

TRANSCRIPT BY ALEX STACEY OF:

INTERVIEW BY THE PRIME MINISTER OF

20 NOVEMBER 1987.

INTERVIEWERS: (FINANCIAL TIMES)

MALCOLM RUTHERFORD

GEOFFREY OWEN

PETER RIDDEL

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INTERVIEWER:

I wonder if I could ask you two sort of linked questions really? One, how confident you are that the response to the immediate world economic situation will be appropriate from the various parties, but secondly - and looking further ahead - whether you see the present moment as a bit of a turning point and which calls for a heightened degree of international cooperation, in other words, on the economic front whether you see the need and feasibility of raising the level of economic cooperation higher than it has been?

PRIME MINISTER:

I am saying this, not for publication, obviously I have to be careful what I say because sometimes, if you give a frank opinion it might stop the very thing that you are hoping to encourage, so it will have to be a very diplomatic reply.

I think the United States will do sufficient to reduce the deficit. I hope it will be for two years and not one, which is a way of saying that I hope that they will in fact take a decision and

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not leave Gramm-Rudman (Phon) to operate because I think there is a great plus in taking a decision and I think there would be a minus in leaving Gramm-Rudman to operate. You will see why.

If you have got problems I think it is best that whatever solution comes, it comes as a result of a positive decision and I would hope that it would be for two years. Assuming that, then I think that G7 will respond because I think that they recognise much more now that the world is a global economy but that I think they recognise - if I might put it at even more than that - I think they recognise that for cooperation you have all got to be running your economies in a pretty sound way otherwise it is no good thinking that cooperation can be a substitute for running your economies in a sound way.

I tried to set out what I thought was the sound way in the Guidhall speech you very kindly wrote a leader about. You cannot get around any of them. You cannot do without any of those. There were the four things of which the third one of course was that no-one is entitled to have a balance of payments surplus entrenched in the way in which they run both their economy and also their society - or if you like to put it - their culture because if that were to be so, then when the United States deficit goes down, it means that the rest of us would also have to carry a bigger proportion of the 'can' than we should.

So to sum up; yes, I think the United States will do sufficient to restore confidence. In my view that should come as a positive decision and should be for two years. I think then that there will be a reasonable response from the G7 countries and I

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think that most of us realise - and I hope all - that that response must be on the basis of each running our economies in a sound way.

When you do run your economies in a sound way, then you can have certain agreements on currencies which are based on running your economies in a sound way and then they will work to stop sudden rushes which mainly are speculative rushes but they could not overcome fundamentally unsound economic policies but I think that almost goes without saying.

INTERVIEWER:

In the case of Germany and Japan, what is the main thing you would like to see in Japan, for example?

PRIME MINISTER:

You want, by one way or another, an increase in their domestic demand, because that is necessary - they have got this enormous surplus - it really is necessary that they in fact have more increase in domestic demand so that the rest of us can in fact export some of our goods there.

INTERVIEWER:

And the same in Germany, would you think that Germany is being too..?

PRIME MINISTER:

I would think both of those things. Now if you look, at the moment, if you look at the growth rate in Germany, I think, David, it is about one and a half percent at the moment, isn't it? Now we are four - just over four, you see. We are doing our stuff in the sense that we realise that if the demand was for the United States both deficits to go down, then obviously either someone else's

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surplus has to go down and what will happen is someone else's deficit goes up. Now it is not just fair to leave it to countries like ourselves to get the increased demand, which we were doing quite apart from that deficit because we reckon we are operating soundly but I do think it is necessary for both Germany and Japan. I recognise that with Germany, the level of the deutschmark is at the moment beginning to give problems for her exports. She will, like most countries, strong countries - Germany - when that happens, cut her export prices to the bone, because you do, because you tend to want to keep your markets and it is always a mistake for people to measure the change directly by a currency change because they are always offsetting steps which they take on the exports to cut prices to the bone, and then when it comes to imports, - may I switch over to Japan now?

Japan's culture and society is not a naturally importing country. She has not got the most excellent system of distribution that we have. Anyone who wants to sell us their goods, plugs into one of the best distribution systems the world over. You do not in Japan and also her culture is not naturally to say "My goodness me, that is really rather nice, we shall buy it". Her culture is to say "That is really rather nice, let's see if we can make it". So you have always got to a variation in currency value; you do not get a mechanical response quantitatively. Other action is taken. And that is why I said not merely that surplus countries must not attempt to entrench their surplus and I apply that not only to taking the necessary economic steps to increase demand but also said they must not run both their economies and their societies such that they

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think they have a right to have an entrenched surplus almost indefinitely. That is clear is it?

INTERVIEWER:

Yes, there has been some criticism of the Louvre Accord of being too vague, I mean, do you think that the time is right for a slightly more wide-ranging exchange rate agreement, getting back nearer to a fixed exchange rate system?

PRIME MINISTER:

Look, a fixed exchange rate will not work in the absence of running your economies in a sound sensible way. That is why Britain was broke because countries were running their economies in a highly inflationary way and the fixed exchange rate cracked - of course it did! - because no fixed exchange rate system or managed exchange system can work, can be a substitute for sound running of economies and if you try to use it that way, it will not work. It is only when you have heard of the fundamental adjustment - as the Chancellor has often said the dollar had in fact come down before the Louvre Accord - and only when you all are running your economies in a similar sound way, then of course it will work and then it will effectively work to stop sometimes sudden currency rushes which you get for other reasons and then you can work it but you can work it with sound policies, but you cannot work it in the absence of sound policies.

INTERVIEWER:

Just staying on exchange rates but think about the UK, you told us when we met before that when we talked about the EMS that you would be more interested in the idea when the British economy

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was stronger, that that was something you put some weight on. Do you think the conditions are nearer to being fulfilled?

PRIME MINISTER:

Well the British economy certainly is strong but I certainly think from my experience of recent times, I think we have been freer and perhaps been able to be more helpful than we could have been had we been on the exchange rate mechanism of the EMS and you will have seen, you see, that during this period of tension and currency tension, that it has actually brought strains within the EMS itself which of course have not applied to us because we are not in the exchange rate mechanism and it has undoubtedly given us a degree of freedom which we would not otherwise have had, a degree of freedom for which some of us have been very grateful. And also, if I may say, let me put it another way - can I just ask my boys if they think that I am being my usual frank self which is when I have said it that I can ask you not to repeat it if they both think it is simply terrible?

At the moment the deutschmark, everyone is geared to the deutschmark save us. The deutschmark at the moment is slightly deflationary. That means the whole of Europe is geared to a slightly deflationary policy. Now we have not been so geared and we have had a greater degree of freedom in relation to both the dollar and the deuschmark and I just think that I am grateful for that.

Now that is not too awful is it? It is accurate.

INTERVIEWER:

I have one question about that. You say we are not geared to the deutechmark - that is technically true that we are not in the RM

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but many of us thought that we were going for a rate of just under or around three deutschmarks to the pound and that was...

PRIME MINISTER:

Did you? But why? But look! When the quite considerable changes in the exchange rate came, we were not tied to anything and that gave us a degree of freedom which other people in the exchange rate mechanism have not had and undoubtedly some of the currency movements during this period have put strains within the exchange rate mechanism, strains to which we were not subject, and frankly what I am saying to you is that I preferred that. It is totally different to be in the system and everyone to know that you are geared to lines; totally different from being outside the system and choosing to run for a period if it suits you - your exchange rate near to something, near to one particular band - everyone knows that you are not constrained by that band and you can come off it today or tomorrow if you wish.

In other words, what I am saying Mr Rutherford, is that there is no way of thinking "Well now, we shall try to run our currency as if we are in it by keeping it within a band" and then you could say, well now we could have gone in it. It is totally different. If you are in it, the world can pitch you against a sudden level and test you. If you are not, then you can choose where you run it voluntarily. If you have much latitude you might choose to let it be completely free but everyone knows that you are not in fact constrained. So there is no similarity at all.

INTERVIEWER:

Is it just a coincidence that we have been so close to around

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the deutchmark 2.98 for...?

PRIME MINISTER:

We are free to choose whether you support, for one reason or another, or not and it has fluctuated.

INTERVIEWER:

But I thought that one of the arguments that you will probably accept is that business likes predictability and stability and with the way you have just expressed it almost implies a degree of unpredictability - as deliberate policy - in your exchange rate handling.

PRIME MINISTER:

No it does not. Just go back to what I said earlier. There is no such thing as predictability in the absence of sound policies arund in a similar way. Of course people want to reach for the moon. You cannot have it. You have got to run your policies in a sound way even then you will get currency movements unrelated to the underlying economy. The Louvre Accord is really to help you over that kind of movement and it does. But there is no way in which anyone can hold to a fixed exchange rate if they are running unsound policies and even in the EMS they have to have devaluations or revaluations from time to time.

INTERVIEWER:

You would prefer to keep this freedom you have described for the time being?

PRIME MINISTER:

No, let me put it that as we have come through these past year to two years, I think it has served us better to have had the

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freedom we have had - undoubtedly. Not to be constrained.

INTERVIEWER:

But that does not pre-judge what might come?

PRIME MINISTER:

It does not pre-judge the future.

INTERVIEWER:

What conditions would have to be fulfilled however, for the balance to tilt towards entering into the exchange rate mechanism?

PRIME MINISTER:

I do not quite know. I think it is better not to try to set them out. I think you have to judge as you come up to the time to see whether conditions have fundamentally been fulfilled and I do not think any of us quite predicted what - well certainly not many people can have predicted what has happened within the last month.

Frankly if they had, some of them would not have been so fully invested as they were. They might have been more liquid. One or two people were. But certainly during that period of difficulty, it has - I believe - served our interest better to be without and therefore - if I might put it this way - our natural caution at going back, to be seen to go back within strict limits when whichever way you look at it, our economy is rather different from those on the continent, the oil factor being one thing, the fact that we run our economies without exchange rate control, and the fact that we are still at a considerable reserve currency which makes.... unknown factor than any other currency going in.

It is just: one is naturally cautious about it, one is naturally cautious about being seen to go within limits knowing what

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those who speculate on these matters can do if they see you coming up to a line. I cannot tell you precisely what the conditions would be. I can only tell you that caution has prevented us from doing it, caution and a different economy and I have been grateful for the fact that we had not done it and I think it has profitted us better. I do not know whether that condition will continue.

INTERVIEWER:

What would the positive - if you look at it from the other point of view - what would be the positive gains? Would they be political in your view or greater economic solidarity within Europe? I mean what are the positive sides of entering the ...

PRIME MINISTER:

Well the business man will assume that if you go in, that you can always maintain the rate of currency exchange at which you go in. It does, to some extent, constrain you on the way you run your economy. What I said a moment ago - I do not think we would have the growth rate that we have now and I think that that growth rate actually has benefitted us.

INTERVIEWER:

Probably there is going to be an INF agreement. Perhaps there is going to be a start agreement.

PRIME MINISTER:

Are you two very perturbed? I tend to be usually frank and it looks even worse in print.

INTERVIEWER:

You have absolutely said that there is no range of around three deutschmarks to the pound.

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PRIME MINISTER:

No specific range. We are always free and the point I do want to get across, there are some people who do safely. I was quite surprised sometimes when some say "but you have rallied within the last few months" - this is not recently but a time before - within that range. It is quite different actually getting into getting yourself onto graph paper and saying "I live within these few boxes" and then letting people test you as you come up to a top...

PRESS OFFICER:

Was there anything in the Prime Minister's replies that surprised?

INTERVIEWER:

I think that the extent to which we thought that Government policy was, if not explicitly, at least very implicitly linked to the deutschmark.

PRIME MINISTER:

Well you are not entirely able to link anything with anything because you cannot avoid the cross rates. I mean you just cannot.

INTERVIEWER:

But I think what has been clarified is this distinction between ...

PRIME MINISTER:

Do you know what we are today? We are about 179 on the dollar today. What are we cross rate on the deutschmark?

INTERVIEWER:

299, you see. That is why we think, and you say it is only a

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coincidence that we have been so close to 299 really since the budget.

PRIME MINISTER:

We are not confined to any particular limits and I do not like us to be because to do that is to tempt people to have a go and you cannot beat a speculator except over a short period. You can have a soft landing which you often need the help of others.

INTERVIEWER:

Can we move to defence? INF probably, start perhaps, Superpower agreements, what do you think that Europe in south western Europe needs to be doing for its own defences that it is not already doing and have you had some doubts about how far you can rely in the long term on the present degree of dependence on the United States?

PRIME MINISTER:

No, I have not had any doubts about it because when other people talk about greater cooperation within Europe and setting up almost separate organisations for that, I am the first to say "look the defence of Europe depends upon NATO and you do nothing but nothing but nothing to undermine that ever because that is our defence and to some extent it is their defence too. Now that means that after the intermediate treaty has been signed, the doctrine is flexible response.

Now you simply cannot have a doctrine unless you have got the capacity and up-to-date to have a flexible response and you have to do the same kind of review as you do from time to time. You have got to up-date all your weaponry, you up-date your aircraft, you up-

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date your tanks, you up-date your various other weapons. Of course you need to look at your nuclear weaponry to see too whether that needs to be up-dated because do not forget the intermediate nuclear weapon affects only land-based intermediate nuclear weapons; that leaves your sea-based and your air-based just part of your flexible response and part of the variety of weaponry which you have and which you need and so sometimes when people look at me with astonishment and say "But do you mean to say that you would up-date your nuclear weapons?" I said "Look, if you are in the business of defending your country properly, you have a bounden duty to see that your weapons are as up-to-date and modernised as you possibly can.

You do not expect us to stay with old tanks, with old guns. Why do you not expect us also therefore to have a look at modernising from time to time our nuclear weaponry and that of course also has to be continued but you keep - I am saying two things - I am saying first, you modernise and keep it up to date but secondly, you must keep, if your strategy is flexible response, your weaponry must be such that that strategy is capable of being carried out but your main strategy of course is deterrence. There is nothing as strong as nuclear deterrence so from the European angle of the NATO alliance I have said quite clearly and go on and on saying that there must be no further nuclear weaponry taken out of Europe before we get the Soviet Union much further nearer to us on conventional weapons and before we see whether we can in fact get a verification system and the Soviets agreeing to eradicate their chemical weapons because we have eradicated ours.

The United States, as you know, has a small

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amount of them but they are very old-fashioned and has not effectively modernised and really one wants to try to see - because they are devastating weapons your new chemical weapons - utterly devastating so, you have got it clear?

INTERVIEWER:

It is primarily about NATO rather than Britain? What about the possibility that the United States might be seen to be undermining NATO first of all by having Superpower arrangements but perhaps also by having new pressure to withdraw American troops from frontiers?

PRIME MINISTER:

From time to time one reads about it. I do not believe that they will withdraw their troops from Europe. I do not believe that - 330,000 is what they have got there - and I think that they know full well that if you started to withdraw them, it would be very very unsettling indeed and could undermine the fundamental freedom of the free world which is why I am so careful never to do that. It is that frontier, the frontier across Germany is the frontier of freedom for the United States as well as for Europe. I believe they know it and I do not believe we do enough to say to the United States about how much we are doing in defence. I have just had a go at doing it this morning saying "Look, you keep 330,000 on that German frontier, we keep 66,000, if you take the air-force and the army which is proportionately the same. You have a bigger navy than we have but ours gets around the world quite a lot and we had the best minesweepers and they are busy sweeping mines in the Iranian Gulf and as I told you, when I went to your Congress, we have troops

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on Belize, Cyprus, Sinai over to Hong Kong, in Africa, in the Gulf, indeed we have troops in one form or another - some as military advisers and trainers - in 30 countries in the world and of course in Falklands and that means that we are still a global power and we do our bit and we are - as I say to the United States, as I was saying to a whole group this morning - "look, we even understand how you feel - we in Britain also understand how you feel about some of the threats from Central America because you have troops in Europe, we have very few over there - perhaps some training in Canada - but at least we keep our troops in Belize at their request and it keeps a stable democracy there right on your Central American front, we cannot do a great deal but please will you take that as a token that we recognise the importance and significance of the stability of that area and we are doing our bit to try to keep it going."

So we do try, not just to be takers or not just to abide rigidly by the NATO in-area, both we and of course France do quite considerable out of area work but it matters. You have got to take the big view on this. It is not merely America, Europe; it is the defence of the free world.

INTERVIEWER:

.... Community; you are not worried about defence and you are rather suggesting that there still is a special relationship with the United States.

PRIME MINISTER:

But very much so. What I think we have to watch is that there do not grow up sub-structures in defence in Europe which could have unwittingly unintentionally the effect of undermining the

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across the Atlantic alliance. If you like to look at it as really the Atlantic as the centre of the free world rather than as America, England. It is just a different way of looking at it. I mean the best thing possible of course - which I cannot see it happening - would be for France to rejoin NATO, militarily integrate it. Of course it would! As I sometimes say to them "Why don't you?"

INTERVIEWER:

What does President Mitterand say?

PRIME MINISTER:

You go and put the question to him yourself, you will probably get the same reply. Why don't you? This would be the biggest strengthening and that, you understand that France and Germany....

INTERVIEWER:

You would lose the defence consensus in France if you did. I think that is ... But just the sub-structures; do you mean WEU's revivification or do you mean the Franco-German Brigade?

PRIME MINISTER:

You have to have certain arrangements between France and Germany for very obvious reasons because if France is not integrated into NATO and Germany is right in the forefront then you have to have some arrangements but I think it is important that those arrangements do not take on wholly a bigger life of their own.

INTERVIEWER:

Shall we then turn to Copenhagen?

PRIME MINISTER:

Have you DONE defence?

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INTERVIEWER:

No, for example I wonder if you are worried about the level of defence expenditure and what you get for it?

PRIME MINISTER:

As I am constantly saying to our defence people, just make certain that you do not waste anything and you will just about get the same amount out as you have been getting in the past.

INTERVIEWER:

You do not think we are wasting really do you?

PRIME MINISTER:

There was something called AVACS and NIMROD.

INTERVIEWER:

And there is a lot more isn't there in the pipeline?

(END OF TRANSCRIPT PART 'A' TO BE FOLLOWED BY JAMES LEE TRANSCRIPT

'B')

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TRANSCRIPT "B" - PM - INTERVIEW/FINANCIAL TIMES - 20 NOV 87

FROM JAMES LEE FOR COI TECHNICAL RADIO SERVICES

TRANSCRIPT OF PART OF INTERVIEW GIVEN BY THE PRIME MINISTER,
MRS. THATCHER, ON FRIDAY, 20 NOVEMBER 1987, TO THE "FINANCIAL
TIMES"

INTERVIEWERS: MALCOLM RUTHERFORD, GEOFFREY OWEN, PETER RIDDILL

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PRIME MINISTER:

There are one or two other things and they now do their contracts differently. Gone are the days of cost-plus. First, you have got to draw up your contract with clear objectives, clear specifications, clear lines of progress, clear prices.

It was not done in the past. It is being done now.

INTERVIEWER:

If the Ministry of Defence agreed to release all that land that they own in the south east and south west..

PRIME MINISTER:

That also is indicated to them but sometimes they have got to have a certain amount of practice land. As you know, they have got to have a certain amount of reserve land too. Do not undermine the defence, but do not let them keep any land...

INTERVIEWER:

...did you have a problem of getting through...

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PRIME MINISTER:

No, no, no, but you know, when it comes up to test, everyone comes streaming in and wants more money and you have got to know some of the answers.

INTERVIEWER:

All right, Copenhagen. We think that it is agriculture coupled with Community financing and own resources.

PRIME MINISTER:

That is just about the long, short and tall of it, yes. There is not much else. Apart from structural funds, there is not much else left, is there?

INTERVIEWER:

What do you want to get out of it and how should we measure the results, whether they are a success or

PRIME MINISTER:

Critically, you have got to have enforceably sound financial discipline. That means straight to your agricultural budget.

On your agricultural budget, you have really got two problems. Let me take the second one first.

There are two problems, but the first is your existing surpluses. The second is preventing the continued build-up of surpluses and possibly getting rid of them.

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To prevent the continued build-up of surpluses and possibly to get rid of them, you have got to have...the "in"-jargon, as you know, is stabilisers.

INTERVIEWER:

Which you accept?

PRIME MINISTER:

Not merely accept. We are not going to get anywhere unless we have them in a regulation and they are therefore automatic, and unless we get that, then there will be no progress. If we do get that - and the Commission is working for that as you know - then there is a possibility of progress. But I have been this way before.

INTERVIEWER:

You mean across the board on all products?

PRIME MINISTER:

Yes. There might be a different stabiliser. They really have got to go pretty well across the board.

They have got the cereal at the moment. That is going to be the biggest absorber of money. It is a bottomless well. They have got to get in on nearly everything.

They will not all be worked out in detail, but quite a number of them are already worked out and they have got to go into a

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regulation and the Commission are working on that and I hope the Commission stick to it. We shall stick to it adamantly and we shall not go anywhere without it, because I have been here before.

Goodwill and nice words are not enough. It has got to go into a regulation. I am not going to give that up, so we have got to get that. That is to stop the build-up again.

Then, you come to your existing surpluses and to do them justice, they have been reducing them by very cheap sales, as you know, which cost a bomb on the budget - the difference between what it cost you and world price - but then, it comes to how are you going to deal with the existing surpluses?

As you know, there really are two possibilities.

One is that in your agricultural expenditure coming up into the future you provide systematically for write-off of those surpluses as part of the agricultural expenditure, so that they are down to - I am not quite sure what they call it - the pre-ordained strategic level, what you need, your basic level of surplus, by 1992. 1992 should be quite an exciting year!

So you provide for that both in writing-off, as part of your expenditure, and for the disposal of it, and of course, you have got the world price problem. You know where you are. So in a way, you are trying to deal with two things, both by writing them down and stopping them.

There would be another way of dealing with those surpluses, which I think would be faster, but I am not sure whether every

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country would agree to it - I would be prepared myself to agree to it - which is that the surpluses are there; they are in existing countries. We have had to pay. Each country has had to pay as the food has gone into intervention and then, as you know, you get the money back when you either write down or you sell.

The alternative way, which would be faster and which would have the advantage of what I call a "clean slate" on surpluses, would be you decide now - not 1992 - and take the level now that you want to get down to and each of you agrees not on the CAP. Each of you agrees on your national budget to take and accept the responsibility of a clean slate. Each of you writes down what we have got and takes responsibility for disposing of it without that writing down or costs of disposal coming on to the CAP.

That would have the advantage that you go into a new period with what is attractive to some people - a clean slate, surpluses dealt with - and so we go on now to stop them piling up again.

It would have the advantage that you could then have your agricultural guide-line at a lower level.

It is a possibility. I would not put it higher than that, but it would be a different way - a quicker way - of dealing with it.

INTERVIEWER:

That would be the optimum result from Copenhagen, would it?

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PRIME MINISTER:

I think there is a possibility of getting either result. I think if you are going to deal with things fundamentally, some people would like to take more the clean slate proposition. I think, undoubtedly, there will be others who say: "Look! We normally do these things through the Common Agricultural Policy!" and undoubtedly there will be some countries who would find it difficult to do what I call a clean slate proposition.

On the other hand, it would be much fairer to countries like Spain and Portugal because, after all, the surpluses are not their fault.

I would have thought the greater possibility lies in the first one - the writing it down - but it just depends how bold they wish to be. We have quite considerable surpluses I would be prepared to write down. Germany, of course, has very considerable surpluses - not surprising. France has. Denmark has. Holland has.

Can I just sort of summarise?

So we go to Copenhagen. We have got to have the enforceable stabilisers in regulations. Before anything else, we have to agree to that.

Certainly, other people will say: "We are not going to agree to those unless we go on to consider other things!" Each part is provisional.

Then, how you deal with both past and future surpluses, which is either clean slate or you write the thing down either off the

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budget separately or on the budget up to 1992, and the purpose of 1992 is that then you have come up to dealing with your surpluses. You have come up to your internal market as well at the same time, and it really should be a colossal step forward as far as Europe is concerned and it really should be a common market. It is just very very fortunate that at the next year you should get the Channel Tunnel open and really, as far as we are concerned, it should become a much greater reality and really much more exciting, because it is somehow much more real, so it can be quite exciting.

In Copenhagen, if we get those, then we have to look at the agricultural guide-line and there will be some argument upon the level of that because some of them want to take into account all of the rather difficult things that we have had to cope with during this last year and pitch it high; some of us want to take it down a bit lower because we think to pitch it high would put needlessly large amounts of money into the agricultural budget.

Then, the next argument will be: how much on the structural funds? And I think that there will be differences of opinion on that.

The third argument will be our rebate, and we shall stick absolutely to Fontainebleau unless we get a better arrangement. The chances are we are not likely to get a better arrangement.

The fourth thing, supposing you get all of those in place, is the level of resources.

The fifth thing is, some of them want to do it on the ladder basis - that you go up every year - and some of us say no, we do not

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think it is necessarily advisable to automatically have an increase every year. It is just bad for discipline to assume that you are going to need and spend more every year and to build in the sort of Jacob's ladder steps. We think it is better to say what is the extra amount we should go to and say: "Now look! That headroom has got to last you for a considerable number of years!" but in any event, it has in a growth period an inherent buoyancy about it. If it is a percentage it has. People think that it is rigid. It is not. It has an inherent buoyancy about it.

That is about five things, but no-one is going to get anywhere because the whole thing will fail unless you stop your future surpluses being built up and if you get those stabilisers then you can in fact do what I said: write off your existing surpluses by either means which I indicated. Then you have got the other things to sort out.

INTERVIEWER:

What happens if you do not get much of that in Copenhagen?

PRIME MINISTER:

Well, we do not get any increase in own resources. You go to twelfths. Then, you continue the negotiations until the next European Council.

As I say, the stabilisers first are critical, but you have got to get the effective and enforceable disciplined approach.

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It is very difficult to adjudge why the Agricultural Council broke off. I think a lot depends upon how far the Agricultural Council get and if they come to agreement on stabilisers.

The Commission, I believe, will hold on its views and we shall certainly stand by the Commission.

INTERVIEWER:

Do you see a sort of big leap forward?

PRIME MINISTER:

If all goes well. Do not underestimate the role we have played by going on being solid and stolid. We are going to have it sound and we are going to have it enforceable and all right, there was a time when we said: "All right, if you write it in a minute we will accept it!" Not now!

I think it has been really the sort of firmness, which is not necessarily always palatable, but on the whole, it in the end produces better results and in the end it produces much more confidence between one another if you know you are dealing with the problems and you have built-in a mechanism which is enforceable to deal with them and you have built into your agricultural guide-line - if you are taking the disposal of surpluses on that - you have built-in a write-off and you have built-in certain disposal costs into your guide-line.

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INTERVIEWER:

On inflation, there seems to be a sense, looking at the forecasts..there is obviously an implicit acceptance of a 4-5% inflation rate. What has happened to stable prices?

PRIME MINISTER:

I understand why you say that, because if you look in the last four years, it seems to have fluctuated between round about 3% and 5%. I find that as worrying as you obviously picked it up.

We expect it to go down, as you know, the mortgage rate to come down. I must say that our way of calculating it - as you know, not many other countries have their mortgage rate in it - leads to greater variations because of that than other countries, but we put it to the appropriate committee and they decided that it should still be in it.

One of the reasons that we were very much aware of just precisely the point you have put and which I previously put: "Now look! We have not really made much headway!" The technical reason, I will be told, is that we were quite low partly because of the mortgage thing in 1983..has meant that we were prepared to be quite tough on interest rates at a time when the City were not necessarily expecting it because we do realise the need to get inflation further down and do not think that has been abandoned at all - quite the contrary!

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INTERVIEWER:

Despite the fact that for the next two years the forecast is that it will remain in that range? I mean, there is no sign of it moving down from that range.

PRIME MINISTER:

Certainly not in the next year, but do not forget, we were prepared to put up the interest rate when we felt that things were somehow getting a bit too - what shall I say, effervescent or loose? - whichever way you look at it. Bubbly. They were a little bit too bubbly and that can have implications for your inflation rate.

Now, if we had to have a setback of the kind we have had with the Stock Exchange, this actually came at a time when we could take it because we were beginning to feel - you do it partly through feel, partly by looking around all your money supply, your exchange rate and every figure that you can get - and we felt it was going a bit too fast and so, in a way, we have been able to take whatever is the result of this setback on stock exchanges because most people would, I think, agree, there would be less growth than we have got at the moment if only because it is the psychology of it, that it will run through: "We had better be a bit careful!" - and even that can make quite a difference and so we were in a position to take it.

I can only give what happened as evidence that we have not forgotten.

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INTERVIEWER:

So that by the time of the next election, you would hope that the rate would be below the 3-5% range?

PRIME MINISTER:

It is our intention to get it down further - our positive intention.

INTERVIEWER:

Below that rate?

PRIME MINISTER:

Well I would say it is our positive intention to get it down as far as we can.

INTERVIEWER:

Whatever happened to stable prices then?

PRIME MINISTER:

We would like to get stable prices insofar as - let me make it quite clear - if you have a glut of apples, your price of apples will go down; if you have a shortage of apples, the price of apples will go up, but that is not to do with inflation. That is commodity supply and demand.

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INTERVIEWER:

But on the commodity supply thing, there is a lot said about the distorting effects in terms of your broad economic objectives, of house prices in the south-east and how much is that that people cannot recruit staff they want because people just are not willing to move to the south-east?

PRIME MINISTER:

At the moment, as you know, if you look at the figures and believe the figures, there are quite a number of unemployed in the south-east.

If you look at the training that is going on, we should be able to train those people for the jobs that are available.

You are begging a question, saying how accurate are the figures.

Let me put it the other way round: there is a great incentive to companies now to move further north because salary-for-salary their people will have a much higher standard of living. I believe in some cases that is already happening and you know, you have got a supply and demand position. normally, if your prices go up, people do take the requisite action. It may take three, four, five or six years as it did when the price of oil rocketed - it took five or six or seven years for companies so to adjust their use of oil and their energy-saving equipment to deal with it. You may find the same with housing, so that some people do move away, but many

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companies - indeed I would think that some City companies - no longer put their main operation in the City, their headquarters, and they move out. Hitherto, they might have been moving out to the south-east; now some of them might be moving out further - the Birmingham area is not very far away; they might go further still.

I hope you will find that self-correcting. One certainly knows that in the public services - and I am very much aware as a London Member - that it is very difficult for us to get in, say we want a new primary school head teacher, it is very difficult to get one, one who would like to come down to live in London, say from further north, because there is no way in which they can afford the housing. What we are saying is that at the moment the London Allowance does not take care of the differences.

INTERVIEWER:

On housing, we have got today's Housing Bill, how large a private rented sector do you think will actually be re-created.

PRIME MINISTER:

I hope we won at 2.30!

INTERVIEWER:

I think you would have heard by now...

The whips seemed confident, Prime Minister.

In relation to housing, how large a private rented sector do you think can be re-created?

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PRIME MINISTER:

It would be quite some success to get it going again this time.

One of the reasons why we have to put this Housing Bill, the Education Bill and the Local Authority Finance Bill right in the first session is first, you have got the time lag of getting them through; secondly, you have got the next year, as far as your private rental sector is concerned, you have got people setting up and the persuasion of getting them to set up; and the third year, you hope to have something coming through.

The period between elections when you are in government is too small. When you are in opposition it is awfully long, but it does take a time. It will be enough to try to get some of it started up again.

I hope also, on the other aspect of the Housing Bill, we can get some housing out of the local authority area.

First, I think it is bad to have so much housing in the hands of the local authority. They all built with the best of intentions years ago, but it gives a different social structure and this comes from that particularly, more than any other European... it has been divisive. It is we who are trying to break down those divisions, but I hope that we will get some of it out into housing associations, with different forms of tenure...

INTERVIEWER:

So it is rather than... this is the beginning?

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PRIME MINISTER:

Let me put it this way: we still want to go up on owner occupation, but you have got somehow to try to increase the amount of private rented sector. Whether you do it through housing associations, I suppose in some way you call public, but we are trying to get them more public-private partnership. As you know, 30% to the housing association, together with the rest being levied privately makes our money go further, because you have got to have some for mobility.

INTERVIEWER:

Another aspect of domestic policy, tax reform. What is on the agenda there? What is ruled out?

PRIME MINISTER:

I am not going to tell as we come up to it but you know, Nigel is a tax-reforming chancellor. There is still quite a bit of tax reform to be done. Obviously, whenever you do any, some people want it, some people do not, but I think you can take it that Nigel is by nature a tax-reforming chancellor and that he will have another go in the coming term.

INTERVIEWER:

At the higher rates for personal tax?

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PRIME MINISTER:

You have got to keep your higher rates, bearing in mind that your demand for management is worldwide, your demand for talent, your demand for engineers, demand for scientists is worldwide. You cannot let your top rates get too much out of kilter with those of rival countries.

Then, you have to look not only, do not forget, at the federal rate, but you have also got to look... whenever I go to the States they tell me.. "Do not think it is only 27% Mrs. Thatcher, have you looked at the state tax we have to pay as well?" Sometimes you will find them saying: "We are not that much different from yours!"

INTERVIEWER:

Is any re-altering of mortgage tax relief ruled out or is it just totally a covered-out area?

PRIME MINISTER:

I think you may take it that it is pretty well out.

INTERVIEWER:

Even moving to the basic rate?

PRIME MINISTER:

I think you may take it that the present structure.. goes on.
I think you would be well advised to....

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I can only say it is very small, the mortgage rate, and I just do not know how young people begin to start without it, I really do not.

What I really cannot stand is people who have pulled themselves up by their bootstraps with it try to stop others from doing the same.

INTERVIEWER:

Just one final domestic thing - competition policy. There seems to be some uncertainty about what is exactly meant following BA-BCAL.

PRIME MINISTER:

I do not quite see why you should say that. I understand why some opposition...look, there is enough competition, I would have thought, between the airlines of the world. British Airways still has to face massive competition.

On the contrary, I get more and more devoted to competition, because there really is no substitute for it and this is why, when we had British Telecom, Keith Joseph really did us a fantastic service by trying to get Mercury started and one wishes it well because one wishes it to be a much more vigorous competitor to British Telecom because there is no substitute for competition. You can do as much regulation as you like, but there is no substitute for competition.

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There will be some things, some water areas, where there is in effect a monopoly in the area, because by its very nature you have to do the level best you can by regulation, but do not forget how many water companies private for the moment, about 300 small water companies. Quite a lot are private already, but there is no substitute for competition and that is why we wish really to do our level best to maintain it and increase it, but there are some things, by their very nature, you cannot always get it as much as you would wish.

INTERVIEWER:

Can you, Prime Minister, do your customary summary...

PRIME MINISTER:

Thinking aloud in a frank way? Beware!

INTERVIEWER:

What do you think about the apparent collapse of the Alliance? Is the Labour Party dead? Has Socialism been eliminated? How do you see the domestic political scene now?

PRIME MINISTER:

Do you know, I have not really given that very much attention because I am so much more concerned to carry on with our own policies and to get those well ahead; to get the ones for this

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Parliament well started into the pipeline and then to start on the next Parliament.

I wonder if it is in part that people are seeing on the Continent the results of coalitions and fragmentation of parties, because it is right back in the forefront, you know, what we used to say about France, that it fell apart every few months, and that was really very bad, and I just wonder.

I certainly found it that in Europe now we are coalition-free and that gives us a freedom of decision, decisiveness, leadership, that others are not free to exercise. I wonder if some of that is having a subconscious effect on British opinion - that the moment you get fragmentation you lose. If you are the sort of country that we have been, that has for quite a time in history given quite an effective lead in many different ways, and people still like that to be thought so and to be so - both to be so and to be thought to be so.

I think that it is that somehow they prefer and respect decisiveness and clear direction with its associated momentum and that they are unwilling to give that up.

When it comes to the Opposition party, sixes and sevens do not make a good policy, particularly when the sixes and sevens change their nature every day and a sort of constant destruction does not in fact make a policy.

The Alliance, I agree, is a bit more of a riddle, or was it really that the strange thing was that it ever assumed the importance it did? If you look at it that way, the strange thing

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was that without having any cohesiveness, it ever got very far as it never developed cohesiveness. Then, what we are seeing is a kind of return to normal now, with a dislike of fragmentation.

I do not think I can offer you any much more profound views than those at the moment because all my efforts, thoughts and directions are first, on getting the policy right, really coming up to the end of the century because you see, we have got really enough to do within four years now and quite a lot that comes on next, and then, almost every western country is going to think of trying to get some special attainment going by the year 2000 - it would be very strange if we did not, because after all, there are not many people who have the privilege of living through that psychological time and you have got to make it some kind of target. It is a natural target. You have got to use it somehow to raise people's efforts and spirits - not that their spirits need raising, but raise their sights to what is attainable.

So we have enough to think about really for the next ten or eleven years to sort of start to prepare for now, because Heaven knows, one might be twanging a harp by that time! But you have got really to sort of prepare for it.

INTERVIEWER:

What type of attainment, what type of target?

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PRIME MINISTER:

I do not know. That is just what all of us are trying to think now. It will be something that involves everyone, every kind of small town and village, but you have got to use it somehow.

Some will take it as building, some as institutions, some as just raising maybe the environment together, not only the cleanliness and everything like that but a kind of beautification, and this is one reason with this enormously in mind at the moment..you know I was in Vancouver when we had that hurricane..after the immediate devastation and getting all the communications back, the main thing was, above all, we simply must replace those trees, and it is both an intellectual thing of the environment and a deep instinctive thing, but if you are building for the future, you simply must get the trees back in. Something that you do not necessarily see the enjoyment of but other people do.

What I am trying to say to you is that we have done most of our thinking for this Parliament. Things, of course, always come up on the fundamentals. There are quite a number that one will soon start to think of for the next Parliament. Inevitably, you start to think of the next Parliament.

1992, you see, is for Europe. That is going to be the beginning of the next Parliament with the Channel Tunnel. That is quite exciting.

But then, having attained those targets, we have to have some more. You are much more likely to attain the things when you get

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the targets, and so by 1992/3 you really only have six or seven years to run up to the millenium and you have got to get that going, so I really do not think very much about the other things, but I have got to get the polices and then we will the presentation. We will get the polices first.

INTERVIEWER:

You will still....be Prime Minister in 1993?

PRIME MINISTER:

I do not know. Well one would like to be, but it does not wholly depend upon me...but the moment we have got to pass one milestone, you know you see them stretching out before you, and each one gets more exciting.

INTERVIEWER:

Where is the for opposition to you? Is it in the House of Lords or...

PRIME MINISTER:

There must be an Opposition. I thrive on argument and discussion.

INTERVIEWER:

I mean, there are dangers.

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PRIME MINISTER:

No, no, there are not any dangers.

Do you ever come in to Tuesdays and Thursdays? He does. I look up and see him there looking very very bored.. (laughter) very very bored or really rather above it all...what are the children playing at, you know. Really very bored.

INTERVIEWER:

Do not people talk sometimes, or they have done, of elective dictatorships, you know, where you have got to see the other side of the clearing?

PRIME MINISTER:

No, look! All that I am doing is to return power to people in one form or another. Do not want government to run big business - they do not know how to, they should not, so you get that out.

Do not want agencies of government of one sort or another, types of government, to run great housing schemes. It is too much power in their hands.

Driven to do a core curriculum because the power in the hands of one agency of government, a type of government, is not in fact operating well.

But putting not so much more into the hands of central government, except by the core curriculum, but back again to parents and people, and saying to them: "Come on! More of you must be

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governors, more of you must take an interest in how to run these things!"

All of this is going to places it should not have come away from to the extent it has and Heaven knows it is a doctrine of more and more responsibility to those as the other side of the coin from freedom. I mean, strangely enough, half of my Toryism comes from people like George Bernard Shaw: freedom incurs responsibility. That is why many men fear it and some of them do.

But gradually, we are getting it back. This is why you get the wider spread of ownership. Why - one was deeply distressed - that some of the schools are not providing the opportunity which people like me had. Why we had marvellous teachers. The money was not poured into our education. It is poured into education these days, but the results per unit of pound put in, even forgetting inflation, would seem to be greater than we are getting now.

Part of the problem now is people are judging success not by output, but by how much money you put into something, and we have to beware of that trap, because I hear myself saying: "Look! We poured in an extra 30% into the Health Service over and above inflation!" It is measured by the output, that there are so many more heart operations, etc. etc. and we have forgotten that the essence of business is not how much money you put into your costs, but how much goods you get out of the costs you put in and so it is not elective dictatorship. It is taking power away from government and, of course, the Labour Party argue with me because they want to exercise maximum power in government.

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INTERVIEWER:

Do you think there is a long way to go still to push power down?

PRIME MINISTER:

Yes.

INTERVIEWER:

In what sort of areas do you think?

PRIME MINISTER:

The wider spread of ownership all the time as far as we can. More housing. And again, people exercising more of their own rights and power through schools. Building their own security. I mean, it is one stream that most people when they come to die will have something to leave to their children. It will not only be a house, but it will be some savings. It gives you a much greater interest in the future that way.

If I might put it this way: it might be an elliptical way, but I tried to do it in the Party Conference speech.

When you had the great burgeoning of prosperity in this country, which came with the Industrial Revolution and later with the Victorian Age, it struck me when I was at Education, that so many of the buildings that we were trying to restore or replace were buildings built during that period and as people prospered then so they did in this country and also, certainly in Northern Europe,

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have a policy distinctly of prospering others, but building what they regarded as the kind of city or town. even in Grantham there is a Victorian town hall, it has a nice green in front of it, a beautiful green, it has a statue, you had a nice city centre.

You take your Manchester or Liverpool, as the city fathers, the men of industry and commerce prospered there, in accordance with the needs of those times the commerce, the commercial opportunity of those time, they did not just stop at making money. They turned round and they built beautiful town halls, they built beautiful buildings. They then said: "This is not enough for a great city!" They then started to set up libraries, orchestras, art galleries, but the thing was with that burgeoning prosperity came a burgeoning civic pride or city fathers, there was a complete, almost a city state, a complete ideal - this is our city.

Do you know, it was a great fundamental personal obligation to the community, of course, in those days, and you have only to look across the cities. You go to Bradford, you see the beautiful old houses. You know that the merchants had lived there. They were part of it. They had this complete feeling that the whole city was the focus of their lives.

What I am trying to do is so to arrange things that we kind of recapture that, because they were big personalities. You look back at some of their faces. Their personality was written in their faces, perhaps because they had had quite a lot of struggle to get to that position, because they had made a lot of decisions to

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get to that position. The moment you take all decisions away from people's lives you lose what forms the character.

Listen! The British Empire would never have been built up if we had had a telephone system! Of course, it would not. They would get on the telephone and say: "What do we do?" Of course they could not. They had some training and they went out and they had to exercise their own judgement and their own decisions and that is why elective dictator - what nonsense! I am trying to get more and more decisions out of them, but you know, as I said, in a little bit towards the end of the Lord Mayor's speech the other day, we did not instil enterprise, a sense of obligation, a sense of commitment, initiative, self-reliance. It was always there.

What we are trying to do is so to arrange things so that it revives, because I still believe it is there.

INTERVIEWER:

Well what do you think about the House of Lords where they only block....

PRIME MINISTER:

It is there. We have to get Bills through it.

INTERVIEWER:

What would be nice to think, and I hope very much it happens, is that the entrepreneurs in Bradford and Manchester and all the rest of it can build in the way that the Victorians did.

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PRIME MINISTER:

You mean we have got to consider planning? Yes, I thought of that too!

INTERVIEWER:

Well no, I was thinking of this drift to London that has been so damaging.

PRIME MINISTER:

You will find a lot of vitality returning. Do go!

INTERVIEWER:

But at a smallish scale so far.

PRIME MINISTER:

Well no, it is getting on quite well. We spend too much time down here. Do you know, people think it is a wasteland up there and then they go up and find it really thriving. When I went into one of the Youth Employment places in Cleveland - we were going round Middlesbrough and Cleveland - went in because the number of youngsters taking up the Enterprise Allowance up there has also started to expand, and so I went in and we have got business in the community upstairs and they are taking these youngsters, rather like if you have ever been to the London Enterprise Agency. The youngsters have an idea. They say to them: "Now look! All right, you have got this thing!" and they think they are going to make a

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million tomorrow and build all the Carnegie Libraries across America and they are not and so they say: "Have you done any market research? Who do you think wants to buy it? At what price do you think they will sell? No do not try to start up in those premises, they are too expensive?" Well the businessmen can teach them all this and we have a scheme to teach them in our Youth Enterprise Centres we are running and I went to see these courses and that day, three of them had got their £1000. They had got it, as a matter of fact, from one of the trusts. Two of them had got it from the Prince of Wales Trust, one from another, and they were very chuffed, and one of them suddenly turned and said to me - and I was fascinated - clearly, he obviously had no sympathy with me although quite clearly he was practising everything I believed - He said: "I do not know why you think that people in the North have not got any ideas of their own or are not able to do things!" I said: "But I do not. I am the person who thinks that you have got just as many ideas and just as much initiative as people in the South. I am just the person who is trying to see that you are able to bring it out!" This was just a little bit of pride which thrilled me. "We have got just as much as you have!" and I was thrilled to bits. You know, it was meant as a tick-off for me. I was absolutely thrilled to bits by it. Cheers! He was going to do quite well.

There you are! He was telling me what I desperately wanted to hear. He thought he was ticking me off no end. Why should he not?

(END OF TRANSCRIPT) WHEE