

The Economic Club of New York

319th Meeting
80th Year

Jacques Chirac
Prime Minister of France

March 30, 1987

The Grand Hyatt
New York City

Questioners: Rand Araskog
 Chairman and Chief Executive Officer of the ITT Corporation

Anthony Solomon - Replacing Pete Peterson
Chairman of SC Warburg USA Incorporated
Former Secretary of the Undersecretary of the Treasury
Former President of the Federal Reserve Bank of New York

Introduction

Chairman Dwayne Andreas

Please sit down. Prime Minister Chirac, Ladies and gentlemen, I welcome you to this 319th meeting in the 80th year of The Economic Club of New York. I would like to add a special welcome to the members and guests of the French American Chamber of Commerce who are with us today and whom we are delighted to have for this very special occasion. It is a great pleasure today to welcome the Prime Minister of France and it is a particular pleasure to welcome *this* Prime Minister of France. Jacques Chirac is no stranger here and he is no stranger to the Prime Minister's office. I remind you that he once before served from 1974 to 1976 and he certainly isn't a stranger in the United States. In his youth he once spent a summer studying at Harvard and working at a local Howard Johnson's Restaurant. He has also had a long and brilliant career in French government and politics. It reaches back to the time 25 years ago when he joined, then President Georges Pompidou's staff. And President Pompidou was so impressed by his young assistant's capacity for work, that he called him "my bulldozer". And it continued through several cabinet posts and then when he resigned as Prime Minister he set out reviving and reconstituting the Gaullist political party and became both the parties President and Mayor of Paris. As Party Leader he campaigned tirelessly in last year's nationwide parliamentary elections. Then when the conservative parties won, he was summoned to serve again as Prime Minister. It has been a year now since France began its experiment with what we might call cohabitation. Dividing the power between the socialist President Mitterrand and the conservative

Prime Minister Chirac. At the time, it was described as “walking on eggshells”. But the doomsayers were confused and the eggs have not broken. But he has shaken things up. As just one example, his \$40 billion program of selling state owned businesses to the private sector has already created a million new shareholders in France. It is now my very great pleasure to present to you the Prime Minister of France, The Honorable Jacques Chirac.

The Honorable Jacques Chirac

Prime Minister of France

Mr. Chairman, ladies and gentlemen I’ll try to give my speech in English but I am not very much used to that and I hope it won’t be too much difficult for you to understand. It is, Mr. Chairman, a great pleasure for me to be with you today and I thank you for having invited me. I am grateful for the opportunity you are giving me to present, as you asked me, France’s view on the international economic situation to such a prestigious audience. Today, the concepts of time and distance have lost much of their meaning. This is why I feel it is important that businessmen and women with every day decisions of worldwide impact, be informed of the analysis drawn and the attitude taken by the government of a state that is both an ally and a friend.

We have the same mission, defending the free-world and its fundamental values, democracy and liberty. We also have common goals, setting world growth on a sounding footing, knowing that this is the only way we can hope to solve the unemployment problem that plaques our economy.

No one can put up with a situation where there are 15 ½ million jobless in Europe and around 8 million in the United States. Should this state of affairs persist, our fellow countrymen's trust in the very future of our societies would be jeopardized. The pursuits are the same, the goals are the same, but so are the problems. The problems we are all confronted with today are well known. Assisting budget and trade deficits, monetary volatility and the third world heavy indebtedness. Our societies do not take kindly to living in a perpetual economic crisis. The people of our two countries have grown accustomed since the end of World War II to constant economic progress. They fear insecurity and are concerned about their children's future. In an unstable environment professionals such as you, are well aware that now it only takes a few minutes to move billions of dollars, a few hours to melt away a healthy state's financial reserves and a few days to undo ____ economic restructuring that took months to achieve. This situation involves a number of political dangers.

Rational economic choice is made difficult by exchange rate volatility and this impedes correct forecasting. Furthermore it hinders trade, wrecks well designed investment plans and leads to protectionism and withdrawal from foreign relations. Unfortunately, history has taught us the hard way that periods of trade conflicts generally correspond to periods of economic isolation and slack growth. The increasing financial difficulties confronting part of the third world may ultimately destabilize the world international financial system. Even if this problem did not exist, the simple fact that a sizeable part of mankind is increasingly a prey to hunger, ____ and despair would be quite enough to justify serious global concern.

As long as we are confronted by East Bloc Countries which advocate societies different from ours, it would be dangerous for the balance of power and the pursuit of peace for us, not to go on setting the example of efficient Syrian societies where all can find the means of successful self-fulfillment. These problems can be solved. But finding the solutions will greatly depend upon the ability of the developed nations of the free world to work together. Rooted in the revival of market economic mechanisms, general overhauling of economic structures is underway the world over. Today, there is general agreement that renewed growth implies restoration of corporate competitiveness. As regards France and most EBC countries. Preliminary results show how right this approach is. We are well on the way to restoring equilibrium of major macroeconomic aggregates. Inflation rates are considerably lower than they were. In France for instance, inflation was down to 2.1% in 1986. The best performance in the last 30 years. Budget deficits are shrinking. In France's case, it will only total 2% of GDP in 1988. Profit margins are picking up and protective investment is taking off. In France, 1986 we thus have been the watershed and for unemployment as well. For the first time in a long time, industrial employment did not decrease in France and some new jobs were actually created.

Despite that achievements, this policy is not always very popular because it preaches restraint. But there is no alternative. At the same time, convergence in industrial countries economic policy is better than it used to be. As regards, monetary matters, for instance, in the wake of the Plaza Agreement of 1985, the Tokyo Policy Guidelines of 1986 and more recently the Louvre Agreement of last February 22nd showed that consensus has now been reached, even if there is

some accidents like today, on two major issues, exchange rates must be stabilized and present parities must be maintained.

As regards to trade, the initiation of a new series of negotiation in the GATT framework is rather encouraging. We set great start by negotiation initiated in Punta del Este. This should lead to freer trade in all sectors and in particular in services, the commercial aspect of investment and intellectual property. These fields of new and potentially significant implications as regards to the development of international economic relations between now and the end of the century. It is important that we start discussing these issues now. International law should not lag behind economics for fear of hindering general expansion. In this encouraging overview, I must also mention the goal the European community has set itself. Establishing large unified market, 320 million consumers strong by the end of 1992. Quite an ambitious goal indeed. As for the French government it is bent on preparing France to meet this deadline. Our will can be measured against our accomplishments. We have liberalized exchange and price controls. We have modernized our legislation in the field of competition. We have undertaken privatization. With great success as you know. And all of these initiatives stem from the same idea which we intend to pursue, however simple it may seem. Bring the situation in France into line with its partners and make it possible for France to contribute to the growth in Europe as a whole. The world stands to gain a lot from a stronger Europe.

Before the year of 2000, economic relations will be organized around very large homogenous

markets in North America, in Europe, and in the Asia Pacific zone and this could well be guaranty of economic success. Our hopefulness also stems from the growing awareness of the third world's debt problems. Foreign aid and assistance are significant, that is true. Although to my mind they remain quite unsatisfactory.

In October 1985 in Seoul Korea, the United States Secretary for the Treasury very solemnly and very bravely put forth a general program; all international financial organizations contribute to the structural adjustment of developing countries and make significant financial transfers. Debt rescheduling agreements and negotiated under the Paris Club auspices and they amounted to over \$14 billion in 1986. Special attention as ____ on Africa with the establishment of a special fund and the convening of a special session of the United Nations General Assembly. The country by country approach has in some cases alleviated the debt burden in particular in the case of Mexico.

I will summarize their observations by saying that the Western World has rallied and this gives us cause to hope. Many imperfections still mar the general picture. The time has come to move for one together, states, international institutions and banks. Crucial ground must be covered in particular as regarding monetary and financial matters. And by this, I mean the international monetary system and the way third world indebtedness must be tackled. But first, the word on quack remedies. As professionals in international relations, you are quite aware of the risk that withdrawal from international relations entails.

First, there is the temptation to set combat monetary parities. I will just say that this approach can only lead to a form of escalation from which no country could possibly benefit. And there also is the temptation of protectionism in trade. No doubt there are very few advocates for a total protectionism left today. But it is not always easy to fight the temptation of partial protectionism in order to preserve declining or conversely developing sectors. I am quite aware that this question is being actively discussed in your country. Yet, this approach would most probably put an end to all hopes of recovery on a world-wide basis. Economic growth has always thrived on intensified trade and the international division of labor. The United State's achievements themselves are a reflection of this, they stem from the constitutional law which has laid the foundations of an open economy by prohibiting the levy of taxes or duties between states. Their history is punctuated by a series of laws such as the Sherman Act or the Clayton Act or the Federal Trade Commission Act, that are all cornerstones of the free trade doctrine. Who can believe that today the most powerful country in the world, would be about to renounce this wise heritage its forefathers bequest.

Because Europe has bet on openness as reflected in the share of imports in its GDP, 32% as opposed to 10.4% in the United States and 12.3% in Japan, and the low levels of its custom duties, our Europe is extremely sensitive to rumors of protectionism.

The advance of protectionism would be firmly opposed by the whole of Europe not wanting to see its attempt to put its economy back on the right track undermined. So much for what should

not be done. But then what can we do?

I am convinced that first and foremost it behooves countries with significant trade surpluses and at the same time economies that are not quite open enough to import, to take a responsible stance. Today, considerations, both of general interest and of rational behavior spur these countries to take urgent measures to open the markets and to stimulate domestic demand.

Second, industrial states have to agree on the establishment of a monetary framework, both stable enough to give economic actors the security required for the operation and flexible enough to allow for adjustments should those prove unavoidable. A precondition would be the implementation of the monitoring and ___ facility which would make responses timely and cohesive. The necessary instruments already exist. Let me mention, foreign stance, the full range of economic indicators and the periodical monitoring of exchange rate. What we now need is the political wheel to use these tools thoroughly in the spirit of the Louvre Agreement of February 22nd and most probably to improve them. But if we really want to achieve stability and restore confidence as is our goal, our efforts in this field must be matched by others. I mean, by adequate handling of the third world situation.

Some very poor countries, especially in Africa, have made undeniable adjustment efforts, which have entailed hardships for the local population going beyond the limits of human endurance.

But their indebtedness makes any hope of their recovering in the years to come extremely

doubtful. If nothing more is done the hardships endured are pointless, unless they lead to some hope of growth. Should that not be the case, these countries, social, political balance might quite well be jeopardized. Rich countries must help find solution to these problems. Improvements in the overall economic situation and more particularly lower real interest rates would be a start. Currently these rates are abnormally high. Indebted countries would be the first to benefit from the downward trend. Major developed countries can, by working together start this trend. This must now become one of their priorities. In any event, treating cases individually is only really effective approach. The relevant partners all have their role to play. The countries concerned, first of all, by restructuring their economies and encouraging private initiatives, the industrial countries, by strengthening what has already been undertaken to reschedule debt payments and by granting new loans that will maintain the minimum investment flows required for development. International institutions, by increasing the volume of their aid in particular to the poorest. Commercial banks by actively resuming loans to these countries, which they have tended to neglect in recent times. We must also deal developing countries a new hand. To this end, it is urgent we take measures in regard to commodities which are the main source of exchange earnings for many of these countries. An end must be put to falling commodity prices. Agricultural product prices must be stabilized. Commodity agreements have run into difficulties in recent times which were subsequently amplified by monetary instability. It goes without saying that they were not flawless but their justification remains valid. For several commodities we must now try to improve market operation and favor cost pricing in order to make these agreements work. But more is probably needed. No better drug facility can go against basic

market trends should these persist. Commodity agreements must therefore be accompanied by financial aid to those developing countries which are hardest hit by sinking commodity prices. The Bretton Woods Financial Institutions should earmark a growing fraction of their resources to this end. Increasing ad-hoc financing should also be considered especially for very poor countries heavily dependent on commodity sales and which are bravely implementing structural adjustment policies.

In 1987 a certain number of international meetings will take place. This will afford an opportunity of recording real tangible progress. These meetings are the IMF and World Bank Development Committee Meeting which is to take place in Washington in a few days. The industrial countries submit in Venice in June and the Seventh UNCTAD meeting in Geneva in July. I hope that on each of these occasions, specific agreements on these questions will be reached at the highest level.

Lest today there are four possible policy directions for Western leaders. Fighting protectionism in trade, implementing a stable and flexible monetary framework, solving the problems, the most heavily indebted developing countries are confronted with, and reviving commodities agreements.

France has taken all of the necessary steps for fulfilling its role in this respect. The liberalization of French economy is today irreversible. It has entitled monetary reform. And other whole of

public spending, cuts in tax pressure, lifting of price and exchange controls to an extent at least comparable to what has been achieved in other countries. Reestablishment of free-market mechanisms, re-privatization of profusely nationalized enterprise, increased openness with the world at large and more specifically modernization of our financial and stock market system.

Over the last year, France's mood has undergone deep, very deep change. This is a new departure. Having contributed to this undeniable change in attitude is one of the great achievements of the policy our government has been anergically implementing over the last year. The French are now rediscovering the joys of economic freedom. They are ready to work towards the establishment of a unified European market by the end of 1992. They are looking for freer competition and they are starting up new companies. They are active on world markets, one out of four French people works for the export markets. The French are learning how to invest all over again. They are fascinated by the privatization process. On this side of the Atlantic you have not yet taken stock of the real meaning of the success of sales such as those of Sancobas(?) or Paribas. The number of stockholders has tripled in France in the space of just a few months. The French want now to own their own companies. They are increasingly interested in the financial market and this market is showing capacities that exceed our hopes. France has ideas, it shares many of them with the United States, and that isn't new. We all wish to restore stability in the world economy and we all wish for suitably bullion growth. For these are the two preconditions for freedom, real democracy and progress of the free world.

Let us face these challenges together. I thank you for your kind attention. (Applause)

QUESTION AND ANSWER SESSION

CHAIRMAN DWAYNE ANDREAS: Prime Minister Chirac, thank you very much for those very thoughtful and though provoking remarks. Now at this point in our program, it is traditional that we call on two distinguished members of the Club to put questions to our speaker. Our two questioners today are, Rand Araskog, Chairman and Chief Executive Officer of the ITT Corporation. And Anthony Solomon, former Secretary of the Undersecretary of the Treasury, Former President of the Federal Reserve Bank of New York and now Chairman of SC Warburg USA Incorporated. I am very thankful that Mr. Solomon has agreed to replace Mr. Pete Peterson whose name appeared on your program because Mr. Peterson was unexpectedly called away from the city today. Now in order to save time, I will not Chair this questioning session. I will ask our questioners to simply alternate back and forth and the Prime Minister has said he will answer the simple ones in English and if they get a little more difficult or technical, he might lean on French. Mr. Araskog, will you please take the first question.

RAND ARASKOG: Mr. Prime Minister, in view of the fact that the EEC has just celebrated its 30 years of existence. Could you explain why you feel that in the next five years so much progress is going to be made in unifying the European market?

PRIME MINISTER JACQUES CHIRAC: Well Mr. Chairman, it is right, it is a big challenge and we have quite a lot of difficulties. But, we have a political wheel and we signed an agreement which is named ____ which was voted on a few weeks ago by all the 12 Parliaments and we have to do it. I know it is going to be difficult, but I hope that we shall succeed. It means a huge number of new rules to eliminate many, many national rules, but well, we have the will to do it. And it will be a great market with 320 consumers strong. And we shall have then three big economic areas in the world and I think it is a good thing for everybody. Suppose of course that protectionism, temptation for protectionism are eliminated everywhere which is another challenge.

ANTHONY SOLOMON: Prime Minister Chirac, you have talked much about protectionism today and you are concerned about the United States going down that road. We in this country are constantly presented by the most protectionist behavior of all in the European Economic community, the common agricultural policy for which France is the strongest supporter I believe it is fair to say. Do you think that France and the community are able to reform the common agricultural policy in a less protectionist direction?

PRIME MINISTER JACQUES CHIRAC: Well I am always very astonished when I hear that the community is protectionist and especially in the field of agriculture. I cannot really understand why the United States are the only place in the world where this is mentioned and safe. Because this is absolutely wrong. May I say first, I gave you figures, I am going to do it again, the

community is the most open market all over the world. May I say for instance, total levels which are 3% in the United States market, are 1% in the community. And it is true for may I say all fields of economy. About the regulatory policy, may I tell you, that since this policy started the exports of the United States to Europe have a huge increase in volume, of course, in volume, which you wouldn't have had without the agricultural common policy. A huge increase in volume. And the external balance between the United States and the community about agriculture makes large deficit for the community. How can you say that we are protectionists, it is exactly the contrary. And I never understood why this is always said in the United States, but it is not the reality. Still, we have some problems, that is true, coming from the fact that you have huge surpluses and we too but do you know, Mr. Chairman, what each farmer in the United States gets from the public finances, about 10 times subsidies compared with what the European farmer in the community get from the public finances, including community and nations of course. You should first decrease your help, your subsidies to be competitive. This is not fair. We understand very well why it isn't possible and we don't criticize but we don't understand why we should be criticized, as we do just a little bit of what you do. (Applause) And to end with, Mr. Chairman, we have problems, we know that, and we think that between civilized countries problems should find a solution in fair discussion. We are ready, we in the community, we are ready for a fair discussion about those problems. The new discussions in the GATT are going to start and we hope that we shall progress also on the field of agriculture. We also are ready to discuss between the community and the United States to find solutions, but please don't criticize us on this, we really don't like it at all. (Applause)

RAND ARASKOG: Mr. Prime Minister would you comment on the public reaction and particularly the reaction of the labor unions in France to the privatization program?

PRIME MINISTER JACQUES CHIRAC: Well, when the majority of today, a year ago was in the opposition, we decided to re-privatize not only the companies which had been nationalized in 1982, but also the others, nationalized before in 1945, or before the war. (CHANGED AUDIO TO NEXT SIDE) it means 65 companies and between that, all big ones, and between them, some of the most prestigious French companies. At that time, a year and a half ago, experts told us that this was good view but probably very difficult to achieve because the financial market in France should be too short, but strong enough, and a lot of other reasons. Then we started. And the success was tremendous. The first one, Sancobas(?) was sold and one of two, the half of the workers of Sancobas(?) bought shares of their own companies. That is why, Mr. Chairman, the unions didn't criticize, it is the same for Paribas. And it is going to be the same for the others. And besides, a very large number of people wanted to buy shares. Just only for Paribas, 3.5 million of French people, out of 55, wanted to buy shares of Paribas. When we started this operation we said we shall give 10 shares for each people and we were able to give only 4 because too many people. That means that there is a real and deep change in the French attitude. This is why this, I say, it is an irreversible reform. Because it is easy to nationalize companies owned by a few people, a group. For ideologic reasons, but it is impossible to nationalize companies owned by so many people. That is the real nationalization of the companies when a large number of people owns the shares. And the public opinion is very, very much in favor,

everybody is waiting for the next one, which will be also a great success. And if we are not going faster, it is not for financial reasons, it is just only because we didn't imagine such success and we are not ready because it is a big work for evaluation and so on to privatize a company. And we are not ready. And we are going as quickly as possible. But now we know that first within four or four and a half years all the 65 companies will be privatized. And second, that it is a reversible situation and to end with, that nobody in France, I mean, neither in the unions nor in the politicians, nobody says that they will nationalize again the re-privatized companies.

ANTHONY SOLOMON: Prime Minister, you have accomplished considerably, had considerable success in privatization, in financial deregulation, in ending many years of price control, but the French economy is somewhat slack and unemployment has been a problem. And you yourself have commented on the drop in your popularity in the polls. Since you are now entering the last year before the presidential elections and since Germany will not lead the way with more stimulative economic policies, how do you expect to get the economic growth in France that might very well be indicated by this being 1987?

PRIME MINISTER JACQUES CHIRAC: First, we did a lot, that is true, second, we have a huge unemployment, that is unfortunately true also. Which is still increasing. I said that for the first time in 1986 compared with the past five years, we stopped the destruction of industrial employment and stopped with the creation of new jobs. But it is not enough to upset the growth of democracy. Then we have a difficult situation about employment, that is true. We hoped for

1987 a growth, an increase of the GDP around 2.5, 2.6. And you know that Germany, Western Germany hoped for 3.4. We had to change that evaluation, estimation. And come back to 2% and Germany came back from 3.4 just two weeks ago to 2% also. Which as a matter of fact is not a rate enough to decrease unemployment. It will increase again. Which means that the problems will maintain that is true and we have an important election, presidential election in 1988. But still I am not worried at all because I am sure that the French people understood that there is no other way to recover. You mentioned that the polls for me are bad which is true. But I am not worried about that. Because if the polls are bad, the bi-elections we have every Sunday in France are good. As a matter of fact, it is more serious. And still, because of the constraints of this economy which is a strong one, which doesn't please to all the people would like, we spend more money. In fact, the balance in France and all of the polls say that and also the bi-elections, didn't change between the right and the left. Then I am pretty sure that the next presidential election will be gained by the majority, which is important, not on a political point of view, I am not going to talk about French policy abroad, I never do that. If I meant the kind of an exception, it is for another reason. It is because this means that we shall not have any break in policy for recovery. And that this policy will continue until 1992. And I am pretty sure that within five years this policy will be such that France will have recovered and will be the main economic power in Europe as one of your colleagues, Mr. Roberts, said recently in an article of the *Wall Street Journal*. Remember what happened five years ago. All of the experts who, was wrong, as everybody knows. All the experts said that Germany was in the terrible situation and unable to restore the situation five years ago. Most of the people forgot that. And with clear and intelligent

policy, within five years they have completely recovered and we will do the same. (Applause)

RAND ARASKOG: Mr. Prime Minister you are, I believe, on record as basically supporting the zero/zero options for cruise and purging two missiles for Europe. Would you comment on your feelings with respect to a reduction in conventional forces on the part of the United States?

PRIME MINISTER JACQUES CHIRAC: Well there is a very important negotiation between the United States and the Soviet Union about the nuclear weapons. And we are very much interested of course in the result. But this is not what you asked me. We are not really afraid. We know that the American administration will take great care about the problems of Europe, of the security in Europe. And all the head of governments of Europe agree, the solution which is the American solution. And may I say that we have a great confidence for this agreement and the way it is conducted. I especially agree with Mr. Weinberger's views. About the conventional US forces in Europe, I have not the slightest doubt about the maintenance of those forces in Europe. I think the linkage between Europe and the United States is so strong and important that it couldn't be kept and I think this is just a matter of journalists or philosophers but not for a matter for politicians, responsible politicians. And I cannot imagine that any American administration could make a decision to lower the link between the United States and Europe for the only reason that the freedom of the United States starts in Europe and that is a matter of fact. And I am not worried at all. (Applause)

CHAIRMAN DWAYNE ANDREAS: Thank you very much Mr. Prime Minister. You not only gave your answers in perfect English but mighty good replies and we appreciate that very much. Now we will take time out for lunch, after which we will ask the Prime Minister to accept our traditional Steuben Apple. Enjoy your lunch. (Applause)

AFTER LUNCH

CHAIRMAN DWAYNE ANDREAS: Mr. Prime Minister, I want to tell you how much we have enjoyed and appreciated your talk and your response to our questions and to tell you what a genuine real treat it is to have from your country and from your continent a visit from an enlightened conservative with whom we agree on so many points. (Applause) And you are such a great advocate I have just learned the Prime Minister will be visiting Moscow sometime in the next month or two after Mrs. Thatcher and perhaps later Mr. Cole, you know, with a great advocate like this, maybe we will make a conservative out of Gorbachev yet. Now it is our tradition to present a Steuben Apple to our speaker as a token of our esteem and our thanks. This is it. It is a big apple representing the city of New York. It is because we are grateful to you for giving us this chance to get acquainted with you and I hope you have enjoyed being here as much as we have enjoyed having you. I also want to thank Mr. Araskog and Mr. Solomon for the great job they did in presenting the questions. Will you please accept this with our thanks. (Applause) And now I would appreciate it if you would remain seated for a few minutes until the Prime Minister and his party has had a chance to leave the building.

PRIME MINISTER JACQUES CHIRAC: Mr. Chairman, ladies and gentlemen, I just want to thank you very much. It was a great honor and a privilege for me to speak in front of such a prestigious people and I shall keep this apple, Mr. Chairman, I am very glad to take it back to France and may I say to Mr. Solomon, that is one, this apple, once more agricultural exportation to France. (Laughter and Applause)

CHAIRMAN DWAYNE ANDREAS: To you Sir, to you. Thank you.

End of Meeting