

NATIONAL ARCHIVES

IRELAND



Reference Code:	2008/148/709
Creation Date(s):	30 November 1978
Extent and medium:	6 pages
Creator(s):	Department of the Taoiseach
Access Conditions:	Open
Copyright:	National Archives, Ireland. May only be reproduced with the written permission of the Director of the National Archives.

21539
18654

Meeting between the Taoiseach and the British
Prime Minister, Mr. Callaghan, on 27th November,
1978.

1. The meeting, in No. 10 Downing Street, began at 11.30 a.m. It was attended by Mr. Brian Cartledge, a Private Secretary of the Prime Minister, and Mr. Nally.
2. The Taoiseach began by expressing sympathy at the murder of the Deputy Governor of the Maze Prison. He said that security co-operation seemed to be working quite well but there were apprehensions in certain quarters about the increasing reliance on the Ulster Defence Regiment. In his view, justice in Northern Ireland now seemed to be administered in an even-handed way. Mr. Callaghan said that they were continuing with their policy of withdrawing the army from every-day activities and trying to normalise security in Northern Ireland. He expressed appreciation at the co-operation in security which, he said, seemed to be going very well. He then referred to the meetings with the French President and the German Chancellor.
3. The Taoiseach reviewed the outcome of the meeting with President Giscard d'Estaing, who, he said, had shown great understanding and support of the Irish case. Monetary stability, in his view, was a necessary prerequisite to the growth of trade and investment. At the same time, it could create difficulties for the weaker economies. That was why he had raised in Bremen the subject of concurrent studies of the measures needed to enable the less prosperous countries to participate in the system. In his view, the work on these studies had gone reasonably well. The French President had accepted the need for assistance but had not been specific as to the form it might take. Soft loans had been mentioned but loans of any form were of only limited benefit. In Ireland, with borrowing at 13% of Gross National Product the intention was, in fact, to reduce the size of the budget deficit. It had been raised to this level because of the benign budget earlier this year, designed specifically to increase employment and provide incentives for the private sector. Mr. Callaghan enquired as to whether unemployment was now of the order of 10%. The Taoiseach said that this was the approximate order of magnitude. Over the past year it had been reduced from substantially more than 100,000 to a good deal less than that figure. Our difficulties were aggravated by the demographic structure of the population. More than 50% of the population were under 25 years of age. The inflow to the labour force was, proportionately, three times higher than the average for the Community as a whole.
4. Mr. Callaghan said that unemployment was falling in Britain as well. They did not fully understand the reasons. The fall might be due, in part, to the Government's job creation programmes but it appeared that the figure would work out at 5.5% or 5.6%.

/...

5. The Taoiseach said that the French President had been as oncoming as he could. In the discussions the figure of £650m over five years had been mentioned as the size of the Irish requirement on the assumption that Britain was not in the new monetary system. This was necessary to enable the Government to go ahead with their economic programme designed to reduce unemployment and inflation - which was now of the order of 7.75% over the full year. This was higher than the Government had originally intended. The reason was, essentially, in the wage agreement which the Government had wanted to settle at about 5%. Instead, a figure of 8% had been arrived at, with provision for a further 2% and an additional provision for increases matched by productivity. This further provision was being abused. Some of the demands were very high, particularly in the public service. Mr. Callaghan said that this was a feature in the British scene as well. People whose jobs had a high degree of security seemed to be the most militant. The Taoiseach said that some of the present unrest was due to the fact that in the term of office of the last Government wages had been held down in the public sector. In reply to a question as to what level of wage settlement he hoped to see in the coming year, the Taoiseach gave an indication of the size of some claims in the public sector and said that, particularly in an EMS situation, it was essential to damp down expectations. This would be necessary also if one of the prime aims of the EMS was to be achieved that is, if investment across national boundaries was to be encouraged.

6. The Taoiseach then said that his first question was what was the British position on the issue. Mr. Callaghan said that he was in favour of a stable monetary system. He had agreed to the idea of concurrent studies, in Bremen, but was not as optimistic as the Taoiseach. On the system as a whole, he saw little more in it than a form of super-snake. He had used this expression when speaking to the French President and had been asked by him not to repeat it in public. The French did not want to create the impression that the new system was simply a snake under another form. As he saw it, the new system was just a snake with knobs on. There might be some assistance for Ireland in it. As he saw it, the consequences for us could be the same as for Britain. There could be a deflationary effect, slower growth and, if things did not go well we would be forced out at the bottom of the system. This had happened to the Swedes, the Italians, the French and the British already. He was not going to risk anything when fighting inflation; and he could not join in an undertaking to hold sterling fixed against the Deutschmark. At the same time he felt strongly that the proposal should be a Community scheme. All Community countries must be members. They were ready to join in a scheme but not to undertake the sort of responsibilities he had mentioned. They would not be exercising any veto on the arrangements. Their essential position was that the future of the scheme would be dominated by the relationship between the Deutschmark and the dollar. Since the beginning of November more than \$600 had been spent in supporting the dollar parity. He believed that the dollar would not be stable and that joining the scheme could mean that British economic policy would be dominated by external factors. The Cabinet had not yet reached any decision but he would try to hold the position he had described when the matter came before them. He would prefer to take the half-

way position he had mentioned rather than go in. They would try to maintain the exchange rate as it was.

7. He felt that Andreotti was politically inclined to join but that his Finance Minister and Mr. Ruffi of the Central Bank were very worried on technical grounds. The Italians were very undecided on whether they would go in or not. The British position, in essence, was that they were ready to be part of the management of the scheme but not ready to accept the snake part of it.

8. He believed that the French were originally/in favour strongly of going in, on the assumption of obligatory intervention. Giscard had since developed doubts but was now too deeply committed to draw out. The French were not trying to beat the British over the head. He would want them as partners. As for the Chancellor - his Central Bank was independent; he could not undertake to intervene. The Bank was taking a very hard line. He would be seeing the board of the Central Bank in a few days and might be able then to agree that intervention would be obligatory. This would help him a great deal with the French in Brussels. When Mr. Callaghan had mentioned the £650m, which the Irish wanted, to the Chancellor, he had said he had not heard of that figure. The British were politically inclined to enter but the terms must be right.

9. The Taoiseach then outlined the Dail programme envisaged for the system. We were being pressed for a Parliamentary Debate but this was impossible since we were in a negotiating position. He would making a factual statement of the position, as of now. He too was in the same position as the British in that there had been no Cabinet decision, as yet.

10. The Prime Minister then went on to speak of the concurrent studies and the nature of the contribution which the British might be called on to make. He referred to the CAP which he said would not stand up for long but must collapse under its own weight. They felt that some of the money going in the CAP at present should be used for regional benefits, rather than to pile up surpluses. They did not want to hurt Ireland and felt that the regions ought to be getting the benefit.

11. The Taoiseach said that the attitudes to the Community in the two countries were different. On entry, we had obtained a 5 to 1 favourable majority. The expectations had, perhaps, not been matched by the realities but our farmers had done well. On the other hand much of our industry, particularly textiles and footwear, had been seriously affected. They were concerned by the prospect of an EMS.

12. Mr. Callaghan then reverted to the question of the concurrent studies. He said that their inflation rate would not go much below 8% in the present year. With the Ford settlement it would, perhaps, go as high as 9% or 10%. They just could not get their inflation rate down to that of the Germans. This would mean that they would be forced to make adjustments all the time. They did not have any fear of adjustments but did not want to be making them

because of some distortion in the relationship between the deutchmark and the dollar. They felt that they had to learn to swim before they jumped in at the deep end. There was a prospect that if they did go in there would be deflation, reserves would fall, and this was not something they would like to face with the prospect of an election ahead. In reply to a question from the Taoiseach, the Prime Minister said that if they did not enter now they would like to apply, possibly, in six or nine months time. They would regard it as essential that the scheme be a Community scheme. He would hope that it would be regarded in a positive way. There would, he thought, be two or three changes in parities between Christmas and Easter, in the scheme. The Taoiseach said that for the first four or six months the going would be rough in the scheme. It was essential that wage claims be dampened. Once they had had achieved a better rythm within the scheme, the rewards could be great. We would help to enable us to stand the heat.

13. Mr. Callaghan said that the super snake would not encourage the trade unions to keep wage claims down. He had the feeling that the effect might be the opposite. The view might be taken that if wage claims were to be reduced it should be done for Irish or British reasons - and not because it was being forced on them by something outside the system.

14. The Taoiseach said that if we did go in it would probably be necessary to operate exchange controls. He understood that Treasury and Bank of England officials were talking to their counterparts on the Irish side. The Prime Minister said that contingency plans were being prepared. He added that speculators would take the chance if we did not devalue on entry. A decision like that would have to be made on 5th December. If we went in and the British did not, the exchange controls would have to be as comprehensive as they were in relation to the other seven countries of the Community. This could pose some technical problems but he was confident that they could be overcome. The Taoiseach said that notwithstanding these difficulties, the deal could be worthwhile. The Prime Minister then asked about the instruments we saw being used for the transfer of resources. The question which would have to be faced was if Britain was not part of the scheme why should they pay for it. He added that they would have to work out their approach, case by case. They would not do anything hurtful for its own sake. They would not take a "dog in the manger" attitude. They wanted to be part of the management but not in the super snake. They could contribute to loans etc. if the right to share in the benefits followed.

15. The Taoiseach said that the French President had asked for a paper on the mechanisms and this was being prepared. The trouble with the Regional Fund was that if Ireland's share was to be worthwhile it would probably have to be increased enormously. The Prime Minister said that they were not ready to go into the scheme until there was a different basis for the budget. Tugonhat had suggested that contributions should be proportionate to wealth. This would suit the British. They were not going to agree to an increase in the budget or anything until the own resources question was settled. The Taoiseach said that, insofar as the budget was

concerned, our position was similar to that of the British. We had approximately .6% of Community GNP but would be paying twice that proportion when the full own resources system came into operation. The Prime Minister said that he had a lot of sympathy for the Irish case. Something would have to be done about agriculture. The agriculture Ministers held one brief only. Andreotti was also concerned about Mediterranean agriculture and about the size of regional funds. The Taoiseach said that he accepted the Italian position but would have to see that Northern products were not seriously damaged. While something might come through the social fund, it did not look a worthwhile mechanism. It was doubtful if the transfers could take place in time. The Prime Minister said that it could be two or three years before payments were actually made. The Taoiseach then said that they in mind a new instrument.

16. The Prime Minister said that it was essential that the scheme be a Community scheme. They would not be in it initially but would look at their position next summer. The Taoiseach said that if there was doubt about a Community contribution they could consider bilateral aid. He knew that the Chancellor was sensitive to the suggestion of what David Owen had described as "bribing". The Prime Minister said that he had not seen the Foreign Secretary's remark and did not know what he meant. He went on to say that next Monday and Tuesday they would have to take decisions on the scheme. The British wanted to see it work and wanted to participate in every sense but they would not join in the super snake now. The Taoiseach said that he still did not know the likely terms. They would not want to hold up the scheme but he would have to report back to the Government and Parliament. The Prime Minister said that there could be grave dangers in currency speculation. They would be reviewing their position on 1st July to see how the scheme worked.

17. The Taoiseach then enquired as to whether the Prime Minister had any views on the French President's proposal for three wise men. The Prime Minister said that he did not regard the problems there as very pressing. Certain names were discussed as possible nominations and there was agreement that if a suitable Dane could be found, he would be supported.

18. The Taoiseach then raised the question of Northern Ireland generally. He referred to the Prime Minister's statement last year that there was not a scintilla of movement towards integration and that the proposal to increase the representation of Northern Ireland in Westminster to 16 or 18 should not be regarded in this way. However, there was some technical difficulty in the way in which Northern Ireland legislation was now being passed through the Commons. The old order in council procedure under which Northern Ireland legislation was kept separate did not appear to be operating any longer.

19. Mr. Callaghan said that he had no political issues to raise at present. There would be a meeting next week between Mr. Mason and Mr. O'Kennedy. There had been no change in the British position. The Tories had been got back on to the bi-partisan approach. They were not looking for integration at all. The Taoiseach said that it was very difficult in the run up to a

general election to take positive steps in relation to Northern Ireland.

20. The Prime Minister then said that their principal aim, economically, was to reduce inflation. The Ford settlement had been a bad thing for the country but it should not be taken as typical. Many workers were settling for the 5% guideline and he thought that this year increases would be of the order of 5%, 6% or 7%. Next time they would be trying for a 2 or 3 year target. This would give more manoeuvrability.

21. The Taoiseach said that cross-border co-operation in Northern Ireland seemed to be going well. He had established a special committee within his own party to look at the financial, constitutional and legal obstacles to progress. The Prime Minister said that he was relieved that injuries had got less. The number of civilian deaths was down substantially. There had been a suggestion about that after the election he would be making a statement that they were going to pull out of Northern Ireland. He had heard this suggestion made by Mr. Pardoe. He wanted it to be clearly understood that there was no basis whatsoever for that view. The rumour had to be killed; and he would drive it as far down as possible. Any statement that would be made would be made only when the use of force in Northern Ireland was finished. The Taoiseach expressed his view in favour of ultimate unity and said that the Copenhagen statement on agreement to differ seemed to apply still. There was agreement that fisheries would be discussed over lunch.

22. The meeting concluded at 1.00 p.m.

23. Subsequently, I agreed with Mr. Cartledge that the meeting would be described as having dealt with the European Monetary System, the three wise men, the Brussels Council, the CAP and fisheries.

24. On Northern Ireland, it was agreed that the Taoiseach and Prime Minister had discussed the situation, as part of their continuing review; that the Taoiseach had raised the subject of increased representation for Northern members in Westminster; and that the Prime Minister had expressed satisfaction on the degree of economic and security co-operation.

25. The meeting would be described as very useful and constructive, with each side obtaining a clear understanding of the other's position.

30 November, 1978.

/Copies to - (1) Mr. Horgan, Second Secretary, D/Finance
(2) Mr. Heaslip, Assistant Secretary, D/Foreign Affairs
(3) Dr. Clarke, Assistant Secretary, D/EPD/