

MEMORANDUM

NATIONAL SECURITY COUNCIL

SECRET/NODIS ATTACHMENT

December 2, 1975

MEMORANDUM FOR: Brent Scowcroft

FROM: Robert Hormats *RH*

Attached is a copy of the notes I took at the Rambouillet Summit. Given the candid nature of the discussions, I am limiting distribution of this to you and members of the EPB Executive Committee actively involved in preparations for the meetings; I hope that access can be confined to key officials in the various departments. I anticipate that Henry Kissinger will want to have a follow-up meeting of the same group which prepared the papers for the Summit to determine how to proceed to implement its results. In the meantime, it might be useful for the staffs of the various principals concerned to determine the areas in which follow up is appropriate and to select some of the better ideas in the discussions for further consideration within the USG.

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THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

PARTICIPANTS:

Federal Republic of Germany
Helmut Schmidt, Federal Chancellor
Hans-Dietrich Genscher, Minister of
Foreign Affairs; Vice Chancellor
Hans Apel, Minister of Finance

France
Valery Giscard d'Estaing, President of
the Republic
Jean Sauvagnargues, Minister of Foreign Affairs
Jean Fourcade, Minister of Economy & Finance

Italy
Aldo Moro, Prime Minister
Mariano Rumor, Minister of Foreign Affairs
Emilio Colombo, Minister of the Treasury

Japan
Takeo Miki, Prime Minister
Kiichi Miyazawa, Minister of Foreign Affairs
Masayoshi Ohira, Minister of Finance

United Kingdom
Harold Wilson, Prime Minister
James Callaghan, Secretary of State for
Foreign and Commonwealth Affairs
Denis Healey, Chancellor of the Exchequer

United States
Gerald R. Ford, President
Henry A. Kissinger, Secretary of State
William E. Simon, Secretary of the Treasury

DECLASSIFIED
E.O. 12958, Sec. 3.5 *State Dept. Review 3/11/04*
NSC Memo, 11/24/98, State Dept. Guidelines
By dal/ky, NARA, Date 8/20/04

DATE, TIME,
AND PLACE:

November 15, 1975 - November 17, 1975
Rambouillet, France

SUBJECT:

Economic Summit

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CLASSIFIED BY: HENRY A. KISSINGER



Chancellor Schmidt: Although all countries have been affected by the recession, they have been damaged in different ways. It is important to bear in mind these differences when discussing common problems. The world has so far been spared the spectacular collapse of stock exchanges and banks. This is due to a greater understanding of economic relationships than that which had existed between the two wars. Rising inflation however has led to a breakdown of the Bretton Wood's fixed parity system, thus adding to the lack of confidence caused by inflation itself.

On top of this has come the dramatic rise in the price of oil. This has affected everyone, particularly the developing countries, who have had to cut back on other essentials to pay for their oil.

The sequence of inflation, disturbance of the fixed parity system, and quintupling in the price of oil has in turn led to a damaging of world trade, and thus to unemployment in countries that depended on their exports. Entrepreneurs are now very cautious. Germany will suffer a real decrease of GNP of 2% in 1975. The main objective of all of us must be to bring down the rate of unemployment or there will be social unrest. Despite the optimistic noises being made in some quarters, I am not convinced that we have yet seen the worst of the recession. This is not so much a matter of economic analysis as it is because the recession itself has been due partly to political errors. Politicians are capable of making further mistakes.

It is necessary to stimulate consumption, promote expansion and keep interest rates from rising. And since the depth of the recession has been partly due to psychological uncertainty, it is important to send a message of confidence from Rambouillet. The German Government is running the biggest budgetary deficit in its history and has so far been able to keep unemployment down to 5%. But if there were another 10% increase in the price of oil, the upturn could be called off.

The Rambouillet Conference should set four objectives:

- The participants should ward off any protectionist trend. They should maintain the OECD trade approach. And they should speed up the GATT negotiations.
- They should intensify their cooperation on their international economic policies both between governments and between their central banks: and they should do everything possible to promote an agreement at the IMF meeting in January 1976.



- They should realize that financing of the balance of payments gap was vital to the recovery of the developing countries. There are many schemes which had been put forward, but at least agreement ought to be reached on a scheme to stabilize export earnings.
- The consumer/producer dialogue would probably take a long time to produce significant results: but we should persevere with it in order to avoid unilateral action on either side.

President Ford: I agree that it is necessary to work together in the economic field. This is also important to stabilize the political background. The American people have reacted very well to the recession. There has been concern elsewhere about the trade investigations which the United States Administration had undertaken. However, the US Government has to undertake these investigations by law. This does not imply that there will be a protectionist outcome. In any case, I agree that an impulse should be given to the GATT negotiations in Geneva. The US Administration now has a good trade law which would enable us to engage in cooperation in the trade area.

Rambouillet can send a message of interdependence and cooperation which would contribute to a feeling of international confidence. Our nations have for three decades been the foundation for human progress and the cornerstone for global peace. We are of central importance to one another--economically, politically, and militarily. The cohesion and vitality of our societies is of central importance to the rest of the world.

This summit is designed to deal with economic questions but in a more fundamental sense it springs from the enormous interdependence of our societies and the common values which we share. It can enable us to consolidate our unity in an important moment in our history--to convey to our people that we are working together with goodwill and common purpose, and that our countries are politically committed to our mutual well-being.

We cannot resolve all our problems, but we can achieve a better understanding of them. And we can resolve to approach them in a manner which reflects our desire to meet our challenges together. By working together in the past we have contributed to an unprecedented period of common prosperity. We have learned that on a broad range of problems--defense, energy, trade, and development aid--our individual efforts can only have lasting success if supported by the contributions of all.





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In this meeting we have the opportunity to help shape the future of the world economy. The issues between us cannot be treated purely as technical matters. They must be resolved through political will and in a spirit of compromise; for all of them are subordinate to the paramount interest we share in our solidarity and common well-being. And this solidarity, in the final analysis, will be vital to helping us meet our individual challenges.

Our understanding of the need for close cooperation has been manifest in the consultations each of us have had with one another as we have worked to solve our current economic difficulties. We have, in these discussions, frankly examined our problems, our policies and our prospects. In this same spirit, I should like now to briefly discuss my approach to the American economy.

The health of the American economy is significantly better than it was at the time of some of my earlier conversations with you. The policies now in place are appropriate in our judgment to maintain maximum growth in the short term without setting off at the same time inflationary instabilities which would threaten growth over the longer term. We must focus our longer term policies on gradually defusing the inflationary pressures which afflict our economy, as well as yours, and set in place policies which will encourage savings and investment, job creation and productivity. My recent proposals to slow the accelerating rate of governmental outlays and to cut taxes were developed to implement such longer term goals.

The precipitous fall in economic activity in the US that started late in 1974 came to an end early in the second quarter of this year. Our recovery, now seven months old, has shown even greater strength than expected earlier in the year. Since early spring, industrial production has been rising at a seasonally adjusted annual rate of over 13%. Over the same period, total civilian employment has increased over 1-1/2 million jobs and productivity has advanced strongly. Although we consider the rate of unemployment unacceptably high, the unemployment level will decline as recovery continues. The third quarter figures indicate that real GNP increased at an annual rate of over 11%. A decline in the rate of inventory liquidation accounted for more than half of the gain in GNP, but the growth in final sales of goods and services was very satisfactory. Another large advance is in the making for the current quarter, although somewhat less than in the third quarter.

The outlook is for a continuation of the strong recovery in the US. Inventories are still being liquidated and production remains below the level of final sales of goods and services. As inventory liquidation ends and we move to normal levels of inventory accumulation, there will be a further impetus to real growth. Even more encouraging, the evidence

we have indicates continued strength in final sales. With real personal incomes rising strongly and with consumer confidence and liquidity improved, there is a solid foundation for continued gains in consumption expenditures. Moreover, the decline in business fixed investment appears to have bottomed out earlier than we had anticipated. With consumer goods sales rising strongly and with much improved business profits, significant growth in business fixed investment is likely next year. Moreover, the monetary and fiscal policies put in place by the US Government are calculated to accomodate a strong business expansion. Chairman Burns has assured me that the rate of money creation over the next year will be adequate to ensure sustained recovery. We anticipate that GNP will grow at an average rate of 6-7% through the middle of next year, and at an average rate of approximately 5% from the middle of next year through the middle of 1977.

Although some of our recent reports on price increases were disappointing, I remain confident that inflation is essentially under control. The easing of farm product prices has served partially to allay the concern regarding an early renewal of strong upward pressures on prices. While the 6-7% inflation rate in the United States is unacceptably high, expectations of lower rates of inflation by the money and capital markets have contributed to a decline in interest rates from this summer's high.

The current world recession differs from previous post-war recessions not only in breadth and depth, but also in the length of time it is taking for recoveries to materialize. A major factor that has contributed to the simultaneity of the recessions across countries and that is making the recovery so hesitant is the quintupling in the price of oil over the past several years.

The oil price increase has contributed toward creating a climate of uncertainty, has substantially increased inflationary pressures, and has had a significant deflationary impact on our economies. All this has made recovery more difficult to achieve. Countries are only slowly assessing and effecting the structural changes required for their economies to adjust to higher cost energy, and recognizing the probably slower growth rate which will result.

I know that you have taken measures since the beginning of the year to stimulate your economies. I am told that in most cases the direct effect of the fiscal measures instituted in most of your countries amount to between 2 and 3% of GNP and are additionally supported by considerable monetary stimulus.



I share the view that many of you have expressed -- that private sector demand has mainly been inhibited by confidence factors. With a return of confidence recovery could become extremely strong, particularly because reflationary measures have been taken simultaneously by our several countries, and large amounts of accumulated savings could support strong gains in consumer expenditures.

The US recovery has proceeded ahead of the recoveries for most of your countries. The US economy is moving from a fall in real GNP of about 5% between the second quarter of 1974 and the second quarter of 1975, to a rise in real output of between 7 and 8% between the second quarter of 1975 and the second quarter of 1976. Such a shift might expand the volume of world trade by about 3-4% and this should be of considerable help to you. But somewhat faster growth of the US economy than now envisaged would make only a modest, if not negligible, contribution to world recovery. A percentage point of additional growth of the US economy (over and above what is expected now) would affect the growth of the European economies on the order of 1/10 of 1% each in 1976. Effects on the Japanese and the Canadian economies would be greater, but still small. However, our growth, and yours as well, can help build confidence with consumers and investors.

There are also steps that we can take at this meeting to aid in rebuilding confidence. We must ensure that the current world economic situation is not seen as a crisis in the democratic or capitalist system. While there are problems of a structural nature, these need not prevent strong recovery. A vigorous economic recovery in the United States, rising economic activity in Japan, the beginning of recovery in France and Germany, and a bottoming out of recession in a number of other economies should give us a greater sense of confidence than we had several months ago. Strong stimulative monetary and fiscal policies have simultaneously been put in place throughout the industrial world, and these will eventually take hold. The stability of current policy will do a great deal to enhance confidence. In light of our prospects, and the policy actions we have already taken, we are able to publicly reaffirm our confidence that, although the response to stimulative policy measures is slower than most in the post-war period, recovery from the present recession is well underway.

The vitality of our industrial democracies, the leadership we are able to provide the rest of the world, and the quality of life that characterizes our societies depend upon our ability to achieve sustained economic growth without inflation. I know there are those who believe that economic growth



will be impossible to sustain in the future. I categorically reject that view and am convinced that a market economy is best able to make the adjustments and technological changes necessary to economize on scarce natural resources.

If we are to realize the levels of growth that we desire and that are possible, higher rates of capital formation are required than we have achieved in the recent past. As leaders, we must provide the kind of economic climate that encourages confidence and enhances the incentives for business to invest. I have introduced tax proposals that increase the profitability of investment. I am firmly committed to limit the growth of our governmental expenditures. This will release the savings necessary to finance this investment. I have also made a concerted effort to reduce unnecessary government interference so as to maximize private initiative and enhance confidence. Confidence also depends on consistency in national economic policies and resisting the pressures for stop-go measures that inevitably have resulted in greater economic instability and uncertainty. In short, we must pursue a steady course if we are to achieve larger investment and sustained growth.

We must not, however, fail to realize that we face serious problems in reaching our goals and we must not be so complacent that we fail to take full advantage of the opportunities that this meeting provides.

Our discussion here could productively focus on cooperative efforts to ensure that the policies we take are compatible with a sustained economic recovery in the international economy over the longer term.

We should make a clear commitment to restore economic prosperity without resurgence of inflation and to pursue this goal by mutually supportive policy actions. I propose that we set as our objective a generalization of recovery during 1976 among the major industrial countries, restoration of sustained vigorous economic expansion and high levels of employment by 1977, a reduction in the rate of inflation in our economies as a whole as well as in disparities among national inflation rates, and restoration of vigorous growth in the volume of world trade as domestic recovery and economic expansion proceed. We believe that achievement of mutually compatible domestic policies to achieve these goals can be enhanced by discussions here and by our Ministers to compare economic prospects and to achieve a better understanding on how national policies impact on one another with a view toward determining if serious incompatibilities in objectives and policies exist. We should each designate one of our Ministers to follow up this meeting in a fashion they consider appropriate. Bill Simon will represent me.



We might also reach agreement here on several areas of longer-term significance. Our dependence on energy is going to grow to levels even more dangerous than those of today unless we work vigorously to achieve reduced dependence. Arbitrarily set oil prices or cutoffs in supplies can cripple our economies. And the uncertainties over future producer policies will constantly undermine confidence in our consumer and business sectors. We must, as an urgent matter, ensure that we are doing all we can to reduce our dependence, and I shall speak on this later on.

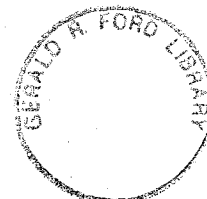
We should also make clear our continuing commitment to work toward liberalization of international trade, in particular by reaffirming strong commitment to the OECD trade pledge and by agreeing on priorities and a tight timetable for the Multilateral Trade Negotiations. We should ensure that the monetary system evolves to facilitate the freest possible flow of goods, services, and capital. And we should reaffirm the positive directions established in the dialogue with the developing world--to ensure that the industrialized and developing countries make the maximum contribution to one another's well-being.

Prime Minister Wilson: I agree with the diagnosis of Chancellor Schmidt and am heartened by what President Ford has said. I am struck by the latest figures of car production in Detroit. All of us know the impact of autos on the economies of industrialized nations.

Chancellor Schmidt identified many of the causes of the world's economic problems--oil prices, and a worsening of the terms of trade for developed and especially developing countries. He also usefully stressed the structural nature of the world's, and national, problems.

For thirty years the biggest restraint on United Kingdom policy was balance of payments. I am happy to report to you that, recently, we have made some improvements. There is not as much progress as President Ford's. His surplusses, I should think, are embarrassingly large. When we took over in 1974, we inherited a deficit for the last quarter of '73 of £ 4,000 million; and that was before the full oil impact hit us. This year, even though we have felt the full impact of oil, our balance of payments deficit is one-half of this. Our non-oil account is in surplus by £ 1,000 million. We are, therefore, covering about one-third of our oil import deficit.

With respect to inflation, I cannot boast of the successes like Chancellor Schmidt, with Germany at 5.8%. And others of you also have had



significant reductions. For the United Kingdom, our figures are horror figures. In part, this is because past strict statutory controls have led to anomalies, and many people are trying to catch up.

We have a government policy to deal with this problem through voluntary actions. Our program has received the agreement of the trade unions, has been endorsed by the Parliament, and received a large vote of support in the Trade Union's Congress. It was also supported by the mine workers, voting in secret. Union's have confined their wage demands to the government set figures. All recent settlements in large industries and small shops are within government set limits. Inflation is on a decline to 10% this autumn from some 27% earlier this year. And we hope to get it down to a single figure by the end of next year.

In addition, we have an income saving ratio of 12.4%, which is high.

For the first time in several years we have maintained and even increased our proportion of world trade, and this in a world of shrinking trade.

The world recovery seems to be getting underway. But what I want to ask of you at this table is that you have policies of flexible response. We do seriously fear the possibility of a hiccup in the recovery now underway. We fear the possibility of a relapse into long periods of stagnation and decline. OECD prospects are pessimistic. There are countries here whose economies have a major influence on world trade. I hope they will be ready to act quickly if there is any signal of a lack of adequate recovery.

Chancellor Schmidt said his public sector deficit was the largest since Jesus. This is true!

Chancellor Schmidt: Yes, ours is over 7% of GNP.

Chancellor Healey: Ours is 7.6% of GNP and our public sector deficit includes borrowing by all public sector bodies. This 7.6% is central and local authorities in the United Kingdom.

Prime Minister Wilson: We clearly understand how similar our problems are. We all suffer from similar employment situations and a fall in industrial production, which is about the same in our countries. But I would like to warn you--the causal countries, i. e., the countries who play a key role in the world economy, about premature reduction in



budget deficits. I say this especially with respect to those with balance of payments surplusses with the rest of the world. This would damage not only their recovery but also that of other countries.

In reference to what Chancellor Schmidt said on structural problems, I chair the National Development Council, which consists of management, the trade unions, and the financial community. We examined our structural deficiencies and reached agreement on a new industrial strategy that has been well received.

On oil production, the Queen recently commemorated the first flow of oil from the North Sea. Attached to the platforms there are 27 pipes going down to the individual wells. There are two flowing now. The car I drove to the airport might have been running on North Sea oil. Next year we expect a £ 700 million balance of payment improvement from this one North Sea oil field. Our proved reserves come to a total value of £200,000 million (£ 200 billion). Our present reserves offshore are double all the proved US offshore oil, including Alaska. Hopefully we will get no less a substantial benefit from our Western Sea, and I know France hopes so as well. I hope to be Chairman of OPEC five years before President Giscard. By 1980, 90% of all oil in the EC and 45% of all EC energy (oil, coal and nuclear, etc.) will come from the United Kingdom.

On reflation, we have a small program aimed at job creation, incentives for the unemployed school leavers, hard hit areas, industrial investment for production, and jobs in urban areas. These are not ongoing programs, but are temporary. It focuses on those jobs that need to be done, e. g., building latrines in schools. These are things that can be phased out when we no longer need them, but are necessary to deal with our unemployment.

We also are placing increasing emphasis on the restructuring of industry. More jobs could be created by specific help to restructure and remodelize industries falling behind. These are not lame ducks, and this is no protectionism. These industries are basically competitive both home and abroad.

In our circumstances, this is much more effective than undertaking a major reflation prematurely. The Chancellor has allocated £ 75 million to this effort, which has produced as many jobs in three to four months as one billion pounds of reflationary stimulus could produce in a year. And this billion pounds would be inflationary. It is not as good as £75 million producing jobs in three months.



Still, our best signals are for only small progress next year. I ask my colleagues to be watching anxiously for any period when movement slows, and urge them not to cut their budget deficits.

With respect to what we say in the press, I think we should only mention the subjects covered and not summarize our presentations, or details.

Prime Minister Miki: When I took over, Japan was facing high rates of inflation--8.4% wholesale price index and 24% consumer price index. Japan's rate of inflation was rampant. My Cabinet focused on a reduction in inflation. We plan to bring down the rate of inflation to 10% by March 1976. It is now 13%. We are continuing policies to achieve single digit inflation next year and, thus, we will be able to get rid of rampant inflation next year.

Still anti-inflationary policy has led to a serious slowing of demand and unemployment. Unemployment in Japan is 1.9%. This is over one million people. For Japan, however, this figure is somewhat misleading. It means that there are a number of others that are not fully employed, because Japan has a life employment system. This is different from the rest of the world. Employers do not dismiss redundant workers. 1.9% is misleading because large numbers of people are idle and do not show up in employment figures. So, the rate of unemployment is three times this if we use the same measures as the rest of the world. We are working at about 75% of capacity. The large numbers of redundant workers on payrolls and large debt service problem work to the disadvantage of the companies.

The government has taken significant anti-inflationary measures over the last six months. The economic situation improved since last March, but we have not realized the sort of progress we anticipated. Therefore, in September we applied \$7 billion for economic recovery. Foreign Minister Ohira will depart tomorrow to participate in debate in the Diet on economic affairs. Our fiscal deficit is \$18 billion, which amounts to 25% of our total budget.

The situation in Japan is worse than the situation in Germany as Chancellor Schmidt described it. What we are doing in Japan is to reflate our economy. We have 2.2% growth this year and we hope for 5 to 6% next year.

Japan's recovery is moving rather smoothly, but unless we have recovery in other countries at a more or less similar rate we cannot expand trade in this way. Therefore we need recovery abroad as well.



As President Ford said, we should all strive for recovery in 1976. The President's remarks to that effect were well taken.

I would like the countries here to get together for solidarity on economic policies. There are important psychological factors, to which Chancellor Schmidt refers. If there is a great deal of uncertainty, it will jeopardize recovery.

Psychological factors will hurt confidence in economies. We need to promote greater confidence in individual economies. I am aware of the differences in different countries. I hope we will all have the capability to realize 5% rate of growth, as we did in the 60's. We can do it this year by measures contributing to recovery.

Chancellor Schmidt: With respect to the press, I think we should say only what we have dealt with here--the general economic picture; the pictures of our countries' economic developments, etc.

Prime Minister Moro: We have a serious recession and the threat of inflation, which would be very serious if we are not selective about how we deal with it. We should not be reflating so much as to create inflation.

While everyone is affected by the problem, the consequences vary in the participating countries. While all of us are taking some reflation, some have made more progress than others. I hope that the progress of the stronger countries in overcoming their recessions--the US, Japan, and Germany--will encourage and help the Italian recovery.

I should also like to refer to a few golden rules:

- We should resist protectionist trends, however tempting.
- Freedom of world trade is a prerequisite for overcoming our deficits and we must, therefore, agree to step up the MTN.
- We need cooperation between participating countries and, in particular, central banks.
- I am also concerned about relieving the deficits of the poorest countries.
- And steps should be taken to ensure adequate growth and stimulus to world trade and the world economy.



The Italian economic situation has been characterized until recently by strong payments imbalances. Last year the total deficit was \$7 billion. This year the estimate is that it will be \$1 billion, including oil.

In 1974 inflation rose at a rate of 25%--the consumer price index. This year it is less than 18%. And we are making further progress. Between July and September the rate was only about 7%. But still there are difficulties. We need to continue moving toward a more normal balance of payments situation.

As a result of the success of our operation, we have had a very big recession. In the midst of the world recession, the volume of international trade has receded by 5%. But Italian exports have been at levels of the past year with respect to earnings and market sharing.

Increased export demand is needed to compensate for decreased internal demand. If internal demand is decreased as a result of lower consumption, there is also a resulting drop in the employment level. In real terms, there will be a 3% drop in consumption this year. Investment dropped by 20%. The building sector declined by 8%. Therefore, in spite of the fact that export earnings have increased, there has been a drop in industrial production. There was a drop this year of 35% versus a drop of 24% last year. GNP dropped by 3.5% in much the same way.

Therefore, if we can bring prices under control and reduce our balance of payments deficit, we can undertake some measure of reflationary stimulus. The Italian government, in view of recession, has already undertaken some reflationary measures. Recently interest rates have declined, but we do not want them to decline too much or they will result in the outflow of capital.

We have also taken steps to stimulate investment. At the beginning of the summer we instituted a program of \$6 billion in expenditures, or 4% of GNP, in the economy. French and German figures are slightly lower. We have greatly increased the Treasury gap, or deficit. Had we not done this industrial production would have dropped by more than 33%.

These programs should increase GNP by 2% in 1976. But even so, this is well below our long term goal. We must, however, undertake only gradual reflationary measures to avoid an adverse price impact. We must also rely very heavily on the world economy.

We are also engaged in the restructuring of our economy to change the industrial structure. Consumption should increase less than investment in order to channel savings into investment. We want to invest in transportation and building, in areas of low import demand, and to improve

agriculture. Government is providing the necessary means. We should not discuss our plans in terms of short term policies, but look to long term action to eliminate economic distortion.

Our rate of growth declined by 3% as opposed to 2.9% in '74. An additional 180,000 people became unemployed.

Giscard: The French economy has an inflation record like Japan and a recovery record like Germany. It is sort of Nippo-Germanic. This being said, I do not need to discuss it in great depth. I would prefer to comment on the situation as a whole.

Nothing is worse to the internal situations of our countries than lack of certainty. President Ford was extremely optimistic. He took a positive posture in terms of US recovery. If he was right, this contrasts with the situation in Europe and Japan, where growth seems more doubtful. We still have negative growth even with our large deficit budgets. And, as the result, I believe economists have been proved wrong.

We are continuing to pursue expansionary policies, but there are two real threats to our growth.

First, as Chancellor Schmidt has said, our markets, the countries to whom we export, are facing a bad situation. The developing countries especially have had bad payments positions and they are getting worse. They cannot be counted on for an upswing in purchases. And the oil exporters' imports from us will be less in 1975 than we expected. The deficit faced by countries consuming our goods is thus a real threat.

Second, budgetary deficits are a problem. We cannot go on increasing our budgetary deficits. It is not so much the deficits, as it is the evolution of the problem. We have to do more to deal with it. If we do not, we will need more stimulus every year to get the same impacts and the amount of our deficits will continue to grow. Therefore, as soon as the situation gets better we will have to reduce our budget deficits. But this could put a further brake on growth. Strong non-inflationary growth thus appears to be unlikely, and we may be faced with a continuing unemployment problem.

I do not wish to be pessimistic, but in contrast to US optimism, it is my feeling that strong growth of the non-inflationary kind, is unlikely. But if we do not have strong growth we will have high unemployment.

In 1976, if the US recovers strongly, as President Ford described, there will be some degree of optimism about an improvement in Europe. If, however, the US growth begins to slow down in 1976, then we will have the feeling that recession is starting all over again.



From this, I have drawn certain conclusions. First, I feel that contrary to what we stated earlier, we should aim for, and talk about, a moderate growth rate. We can do this. It is unlikely that strong growth can be realized in 1976. We should not create the illusion that we can achieve strong growth. We should attempt only to achieve moderate growth next year, with the possibility of strong growth only in 1977.

Second, we have the problem of oil prices. They have cut off growth. Oil has increased 3% in price and this is exactly the amount that GNP in our countries has dropped. If we have another price increase, it will also have a serious effect on our economies. We must, therefore, limit the amount of money we spend on oil imports and decide what steps could be taken to avoid further balance of payments problems resulting from new oil price increases.

Third, it is important to make it known that if moderate growth is not achieved we will face up to it together. If our forecasts are not right we should work together to determine how we will meet the situation.

The message that will be given at Rambouillet to the rest of the world will be very important. We should attempt to make clear that we favor a maximum expansion of trade. There are temptations to use restrictive practices, but our economic structure is based on the development of trade and broad world markets. We should also make clear that we want to have a more stable situation as far as exchange rates are concerned. If the US recovery were stronger than expected, and than that of Europe, the dollar will appreciate. And this is not in anyone's interest. It would give us the edge over the US, but would make our oil more expensive. We should try to move toward a more stable system of exchange rates.

And, finally, we should make a bold statement about helping overcome the financial deficit of the LDC's. We cannot have recovery in the world economy if the LDC's go down.

There are a certain number of strategies we can develop together. I have a proposal. Time will move fast. I would like the Finance Ministers to meet tomorrow morning before 10:30 to see where there is a meeting of the minds as to what form could be given publicly to these aspirations.

Schmidt: I, like President Giscard, am skeptical about 5% growth in the LDC countries in the coming year. Japan has always had higher growth rates than Europe.



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Chancellor Healey: One point of political interest. President Ford rightly said that the astonishing thing has been that the political impact of increased unemployment has been less than expected. But the critical problem is the large number of unemployed over a long period of time -- especially regional pockets of high unemployment, school-leavers and colored. There could be some very serious political consequences. We should not yet feel a sense of relief about this problem.

In addition, an increase in output next year will not have much effect in employment. Both Prime Ministers Miki and Moro pointed out the large number of short-time workers they have who are not fully utilized now. And there are a number of people who are simply kept on payrolls. In addition, some companies will not soon rehire workers they have just dismissed. So, that an increase in growth will not necessarily lead to significant results in employment.

In summary, we should not be too complacent about the political impact of present unemployment. And GNP growth will not help much in dealing with unemployment.

Chancellor Schmidt: The Finance Ministers will meet at 9:30 to prepare a press release and thereby set a framework for what should be said on Monday.

President Ford: Are we intending to issue a Communique? If so, the technicians should get together to do a draft.

Chancellor Schmidt: The Finance Ministers can direct their technicians to do this.

President Giscard: A real diplomatic Communique would absorb a lot of energy. We should aim for something like a declaration, which includes broad intentions and lines of action. And it will be difficult for technicians, people not in the meeting to do this. I suggest that the Finance Ministers meet before 9:30 to see what parts of our present discussion can be retained.

President Ford: The Carlton group has developed a draft that could be a good basis from which to proceed. Starting with the Carlton group draft would benefit everyone.

Prime Minister Wilson: I think that we should put emphasis on the human problem of unemployment. Chancellor Healey is right. We could get growth with little increase in employment.

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Chancellor Schmidt: Then, the Finance Ministers will meet at 9:00 tomorrow morning.

Prime Minister Miki: We should not have a lengthy Communique. I propose a brief, succinct declaration to convey the spirit of the meeting.

Chancellor Schmidt: The Finance Ministers will make it as short as possible. They should meet at 9:30.

President Ford: We have a problem with the press. I would like our press to have what I said.

President Giscard: The French spokesman should use certain adjectives to describe this meeting. Finally, each government is free to give out its own remarks. What adjectives might be useful--deep and friendly, frank and fruitful. Is that agreed?

All: Agreed.

END.

