

MEMORANDUM

THE WHITE HOUSE

~~SECRET~~/NODIS/XGDS

WASHINGTON

MEMORANDUM OF CONVERSATION

DECLASSIFIED
E.O. 12958, Sec. 3.5 *Treasury Dept*
State Dept. Guidelines; *etc 8/22/04*
By dal, NARA, Date 4/12/07 *3/9/04*

PARTICIPANTS: President Nixon
William Simon, Secretary of the Treasury
Kenneth Rush, Assistant to the President
Brent Scowcroft, Deputy Assistant to the
President for National Security Affairs

DATE & TIME: Tuesday, July 30, 1974
3:00 p. m.

PLACE: The Oval Office

President: Since you were away we worked on a new speech.

Rush: There has been good comment on it.

President: What the hell, we had to say it. We couldn't say we would lower taxes, we wouldn't wring out the economy with a tax increase -- today anyway. We'll have to take a hard look at the budget. We don't want 8-9 percent.

Simon: It isn't in the cards. It would be a Christmas tree.

President: How long were you gone?

Simon: 11 days.

President: How was it received.

Simon: Outstandingly. Even where I shouldn't have been, I was -- Kuwait.

President: But they still will raise the oil prices.

Simon: I am not so sure. I met with Henry before and again today.

Yamani gave us an Arabian party. He still has clout with the King. The King gave him 10 million riyals. The Arabs are acting like nouveaux riches.

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President: They are going basically for education, aren't they? They still need everything, but they are most concerned with personalities.

Simon: In Egypt they expected a financial messiah. At first there was disappointment, but then they understood. Sadat said to tell you he had made a decision about the Soviet Union: "I am going with you." I tried to steer clear of foreign policy.

President: Sadat said he was betting on the U. S. and not on the Soviet Union..

Simon: Absolutely. But he said there would be a gap during the transition. Saudi Arabia will help, but it doesn't want to bear the whole burden.

President: Tell Kissinger to take a hard line with Allon. They get no blank check. Israeli security won't depend on a bit of sand. It depends upon (1) the restraint we can put on their potential enemies (and we can do that only if we squeeze Israel a bit) and (2) our guarantee to Israel. If there is another war, aid will be cut off and everyone will oppose Israel.

Scowcroft: The Hill is talking about an increase for Israel and cuts for Egypt.

President: You ought to talk to them and point out the realities.

Simon: I gave your hard line to Israel. But I am not sure they believe we will really cut them back. I think Keating is getting the message through.

In my meeting with Schmidt he is very concerned with overall stability. The oil prices are a problem everywhere. Faisal says he has gone as far as he can without our help. The Shah is threatening to cut production.

President: He is our good friend, but he is playing a hard game on oil.

Simon: Faisal asks our help with the Shah. There is an internal fight in Saudi Arabia between those who want price cuts and those who wish to keep production up. Faisal really wants our help with the Shah.

In discussions with other Ministers I said Saudi Arabia has probably 150 years of production left, whereas Iran has only 15 years. Maybe Iran will build its industry and then when the oil runs out, they can take you and get the oil back.



President: We have to see what we can do. I will have to meet and talk with the Shah.

Simon: The Shah has us. No one will confront him. The producer nations are locking in the consumers and keeping them away from us. Schmidt said: "If the prices don't move down, I have to move against the companies and deal with the producers myself." This issue will ultimately require strong action by the United States.

President: Like what? This should be developed. We need discussion with you, Ken, Henry and Brent. Keep it small.

Simon: It is a terrible problem. I was not thinking so much of energy as of balance of payments. I am worried about production cuts. Thank heavens I went to Kuwait. I played pingpong.

President: Who is the real leader? Sadat?

Simon: Yes. But there is something wrong with their thinking about wanting more and more without putting their house in order.

President: We want to go all out for Egypt. Push hard for all we can get.

You didn't go to Syria?

Simon: No.

President: Asad is impressive.

Simon: The least impressive were the Saudis. The Kuwaitis have maybe more potential than Egypt.

President: Tell me about Europe. He is worried about the banks.

Simon: He is overboard on that. Maybe the misfortune of the Herzbank(?) did some good; it evidences the situation.

With Giscard and Schmidt at the top, we have greater friendliness.

President: France will be better with Giscard.

Simon: We are making progress with them on gold. If it works out I would like to jump the gun on granting gold sales.



President: Tell me about the Brits.

Simon: This government is more friendly than the last. I spent a lot of time with Healey.

President: Healey is a strong good friend.

Simon: I made an unscheduled stop in Italy on the plea of Volpe. Italy has severe but self-made problems.

President: Italy has no government. Rumor is a decent guy and he's trying -- but the Latins are unstructured without a dictator. Right now the great nations of the West must be united politically -- the lack of stability in the world sets everything loose.

In retrospect, Churchill was right about the southern tier. The same with Callipoli. (Discussion of World War I -- Verdun, the Spring 1918 offensive.) All of it could have been avoided had Gallipoli succeeded. Look at today. Portugal -- Spinola is good but the Communists are the only organized force. Franco is dying and who knows? Spain has a good bureaucracy. Europe must give up its fastidiousness and bring Spain back into Europe. If Spain goes, Italy goes. In Yugoslavia -- when Tito goes, the Soviets will make some kind of move. Greece and Turkey are so important because they are the rest of the southern tier. That is why going to Italy is important.

Simon: We will have to aid Italy before too long. I talked to Arthur Burns about a swap line. He is opposed, but I'll get it. Even if the new fiscal measures take, they will have problems.

President: We wouldn't trade places with any of them, even Germany. We will ride it out.

This inflation -- except for the wage push -- we will make it. Arthur shouldn't wait too long on a restrictive policy because the country wouldn't stand for it and we'd have \$10 billion spent for unemployment.

What do our opponents want?

Simon: They never get specific.

President: I have vetoed \$35 billion of bills in five years. We will play a tough line. No spending for a special interest -- it is not good if it raises prices for the people.



Is Burns keeping things too tight.

Simon: No, I think he is right.

President: A lot of people -- Dave Packard -- want to loosen some.

Rush: It would be bad psychology. People would think the Fed had given up.

President: We have a long-term, not a short-term strategy.

Simon: Two things will happen. We will get Arab investment in the U.S. Treasury certainly. Kuwait will also and Indonesia is. They know we have the best credit and they can invest with us directly and not drive the market price up. Buying gold will be deflationary.

President: Should we move it up?

Simon: In September I will talk again to the Europeans. We ought to get something for it from the Europeans.

President: I appreciate your leadership at Treasury. I know you and Roy have difficulties -- blown out of proportion. I have talked with Roy -- there is credit for all and if we lose, we all burn. You and Ken are good spokesmen. Roy has good insight. You and Roy sit down and talk it over and decide to work together. You are all good men and we must work together.

How high will unemployment go?



P/Simon/Rush

1500 - 30 July 74 ✓

P Simon - you were away, not work on some
- speech

R F-bank has been good comment -

P What's best, we had to say it. Couldn't say we would
make tapes, would be using out every w/ tax
increase - today anyway. Will have to take hard
budget. Sent amt 8-9%

S It's not in records. It would be a Xerox then.

P How long gone -

(1) days

P How received

S Outstandingly. From where - I shouldn't have
been, I was - Kuwait

P But still will rise oil prices.

S I ~~had the~~ sent it over. I met w/ K +
a joint thing -
(see memo in)

S You're gone as an Arabian party. He still was
clear of a thing. King gave him 10 mil rials.
Arabs are acting like business men.

P They going heavily for education, aren't they?
I'll buy anything, but most unceremonious/plans etc.

S In F, they expected a financial mess. At
1st失望, but then they understood -
Said it kind tell you he had made decision
about SU; I going w/ you. I had to steer
clear of F.P.

P Said it was decision betting on US w/ SU?

S absolutely. But he said there would be a gap
during a transition - SA will help, but
don't want to buy have a whole bundle.

P Tell K take hard line w/ alba. He blanked



P - Asset w/ Sheet

P. Issues seemly won't depend on a lot of detail. It depends upon (1) Restrict we can put on their potential benefits (+ we can do that only if we agree to Facet) + (2) Guaranteed to I. If another way, oil control - everyone will give I.

Geo Hill taking up for I + votes for E.

P You ought to talk to them + print out minutes

S I gave them hard love to I. But I won't send them looking we will really cut them back. I think Keating is getting a message there.

In meeting w/ Schmidt (ref library group), be very concerned w/ stability - Oil prices are a problem everywhere. Fossil may be has gone as far as he can w/o our help.

STAY
(P)

Shark threatening to cut production over period, but #2 playing a hard game on oil.

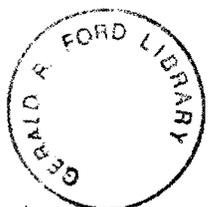
S ~~Shark~~ Fossil asks our help w/ Sheet. There is national fight in SA. but those who want votes & those who to help production up. Fossil really would help w/ Sheet.

In discussion w/ other ministers I said SA has prob 150 yrs of production left, whereas Iran has only 15 yrs. Maybe Iran will build its refinery + then when oil runs out, they can ~~turn~~ take you over + get oil back.

P Time to see what we can do. I will have to meet w/ ~~and~~ talk w/ c Sheet.

S Sheet has no one will support him. The producer nations are looking in a consumer & keeping them away from us. Schmidt said if prices don't move down I have to move up most c. comparisons + deal w/ producers.

* This ~~area~~ will ultimately require strong action by US.



P Like what? This should be developed.

(F) We need discussion w/ Yan, Ken, K, + Brent. Keep it small.

S It is terrible problem. I thinking not so much of energy but of P. I worried about products. Think however I want to know it. I played ping pong w/ — at one time

P Who was leader? Salut?

S Yes. But there is something wrong w/ their thinking about wanting more + more w/o putting their house in order.

P I want to go all out for E. Push hard for all and come get.

You didn't go to Saigon

S No

P Goal is important

S Least important w/ SA. Kennan's house maybe more potential than E.

P Tell me about E. He worried about bank.

S He is overboarder that. Only for fortune of Hazy bank(?) good; it involves a certain

w/ General + Submittat a top, not bank quarter
firmness

P France will be better w/ C. record

S We are making progress w/ them on gold. If it works out I would like to find a gem on operating gold sales.

P Tell me about Auto

S This part is more friendly than last. Spent lot of time w/ Hazy

P Hazy a strong good friend.

S I made unscheduled stop in Italy on plea of Volpe.



Italy has service, but self made problems...

P. Italy has no govt. Run by a decent guy + trying - but they believe in ~~an~~ ~~un~~ ~~structural~~ ~~is~~ a disaster.

Right now great nations of Europe what must be united politically - lack of stability would set everything loose. In retrospect, Chamberlain was right about southern Tier - Rome as/Gallipoli (Resurrection of WWI - Verdun, Spring 1918 offensive)

All could have been avoided had Gallipoli succeeded had Italy. Portugal - Spanish good but mostly only organized force. Franco dying + who knows. Spain has good bureaucracy. France must give up its feudalism as being Spain back into France. Of Spain, Italy good. Yugo - when Tito goes, SE will make some deal of course. Greece + Turkey so important cause they west of Southern Tier. That why going to Italy important

S. We will have to aid Italy before too long. I talked to Arthur Burns about secur ities bill. He opposed, but I'd get it. Even if new fiscal measures taken, they will have jobs.

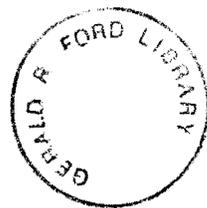
P. We wouldn't touch us (any of them, even Germany) as we will hold it out.

This inflation - except for wage push - we will make it. Arthur shouldn't want to lay on restrictive policy because country wouldn't stand for it + will have \$10 bil for unemployment.

What do our opponents want?

S. They want get expensive

P. Allow interest \$35 bil of bills in 5 yrs. We will play a tough line. No spending for a special interest - it not good if it causes pain for people.



P Is the Bureau helping things to brighten.

S No, I think he is right

P A lot of people - Dave Parkard - want to loose some

R Would be real psycho. People would think Fed had given up.

P We have long, not short term strategies.

S 2 things will happen: we will get more investment in US treasury cert. K want will also & Indonesia is. They know you best credit & they can invest w/ us directly & ^{not market} directly. Buying gold will be deflationary.

P Should we move it up?

S In Sept I will talk again to E. Mas. We ought to get something joint from E. Mas.

P I appreciate your leadership at Treasury. I know you & Roy have a lot of blame out of proportion. I have talked w/ Roy - there is credit for all & if we lose, we all blame. You & K are our good representatives. Roy has good insight. You & Roy ~~to~~ set down & talk it over & decide to work together. You all good men & we must work together.

Our long term will unemployment is

