

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

SECRET/SENSITIVE

MEMORANDUM OF CONVERSATION

PARTICIPANTS: Helmut Schmidt, Chancellor,
Federal Republic of Germany
Hans-Dietrich Genscher, Vice Chancellor
and Minister of Foreign Affairs
Berndt Von Staden, Ambassador to the United States

President Gerald R. Ford
Dr. Henry A. Kissinger, Secretary of State
and Assistant to the President
for National Security Affairs
Ambassador Martin J. Hillenbrand, Ambassador
to the Federal Republic of Germany
Lt. General Brent Scowcroft,
Deputy Assistant to the President
for National Security Affairs

DATE AND TIME: Thursday, December 5, 1974
11:00 a. m.

PLACE: The Oval Office
The White House

[The press was admitted briefly for photos and then dismissed.]

Kissinger: This office has just been redecorated.

President: It is surprising how much difference a rug makes.

I am very pleased to meet with you, Mr. Chancellor. I have heard so much about you. I am looking forward to my discussion with you.

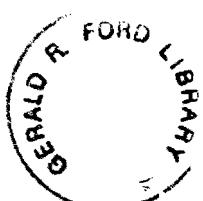
[General Scowcroft left the meeting for a few minutes and missed part of the conversation.]

President: Henry is just back from the PRC. I hear now you are going.

Kissinger: [to Schmidt] They are waiting for you.

SECRET/SENSITIVE

DECLASSIFIED
E.O. 12958, SEC. 3.5
NSC MEMO, 11/24/74, STATE DEPT. GUIDELINES, State Review 3/10/04
BY [redacted], MARA, DATE 5/7/04



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

Schmidt: I am not sure I will go.

I would like to set aside considerable time in our discussions for economics. I think we are in a recession and on the brink of a world-wide depression. It is not inevitable but it is possible. Our two countries are the biggest weight in the world's economy. I would like to discuss this.

President: That is fine. A discussion of what we can do to avoid a depression would be useful.

Schmidt: Secretary Kissinger and Minister Genscher can discuss the other things.

There is an economic meeting this afternoon. If there is a press statement, I would hope it would include a number of economic aspects.

Giscard is looking forward to what I can tell him. He as a person is willing to be helpful. It is his domestic situation which is his problem. He needs the Gaullist votes. If you need an emissary to him, you should think of sending Shultz.

President: I have complete confidence in George.

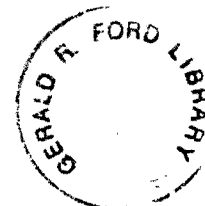
Schmidt: I only mention it because if anything arises which needs a judgment, he can get one from Giscard.

President: First, let me say a word about my Japan trip. I was under some pressure here to cancel it. But it was very productive. We went beyond the traditional security concerns; both of us are deeply concerned with the energy problem and they are interested in the stability of food supply. It's a consensus government. That's how they operate. And we were able to establish a rapport with the government.

There were few demonstrations.

Kissinger: Kyoto was the worst, and there was a sound track that said, "Go home as soon as you can." [Laughter]

President: I had to go to South Korea. Otherwise it would have been seen as a withdrawal of support. We had to establish support for such a strong leader. At Vladivostok.....



Schmidt: [interrupting] Whose idea was it to go to Vladivostok?

Kissinger: They proposed Europe. But that wasn't a good idea. The President would have had to meet with Brezhnev either before or after meeting with allied leaders, and it would have overshadowed the meetings with the allied leaders. Then they proposed Vladivostok. We checked with the PRC and they preferred Vladivostok to Europe.

President: Brezhnev was the only one who had been to Vladivostok.

Schmidt: I saw him just before you, and he gave me a lecture about East Siberia.

Kissinger: It is the prettiest city I have seen. Like San Francisco.

President: We drove around at dusk.

We had done much SALT preparation, culminating in Dr. Kissinger's October trip. So we didn't have to spend much preliminary time jockeying.

Schmidt: Brezhnev seemed to me to be certain there would be an agreement. More so than Kissinger.

Kissinger: He knew the concessions!

Schmidt: You did too.

Kissinger: No. We didn't know that they would change their positions on FBS and the British and French systems.

President: We spent six hours and then broke up without an agreement. We solved it the next morning. Then we talked CSCE and Middle East.

Schmidt: How do you have discussions among yourselves?

Kissinger: We use babblers.

Schmidt: We used the microphones in Lenin Hills to tell them what we wanted.

President: We reached an agreement on equal ceilings of 2400, covering ICBMs, SLBMs, and missiles on heavy bombers.



Kissinger: We have a dispute about the type of missiles permitted on bombers. That must be worked out. We are not sure we should stick on it.

Schmidt: There is no agreement on reentry vehicles.

Kissinger: No, but there is much nonsense being said on this point. We are far ahead in warheads and will stay so for the foreseeable future. We can assume they don't deploy any on missiles on which they have not tested them.

Schmidt: Is there a definition to distinguish between long-range and short-range bombers?

Kissinger: Not yet, but probably the long-range would include the Bison, Bear, B-52, B-1, and not the Backfire.

Schmidt: I used to be Defense Secretary. That is why I am interested in this.

Kissinger: To get to 2400 they have to cut. They are planning new missiles and will have to cut for that.

Schmidt: They are building submarine missiles.

President: They are counted.

Schmidt: But they may move in that direction.

Kissinger: They should if they are smart.

Schmidt: You don't have to reassure us; we have no doubts.

Kissinger: We can put three times the throwweight in the Minuteman holes if we wish. If they don't move to sea they will be 85 percent vulnerable. Their submarine missiles are not very good.

Schmidt: Did you discuss the Middle East?

President: Yes. He wanted to go to Geneva right away. We felt that it would be fruitless at the present time. We will act vigorously to get another Israeli-Egyptian agreement. Because that area is a tinderbox.



Kissinger: It would be helpful if you don't mention this to anyone. Egypt needs this negotiation to go on with no appearance of it until it is almost completed.

Schmidt: I am worried. The state of Israel's mind is a concern itself. There is some capability there for taking decisions out of desperation.

Kissinger: They must know that a military victory could be dangerous if the Soviets intervene and there is an oil cutoff.

Schmidt: They are talking of taking all means within their reach. What does that mean? The second danger is the Soviets maneuvering behind the lines to counter your efforts. The last is the French countering your efforts. We feel soon we may have to split with France on the Middle East. We are deeply disturbed about the French behavior in the U. N. We went out of our way to have a unified position, then at the last minute they switched. Through the Sauvagnargues/Arafat meeting.

Kissinger: We have also heard about the activities of their ambassadors in the area.

Schmidt: They are back on the Jobert track.

Kissinger: They are fairly impotent, but more persistently hostile than the Soviet Union.

Schmidt: We are worried about the Soviet role. What is their role? And how do you, for their face, let them play some role and yet limit their behind-the-scenes negative maneuvering?

Kissinger: Gromyko has no understanding of the Middle East. He has it organized as if it were CSCE, and his points are the same as the Arabs. The Arabs at least know the difference between rhetoric and reality. He won't split it into parts. He tells the Arabs everything we tell him. Otherwise we would bring them in.

Schmidt: How about Brezhnev? They seem to have divided the world. Gromyko handles some, Brezhnev some. We have detected a difference of views between them on some areas. For example: Gromyko is in charge on Berlin.

They can't -- despite what your newspapers say -- get a single cent of credit from us over the next years. But economic relations with us is a Brezhnev area.



Von Staden: Brezhnev is dominant in SALT.

Kissinger: CSCE and MBFR are handled by Gromyko. Also the Middle East problem, but Brezhnev may be getting into that.

Don't tell the Europeans, but we are hoping for an Israeli-Egyptian agreement. That would separate Syria, because Egypt probably wouldn't go to war for them. That would take it past the UNDOF extension and then we go back to Geneva.

Schmidt: I think this should be talked over privately between you and Giscard. Without Sauvagnargues. You should show him how far you're going and the dangers of their Middle East policy. Kissinger can't talk with Sauvagnargues. Giscard wants to cooperate and I would ask you to try.

President: After the SALT discussion, Brezhnev gave more participation to Gromyko.

Kissinger: In this vein, we had to tell Brezhnev implicitly that we didn't like Gromyko's approach and would be receptive to another approach. Gromyko wants to settle everything at once. That means an explosion. Israel can deal with only so many issues at once. If there are too many, they will go to war.

Schmidt: We are not interested in supporting the Soviet Union in regaining Soviet positions in the Middle East. But if there is a conflict, we might be very exposed quickly, though Schlesinger didn't stress this. Therefore, we hope you will do your best for a tacit understanding.

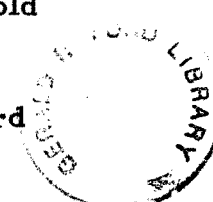
Kissinger: We think we have 4-6 months. There was no real war danger in November. It was very irresponsible of Israel.

Schmidt: But they will be more irresponsible in the future because they are so deeply in despair and the Government is not strong.

Kissinger: In the 6 months we should arrange a settlement and work with the Soviet Union.

Schmidt: In Israel, there was some concern about a U.N. speech. Genscher and I didn't clear it and we don't approve it. Israel was told the same thing.

Now about oil. The explosion of oil prices has added to the downward development of the world economy that was already under way.



The breakdown of Bretton Woods between 1971 and 1973 had already indicated the basic problem. The U. S. balance of payments deficit for 3 years, etc., contributed. Then the oil prices on top of that. For the first time since World War II, a number of countries may be unable to produce a real income increase for their workers. Some have avoided the situation so far by borrowing abroad, but that is only a temporary solution.

I think the psychology is as important as mechanical moves. The big companies are reluctant to invest. Labor is not used to not getting increases. Social strife will increase, in Italy and especially France.

Kissinger: We have seen a report of a systematic attempt to infiltrate the military and police.

Schmidt: I haven't seen that. If we don't tell the enterprises we will move upward, we will be in for self-fulfilling bad prophecies. I am really worried. I told my public that we are prepared to take decisive measures when I return from here and the EC Summit. I am prepared to take a number of steps, but I want to consult:

- (1) To embark on a path of monetary and credit growth, probably at 8% per year. I would prefer 10%, but my Central Bank won't.
- (2) A tax cut in January '75, for the working and lower middle class, of 14 billion marks. This is in an economy five times smaller than yours.
- (3) The longest budget deficit since the war.
- (4) We would pay a premium to any investment between this Wednesday and June 1975 of 2.5% of the value of the investment if it is completed within a certain period, depending on the types of investment.
- (5) We will also launch a small-scale public works investment and a few other similar measures.

This is to show that we have shifted from inflation-fighting to recession-fighting and that the increase in investment is our number-one priority. One slogan will include "upward movement and stability" (which means price stability).



We can do it easier because our inflation is one half of yours(6.5%), and because we have taken strong measures already and must end this phase. It is not a complete turnaround, but a change of emphasis.

Kissinger: What inflation rate will you get?

Schmidt: Not over 8%.

President. Let me review our situation. On August 9, our economy was badly deteriorating -- inflation was burgeoning, the interest rate was at an all-time high. Burns was making the only effective effort to do something. There was no serious deterioration in employment at that point. I tried to get a consensus with the Congress. I held a series of meetings, and so on, I recommended a program to Congress saying that we felt inflation was the number one problem. We put a ceiling on the budget of \$300 million -- 5-6 billion below the estimated budget. We needed some relief for the low-income people so I recommended tax relief for them. To offset this and help the deficit I asked for a surtax of 5% -- this hit only 28% of the wage earners -- and a ten-percent investment tax credit to stimulate industry (up from 7%). I must say my advisors did not foresee, among other things, the loss of consumer confidence.

Schmidt: Investors confidence?

President: Not like the consumers. Now we have a crisis in the auto industry.

Schmidt: We also are producing at only two-thirds capacity.

President: I have asked for a new analysis from the Council of Economic Advisers by next week. I think he will recommend a rigid limitation on expenditures. We can get only to \$306 billion, even with Congressional cooperation.

Schmidt: How much of a deficit will this be?

President: At \$302 billion, it would have been a \$9.4 billion deficit, which could be okay. At the rates we expect, the deficit will be somewhat stimulative. He will probably recommend a tax cut instead of government spending.

Schmidt: It depends. If it is on consumption, yes; if on investment it is not good.



President: Yes, but the Congress wants to put it on an income supplement. The new Congress is an unknown quantity. The House is probably more Liberal (in our sense), with the Senate the more conservative. We will probably submit a program to deal with the same kind of problem that you point out.

He thinks we can get inflation down to 7-8% by summer. Unemployment this month may be up to 6.5%. That is bad.

Schmidt: It could go to 7% by February.

President: Yes, and that may launch Congress into a stimulative program of expanding the income supplement. We will make recommendations in the State of the Union Address, which is around 14 January. One other point: Burns was tightening the money supply all summer.

Schmidt: Eighteen months too late.

President: I won't judge, but he wouldn't change until we negotiated a plan and got a hand on spending.

Schmidt: The same with us. If I had seen the steep decline of the economy, I would have acted differently.

Kissinger: How do you explain it?

Schmidt: It is psychological. The enterprises of the U. S. are one of the decisive forces of the world; the next is ours. It is in your hands. Whatever we do, if you don't, we can't do by ourselves. I think you should have a budget deficit for investment. It would show leadership. Otherwise, a world depression will be blamed again on the United States. It will destroy your world foreign policy leadership.

Kissinger: Please tell the President candidly tomorrow what you think, after talking with our economic people.

Schmidt: Yes. But I think we need a press statement talking about the economy -- also something on oil, which has not been discussed yet. You are such a great weight in the world.

President: We recognize that. I must be careful in a statement now because of the Congress. I have to be careful to avoid specifics at this time.



Schmidt: I understand. Countries in surplus should step up demand; Countries in deficit (except from imports of oil) should get their houses in order. I would endorse -- don't write this down -- a request for Germany to step up demand.

President: In defense of the October plan ,...

Schmidt: Don't explain. I made the same mistake. The downward development came much quicker than anyone expected.

President: If we hadn't hit inflation, no one knows what the Congress would do in an election time. We do need to adjust the October program, but we have to get Congress out of time.

Schmidt: Back to Giscard and oil. As I understand him, as a person -- we have talked often over the last weeks -- he is willing with you to bring about not only what looks like but really serves the purposes of consolidation. With his consent, I will sketch out a few ideas on which you and he might publicly agree.

We must avoid, if possible, a consumer-producer confrontation, because the consumers are weaker -- Europe much more than the United States. Europe is very dependent on Middle East oil. No one thinks we should risk confrontation if it can be avoided. So we need government-to-government working relations with the producers. We think we can combine the proposals raised by OECD, the U. S. ideas, and Giscard's carelessly launched ideas. (He consulted apparently no one).

Why not a sequence of three phases?

- (1) Giscard invites a February meeting of senior civil servants to Paris to set a date and invitations to a consumer-producer conference, maybe for June, and define what might be discussed. Then everyone will know a conference will happen and that consensus of consumers and producers (separately) must evolve.
- (2) A consumer caucus, in which France then must join. And
- (3) a consumer-producer meeting.



Giscard will buy this. Before all this, we should do something private -- a small group of private citizens with access to their governments (12-15 people) to have a meeting of brains. You could send Schultz. Iran would send someone, and Saudi Arabia, and Algeria. There has never been a brainstorming conference like this in the economic area -- it would be like Pugwash -- with the producers. The Shah is not capable of knowing what he has done to the world.

This is a personal idea. Someone would have to host, but governments would be recipients of the ideas.

The governments of the producers don't understand. The French Government doesn't. Giscard himself may.

President: Let me think about it. We strongly feel there must be a higher unity among the consumers -- not on the basis of a confrontation, but to know that we as consumers know our options, and soon. Without that, if we go even to a preparatory conference, we will get off on the wrong foot.

Schmidt: I agree. Secretary Kissinger knows I am trying to help.

Kissinger: Indeed, I told the President about your help at the Washington Energy Conference.

Schmidt: But it may appear, if you attempt to do this first, before anything, it looks like a consumer cartel. If you wrap it as I suggest, it avoids this. You must defuse French policy in the Middle East. In response, the French would have to participate.

Kissinger: Aside from the merits, there are a number of phony arguments. What confrontation is there? Our relations with the producers are as good as anybody's. The French are saying we want a confrontation.

Schmidt: And U. S. citizens traveling abroad.

President: Then they are ill-informed. But if consumers don't have some unison, we could go down the path to ineffective results.

Schmidt: I agree. But you are viewed as seeking a confrontation.



Kissinger: If bilateral relations with the producers aren't coordinated among the consumers before the meeting, a meeting will produce the same uncoordinated babble. We don't want a confrontation. You could argue that if we aren't coordinated, a conference would fail and then a confrontation would be inevitable.

Wise producers can't want the destruction of the consumers. I agree with Giscard. But French diplomats are stimulating these ideas of the U.S. wanting a confrontation.

Schmidt: How would you do it?

Kissinger: Giscard is committed to a producers conference. We are not opposed, and we could even agree on a tentative date. But we would reverse stages A and B. We first need consumer unity. We had a letter from Sauvagnargues in Tokyo, in which he said a producers conference only makes sense if preceded by consumer cooperation. If we start preparation for a consumer/producer conference, maneuvering would start. We can save Giscard's face by getting the President's commitment to a producers conference. The basic point is whether a producers conference is one where the West continues its civil war or whether we can get a unified approach.

French diplomats are using the producers conference in an anti-American campaign. It actually helps us because it makes us look tough.

We worry about an unstructured conference. We want a long-term solution which avoids confrontation.

Boumediene said to me, "If you want a slight political price cut we can talk; if a deep cut, we can't talk."

Schmidt: A private meeting would help to get an understanding on this point.

Kissinger: A producers conference could accentuate the sense of impotence of the West that could offset all policies.

Schmidt: I am convinced.

President: The problem is to save France's face and make it work. Let's try to find a formula which will work and let me finalize it at Martinique.



Schmidt: There are two technical problems: (1) Indexing. I am totally opposed. But there is some validity for producers to want a guarantee of the real price of oil.

Kissinger: It depends on the price.

Schmidt: The second problem is the \$25 billion fund, about which I am hesitant. It is an invitation for Britain and Italy to continue with inflation. It takes away from the Arabs the risks of investment and puts it on us. Third, I can't commit my country to that amount. \$4 billion is an enormous burden on our budget. It would explode my budget.

President: It gives us more freedom to have our own funds, so we are not then dependent on both the oil produced and the money invested.

Kissinger: It could be used to introduce discipline.

Schmidt: Italy wouldn't fulfill the conditions.

Kissinger: If we borrow from the producers now, we have instituted a producers/consumers dialogue right away.

Schmidt: The U. S. economy is 5 to 6 times as strong as ours. We are just a medium-size economy. I couldn't risk being called on to pay out billions. I would have to borrow from the Arabs.

Kissinger: Better you than the Italians.

Schmidt: Yes. But then I take all the bad risks and the Arabs get the good risks. I would have to get parliamentary approval.

President: If we had the right kind of consumer unanimity, we could get Congressional approval.

Schmidt: If it wouldn't be used, I could make it, but.....



P/S Schmidt / Aenscher / Von Stacken
K/Hillenbrand

5 Dec

Transcribed

(Pers out)

K This has just been ex-decimated.
 P Surprising how much dig a my mother.
 My father should meet w/you, found so much
 about you, looking forward to discussing
 w/you

P Henry just back from PC - you going

K They are waiting for you

S Not sure I would go. They are
 would like to set aside ~~unproductive~~ time
 for exams. I think we are in a recession
 & a crisis of world wide depression. Not
 inevitable but possible. Over 20% are biggest
 weight in a world economy

(unheard
response)

P That is fine. Discussion of what we can
do to avoid depression would be useful.

S K & Gough can discuss other things. I can
 act as the ~~flame~~. By your statement, hope
 it would include # of people as people. Oswald
 is looking forward to what I can tell him.
 He ~~is~~ person is willing to be helped. It is his
 domestic ~~it~~ which is his job. He needs Gough's
 votes. If you were an emissary, you should
 think of sending Schultz.

P I have complete conf. in Gough.

S Early mention cause of anything crisis which
needs a judgement, he can get one from Oswald

P 1st my top. Some pressure here to camp. It
 was very productive. Both of West boy and
 technical security concerns & both deeply
 concerned w/energy & they interested in



stability of fuel supply. ~~the~~ ^{Conferences} ~~conferences~~ ^{part} of me
ask to establish support w/ c Govt. There were
from Universities.

K Kyoto was worst. Sound track - "Go hand as soon
as you can".

P Had to go to S.K. otherwise he seen as w/demand
of support. Had to establish support for such a
strong ^{position} holder at Vlad.

SF Whose idea Vlad

-> With him to be in connection with
in fact - understood

K They proposed Enn. (Reassure why not good)
Then they proposed Vlad. We checked w/ PRC
& they proposed V to Enn.

P Buy only me know Vlad.

S I saw him just before you + he gave me
a lecture about E. Science

K Pathetic entry however. Like S.F. - ^P Pass around
at desk.

P We had done much salt preparation, enthusiasm
in K. It trip. So didn't have to spend much
pushing ~~too~~ time for trying.

S Buy seemed to me certain would be over
agreement. Was that K

K He knew a conference

S You to.

H We can do it know about FBI + B + F
rights.

P We spent Chrs, looks up w/o agreement,
Scheduled next morning, then talked CSC
ME.

S How do you have discussions among yourselves

K We use babblers.

S We used microphones in Berlin Hall to tell
them what we wanted.

- P Don agreement was for 2400, ICBM, SLBM,
 missiles being tested.
- K We have a dispute about type missile on bombers.
 That must be worked out, but we should
 stick out.
- S No agreement on recently vehicles
- K No, but much in issue on this point. We
 are ahead in ^{for} ~~conclude~~ + will stay for
 present. We assume they don't deploy any
 until.
- S Is there def. to dist between LR + LR bombers.
- K Not yet, but probably B-59, B-52, B-1 + not
 B-57.
- S I want to be Def. Secy. That why interested
- K To get to 2400 they have to cut. They planning
~~conclude~~ + will have to cut for that
- S They building such missile.
- R They are counted
- S But they may move in that direction.
- K They checked if they present.
- S You don't have to measure us, we have no
 doubts.
- K We can put 8X Ties in M.I. hole. If they don't
 want to see they will be 85% ^{missile} ~~in~~
 Ties ^{missile} not very good.
- S Did discuss M.I.
- P Yes. He wanted ~~concern~~ right away. We felt
 that ~~pointless~~ at present. We will act vigorously
 if get another I-E agreement, cause that
 is ~~unsubstantiated~~
- K Don't mention this. E will do no appearance
 until they almost complete.
- S Unsubstantiated. S. Conf. of E council is a concern itself

There some cap. for taking decisions out of desperation.

K They must have said, today could be dangerous if Sars intervene + oil cutoff.

S They talking of taking all means w/ in their reach. What that mean?

Second layer is Sars maneuvering behind lines to counter your efforts, heart is French country, your efforts, we feel some we may have to split w/ France ME.

We deeply disturbed about Fr behaviour in UK. We want out of our way for unified position there at last moment they surrendered. Then Saragosa - Market entry

switched

K Also a list of their works in area

S They back on front track

K They fairly negotiant, but more persistently hostile than SU

S We need about Sars role. What is their role + how do you ^{think} let them play some role + limit behind scenes so negotiate with

K Ganga has no understanding of ME. He has it organized as if CSE - his parents all same as Arabs. Arabs at least know abt lot chatter + reality. He won't split it into parts, tells Arabs every thing we tell him. Otherwise we would bring them in

S How about Bin. They seem to have checked a world. 6 hundreds some, Bin some. We have detected sig of Bin's but then on some cases. For ex: 6 in charge on

Bin's

(Despite your paper)

They can't get a single cent of credit from us now until you're - but even w/ us is a Buz area.

V Buz movement in SALT

K CSE NIFER Group. ME prob but Buz may be getting in.

(~~From~~ Daitall Ems, but we hoping I-E agreement. That would separate Syria cause E probably wouldn't get a word for them. That would take part OMD&F ext & then we go back to Geneva.

S I think this should be talked over privately but you & G. and - w/ a Samwayman.

You should show him how far you going w/ dangers of their ME policy. He can't talk w/ Samwayman. General wants to cry & demand look to you to try.

P Optm SALT, Buz goes more parties to Geneva.

K ~~But~~ in their view, we have ^{implicitly} G. but like Group's approval & receptive to another approach G wants to settle every thing at once. That means a plissin. I can deal w/ only so many issues at once. If too many, they will go to war.

S We are not interested in supporting SU in regarding some positions in ME. But if a conflict, we might be very exposed quickly, tho Schls didn't stress this. i.e. we hope you would do your best for tacit understanding.

R We think we have 4-6 mos. There no danger in Nov. It very resp. of I.

S But they will move mess in future because they so deep in debt & can't not stop.

K In 6 mos we should arrange settlement & work



w/su

S On I, There was some comment about a UN speech. I admit I didn't hear it & we don't approve. I told some things.

Explanation of price has added to ↓ output of world economy already under way. Breakdown of Bretton Woods but 71-73 already indicated a basic path. US B/P deficit for 3 yrs, etc. contributed. Then oil prices on top of that, first for 12th time since WWII, a # of countries may do ~~etc~~ ^{not} enough to produce a real increase for workers. Some have arrived at so far by breaking abroad, but only temporary.

I think pay as input is mechanical moves. The big can companies are reluctant to invest. have ~~is~~ ^{not} used to getting increases. Demand stays with increases - study esp. France.

R ~~has~~ been report of the attempt to instructs with a police.

S Haven't seen that. If we don't tell enterprises we will move beyond we will be in for self fulfilling bad prophecies. I really worried.

I told my public we prepared to take decisive measures when return from here + E.C.

I prepared to take # of steps, but want to consult

- (1) Embark on path of monetary & credit growth probably 8 1/2% I would prefer 10% but not bank want a whole bank
- (2) Tax cut Jan 75, for working & lower middle class 14 but marks (in duration 5 x smaller)
- (3) longest budget deficit since 1970

- This
Wed

- (4) Pay premium to any investment but
was of June 25 of 2.5% of value of
investment if completed at in certain
point depending on types investment
- (5) Also launch small scale public works
investment & a few other small
business ^{method}

It is to show we have shifted from inflation
& ~~deficit~~ recession fighting - instead we
investment on the priority. Our slogan
will include "Economic movement, & stability"
(means price stability)
We can do it again because inflation is
4% approx (6.5%) but because we have taken
strong measures already & must end this
phase. Not enough to measure, but to improve

K What inflation rate will you get
S Not over 8%

V Let me review. On Aug 9, economy badly
deteriorated - inflation burgeoning, int rate
at ultimate high. Because was only effective
effort to do something. No serious deterioration
in employment at that point. I tried to get
a consensus w/c Cong (truly, etc). I recommended
a program to Cong - we felt inflation was a
prob. We put ceiling on budget of 3% - 5% bid
rather low. We had some relief for low income
we recommended tax relief to govt to offset
this & help deficit & asked for surtax of 5% on tax
but only 2.8%. 10% investment tax credit to
stimulate investment industry (by June 7%)
I must say my advisors did not foresee ^{any other} things
of consumer confidence

S Investor conf?

P Not like consumer. Now we have crisis in auto industry

S We also purchasing at only 2/3 capacity

V Ask for new analysis from CIA by next week. I think he will recommend: rigid limitation on expenditures. We can get only \$ 306 even w/ long comp.

S How much def.

V At 302 it would have been 9.4, which could be ok. At a rate we expect, a def. will be somewhat stimulative. He will prob recommend tax cut via govt spending

S Depends. Corruption yes, if an investment to good

P Yes, but Cong wants to put it on ^{the} income supplement. The new pay is unk quantity. Have prob more liberal (in our sense) w/c Senate more conservative. US will probably submit a prog to deal w/ some kind of post-war point out.

He thinks we can get inflation down to 7.8% by summer. Unemployment this month may be up to 6.5. That bad

S Would go to 7 by fall

P Yes, & that may launch Cong into stimulative prog of expanding income supplement. We will make demand in SOV about 14%.

One other point. Bureau was tightening money supply all summer.

S 18 mos too late

V Wait judge, but he wouldn't change til we get a plan & get a hand on spending.

S If same w/ us. If I had seen step & following

I would have a bad def.

K How explain

S Yes. The interests of a US are one of the main focus of world - next ones. It is in your hands. Whether we do, if you don't, we can't by ourselves. I think you should have budget def for investment. It would show leadership. Otherwise, a world depression will be blamed again on US. It will destroy your world F & leadership.

K Please talk P carefully tomorrow what you think, after talking w/ your people.

S Yes. But I think we need press statement tomorrow, also something on oil which not decided yet. You are sure a great weight

P We emphasize that. Must be careful in statement now because of Cong. Has to be careful to avoid specifics at this time.

S I understand. Countries in surplus should step up demand. Cays in deficit (except oil) should set their houses in order. I would welcome (don't write down) request for US to step up demand.

P In def. of Oct plan

S Don't explain. I made a some mistake. I don't want come much guesses

K If we haven't hit inflation, however know what Cong would do in electric time. We do need to adjust Oct prog, but have to get Cong out of this.

S Back to General & Oil. As I understand him as person, we have talked often over last weeks - he is waiting w/ you to bring about not

only what looks like but really serves a purpose
of consolidation. W/ his consent, I will sketch
out a few ideas in which you & he might
publish a gem.

We must avoid of possible a c-p cooperation
because c are weaker, we E are much more
than US, ~~but~~ E are very dependent on M art.
Worse thinks we should use cooperation if can
be avoided. Some need part to great
working relations w/ p. We think can envision
proposals raised by SEC D, v.l. ideas, & Coar's
consciously launched idea (the expanded of parity
vs one). Why not a sequence of 3 phases: (1)
Coar invites Feb entry of senior civil servants
to Paris to set a date, invites to c-p
conf, maybe for June, define what might
be desired. Then everyone will know a conf
will happen & consensus of consumers & prod
(separately) must exist (2) Response
courses, in which E & then must join
(3) A c-p entry.

Coar will try this. Before all this, we
should do something private - small group of private
critiques of access to their goods (12-15 people) to
have entry of means. You could send Shultz
from world send someone - Santi, Algeria.
Never been a brainstorming conf like this in
~~the area~~ ^{econ} (Chito Piqueras) w/ c producers. Shultz
not cap. of knowing what he done to world.
This proposal idea. Someone would have to host,
but guests be recipients of ideas.
To Coar's of prod. don't understand. For
Coar doesn't (Coar's himself way)

P Let me think, we strongly feel must be higher priority concern - not on basis of comparative but to know that we as ~~consumers~~ know our options, etc. w/o that, if we go even to prep conf we will get off on wrong foot.

S I agree. K knows I trying to help

K Indeed - I told I about you at WEC

S But it may appear if you attempt to do this first before meeting it looks like consumer control. If you wrap it as I suggest it avoids this. You must depend on FR joining in NE, FR require, FR would have to participate.

K Aside from meats, there are phony arguments. What comparative? Our relations w/ prod are as good as any others. The FR are saying we want comparative

S And U.S. critics traveling abroad

P From they all informed. But if consumers don't have some unions, we could go down further to ineffective results

S I agree. But you are involved as seeking comparative

K Long ago there is balance relations w/ pro and cons and before that, a very important problem is some unconvinced babble. We don't want comparative. If you could argue that if we aren't convinced, conf would fail & then conf be impossible.

We see producers constant distortion of consumers I agree on consumer. But FR diplomats are stimulating idea of US comparative

S How would you do it?



K Gossard wanted to produce conf. We not opposed until later on time date. But we would make stage A+B. We 1st need consensus with. Had letter from Samsony in Tokyo. Said prod conf only makes sense if preceded by cons. conf. If we start prep for e-p manufacturing would start. We can save Gossard face by getting P without the prod conf. Basic point is whether prod conf is one where West criticizes its civil war or whether we even get on unfriendly ground.

For diplomats are using prod conf in an anti-arm campaign. Actually helps us because makes us look tough.

We worry about an unstructured conf. We want a long term solution which avoids negotiation.

Bonachini said if you want flight pat. price cut, we can talk; if a deep cut, we can't talk.

S A private entity would help to get understanding on this point.

K Prod. conf. could accentuate sense of unity across the West that it would oppose all subsidies

S I convinced offset

V Look is to save face & make it work. Let's try to find a formula which will work & let us formalize at Washington

S # 2 tech part: (1) Indefinite. I am totally opposed. But would like for prod to event generate the of well preferred

K Depends on price

S I would is still find about which I am hesitant

It an invitation for Br + Study to continue w/ inflation
 It also away from Arab's risks of investment
 + puts it in no. (3) I can't visit my country
 B that visit, 4 but is an enormous burden
 on our budget. It would ~~deplete~~ my budget
 P ~~of funds and investment, as at~~ It gives no more
 freedom to have our own funds, we are not
 then dependent on birth oil ~~it~~ funds produced
 + a money invested.

K Could be used to introduce discipline

S Study ~~could~~ wouldn't fulfill conditions.

K If we borrow after prod value, we have instability
 p-c dialogue right away.

S US economy is 5-6 times as strong as we. We
 just a one man size economy. I could not risk
 being called on to pay out billions. I would have
 to borrow from Arabs.

K Better than than a dollar

S Yes. But then I take all the bad notes + a Arabs
 get a good risk. I would have to get parliament
 approval.

P I am not a expert but of course necessary,
 we would get Cong approval.

S If it wouldn't be used, I could make it, but