

Ed

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

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MEMORANDUM OF CONVERSATION

PARTICIPANTS: Helmut Schmidt, Chancellor of the Federal Republic of Germany
Hans-Dietrich Genscher, Deputy Chancellor and Minister of Foreign Affairs
President Gerald R. Ford
Dr. Henry A. Kissinger, Secretary of State and Assistant to the President for National Security Affairs
Lt. General Brent Scowcroft, Deputy Assistant to the President for National Security Affairs
Helmut Sonnenfeldt, Counselor to the Department of State

DATE AND TIME: Thursday, May 29, 1975
 1:30 p.m. [Luncheon]

PLACE: Ambassador's Residence
 Brussels, Belgium

[There was considerable small talk over luncheon for about 20 minutes before the business discussion began.]

Schmidt: What role do you have for us? To play the triangle or finish ahead of you?

Kissinger: We gave you an early draft.

Schmidt: Yes. And I ask that you give care to the paragraph on Spain. It is perilous to push that too hard in Europe. Please give some thought to redrafting it so as not to ask too much of your allies. It is very difficult for us, as is your trip there. My people drafted my comments to agree with you except on Spain. It is clear the Franco era is coming to an end. It is not clear that there will be an orderly transition. I hope

NSC MEMO, 11/24/68, STATE DEPT. GUIDELINES, State Reviews 2/19/04
 BY JK NARA DATE 5/17/04

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CLASSIFIED BY Henry A. Kissinger
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Juan Carlos can help it come out. I think Arias will not be in office many months after Franco's death.

The President: Do you think Juan Carlos would perpetuate the Franco system?

Schmidt: No. He will move toward a weaker state, but Arias is too allied with the Franco forces. But we should give the democratic forces the idea that we will be helpful and that we won't slap them in the face as Franco leaves. Don't get yourself in the position where the comments of your allies will hurt and not help your cause.

The President: We are renegotiating for the bases, and we must balance that need for NATO with the problems you cite.

Schmidt: But to make all of this valid, you need not only the consent of the present rulers but of those who come after.

Kissinger: The two are not exclusive. Our Ambassador is in touch with the other group.

Schmidt: It also relates to the President's image in Europe. You can't afford to be allied with the wrong regime. You have to deal with the existing regime. But don't give the Dutch, and Danes, and the others the idea that we are embracing it.

Kissinger: The policy that the Europeans are applying to Portugal we would apply to Spain, and the policy the Europeans are applying to Spain, we think should be applied to Portugal. We are trying to avoid a rush to the extremes all over Europe. The Spanish have a tendency to draw lines and rush to extremes.

The President: Let's turn to economic issues. We deliberately tailored our economic proposals to the package you discussed with me last December. The net result is that all our economists -- even those who don't agree with us -- agree that we have largely bottomed out. There are substantially more good signs than bad signs.

Schmidt: How sure are you that the American economy will resume progress by the end of this year?



The President: If I judged by their record of predictions last fall I would doubt it, but the situation now is different. The unemployment statistics, new orders, and so on, are good.

Schmidt: But orders being placed in Germany are dropping badly.

The President: Housing and autos are not doing well. The income tax refund will help. I didn't want to bring inflation; I proposed up to \$100 rather than the \$200 that Congress approved.

There is a bonus connected to a 5.7 percent increase in the money supply.

The rate of inflation has dropped from 18 percent to 6 1/2 percent. But I'm afraid if we stimulate it too much, we'd get a return of inflation.

Schmidt: Your statistics are persuasive. But this is the greatest depression since 1932. And in some countries we can expect social unrest. I am deeply worried. 1975 is very different from 1932, but the behavior of governments -- trying to ride it out -- could be similar. We can't use the methods of recent years for a situation that none of us have lived through. The situation has led to an enormous drop in real wages -- which is unprecedented.

This is happening in a monetary system of floating rates, which compounds every problem.

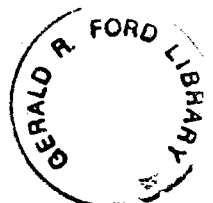
I really don't know why this is happening. Japan is looking to New York. Britain is a shambles.

Kissinger: There is no theory for dealing with endemic inflation.

Schmidt: Yes. Keynes' methods worked in the 1930's; they don't today, and there is no new Keynes.

It is possible we will get our economy going this year. But the possibility is better that our economies will lapse back next year.

The President: We won't stand idly by if the upturn doesn't come or if it doesn't stay. I have a labor-management board which is making recommendations -- they're not radical but they are good. I will likely



follow some of their recommendations this summer in my tax reform proposals.

Schmidt: We have lowered taxes January 1 by a considerable amount. It would be about \$30 billion for you. The effect is zero -- people are saving it. Savings is the highest in history.

Kissinger: It means they think things will get worse.

Schmidt: Yes. Savings is approaching 17 percent -- it is astonishing.

The President: Our Savings and Loan institutions had the highest rate of inflation -- our highest in 20 or so years. That is good, for houses. The money is there.

Schmidt: And with us.

The President: But you must have the confidence. The Sindlinger poll shows a steady rise in confidence recently.

Schmidt: Do they separate confidence in policy from confidence in the future?

The President: I can't say. But they ask if people are going to buy cars, appliances, etc. Both the Presidents of Sears and General Electric feel we are bottoming out and the momentum will increase.

Schmidt: The problem is to stop labor from asking for even higher wages and business from granting it instead of putting funds into investment. I am not confident.

The U.S. is the world's biggest economy. Internally it hasn't played a big role by volume but psychologically you do. What your New York boards expect trends to be are the expectation of the rest of the world. What they have been doing too much in the last period is to confirm other countries in their pessimism.

The President: There is validity in the skepticism about Britain but for the U.S., I don't think so.

Kissinger: I told the Chancellor your idea of calling together a group of private international economists. Any ideas, we would welcome.



Schmidt: That would be good. There shouldn't be much publicity -- and not too many people -- and they should be the best. One or two from Britain, France, Germany, Benelux, Japan. Altogether not more than 15 or 20. They may end up with nothing.

Kissinger: But it would be good to get a diagnosis, even if there is no prescription. There is no theory for the present situation.

Schmidt: Also this is the first global business cycle.

The President: In 1973-74 we had an increase in food prices. In 1974 we expected a worse crop than we got. This year so far it looks like the best. If this continues, we will have a great year. That is a confidence factor.

Kissinger: There are other things you wanted to raise. We raised the energy conference with Giscard. He feels better about it. Sauvagnargues will come to Washington the end of June and we will then propose about what I outlined in IEA.

Schmidt: Will they stick with Iran and the Saudis and not go with Algeria?

Kissinger: I think so . . .

Schmidt: That is encouraging. But we can't stand another failure.

Kissinger: We have written to Colombia.

Schmidt: But they will insist on more oil-LDCs.

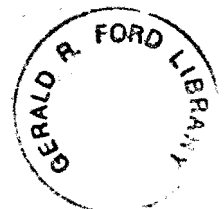
Kissinger: They could be in the raw materials commission.

Schmidt: True. But it must not break up again.

Kissinger: We can't guarantee that Iran and the Saudis won't come to Algeria, but we think they won't.

While we are interested in helping, the talk about a new economic order is a red flag to our economists.

Schmidt: Yes. These catch words are bad. Also we don't accept indexing and the linking of monetary reform and economic aid.



Kissinger: When the procedure is set up, maybe we should have some talks.

Schmidt: This brings me back to the proposal of December. Before we get to those giant conferences, I think we should have the private brains meet and talk to their governments to avoid failure, confrontation, etc.

Kissinger: The George Shultz idea.

Schmidt: Yes. But they didn't have anyone from Venezuela, the Algerians, the Saudis.

Kissinger: Should we ask the Algerians? We don't mind being rebuffed.

Schmidt: I will talk to Giscard and give you a signal.

[General Scowcroft left briefly and then returned.]

The President: Egypt is really in economic trouble.

Kissinger: We have \$250 million we will put in.

Schmidt: I have seen the cables. We need to help Sadat -- economically also. If the Europeans can do something too, that would help. \$250 million is a lot, even for you. But the figure you have in mind for us is too high. But we will try. I think we should encourage some other European countries -- not the EC. I will try.

Kissinger: We have \$250 million from the Saudis and \$100 million from Japan.

Schmidt: One question is, should we put all our eggs in one basket? We have enormous foreign currency reserves and considerable gold. All this is at the service of the United States. We could diversify between the others. We could put some in Egypt. The idea of using currency reserves this way is not a new one, but could help. It is a political question, not a new one.

The President: Would that help?

Kissinger: Yes, but it would run into the offset problem.



Schmidt: We did do something with the Italians, and they are close to losing their gold. Would you think over this question with your experts and let me know what you think?

From the point of view of risks, it is not good to have all the eggs in one basket.

Kissinger: Washington is better than Cairo.

Schmidt: If it doesn't hurt you, it could give us some flexibility.

Regarding Moscow -- is there a change coming or are they going to stick to their strategy?

The President: We are prepared to go to the Summit for the CSCE but there is not much movement.

Kissinger: There were some concessions in Basket III. If there are more in CBM, there may be a chance. If they extend the territory to about 300 kilometers. . .

Schmidt: That is the only real issue. Because of the relations to MBFR.

Kissinger: Now I think the chances of a summit in July are slightly better than 50-50.

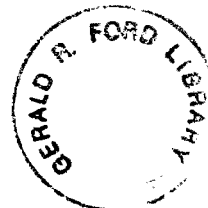
Schmidt: Brezhnev is coming to see you this fall?

The President: Yes.

Kissinger: Mr. President, the Soviet press is now becoming very positive about you, since my meeting with Gromyko. They specifically mention SALT.

Schmidt: Is this to bolster Brezhnev because he is going out because of illness, or to bolster him because he is weak? I get the impression Gromyko is handling more now.

Kissinger: Our experience is Gromyko becomes insistently petty when Brezhnev is not around.



Schmidt: You want the Helsinki meeting to be short; I agree on an official basis. But you see how hard it is to get the bilaterals in. I want to talk to the Poles and East Germans. You will want to talk to many of them. So I think it should be 3 1/2 days.

Kissinger: The trouble is if you sit at that conference for five days with such meager results, when the press has to report each day, it would be bad.

But we could divide it into parts, so the President doesn't have to be there five days. Let's keep the speeches down.

[The meeting ended.]



✓ Schmidt

5/29/75

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BY 101, NARA, DATE 5/17/04

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Work small table 20 min.

S - what role do you have for us? to play a
triangle or finish ahead of you?
R - Can you give you an early shift
S - Yes. And I wish that you give can
to a piece on Spain. It is possible
to push that to hand in Ecu. Rhodes
you something to redefining as we
to ask too much of your allies. It
is very dry for us. ^{and you're} Very people dropped
my comments to a general you fight
Spain. It don't know how coming to
an end. It won't clear that there
will be an orderly transition. I hope
Jeron Carlos can help. I think Greece
will not be in office many months
after Franco death.

P You think Carlos would perpetuate Franco?

S No. He will move toward a modern
state, but crisis is the allied w/France
Rex. But one should give a clear focus
and idea that we will be helpful and
that we won't stay there in case
as France leave. Don't be in position

where comments of your allies will limit
out help you come.

P We're negotiating for base + we must
balance that need for NATO w/c partners
you etc.

S But to make all this valid, you need
entirely a consent of a present, but of that
who come after.

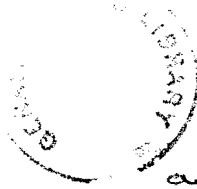
R The 2 are not exclusive. One that is
in touch w/ other groups.

S - It also wants to a package in Ecu.
you can't afford to be allied w/c wrong
regime. You have to deal w/ breeding
regime. But don't give a Dada, Duro,
etc. idea that we are embracing them

R The policy Ecu also applies but we would
apply to Spain + some case. We trying
to get around a rush to extremes. Spanish
have tendency to ~~create~~ +
extremes.

P We deliberately talked over 2000
proposals to take package you discussed

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w/ the last Dec. but month is
that all seem - remember who don't get
w/ less - a year we have largely bottomed
out. Substantially more good than bad
anyway.

S How far are you & US economy will
remain flat by end this year.

P If I followed their record look back
I would doubt it, but a set near
it. Unemployment statistics, now
under.

S Banks being placed in Germany
are dropping badly.

P Housing & autos not doing well.
Income tax spend available. Not being
enough, but I prefer up to 1000 rather
than a 2000 approach.

Bonus comm. total 2.5 > 3 million
in supply.

Rate of inflation has dropped from 18%
to 6 1/2%. If we stimulate too much
we fear inflation would return.

S Your statistics are impressive. But
this the greatest depression since

and in some countries we can
effect social unrest. I don't
worry. It is very old from 32,
but a billion of people - including
it can't - could be similar. We
can't use a method of 1000
years for a set now of us have
tried that. The set has lead
to a serious change in real
ways - we prefer that.

This happening in monetary system
fluctuating rates, which compounds long
problem.

I really don't know why this is
happening. Japan looking to N.Y. Britain
is a shock.

K There is no money for doing w/ economic
inflation.

S Yes. People worked in 70s. At least
today & there was new money.

Possible we will get some economy going this
year. But a seriously ~~take~~ down
economics will look back 100 years.

P We won't stand still by if system breaks

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course story. I have a labor input
bond which is making reasonable -
not evident but good. I will likely
follow some of these errors. This summer
in my tax return proposals.

S We have lowered taxes paid by individuals
about 30% for you. The effect is
pro-people are saving it. Saving is
highest in history.

R Means they think they will get worse

S Yes. Savings approaching 18% - astonishing.

P. Even so had a highest rate of inflation
are highest in 20 or 20 years - that
good, for houses. The money is there

S And so

P But you must have confidence.
Small change shows steady rise in
confidence recently.

S Do they sign its confidence in future w/ confidence
in future?

P Can't say. But they ask if people going
to buy cars, appliances, etc.

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Both Reagan & FE feel on
the bottom out + momentum will
↑

S. P. is to stop labor purchasing over
higher wages + business from generating
it - putting funds into investment. I am
not confident.

US is world's biggest economy. But
it doesn't play a big role by volume
but pay for you to. What you
H & bonds expect Arab to be a
expectation for rest of world. About
they have been doing the same in last
period is to improve other countries in
this position.

P There is volatility in ~~system~~
confidence about Britain, not for
US, I don't think so

H I think Chancellor your idea of calling
together group of friends with demands
any ideas, we would welcome.

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S That would be good. Not much publicity - not too many - the best. One or 2 Es, Be, Coe, Brouder, Foguen, Altogether not more than 15-20. They very end up w/ nothing.

K That would be good to get a diagnosis ~~earlier~~ if no prescription. There is nothing for a present set.

S Also this is a 1st global business year.

P In 73 -> 4 we had 1 in food prices. In 74 we expect some crop than we got. This year so far looks like best of this century, we will have a great year. There is a crop factor.

K Other things for world at large. We could bring energy, energy w/ cracked. He feels both about the same system will lead to a crash end of June + will ^{then} paper about what & countries in ECA.

S Will they think w/ Green + not Santis +

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Algeria?

K I think so.

S That's unconvincing. But we cannot stand another failure.

K We have written to Columbia

S But they will insist on new oil DOCS

K They could be in some material union

S True. But it must not break up again.

K We cannot guarantee Green + Santis' asset card to Algeria, but we think not.

When we will help - now even with excess play to one & economist.

S Yes. Those catch words are bad. Also we don't accept inflation + trading of monetary upward + downward.

K There's a procedure in it, maybe we should have some talks

S This brings me back to proposal

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of Dec. Before we get to the great
conference, I think we should have
private business - meet & talk to three groups
to avoid further confrontation, etc.

R The George Shultz plan

S Yes. But they looked angry from
Venezuela, Algeria, ~~and~~ Saudi

R Should we ask ~~the~~ Algeria. We
don't want being whipped.

S I will talk to Giscard & give you
a signed
(S & L)

R (Egypt in a can handle)

R We have 250 mil we will put in

S. I have seen cables, we need to help
Saudi - even, also. If E can do some-
thing to that would help. 250 mil is not
enough. But a figure you have in mind
before is too high. But we will try. I
think we should encourage some other
Euro countries - not EC. I will try

R We have 250 mil from Saudi,
100 mil from Japan.

S One question is should we put all our
eggs in one basket. We have enormous
foreign ^{currency} exchange reserves & considerable gold.
All this is at service of US. We could
diversify into others. We could put some
in F. Idea of using currency means
this way is not a new one, but could help.
It's not a problem, not a new one.

R Would that help?

R Yes but it would run into effect pattern.

S We don't do something w/c. It's not
as easy to bring them gold. Why your experts
would you think over this question, let
me know what you think.
From point of view of risks it is not good to
have all eggs in 1 basket

R Work better than ours.

S It doesn't hurt you it could give us
some flexibility.

Regarding Moscow - is there a change
coming or are they going to stick to their

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strategy

P Use one prepared to go to Summit
for SCE but not much investment.

K There will be some discussion in
basket 3. If there are more in CBMI,
there may be a chance. If they extend
territory to about 300 km...

S That the only real issue. Because
of relation to NABAR

K How I think chances of summit in
July are slightly better than 50-50

S Buz coming to see you this fall?

P Yes.

K How press is now becoming very positive
about you, since my visit last August.
They specifically mention SALT.

S Is this to bolster Buz because he going
out for illness to bolster his
cause he weak.

I get impression maybe is something
more now.

K Once when is Buz he becomes unstable

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fully when Buz not around.

S You want Helander short. I
agree on official basis. But you see
how hard to get a withdrawal in.
I want to talk to C. Lab + E. Gersons.
You will want to talk to many. I
think it should be 3 1/2 days.

K The trouble is if you sit at that way
for 5 days w/ such a big press
where press has to report each day would
be bad.

But we could divide it into parts ~~to~~ 10
Also don't have to be there 5 days. hits keep
a special case. If not make