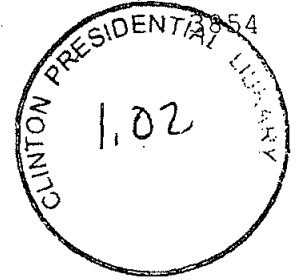


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THE WHITE HOUSE
WASHINGTON



MEMORANDUM OF CONVERSATION

SUBJECT: Private Meeting with Prime Minister Blair and
British Cabinet (U)

PARTICIPANTS: The President
William Daley, Secretary of Commerce
William Crowe, Ambassador to the UK
Samuel Berger, Assistant to the President for
National Security Affairs
James Steinberg, Deputy Assistant to the
President for National Security Affairs
Mary Ann Peters, Director for European
Affairs, NSC (Notetaker)

Prime Minister Blair
John Holmes, Private Secretary to the
Prime Minister for Overseas Affairs
Members of the British Cabinet

DATE, TIME May 29, 1997, 11:40 a.m. - 12 noon
AND PLACE: The Cabinet Room, No. 10 Downing Street

Prime Minister Blair: (Following introductions of Cabinet members) Parliament is in recess; we are having a hell of a time getting underway -- the honeymoon doesn't last long. The second term is what we need; to take nothing for granted and not rely on the other side's unpopularity. (C)

The President: I am delighted to be here. I admire what you did for the party; it is important to have the freedom to capture the center and move into tomorrow. (C)

Prime Minister Blair: The truth is we took part of what we did from you; I am happy that these issues are on the agenda in the rest of Europe now. (C)

The President: There are some leaders like the prime ministers of the Netherlands and Portugal who have the same ideas. (C)

Prime Minister Blair: And Sweden -- it is helpful to look at other examples. (C)

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The President: Kok was talking about France; they are not ready yet to do what is needed. The UK, the Netherlands and the United States have good social compacts that make the country work; in the United States we need to maintain competitiveness while looking out for people. Millions can't cope with work and family; and these are the people who face education and safe streets and health care challenges. If you succeed, and I think you will, constructive change will have to take place. France and Germany need to balance social programs and global realities; a different version of that problem faces us all. ~~(C)~~

Prime Minister Blair: That is why it is so important to exchange ideas; we have learned from the best and worst of experiences; there must be structural change. It could well be premature to introduce the euro without it. ~~(C)~~

The President: It is interesting how a currency acquires a life of its own -- it has become the litmus test for France and Germany, though the underlying changes have not taken place. ~~(C)~~

(Cabinet meeting adjourned, discussion continued with Chancellor of Exchequer Brown.)

Mr. Brown: There is a need for a flexible labor market, which you faced up to in the United States. You have 50 percent more consumption per head than France and Germany because they have not liberalized shopping hours, and 50 percent more computer work. If possible, we should make the G-7 the forum for discussion of flexible labor forces so others can learn from the U.S. experience. The debate needs to go forward in Europe. ~~(C)~~

Prime Minister Blair: It doesn't mean giving up the social compact but it is a new world. The role of government is not about hostilities with business but to equip people with the skills and technology they need and help families. ~~(C)~~

The President: I agree with that. ~~(C)~~

Mr. Brown: In Great Britain, the long-term unemployed make up 40 percent of our unemployed, compared with 10 percent in the United States. We have no way to get them back to work. There will have to be huge changes; France is the best example because their public sector is huge. We need to demonstrate that growth and social programs can work together -- you do not have to sacrifice one for the other. ~~(C)~~

Prime Minister Blair: I told Jospin that he was attacking the right for the wrong reasons -- he should be doing it because they are not going far enough. ~~(C)~~

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The President: We cut government employment by 300,000. It is now the smallest since the Kennedy Administration and, on a per capita basis, the smallest it has been since 1933. We have direct transfers to social security and to state and local governments. You could be helpful with the difficulties within France and Germany with regard to social spending. At least in Germany they spend the money better, on long-term training; in France people are paid to stay unemployed for very long periods. (C)

Mr. Brown: The system can only work if there is mobility, flexibility and large transfers. Right now, none of these three exists. (C)

The President: There is one thing to look at. I know the United States are different than EU member nations, but you would be interested in how far big states can go in having different financial policies. New Jersey is an example -- it proved you can raise the minimum wage and create more low-wage jobs. I used this experience to justify our raising the minimum wage. But unemployment will go up if the rise is too big. Your unemployment rate is lower than other Europeans' because of your flexible system. (C)

Mr. Brown: Since they are not required to work, no long-term unemployed single parents are included in our statistics. That means unemployment is really closer to 20 percent in some cases. We have the biggest single-parent population in Europe. (C)

The President: If the culture says it is no longer necessary to have a marriage to have children, then that means single parents should have to work. (C)

-- End of Conversation --

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