Ajibola said that this will be a ~~police~~ **major** public event which will be attended by Ministers, other members of the government, politicians, and possibly senior officers, besides legal practitioners of all kinds. There would be good media coverage. Could we help attract a top-level speaker?

3. Ajibola did not in the end, as I had suspected, specifically ask us to approach Mrs Thatcher (whom I know he admires). But she is the obvious first choice. Not only is she evidently much admired by the Nigerian political class - and indeed, by a wide swathe of the public; but also, the turn of events in South Africa (and Nigeria's positive reactions to it) mean that the one contentious issue there might have been has all but disappeared. (Indeed, a visit to Nigeria would balance very well her recent trip to South Africa; and what she had to say about that would be received with much interest.) The event would presumably be held in the spanking new conference facilities in Abuja created for the OAU; and a big turn-out could be guaranteed. It would be an excellent platform: and would underline Britain's interest in, and commitment to, the return to democratic and stable civilian rule in Nigeria. It would also help put us on the map in Abuja.

IN CONFIDENCE



4. Could you approach Mrs Thatcher's office, and see if there is any chance that she might be interested in taking this up? (I have no objection to your passing on a copy of this letter, if you want.) If so, please let me know at once by telegram, so that I can put Ajibola in touch with her office direct, since time is already quite short.

Yours ever,
Christopher.

Christopher MacRae

IN CONFIDENCE



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 June 1991

Thank you for your letter of 31 May
and for your fascinating account of
Mrs. Thatcher's meeting with President
Gorbachev.

Thank you too for your kind offer to be
available to the Prime Minister on future
occasions. I will make sure he knows this.

(J. S. WALL)

Professor R.W.W. Pollock

cfw + letter

RM

Professor R. W. W. Pollock

J.S.Wall, Esq.,
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137 Framingham Road,
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Sale,
Cheshire, M33 3RQ.

Personal and Confidential

31 May 1991

Dear Mr Wall

While accompanying the former Prime Minister to the Soviet Union earlier this week, I heard for the first time of your appointment at No.10. As we have met previously in contexts concerned with the Soviet Union - most recently, at the Paris CSCE meetings in November - I thought I would send you a note of congratulations and good wishes, albeit belated.

You will have seen or heard reports of the private visit. These will have incorporated the notes I made on the 'one-to-one' talks for our Embassy, but you may like to have a few general impressions - as compared with experience of similar conversations with Mr Gorbachev in the past seven years.

In the talks and at the private dinner, the President was noticeably more preoccupied (in the fullest sense) with the domestic scene than before - though the US relationship has returned to exercise him as it did at the beginning of the Bush Presidency (cf. London talks, April 1989). The G7 prospects (July, especially) matter a great deal to him - and those close to him: he was notably attentive and reflective on this topic. He was in good form - physically and intellectually: less long-winded, and humour informed even his waspish comments (unusual for naming names) on those with whom he has differences. His confidence is clearly rising after a difficult March-April period - and his judgements seemed based on firmer realism, and less arrogant, than in November and June last. Mrs Gorbachev both looked and was a little subdued, but was no less gracious a hostess - and actually very forthcoming on past family hardships. Both the President and his wife were unreservedly warm throughout, and no perspectives had changed in his attitude to UK as far as one could detect.

I was also the recipient of much kindness, and found the opportunity for comparisons - both with the past and with other figures visited this time - fascinating. I shall pass other comments to Mr Lyne (FOO). I should like you to know that I continue to be available - and shall be delighted - to assist the Prime Minister and HM Ministers at any time.

*With best wishes,
Yours ever, Richard Pollock*

Richard Pollock

CONFIDENTIAL

FM MOSCOW

TO DESKBY 291500Z FCO

TELNO 1121

OF 291330Z MAY

INFO PRIORITY WASHINGTON, PARIS, BONN, UKDEL NATO

MY TELNO 1112: MRS THATCHER'S VISIT TO MOSCOW

SUMMARY

1. WHILE IN MOSCOW, MRS THATCHER HAD TALKS AND DINNER WITH PRESIDENT GORBACHEV. SHE ALSO ADDRESSED THE STATE INSTITUTE FOR INTERNATIONAL RELATIONS, AND THE FOREIGN AFFAIRS COMMISSION OF THE SUPREME SOVIET.

2. IN ADDITION SHE BREAKFASTED WITH POPOV (MAYOR OF MOSCOW) AND A GROUP OF PROMINENT ECONOMISTS: MET JEWISH ACTIVISTS: AND CALLED ON PRIME MINISTER PAVLOV, AND ON MARSHAL YAZOV. SHE ALSO GAVE AN INTERVIEW TO SOVIET TELEVISION, MET BALTIC DEPUTIES, AND DINED WITH PROMINENT POLITICAL FIGURES.

3. TODAY SHE IS IN LENINGRAD AS SOBCHAK'S GUEST.

4. A GOOD VISIT TO MOSCOW, DURING WHICH SHE URGED THE SOVIET UNION TO PERSEVERE WITH REFORM. SHE PUT PARTICULAR EMPHASIS ON THE NEED FOR A LEGAL FRAMEWORK TO ENTRENCH NEW FOUND LIBERTIES, AND TO PROMOTE ECONOMIC CONFIDENCE.

DETAIL

5. MRS THATCHER HAS COMPLETED HER TWO DAY VISIT (27-28 MAY) TO MOSCOW AS THE GUEST OF PRESIDENT GORBACHEV AND HAS NOW GONE TO LENINGRAD, WHERE SHE IS SPENDING THE DAY AT THE INVITATION OF SOBCHAK (MAYOR OF LENINGRAD). THE AMBASSADOR IS ACCOMPANYING HER AND WILL REPORT WHEN HE RETURNS. MEANWHILE YOU MAY LIKE AN ACCOUNT OF THE MOSCOW LEG OF HER TRIP.

6. ON THE MORNING OF 27 MAY, MRS THATCHER SPOKE TO THE STAFF AND STUDENTS OF THE MOSCOW STATE INSTITUTE FOR INTERNATIONAL RELATIONS (MGIMO) WHERE SHE WAS WARMLY RECEIVED BY A LARGE AUDIENCE. IN HER REMARKS SHE STRESSED THAT MUCH HAD ALREADY BEEN ACHIEVED BY GORBACHEV'S REFORM PROGRAMME: PATIENCE AND RENEWED EFFORT WERE NOW NECESSARY TO MAKE FURTHER PROGRESS. SHE

ALSO EMPHASISED THE IMPORTANCE OF THE RULE OF LAW AS THE ESSENTIAL FRAMEWORK FOR DEMOCRACY. THERE WAS A LIVELY QUESTION AND ANSWER SESSION AFTER HER BRIEF ADDRESS.

7. ON THE AFTERNOON OF 27 MAY SHE HAD TWO AND A HALF HOURS OF TALKS WITH GORBACHEV TETE-A-TETE. THIS WAS FOLLOWED BY DINNER AT HIS DACHA, AT WHICH SHE WAS ACCOMPANIED BY MR MARK THATCHER. (FOR AN ACCOUNT OF HER DISCUSSION WITH GORBACHEV, SEE TUR AND TELNO 1095, NOT TO ALL.)

8. ON 28 MAY, MRS THATCHER HAD BREAKFAST WITH POPOV (MAYOR OF MOSCOW) AND A NUMBER OF LEADING SOVIET ECONOMISTS. SHE FOUND THEM PESSIMISTIC, CONVINCED THAT THE SITUATION WOULD DETERIORATE FURTHER BEFORE THERE WOULD BE ANY IMPROVEMENT. THEY WERE ALSO CRITICAL OF PAVLOV'S GOVERNMENT, AND OF THE INDECISIVENESS OF THE SUPREME SOVIET IN GRAPPLING WITH THE CRISIS. IN REPLY SHE URGED THEM TO ACT WITH ENERGY AND DETERMINATION, TO CHANGE PUBLIC ATTITUDES, AND TO ENCOURAGE PEOPLE TO TAKE FULL ADVANTAGE OF THE OPPORTUNITIES THAT HAD BEEN OPENED UP BY REFORM. AFTER BREAKFAST, SHE HAD A SHORT MEETING WITH A GROUP OF JEWISH ACTIVISTS.

9. LATER IN THE MORNING, SHE CALLED ON PRIME MINISTER PAVLOV, WITH WHOM SHE HAD AN HOUR'S CONVERSATION. SHE REPEATED TO HIM WHAT THE ECONOMISTS HAD TOLD HER OVER BREAKFAST, AND SAID THAT SHE HAD ADVISED THEM TO COMMIT THEMSELVES ENERGETICALLY TO PROMOTING REFORM. SHE URGED PAVLOV TO CREATE A CLEAR LEGAL FRAMEWORK WITH AN INDEPENDENT JUDICIARY: NEW STRUCTURES WERE NEEDED. PAVLOV, IN BETTER AND MORE COHERENT FORM THAN USUAL, SAID CRITICS BLAMED HIM FOR NOT REFORMING THE ADMINISTRATIVE STRUCTURES OF CENTRAL GOVERNMENT. HOWEVER HE WAS QUITE PREPARED TO DO THIS IF NECESSARY, BUT IT WAS IMPORTANT TO DO IT INTELLIGENTLY, SO THAT ABLE AND CREATIVE PEOPLE WORKING IN THE MINISTRIES (PARTICULARLY THOSE WITH SCIENTIFIC AND TECHNICAL SKILLS) WERE NOT LOST TO THE SYSTEM. THE REAL TASK WAS TO CHANGE PEOPLE'S ATTITUDES. THERE WAS THEN AN EXCHANGE ABOUT THE PROBLEMS OF SOVIET AGRICULTURE, NOTABLY THE LAMENTABLE WASTAGE OF GRAIN PRODUCTION AND INADEQUATE STORAGE FACILITIES. PAVLOV SAID HE WAS COMMITTED TO IMPROVING THE SITUATION BUT IT WOULD TAKE TIME.

10. MRS THATCHER SUBSEQUENTLY BROKE NEW GROUND BY ADDRESSING THE FOREIGN AFFAIRS COMMISSION OF THE SUPREME SOVIET (AN AUDIENCE OF 60-70 DEPUTIES). THE TEXT OF HER SPEECH HAS BEEN

FAXED TO THE DEPARTMENT: IT INCLUDED HER SUPPORT FOR AN INVITATION FOR GORBACHEV TO ATTEND THE LONDON ECONOMIC SUMMIT - SEE MOSCOW TELNO 1107. (IN ANSWER TO A QUESTION, SHE MADE IT CLEAR THAT HE SHOULD COME AS A GUEST, NOT AS A PARTICIPANT.) THERE WAS A QUESTION AND ANSWER SESSION AFTERWARDS IN WHICH MRS THATCHER WAS ASKED ABOUT MANAGEMENT TRAINING/THE KNOW HOW FUND: THE ROLE OF WOMEN: THE NEED TO CHANGE POPULAR ATTITUDES IN THE SOVIET UNION TO PROMOTE REFORM: AFGHAN REFUGEES: AND THE BALTIC STATES - WHEN ONE DEPUTY TRIED TO DRAW AN ANALOGY WITH NORTHERN IRELAND.

11. HER SPEECH WAS FOLLOWED BY LUNCH WITH LUKYANOV, PRESIDENT OF THE SUPREME SOVIET, AFTER WHICH SHE CALLED ON YAZOV (MINISTER OF DEFENCE) AND MOISEEV (CHIEF OF STAFF). CFE WAS A MAJOR TOPIC OF DISCUSSION (SEE MOSCOW TELNO 1108, NOT TO ALL).

12. IN THE AFTERNOON SHE GAVE AN INTERVIEW TO SOVIET TELEVISION (TO BE SCREENED ON 14 JUNE) BEFORE ATTENDING A RECEPTION AT THE RESIDENCE FOR DEPUTIES FROM THE BALTIC STATES. SHE URGED THE BALTS TO COOPERATE CLOSELY WITH EACH OTHER AND TO BE PERSISTENT IN THEIR PURSUIT OF INDEPENDENCE. THERE WAS GENERAL AGREEMENT THAT THERE COULD BE NO SIGNIFICANT MOVE ON BALTIC INDEPENDENCE UNTIL THE SOVIET AUTHORITIES DETERMINED THEIR OWN POSITION, BUT THAT THE RECENT 9 + 1 AGREEMENT OFFERED NEW HOPE. THIS WAS FOLLOWED BY DINNER TO WHICH A NUMBER OF PROMINENT POLITICAL FIGURES CAME, INCLUDING KHASBULATOV (YELTSIN'S DEPUTY). MRS THATCHER SAID AFTERWARDS THAT SHE WAS STRUCK BY THE FACT THAT YELTSIN CLEARLY FACED A REAL CONTEST FOR THE PRESIDENCY OF THE RSFSR.

13. THE MOSCOW VISIT WENT WELL. MRS THATCHER WAS WARMLY RECEIVED, AND WAS ABLE USEFULLY TO EMPHASISE THE NEED FOR THE SOVIET UNION TO PERSEVERE WITH ITS REFORMS, AND TO PRESS AHEAD WITH ESTABLISHING A LEGAL FRAMEWORK BOTH TO ENTRENCH AND EXPAND NEW FOUND CIVIL AND POLITICAL LIBERTIES, AND TO PROVIDE A STABLE BASIS FOR DOMESTIC ECONOMIC REFORM AND INTERNATIONAL COOPERATION.

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MY TELNO 1095: MRS THATCHER: TALKS WITH GORBACHEV

SUMMARY

1. IN DISCUSSION WITH MRS THATCHER ON 27 MAY, GORBACHEV DISCLAIMS ANY INTENTION OF ASSUMING DICTATORIAL POWERS. INTERNAL POLITICAL CHANGE TAKING PLACE VERY FAST IN THE SOVIET UNION AND IMPROVISATION NECESSARY. THE APRIL PRICE RISES HAD BEEN VITAL ALTHOUGH SOME HAD TRIED TO EXPLOIT THEM POLITICALLY.
2. THE 9 + 1 AGREEMENT EMERGED WHEN GORBACHEV WARNED THAT THE CHOICE WAS COOPERATION OR CHAOS. HIS THREAT TO RESIGN SOBERED UP THE PARTY AT THE 25 APRIL PLENUM. THE 9 + 1 AGREEMENT CONTAINS STABILISATION MEASURES, INCENTIVES TO ENTERPRENEURS, AND PROVISIONS TO ACCELERATE THE MOVE TO A MARKET ECONOMY. EMPHASIS ON FOREIGN INVESTMENT AND DENATIONALISATION.
3. DRAFT UNION TREATY SHOULD BE READY FOR DISCUSSION IN REPUBLICS NEXT MONTH. WOULD INVOLVE SINGLE CURRENCY AND BANKING SYSTEM, CUSTOMS UNION, JOINT CREDIT SYSTEM, ALL WITHIN SINGLE ECONOMIC SPACE. TAXATION SYSTEM STILL TO BE RESOLVED. CONFIDENT THAT MOLDOVA, ARMENIA AND GEORGIA WILL EVENTUALLY SIGN UP.
4. GORBACHEV UNYIELDING ON BALTIC STATES. URGES COMMITMENT FROM G7 TO SOVIET REFORM: MUST BE PREPARED TO PAY TO SAFEGUARD PROCESS OF WORLDWIDE SIGNIFICANCE. EXPRESSES CONCERN THAT SOME IN THE US ARE URGING BUSH TO TAKE A TOUGHER, UNFORTHCOMING LINE ON US/SOVIET RELATIONS.

DETAIL

5. THE FOLLOWING IS A FULLER ACCOUNT OF MRS THATCHER'S DISCUSSION WITH GORBACHEV YESTERDAY AFTERNOON (27 MAY). IT IS BASED ON NOTES PROVIDED BY PROFESSOR POLLOCK, HER INTERPRETER (NO MEMBER OF THE EMBASSY WAS PRESENT):

(I) ATTITUDE TO POWER: GORBACHEV DISMISSED A SUGGESTION FROM SOME QUARTERS THAT HE HAD DICTATORIAL AMBITIONS. IRONICALLY, THOSE SUCH AS YELTSIN, SOBCHAK (MAYOR OF LENINGRAD) AND POPOV (MAYOR OF MOSCOW) WHO HAD MADE SUCH ALLEGATIONS WERE NOW ARGUING IN FAVOUR OF INCREASED POWERS FOR THEMSELVES:

(II) INTERNAL POLITICS: CHANGE WAS CURRENTLY TAKING PLACE VERY RAPIDLY. IT WAS DIFFICULT TO ADJUST TO THE PACE: IMPROVISATION WAS NECESSARY. MARCH/APRIL HAD BEEN A CRITICAL PERIOD, WITH PRICES RISING, INCOMES FALLING, AND A STRUGGLE BETWEEN THE CENTRE AND THE REPUBLICS. THERE HAD BEEN GENERAL AGREEMENT BEHIND THE SCENES THAT PRICE RISES, HOWEVER PAINFUL, WERE NECESSARY, ALTHOUGH POPOV AND SOBCHAK HAD PROTESTED PUBLICLY AGAINST WHAT THEY HAD ACCEPTED PRIVATELY. BOTH LEFT AND RIGHT HAD TRIED TO EXPLOIT THE INCREASES FOR POLITICAL ADVANTAGE:

(III) 9 + 1 AGREEMENT - GENESIS: IN THE WAKE OF THE PRICE RISES (AT THE BEGINNING OF APRIL), GORBACHEV HAD WARNED REPUBLICAN LEADERS THAT THE CHOICE WAS COOPERATION OR CHAOS. THIS HAD LED TO THE 9 + 1 AGREEMENT, WHICH HAD BEEN GREETED WITH RELIEF. PEOPLE WERE WEARY OF CRISIS AND CONFRONTATION. GORBACHEV HAD, HOWEVER, BEEN CHALLENGED AT THE PARTY PLENUM ON 25 APRIL, WHEREUPON HE HAD TAKEN THE OFFENSIVE AGAINST HIS DETRACTORS AND HAD THREATENED TO RESIGN. THIS HAD BEEN A SHOCK TO A MAJORITY IN THE PARTY AND HAD LED TO A GENERAL REACTION IN HIS SUPPORT. IT HAD BEEN A TURNING POINT. THEREAFTER GORBACHEV MOVED QUICKLY, IN CONJUNCTION WITH LUKYANOV, TO HAVE THE 9 + 1 AGREEMENT ENDORSED BY THE SUPREME SOVIET:

(IV) 9 + 1 - FUTURE IMPLEMENTATION: THE 9 + 1 AGREEMENT COMMITTED THE REPUBLICS, AS WELL AS THE UNION GOVERNMENTS. IT WOULD INVOLVE ECONOMIC STABILISATION MEASURES, INCENTIVES TO ENTREPRENEURIAL ACTIVITY, AND MEASURES DESIGNED TO ACCELERATE THE MOVE TO A MARKET ECONOMY. PAVLOV WAS PREPARING THE NECESSARY ENABLING LEGISLATION. KEY ELEMENTS IN THE PROGRAMME WERE INCREASED FOREIGN INVESTMENT AND DENATIONALISATION. THE LATTER WOULD TAKE TIME SINCE IT INVOLVED DISMANTLING A STATE 'SUPER MONOPOLY'. BUT PAVLOV WOULD PRESS AHEAD AS RAPIDLY AS POSSIBLE. THERE SHOULD BE RESULTS WITHIN TWO YEARS. FOREIGN INVESTMENT WOULD HELP THE PRIVATISATION PROCESS: THE SOVIET UNION MUST BE INTEGRATED INTO THE WORLD ECONOMY. ANOTHER IMPORTANT TASK WAS CHANGING POPULAR ATTITUDES TOWARDS PRIVATE PROPERTY. IN UNDERTAKING THESE REFORMS, GORBACHEV DERIVED

INSPIRATION FROM WHAT MRS THATCHER HAD ACHIEVED IN BRITAIN AND GONZALES IN SPAIN:

(V) UNION TREATY: ON 24 MAY GORBACHEV HAD CHAIRED THE FIRST MEETING OF THE NEW STANDING COMMITTEE ON THE UNION TREATY (ATTENDED BY THE 9 REPUBLICS INVOLVED IN THE 9 + 1 AGREEMENT, AND MOST AUTONOMOUS REPUBLICS). AGREEMENT WAS REACHED TO COMPLETE THE DRAFT UNION TREATY IN JUNE AND THEN TO PRESENT IT TO REPUBLICAN GOVERNMENTS FOR THE CONSIDERATION OF THEIR REPUBLICAN SUPREME SOVIETS BEFORE SUBSEQUENT SIGNATURE. THIS WOULD COMMIT THEM TO A SINGLE CURRENCY AND BANKING SYSTEM, A CUSTOMS UNION, A JOINT CREDIT SYSTEM, ALL WITHIN A SINGLE ECONOMIC SPACE. THE QUESTION OF TAXATION HAD STILL TO BE RESOLVED. THERE WOULD HAVE TO BE UNION, REPUBLIC AND MUNICIPAL BUDGETS FINANCED BY A COMMON TAXATION SYSTEM. THE UNION BUDGET WOULD HAVE TO PAY FOR DEFENCE, LAW ENFORCEMENT, RESEARCH, AND CULTURAL PROJECTS. THERE WOULD ALSO HAVE TO BE PROVISION TO SUPPLEMENT THE BUDGETS OF THE POORER REPUBLICS. THOSE REPUBLICS THAT HAD NOT SIGNED THE 9 + 1 AGREEMENT WERE NOW ANXIOUS ABOUT WHAT WOULD HAPPEN IF THEY WERE EXCLUDED FROM THIS ECONOMIC SPACE. MOLDOVA, ARMENIA AND GEORGIA WOULD PROBABLY ALL SIGN UP IN DUE COURSE:

(VI) THE BALTIC STATES: WHEN MRS THATCHER SAID THAT SHE HOPED THE BALTS WOULD PERSEVERE WITH THEIR DEMANDS FOR INDEPENDENCE, AND WOULD BE SUCCESSFUL, GORBACHEV SAID THAT THEIR WISH FOR SECESSION WAS MATCHED ON THE RUSSIAN SIDE BY AN EQUAL WISH FOR ACCESS TO THE SEA. THE BALTIC QUESTION WENT BACK MUCH FURTHER THAN 1939-40: THE INTERWAR PERIOD HAD BEEN AN ANOMALY PRODUCED BY THE SPECIAL CIRCUMSTANCES OF THE 1917-20 PERIOD. BEFORE THAT THE BALTIC STATES HAD BEEN PART OF RUSSIA FOR HUNDREDS OF YEARS:

(VII) THE G7: PERESTROIKA WAS A PROCESS THAT HAD IMPLICATIONS FOR THE WHOLE WORLD. SUCCESS WAS COSTLY: BUT FAILURE WOULD BE EVEN MORE SO, BOTH FOR THE SOVIET UNION AND FOR OTHER COUNTRIES. THE INTERNATIONAL COMMUNITY HAD BEEN WILLING TO SPEND 70 BILLION ON THE GULF WAR: NOW IT MUST HELP SAFEGUARD THE PROCESS IN THE SOVIET UNION WHICH HAD AS MUCH, IF NOT MORE, HISTORICAL SIGNIFICANCE THAN ANY OF THE OTHER TURNING POINTS IN THE 20TH CENTURY. IT WOULD BE A DESPERATE MISTAKE IF CONTEMPORARY POLITICIANS MISSED THIS OPPORTUNITY THROUGH LACK OF VISION AND IMAGINATION: THEY WOULD BE CONDEMNED BY HISTORY. GORBACHEV ADDED THAT HE WAS NOT AFRAID THAT AN INVITATION TO THE LONDON

SUMMIT WOULD AROUSE EXPECTATIONS THAT COULD NOT BE FULFILLED. HE COULD MANAGE THIS PROBLEM. THE SOVIET UNION WAS LIBERALISING ITSELF AND WOULD TRY TO INTRODUCE A CONVERTIBLE ROUBLE IN 1992. BUT MEANWHILE IT NEEDED CONSUMER GOODS TO SEE IT THROUGH A PERIOD OF SCARCITY, AND A DOLLAR STABILISATION FUND. IF ASSISTANCE WERE DELAYED UNTIL THE REFORMS WERE IN PLACE, IT WOULD BE TOO LATE. GORBACHEV REITERATED THAT THE AREAS THAT WERE CRITICAL WERE: RECONSTRUCTION AND MODERNISATION OF THE FOOD INDUSTRY: SUPPLIES OF CONSUMER GOODS TO TIDE THE COUNTRY OVER THE PERIOD OF DISLOCATION BEFORE REFORM TOOK EFFECT: AND A DOLLAR STABILISATION FUND TO SUPPORT THE MOVE TO A CONVERTIBLE ROUBLE. ENERGY AND TRANSPORT WERE ALSO AREAS THAT OFFERED GREAT SCOPE FOR ECONOMIC COOPERATION:

(VII) US/SOVIET RELATIONS: GORBACHEV EXPRESSED CONCERN ABOUT AMERICAN ATTITUDES. THERE WAS STILL EVIDENCE OF COLD WAR THINKING. (GORBACHEV WAS EVIDENTLY BITTER AT THE AMERICANS' RECENT REFUSAL TO EXTEND ADDITIONAL AGRICULTURAL CREDITS DESPITE THE SOVIET UNION'S SOLID REPAYMENT RECORD FOR GRAIN PURCHASES IN THE PAST.) BUSH WAS UNDER PRESSURE TO TAKE A HARDER LINE IN BILATERAL RELATIONS AND, THOUGH HE HAD SO FAR RESISTED THIS, IF HE SUCCUMBED TO RIGHT WING PRESSURE, IT WOULD PREVENT THE INTERNATIONAL BREAKTHROUGH THAT GORBACHEV AND MRS THATCHER BOTH WANTED AND HAD WORKED FOR.

6. GORBACHEV CONCLUDED WITH A PLEA FOR FURTHER SUPPORT. MUCH THAT HAD BEEN ACHIEVED WAS NOW IN THE BALANCE. IT WAS ESSENTIAL TO FIND A 'SECOND WIND' TO ENSURE THAT THE REFORM PROCESS WAS CARRIED FORWARD AT WHAT WAS A CRITICAL, HISTORICAL MOMENT.

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MRS. THATCHER: TALKS WITH GORBACHEV

MRS. THATCHER SPENT TWO AND A HALF HOURS THIS AFTERNOON 27TH MAY WITH GORBACHEV. A FULLER ACCOUNT FOLLOWS. BUT GORBACHEV TOLD HER THAT HE WOULD BE SPEAKING TO PRESIDENT BUSH AT 1100 P.M. MOSCOW TIME TODAY (2000 GMT). MRS. THATCHER THEREFORE ASKED THAT THE FOLLOWING BRIEF ACCOUNT BE PASSED TO THE PRESIDENT OR TO SCOWCROFT BEFORE THE CONVERSATION TAKES PLACE.

2. GORBACHEV SPOKE AT LENGTH ABOUT HIS CURRENT EXCHANGES WITH THE NINE REPUBLICS (THE 'NINE PLUS ONE'). HE SAID THAT THE TALKS WERE GOING WELL, AND THAT IN PARTICULAR THEY WERE GETTING TO GRIPS WITH THE ECONOMIC ISSUES. HE BELIEVED THAT AGREEMENT WOULD BE FORTHCOMING ON A SINGLE CURRENCY, ON CONTROL OF THE MONEY SUPPLY, ON PRIVATISATION, ON PRICE REFORM, ON A SPECIFIC DIVISION OF TAXES BETWEEN UNION, REPUBLICS, AND LOCAL AUTHORITIES, AND ON THE RESERVATION TO THE UNION OF A SMALL NUMBER OF SECTORS (E.G. TRANSPORT, ENERGY, SPACE AND SCIENTIFIC POLICY.) HE CONSIDERED THAT THESE MEASURES REPRESENTED EXACTLY THE KIND OF MARKET ORIENTATED REFORM WHICH THE WEST HAD BEEN DEMANDING.

3. HE THEREFORE VERY MUCH HOPED THAT THE WEST WOULD NOW DELIVER ITS SIDE OF THE BARGAIN IN ACCORDANCE WITH ITS EASTERN PRINCIPLE OF 'NO REFORM, NO HELP'. HE NEEDED POLITICAL SUPPORT FOR THE CONTINUED PROCESS OF REFORM. HE WAS MOST UNHAPPY ABOUT THE WAY THE WAY SOME POLITICAL GROUPS IN THE USA WERE NOW ARGUING THAT PERESTROIKA WAS FAILING, THAT HE HIMSELF HAD RUN OUT OF STEAM, AND THAT IT WAS THEREFORE NOT IN THE AMERICAN INTEREST TO GO ON SUPPORTING EITHER.

4. IN CONCRETE TERMS, WHAT HE NEEDED FROM THE WEST IN EXCHANGE FOR HIS ECONOMIC REFORMS WAS FINANCIAL SUPPORT FOR THE STABILISATION OF THE CURRENCY TO SUPPORT HIS AIM OF ROUBLE CONVERTIBILITY BY 1992: AND INVESTMENT IN SOVIET INDUSTRY, ESPECIALLY UN THE ENERGY AND FOOD SECTORS. DESPITE CURRENT DIFFICULTIES THE SOVIET PAYMENT RECORD WAS FIRST CLASS. OVER THE PAST DECADE THE SOVIET UNION HAD

BOUGHT BILLIONS OF DOLLARS WORTH OF GRAIN: FOR WHICH IT HAD PAID ON THE NAIL, AND FOR WHICH IT DID NOT OWE A PENNY. THE WEST SHOULD TAKE THIS TO INTO ACCOUNT.

5. MRS. THATCHER ASKED WHETHER THIS WAS WHY GORBACHEV WISHED TO BE ASSOCIATED WITH THE FORTHCOMING G7 SUMMIT. DID HE PRIMARILY NEED THE POLITICAL SUPPORT THAT WOULD COME FROM A SUCCESSFUL MEETING? OR DID HE NEED IT TO GENERATE CONCRETE HELP? GORBACHEV INDICATED THAT HE NEEDED BOTH, ALTHOUGH HE WAS PERFECTLY AWARE OF THE POLITICAL RISK OF DISAPPOINTED EXPECTATIONS.

6. MRS. THATCHER TOLD GORBACHEV VERY FIRMLY THAT HE SHOULD HAVE NO DOUBT ABOUT THE STURDY POLITICAL SUPPORT WHICH THE PRESIDENT ACCORDED TO TO PERESTROIKA AND TO GORBACHEV HIMSELF. IT WAS IN THE WEST'S INTEREST THAT THE SOVIET REFORMS SHOULD SUCCEED AND WESTERN GOVERNMENTS KNEW THIS WELL. SHE EMPHASISED HOWEVER THAT WESTERN CREDITS WOULD ACTUALLY DAMAGE THE SOVIET ECONOMY IF THE REFORMS WERE NOT IN PLACE TO RECEIVE THEM.

COMMENT

7. MRS. THATCHER COMMENTED TO ME THAT GORBACHEV SEEMED GENUINELY CONFIDENT THAT HE COULD HAVE THE NEW UNION TREATY (EMBRACING NINE REPUBLIC'S IN THE FIRST INSTANCE) FULLY NEGOTIATED AND SIGNED IN JUNE. HE THEREFORE CONSIDERED THAT HE COULD IF INVITED COME TO THE G7 SUMMIT WITH CONCRETE EVIDENCE OF HIS DETERMINATION TO REFORM THE SOVIET ECONOMY.

8. MRS. THATCHER ADDED THAT GORBACHEV SEEMED TO BE GENUINELY AND SERIOUSLY CONCERNED BY WHAT HE SAW AS WANING SUPPORT IN THE USA FOR HIS EFFORTS. HE SPOKE MUCH ON THE SAME LINES AS IN HIS RECENT INTERVIEW WITH MURDOCH.

9. MRS. THATCHER ASKED THAT HER VERY WARMEST GOOD WISHES SHOULD BE CONVEYED TO THE PRESIDENT AND MRS BUSH, AND TO THEIR STAFF.

10. I AM PASSING THE FOREGOING TO THE US AMBASSADOR.

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HONG KONG FOR SECRETARY OF STATE'S PARTY

MRS THATCHER'S CALL ON THE SECRETARY GENERAL, 8 APRIL

SUMMARY

1. DISCUSSION OF THE GULF, ARAB/ISRAEL AND CYPRUS.

DETAIL

2. MRS THATCHER, WHO IS MAKING A PRIVATE VISIT TO NEW YORK, CALLED ON THE SECRETARY GENERAL ON 8 APRIL. I ACCOMPANIED HER.

THE GULF

3. THE SECRETARY-GENERAL RECALLED HIS MEETING WITH SADDAM HUSSEIN JUST BEFORE THE CONFLICT BEGAN. HE HAD BEEN SERENE IN THE FACE OF THE IMPENDING WAR, IN STARK CONTRAST TO PRESIDENT BUSH WHO HAD SO OBVIOUSLY WANTED PEACE. MRS THATCHER COMMENTED THAT SADDAM HUSSEIN WOULD CERTAINLY ACT IRRESPONSIBLY AGAIN IF HE REMAINED IN POWER.

4. THE SECRETARY-GENERAL SAID THAT IT WAS UNFORTUNATE THAT THE TURKS WERE SPEAKING OF A 'PROTECTORATE' FOR THE KURDS. I DESCRIBED OUR VIEWS ON A SAFE HAVEN. IT WAS IMPORTANT TO DO SOMETHING OF THIS SORT, MAKING USE OF THE RESOURCES OF THE UN AGENCIES, TO STOP THE EXODUS AND, IF POSSIBLE ENCOURAGE THE REFUGEES IN TURKEY AND IRAN TO RETURN. MRS THATCHER COMMENTED THAT THIS WOULD NEED IRAQ'S ACQUIESCENCE. IT WAS IMPORTANT THAT ANY SUCH ARRANGEMENTS SHOULD BE TEMPORARY. THE KURDS, LIKE THE CAMBODIANS, MIGHT GET USED TO LIVING IN CAMPS. I COMMENTED THAT THEY HAD BEEN DRIVEN FROM THEIR HOMES BY SADDAM HUSSEIN TWICE BEFORE, BUT HAD ALWAYS SHOWN A STRONG TENDENCY TO RETURN.

5. THE SECRETARY-GENERAL SAID THAT THE TASK OF RECONSTRUCTION IN

IRAQ, KUWAIT AND ALSO IRAN (THE LOST OF WHICH SHOULD NOT BE FORGOTTEN - SCR 598) WAS IMMENSE. SO WAS THAT OF ESTABLISHING SECURITY FOR A REGION STRETCHING FROM AFGHANISTAN TO THE MEDITERRANEAN. MRS THATCHER OBSERVED THAT MANY COUNTRIES IN THE AREA WERE HEAVILY ARMED (THOUGH NOT VERY GOOD AT USING THEIR ARMAMENTS). THEY HAD A TYRANT IN THE AREA AND WOULD CONTINUE TO WANT TO DEFEND THEMSELVES. THERE WAS ALWAYS A WAY TO ACQUIRE WEAPONS, FROM THE BLACK MARKET OR SAY NORTH KOREA. I SAID THAT 85% OF ARMS SUPPLIES TO THE AREA CAME FROM THE FIVE PERMANENT MEMBERS OF THE SECURITY COUNCIL. WE HAD TO TRY TO ESTABLISH A SUPPLIERS CLUB TO LIMIT THE ARMS BUILD-UP.

6. THE SECRETARY-GENERAL SAID THAT THE EMIR OF KUWAIT'S STATEMENT THAT ELECTIONS COULD BE HELD 'SOME TIME IN 1992' WAS NOT GOOD ENOUGH. MRS THATCHER COMMENTED THAT HE WAS A NICE MAN, BUT HE NEEDED TO BE TOLD TO EASE OFF ON HIS CONSPICUOUSLY LUXURIOUS LIFESTYLE WHILE HIS PEOPLE WERE SUFFERING.

ARAB/ISRAEL

7. MRS THATCHER SAID THAT IT WAS VERY BAD THAT SOVIET JEWS WERE BEING SETTLED ON THE WEST BANK. IT MIGHT NOT BE POSSIBLE TO MAKE RAPID PROGRESS ON ARAB/ISRAEL BECAUSE THERE WAS TOO MUCH EMOTION AND TOO LITTLE REASON AMONG THOSE INVOLVED. SHAMIR WOULD NEVER BE THE ONE TO GIVE UP LAND. THE SECRETARY-GENERAL SAID THAT THE PALESTINIANS HAD TO BE GIVEN SOME HOPE. MRS THATCHER SAID THAT THEIR PLIGHT WAS EVEN WORSE NOW THAT MANY OF THEM HAD LOST THEIR LIVELIHOODS IN KUWAIT AND ELSEWHERE IN THE GULF. KUWAIT WAS ALSO SUFFERING FROM THE LOSS OF SUCH ABLE AND CULTURED PEOPLE.

8. THE SECRETARY-GENERAL SAID THAT HE WAS THINKING OF GOING TO THE MIDDLE EAST PERSONALLY TO INTRODUCE HIS NEW SPECIAL REPRESENTATIVE, BRUNNER. I WELCOMED THIS.

CYPRUS

9. THE SECRETARY-GENERAL SAID THAT IT LOOKED AS THOUGH THE TURKS WERE NOW PREPARED TO PUT SOME PRESSURE ON DENKTASH. HE WAS DISMAYED BY SOME OF THE CRITICISM THAT HE HAD HAD RECENTLY FROM THE GREEK CYPRIOT SIDE, INCLUDING 'EVEN MY FRIEND VASSILIOU'. I SUGGESTED, AND THE SECRETARY-GENERAL AGREED, THAT IT WOULD BE HELPFUL IF MRS THATCHER COULD TELL VASSILIOU WHEN SHE SEES HIM ON 14 APRIL THAT SHE HAD SPOKEN TO THE SECRETARY-GENERAL AND THAT THERE WAS EVIDENCE THAT THE TURKS WERE SERIOUS ABOUT WORKING

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TOWARDS A SETTLEMENT. THE SECRETARY-GENERAL SAID THAT HIS AIM WAS
TO GET THE TALKS BETWEEN THE COMMUNITY LEADERS BACK ON TRACK AGAIN
BEFORE HE LEFT OFFICE.

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