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THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: The President's Meeting with Chancellor
Helmut Kohl of FRG

PARTICIPANTS: U.S.
The President
Secretary of State George Shultz
Secretary of the Treasury James Baker
Secretary of Defense Frank Carlucci
Howard Baker, Chief of Staff
Colin L. Powell, Assistant to the President
for National Security Affairs
Rozanne Ridgway, Assistant Secretary of State
for European Affairs
Charles Wick, Director, USIA
Ambassador to FRG, Richard Burt
Nelson C. Ledsky, Deputy Senior Director, NSC
Harry Obst, Interpreter

FRG
Chancellor Helmut Kohl
Hans-Dietrich Genscher, Vice Chancellor and
Minister of Foreign Affairs
Ambassador to the U.S., Juergen Ruhfus
Volker Ruehe, Bundestag Deputy
Uwe Ronneburger, Bundestag Deputy
Horst Teltschik, Deputy Chief, Federal
Chancellery
Werner Weidenfeld, Coordinator of
U.S.-German Cultural Cooperation
Friedhelm Ost, Federal Press Spokesman
Dr. Hans-Friedrich von Ploetz, Deputy
Political Director, Foreign Office
Heinz Weber, Interpreter

DATE, TIME February 19, 1988, 11:30 a.m. - 1:40 p.m.
AND PLACE: Oval Office, Cabinet Room and Residence

The short one-on-one conversation in the Oval Office consisted entirely of pleasantries. The President warned the Chancellor that there would be three waves of photographers, and suggested that they brace themselves for the onslaught. The Chancellor laughed and pointed to the antiquity of some of the photographic equipment being carried into the Oval Office.

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By Smf, NARA, Date 11/2/99

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There was then a brief exchange about the weather, with the Chancellor noting that it had been a mild winter in Europe with very little snow.

The Chancellor thanked the President for Mrs. Reagan's coffee for Mrs. Kohl that morning. Mrs. Kohl enjoyed coming to the United States, and was leaving that afternoon to visit their two sons in Boston. One was at Harvard, and the second was at MIT studying computer science. The Chancellor joked that the younger generation was acquiring knowledge which no adult could really comprehend.

At this point, several newsmen began shouting questions at the President. One asked about the situation in Lebanon and whether the President was thinking about removing U.S. personnel from the U.N. command. The President said "No," we would fulfill our obligations. This prompted a second question about whether the President was concerned about the risk to Americans serving with the U.N. in Lebanon.

The President replied that he was naturally concerned about the safety of Americans, but that we had been in Lebanon since 1949, and were committed to the U.N. peacekeeping operation now underway. We would not bow to the kind of terrorist actions such as the recent kidnapping of Col. Higgins, which should serve to remind us all that terrorism is still present in the Middle East.

There was then a follow-up question about General Noriega of Panama and the charges brought against him in a Florida court. The President declined to answer these or further questions, and rose to escort Chancellor Kohl into the Cabinet Room to begin the Plenary session.

The President opened this larger meeting by thanking the Chancellor for his strong support of the INF Treaty. He noted that the Chancellor had been on the Hill on February 18 and had, according to all reports, made an excellent impression.

The President said he expected the INF Treaty to be ratified, but that many Senators wanted to see the modernization of remaining nuclear systems. It was important that the Alliance stay the course established at Montebello and work together to on force improvements.

The President said that the Soviet risk had not disappeared, and that Soviet nuclear weapons still threaten each member of the Alliance. Every ally must share in the risks and burdens, but if we all do our part, peace would certainly continue. At this point, the President invited the Chancellor to outline those issues that were on the top of his agenda.

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The Chancellor thanked the President for this very friendly visit. The timing could not have been better. Coming to Washington in the middle of the Congressional hearings on INF ratification, just before the Secretary departed for Moscow, just after the European Community Summit and just before the NATO Summit made these meetings especially important.

The Chancellor said he had had a good day on Capitol Hill Thursday. Never before had he ever met and talked to as many Congressmen and Senators. This interaction was essential to maintaining close U.S.-German relations and the Chancellor pledged to maintain close contacts with legislators in the future.

The Chancellor insisted that the NATO Alliance was as important today to Germany as it had ever been. There may be different international conditions and some changes in Europe. Everyone hoped there would be a lessening of tensions between East and West based on the new wind from Moscow. Still, deterrence was vital. The West could not let down its guard, and German-American relations, he observed, remain central to a robust Western defense.

The Chancellor characterized bilateral relations between our two countries as excellent. He thanked the President again for his speech in Berlin last June, and for the President's Berlin initiative. Much could be done along the path the President had outlined, including improvements in Berlin air traffic and contact between the two parts of the city. The Chancellor then pledged to support the Western initiative on Berlin in any way he could.

The Chancellor also thanked the President for his Proclamation on October 6, 1987 and for our decision to celebrate German-American Day on this date annually. It was important to keep this tradition alive for the younger generations. The Chancellor noted that he had invited 12 American university presidents to Germany this spring, and would personally escort them across the country. He had also invited a group of Senators and Congressmen to his home this summer. Personal exchanges of this kind seemed to the Chancellor essential if our two countries were to understand each other.

Turning to Western Europe, the Chancellor observed that a monumental EC decision had been taken last weekend which publics on both side of the Atlantic had not yet appreciated. The key understanding was reached at 2:00 a.m. last Sunday morning. This understanding has paved the way to a European-wide domestic market to be put in place as early as 1992. One next step would be for the European Community and the U.S. to begin work on a long-term plan for bringing their two economies together.

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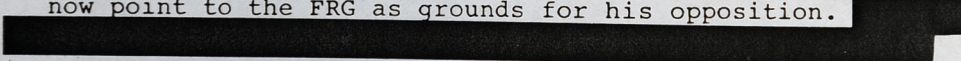
The Chancellor then offered assurances that he would fight against all protectionist measures. He pledged also that there would be no tax on fats and oils. He acknowledged that the agricultural subsidy problem was far from solved, but noted that the European Community would be asking its farmers to make sacrifices. Thus while the road ahead was long and difficult, the European Community was embarked at long last on the correct path.

The Chancellor pointed with pride to the good working relationship between Secretary Baker and Finance Minister Stoltenberg and to the achievements these two, along with others, had brought about in the direction of fiscal and monetary stability.

The Chancellor then turned to his domestic political problems. He insisted that this had been a difficult year in the FRG, but that many tough issues had been faced and overcome. One was major tax reform. A second involved comprehensive cuts in welfare services.

 In sum, there had been progress on the FRG economic front, even though much more needed to be done.

Moving on to arms control, the Chancellor said he had spoken out strongly in the Senate yesterday about the importance of INF ratification. He insisted that no Senate treaty opponent could now point to the FRG as grounds for his opposition.


The FRG wants the INF Treaty ratified, and then wants the Alliance to go on to other disarmament issues. The next step is a START agreement, followed by a chemical ban, conventional stability talks and negotiations on short-range missiles, those with ranges from zero to 500 kilometers.

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The President said that he wanted to respond to a few of the Chancellor's points before lunch. First, he said that we as well as the FRG are dedicated to the NATO Alliance. The Alliance is good for us as well as good for Europe, and we want to work together to ensure the continued success of the trans-Atlantic relationship.

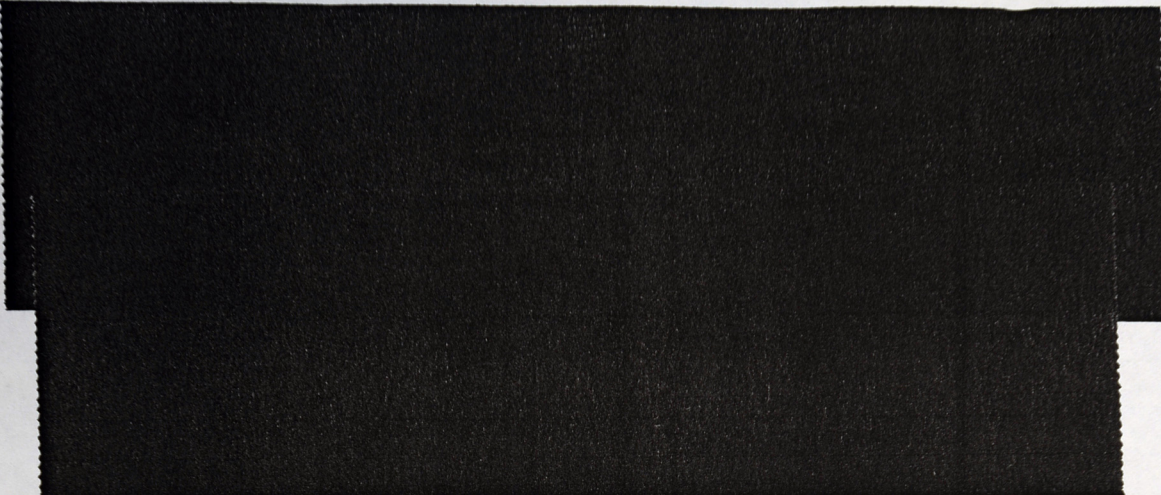
With respect to tactical nuclear weapons, it is important that these be maintained and kept up to date, given the continuing asymmetry in conventional weapons. There could be no negotiations on these nuclear weapons until after a conventional balance in Europe is established.

With respect to the Soviet Union, it would be wrong to give way to wishful thinking. We must develop and maintain policies for the long-term. Here, the President quoted from Demosthenes about the need to forge our policies on the basis of our worries rather than our hopes. We cannot relax our guard until we are sure the Soviets are no longer intent on world expansion.

With respect to agriculture, the President noted that subsidies were a problem for all of us. Current policies are costing the U.S. and Europe some \$150 billion annually. We need comprehensive reform. There are major political problems, to be sure, in bringing these reforms about, but they are absolutely essential. The President pointed to the need to achieve comprehensive reform in the Uruguay Round, as the Summit leaders had agreed in Venice.

Secretary Shultz then turned the discussion to the forthcoming NATO Summit. He recalled that he had discussed this issue with the Chancellor and German Foreign Minister on Thursday and explained why a constructive outcome in Brussels was so essential.





The Secretary concluded by thanking the Chancellor for his statements on Thursday on Capitol Hill. He said that he had heard from many Congressmen that the Chancellor had made an outstanding presentation, and had left a clear, strong, positive impression on our legislators.

At this point, the President interrupted the discussion to invite everyone to move to the White House Dining Room for lunch. As the discussion resumed at the luncheon table, the Chancellor inquired as to the identity of the lady whose portrait hung in the Dining Room.

The President said the portrait was of Edith Roosevelt, the wife of President Theodore Roosevelt. It was Edith Roosevelt who had asked to have the West Wing constructed. During Roosevelt's tenure, both living and working quarters were together in the White House. Mrs. Roosevelt issued an ultimatum to her husband that if she was to bring up six children in the White House, he had to get his gang of officials out of the building. So the West Wing was built to house the office part of the White House.

The President then invited Secretary Baker to say a few words about the status of the American economy, since this would likely be of interest to Chancellor Kohl.

Secretary Baker said that he had already had a talk the previous day with Chancellor Kohl, but thought he could perhaps hit the highlights for those not present for that discussion. The Secretary reviewed briefly the adjustment process the U.S. economy had undergone with what he said had been minimal disruption. Many had thought the stock market events of October would lead to a recession in the U.S., which would soon translate

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into a worldwide downturn. Secretary Baker said that he and the Administration now think that this will not happen. Growth would be slow during the first half of 1988, but would pick up in the second half of the year. His department was now predicting a 2-1/2% non-inflationary growth rate for the year as a whole, with inflation under 4%.

The Secretary claimed that the expansion of the American economy would continue. We are now in the longest peace-time expansion in our history. This expansion was taking place as we adjusted from a consumer driven economy to one driven more and more by exports.

Secretary Baker thanked the Chancellor for the excellent cooperation we have had with Germany bilaterally and in the G-7. The decisions reached last December in that body were excellent as were the decisions taken by European Central banks last fall. The Secretary also expressed pleasure at the changes that seemed to be occurring in the Japanese situation. The Japanese had been receptive to many of our suggestions, and the overall picture was improving. Secretary Baker concluded by asking the Germans to look again at their own economy this spring, and if by that time, it had not lived up to the growth rates they were now projecting, that they examine the possibility of taking additional governmental actions.

Chancellor Kohl said he would like to respond briefly. With respect to the FRG situation, the government had provided optimal conditions for economic growth. The difficulties experienced in the FRG last year arose largely from psychological factors. What had happened to the stock exchange in Frankfurt, for example, could only be explained in these psychological terms.

The Chancellor added that in Germany, tax reform was not a simple process. Far-reaching and time-consuming consultation procedures were required by the Constitution. After a Finance Minister developed specific proposals, these had to be published, hearings scheduled in all states, and complaints from all sectors of society carefully considered. Then, six months later the Cabinet could agree on a package and send it to Parliament. This lengthy process created an environment in which one sector of society was bound to turn on another.

Nonetheless, the Chancellor promised a tax reform bill would be passed this year in the FRG. This would help an already excellent economic situation. The FRG had experienced no inflation over the last five years. Interest rates were low and chances for economic expansion were good. Germany faced the same structural problems as the U.S. Agricultural reform would take years. The FRG still had too much mining, steel production and

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shipbuilding. All these industries had been heavily subsidized, and these subsidies were difficult to eliminate swiftly. Above all, too many people in Germany exploited the social services system, extracting benefits to which they were not entitled.

Secretary Baker joked that when the Chancellor learned the answer to this last problem, he should let us know, since we had similar problems with social service abuses. Secretary Baker noted that we, too, had been through an extensive and often angry debate about tax reform.

Foreign Minister Genscher interjected that one optimistic note was the possibility of establishing a vast internal market across Europe. Such a market for 320 million people would at once be a major deregulation measure as well as an enormous stimulus for growth. In Spain, for example, one could see the benefits that had come from membership in the EC. A small economic miracle had occurred, involving an explosion in investment, production and growth.

To the Secretary of Treasury's concluding remark asking Germany to re-examine its internal situation this spring if growth had not reached anticipated levels, Chancellor Kohl joked that he would rather go through a second tax reform debate than tackle Social Security or health reform.

President Reagan then offered a few comments on the achievements of the American economy. He observed that we were now in our 63d month of consecutive expansion, the longest such period of growth in American history. What made this possible, he believed, was cutting tax rates. This has led to greater revenue even at lower rates, which in turn could only be explained on the basis that Americans had real incentives to invest and produce more.

Secretary Baker noted that in 1987, the U.S. deficit was calculated to be \$180 billion. In fact the deficit turned out to be only \$150 billion. The difference was in greater revenues attributable to the tax reforms of this Administration.

Secretary Shultz asked to make two brief observations about the current economic situation. The first was that there was a gigantic inter-relationship between the U.S. and EC economics. If one calculated the two-way trade and investments on both sides, the figure reached of total value was over 1 trillion dollars. This inter-relationship existed now, and the question we all faced was how to manage it sensibly for the future.

The second observation was that the nature of scientific and technological change was such that societies were converging.


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The dissemination of knowledge was proceeding across national boundaries. There was, of course, good convergence and bad convergence. An example of bad convergence was agricultural subsidies. One side of the Atlantic has them, the other side develops them, and the situation becomes only worse for both. The task was to keep our two societies open to each other, and to reduce barriers between us.

Chancellor Kohl said he agreed completely. He said he often made these same points to German audiences, and insisted that the FRG would use all its strength against protectionism. A move toward protectionism would kill chances for dynamic economic development. In this connection, the Chancellor recalled that June 1988 would be the 40th anniversary of the creation of the German mark (DM). He would be making a speech on that occasion, and his researchers had determined that only a minority of Germans 40 years ago favored the development of a free and open economy. Had the Americans not prevailed and over-ruled the West Germans, there would not have been the kind of economic reconstruction that took place. Without openness and free trade, development and prosperity were not possible. The Chancellor said that most Germans had learned this lesson. So had most Western Europeans.



The President said he agreed with much that Chancellor Kohl had said. With respect to the Japanese, we had established good contact with the new Prime Minister, much as we had had good contact with his predecessor. We remain hopeful the Japanese will continue to move in the right direction.

The President observed that there were many in Congress who favored protectionism. They have been warned, he said, that if they pass protectionist legislation, it will be vetoed. The President concluded by observing that there were some things useful about being his age. In 1932 he had been looking for a job. It was during the Depression. At that time, the U.S. Government had two policies to deal with the economic situation: one was to increase taxes; the second was protectionism, in the form of the Smoot-Hawley Tariff. The result of these two misguided policies was to stiffen the Depression and send it around the world.

The President then asked Secretary Shultz, who would be leaving for Moscow that afternoon, to provide a briefing on what might be achieved in the USSR.

The Chancellor said he would welcome such a presentation. He asked that it be focussed on regional issues, since he and the

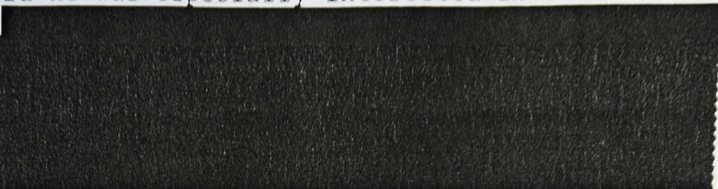
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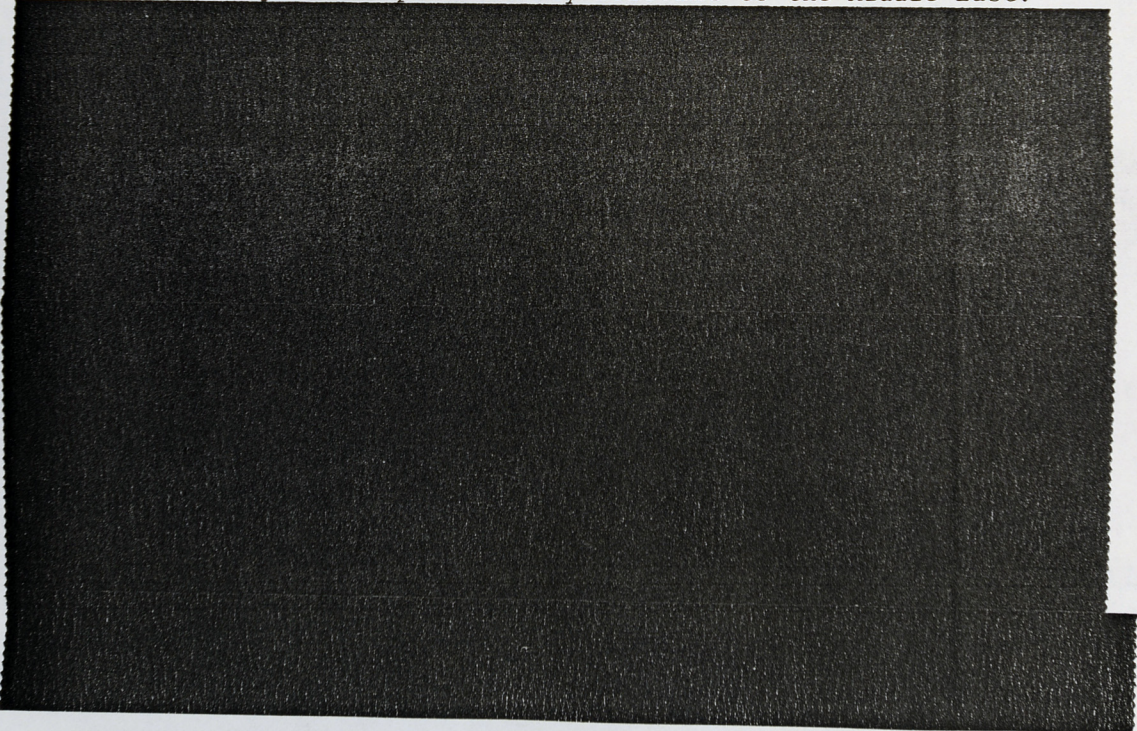
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Secretary had had a good chance to discuss arms control on February 18. He said he was especially interested in the Middle East peace process, 

Secretary Shultz outlined his plans for Moscow by recalling the U.S. four-part agenda, and indicating that we always put first priority on human rights. The second priority on this visit would be regional issues. The Secretary recalled that this agenda item traced back to the President's U.N. speech of 1985, in which suggested procedures for settling regional conflicts were outlined. The third area was arms control and the fourth, bilateral issues. The Secretary observed that even if more attention is paid in this U.S.-Soviet bilateral to regional issues, we still would start with human rights.

Chancellor Kohl proclaimed this as "very good."

Secretary Shultz said that the connection between regional issues and human rights was particularly relevant to the Middle East. 

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The President thanked the Chancellor for these comments and said that he regretted that it was time to move downstairs for the departure statements. He had enjoyed the conversation very much as he always did with the Chancellor. Before departing, he said he would like to express his appreciation to German translator, Heinz Weber. Mr. Weber had accompanied every Chancellor to Washington since the Adenauer era and had made an enormous contribution to American-German relations. He thanked Mr. Weber for that contribution, and offered him a small gift (a set of cuff links) as a token of the esteem with which he was held by this President and by all previous Presidents and Chancellors for whom he had worked.

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20508

February 24, 1988

ACTION

MEMORANDUM FOR PAUL SCHOTT STEVENS

FROM: NELSON C. LEDSKY *NCL*

SUBJECT: MEMCON of the President's Meeting
with Chancellor Helmut Kohl
of FRG, on February 19, 1988

Attached at Tab A is a memorandum of conversation covering the President's conversation with Chancellor Helmut Kohl, FRG, held in the Oval Office, Cabinet Room and residence on Friday, February 19, 1988 from 11:30 a.m.-1:40 p.m.

Fritz Ermarth concurs. *Fritz Ermarth*

RECOMMENDATION

That you review and approve the attached MEMCON for record retention in NSC files.

Approve _____ Disapprove _____

Attachment

Tab A MEMCON

cc: Bob Oakley
Steve Danzansky
Don Mahley

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E.O. 12358, Sec. 3.4(b)
White House Guidelines, Feb. 24, 1983
BY *smf*, NARA, Date *3/26/96*

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