

THE WHITE HOUSE
WASHINGTON

March 27, 1978

Dear Helmut:

I recently said good-bye to Jim Callaghan, who came to discuss with me ideas for concerted action to deal with our common economic problems. I wanted to write you right away about our conversation and about my views on these problems, which I have been considering for some time.

I found Jim concerned, as I am, by the global economic situation -- particularly by the fact that many industrial countries are still caught in the grip of high unemployment and continuing inflation. While U.S. economic performance improved markedly in 1977, the slower growth of our main trading partners, together with heavy U.S. oil imports, contributed substantially to the U.S. current account deficit. That deficit, together with concerns about rising U.S. inflation, has brought about a decline in the value of the dollar on foreign exchange markets that troubles me, as I know it does you. Combined with doubts about governments' ability to take corrective actions, these factors have created widespread concerns in some countries.

Jim and I both felt, and I hope you will agree, that in order to improve this situation the major industrial countries need to show that they are in command of the situation and are taking actions that will lead to a better future. I believe this means their developing a broad program of concerted action to deal with five problems: economic growth, long-term capital outflows, energy, trade, and greater monetary stability. Some of these problems can be met by collective action; others by individual national measures.

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To have the maximum psychological impact, however, these national measures should be seen as part of a wider cooperative effort. If our peoples understand that this is the case, we shall have done much to restore confidence.

Here is what my advisers and I told Jim about our thinking on the specific elements of such a cooperative effort:

1. As far as growth is concerned, I believe the OECD Economic Policy Committee is on the right track in agreeing that the OECD countries should stimulate their economies in differing degrees, depending on how far each can go without fueling inflation or encountering balance of payments problems. I hope that European Community and OECD studies will help the Summit Preparatory Group to draw conclusions regarding the margin for growth that is open to each of our countries. Based on this work, the Summit could discuss and announce appropriate future national policies. Even more important than quantitative targets will be national resolve to fulfill these policies. If national growth decisions taken between now and the Summit can be related to this agreed approach, this will add to our peoples' sense of confidence that purposeful action is being taken to fulfill common purposes.

2. In regard to energy, U.S. action to limit oil imports is the heart of the matter. I am determined to achieve progress as soon as possible. I intend to relate any announcement of this progress to the overall international approach discussed in this letter. Although the U.S. has the largest problem, the question of how to conserve and develop energy is also a concern of other Summit countries. In preparing for the Bonn Summit, I hope that our representatives can develop concrete ideas about how to fulfill the general energy commitments we made in 1977

at London -- e.g., by carrying forward joint research and development, increasing investment to enhance energy production and conservation in the industrial world, and expanding aid to developing countries for the same purposes.

3. In the monetary field, it is essential to address the underlying causes of the dollar's decline: large U.S. oil imports and the disparity between national growth rates, whose effect has been aggravated by rising concerns about U.S. inflation. I expect soon to announce further strong anti-inflationary U.S. measures, which can be related to our agreed international goals. While progress is thus being made on fundamentals, the U.S. will use resources generated by bilateral U.S.-German swaps, IMF drawings, and larger sales of SDRs, as announced in our joint statement of March 13, to counter disorder in currency markets.

4. In trade, I hope the Summit Preparatory Group can define the areas that heads of government will need to address, in order to ensure successful conclusion of the Multilateral Trade Negotiations and to forestall any revival of protectionism. I was pleased by Jim Callaghan's forthcoming posture on these issues. I am much concerned about growing government interventionism in matters of trade and production, in response to weak economic conditions.

5. As part of this package approach, we should consider how to increase long-term capital flows to developing countries. I hope that you will agree the surplus countries have special responsibilities in this connection; I will be discussing possible increased Japanese aid with Prime Minister Fukuda when he comes here in early May.

If a five-point approach along these lines commends itself to you, we might proceed as follows:

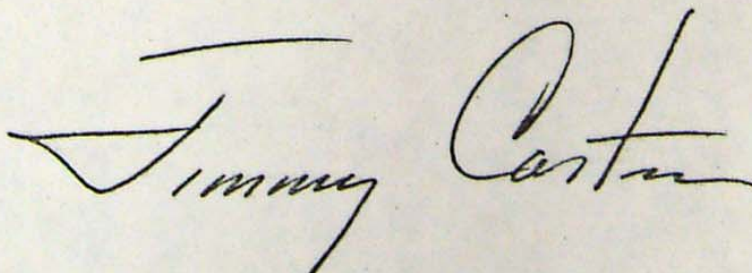
-- In addition to launching preparations for the July Summit, the Bonn Preparatory Group could prepare a short statement for heads of government to issue in early April, committing themselves to hold a Bonn Summit in mid-July and indicating the main substantive purposes that they will be seeking to achieve -- both at the Summit and beforehand.

-- Relevant decisions that any of our governments take between then and the Summit (for example, U.S. action on energy and inflation) could be related to this broad statement of agreed purposes. Our governments would try to consult with one another beforehand about these national actions.

-- The July Summit could then review actions that had been taken and decide what further steps were needed to achieve these common purposes.

How does this all strike you? I have asked Henry Owen to seek your views when he sees you next week. I look forward to hearing your thoughts, given your wide knowledge and experience in this field. The position and partnership that you and I shape in reviewing these issues will be critical to the outcome. There is no way to achieve lasting progress without the closest cooperation between our countries. That cooperation can only be achieved if you and I stay in very close and continuing touch.

Sincerely,

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink and is positioned below the word "Sincerely,".

His Excellency
Helmut Schmidt
Chancellor of the
Federal Republic of Germany
Bonn

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THE WHITE HOUSE
WASHINGTON

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March 24, 1978

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: HENRY OWEN ^{HO}
SUBJECT: Letters to Schmidt, Giscard,
and Fukuda

1. Attached are letters to Schmidt (Tab A), Fukuda (Tab B), and Giscard (Tab C) about the Callaghan visit.
2. As you suggested, the letters are basically the same:
 - a. The letter to Giscard has less on trade than the others, given his views on this subject; it also has a special reference to French aid to LDCs and a closing paragraph on the recent election.
 - b. The letter to Fukuda has special language at the end of each of the paragraphs on growth, long-term capital movement, trade, and monetary policy to take account of Japan's special circumstances.
3. These letters have been cleared with State and Treasury. I realize they are long, but I was afraid a shorter letter might not persuade the heads of government that you were consulting with them as fully as you did with Callaghan about these matters, which are of critical importance to them.
4. Jim Fallows concurs.

Jay 8/29/96

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