MEMORANDUM OF CONVERSATION

PARTICIPANTS:

President Ford
Pierre-Elliot Trudeau, Prime Minister of Canada
Dr. Henry A. Kissinger, Secretary of State
Donald Macdonald, Minister of Finance
Ivan Head, Special Assistant to the Prime Minister
Brent Scowcroft, Assistant to the President for National Security Affairs
Amb. Jack H. Warren, Ambassador to the U.S.
Amb. Thomas Enders, U.S. Ambassador to Canada

DATE & TIME: Wednesday - June 16, 1976
5:40 - 6:50 p.m.

PLACE: The Oval Office

[The meeting began without Secretary Kissinger, who was delayed by the kidnapping of U.S. Ambassador Meloy and Counselor Waring in Beirut.]

President: The Minister and I were at Libby Dam together. He has had a change of portfolio since then.

Trudeau: It's a somewhat more difficult one now.

President: We are very pleased you could come down. It is especially timely in view of the Puerto Rico summit. I met with the planning group yesterday.

Trudeau: We are very pleased to be here. I want especially to thank you for getting us into the Puerto Rico Summit. I know you tried at Rambouillet. We think it is important that we be included because of our size and relation to you. It is especially useful when the problems are in common, to be able to deal with them on a personal basis. The EC
members meet regularly with each other and that is good. You and I and our predecessors meet but not on the same informal basis as our ministers who flit back and forth. I think probably we on the North American continent should correct that.

President: I agree. I thought it was important before that we all meet, and now as we pull out of the recession it is very important that we try to avoid the mistakes which got us into trouble in the first place. We don't want to reignite the inflation. It is only sensible to try to coordinate our activities.

Trudeau: Macdonald has just finished presenting the budget. What is boils down to is if you are doing fine, we are doing fine. 50 percent of our goods are exported and 50 percent of these are to the U.S.

President: [Discusses economic statistics -- GNP, unemployment, inflation.] We want to get unemployment under 7 percent, inflation under 6 percent and the GNP above 7 percent.

Macdonald: I am envious of your performance on the inflation.

Trudeau: What happens when labor looks at this -- the growth of 6-7 percent, inflation of 6 percent and says "we need a wage increase of 12 percent?"

President: [Described the rubber workers' strike and their demands.] Hopefully we can keep the rate within the guidelines.

Trudeau: How? Do you have specific guidelines?

President: Not specifically, but labor and industry both know what we consider reasonable. Labor has been fairly responsible, even in the construction industry. Management also has been fairly statesmanlike.

Trudeau: I take it then you are relying on a sense of responsibility.

President: Yes. It has worked so far.

Trudeau: Do you think this is a new pattern for our free society, or will you sink back to the old attitudes?

President: I am an optimist. I think we have made real progress. Congress is still irresponsible, but not so much so as in the past. They
have a new budget procedure which is designed to force some fiscal responsibility. Their ceiling is too high -- $414 billion -- but it's better than we earlier thought it would be, about $424 billion. Arthur Burns has set an increase in the money supply of 4-7 percent.

**Macdonald:** That I would find very restrictive. It should show up in relative interest rates, but there is still a 3-point spread.

**Trudeau:** Aren't most sectors of your economy still living in the shadow of your former controls and thus there is an inducement to responsibility? But there is still no agreement as to a division of productivity between labor and management, though.

**President:** No. But we have a Wage-Price Advisory Council which does have a PR impact and a kind of psychological pressure.

**Warren:** And your labor leaders can make things stick when they want to. Ours are very decentralized.

**Trudeau:** That is right. The locals may or may not agree. So the leaders have to adjust to the locals, not vice versa. In public service area...

[Secretary Kissinger arrives.]

**President:** You know what happened today.

**Trudeau:** Yes. Jake told me.

**Kissinger:** [Described what happened to the Ambassador.]

**Trudeau:** Is anyone claiming to be the author of it?

**Kissinger:** No. But the Syrians and Egyptians have already expressed their outrage.

[Short discussion of Meloy and his quality.]

**Macdonald:** [Discussed the Canadian economic situation.]

**President:** Our agriculture has done a great job. In 1973 and 1974, agricultural prices went up 12-14 percent and, together with energy, kicked off the inflation. Our projections for '76 are a 2-4 percent increase. That helps the price index immensely. We will probably have a record corn crop. Wheat will be down a bit because of drought, but it will be the 2nd or 3rd best year we've ever had. Soybeans are a good crop.
Trudeau: Do you have a hunch that the decade of rapid inflation will be succeeded by one where commodity prices will taper down to 2-4 percent and things will get under control? My ministers worry that when controls come off, the same thing will happen again. There doesn't seem to be any real reason why costs will get back to the situation more like the postwar years. I gather you don't think so.

President: That is right. I wouldn't rule out a rate of 4 percent or so in the next couple of years. It looks to us like the public is the key to putting closer reins on fiscal policy. Of course NY City was a disaster, but they have now cut back on their extravagance. There is a public feeling that government has got to have a more responsible fiscal policy.

Trudeau: The way you describe it is the way a democracy should work -- people recognize the peril and become more responsible. But we still are asking ourselves what happens when we take the lid off. Are your labor and management or Congress pressing for a system like the Germans where there is labor on boards of directors, and so on?

President: There is no real pressure in Congress, but some labor people argue for it. Is it compulsory or voluntary?

Trudeau: It is compulsory -- there and in Sweden. It seems to hold prices down.

Macdonald: I think you can argue the opposite. The two people most interested in higher prices are the president of the company and the union leaders.

Trudeau: Then why the price restraint?

Kissinger: There is a phobia in Germany about inflation.

[Discussion of federal employees here, the wage ceiling at the high levels, and how we can keep good people in government.]
The Minister's turnaround is lengthy and drawn out.

Slight delay, more delays.

Please keep your speeches clear and concise.

It is urgently important that we prepare and

secure local support.

We were very pleased to hear you express expectations,

to discuss your forthcoming mission to PK.

I have you in mind. We think it is important that we can

secure local support in relation to your visit.

It is necessary when preparing common

to be well prepared.

The EC mission will review your story that is good. Your story

will be important.

The EC mission was informed

of our frustrations who felt it was just.

I think just as an ND contact should reflect

that.

What important before to meet a range of areas

can pull out of discussion it is very

important that we try to avoid mistakes

which get us into trouble in one place. We

don't want a negative situation. It is only

necessary to remind our activities

forward.

The second point should be

a budget. What is the budget? We

are doing fine, we are doing

very well. Some good.

50% of trade on to US.

P. (Note: see attached cable).
M. There is an issue on inflation.

T. What happens when you lower costs? (This account of 6-7% inflation of 6% and wage
rise will equal 12%)

P. (Decision making workers strike + demand) Happily
wage can keep 6% rise & in problem.

T. What do you have of peace? (12%)

P. Not specifically, but labor + firms with agreement
in favor agree. Wage has been fairly
sweep, even in worst activity. Import prices has
taken fairly it moderately.

T. Take it then you are ending in a sense of view.

P. Yes, it has worked for us.

T. Do you think this is a more positive, lower
urgency, or will you stick back to coal

P. Some will be optimistic. I think we have saved
the country from listing, but not as much
as some expect. The labor will be budget
which is also yield of some form, very ugly. This
utility is too high listed, but better than we
expected that, admit 6-7%, for seen has set
an 8% in many senses of 4-7%.

T. That would be good: do you think it should
show up in anticipated inflation rate?

P. That is still a 6-7%.

T. Can't invest unless you are going still living in
a & that if your prices decelerate then there
is an immediate to way.
But then may still not acquire any as it is a chance
of probability but labor required.
W. But can't have any in a long circuit which
doesn't take R, to spy pressure required.
W. And your labor doesn't mean much thing either
when they want it. Once any way characterized.
T. That right. The leads may be important. So
understand to adapt the leads, not the reason.
In public service also, is there
(K comes in)

P. You know what happened today
T. You told me
P. L. Yes; don't even plain it.
K. (Considers what happened in the office)
T. Do you mean thinking to be another of it?
K. No. But a lawyer E have already prepared their
contingencies.
(Short discussion of likely and big parties)
M. Discussed Christmas dinner at.
P. These guys have done a great job. In 23-44, April's press
envelope copy 2-1 includes different affiliation,
Omaha Times. 2-2 are 2-46 hundred. That
helped a little into immunity.
We will get someone to send you copy. What will
be done hot because of change, but I'll ask about,
Somewhere good copy.

T. Damn that's a bunch that a chance of rapid inflation
will be cancelled by our entire credit prices will
take down to 7-4% & they will still be needed.
My assumption revery that can't other much less
of Crimea's will happen again. They
don't seem to be any direct reason why lots.
will get back to it after more than 2 years. I don't think so.

P. That is right. I will ask the 49.5 to run its right angle if you.

L. It's really bad in general. It's really the right angle if you.

M. That's what I think. I like it very, very good.

T. The way you discuss it is very, very hard to understand.

P. I'm not sure, but we have some real stuff. But we still understand what happens when to the city.

L. Our understanding is very, very good in general. It is not as bad as it is.

P. It's very good in city, but some also agree as it.

L. It's very good in city. It seems to big price driven.

M. I think you are going to use. The 2 must understand big price or pretty big and a small market.

T. We need a price variant.

K. A problem in coming about size.

(Description of board meetings here, discussing a how or keep good fight in good)