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Se refiere a:

08JUN82 – House of Commons. Exposición de Margaret Thatcher.

(Margaret Thatcher Foundation) (2013)

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Margaret Thatcher, HC Stmt: [Versailles Economic Summit]

The Prime Minister (Mrs. Margaret Thatcher)

With permission, Mr. Speaker, I should like to make a statement about the economic summit at Versailles which I and my right hon. Friends Francis Pym the Foreign Secretary and Sir Geoffrey Howe the Chancellor of the Exchequer attended from 4 to 6 June.

The Heads of State or of Government of the seven principal industrial countries were present, and the European Community was represented by the Prime Minister of Belgium which at present holds the Presidency in the Community, and by the President of the Commission.

The conference was agreed on what was needed for sound economic management and for achieving a well-based recovery from world recession. This solidarity extended to the political field also and in particular to the Falklands dispute. Our discussions placed emphasis on the value of medium and longer-term policies and were notable for their continuity with the economic policies advocated at earlier summits.

I have placed in the Library of the House the declaration issued at the end of the summit setting out lines of action which we shall follow. We agreed that growth and employment would be increased on a lasting basis only if we were successful in our continuing fight against inflation, which would then help to bring down interest rates and lead to more stable exchange rates. To that end we all agreed to pursue prudent monetary policies and to reduce budgetary deficits.

Recognising a joint responsibility to work for greater stability in the world monetary system, we issued a statement of international monetary undertakings. Believing in the need to expand world trade, we reaffirmed our commitment to strengthen the open trading system as embodied in GATT and to work towards the further opening of markets.

With regard to trade with the Soviet Union and Eastern Europe, we agreed to work for improved arrangements for the control of exports of strategic goods; to exchange information on all aspects of economic, commercial and financial relations with these countries; and to exercise commercial prudence in limiting export credits to those countries.

The statement of monetary undertakings to which I have referred was one example of a medium-term policy supported by the summit. Another medium-term theme was the necessity to exploit the immense opportunities presented by the new technologies if we are to create the jobs of tomorrow.

It is significant that those countries represented at Versailles which have the lowest inflation and the latest technology are those which have the lowest unemployment rates. We agreed to set up a working group to peruse these technological matters and to submit a report by the end of the year, which could be considered at the next economic summit to be held in 1983 in the United States of America.

The Heads of State and of Government spent some time discussing relations with the developing world. The growth of the developing countries and the deepening of a constructive relationship with them are vital for the political and economic well-being of the whole world. The launching of global negotiations in the United Nations is a major political objective approved by all the participants ^[column 23] in the summit. At the same time, we recognised that, although the United Nations can make requests to the specialised agencies, such as the IMF and the World Bank, it cannot and should not give them instructions.

The Heads of State and of Government agreed to give special encouragement to programmes or arrangements designed to increase food and energy production in developing countries which have to import these essentials and to programmes to address the implications of population growth.

We naturally discussed the situation in the South Atlantic. I set out the British position in detail. As the House knows, British Forces in the Falklands are preparing to repossess Port Stanley. The Secretary-General of the United Nations and certain members of the Security Council have proposed various formulations for a ceasefire. None provides the unequivocal link between an immediate Argentine withdrawal and a ceasefire, which is the only basis on which we could agree to a ceasefire.

The Government have made it clear publicly that if the Argentines tell us that they are prepared to withdraw we shall enable them to do so with safety, dignity and dispatch. So far, we have had no positive response.

I am glad to say that there was agreement among the Heads of State and Government at Versailles on all the essential points of the British position. This was underlined unequivocally by President Mitterrand in his press conference at the end of the meeting.

We also spent some time on East-West relations. A number of us will be attending the NATO summit starting tomorrow and speaking later this month at the second United Nations special session of the General Assembly devoted to disarmament.

Finally, we discussed the very serious situation in the Middle East. Following a personal request from the Secretary-General of the United Nations, the conference issued a declaration of support for the resolution adopted unanimously by the Security Council on 5 June. This is being followed up by intense diplomatic activity by all participants—in particular the United States of America—designed to re-establish the ceasefire and restore the territorial integrity of Lebanon. I have placed a copy of the summit's declaration in the Library.

All the Heads of State and of Government who took part in this conference were grateful to President Mitterrand for giving us an invaluable opportunity to discuss the economic and political problems facing us today. Our talks were notable for two characteristics—a strong sense of continuity and an encouraging measure of solidarity about our approach to the major issues of the future. We shall be successful in dealing with those issues only if we pursue sustained and co-operative policies. The meeting at Versailles made a significant contribution to that goal.

Mr. Michael Foot (Ebbw Vale)

The economic summit and the right hon. Lady's account of it are overshadowed by the military events to which she referred and I shall refer to them. We shall study the statement and communiqué that have been issued on the economic questions to see whether there is any change in the platitudes issued on previous occasions either in piety or in any other field.

The right hon. Lady says that a strong sense of continuity and solidarity is required, but, with 3 million ^[column 24]unemployed in Britain and high unemployment among all the countries represented, was not a much greater effort required at the summit to direct world attention to measures that might succeed? Did she put any economic propositions on behalf of the Government? If so, what were they, what effect are they likely to have on unemployment and what is the likely response? What calculation, if any, was made of the likely increase in unemployment in the next 12 months? We wish to debate the question of our economic policies in dealings with other countries. Unfortunately, it appears from the right hon. Lady's report that, having no policy for dealing with our own unemployment, the Government naturally had no policy to put forward in Paris.

I turn to the two major military developments that the conference was bound to discuss. I fully support what the right hon. Lady said at Question Time and in her report to the House about the Middle East. The Security Council resolution should be obeyed. We hope that every pressure will be brought to bear to that end. I repeat that the State of Lebanon has a right to exist along with others. Talk of destroying the State of Lebanon as a solution would be repudiated on both sides of the House.

I welcome especially President Mitterrand's press statement about the Falkland Islands after the summit. It conforms closely to what he said at the beginning of the dispute. What he and others said at the conference about the strength of the British case in the attack on the Falkland Islands is appreciated. But what steps should be taken to deal with the immediate situation? The right hon. Lady cannot dismiss the differences in the way that she did. I ask her again whether she is saying now, and whether she told her colleagues in Paris, that nothing further is to be done at the Security Council. Because there was not a satisfactory link between Argentine withdrawal and a ceasefire in the resolution before the Security Council at the end of last week, is she saying that that is the end of the matter for the Security Council? If the Government do not like the link in that resolution, can they not get a better one and take that back to the Security Council? Would that not be the favoured option among many of the countries with which she discussed the matter?

We can all read the reports of what is said in the United States, France and elsewhere, but is it important to avoid bloodshed over the next 48 hours and longer. It is important to have a diplomatic solution of the problem, to which we are pledged, the right hon. Lady as much as anybody. I ask her again whether in Paris she put forward any new initiative that the Government would take at the Security Council? If not, why not?

The Prime Minister

Among the many points that the right hon. Gentleman made he said that the Versailles statement was platitudinous. Some of it may be, but platitudes are platitudes because they are true, and it is not a bad idea to be on the side of truth. [An Hon. Member: "Truisms".] Truisms are not bad either. What does the hon. Gentleman want, "falsisms"?

There was solidarity on the economic and political side at the Versailles summit and in particular on how to tackle unemployment. That is all set out in the communiqué and I set it out in my statement. We cannot achieve soundly based growth unless we get inflation down further and interest rates lower. For that we must get budget deficits down. We must also encourage the open trading system and the new technologies—the one to achieve soundly [column 25]based financial policies and the other to achieve expansion of world trade and growth in tomorrow's jobs, which is vital to the creation of new jobs.

Yes, we supported the resolution on the Middle East. Yes, we respect the territorial integrity of Lebanon and support the efforts of Mr. Habib. We also believe—I am sure that the right hon. Gentleman would agree—that Lebanon's neighbours have a right to exist in peace and security, so we condemn just as much the activities across the Lebanese border to Israel.

We have struggled for a negotiated settlement on the Falklands for eight weeks. Only one thing stands in the way: the Argentine will not withdraw unless she can retain some of the things that she got as a result of invasion. That is totally and utterly insupportable. As President Mitterrand stated in summing up: “We expressed our complete solidarity with the United Kingdom who has been the victim of aggression and whose national interest and national pride has been injured. This solidarity is quite natural. The United Kingdom must recover what she has lost and we must do what we can to ensure that peace will prevail over war.”

The right hon. Gentleman has asked about our initiatives. We have tried for a long time to reach a solution, both through Secretary Haig and the United Nations Security Council. We shall now have to take by force what the Argentines would not give up by adhering to the Security Council resolution.

Mr. Foot

I fully understand the situation that the right hon. Lady describes about the Falkland Islands. We have been clear about it throughout. Although I fully understand that the cause of the problem is the Argentine invasion and that a solution would be Argentine withdrawal, is the right hon. Lady saying that she will take no further step at the Security Council and have no further discussions with the Secretary-General? Has she no further interest in handling the matter through diplomacy? If so, she is going back on the undertaking that she gave on behalf of this country to the Security Council and in previous discussions. Most of the other countries represented in Paris would also urge that, if they did not like the previous resolution, the Government should come forward with another resolution and try to get full support for it.

The Prime Minister

If I may respectfully say so, the right hon. Gentleman misses the point. What we wish to secure is Argentine withdrawal. We have tried for eight weeks through the Security Council and the good offices of Secretary Haig and Peru to secure Argentine withdrawal. We have not been successful. The moment that the Argentines say that they will withdraw we can have peace quickly. It is not the United Nations, Secretary Haig or the British Government who stand in the way; it is the Argentine junta, who will not withdraw. If they will not do so through negotiation, they must be made to by force.

Several Hon. Members

rose—

Mr. Speaker

Order. I shall do my best to call all hon. Members who have already risen in their places, as long as questions are brief.

Mr. Roy Jenkins (Glasgow, Hillhead)

Was there substantial discussion about the urgent question of greater exchange rate stability, or was it merely something in the communiqué? Does the right hon. Lady believe that the Americans will take greater practical steps to intervene and to give greater stability to the dollar exchange rate?

[column 26]

The Prime Minister

We agreed that we shall achieve greater exchange rate stability only if we follow similar policies in reducing inflation. That is in the communiqué and it is the considered decision of all those at Versailles. We issued a statement on international monetary undertakings which said:

“We are ready, if necessary, to use intervention in exchange markets to counter disorderly conditions as provided for under article 4 of the IMF articles of agreement.”

The right hon. Gentleman will know that that is intervention only to smooth out disorderly markets. We agreed that we cannot intervene to overcome fundamental disparities in exchange rates caused by fundamental differences in economic policies.

Sir Anthony Kershaw (Stroud)

Amid the international confusion outside Europe, is it not encouraging that the great democratic States have agreed on their principles and support for each other, but is it not disappointing that the Leader of the Opposition so superficially described the communiqué as mere platitudes?

The Prime Minister

It is disappointing. The summit was united about what was to be done on economic, employment and political policies. It augurs well for the future of those three matters that we intend to carry out those agreements and to have more and more co-operation between us.

Mr. David Steel (Roxburgh, Selkirk and Peebles)

Whatever the merits of the medium and long-term economic policies that the Prime Minister described, is she aware that there will be some anxiety about the emphasis on continuity with the economic policies advocated at earlier summits? Is she aware that since the summit in Ottawa a year ago unemployment in the developed world has risen by 5 million, to which Britain has made a substantial contribution? Was there no discussion about the social effects of mass unemployment and a determination to introduce urgent measures to reduce it?

The Prime Minister

Yes, indeed, but every country represented at Versailles is now pursuing economic policies designed to reduce inflation and to try to keep budgetary deficits in check or, in so far as they are high, to try to reduce them in check or, in so far as they are high, to try to reduce them in order to reduce interest rates. We are also aware that we are in what President Mitterrand called the third industrial revolution and the immediate effect of new technologies is to reduce the numbers of people employed in manufacturing. The later effect is probably to increase them as new products become possible because of the new technologies and many more people move to new initiatives in service industries.

We were all agreed on those matters and that is why the right hon. Gentleman will find three distinct approaches in the communiqué: the economic measures that must be taken, what must be done in open trade to expand world trade, and what must be done in the new technologies to secure the jobs of tomorrow. The right hon. Gentleman will find that it all hangs together.

Mr. Anthony Nelson (Chichester)

As to the part of the communiqué that limits the Government's subsidised trade credits to the Soviet Union, what are the practical means and measures by which that is to be achieved? Is my right hon. Friend satisfied that there is no danger that, as in other cases, the French will simply fill the vacuum of our credit restraint by increasing their exports of subsidised and financed goods to the Communist world?

[column 27]

The Prime Minister

The most obvious means, as the EEC has done but which has not yet extended to the OECD, is to increase the amount of credit that can be given to Soviet goods to the highest consensus rate and not at the present lower consensus rate. Another means would be to reduce the percentage of any order that is covered by guarantees. Until we know how precisely that will be put into effect, we have agreed to have a surveillance of all economic, financial and commercial transactions with the Soviet bloc and then we shall have the facts and figures upon which to formulate a specific conclusion relating to the EEC and the OECD. In the meantime, we have already agreed on certain measures within the EEC.

Mr. Tam Dalyell (West Lothian)

The Prime Minister referred to her solidarity with President Reagan on the Falkland Islands. Can she ascertain whether the President authorised his ambassador at large, the Spanish-speaking Major-General Vernon Walters, either at the end of last year or in January of this year, to give the clear impression to Buenos Aires that the Americans were thinking of a joint Argentine-American base in the Falkland Islands to curb Russian penetration in the South Atlantic? Can the Prime Minister clear up that matter of fact before President Reagan leaves our shores?

The Prime Minister

I knew nothing about that matter until the hon. Gentleman wrote to me about it. I know that the United States of America is staunchly behind Britain in its action in the Falkland Islands and is giving us substantial practical help, as we would expect from a staunch ally.

Mr. Eric Cockeram (Ludlow)

Does my right hon. Friend accept that the most effective step to encourage increased investment and therefore increased employment is to lower the cost of borrowing? Did she bring home to President Reagan the fact that high interest rates on the other side of the Atlantic are having a knock-on effect in keeping interest rates high on this side of the Atlantic, thereby discouraging investment and those who are battling against unemployment?

The Prime Minister

I agree with my hon. Friend that we are not likely to have considerable expansion in employment opportunities unless and until we reduce interest rates. I am glad that the base rate has fallen today in some major British banks. To get interest rates down we must reduce both inflation and deficits.

We had a long discussion on how best to do that, and we agreed on the importance of reducing deficits. We discussed the matter with representatives of the United States of America, who pointed out that there are two ways in which to reduce deficits. One is by reducing expenditure, and the other is by increasing taxation. With present levels of Government expenditure, America is naturally anxious to reduce the deficit by reducing expenditure. We agree that that approach is right. President Reagan is anxious to reduce the deficit not only for one year but for a succession of years so that the market can have a clear signal that not only inflation but the deficit is decreasing in America. Then there will be a strong hope of reducing interest rates.

Mr. Frank Hooley (Sheffield, Heeley)

As to the territorial integrity of Lebanon, was there any discussion on how the United Nations peacekeeping role could be strengthened, especially by including contingents from the [column 28] permanent members of the Security Council, which is about the only way in which Israel's continued aggression is likely to be deterred?

The Prime Minister

We did not discuss that matter. I agree with the implication behind the hon. Gentleman's question. It is a tragedy that the United Nations cannot have an effective peacekeeping force. If it did, it would stop aggression, but so far it has not been able to do that. The only occasion on which I remember its being effective was when the North Koreans refused to withdraw from South Korea. There was a United Nations operation—Russia was absent from the Security Council at the vote—to secure that withdrawal.

Mr. Harry Greenway (Ealing, North)

As to interest rates, did President Reagan say anything about the time scale of the success of his policies—we know that they are moving well—and whether there might be a substantial fall in American interest rates?

The Prime Minister

American interest rates have come down from their previous very high level. I do not answer for American interest rates, but I am sure that the President has as high hopes that Congress will reduce expenditure, as I sometimes have near Budget time that the House will agree to reduce expenditure.

Mr. Sidney Bidwell (Ealing, Southall)

Does the Prime Minister agree that there is great public anxiety about the assault on Port Stanley, which might create more bloodshed than we have yet seen in the Falkland Islands? Does she agree that the public would wish to be satisfied that the Government were straining every nerve to put diplomatic pressure on Argentina to get a change of attitude? What is the effect of the leaflet raids on the Argentines around Port Stanley? Are any messages coming through that a surrender or a collapse of morale is imminent?

The Prime Minister

We have followed every practical path to secure the withdrawal of Argentine forces from the islands without having to use force. If the will had existed, they would and could have withdrawn before now. If the will and consent were there now, they would need only contact the commander in the field and the withdrawal could be

arranged before battle. As I said, so far there has been no response whatsoever. The reason why withdrawal has not been secured has nothing to do with diplomacy or with this country. It has to do with the refusal of the Argentine junta to withdraw.

Mr. Robert Adley (Christchurch and Lymington)

In regard to the plight of the Lebanon, can my right hon. Friend confirm that there has been no shelling of Israel from the Lebanon for a year since the ceasefire last July? Does she not agree that it is an open secret that Mr. Begin has been waiting for any excuse to launch an invasion of the Lebanon? Does she not seriously think that President Reagan has to be made aware of the views of the European countries that America holds the key to peace in the Middle East? Before President Reagan leaves, will she once again impress upon him the view which she has expressed previously, and which the European Economic Community countries have put, that America has to do its duty by the rest of the world to ensure that the Israeli militarist role in the Middle East is curbed?

The Prime Minister

I am not able to confirm what my hon. Friend has said because I cannot confirm which of the [column 29]many differing reports that we have heard is true. It is likely that there has been some shelling both in the Lebanon and across the border from the Lebanon to Galilee. That is the report that was given to us at Versailles. I agree with the reasoning underlying my hon. Friend's question, which is that the problem between Israel and the Palestinians in the Lebanon will be solved only when the future of the Palestinian people themselves is resolved. Any country that demands the right of self-determination for itself must extend that same right to others, including the Palestinian people.

Mr. Dennis Skinner (Bolsover)

Does the Prime Minister recall that, when my right hon. Friend the Member for Cardiff, South-East (Mr. Callaghan) came back from the summits that he attended, she used to say from the Dispatch Box that they were a waste of time and of public money, never mind the platitudes? Is she aware that, almost without exception, at the eight summits that have been held since their inception, unemployment has increased throughout all the participating countries? Can she tell us whether those at the meeting in Versailles discussed what many of us consider to be the most important factor affecting the whole Western world and now Eastern European countries as well—the massive amounts of money owed by debtor countries, mainly to the United States and to the OPEC countries? Is she aware that some of the people who write in the City columns are suggesting that there is on the horizon a crash which will be greater than that of 1929–31? Why did the people at Versailles not discuss that most important matter instead of trotting out platitudes?

The Prime Minister

As for the number of summits, I rather agree with the hon. Gentleman, and I have expressed the view previously. There is one economic summit and three European Council summits a year. There is one Commonwealth summit every two years. That is clearly not too often; nor is the one economic summit a year. Then we have the North Atlantic Council summit. Added together there is rather a lot. Two European Council summits a year and not three would be sufficient. A number of us hold that view.

The hon. Gentleman said that unemployment had gone up during the summits. But the summits were meeting when unemployment was going down as well, so I do not think that it is necessarily due to the summits.

The present unemployment is partly the price we are paying for the 27 per cent. inflation which existed during the earlier part of the Labour Government. Inflation creates unemployment. We are now all determined that we shall have soundly based expansion. We believe that the programme we set out at the summit is the way to do it.

We addressed ourselves to the subject of money owed by debtor countries to the West. It was precisely because of that that we agreed to try to limit in future credits to the Eastern bloc. The credits given by all the Western countries to the Eastern bloc have amounted to such a sum that it cannot finance it. It is having to put both oil and gold on the market, which is having its effect on the markets of the world. The answer is to have a system whereby we look at all the facts and figures and then limit the credits to the Eastern bloc. That will also be very much better for the Western financial system.

Mr. James Hill (Southampton, Test)

Spain is now a member of NATO. My right hon. Friend mentioned that [column 30]she will be attending a NATO conference tomorrow. It may be a golden opportunity to counteract some of the Argentine propaganda that is widespread in Spain and also to put the United Kingdom point of view. One of the lessons that has come out of the Falkland Islands war is that the NATO countries should look not only to the North Atlantic: we must preserve our Southern Atlantic sea base——

Mr. Speaker

Order. The hon. Gentleman ought to ask a question because other hon. Members are waiting to do so.

Mr. Hill

Should not NATO look to having a base in the Falkland Islands with a view to preserving the sea lanes in the South Atlantic?

The Prime Minister

I think that my hon. Friend will agree that we welcome Spain to NATO. We believe that it strengthens NATO and that it strengthens Europe as a whole. I take his point about the Argentine propaganda and the effect that it may have on some of the people in Spain. We nevertheless hope that the Spanish gates to Gibraltar will be open towards the end of this month.

On my hon. Friend's point about operations outside the NATO area, we have always understood that our defence did not end with the boundaries of the NATO area. We have always been prepared to respond to activities elsewhere. There was a point in the last defence White Paper about this. When the new defence White Paper comes out, I am sure that there will be something in it, too. My hon. Friend will remember that there was a suggestion in the United States, which we are prepared to take aboard, about a rapid deployment force. It did not always meet with the greatest praise or support from the Opposition Benches, although it did from us. What has happened has shown how wise that policy was.

We cannot now go into the question of the Falklands as a base. There has been a suggestion that there should also be a South Atlantic treaty organisation. Of course, the defence of the Falkland Islands will have to be well and truly secured by one means or another.

Mr. D. N. Campbell-Savours (Workington)

In the communiqué the right hon. Lady appears to have the support of most Heads of State for her policy in the Falkland Islands and for Argentine withdrawal. Is it not true that among the European heads of State there is much dissent about whether she can get a long-term solution and that we may well be in for an indefinite war?

The Prime Minister

When we have repossessed the Falkland Islands, obviously we shall have also to try to get an armistice on the mainland. If we are not successful, let there be no doubt about whose fault it will be: it will be that of the military junta in the Argentine.

Mr. Tony Marlow (Northampton, North)

My right hon. Friend said that there was unanimous support at the summit for our actions in the Falkland Islands. Is it not true, however, that there is a widening divergence between ourselves and the Irish Republic? In view of the sacrifices being made by the task force, is it not time that we considered whether it was appropriate that people who owe allegiance to the Irish Republic should be entitled to vote in our elections?

The Prime Minister

Obviously I have been very concerned about some of the proposals put forward by the Irish Republic, which is the only neutral member of the ^[column 31]European Economic Community. We did not discuss at the summit the Irish Republic or its future relationship with the United Kingdom.

Mrs. Shirley Williams (Crosby)

The Prime Minister spoke of curbing budget deficits and controlling inflation as means of dealing with unemployment. Will she now confirm that the Commission put forward an action programme for a substantial public investment programme in the Community, involving construction, energy conservation and expenditure on transport infrastructure, subsequent to the Budget in this House? Will she tell us what attitude Her Majesty's Government will take towards that proposal for a common European programme on unemployment?

The Prime Minister

Yes, but when the European Community has put forward a public investment programme it has always made it clear that, to get a public investment programme, one must cut down on current expenditure. It has never put it forward as an addition to general expenditure; it has been as a substitution of investment expenditure for

consumption expenditure. That has been clear time and again. The right hon. Lady said that it was put forward after our Budget. It will not have escaped her attention that in this House we have steadily been getting down deficits, and we are absolutely in tune with the advice of the Versailles Heads of State in getting down inflation, deficits and interest rates.