

MEMORANDUM

THE WHITE HOUSE  
WASHINGTON

~~SECRET/NODIS/XGDS~~

MEMORANDUM OF CONVERSATION

PARTICIPANTS: Helmut Schmidt, Chancellor, FRG  
Hans-Dietrich Genscher, Deputy Chancellor and  
Minister of Foreign Affairs, FRG

President Gerald Ford  
Dr. Henry A. Kissinger, Secretary of State and  
Assistant to the President for National  
Security Affairs  
Lt. General Brent Scowcroft, Deputy Assistant  
to the President for National Security Affairs

DATE AND TIME: Sunday, July 27, 1975  
9:50 - 10:45 a.m.

PLACE: The Chancellery  
Bonn

[Secretary Kissinger told stories about Adenauer.]

Schmidt: Confidence and discretion are rare qualities.

These are special paintings. This one is by Nolde. He is not known in your country. This other one has no artistic value, but is by the founder of the German Social Democratic party over 100 years ago. It did not stem from Marxism. He in fact criticized it.

[There was a discussion about the suffrage.]

Schmidt: We had Giscard here yesterday. This is a regular thing. Every six months our Cabinets meet.

Kissinger: What language do you use?

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BY *[Signature]*, NARA, DATE *5/24/04*

~~SECRET~~ - XGDS (3)  
CLASSIFIED BY: HENRY A. KISSINGER



Schmidt: Giscard and I always talk in English. He has a very elegant vocabulary. It is clear to me that in his attitudes toward the U.S. he is different from any French leader you have met.

The President: I feel we have a good relationship. Of course I didn't really know his predecessors.

Schmidt: He thinks highly of you and Secretary Kissinger.

[There was a discussion of Giscard and the next French elections, and Chirac.]

The President: We had a difficult situation in Congress on this Turkish aid matter. It's the most irresponsible matter in my 20-odd years in government. The Speaker worked hard with me, but we lost 216 to 206.

Schmidt: [To Genscher] Will you tell the President what Demirel said about Turkish aid?

Genscher: [Translation inaudible.]

Schmidt: May I add a bit about the situation in Turkey? Demirel has only a slim majority and elections are required within a year. Ecevit is considered to be associated with the Social Democratic parties in Europe. He is making a clear threat to overthrow Demirel if there are any concessions on Cyprus. We have tried to dissuade him from this, but without success. So if Demirel is to come forward with concessions, he must be able to have some success with regard to America.

Kissinger: That is exactly correct.

Schmidt: Giscard didn't understand this.

The President: We tried to explain this to over 300 people in the House, at three breakfasts at the White House. But the Greek-Americans have a very effective lobby in AHEPA. It was more effective in this case than the Israeli lobby. They were intelligent; well organized and emotional.

Kissinger: And there was nothing specific on which to negotiate.

Schmidt: The facts are the Turks are behaving badly, and then there is this dangerous Makarios. Karamanlis is afraid of Makarios.

The President: The Greek-American community kept saying Turkey had to make concessions prior to moving, but for the reasons you gave, it could not be done.

Schmidt: Demirel is a serious man and you should show him you understand his problems.

The President: Papandreou is a very bad influence. If the Greek situation ever went that way, it would be bad.

Kissinger: If we could get a negotiation going, we think it would move fast. The dispute over territory is now between 25% and 32%. The one big problem is that Makarios would have to leave. Ecevit though wants to use Cyprus to break up the Demirel coalition.

Schmidt: Ecevit will even threaten an anti-NATO direction. In Greece also there is a strong current against NATO.

Kissinger: My fear in Greece is the young army officers will be like in Portugal.

Schmidt: Papandreou is a very dangerous man, but very skillful.

Kissinger: He is viciously anti-American. He has an American wife.

The President: Any new developments in Portugal?

Kissinger: Our analysis is that Carvalho gained.

Schmidt: Among the three, Costa Gomes is the most moderate. Goncalves is an idiot. Don't write that down.

Kissinger: Antunes didn't go to the last Council meeting for fear of arrest.

Schmidt: Antunes made a bad tactical move at the last meeting by asking for the removal of Goncalves. But the Portugal situation is still not clear. A rightist reaction is not to be excluded after the economic unrest. Even the brave Socialist Gomes won't be able to govern. No one there understands how to govern, especially in the economy. Even the Communists don't understand the economy and would have to rely on the outside and I don't think the Soviet Union is eager for that.

Kissinger: I think if we make clear we would help the moderates but not the radicals, then we have a chance.

Schmidt: Giscard is of your thinking on Portugal -- more pessimistic than the rest of us.

More serious is Italy. The Christian Democratic Party is worn out. There are only two people who have a chance -- Colombo, who is weak, and Carli, head of the Bank of Italy, who is on his way out. I think we should get the Socialists and Social Democrats to join the Christian Democrats or else the Communists will enter the government.

Kissinger: We are exploring getting Martini, the Socialist, to the U.S. It is a delicate move, though. The new head of the Christian Democrats is an ally of Moro but not strong.

Schmidt: The whole economic situation in Italy, despite the appearance over the last year, is deteriorating. Unemployment will rise, the differences between North and South will grow; the Communists have shown themselves excellent administrators and have detached themselves from Moscow to become more attractive.

If the economic situation of the world were going up, the economic situation in Italy would be drawn up with the rest. If that doesn't happen, the economic situation in Italy would deteriorate rapidly. But let's save the economic situation for the broader meeting.

Giscard says what I have been saying since a year ago May. I have kept quiet currently because I too am pessimistic. He says the greatest threat to the West is not the Communists or the Southern flank of NATO, but the economic ability of the West. If it were a political or military crisis, the leaders would get together and act. Since it is economic, we leave it to our Finance Ministers. If we leave it this way for five years, there will be a political disaster. He thinks the Western leaders have to get together to make a last attempt. He thinks it is a dramatic situation.

Wilson is more hesitant because he fears creating expectations.

The President: His situation is different.

Kissinger: He is already in the situation Giscard wants to prevent.

Schmidt: His inflation rate is twenty percent. The Saudis are losing their money at twelve percent because of inflation. How long will they continue that? The British are aware of it -- Callaghan is more afraid than Wilson.

The President: Wilson may be afraid of a meeting to expose what the situation is and raise expectations.

Schmidt: Wilson would come, but he is not enthusiastic. This is one topic for the Quadripartite lunch at Helsinki.

Let me speak a few frank words. The leadership here should be by the United States. Your strong leadership is needed, without appearing to do so.

The President: That is difficult. What would you recommend?

Schmidt: The British will have unemployment -- it will soon be six percent. In France, it is also too high. Ours is too high, slightly over one million, and by February it could go to 1.5. Don't take this down. We are an export economy. Our exports to the U.S. have fallen to less than 50 percent over the last year. Our industrial activity is down to 65 percent of capacity. It is the same with France.

The President: Ours is about 75 percent.

Schmidt: My obsession is with the fact that the economic leaders in the U.S. -- Simon, Greenspan, and regrettably even Burns -- look too much to domestic problems and not to world effects. For example, New York City banks are 3 percent higher, so people sell German bonds back in order to get the higher New York rates. Also the dollar is rising so people seek profit by switching from marks and francs into dollars. So floating currencies -- of which I was a great advocate -- when the rate is so volatile, could destroy the Western economies.

The President: I read a piece by Laffer, who is opposed to the float. But the American consensus in the United States is to float.

Kissinger: But five years ago they were all for rigid rates. The Chancellor's point is that the uncertainties of fluctuating rates could undermine political stability.

Schmidt: In all of Europe, the boards of the big industrial companies are so skeptical they do not invest, so employment stays low. My program to

create domestic demand -- we lowered taxes, made money cheap, we gave investment credit, we held back wage requests by persuasion -- didn't work because foreign demand for goods dropped badly. Domestic demand reacted well, but about two-thirds of the total demand is foreign, so that is the critical aspect. Also, many of the consumers saved rather than investing. Savings are the highest since Kreiser.

The President: The same with us. Heavy investment goods aren't selling. Housing.

Kissinger: What is your solution?

Schmidt: There is another negotiation coming. If OPEC announces a ten percent price hike -- the Shah wants 30 percent -- the increase will add to this pessimism. In order to get things under control, we first must show that we want no confrontation with OPEC but we will cooperate to work things out. Second, if we could tell the world we see the dangers eye to eye and will concert our actions to meet it -- even if we don't actually do it.

Kissinger: We will be under domestic pressure for a confrontation with OPEC. Would you explain this to the President and also the need to concert?

Schmidt: We would react negatively in Europe to a confrontation with OPEC. If oil prices go up, it eventually benefits the U.S. and the Soviet Union, who are rich in raw materials. But there is no chance for Europe, who could not stand a confrontation. They need stable prices and assured supply.

If there is any different outlook on oil in Europe, it is in Great Britain, which will soon have its own supply. The Europeans want to come to terms with the energy suppliers.

The President: Is there a negotiating area with respect to price and supply?

Schmidt: Yes, but we can't join a policy of confrontation. It would so raise unemployment as to be disastrous.

The President: My immediate reaction is favorable to a meeting. Simon is a hard liner. My tendency is to work closely -- on the economic side the perception of us working closely would help us with the producers and the Soviets.

Kissinger: But we should prepare carefully so there are results.

Schmidt: We have confidence in Shultz. Simon and Greenspan are domestically oriented.

Kissinger: But Shultz is difficult to use in a governmental body. Could we use a private group.

Schmidt: I agree that a meeting should be carefully prepared. Heads of government are not equipped to discuss such matters without preparation.

The President: I have full confidence in Shultz, but we couldn't, we use him officially. He has the confidence of the Congress also.

Schmidt: If an economic conference should take place this year, we shouldn't expect too many results. If we could create the impression we intend to work together and coordinate our policies, that will be enough. It should be done before the real winter comes.

The President: What do you think OPEC will do?

Schmidt: The Saudis will try to retard any such step until the end of the year. Not so with the Shah and Algeria. Of Perez I am not sure -- he is annoyed with the United States.

Kissinger: Mostly for domestic reasons.

Schmidt: We are having a study completed now. I think there are differences opening up among the OPEC countries.

Kissinger: If we stick together.

Schmidt: Yes.

Kissinger: We have looked at commodity agreements to see how we could split up the producers.

Schmidt: I think we could separate the poor, non-oil countries from OPEC.

Kissinger: And some non-oil commodity countries. Right now they are all tied up together.

Schmidt: What is the situation in Japan?

The President: We have a meeting with Miki the day we get back. I had a good trip there last fall. I think it was a good trip and it reassured them. Economically, I think they are better off than Europe. They have oil agreements with China. I think they are better off now than a year ago.

Kissinger: The collapse of Indochina has had a more profound effect in Japan than anywhere else.

Schmidt: In what direction?

Kissinger: In a more self-assertive way to separate from the U.S. For the first time they have asked to discuss defense matters at the Prime Minister level.

The President: Yes. With Tanaka, we didn't discuss defense.

[The party then joined the plenary meeting.]

Schmidt: Let me welcome you again in this broader session. We agreed to discuss economic and financial matters, reserving the others for tonight on the boat. Would you begin, Mr. President?

The President: Thank you very much. We are delighted to be here. Let me outline our domestic economic situation. Last fall at the economic summit conference in Washington there was a consensus that the real problem was 12-14 percent inflation. Not one economist recognized the coming precipitous rise in unemployment. People last winter stopped buying high-value investment items and began to save. The result is high unemployment and recession. We have had very high inventory liquidation -- almost at an alarming rate. The past two months, things have been encouraging. Inflation is down to about five-six percent. Unemployment is about nine percent, but there are encouraging developments. New unemployment is at 400,000 when three months ago it was 600,000. We estimate the unemployment rate by year end will be eight percent and by mid-1976 at 7.5-7 percent. GNP was bad the first quarter, somewhat better the second quarter, and four-five percent the third quarter and seven percent in the fourth quarter.

Some economists think it would go to nine percent. We have some fiscal problems. Our deficit is now about \$60 billion. Congressional pressure may force it to around \$70 billion. Next year's forecast depends partly



on whether there is a tax reduction. If there is, it would be \$35-40 billion; with a continuation of the tax credit, it would add \$15-20 billion. We are encouraged by the signs in home building. By year end, the rate could be one/one-half million, up from 700,000.

Automobiles have been bad, The savings rate is the highest it has been in years. The consumer confidence factor has improved recently. Of the tax rebate, only \$2 of the \$10 billion has yet been spent, so that is potential spending. Our balance of trade is encouraging, although that doesn't help in the world economy

Schmidt: That discourages us.

The President: Interest rates are declining. The supply of money is above the rates the Federal Reserve Bank has projected: 11-12 percent as compared to seven-eight percent. We think inflation will be around five-six percent and unemployment seven-eight percent. That is my general appraisal.

Schmidt: Thank you. I would like Friderichs to give us a brief review.

Minister Friderichs: Our real GNP for the first quarter is from 3.5 to 4 percent. The price increase was about 4-5 percent; however, it was above five percent seasonally adjusted. Capacity utilization was below 70 percent -- the worst in heavy industry. Domestic demand has been stabilized by domestic programs. The main difficult is in exporting. We export 23 percent of our GNP and exports are down in real terms by 16 percent. New demands are down 22 percent. This in net is our economic situation.

Exports to the U.S. are important to us. In energy policy we have exchanged views. For this winter, our consumption has declined and stocks are high. We must assume there will be oil price increases, probably from \$1 to \$1.50 a barrel. The key countries to watch are Algeria and Venezuela. We are worried about the winter of 1976-77 because if the economic situation in industrial countries improves, oil demand will rise. For other commodities, discussions have been held. We expect some raw material agreements. We are thinking for a new device using IMF gold to stabilize prices.

Schmidt: Pohl would sketch out our financial situation.

Pohl: We are facing our biggest budget deficit -- about 60 billion DM. This results from a tax cut and increased expenses. We have no trouble financing it because the private sector hesitates to invest and savings are up.

In the IMF negotiations, I think we are close to compromise. I think an agreement on increase in guarantees is possible by the end of August and also an agreement on gold transactions. On this we are closer to France and the European position is generally unified. On the use of IMF gold, we are closer to an agreement.

The exchange rate system issue is still open, with basic dispute between the U.S. and Europe. The differences are not bridgeable right now. We are pleased that the dollar rate has gone up. Your interest rates are higher than ours and that worries us.

Schmidt: Thank you. Let me add a few words from the European, not German, viewpoint. It is in the interest of Europe that you make the Federal Reserve Board realize their interest rate policy is not just a domestic concern. Your high rates bring up the price of the dollar which is good, but it disrupts our capital markets. I think France will not try to block the results of the IMF.

The future regime of world exchange rates, after the collapse of the Bretton Woods system, won't be solved at the IMF meeting, but I think it is not insoluble. Since the U.S. is the strongest country monetarily -- tradewise we are about even -- it must overcome its domestically oriented mind. We need a fixed but adjustable rate system. In the meantime we should bring about a common management of the float to avoid these devastating fluctuations. For smaller companies, it is difficult to deal in dollars when you don't know whether there will be a ten percent change within six months. In the Bretton Woods system, all currencies were pegged to dollars and all transfers were in gold. You stopped that in 1971, and we understand that. If you won't transfer gold you have to participate in managing the rates so they are predictable over the longer period. This inflation and oil and commodity prices are the real problems of the world economy.

The political effects of the recession -- really a depression -- threaten political stability in several countries -- Italy, where the Christian Democrats may accept the Communists in government. France also, where there is always a potential for domestic upheaval. The British problem

is not social unrest, but strikes and paralysis. Here also, the problem is not upheaval, but bad election results. I don't know about Japan.

The economic problems are a greater threat to the West than the Soviet Union, the Middle East, or Southern Mediterranean problems. Giscard and I both feel that the strongest country -- the U.S. -- must take the lead. It is a dramatic situation.

The President: I concur that we must integrate our economic thinking and actions, both because of the domestic political situation in Europe and also in the United States. We have gone through a traumatic economic situation over the past year. The American people have gone through it with patience and stability. Compared to the 1930's, it is quite surprising. We are anxious for economic and political reasons for economic improvement. We have an election next year and want to enhance the economic improvement in the months ahead. I think we can make progress in concerting our policies.

Schmidt: We can continue at lunch. We are relieved at your statement about cooperation. We are at your disposal any day or night. I look forward to the Quadripartite meeting in Helsinki, where we can discuss how to bring about this cooperation. Our private entrepreneurs -- more in Europe than in the United States, because you were the first into a depression and now, properly, the first to come out -- need this sense of cooperation in order to give confidence.

[The meeting ended.]

DEPARTMENT OF STATE

*Memorandum of Conversation*

TIME: 11:15 a.m.  
DATE: July 27, 1975  
PLACE: Schmidt's Conference Room, Federal Chancellery - Bonn

SUBJECT: (This followed a more restricted meeting in which only the President, the Secretary and General Scowcroft participated.)

PARTICIPANTS: German

Chancellor Helmut Schmidt  
Foreign Minister Hans-Dietrich Genscher  
Economics Minister Dr. Hans Friderichs  
State Secretary Dr. Walter Gehlhoff, Foreign Office  
State Secretary Karl Otto Poehl, Finance Ministry  
Political Director Guenther van Well, Foreign Office  
Ambassador Berndt von Staden  
State Secretary Dr. Manfred Schueler, Federal Chancellery  
Dr. Carl-Werner Sanne, Federal Chancellery  
and several others

American

The President  
The Secretary  
Ambassador Hillenbrand  
General Scowcroft  
Counselor Sonnenfeldt  
Assistant Secretary Hartman

President: I welcome this discussion of the economic situation and in fact I would like to tell you in a little bit more detail where our economy stands. In September of last year, we had a series of economic summits. The consensus was that the real problem was the 10-12 percent inflation rate. But now looking back on it, I can say that there was insufficient recognition of the tremendous problem that recession and unemployment could cause for us in the coming years. During this time, we have seen savings rise, buying stop and the early inventory accumulation has in fact been drawn down. Therefore, production has been cut and there has been a significant rise in

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(Drafting Office and Officer)

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unemployment. Last September, it was at a rate of about 5 percent; it is now up to 9 percent which is the highest since our Great Depression. In the last six months there has been a significant drop in inventory; in fact this has been the highest drop in history. The decline in production levels has been alarming.

In the last two months, however, we have seen some encouraging signs. Our rate of inflation is now running at about 5-6 percent. Lately, the wholesale price index looks as though it is leveling off.

While unemployment is at 9 percent, the latest figures show that there is an increase in the overall number of jobs and that, therefore, much of the unemployment is among new workers entering the employment market for the first time. It is now running at about 400,000, down from 600,000 people. There are more people currently being employed--some 400,000. The forecast is that by the end of 1975 unemployment will be down to 8 percent and by mid-1976 it will be somewhere between 7 and 7 1/2 percent. This is still too high, but the direction is good.

In terms of our growth, it is now something like 3 1/4 percent; it soon will be up between 4 and 5 percent. Next year we hope GNP will grow by 7 percent, and it could get as high as 9 percent.

We do have a tremendous fiscal problem. We are now running a deficit of close to \$60 billion. That is roughly 2 percent of GNP, but there is pressure by the Congress and some economists to force that up to close to \$70 billion. We do not want to allow our deficit to get that high. Part of our forecast depends on what Congress does about tax reductions and whether they extend last year's tax reduction. We are estimating next year's deficit at \$30 billion and, if the tax reductions are extended, that could add another \$12 billion.

On the favorable side, housing starts and home building have gone up. We have now worked off the inventory of houses. New starts will be up by the end of 1975, perhaps

as high as 1.5 million. Before this had gone down to some 700,000. The auto area has been disappointing this year, but for the first time now purchases are moving up. In fact, all manufacturers' employment is higher now. The savings rate is the highest ever, and we hope that, with confidence building up, there will be additional spending. Tax rebates of some \$10 billion have mostly been saved; only about \$2 billion has been spent. The rest went for reduction of debt or savings. And then, as you can see, our trade figures are much better. Interest rates have shown a downward trend, although the Federal Reserve System has forced them up somewhat. Money supply has risen between 10 and 12 percent. The Fed would like to keep that growth between 5 and 7 percent in order to control inflation. To sum up, we are going to try to hold our inflation between 5 and 6 percent; unemployment, between 7 and 8 percent. And we think there are encouraging signs that we are moving in that direction.

Schmidt: I would like to ask Mr. Friderichs to comment on our situation.

Friderichs: We are looking for a growth in our GNP of 3.5 to 4 percent. Our inflation rate is now down to about 6 percent versus a higher figure in the first six months of the year. Unemployment is at about 4.5 percent. In June, capacity was below 70 percent as far as utilization is concerned, but it was worse in basic industries. Demand seems to be stable, and there is some possibility that it can be expansionary when you take into account our foreign dealings. Federal expenses are up 8 percent. Our income in the federal budget is down 3 percent. Exports are down in real terms--some 16 percent. Imports are down 22 percent. Exports to the United States are very important for us.

We also have problems with our energy policy, and we have been exchanging views on this. We have no problem in voluntarily limiting our consumption; that certainly has been going down. We feel that another price increase on oil will come, and this will be anywhere from a \$1 to \$1.50. The key here is in Algeria and in Venezuela where they take a very tough position. I plan to go to Iran to

see whether they really mean it when they talk about larger price increases. We are very worried about the winter of 1976-77. If our economy turns up, we will be needing more energy, not less. There is also a raw material price problem throughout the world. We have discussed this in the OECD and in Washington. We do not expect that raw materials producers will help very much. We don't like the idea of fixing prices. We don't like the idea of transferring wealth. But we do not exclude certain types of agreements which might help to produce export stabilization. We also like the idea of using IMF gold.

Schmidt: I would now like to ask State Secretary Poehl to comment on the monetary and budget problems.

Poehl: We have been in a deep recession, and we now have our biggest budget deficit of some DM60 billion. This has been caused mainly by a tax cut and an expansion of expenditures. We have deficit financing by savings and private sector borrowing is down. On the monetary side, we look forward to negotiation in the IMF in August and September. We think that we are close to a compromise and it is possible to reach agreement. The agreement perhaps would not cover all aspects of our relations, but if we could reach agreement on a quota increase in the IMF and some agreement that central banks could exchange gold, that would be a significant step forward. There seem to be some difficulties with Arthur Burns on this, but we are reaching a common European position that we think should be accepted by the United States. The third area is on IMF gold. They have about \$6.5 billion worth of gold which, at today's values, would be almost \$25 billion. We have already reached some agreement in Paris on the use of this gold, and we think it would be important for the IMF to finance some of the LDC needs with revalued gold stocks. This would then help the most seriously affected (MSA) countries. They need about \$30 billion to help them.

On the exchange rate system, however, I don't think we can reach agreement. There is too much of a difference between France and the United States. This is not

bridgeable at this time and, therefore, I would exclude that as one of the areas on which we could reach agreement in the fall. But we do need closer cooperation. We have been quite satisfied that the dollar has moved up but we are not sure that this can last. The trade balance is improving; your interest rates are up above our own FRG rates. This may be good in terms of foreign effect, but it is hard on our domestic policy. There are limits as far as stimulation is concerned.

Schmidt: I would like to add a point. Earlier you mentioned the liaison you have with the Federal Reserve System. It is in the interest of all of us for you to use this influence that you have on the Federal Reserve decisions to make interest rate policy in the United States more responsive to worldwide interests. We now have a lot of short-term capital which is going to the United States /because of your high interest rates/. While this is good in terms of strengthening your exchange rate, it hurts our markets. We need to harmonize these policies. I have had a confidential talk with President Giscard and he believes that we need to have some system for harmonizing our policies. If we can find this method, he certainly will not block results. It seems to me that we cannot now reach agreement on a future exchange rate regime. After Bretton Woods we have not agreed on what the future system should be, and perhaps that is not soluble at this time. But I ask you to understand that there is great anxiety in Europe over the US financing which has led to a strengthening of your interest rates. Europe fears that American authorities will be too domestically oriented in making their policies. If we can <sup>not</sup> succeed in arriving at a system of fixed but adjustable exchange rates, then perhaps we can agree that that is the ultimate goal and in the meantime agree on some form of common management for our present floating-rate system which would prevent devastating movements in the rate. Otherwise, we risk to deal in dollars, and those dollars can change value very quickly and affect world business confidence. It is necessary for the United States to play a more active role. For 25 years you have not intervened to support the rate of your currency. The US must be much more active. We are not asking that you



support a fixed rate but that you help to manage the rates in order to keep them stable. That is why we would like to have adjustments and not just fixed rates. But we urge you in the future to participate more in float management so that it can be more a source of stability. We are not asking that you intervene in gold but that the intervention take place in foreign currencies. The Fed must buy and sell dollars.

Giscard is right about the bad effects of uncertainty, particularly for smaller countries. This plus inflation and the oil and commodity price problem has led to serious political effects, and we face even great political instability. Look at Italy where the Christian Democrats are being weakened in favor of the Communists. In France, too, there is the potential for domestic upheaval. In Britain, you have strikes and political problems. Even in Germany there is a potential danger. Not so much of social unrest but it certainly could be bad for the SPD and, as you know, we have elections in October of 1976. On Japan, you probably know more about them than I do but I'm sure the situation is equally serious there. I think we should pay great heed to the words of Giscard when he says that the economic situation is a greater danger to Western cohesion than the Soviets are today or even the Middle East or Portugal. I have spoken to Giscard, and I stress that what I am saying today is spoken on his behalf as well. The US is the strongest country in the world and, therefore, it must act and not appear to be or in actuality be unconcerned. It is necessary to have a common effort.

President: I wholly concur with everything you have said. I believe strongly that there should be integrated economic thinking and actions. It is impossible for us to ignore the domestic political situation in Western Europe and also in the United States. It would be traumatic if we are not able to deal with our economic problems. Despite inflation and unemployment, we must have stable political policies. The United States is reasonably stable and therefore we can be helpful. Our situation

now is better than the 1930's and this ought to help us resolve the problem. There is a narrow line, however, between encouraging inflation and mitigating recession and unemployment, but I can assure you that we want to see our economy improve. After all, we have elections too in 1976, and we know that in election times people like to run on peace and prosperity. We will do all that we can to enhance improvement, and we will be glad to work with you. We think we can come forward with integrated economic policies, and these will be beneficial in avoiding political problems. We are particularly anxious to work with you on energy policies.

Schmidt: We are relieved to hear your statement on cooperation. We are at your disposal. Our experts can fly to Washington or you can send experts here. We do look forward to the discussions in Helsinki with Giscard on how to bring about economic cooperation. You are getting out of the recession. The private sector needs confidence, and we can get it by showing our cooperative spirit.

President: Good. The US is willing to have discussions at any level, and we are certainly well aware of the confidence factor.

On the lawn, the President and the Chancellor made statements supporting cooperation in managing domestic economic policies.

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Schmidt's Toast (following lunch):

Schmidt: Mr. President, we welcome the close bonds between the Federal Republic and the United States and between Europe and the United States. These are of the greatest importance for us and Europe as a whole. In our one-day talks here, we can only pick a few subjects and we have talked about the economy. We will talk about it again in our Four Power meeting in Helsinki. We are satisfied with the closer ties with France. It is a nightmare for any German Government to be aware of the

necessity to have solid ties and cooperation with the United States and, on the other hand, the necessity of having close relations with France. We do not want to choose between the two demands. There have been rather curious difficulties with France in the past but this now seems to be part of history. From a European point of view we are thankful that these arguments are not with us today. We think that a Four Power meeting is good. It cannot solve all the problems, but it is a psychological necessity. It can lead naturally to greater and closer cooperation. This we can try to make stronger. I think that the new weight and force of Giscard should help us in the joint economic management of our economies. We were reluctant at first but we think that this can serve two purposes: first, it can build confidence in our business if they can see us cooperating; second, closer contact can achieve greater and more positive results in our economy. We also need a bigger group where Japan can participate and we are willing to be included and to be helpful. Secretary Kissinger has been quoted as saying that things are getting more unmanageable. He should not say this publicly, but he is right. It is high time to preserve our society and our political stability in Italy as well as elsewhere, and the only way to do this is to work together. I would like to raise my glass to you, Mr. President, and to our cooperation.

President: I want to reiterate how grateful I am for the reception that you have accorded Mrs. Ford and myself. It illustrates the deep friendship which we appreciate very much. The most outstanding part of our discussions has been in the economic area both here and in Brussels and earlier in Washington. I recall vividly our meetings and our discussions of the economic issues. Your visit to Washington occurred at an opportune time when we were going through a transition in our thinking from a concentration on inflation to one of recession and unemployment. And I think that the suggestions that you made--many of them--were incorporated into our plans that we submitted to the Congress in January. In implementing these plans, it has been helpful to have consultations with you.

We are now recovering from our recession and moving toward stronger economic activity. We thank you very much for your advice.

You are right in saying that US-French relations are better. We recall our discussions on how we might improve those relations. Then, in Martinique, we laid a foundation for better relations with France. We see no reason why a continuation of this trend is not possible. Again, I thank you for your suggestions and help.

These discussions are necessary for the future. I pledge to you that we will exchange information and that we will work with others together in this effort. We should work together in the energy field, in the finance field and in the defense field. As far as our energy program is concerned, we cannot proceed only for ourselves. Our future is tied with yours and we look to our cooperative efforts in the International Energy Agency and elsewhere to work with you.

In the national security area, we believe that NATO should be strengthened, and we will work to that end in Brussels. It is natural for Europe, the United States and Canada to coordinate their efforts and work closely to that effect. I come here as I first indicated with a close identity of purpose, and I think our discussions have gotten off on the right foot.

I therefore would like to propose a toast to the Chancellor and German-American friendship.

/Later in Helsinki, Chancellor Schmidt gave us a memorandum which is attached on "International Concertation of Economic Action."/

11/15/41

ab

Private Memorandum

on International Concertation of Economic Action

by Helmut Schmidt

After the high-level talks on the world economic situation, which has led to a tangible improvement in the climate, what is important for us now is to agree on concrete steps to stabilize the world economic situation. Otherwise I believe there is a danger of a set-back in international public opinion.

1. Our most pressing task is to reactivate private investment and to get back to a satisfactory rate of growth.

The Federal Republic of Germany and France have therefore agreed at the end of August to put into effect new conjunctural programs, based chiefly on public investments, to stimulate domestic demand. Denmark will follow suit. It can be assumed that this course will also be adopted by the Benelux countries. The British program steers in the same direction: Its primary aim is to curb wage costs and inflation-rates, since economic growth in Great Britain has suffered primarily from wage cost inflation. The US Government should examine whether the upswing in the USA is already so secure that no further fiscal measures are necessary.

DECLASSIFIED

E.O. 12958, Sec. 3.5

State Dept. Guidelines

By ljk, NARA, Date 5/24/01

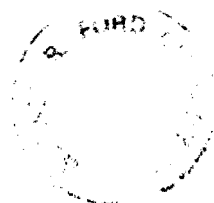
*State Review 9/10/09*

2. In order to encourage firms to invest, I feel it is necessary to continue the cheaper money policy.

However, the German Federal Bank is here increasingly coming up against limits set by the monetary policy of the Federal Reserve Board. The Federal Reserve Board has in recent weeks returned to a tighter money policy which in the United States has already led to a rise in interest-rates. This means for the German Federal Bank that it is not only psychologically but in particular also in practice very difficult to stick to its low interest-rate policy, which is essential to reactivate our economy, because the manifestly higher interest-rates in the United States exercise a pull on our money and bond markets. Other European countries, too, feel unable to make money still cheaper.

The Federal Reserve Board should not gear its money supply and interest-rate policies solely to American domestic considerations, but should also take more account of the international repercussions of its policy.

I suggest that the Directors of our central banks should, if possible by the end of August, agree on a co-ordinated policy to lower interest-rates. Concerted action in the field of interest-rate policy would not prejudice the strengthening of the dollar rate, which we welcome.




3. In the present situation it is psychologically important, if the economic situation is to improve, for the Annual Assembly of the IMF to produce concrete results in a range of monetary policy questions. Only in this way can it be demonstrated that the present world monetary system is also viable in times of economic crisis.

I do not, however, believe that the United States and France will reach agreement quickly on a future exchange-rate system. We should therefore not attempt to find a solution to this problem at the IMF Annual Assembly. Nevertheless, the settlement of this question is of vital importance for the world economy and for world affairs in general, so that we should put this down as an item for discussion at the planned economic summit conference.

It should not be difficult, on the other hand, to reach agreement on the increase in IMF quotas and also, in this connection, on the fixing of new quotas. The United States could agree without risk to reducing its quota to under 20 %, as its blocking minority is not to be affected.

As far as the question of gold transactions among the central banks is concerned, I see only minor differences of opinion. In Europe no one is thinking of a return to the gold standard or of the re-introduction of an official gold price. The United States could therefore be satisfied with a global limit on gold transactions.



As regards the utilization of IMF gold there are no longer any fundamental divergences of view. The Federal Republic believes in principle that the utilization of the IMF gold on the basis of a division into three equal parts would be the right course, but it would also agree to a different basis for allocating it.

4. Before the end of this year a summit conference should be convened to discuss questions of the world economy and the world monetary system. As I see it, the participants would be the United States, Great Britain, France, Japan, the Federal Republic, and possibly also Italy.

The Conference should be prepared by the personal representatives of the heads of State and Government.

I suggest that at the luncheon of the Four in Helsinki the proposal of Giscard d'Estaing to convene a summit conference be adopted.

5. The Paris meeting to prepare the conference on oil and raw materials questions should be resumed at the beginning of October. The invitations to this meeting should be sent out by the end of August, that is, before the OPEC meeting.



The Federal Republic supports the proposal to set up, in addition to the three commissions suggested by Secretary of State Kissinger on energy, raw materials and development questions, a fourth commission to deal with financial questions related to the subjects discussed in the other three commissions. I consider that this fourth commission could deal, for example, with the repercussions of the OPEC price policy on the monetary system, the money and capital markets and the balance-of-payments situation of the industrialized and developing countries. In recent months these problems have receded into the background as a result of the recession. When the world economy picks up, they will again become more acute.

The inclusion of these topics in the dialogue seems to me the right way to ensure that the OPEC countries assume a greater share of the responsibility for the stabilization of world economic relations.

6. In general we attach great importance to a co-operative approach to the oil-producing and the developing countries. Any aggravation of the conflict leads in the industrialized countries dependent on the world market to deepening pessimism and recession. At the end of August my Government will transmit to you a general concept based on both careful analysis and on systematic discussions with the most important oil-producing and developing countries.

JULY 27, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY  
(Bonn, Germany)

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THE WHITE HOUSE

REMARKS OF THE PRESIDENT  
FOLLOWING HIS MEETING  
WITH CHANCELLOR SCHMIDT

THE PALAIS SCHAUMBURG

12:10 P.M. (Bonn Time)

Mr. Chancellor, ladies and gentlemen:

Let me express on behalf of Mrs. Ford and myself our great gratitude for the warm reception that we have received from you and Mrs. Schmidt and from the German people.

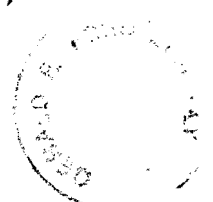
It is a great privilege and pleasure for Mrs. Ford and myself, as well as my colleagues, to be in Germany, and I have appreciated very greatly the opportunity to meet with you this morning and to discuss with you and your associates the problems that you mentioned: the general political situation and the economic circumstances, both in Europe as well as in the United States.

Let me say with great emphasis that all of us in the United States are deeply grateful for the wonderful contribution that people from your country have made in the history books of my country, and I should say that all of us, as we approach our Bicentennial in the United States, are most appreciative of the very generous gift given to the United States when President Scheel was in my country a few weeks ago.

The importance of discussions on the economic field, of course, are very, very vital. We in the United States are making a turn toward a healthier economy. We have bottomed out, as they say in the United States, and are slowly beginning an upturn in our economy.

We fully recognize that the economy of the United States is an integral part of the economy throughout the world, and particularly that of Western Europe. It is my intention, on behalf of the United States, to work very, very closely with you in Germany and the other European countries to make sure that the progress we are making is also progress that can come in Europe, as well as the rest of the world.

MORE



We, of course, are on our way to the meeting in Helsinki, where 35 nations will get together on the CSCE arrangements or agreements.

I believe that the Helsinki meeting can and will be a further step in achieving what we all want--the betterment of relations between East and West.

I am optimistic that the results achieved in Helsinki will be for the better. I look forward to my participation as a result of the long negotiations that have taken place.

Let me conclude my observations by saying that in the field of energy, in the economic field, in the political field, in the defense field, the policies of the United States will be closely aligned with those of your Government, Mr. Chancellor, and I look forward to the further discussions that I will have with you here, as well as in Helsinki, so that your country and mine and the rest of the world will be the beneficiaries.

Thank you very, very much.

END (AT 12:15 P.M. BONN TIME)

JULY 27, 1975

Office of the White House Press Secretary  
(Bonn, Germany)

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NOTICE TO THE PRESS

The following is a statement by the Federal Chancellor Helmut Schmidt on Sunday, July 27, 1975, following his talk with the President of the United States. (Transcribed and translated by the U. S. I. S.)

Ladies and Gentlemen, I would like to repeat here how extremely thankful the German Federal Government is--and I believe that one can say the same for all our citizens--that the American President and the American Secretary of State are visiting us here on their way to Helsinki and to other European capitals. The visit is not yet over, and for that reason I can only report at the moment on our talks up to this point.

The two Chiefs of Government and the two Foreign Ministers spoke this morning about political problems of a general nature, which will also be discussed in Helsinki. Then in a somewhat larger group, in which, on the German side, the Federal Minister for Economics took part, we turned to problems of the world economy. We are convinced of the necessity of cooperation in the areas of economic policy, credit policy, and currency policy, since we are aware that the entire western world's economy has come into severe difficulties as a result of the current recession.

The American President is somewhat more optimistic regarding the development of the American political economy than he was when we last had the opportunity to speak with each other. But I assume that he will tell you that himself.

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THE WHITE HOUSE  
WASHINGTON

~~SECRET~~/NODIS/XGDS

DECLASSIFIED  
E.O. 12958 (as amended) SEC 3.3  
MR # 09-118, #5  
state rev. 3/10/04; CIA-ELN 10/22/09  
By dal NARA, Date 12/3/09

MEMORANDUM OF CONVERSATION

**PARTICIPANTS:** Helmut Schmidt, Chancellor of the Federal Republic of Germany  
 Hans-Dietrich Genscher, Deputy Chancellor and Minister of Foreign Affairs

President Gerald R. Ford  
 Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs  
 Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs

**DATE AND TIME:** Monday, July 28, 1975  
 8:35 - 9:05 a.m. [Breakfast]

**PLACE:** Schloss Gymnich  
 Bonn, Germany

**SUBJECTS:** Portugal; Energy; MBFR



The President: Are there any new reports on Portugal?

Secretary Kissinger: No. Except for a clash between the Communists and Socialists.

Chancellor Schmidt: It's good they clashed in the open so that they [the Socialists] can't be pushed aside. Soares is a courageous man. If only he were as wise as he is courageous. His party has enormous good will and lack of organization.

The President: How can we be helpful? We think it is very serious.

Chancellor Schmidt: You could prevent open Soviet interferences. Thus far they seem to be avoiding that. The various Communist parties are working for their own versions of the Portuguese Communists.

~~SECRET~~/NODIS/XGDS

~~SECRET~~ - XGDS (3)  
CLASSIFIED BY: HENRY A. KISSINGER

The President: How do you analyze the Azores?

Chancellor Schmidt: We hope to hear from you on that -- your intelligence is better.

The President: There's a group seeking separation of the Azores from Portugal.

Chancellor Schmidt: I hear they are being organized by the CIA.  
[Laughter]

Secretary Kissinger: Not yet.

The President: What would the European reaction be to Azorean independence?

Chancellor Schmidt: In the East they would say it is due to Soviet interference. The West would not accept it but would say that things have to get worse first.

Here is my note on my conversation with Giscard. Giscard and I wanted to propose to you that we make it understood the OPEC discussion be kept in the Foreign Ministries and not be scattered among the different ministries. After this, Giscard has a point in proposing a fourth commission, because whether it is oil and investment stemming from that or commodities and stabilization funds, economic aid, it all comes down to financial questions. It is better to deal with them in one committee rather than scattering them among the other three committees.

Secretary Kissinger: There are two problems. Simon won't like it. The other is that France continues maneuvering. We worked out a position earlier and they gave half of it up as soon as they met with the Saudis.

Chancellor Schmidt: When did this happen? He didn't mention it.

Secretary Kissinger: Two weeks ago.

Chancellor Schmidt: The other point is that the invitations for the dialogue should go out before the OPEC meeting -- the middle or the end of August, for a date -- Henry says about the 6th of October. This would show that something was being done and give the Saudis an argument for trying to postpone a price rise, at least until the year end.



The President: That would be helpful to our economic recovery. We have some important provisions now before the Congress -- to decontrol old oil. I would like to decontrol it together. It is now \$5.25. New oil is \$13.50; imported oil is \$11.50. I now have a phased program before the Congress.

Chancellor Schmidt: The international implication is that the sooner the price goes up, the less international oil the U.S. will buy.

The President: The higher price should stimulate domestic production.

With Helsinki off the agenda, can we make progress on MBFR?

Chancellor Schmidt: The dust must settle first, but it will eventually become the next item on the agenda.

Secretary Kissinger: We are now discussing Option III, without a complete agreement.

The President: What are the problems?

Secretary Kissinger: There are some who object to discussion of nuclear matters. Then there is also implicitly a ceiling when forces are withdrawn.

Chancellor Schmidt: I think I was one of the inventors of MBFR -- in the latter part of the '50s. Once one starts to discuss reductions mutually, it is easier to tell the Congress that you can't reduce unilaterally. This is what led the U.S. to agree to try MBFR. Things have not gone too energetically, and I am content to have it that way. As long as we can hold the Congress off, what is the hurry?

Secretary Kissinger: But the Congress one day will say that since they can't be negotiated, they must be done unilaterally.

The President: I think it will come sooner than later. Vietnam held it off, but I think it will not last long.

Chancellor Schmidt: Could we tailor progress to your domestic necessities?

The President: That would be helpful.

Chancellor Schmidt: On the substance, I can't say anything.

Secretary Kissinger: On the substance, we need a serious review. It is a ridiculous position. We have put forth Option III. Perhaps some serious people should get together to decide what a serious proposal might be.

Chancellor Schmidt: Then we will do it to suit your pace. We are under no pressure.

The President: I think now that CSCE is out of the way, the Congress may push again. The Congress can be most difficult. Vietnam kept it out of the debate last year, but we could have a bad year if it looks like stalling.

Chancellor Schmidt: We don't want to stall, but we have no reason to push. There are some pushing in my party but that I can handle.





✓ P/Schmidt/Genscher/K  
27 July 25

K (Stories about Adenauer)

S Confidence & discretion are rare qualities.  
These are special paintings - this by Nolde - he  
is not known in your country. The other  
has no artistic value, but is a portrait of  
Germ - See Desso partly over 100 years ago. It  
did not stem from Maxine - he criticized it.  
(Discussion about suffrage)

S We had raised her yesterday. This is a regular  
thing every 6 mos on cabinet meet.

K About language

S Genscher & I always talk English. He has a  
very elegant vocabulary. It is clear to me that  
in his attitude towards US he is diff from  
any of Fr. leaders you have met.

P I feel we have a good relationship - I feel  
<sup>only</sup> ~~slightly~~ ~~at~~ his predecessors.

S He thinks highly of you & K.  
usual intellect

voice

P We had diff in Aug on this Turkish oil matter.  
The most responsible matter in my 20 odd years  
in Govt. The Speaker worked hard w/ us but  
we lost 216-206.

S Would you tell me what Demirel said about

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E.O. 12958, SEC. 3.5

NSC MEMO, 11/24/98, STATE DEPT. GUIDELINES, State Rev. on 3/10/04  
BY ML, NARA, DATE 5/21/04



Tail

G (I could not have translated).

S Why would that about set in T. Dornik because a strong majority of electrons are required w/in a year. E event is considered associated w/ some Dem parties in Eur. He is then threat to withdrawing Dornik if any concessions on Cyprus. We have tried to dissuade him from this, but w/o success. So if Dornik is to move forward w/ concessions, he must be able to have some success w/ regards to America.

K Exactly correct

S G-Ann didn't understand this.

P We tried to explain this to over 200 in House at 2 breakfasts. But G-Ann have very effective lobby in Ankara. It was more effective in this case than I lobby. They were intel; well organized, emotional.

K And there was nothing specific on what to report.

S The facts are the Turks are behaving badly and that there is this dangerous imbalance. Anna is afraid of imbalance.

P The G-Ann equity kept saying T had to make

crucial price to making, but for reasons  
you say, it could not be

S Deniel is a serious man - you should know  
him you understand his job.

P Papandreu is very bad influence. If a  
satellite man want that way it would be  
bad.

K If you could get what you want, we think it  
would move fast. Turkey is but 25-32%.  
Our big job is Makarios would have to leave.  
Ecrit the wants to use Cyprus to break up  
Deniel coalition.

S Ecrit will mean threaten an anti-Nato  
direction. In Greece also there is a strong  
current against Nato.

K My fear in Greece is a young army officer  
will be like Per.

S Papandreu is a very dangerous man, but  
very skillful.

K He is viciously anti-Am. Has Am wife.

P Any new development in Per?

K Our analysis is baronthequinal.

S Among a 3, Gonzalez is most important. Gonzalez  
is an idiot (don't take that down).

K Antones didn't go to last summit meeting for fear of Per.

S Antones made a bad tactical move at last meeting by  
asking removal of Gonzalez. But Per still  
not clear. Right is this not to be excluded  
after last summit. Everyone have Socialist  
Greece

won't be able to grow - the one industrial  
how to grow, esp. em. From a Cato  
don't understand how + would have to rely on  
outside + I don't think S. J. is eager for that.

R I think if we - maybe China we would help  
involvement - not involve them - we have a chance.

S I would say you think in Part - was  
premier in them - not here.

There seems to be Italy. The CD is worn  
out. There are only 2 people who have a chance -  
Berlusconi, who is weak + Bush, head of  
a bank of Italy (?) who is on way out.

I think we should get a Sen + S. J. to  
join a CD or else Cato will enter  
a part

K We are trying getting (de) Martin + S. J. to  
to a US. It's a delicate matter tho. The new  
CD head is ally of mine but not strong

S whole even set in Italy, despite opposition  
was best - is determining. Unemployment  
will rise, dip but North + South will  
grow; Cato has shown themselves excellent  
administrators + have detached from Truman  
to become more attractive.

If a even set of world were going up a  
even set in Italy would be chosen. If  
that doesn't happen, even set in Italy  
would deteriorate quickly. But let's see  
even set for a broader entry.

S. Coined it up what I have saying since  
yesterday. I have kept quiet <sup>because</sup> ~~because~~  
because I'm too pessimistic. He says general  
threat to West is not Coast, southern  
flank of North, but even ability of West.  
If it were for a real crisis, a battle  
would get together & act. Since it is easy,  
we haven't to our former ministers. Give  
them it 5 yrs, there will be a political  
disaster. He thinks western banks have to  
get together to make a last attempt, he  
thinks it a characteristic.

Wilson more hesitant because he  
fears creating expectations.

P. It's not a chip.

K. He already in it Coined into to point.

S. His negotiation with the 20 B. Saudis are  
losing their money 12% because of inflation.  
How long will they continue that? Be we  
are not fit - Callaghan & more afraid than  
Wilson.

P. Wilson may be afraid of a party to ignore  
what ~~they~~ it is + raise expectations.

S. Wilson would come, but he not certain. This  
is one topic for Qaddafi, back at Helsinki.  
Let me speak a few words needs. The  
relationship here should be by <sup>our</sup> strong  
relationship is needed w/o appearing to  
do so.

P That is big. What would you recommend.

S Be will have unemployment with some be 14%. In Fed it also too high. Ours is too high, slightly over 1 mil & by Fed it will go to 1.5 (don't take this down). We are on X economy. Ours X to US have fallen to less than 10% over last yr. Ours rather, <sup>actually</sup> ~~officially~~ is ~~at~~ about 65% of capacity. Same w/ Fed.

P Ours about 75%

S My decision is w/ fact that even banks in US - Swiss, German, + reportedly even Brians - look to much to domestic product but to world efforts. For example NYC bonds are 3 to higher, so people sell Ger. bonds back in - don't get higher NY rates. Also dollar is rising so people seek profit by something from marks + francs with dollars. See floating currencies - of which I am a great advocate - when rate is so volatile, could destroy a western economy.

P I ~~to~~ need a piece by Laffer, who opposed to float. But US ~~concessions~~ ~~concessions~~ ~~in~~ is float.

K But 5 yrs ago they for rigid rates. Chamberlain point is that uncertainties of ~~the~~ ~~plus~~ rates could undermine pub. stability.

S In all of Eur, a boards of big riches companies are so hysterical they do not

convert - to employment stays low  
they prop to create domestic demand -  
lower taxes, make money cheap, give  
credit, hold back wage requests by  
business - don't work because foreign  
demand for goods dropped badly. Domestic demand  
started well, but about 2/3 of total demand is  
foreign so that is a critical aspect. Also,  
many of the measures saved ~~rather~~ rather  
than investing. Savings are biggest since  
Kreisler (?)

P Some of us. Heavy investment needs  
selling <sup>with</sup> housing.

K What your solution.

S There another way of coming. If Opec  
announces 10% - which would be 30% - increase  
it will add to this pessimism. In order to  
get things under control, we first must show  
our cooperation w/ Opec, but try to work  
things out. 2nd if we could tell the world we  
sell a dozen eggs & eggs will ensure  
our actions to meet it - even if we don't  
actually do it.

K We would to under domestic pressure for  
cooperation w/ Opec. Would you explain  
this to P & also ~~we~~ need to convert

S We would meet regularly in Ems to  
cooperation w/ Opec. If oil prices go up,  
it eventually benefits US & SU, who

are rich in ~~the~~ raw materials. But no  
chance for E.M., who could not stand  
competition. They need stable prices &  
assured supply.

If there is any def. outlook on oil in E.M. it  
is in B., which will soon have its own  
supplies. E.M. wants to cause to ~~cause~~  
a ~~large~~ supply.

P Is there a ~~major~~ area w/ respect to price &  
supply?

S Yes, but we can't join a policy of competition  
it would so cause monopoly as to be  
disastrous.

P My assumed reaction is favorable to a  
meeting. Senior is a hard liner. My  
tendency is to work closely - one can see  
a perception of no working closely would help  
w/ producers & S.C.

R But we should prepare carefully so there are  
results.

S We have conf. in Shultz - Senior & Gungor  
are down to earth oriented.

R But Shultz dir. to use in general body. Would  
we use a private group.

S I agree a mtg should be carefully prepared -  
heads of govt are not equipped to discuss  
such matters w/ a ~~group~~.

P I have full conf. in Shultz, but wouldn't see  
him officially. He has confidence of Congress.



\* Put in call for Samir group for 5:30 today

9

also.

S If an exam conf. should take place this year, we shouldn't expect to vary results. If we could create an expression we intend to work together & develop policies that will be easy. It should be done before a real winter comes.

P What degree think Open will do?

S I don't want to extend any such steps till next year. Not as I think Algeria, of Perez I don't know - he arranged w/ US

K mostly for domestic reasons.

S We have a study completed now. I think there are obj. - opening up among Open countries.

K If we stick together

S Yes.

K We have looked at energy agreements & see how we could split up problems.

S I think we could separate poor, non oil countries from OPEC

K And some non-oil energy countries. Right now they are all mixed up together

S What is set in paper

P We went byinski day I get back. I had good trip last fall. I think it a good trip & reassured them. Even I think they are better off than Euro. They have oil agreements w/ China. I think they better off now than 2 years ago.

K. The collapse of Indochina has had more profound effect in Japan than anywhere else.

S. In what direction.

K. In a more self-assertive way to separate from US. For 1st time they have asked to discuss def. matters at PM level.

P. Yes. W/Turkey, we do not observe difference

(joined ~~to~~ planning party)

S. Let us welcome you again in this broader session. We agreed to discuss even + financial matters, receiving others for target one hour. Would you begin.

P. Thank you very much. I am delighted to be here. Let me outline our domestic economic situation. Last fall at our last conference our central job was 12-14% inflation. But our economy is coming through a recession. Rise in unemployment. ~~Because~~ <sup>instinctive</sup> of unemployment + inflation people stopped buying high value items + began to save. Result is high unemployment + recession. We have had very high monetary liquidation - almost clearing. Past 2 months things have been encouraging. Inflation down to about 5-6% unemployment about 9% but there are encouraging developments - <sup>un.</sup> unemployment is at 400,000 when 3 mos ago it was 600,000. We estimate unemployment rate by year end 8% + mid-

7 1/2 - 7%. GNP was bad 1<sup>st</sup> qtr, somewhat better 2<sup>nd</sup> qtr, + 4-5% 3<sup>rd</sup> qtr + 2% in 4<sup>th</sup> qtr. Some even think it could go to 9%. We have some fiscal probs. Our deficit is now about 60 bil. Cong. pressure is to increase it to around 70 bil. Next year percent depends pretty on whether tax reduction. If so it would be 35-40 bil; w/ contraction of tax credit it would add 15-20 bil.

We are encouraged by signs in home building. By year end rate should be 1 1/2 mil - by Jan 2002, rates have been low. Savings rate highest have been in years. Consumer confidence factor has improved recently. Of tax rebate, only 2% of 10 bil has yet been spent, so that is potential spending. One balance of task is encouraging - that that doesn't help in world economy

S That discourages us.

P Interest rates are declining. Supply of money is above what the FRB has projected 11-12% as compared to 7-8%. We think inflation will be around 5-6%, unemployment 7-8%. That my good appraisal.

S Thank you. I would like Friedrich to give us a brief review.

F Our real GNP 1<sup>st</sup> qtr - 3.5% - 4%. Price increase about 6% over a year ago. Unemployment about 4.5%, however, about 5% reasonably

Capacity utilization below 20% - except in heavy industries. Domestic demand is <sup>the same</sup> ~~stagnant~~ by domestic prod. + fed. Gov. dip is in X. We X  $\geq 3\%$  of GNP + X down in real terms by 16%. Domestic demand is down 22%. This is not in our line yet.

X to US is important to us. In energy policy we have X changed invs. For this winter, we consumption has declined & stocks high. We must assume oil price  $\uparrow$ , price  $\$1$  to  $1.50$ .

That they continue to work on Algeria & Venezuela.

We worried about winter 76-77 because if less oil in richer countries requires, oil demand will  $\uparrow$ . For other countries, discussion have been held. We don't expect much from ~~countries~~ we expect some new winter agreements. We thinking for now depressing IMF goal to stabilize prices.

S\* Pohl would give ~~shuts out~~ on financial aid.

Pohl We facing our biggest budget def - about 60 bil DM. This results from tax cut +  $\uparrow$  expenses. We have not much financing it because private sector hesitate to invest + savings are up.

In IMF report I think we are close to agreements. I think agreement on in general possible by end Aug + also agreement on gold transactions.

On this we are closer to Fa + Fero position is gently unified. Use of IMF gold - we are

Unger  
Kestel  
Beckhoff  
Friedrich  
Schiller  
Pohl  
Sauer

Close to agreement. Exchange rate system is still on, w/ basic dogpats but US & Euro diff. not budgetable right now. We are phased & rate has gone up. Your interest rates are higher than ours & that worries us.

S I think you had me add a few words from Euro, not Gen. comment. It is in terms of Euro that you are FRB FRB. Make their interest rate policy not just a domestic concern. Your high rates bring up a pile of it which is great goal, but it brings on capital markets. I think Fed will not try to break us out of IMF. The future regime of world exchange rates, after collapse of Bretton Woods, won't be solved at IMF only, but it's not in IMF. Since US is strongest country monetary - trade wise are about even - & must measure its domestic credit money. We need fixed but adjustable rate system. In monetary we should bring about common target of a float to avoid these disrupting fluctuations. For smaller countries, it is diff to deal in \$ when you don't know whether there will be 10% change in price. In Bretton Woods, all currencies pegged to \$ & transfer was in gold. You stopped that in 70s & we understood that. If you want to improve you have to participate in managing

rather as they are predictable over longer periods. This, inflation & oil & commodity prices are a real part of the world economy.

The pol. effects of a recession - really a depression - threatens political stability in several countries - Italy, where CD may accept limit in part. France also, where there always a potential for domestic upheaval. Br, not to real unrest, but strikes & paralysis. Here also, not upheaval, but real election results. I don't know what happens. The real parts are greater threat to the west than SO, NIE, or Southern credit probs. Giscard & I both feel that a strongest country - a US - must take a lead. It is a dramatic set.

P I am sure we must integrate our own thinking & actions, both because of domestic pol set in Europe but in US. We have gone thru tremendous downturn over past yrs. Our people have gone thru it w/ patience & stability. Compared to 1930's it is quite surprising. We are anxious for econ & pol change for less unemployment. We have election next yr & want to improve econ improvement in was ahead. I think we can make prog in monetary and policies.

S We see countries at break. We advised at your statement regarding cooperation. We

don't you depend any day or night.  
 I look forward to quadric. not in Helsinki  
 where we can discuss how to bring about this  
 exp. One point entirely reversed - was in  
 E. even though it becomes you 1<sup>st</sup> into depression  
 & now - property - 1<sup>st</sup> out - used this sense  
 of exp. in order to give confidence.





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a date - K says about 6 Oct. This would show something was being done & give Samba an argument for trying to postpone a price rise, at least till year end.

P That would be helpful to some degree. We have some important provisions now before Congress - to decontrol oil and I would like to decontrol altogether. Now 5-25. Now oil 1350, M oil 1150. I would have a phased prog before Congress.

S But implementation is rather late year up, unless with oil US will buy. The price should stimulate domestic production.

With Helms off agenda, can we make prog on NIB-R

S Don't want until 1st but it will eventually be done except other on the agenda

K We are now discussing Option III, w/o complete agreement

P What are the parts.

K There are some who object to discussion of some matters. There are also arguments a ceiling when prices are w/d down.

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S I think I was one of the converts of NIB-R - in the latter 50's. Once one starts to discuss restrictions continually, it is easier to tell every year can't reduce unilaterally. This is what led US to agree to try NIB-R. Things have not gone to energetically & I am content to leave it that way, as long as we can hold long off, what is a hurry.

K But Congress one day will say something can't be met they must be done unilaterally.

P I think it will come sooner than later. K held it off, but I think it will not last long

S Could we take prog to year domestic necessities.

P That would be helpful.

S On substance, I can't say anything.

K On substance, we would prefer to discuss it is a - individual position - we have put forth Option III. Perhaps some serious people should get together



(5)

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to decide what a serious proposal ~~might~~  
might be.

PS There are no more to be sent your  
pace. We are under no pressure  
I think now that CSCE is out of way,  
Cory may push again. Cory can be  
most shy. VN kept it out of debate  
last year, but will have to year  
if it looks like stalling.

S We don't want to stall, but have no  
reason to push. There have pushing  
in my party that I can handle.