MEMORANDUM OF CONVERSATION

PARTICIPANTS: President Nixon
Cabinet Meeting

DATE AND TIME: Tuesday, May 28, 1974

PLACE: The Cabinet Room
The White House

President: I want to give the Cabinet officers a rundown of how the Government is operating. After each of you has reported, we will have a wrap-up session, perhaps at Camp David.

We have been concentrating in the last weeks on economic matters. We're sending a report to the Congress today -- which is worth reading. It explains why there can be no tax cut, and why we need a tight budget. You will all have to cut some, with the possible exception of DOD.

Let me say something about Ken Rush's responsibilities. [He circulates a paper]. It's been reported that he will be an economic Kissinger. There is only one Kissinger, and economics is different from the NSC. Many Cabinet officers have responsibilities in this area. Rush will be a funnel, not a filter. All Cabinet areas affect the economy. In foreign policy, where there can be only one voice -- even here we assure that every voice can be heard -- but the President has to make the decisions and it must be tightly held. Economic decisions are much broader.

Let me fill you in in the Middle East. We have had a number of breakthroughs, but both sides are still holding on certain points as a matter of honor. I can't tell you how it is going because it is still 50-50.

The Government is moving ahead and this is what we want to demonstrate. Brinegar, you begin.
Brinegar: The truckers strike fizzled. The rail freight car situation is much better than last year. Air travel is up -- and the loads are at 60%, compared to 50% last year. The furloughed crews have come back. Overseas routes are losing money so fast, though, that in 18 months they will be bankrupt. Mostly the North Atlantic routes. We have a task force looking at this.

President: Pan American can't make it without a domestic route.

Brinegar: Highway traffic is up a bit, but speeds are still down and we will probably save 1,200 lives this year. Mass transit is up. The Penn Central is in bad shape. Their management is poor and it is a hand-to-mouth operation. They can't shut down. We hope to modify the ICC legislation.

We have a public works bill for urban transit. It's touch and go as to what Congress will do.

President: We need to get something done about the regulating agencies. The staffs of these agencies are very powerful. Roy [Ash], you work on this. We should set this as an objective -- it will take time.

Now to Morton.

Morton: I want to talk about the outer continental shelf and future coal production. The program for the OCS is going well. The goals are obvious. Imports are 6.5 million barrels a day. We are getting 1.5 now from the OCS. The success of Project Independence will hinge on the OCS.

Coal leasing and development is more complicated. In the West, we have thick seams near the surface with low sulfur. In the East, the coal is high sulfur.

President: In all areas, whenever it is a matter of energy or environment, energy comes first.

Now to Earl and food.

Butz: The political problem of food prices is behind us. We are having a tremendous increase in production. Wheat is 2.2, up 500 million, corn is up 1.5 -2 million bales. In 1973 we had record farm income. In 1974 it will be a bit less. Soft spots are cattle and beef; the feeders are now actually losing money. Food prices should
stay at this level the rest of the year. Retail margins are widening. Exports will total $21 billion, imports $9 billion -- for an 11.5 contribution to the balance of payments. We will use 700 million bushels of wheat -- the rest is for export. We need to export half of the soybeans.

On food aid and stockpiling, a debate is developing. Humphrey and his friends think we should have a large Government food reserve. I disagree. We are out of the food reserve business and I think we should stay out. We carried the world food reserve and everyone got soft -- they didn't have to plan. We need food reserves, but they can be carried by private industry and foreign governments. We have carried the lion's share of production aid for years, going back to the Marshall Plan.

President: The whole idea that if we feed the world there will be peace is nonsense. But taking an area like the Middle East, if we develop a new relationship with the Arabs, the Middle East is one of the hungriest areas of the world. Food is indispensable in our foreign policy. The Soviet Union is providing arms to the Arabs; we can counter here. If we tried to give arms both to Israel and the Arabs, there would be a hell of a fuss raised.

The United States should move away from multilateral to bilateral aid. Keep this in mind at the World Food Conference. We need it for foreign policy. As our military assistance recedes, we need other bilateral aid. The IMF sort of thing is OK, but we need this tool for our foreign policy. This has to be closely held, because it goes against the grain of the altruists.

Scali: We can count our bilateral aid toward world goals, and we can't look too selfish.

President: OK, but let's have no illusion that we need to be able to influence governments and what they do. The World Bank does a fine job, but it is not an effective instrument of U.S. foreign policy. Frequently, it has not helped where we wanted and has helped countries where is was not in our interest.

One final word, we are not going to solve our budget problems by slashing DOD. We are at a critical juncture in foreign policy.
We don't rule out cuts in DOD, but that is not our goal. The Soviet Union has a crash program going on and unilateral cuts would be disastrous. India goes nuclear so it can push its weight around a bit in South Asia.

We must stay strong not just in order to be number one, but because it is essential for our diplomacy with the Soviet Union, the Chinese, Europe and the rest. If they get the impression the U.S. is turning away from world leadership, we are finished.

I want every Department head to look hard at personnel. We all know there can be some cutting. I would rather have the Departments initiate it than do it from the White House.
I want to give some Cabinet officers a number of
more specific suggestions. On each item
this report, we will have a way up there,
perhaps at C.S.

We have concentrated last week on how matters
should remount to come together - without dealing -
with ourtax cuts.

- Why tight budget?

Your report to cut some 25% of foreign
aid.

Rush preparation - (include paper). Report to
will be in C S. Only 1 K, or discussions differ
NSC. More Cabinet will be here - day Rush will
be a funnel, into filter. All Cabinet goes
effect a decision Jan 3, where there can be
only one voice - even that we assume every voice
is hand - but view how to make decisions
it must the eight chilled. Economic decisions
worth burden.

in NSC, can be handled, but both are
holding on patience waiting here. Can't tell
again tomorrow decision - it is still 5-0-5.

The cut is mainly abroad - that's what we want to

Principals demonstrate. Everyone agrees -

Burma plan to fight. Need fight on situation much
better than last year. attention in new - India 60%
comparable to 50% last yr. Fulfilled Burma task.
On our side are doing enough to fight, the infor-
mation they will be looked after closely with attenti-

sion. We have a task force

a. Pan Tjan cant make it as a domestic write.
b. Nippon cannot improve at all, but speeds still down.
c. Will probably one 12 or 2 times this year, tones
TRANSPORT is up. Piano control is hard ships. Inventories are up by a month or so. Costs are down. We buy at about 1.66 basis.

Home office is able to withdraw. Fights 1.50 as to what we can sell.

We need to get something done about regulatory agencies. The NRAs have grown and are very powerful. They work on this. We should both agree on objectives and take time.

Yours & Burton

Burton: I want to take about cotton continued stuff. Future crops production. Prices for 85 90 very well. Cotton, 99.40. Our 6.5 106 116. We getting 1.5 stems from 80. For deposit futures will bring on 85.

Cost sharing agreement is more complete. In West don't think there will be a big surplus. In East could have a big surplus.

In all cases, with new crop energy we envision, things come fast.

Yours & Earl & Fred.

Earl: Potential part of food prices is becoming apparent. We are hearing from some move in pulp. Wheat 2.7 up 500 basis, corn 10 17 this week. Next year, soybeans, cotton off 1.5 2 mid-month. 1923 we had record of farmer income. '24 was a bit less.

Soft spots in cattle huge. Feeders are now actually larger money. Food prices should stay weak until 70 year. Retail margins weakening.

X will total 2.5 billion, 9.7 billion for 11.5. Unbalance in 18.

BOP. We will assume 700 and back of which - rest for X. We need X x 1/2 for gaining, food aid. x 1/2 x 1/2.
They all should have a large part of their work.

* People, we are out of food since instance. If
I think we should stay on. We cannot afford much
rice and everyone gets stuff. We have to plan.

We need food security, but they can be caused by
private industry. Foreign goods. We have handled
those of food aid for years - going back
to Marshall Plan.

1. Whole idea that if we feed we could maintain
peace is nonsense. But taking an area like ME, if
we stop our relationship all costs, ME is one
of important piece in word. Food is
independent in our ER. The EV is proving
cannot. And, we can counter this. If we tried
to give them both to E, these would be full
of free world.

2. The US should work away from decentralized
US bilateral aid. Keep this in mind at World Food
Conf. We need it for ER. At one time, we need,
we need both bilateral aid. IMF sort of
They work, but we need this tool for our ER.

This has to be closely held, because it goes against
expectation of attitude.

3. We can count on bilateral aid from world wide,
but we can't lock too selfish.

4. But let's have an illusion that we need to be
able to influence goods, what they do.

World bank does a fine job, but it is not on effective
implementation. US, ER, Europe, it has not helped
where we wanted to have helped countries where it
not in our interest.

Final word are that we are not going to solve our budget
problems by cutting ME. We are at critical.