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TO: DON RUMSFELD

FROM: JERRY H. JONES

For your information.

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~~Dep~~ REVIEW & OUTLOOK

Mr. Kissinger's Problem

Why is it that Secretary of State Kissinger suddenly looks so vulnerable? Only the other day it was agreed from Maine to Mexico that he was not only a national asset, but a global treasure as well. He could end wars with honor, negotiate brilliant treaties before breakfast, feed Senators out of his bare hand, and be welcome in every global capital, with or without portfolio. Now, he's fair game for every third-rate commentator taken to numbering his days. Amateur diplomats all over Capitol Hill are lecturing him on tactics, and subordinates are publicly laying odds on when he'll resign.

There are several theories about Mr. Kissinger's sudden outbreak of clay-footedness. One is that Richard Nixon really was the mastermind behind the Kissinger diplomatic successes, and that with Mr. Nixon gone, Mr. Kissinger is revealed as a good chess player, but not a spectacular one. Another is that the Democrats, preparing to capture the White House next year, have methodically set out to diminish Mr. Kissinger's standing with public opinion.

Our own view is that Mr. Kissinger has become a victim of the slumping, inflating world economy and U.S. economy. The weaker the U.S. economy gets, the more he must deal from weakness, the less patience the public and Congress have in his free hand, the less regard U.S. allies have for his proposals, the less regard the Soviet Union has for the fundamental economic strength of the United States that should be backing him up but is not. When an economy contracts, its society turns inward, which is not the kind of milieu our Secretary of State can thrive on.

He certainly knows this is his greatest problem at the moment, but like Secretary of State Cordell Hull in the 1930s, Mr. Kissinger can try but is neither placed nor equipped to deal with the economy. Mr. Hull fastened on the idea that if only tariffs could be lowered the U.S. and world economy would be pulled out of its Depression, which was a notion of only marginal importance.

Similarly, Mr. Kissinger's focus is on the price of oil as the key to global economic woes. His reasoning seems to be that because the price of oil was put up through a political decision, it can be reduced by a political decision. He thus calculates what it might take to get such a decision, and apparently concludes that an Arab-Israeli peace combined with an oil commodity agreement will do the trick. By this reasoning, too, it's clearly the State Department that is best suited to map strategy and plan tactics.

But the Kissinger assumptions are in error. The world economy is in such dreadful shape not because the price of oil has been put up, but because of miserable economic management by the central banks, finance ministers and legislatures of the developed world, not least those of the United States. The price of oil is surely of some importance, but it is much more a symptom than a cause of global inflation and recession. If all of the Kissinger designs were somehow implemented, the world and U.S. economies would be only marginally improved.

Treasury Secretary Simon comes closer to understanding this, which is no doubt why he takes potshots at Mr. Kissinger from time to time. He's been almost alone in resisting the frantic calls for a petrodollar "recycling" scheme, and it has by now become obvious that such schemes were and are unnecessary. And he has resisted the Kissinger "floor price" for oil. The other Western central bankers and finance ministers are now humoring Mr. Kissinger by caricaturing his floor-price scheme, talking about a "three-tier, flexible floor price." We can almost hear them chuckling at the idea.

But while Mr. Simon has properly resisted the Kissinger ideas, he's advanced no foreign economic policy of his own. The plain fact is that the United States now has no discernible foreign economic policy. Foreign economic problems are blocked out of Washington's mind, while attention is focused solely on our economic problems at home. But by this late date, it takes no genius to see that foreign economic problems and domestic economic problems are inextricably bound. Clearly a world-wide disease needs to be seen in a world-wide context.

The problem is not only Treasury. Except for Arthur Burns, who at least professes concern about the falling dollar, all of Washington seems unconcerned about what's going on beyond U.S. borders. An almost oblivious "benign neglect" condition has taken hold: As long as we have floating exchange rates, why worry about the balance of payments? As long as commodity prices are falling, why worry about the falling dollar? As long as recession seems to have weakened oil prices, why talk to OPEC?

Washington should be concerned, and the focal point for that concern should be at Treasury, not State. U.S. economic weakness is part of the global economic condition, and cannot be treated in isolation. At its best, the State Department is not geared to deal with these issues. As long as Treasury does not take the lead in foreign economic policy, Mr. Kissinger's problem will remain unsolved.