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NATIONAL SECURITY COUNCIL

INFORMATION

October 24, 1975

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MEMORANDUM FOR: SECRETARY KISSINGER

FROM: ROBERT HORMATS RH

SUBJECT: Scenario for Economic Summit



The essential dilemma of the summit is that it will try to project publicly that Western leaders are able to manage current problems at a time when they do not fully understand the nature of the new types of problems they confront. The trick will be for the leaders to avoid both deluding themselves by boldly confident statements (which could tend to divert them from serious inquiry into their common problems) and lapsing into a categorization of their frustrations (which if made public would further erode confidence in democratic leadership).

The summit's objective should be a serious inquiry into common problems to achieve better understanding of them and how to resolve them. The result can be an improvement in public confidence, a realization by public opinion that all nations face similar difficulties which cannot be overcome by painless panaceas, and a recognition by the assembled leaders that if they act together they can strengthen their hands internally, take stronger action than they might otherwise be able to do so, and buy time and domestic support to work their way through their difficulties.

Structure of Discussion

The summit, as apparently agreed in New York, will open with a discussion of domestic economic problems and policies and then move to "functional" areas including international monetary policy, trade, and energy. This approach, however, risks both a quick digression from essential underlying problems (inflation, unemployment, energy prices) into an artificial separation of the issues before they are sufficiently related to the main problems. This could:

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E.O. 12958 (as amended) SEC 3.3

NSC Memo, 3/30/06, State Dept. Guidelines

By WA NARA, Date 9/23/10~~SECRET GDS~~

- Reduce the time allotted to a serious discussion of the underlying problems, particularly the structural changes which have taken place in the international economy in recent years.
- Weaken our ability to explain exchange rate stability primarily as an outgrowth of domestic instability rather than vice-versa.
- Dilute focus on the enormous increase in oil prices as a major cause of present economic problems for all oil importers and a serious impediment to our efforts to reduce inflation and achieve sustained growth (with a consequent tendency for others to blame either exchange rate volatility or insufficient US domestic reflation for their problems).
- Obscure links between trade and monetary problems.
- Reduce chances for agreement on fundamental objectives and a manifestation of solidarity.

We should therefore avoid moving prematurely from Schmidt's presentation (economic outlook, present policies and interrelationships) to the "functional" categories. And, at the same time, we must avoid being put on the defensive at the outset by implications (frequently contained in Schmidt's remarks) that the US is somehow responsible for Europe's slow recovery by not stimulating sufficient domestic growth.

Schmidt's Presentation

A thorough discussion of fundamental problems and interrelationships following the Schmidt presentation should set the stage for the entire meeting by identifying the most essential problems (high rates of inflation and unemployment, related internal problems of insufficient investment, underutilized capacity, and lack of consumer confidence, and related international problems such as protectionism, balance of trade weakness, exchange rate instability, and high oil prices, etc.) and seeking understandings as to how they should be approached. We could, in this context, make the following general points:

- On the specific issue of US "responsibility," the US is growing at a high rate, well beyond our expectations; however, US growth actually has only a minimal impact on European or Japanese recovery (e. g., a 1% GNP increase in the US will contribute only .17% to GNP growth in Germany and the UK, and less for most others).

- It is up to each country to determine the policies most appropriate to achieve recovery. Good international economic policy begins with good domestic economic policy. The most important contribution which the US can make to recovery in other nations is to resume stable growth; but others must bear the primary responsibility for their own recoveries.

- We welcome a discussion of what we and other participating countries are doing right and suggestions to correct what we are doing wrong; we will seriously take these into consideration in developing our policies. But no country should be counted on to stimulate growth in others and none should be asked to deviate from sound long-term domestic policy to achieve short-term international objectives (e. g., lower US interest rates, which Schmidt has from time to time suggested). The discussion might meaningfully concentrate on how countries can stimulate more investment and greater consumer confidence, as well as on broader policies aimed at returning to stable growth.

- Exchange rate instability is one result of domestic economic instability. It does not significantly contribute to it (as Giscard might charge). We should be under no illusion that exchange rate management, to the extent we can agree on how to do it, will eliminate exchange rate instability while domestic economies are still unstable.

- High oil prices are a primary cause of our difficulties and a major reason for the breadth, length and depth of the current recession. We should understand this as we try to achieve recovery and recognize that one key objective we share in common is a reduction of our collective dependence on oil imports.

- Our common objective is to restore economic prosperity without resurgence of inflation and to pursue this goal with mutually supportive policy actions. Do we need new methods of coordination or consultation to ensure that we avoid harming one another's efforts and that we more effectively support one another in achieving this goal?

Subsequent to this discussion, the presentors on the "functional" subjects would make their initial comments.



Trade

Miki will probably seek support for increased momentum in the multi-lateral trade negotiations (MTN) to keep before the world the objective of a more open trading order and to help stave off domestic protectionist pressures. He is also likely to express concern over growing protectionist pressures in the US and Europe and seek a reaffirmation of the OECD trade pledge to avoid new protectionist measures. We can support all of these desiderata.

We might also seek agreement to undertake consultations if a government is under particularly heavy domestic pressure to take unilateral actions, has a complaint against another government, or wishes to raise a sectoral problem, e. g., autos or steel. We could even suggest negotiation of an international agreement on trade in steel if we can get interagency support. Further we could seek agreement to resist protectionist pressures, avoid unfair export practices and exercise maximum restraint, consistent with domestic laws.

Wilson, under enormous protectionist pressure from domestic labor and facing a deteriorating trade balance, would likely resist a strong commitment to avoid new protectionist measures. Giscard, under pressure from a bureaucracy traditionally unenthusiastic about the MTN, might reflect this view initially, but his personal efforts in launching the MTN at the Tokyo meeting indicate that his internationalism can be appealed to successfully. The Japanese have the most to gain by a successful MTN, and should be our strongest supporter.

Monetary Issues

Giscard will likely make a strong pitch for moving toward greater "fixity" of exchange rates on the grounds that instability adversely affects trade and investment and disrupts domestic economies. (Behind this is a desire for an overvalued dollar.) We should try to avoid a prolonged discussion of monetary issues, staying away from both technicalities and doctrine. The others will probably wish to do so as well. We should, nonetheless, try to narrow differences and perhaps agree to broad objectives for exchange rate intervention and cooperation to achieve more orderly functioning of exchange rate markets.

Drawing mainly from Yeo's preliminary work with the French and other Europeans, we could conceivably reach agreement on the objective of greater stability of exchange rates so long as the option to float is not



denied, accept the idea that greater coordination of intervention policy could be useful in reducing short-term volatility, and express willingness to examine without prejudice whether there were additional suitable actions which could be taken to achieve greater exchange rate stability. If agreement cannot be reached, or debate becomes either ideological or technical, the leaders should remand the problem to Yeo et. al. giving them as much guidance as can be agreed to.

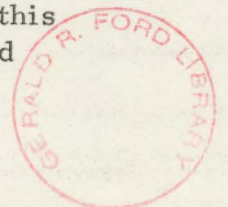
We would wish to link the discussion of exchange rate stability to underlying destabilizing factors, describing our broad objectives of stability of domestic economies as well as, and in order to help achieve, stability of exchange rates, and as ensuring that the monetary system facilitates the flow of goods, services and capital.

Energy

In leading off, the President might portray high oil prices as a key domestic and international problem and the essential difference between the present recession/inflation and those of the past 30 years. Logically, therefore, consumers should attempt to reduce their collective vulnerability to OPEC manipulation of price and supply. Stressing his own commitment to tough domestic action on decontrol, and the greater urgency for action as the result of repeated OPEC displays of price manipulation, the President could explain the importance of the MSP and other elements of the IEA long-term program. Recognizing Japanese Diet resistance to the MSP, French resistance to any IEA action (which appears to relegate the EC to a secondary role in energy), and British and Canadian sensitivity about access to their energy resources, the President should appeal for greater solidarity of commitment. He should also avoid giving the impression that the solution to the energy problem lies in our dialogue with the producers, which we support for political and other economic reasons.

Developing Countries

Wilson will likely focus on commodities; approaching the issue sympathetically, but with little new to add. Our approach should be to underline, and secure maximum support for, your key proposals at the UN, stressing especially the importance of avoiding a deterioration of LDC purchasing power which would harm their development and reduce further demand for industrialized country exports. Here we would assume a leadership role based on our highly constructive UN proposals, continue to demonstrate that we are the country most effective in mediating between North and South (which will derive from our leadership role and the fact that nothing in this area can work without our support) keep before the other developed



countries the notion of our common interest in avoiding a bloc of developing countries ganging up against us under OPEC leadership, and explain the importance of consultation in the OPEC and IEA in preparing positions for the developed/developing country (consumer/producer) dialogue.

East-West

Moro will report on his recent Moscow visit. While it is likely that little time will be devoted to this subject, we might wish to push for agreement to move ahead on guidelines for government financing of exports to communist countries.

Policy Coordination

We should try to avoid a prolonged discussion of policy coordination or bureaucraties when coordination issues arise. We can underline the need for cooperating to achieve a better understanding of one another's objectives and prospects, to better assess the impact of changes, and to broaden the discussion of how our national policies interact and affect one another. Coordination can range from avoidance of disruptive actions, to taking account of one another's actions in order to avoid aggregate overkill (such as too much stimulus or tightening up), to joint planning, to development of a single set of policies. We would attempt to gain a realistic assessment of just how much coordination is possible or desirable. The focus might usefully be on what parts of our interrelationships lend themselves most logically to greater transnational orchestration-- interest rate policy, money creation, balance of payments policy, investment incentive policies, efforts to overcome lack of consumer confidence? The best institutional ways to facilitate improved coordination might be left to ministers to develop as a followup to the summit, in cooperation with others in the industrialized and developing world.

Press Play

The message we want to convey to the public is a sense of confidence and forward motion-- stressing both technical cooperation and a common political will to avoid divisive actions or indecisive policies and instead ensure action based on "common purpose and conviction." The United States, as the geographical and, to a great extent, intellectual link between North and South, and the Atlantic and Pacific--in addition to being the only superpower in the meeting--would be seen at home to be playing its traditional role of leader of a further evolution in international economic cooperation, working closely with its key allies.



The summit would be portrayed as having focused on essential problems and responsible solutions, stressing the importance of a stable world economy and its link to a stable international political environment. Without appearing to confront the OPEC countries, particular note would be made of problems caused by high oil prices; a special effort will be needed to deal with such problems. The underlying strength, all would publicly agree, will come from within our societies, and leaders would be seen as determined to call upon their people to accept medicine which may temporarily prove bitter; but panaceas are no longer available and solutions are no longer painless.

