

**FOREIGN  
RELATIONS  
OF THE  
UNITED  
STATES**

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**1977–1980**

**VOLUME III**

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**FOREIGN ECONOMIC  
POLICY**



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**DEPARTMENT  
OF  
STATE**

**Washington**



**Foreign Relations of the  
United States, 1977–1980**

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**Volume III**

**Foreign Economic  
Policy**

*Editor* Kathleen B. Rasmussen  
*General Editor* Adam M. Howard

DEPARTMENT OF STATE  
OFFICE OF THE HISTORIAN  
BUREAU OF PUBLIC AFFAIRS

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# About the Series

The *Foreign Relations of the United States* series presents the official documentary historical record of major foreign policy decisions and significant diplomatic activity of the U.S. Government. The Historian of the Department of State is charged with the responsibility for the preparation of the *Foreign Relations* series. The staff of the Office of the Historian, Bureau of Public Affairs, under the direction of the General Editor of the *Foreign Relations* series, plans, researches, compiles, and edits the volumes in the series. Secretary of State Frank B. Kellogg first promulgated official regulations codifying specific standards for the selection and editing of documents for the series on March 26, 1925. These regulations, with minor modifications, guided the series through 1991.

Public Law 102–138, the Foreign Relations Authorization Act, established a new statutory charter for the preparation of the series which was signed by President George H.W. Bush on October 28, 1991. Section 198 of P.L. 102–138 added a new Title IV to the Department of State’s Basic Authorities Act of 1956 (22 U.S.C. 4351, et seq.).

The statute requires that the *Foreign Relations* series be a thorough, accurate, and reliable record of major U.S. foreign policy decisions and significant U.S. diplomatic activity. The volumes of the series should include all records needed to provide comprehensive documentation of major foreign policy decisions and actions of the U.S. Government. The statute also confirms the editing principles established by Secretary Kellogg: the *Foreign Relations* series is guided by the principles of historical objectivity and accuracy; records should not be altered or deletions made without indicating in the published text that a deletion has been made; the published record should omit no facts that were of major importance in reaching a decision; and nothing should be omitted for the purposes of concealing a defect in policy. The statute also requires that the *Foreign Relations* series be published not more than 30 years after the events recorded. The editors are convinced that this volume meets all regulatory, statutory, and scholarly standards of selection and editing.

## *Sources for the Foreign Relations Series*

The *Foreign Relations* statute requires that the published record in the *Foreign Relations* series include all records needed to provide comprehensive documentation of major U.S. foreign policy decisions and significant U.S. diplomatic activity. It further requires that government agencies, departments, and other entities of the U.S. Government en-

gaged in foreign policy formulation, execution, or support cooperate with the Department of State historians by providing full and complete access to records pertinent to foreign policy decisions and actions and by providing copies of selected records. Most of the sources consulted in the preparation of this volume have been declassified and are available for review at the National Archives and Records Administration.

The editors of the *Foreign Relations* series have complete access to all the retired records and papers of the Department of State: the central files of the Department; the special decentralized files ("lot files") of the Department at the bureau, office, and division levels; the files of the Department's Executive Secretariat, which contain the records of international conferences and high-level official visits, correspondence with foreign leaders by the President and Secretary of State, and the memoranda of conversations between the President and the Secretary of State and foreign officials; and the files of overseas diplomatic posts. All of the Department's central files for 1977–1981 are available in electronic or microfilm formats at the National Archives and Records Administration facility in College Park, Maryland (Archives II), and may be accessed using the Access to Archival Databases (AAD) tool. Almost all of the Department's decentralized office files covering this period, which the National Archives deems worthy of permanent retention, have been transferred to or are in the process of being transferred from the Department's custody to Archives II.

Research for *Foreign Relations* volumes is undertaken through special access to restricted documents at the Jimmy Carter Presidential Library and other agencies. While all the material printed in this volume has been declassified, some of it is extracted from still-classified documents. The staff of the Carter Library is processing and declassifying many of the documents used in this volume, but they may not be available in their entirety at the time of publication. Presidential papers maintained and preserved at the Carter Library include some of the most significant foreign-affairs related documentation from White House offices, the Department of State, and other federal agencies including the National Security Council, the Central Intelligence Agency, the Department of Defense, and the Joint Chiefs of Staff.

Some of the research for volumes in this subseries was done in Carter Library record collections scanned for the Remote Archive Capture (RAC) project. This project, which is administered by the National Archives and Records Administration's Office of Presidential Libraries, was designed to coordinate the declassification of still-classified records held in various Presidential libraries. As a result of the way in which records were scanned for the RAC, the editors of the *Foreign Relations* series were not always able to determine whether attachments to a given document were in fact attached to the paper copy of the docu-

ment in the Carter Library file. In such cases, some editors of the *Foreign Relations* series have indicated this ambiguity by stating that the attachments were "Not found attached."

### *Editorial Methodology*

This volume is divided into two compilations: the first covering international monetary policy, trade policy, and economic summitry, the second North-South relations and commodity policy. Within each compilation, the documents are presented chronologically according to time in Washington, DC. Memoranda of conversation are placed according to the time and date of the conversation, rather than the date the memorandum was drafted.

Editorial treatment of the documents published in the *Foreign Relations* series follows Office style guidelines, supplemented by guidance from the General Editor and the Chief of the Editing and Publishing Division. The original document is reproduced as exactly as possible, including marginalia or other notations, which are described in the footnotes. Texts are transcribed and printed according to accepted conventions for the publication of historical documents within the limitations of modern typography. A heading has been supplied by the editors for each document included in the volume. Spelling, capitalization, and punctuation are retained as found in the original text, except that obvious typographical errors are silently corrected. Other mistakes and omissions in the documents are corrected by bracketed insertions: a correction is set in italic type; an addition in roman type. Words or phrases underlined in the original document are printed in italics. Abbreviations and contractions are preserved as found in the original text, and a list of abbreviations and terms is included in the front matter of each volume. In telegrams, the telegram number (including special designators such as Secto) is printed at the start of the text of the telegram.

Bracketed insertions are also used to indicate omitted text that deals with an unrelated subject (in roman type) or that remains classified after declassification review (in italic type). The amount and, where possible, the nature of the material not declassified has been noted by indicating the number of lines or pages of text that were omitted. Entire documents withheld after declassification review have been accounted for and are listed in their chronological place with headings, source notes, and the number of pages not declassified.

All brackets that appear in the original document are so identified in the footnotes. All ellipses are in the original documents.

The first footnote to each document indicates the sources of the document and its original classification, distribution, and drafting information. This note also provides the background of important docu-

ments and policies and indicates whether the President or his major policy advisers read the document.

Editorial notes and additional annotation summarize pertinent material not printed in the volume, indicate the location of additional documentary sources, provide references to important related documents printed in other volumes, describe key events, and provide summaries of and citations to public statements that supplement and elucidate the printed documents. Information derived from memoirs and other first-hand accounts has been used when appropriate to supplement or explicate the official record.

The numbers in the index refer to document numbers rather than to page numbers.

#### *Advisory Committee on Historical Diplomatic Documentation*

The Advisory Committee on Historical Diplomatic Documentation, established under the *Foreign Relations* statute, monitors the overall compilation and editorial process of the series and advises on all aspects of the preparation of the series and declassification of records. The Advisory Committee does not necessarily review the contents of individual volumes in the series, but it makes recommendations on issues that come to its attention and reviews volumes as it deems necessary to fulfill its advisory and statutory obligations.

#### *Declassification Review*

The Office of Information Programs and Services, Bureau of Administration, conducted the declassification review for the Department of State of the documents published in this volume. The review was conducted in accordance with the standards set forth in Executive Order 13526 on Classified National Security Information and applicable laws.

The principle guiding declassification review is to release all information, subject only to the current requirements of national security as embodied in law and regulation. Declassification decisions entailed concurrence of the appropriate geographic and functional bureaus in the Department of State, other concerned agencies of the U.S. Government, and the appropriate foreign governments regarding specific documents of those governments. The declassification review of this volume, which began in 2010 and was completed in 2012, resulted in the decision to withhold 0 documents in full, excise a paragraph or more in 0 documents, and make minor excisions of less than a paragraph in 6 documents.

The Office of the Historian is confident, on the basis of the research conducted in preparing this volume and as a result of the declassification review process described above, that the documentation and edito-

rial notes presented here provide a thorough, accurate, and reliable—given the limitations of space—record of the Carter administration’s foreign economic policy.

**Adam M. Howard, Ph.D.**  
*General Editor*

**Stephen P. Randolph, Ph.D.**  
*The Historian*

Bureau of Public Affairs  
September, 2013





# Preface

## *Structure and Scope of the Foreign Relations Series*

This volume is part of a subseries of volumes of the *Foreign Relations* series that documents the most important issues in the foreign policy of the administration of Jimmy Carter. This volume covers U.S. foreign economic policy from 1977 to 1980, focusing on international monetary policy, trade policy, economic summitry, North-South economic relations, and commodity policy. Readers interested in U.S. energy policy and the implications of the 1979 oil crisis should consult *Foreign Relations, 1969–1976, volume XXXVII, Energy Crisis, 1974–1980*. For U.S. economic relations with a specific country or region, readers should consult the relevant geographically-focused volume in the *Foreign Relations Carter* subseries. Additional documentation on foreign aid and human rights, as well as world hunger, may be found in *Foreign Relations, 1977–1980, volume II, Human Rights and Humanitarian Affairs*. The political aspects of North-South relations are covered in *Foreign Relations, 1977–1980, volume XXV, United Nations; Law of the Sea*. Finally, for the organization of the foreign economic policymaking process, readers should consult *Foreign Relations, 1977–1980, volume XXVIII, Organization and Management of Foreign Policy*.

## *Focus of Research and Principles of Selection for Foreign Relations, 1977–1980, Volume III*

During Jimmy Carter's four-year tenure as president, the United States was beset by a host of economic troubles: in addition to the high rates of inflation and oil shortages for which the late 1970s are perhaps best remembered, the United States experienced persistent trade deficits and a steep decline in the value of the dollar. The volume examines the Carter administration's efforts to grapple with these challenges through its international trade and monetary policies and its involvement in the Group of Seven (G-7) summit. In crafting his policies in this area, Carter relied upon advice from policymakers such as Special Representative for Economic Summits Henry Owen, Secretaries of the Treasury W. Michael Blumenthal and G. William Miller, Special Representative for Trade Negotiations Robert Strauss, President's Assistant for National Security Affairs Zbigniew Brzezinski, and Secretary of State Cyrus Vance, as well as advisers such as President's Assistant for Domestic Affairs and Policy Stuart Eizenstat and Council of Economic Advisers Chairman Charles Shultze. In the realm of trade policy, the volume documents the effort, led by Strauss, to bring the Tokyo Round

of trade negotiations launched in September 1973 to a successful conclusion and to secure congressional approval of the resulting agreements; it also documents the administration's attempt to increase sales abroad through an export promotion initiative, as well as its effort to convince the Japanese government to open its domestic market wider to U.S. exports. In addition to seeking out new markets abroad, the Carter White House helped domestic producers facing import competition at home in sectors such as steel, shoes, and textiles. A major issue faced by the administration in the international monetary realm was the recurring downward market pressure on the U.S. dollar; here, the volume documents the administration's attempts to arrest the dollar's decline through domestic and international measures, including cooperation with West Germany, Japan, and Switzerland. The volume also documents the evolution of the G-7 summit, whose origins are covered in *Foreign Relations, 1969-1976*, volume XXXI, Foreign Economic Policy, 1973-1976. During the four years that Carter was in the Oval Office the G-7 summit was institutionalized; it also served as a forum in which members not only discussed economic policies, but coordinated them, most notably at the 1978 summit in Bonn.

One theme that emerges from these documents is the increasing importance of West Germany and Japan as both economic partners and economic rivals of the United States. Whereas in the previous *Foreign Relations* foreign economic policy volume it was the U.S.-French relationship that took center stage, in this volume the sheer number of documents pertaining to relations with West Germany and Japan speak to the extent to which relations with Bonn and Tokyo absorbed the energies of Washington officials (although France does not disappear, as Paris' cooperation was essential to the successful conclusion of the Tokyo Round). A related theme is the changing nature of the United States' role in the world economy, a change apparent in, for example, Washington's vigorous efforts to convince Bonn and Tokyo to adopt expansionary economic policies in order to spur global growth, as well as its approach to issues such as the dollar pricing of oil, the role of Special Drawing Rights in the International Monetary Fund (IMF), and the creation of an IMF substitution account. Finally, there is the issue of confidence. Long before Carter's July 15, 1979, "malaise" speech, in which he spoke not only of energy policy but the country's "crisis of confidence," policymakers worried about the economic implications of the national and international mood: a May 6, 1977, memorandum from Brzezinski to Carter on the eve of the London G-7 summit, for example, was entitled "Confidence is the Theme."

During the 1976 presidential campaign, Carter promised to adopt a new approach to U.S. relations with the developing world. The volume documents his administration's efforts in this regard, examining

its approach to North-South economic relations and commodity policy. It covers the issues of foreign aid and the United States' involvement in the various development-focused international financial institutions; it also documents the creation of a new entity, the Common Fund, a mechanism designed to stabilize the prices of primary commodities in order to help encourage less developed country (LDC) income stability. Also included are documents covering the problems of world hunger and the U.S. position on LDC debt relief, as well as the administration's LDC technology transfer initiative. A theme that emerges from these documents is the politics of U.S.-LDC economic relations, seen in, for example, the way in which its relationship with the Soviet Union affected the United States' policies towards LDCs and in U.S. efforts to leverage the provision of foreign aid to secure greater respect for human rights.

Like all recent *Foreign Relations* volumes, the emphasis of this volume is on policy formulation, rather than the implementation of policy or day-to-day diplomacy. As in other volumes in the Carter subseries, the National Security Council and the Department of State play important roles in the policymaking process; in this volume, however, they are joined by the Department of the Treasury, the Office of the Special Representative for Trade Negotiations, and, on certain issues, the Chairman of the Council of Economic Advisers and the President's Assistant for Domestic Affairs and Policy. Policymaking on foreign economic issues was firmly centered in Washington; as such, internal memoranda, records of discussions among U.S. policymakers and between U.S. and foreign officials, and correspondence with foreign leaders comprise the bulk of the documents in the volume, while very few telegrams are printed.

#### *Acknowledgements*

The editor wishes to acknowledge the assistance of officials at the Jimmy Carter Library, especially Ceri McCarron, Brittany Parris, and James Yancey. Thanks are also due to Nancy Smith, the former Director of the Presidential Materials Staff at the National Archives and Records Administration, and to the Central Intelligence Agency for arranging access to the Carter Library materials scanned for the Remote Archive Capture project. The Historical Staff of the Central Intelligence Agency were helpful in arranging full access to the files of the Central Intelligence Agency. The editor also thanks the staff at the National Archives and Records Administration facility in College Park, Maryland, particularly the now-retired Herbert Rawlings Milton, for their valuable assistance. Finally, thanks go to Veronica Marco and Steve Milline at the Department of the Treasury for arranging access to the files of Secretaries of the Treasury W. Michael Blumenthal and G. William Miller.

The editor collected and selected the documentation and edited the volume under the supervision of Erin Mahan, then Chief of the Division of Arms Control, Asia, and Africa, and Edward C. Keefer, then General Editor of the *Foreign Relations* series. The volume was reviewed by Adam Howard, then Chief of the Division of Middle East and Africa. Dean Weatherhead coordinated the declassification review under the supervision of Susan C. Weetman and Carl Ashley, successive Chiefs of the Declassification and Publishing Division. Rita Baker and Stephanie Eckroth did the copy and technical editing. Do Mi Stauber prepared the index.

**Kathleen B. Rasmussen, Ph.D.**  
*Historian*

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# Sources

## *Sources for Foreign Relations, 1977–1980, Volume III*

The Carter Library is the best source of high-level decision making documentation for U.S. foreign economic policy from 1977 to 1980. A number of collections within the National Security Affairs files are particularly relevant in this regard. Within the Brzezinski Material, the Brzezinski Office File (particularly the Germany, Japan, economics, export controls, and finance files), Country File (for France, Germany, and especially Japan), Trip File, and Subject File (which contains not only a run of high-level memoranda of conversation, but Vance's Evening Reports to Carter) all contained crucial documentation; the Agency File, President's Correspondence with Foreign Leaders File, and VIP Visit File also proved fruitful. Within the Staff Material, the Henry Owen section of the Special Projects File yielded a great deal of useful material, particularly on the G-7 summits; also of help were the International Economics File, North/South File, and Office File. Beyond the National Security Affairs materials, two collections proved to be particularly rich sources: the Anthony Solomon Collection, with good documents on, among other topics, international monetary policy, and the Charles L. Schultze Subject Files in the Records of the Council of Economic Advisers, which contained valuable documents on trade policy, including steel. Stuart Eizenstat's Files in the Staff Office Files, Domestic Policy Staff, also included much useful material on the steel issue. Important documents not readily found elsewhere turned up in both the Brzezinski Donated Material and the Papers of Walter F. Mondale. Jimmy Carter's handwriting files in the Records of the Office of the Staff Secretary, Presidential File, provided critical material on an array of issues. Finally, for documenting the Presidential Review Memorandum policy process and Policy Review Committee meetings on issues related to foreign economic policy, the National Security Council Institutional Files were absolutely essential.

The National Archives and Records Administration facility in College Park, Maryland, is home to a wealth of material on the Carter administration's foreign economic policy. Within the Department of the Treasury's record group, RG 56, the Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten provided good material on both international monetary policy and trade policy; Under Secretary of the Treasury for Monetary Affairs Anthony Solomon's Subject Files also had some useful material, although not as much as the Anthony Solomon Collection at the Carter Library. Within the De-



partment of State's record group, RG 59, the lot files of Under Secretary of State for Economic Affairs Richard N. Cooper were an especially rich source of material for most of the issues covered in this volume; also helpful was the lot file of Policy Planning Staff Director W. Anthony Lake. The Subject Files of Special Trade Representative Robert Strauss, contained within RG 364, yielded invaluable material on the Tokyo Round and various specific trade issues.

At the Department of State, the records of Secretary of State Cyrus Vance contained some useful documents, including memoranda of conversation. At the Department of the Treasury, the files of Secretaries of the Treasury Michael Blumenthal and G. William Miller were a rich source of material for this volume.

### **List of Sources**

In addition to the paper files cited below, a growing number of documents are available on the Internet. The Office of the Historian maintains a list of these Internet resources on its website and encourages readers to consult that site on a regular basis.

### **Unpublished Sources**

#### **Carter Presidential Library**

Anthony Solomon Collection

Brzezinski Donated Material

Donated Material, Papers of Walter F. Mondale

National Security Affairs, Brzezinski Material

Agency File

Brzezinski Office File

Country File

President's Correspondence with Foreign Leaders File

Subject File

Trip File

VIP Visit File

National Security Affairs, Staff Material

Deputy

Europe, USSR, and East/West

International Economics

North/South

Office

Special Projects

National Security Council, Institutional Files

## President's Files

Plains File

Presidential Materials, President's Daily Diary

Records of the Council of Economic Advisers

Charles L. Schultze Subject Files

Records of the Office of the Assistant to the President and White House Staff Director

Records of the Office of the Staff Secretary, Presidential File

Staff Office Files, Domestic Policy Staff

Eizenstat's Files

White House Central Files

Subject File

**Department of State**

Office of the Secretariat Staff, Records of Cyrus Vance, Secretary of State, 1977–1980, Lot 84D241

**Department of the Treasury**

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**National Archives and Records Administration**

RG 56

Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979

Office of the Under Secretary of the Treasury for Monetary Affairs, Subject Files of Anthony Solomon, 1977–1980

RG 59

Central Foreign Policy File

Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298

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# Abbreviations and Terms

**ADB**, Asian Development Bank  
**ADF**, African Development Fund  
**AFL/CIO**, American Federation of Labor/Congress of Industrial Organizations  
**AID**, Agency for International Development  
**AISI**, American Iron and Steel Institute  
**AMC**, American Motors Corporation  
**ASEAN**, Association of Southeast Asian Nations  
**ASP**, American Selling Price  
**AVE**, ad valorem equivalent

**b/d**, barrels per day  
**Benelux**, Belgium, the Netherlands, and Luxembourg  
**BHN**, basic human needs  
**BIS**, Bank for International Settlements  
**BOP**, balance of payments

**c/**, with  
**C-20**, Committee of 20 (Committee on Reform of the International Monetary System)  
**CAP**, Common Agricultural Policy  
**cc**, carbon copy (term indicating that a copy of a document should be sent to someone)  
**CCC**, Commodity Credit Corporation  
**CEA**, Council of Economic Advisers  
**CFE**, Compensatory Finance Facility  
**CFR**, Council on Foreign Relations  
**CIA**, Central Intelligence Agency  
**CIF**, cost, insurance, and freight  
**CIEC**, Conference on International Economic Cooperation  
**COET**, Crude Oil Equalization Tax  
**COMECON**, Council for Mutual Economic Assistance  
**COW**, Committee of the Whole (United Nations)  
**COWPS**, Council on Wage and Price Stability  
**CPI**, Consumer Price Index  
**CWPS**, Council on Wage and Price Stability  
**CVD**, countervailing duty  
**CY**, calendar year

**D**, Democrat  
**DAC**, Development Assistance Committee (Organization for Economic Cooperation and Development)  
**DC**, developed country  
**DCC**, Development Coordination Committee  
**DCI**, Director of Central Intelligence  
**DISC**, Domestic International Sales Corporation  
**DM**, **D-mark**, deutschmark  
**DNC**, Democratic National Committee  
**DOC**, Department of Commerce  
**DOD**, Department of Defense

- DOE**, Department of Energy  
**DOI**, Department of the Interior  
**DOJ**, Department of Justice  
**DOL**, Department of Labor  
**DOT**, Department of Transportation  
**dols**, dollars  
**DPS**, Domestic Policy Staff
- E**, Under Secretary of State for Economic Affairs  
**EB**, Bureau of Economic and Business Affairs, Department of State  
**EB/IFD/OMA**, Office of Monetary Affairs, International Finance and Development, Bureau of Economic and Business Affairs, Department of State  
**EB/OT/GCP**, General Commercial Policy Division, Office of International Trade, International Trade Policy, Bureau of Economic and Business Affairs, Department of State  
**EC**, European Commission; European Communities; European Community  
**ECOSOC**, Economic and Social Council (United Nations)  
**ECU**, European Currency Unit  
**EDA**, Economic Development Administration  
**EEC**, European Economic Community  
**EMS**, European Monetary System  
**EPA**, Economic Planning Agency (Japan); Environmental Protection Agency  
**EPG**, Economic Policy Group  
**ERDA**, Energy Research and Development Administration  
**ESF**, Economic Support Fund; Exchange Stabilization Fund  
**EUR**, Bureau of European Affairs, Department of State  
**EUR/RPE**, Office of Organization for Economic Cooperation and Development, European Community, and Atlantic Political-Economic Affairs, Bureau of European Affairs, Department of State  
**EUR/SOV**, Office of Soviet Union Affairs, Bureau of European Affairs, Department of State  
**EXIM**, Export-Import Bank
- FAA**, Foreign Assistance Act  
**fas**, free alongside ship  
**FAO**, Food and Agricultural Organization  
**FCN**, Friendship, Commerce, and Navigation (type of treaty)  
**FITC**, Foundation for International Technological Cooperation  
**FMS**, Foreign Military Sales  
**FONOFF**, Foreign Office  
**FRB**, Federal Reserve Board  
**FRG**, Federal Republic of Germany (West Germany)  
**FSF**, Financial Support Fund  
**FY**, fiscal year
- G-5**, Federal Republic of Germany, France, Japan, United Kingdom, United States  
**G-7**, Canada, Federal Republic of Germany, France, Italy, Japan, United Kingdom, United States  
**G-8**, Australia, Canada, European Economic Community, Japan, Spain, Sweden, Switzerland, United States (Conference on International Economic Cooperation); Canada, Federal Republic of Germany, France, Italy, Japan, United Kingdom, United States, and the European Community (annual industrialized country economic summits)  
**G-10**, Belgium, Canada, Federal Republic of Germany, France, Italy, Japan, Netherlands, Sweden, United Kingdom, United States

**G-19**, Algeria, Argentina, Brazil, Cameroon, Egypt, India, Indonesia, Iran, Iraq, Jamaica, Mexico, Nigeria, Pakistan, Peru, Saudi Arabia, Venezuela, Yugoslavia, Zaire, Zambia (Conference on International Economic Cooperation)

**G-77, Group of 77**, developing countries group established at the conclusion of the first United National Conference on Trade and Development in 1964

**GATT**, General Agreement on Tariffs and Trade

**GDR**, German Democratic Republic (East Germany)

**GE**, General Electric

**GM**, General Motors

**GNP**, gross national product

**GOJ**, Government of Japan

**GOM**, Government of Mexico

**Group B**, developed country negotiating group in the Common Fund or United Nations Conference on Trade and Development negotiations

**GSA**, General Services Administration

**GSP**, Generalized System of Preferences

**H**, Congressional Relations, Department of State

**HEW**, Department of Health, Education, and Welfare

**HMG**, Her Majesty's Government (United Kingdom)

**H.R.**, House of Representatives bill

**HUD**, Department of Housing and Urban Development

**IBM**, International Business Machines

**IBRD**, International Bank for Reconstruction and Development

**ICA**, international commodity arrangement; International Communication Agency

**ICSID**, International Center for the Settlement of International Disputes

**IDA**, International Development Association

**IDB**, Inter-American Development Bank

**IDCA**, International Development Cooperation Agency

**IDLI**, international development lending institution

**IDS**, International Development Strategy

**IEA**, International Energy Agency

**IETG**, International Energy Technology Group

**IFAD**, International Fund for Agricultural Development

**IFC**, International Finance Corporation

**IFI**, international financial institution

**ILO**, International Labor Organization

**IMF**, International Monetary Fund

**IMG**, International Monetary Group

**INFCE**, International Nuclear Fuel Cycle Evaluation Program

**INR**, Bureau of Intelligence and Research, Department of State

**IO**, Bureau of International Organization Affairs, Department of State

**IPC**, Integrated Program for Commodities

**IRS**, Internal Revenue Service

**ISA**, International Security Affairs (Department of Defense); International Sugar Agreement

**ISAC**, Industry Sector Advisory Committee

**ISTC**, Institute for Scientific and Technological Cooperation

**ITC**, International Trade Commission

**IWA**, International Wheat Agreement

**JCS**, Joint Chiefs of Staff

**JFY**, Japanese fiscal year

**LDC**, less developed country  
**LDP**, Liberal Democratic Party (Japan)  
**LLDC**, landlocked developing country; least developed country  
**LOS**, Law of the Sea

**mbd**, million barrels per day  
**MBFR**, Mutual and Balanced Force Reductions  
**MDB**, multilateral development banks  
**memcon**, memorandum of conversation  
**MFA**, Multifiber Arrangement  
**MFN**, most favored nation  
**MITI**, Ministry of International Trade and Industry (Japan)  
**MNE**, multinational enterprise  
**MOF**, Minister of Finance; Ministry of Finance  
**mpg**, miles per gallon  
**mtg**, meeting  
**MTN**, multilateral trade negotiations

**NAC**, National Advisory Council  
**NAM**, Non-Aligned Movement; National Association of Manufacturers  
**NASA**, National Aeronautics and Space Administration  
**NATO**, North Atlantic Treaty Organization  
**NIEO**, New International Economic Order  
**NIH**, National Institutes of Health  
**NPT**, Non-Proliferation Treaty  
**NRC**, Nuclear Regulatory Commission  
**NSC**, National Security Council  
**NSF**, National Science Foundation  
**NTM**, non-tariff measure  
**NTT**, Nippon Telegraph and Telephone

**ODA**, official development assistance  
**OECD**, Organization for Economic Cooperation and Development  
**OMA**, orderly marketing agreement  
**OMB**, Office of Management and Budget  
**OPEC**, Organization of Petroleum Exporting Countries  
**OPIC**, Overseas Private Investment Corporation  
**OSTP**, Office of Science and Technology Policy

**para**, paragraph  
**PD**, Presidential Directive  
**PL**, Public Law  
**PL 480**, Food for Peace (formally Public Law 83–480, the Agricultural Trade Development and Assistance Act of 1954)  
**PRC**, People’s Republic of China; Policy Review Committee  
**PRM**, Policy Review Memorandum

**R&D**, research and development  
**R**, Republican  
**reftel**, reference telegram

**SA**, substitution account  
**SALT**, Strategic Arms Limitation Talks  
**SBA**, Small Business Administration

- SDR**, special drawing rights  
**SEC**, Securities and Exchange Commission  
**SECTO**, designation for a message sent from the Secretary of State  
**septel**, separate telegram  
**S/P**, Policy Planning Staff  
**SPD**, Social Democratic Party (Federal Republic of Germany)  
**SPR, SPRO**, Strategic Petroleum Reserve  
**SSA**, Security Supporting Assistance  
**S&T**, science and technology  
**STABEX**, Système de Stabilisation des Recettes d'Exportation (European Community)  
**STR**, Office of the Special Trade Representative
- TOGOV**, designation for a message sent to the Governor  
**TOSEC**, designation for a message sent to the Secretary of State  
**TPC**, Trade Policy Committee  
**TPM**, trigger price mechanism  
**TPSC**, Trade Policy Staff Committee
- UAE**, United Arab Emirates  
**UAW**, United Auto Workers  
**UK**, United Kingdom  
**UN**, United Nations  
**UNCSTD**, United Nations Conference on Science and Technology for Development  
**UNCTAD**, United Nations Conference on Trade and Development  
**UNDP**, United Nations Development Programme  
**UNESCO**, United Nations Educational, Scientific and Cultural Organization  
**UNGA**, United Nations General Assembly  
**UNICEF**, United Nations Children's Fund  
**UNIDO**, United Nations Industrial Development Organization  
**USDel**, United States delegation  
**USEC**, United States Mission to the European Community  
**USED**, United States Executive Director (International Bank for Reconstruction and Development; International Monetary Fund)  
**USG**, United States Government  
**USITC**, United States International Trade Commission  
**USTR**, Office of the United States Trade Representative
- VAT**, value added tax  
**VW**, Volkswagen
- WARC**, World Administrative Radio Conference  
**WCARRD**, World Conference on Agrarian Reform and Rural Development  
**WFC**, World Food Council  
**WHO**, World Health Organization
- XCSS**, Executive Committee, Special Session (Organization for Economic Cooperation and Development)





# Persons

- Aaron, David L.**, Deputy Assistant to the President for National Security Affairs
- Albright, Madeleine**, Congressional Relations Officer, Press and Congressional Liaison Office, National Security Council, from March 1978
- Andreotti, Giulio**, Prime Minister of Italy until August 4, 1979
- Apel, Hans**, Minister of Finance of the Federal Republic of Germany until February 1978
- Armcast, Michael A.**, member, National Security Council Staff for East Asian and Chinese Affairs, until July 1978; Deputy Assistant Secretary of Defense for East Asia, Pacific and Inter-American Affairs from July 1978; Deputy Assistant Secretary of State for East Asian and Pacific Affairs from January 1980
- Aranson, Bernard**, Executive Speechwriter to the President from November 1978 until May 1980
- Askew, Reubin**, United States Trade Representative from October 1979
- Barre, Raymond**, Prime Minister of France; Minister of Economy and Finance of France until March 1978
- Bennet, Douglas J., Jr.**, Assistant Secretary of State for Congressional Relations from March 1977 until August 1979; Administrator, Agency for International Development, from August 1979
- Benson, Lucy Wilson**, Under Secretary of State for International Security Affairs from March 1977 until January 1980
- Bentsen, Lloyd**, Senator (D-Texas)
- Bergland, Robert S.**, Secretary of Agriculture
- Bergsten, C. Fred**, Assistant Secretary of the Treasury for International Affairs
- Blumenthal, W. Michael**, Secretary of the Treasury until July 1979
- Bo, Hideo**, Minister of Finance of Japan until November 1977
- Bosworth, Barry**, Director of the Council on Wage and Price Stability until August 1979
- Boulin, Robert**, Minister of Relations with Parliament of France until 1977; Minister-Delegate for the Economy and Finance of France from 1977 until 1978; Minister of Labor and Participation of France from 1978 until 1979
- Boumediene, Houari**, President of Algeria until December 1978
- Bourne, Peter G.**, Special Assistant to the President for Health Issues until July 1978
- Brandt, Willy**, Chancellor of the Federal Republic of Germany from 1969 until 1974; Chairman of the Social Democratic Party of the Federal Republic of Germany; Chairman of the Independent Commission on International Development Issues
- Brewster, Kingman, Jr.**, U.S. Ambassador to the United Kingdom from April 1977
- Brezhnev, Leonid**, First Secretary of the Communist Party of the Soviet Union
- Brill, Daniel**, Assistant Secretary of the Treasury for Economic Policy from May 1977 until September 1979
- Brown, Harold**, Secretary of Defense
- Brzezinski, Zbigniew K.**, Assistant to the President for National Security Affairs
- Burns, Arthur F.**, Chairman, Board of Governors, Federal Reserve System, until January 1978
- Butler, Landon**, Deputy Assistant to the President
- Byrd, Robert C.**, Senator (D-West Virginia)
- Caddell, Patrick**, Democratic Party pollster
- Callaghan, James**, Prime Minister of the United Kingdom until May 1979

- Carrington, Lord (Peter Alexander Carrington)**, Secretary of State for Foreign and Commonwealth Affairs of the United Kingdom from May 1979
- Carswell, Robert**, Deputy Secretary of the Treasury
- Carter, James Earl (Chip), III**, son of President Jimmy Carter
- Carter, James Earl (Jimmy)**, President of the United States
- Carter, Lillian**, mother of President Jimmy Carter
- Carter, Rosalynn**, First Lady of the United States
- Case, Clifford P., Jr.**, Senator (R–New Jersey) until 1978
- Castro, Fidel**, President of the Council of State and President of the Council of Ministers of Cuba
- Cavanaugh, John**, member, U.S. House of Representatives (D–Nebraska)
- Cederberg, Elford C.**, member, U.S. House of Representatives (R–Michigan) until 1978
- Chaikin, Sol**, President, International Ladies Garment Workers Union
- Chretien, Jean**, Minister of Finance of Canada from September 1977 until June 1979
- Christopher, Warren M.**, Deputy Secretary of State from February 25, 1977
- Church, Frank F.**, Senator (D–Idaho)
- Clappier, Bernard**, Governor of the Bank of France
- Clark, Joe**, Prime Minister of Canada from June 1979 until March 1980
- Clark, Peter**, Special Assistant to the Under Secretary of State for Economic Affairs from 1979
- Clift, A. Denis**, Assistant to the Vice President for National Security Affairs
- Cohen, William S.**, member, U.S. House of Representatives (R–Maine) until 1978; Senator (R–Maine) from 1979
- Conable, Barber Benjamin, Jr.**, member, U.S. House of Representatives (R–New York)
- Cooper, Richard N.**, Under Secretary of State for Economic and Agricultural Affairs from April 1977
- Corea, Gamani**, Secretary-General of the United Nations Conference on Trade and Development
- Crosbie, John**, Minister of Finance of Canada from June 1979 until March 1980
- Cross, Samuel Y.**, United States Executive Director, International Monetary Fund
- Dale, William B.**, Deputy Managing Director, International Monetary Fund
- Danforth, John**, Senator (R–Missouri)
- Davignon, Etienne**, Commissioner for Industry and International Markets, European Community
- DeConcini, Dennis Webster**, Senator (D–Arizona)
- De Guiringaud, Louis**, Minister of Foreign Affairs of France until November 1978
- De Laboulayé, François**, Political Director, Foreign Ministry of France, until 1977; French Ambassador to the United States from 1977
- De Larosière, Jacques**, Managing Director, International Monetary Fund, from June 1978
- Deal, Timothy**, member, National Security Council Staff for International Economics, until April 1979 and from January 1980
- Dell, Edmund**, Secretary of State for Trade and President of the Board of Trade of the United Kingdom until November 1978
- Denend, Leslie G.**, member, National Security Council Staff for Global Issues from July 1977 until June 1979; Special Assistant to the Assistant to the President for National Security Affairs from January 1980
- Deniau, Jean-François**, Minister of Foreign Trade of France from April 1978 until October 1980
- Denman, Sir Roy**, Director-General for External Relations, European Commission, from 1977
- Dodson, Christine**, Deputy Staff Secretary, National Security Council, until May 1977; Staff Secretary, National Security Council, from May 1977

- Donaldson, John C.L.**, Staff member, Office of the Special Representative for Trade Negotiations
- Duncan, Charles W., Jr.**, Deputy Secretary of Defense from January 1977 until July 1979; Secretary of Energy from August 1979
- Ehrlich, Thomas**, Director, International Development Cooperation Agency, from 1979
- Eizenstat, Stuart E.**, Assistant to the President for Domestic Affairs and Policy; Director of the Domestic Policy Staff
- Emminger, Otmar**, Vice-President of the Central Bank of the Federal Republic of Germany until May 1977; President of the Central Bank of the Federal Republic of Germany from June 1977 until December 1979
- Enders, Thomas**, U.S. Ambassador to Canada until September 1979; Representative to the European Communities from November 1979
- Erb, Guy F.**, member, National Security Council Staff for International Economics from September 1977 until January 1980
- Esaki, Masumi**, Minister of International Trade and Industry of Japan from December 1978 until November 1979
- Fallows, James M.**, Chief Speechwriter for the President until November 1978
- Feketekuty, Geza**, Director for Trade Analysis and Policy Planning, Office of the Special Representative for Trade Negotiations, until 1978; Assistant United States Trade Representative from 1978
- Finley, Murray**, President, Amalgamated Clothing and Textile Workers Union
- Foley, Thomas**, member, U.S. House of Representatives (D-Washington)
- Ford, Gerald R.**, President of the United States from August 9, 1974, until January 20, 1977
- Fordwor, Kwame Donkoh**, President of the African Development Bank until July 1979
- Forlani, Arnaldo**, Minister of Foreign Affairs of Italy until August 1979
- François-Poncet, Jean**, Minister of Foreign Affairs of France from November 1978
- Fraser, Malcolm**, Prime Minister of Australia
- Fried, Edward**, U.S. Director, International Bank for Reconstruction and Development
- Fukuda, Takeo**, Prime Minister of Japan until December 1978
- Gandhi, Indira**, Prime Minister of India until March 1977 and from January 1980
- Gardner, Richard**, U.S. Ambassador to Italy from March 1977
- Garn, Edward Jacob**, Senator (R-Utah)
- Genscher, Hans-Dietrich**, Minister of Foreign Affairs and Vice-Chancellor of the Federal Republic of Germany
- Gilligan, John J.**, Administrator, Agency for International Development, from March 1977 until March 1979
- Ginsburg, Robert**, member, Domestic Policy Staff
- Giraud, Andre**, Minister of Industry of France from April 1978
- Giscard d'Estaing, Valéry**, President of France
- Godley, Gene**, Assistant Secretary of the Treasury for Legislative Affairs from March 1977 until 1980
- Gradison, Willis David, Jr.**, member, U.S. House of Representatives (R-Ohio)
- Gramley, Lyle**, member, Council of Economic Advisers, from March 1977 until May 1980
- Greenwald, John**, Staff member, Office of the Special Representative for Trade Negotiations; Deputy General Counsel, Office of the Special Representative for Trade Negotiations; Deputy Assistant Secretary of Commerce of Import Administration
- Gundelach, Finn O.**, Vice-President, Agriculture and Fisheries, European Commission, from 1977 until 1981

**Haferkamp, Wilhelm**, Vice-President, Economic and Financial Affairs, European Commission, until 1977; Vice-President, External Relations, European Commission, from 1977

**Hansen, Roger**, member, National Security Council Staff

**Harman, Sidney**, Under Secretary of Commerce until December 1978

**Harrington, Michael J.**, member, U.S. House of Representatives (D–Massachusetts) until 1978

**Healey, Denis**, Chancellor of the Exchequer of the United Kingdom until May 1979

**Heinz, Henry John, III**, Senator (R–Pennsylvania)

**Hesburgh, Father Theodore**, President of the University of Notre Dame

**Hessler, Curtis**, Executive Assistant to the Secretary of the Treasury and Executive Director, Cabinet Economic Policy Group, until 1979; Associate Director, Office of Management and Budget, from 1979 until 1980; Assistant Secretary of the Treasury for Economic Policy from April 1980

**Hinton, Deane R.**, Representative to the European Communities until December 1979; Assistant Secretary of State for Economic and Business Affairs from January 1980

**Hiss, Dieter**, Staff member, Office of the Chancellor of the Federal Republic of Germany, until 1978; President, State Central Bank of Berlin, from 1978

**Holbrooke, Richard C.**, Assistant Secretary of State for East Asian and Pacific Affairs from March 1977

**Hormats, Robert**, member, National Security Council Staff for International Economics until October 1977; Senior Deputy Assistant Secretary of State for Economic and Business Affairs from 1977 until 1979; Deputy United States Trade Representative from December 1979

**Howe, Sir Geoffrey**, Chancellor of the Exchequer of the United Kingdom from May 1979

**Hufbauer, Gary**, Director, International Tax Staff, Department of the Treasury, until 1977; Deputy Assistant Secretary of the Treasury for International Trade and Investment Policy from 1977 until 1980

**Humphrey, Hubert H.**, Senator (D–Minnesota) until 1978

**Hunt, Sir John**, Secretary to the Cabinet of the United Kingdom until 1979

**Hunter, Robert**, member, National Security Council Staff for Western Europe until August 1979; member, National Security Council Staff for East and North Africa from September 1979

**Hutcheson, Richard G., III**, White House Staff Secretary

**Inderfurth, Karl Frederick (Rick)**, Special Assistant to the Assistant to the President for National Security Affairs until April 1979

**Inouye, Daniel K.**, Senator (D–Hawaii)

**Jacklin, Nancy**, Attorney-Advisor, Department of the Treasury

**Jamieson, Donald**, Secretary of State for External Affairs of Canada until June 1979

**Javits, Jacob K.**, Senator (R–New York)

**Jay, Peter**, British Ambassador to the United States from 1977 until 1979

**Jenkins, Roy**, President, European Commission, from 1977 until 1981

**Johnson, Joel**, member, Policy Planning Staff, Department of State, from 1978

**Jordan, Hamilton**, Assistant to the President until July 1979; White House Chief of Staff from July 1979 until June 1980

**Junz, Helen B.**, staff, Council of Economic Advisers, until 1977; Deputy Assistant Secretary of the Treasury for Commodities and Natural Resources from 1977 until 1979

**Kaneko, Ippei**, Minister of Finance of Japan from December 1978 until November 1979

**Karlik, John**, Deputy Assistant Secretary of the Treasury for Economic Policy (International Economic Analysis) from December 1977 until January 1980

- Katz, Julius L.**, Assistant Secretary of State for Economic and Business Affairs until November 1979
- Kelly, William B.**, Special Representative for Trade Negotiations until 1979; Assistant United States Trade Representative from 1979 until 1980
- Kennedy, Edward M. (Ted)**, Senator (D–Massachusetts)
- Khalid, Ibn Abd al-Aziz al-Saud**, King of Saudi Arabia
- Khan, Alfred**, Chairman, Civil Aeronautics Board, until 1978; Advisor to the President on Inflation and Chairman, Council on Wage and Price Stability, from October 1978 until 1980
- Khomeini, Ayatollah Ruhollah**, Supreme Leader of Iran from December 1979
- Kissinger, Henry A.**, Assistant to the President for National Security Affairs from January 1969 until November 1975; Secretary of State from September 1973 until January 1977
- Klutznick, Philip M.**, Secretary of Commerce from January 1980
- Komoto, Toshio**, Minister of International Trade and Industry of Japan from November 1977 until December 1978
- Kraft, Timothy**, Special Assistant to the President for Appointments until May 1978; Assistant to the President for Political Affairs and Personnel until August 1979
- Kreps, Juanita M.**, Secretary of Commerce until October 1979
- Lake, W. Anthony**, Director of the Policy Planning Staff
- Lambsdorff, Otto Graf**, Minister of Economics for the Federal Republic of Germany from October 1977
- Lance, Thomas Bertram**, Director, Office of Management and Budget, until September 1977
- Leddy, Thomas**, United States Alternate Executive Director, International Monetary Fund, until April 1979
- Leone, Giovanni**, President of Italy until June 1978
- Long, Clarence**, member, U.S. House of Representatives (D–Maryland)
- Long, Olivier**, Director-General, General Agreement on Tariffs and Trade, until April 1980
- Long, Russell B.**, Senator (D–Louisiana)
- López Portillo, José**, President of Mexico
- Luers, William H.**, U.S. Ambassador to Venezuela from September 1978
- Macdonald, Donald**, Minister of Finance of Canada until September 1977
- MacDonald, Flora**, Secretary of State for External Affairs of Canada from June 1979 until March 1980
- MacDonald, James Ramsay**, Prime Minister of the United Kingdom from January 1924 until November 1924 and from June 1929 until June 1935
- Mackour, Oscar**, Department of the Treasury official
- Mahon, George H.**, member, U.S. House of Representatives (D–Texas) until 1978
- Manley, Michael N.**, Prime Minister of Jamaica until November 1980
- Mansfield, Michael J.**, U.S. Ambassador to Japan from June 1977
- Marshall, F. Ray**, Secretary of Labor
- Mathews, Jessica Tuchman**, member, National Security Staff for Global Issues until June 1977
- Matsukawa, Michiya**, Vice Minister for International Affairs, Ministry of Finance of Japan, until June 1978; Advisor, Ministry of Finance of Japan from June 1978 until June 1980
- Matthoefer, Hans**, Minister of Finance of the Federal Republic of Germany from February 1978
- Maynes, Charles W.**, Assistant Secretary of State for International Organization Affairs from April 1977 until April 1980

- McDonald, Alonzo L.**, Deputy Special Representative for Trade Negotiations and Head of the United States Delegation to the Tokyo Round of Multilateral Trade Negotiations from July 1977 until October 1979; Acting Special Representative for Trade Negotiations from August 1979 until October 1979; Assistant to the President and White House Staff Director from August 1979
- McHenry, Donald F.**, U.S. Representative to the United Nations from September 1979
- McHugh, Matthew F.**, member, U.S. House of Representatives (D–New York)
- McIntyre, James T., Jr.**, Director, Office of Management and Budget from March 1978
- McNamara, Robert S.**, President, World Bank
- Meany, George**, President, American Federation of Labor and Congress of Industrial Organizations, until 1979
- Melcher, John**, Senator (D–Montana)
- Miller, G. William**, Chairman, Board of Governors, Federal Reserve System, from March 1978 until August 1979; Secretary of the Treasury from August 1979
- Minchew, Daniel**, Chairman, United States International Trade Commission
- Miyazaki, Hironichi**, Deputy Foreign Minister for Economic Affairs of Japan from 1977 until 1980
- Miyazaki, Isamu**, Director General of the Coordination Bureau, Economic Planning Agency of Japan, from January 1977 until July 1979; Administrative Vice Minister, Economic Planning Agency of Japan from July 1979
- Miyazawa, Kiichi**, Director General of the Economic Planning Agency of Japan from November 1977 until December 1978
- Mondale, Walter F. (Fritz)**, Vice President of the United States
- Monory, Rene**, Minister of Economy and Finance of France from April 1978
- Moore, Frank B.**, Assistant to the President for Congressional Liaison
- Motono, Moriyuki**, Director General of the Economic Affairs Bureau, Ministry of Foreign Affairs of Japan, until January 1978
- Moynihan, Daniel P.**, Senator (D–New York)
- Murayama, Tatsuo**, Minister of Finance of Japan from November 1977 until December 1978
- Murphy, John M.**, member, U.S. House of Representatives (D–New York)
- Muskie, Edmund S.**, Secretary of State from May 1980
- Nachmanoff, Arnold**, Deputy Assistant Secretary of the Treasury for Developing Nations
- Nixon, Richard M.**, President of the United States from January 20, 1969, until August 9, 1974
- Nordhaus, William D.**, member, Council of Economic Advisers, from March 1977 until February 1979
- Nordli, Odvar**, Prime Minister of Norway
- Nye, Joseph S.**, Deputy Under Secretary of State for Security Assistance, Science and Technology until 1979
- Nyerere, Julius**, President of Tanzania
- Obey, David Ross**, member, U.S. House of Representatives (D–Wisconsin)
- Oduer Quirós, Daniel**, President of Costa Rica until May 1978
- Ohira, Masayoshi**, Prime Minister of Japan from December 1978 until June 1980
- O'Neill, Thomas Phillip, Jr. (Tip)**, member, U.S. House of Representatives (D–Massachusetts)
- Owada, Hisashi**, Private Secretary to Prime Minister Takeo Fukuda of Japan from 1976 until 1978; Special Assistant to Ambassador Yasukawa until 1979; Deputy Director General of the Economic Affairs Bureau, Ministry of Foreign Affairs of Japan from 1979

- Owen, David**, Secretary of State for Foreign and Commonwealth Affairs of the United Kingdom from February 1977 until May 1979
- Owen, Henry D.**, Special Representative for Economic Summits from March 1977; member, National Security Council Staff for International Economics from October 1977; Ambassador at Large from October 1978
- Pandolfi, Filippo**, Minister of Finance of Italy until March 1978; Minister of the Treasury of Italy from March 1978 until October 1980
- Pastor, Robert A.**, member, National Security Council Staff for Latin American and Caribbean Affairs
- Perez, Carlos Andres**, President of Venezuela until March 1979
- Perez Guerrero, Manuel**, Minister of State for International Economic Affairs of Venezuela
- Peterson, Peter G.**, President's Assistant for International Economic Affairs from 1971 until 1972
- Platt, Nicholas**, Director of the Office of Japanese Affairs, Bureau of East Asian and Pacific Affairs, Department of State from 1977 until 1978; member, National Security Council Staff for East Asian and Chinese Affairs from July 1978 until November 1979
- Powell, Joseph (Jody)**, White House Press Secretary
- Press, Frank**, Advisor to the President on Science and Director, Office of Science and Technology Policy from March 1977
- Proxmire, William**, Senator (D-Wisconsin)
- Rafshoon, Gerald M.**, Assistant to the President for Communications from July 1978 until September 1979
- Reagan, Ronald**, Republican Presidential nominee, 1980; President of the United States from January 1981 until January 1989
- Renner, John C.**, member, National Security Council Staff; Counselor and Special Envoy, Office of the Special Representative for Trade Negotiations
- Reuss, Henry S.**, member, U.S. House of Representatives (D-Wisconsin)
- Rhodes, John J., Jr.**, member, U.S. House of Representatives (R-Arizona)
- Ribicoff, Abraham A.**, Senator (D-Connecticut)
- Rivers, Richard**, General Counsel, Office of the Special Representative for Trade Negotiations, from 1977 until 1979
- Roel Garcia, Santiago**, Secretary of Foreign Affairs of Mexico until April 1979
- Roosa, Robert V.**, Under Secretary of the Treasury for Monetary Affairs from 1961 until 1964
- Roth, William Victor, Jr.**, Senator (R-Delaware)
- Rubenstein, David M.**, Deputy Assistant to the President for Domestic Policy
- Salzman, Herbert**, U.S. Representative to the Organization for Economic Cooperation and Development from June 1977
- Sarbanes, Paul Spyros**, Senator (D-Maryland)
- Schirmer, Katherine P. (Kitty)**, Associate Director for Energy and Natural Resources, Domestic Policy Staff, until 1980; Associate Director for Natural Resources, Energy, and Science, Office of Management and Budget, from 1980
- Schlesinger, James R.**, Secretary of Energy from August 1977 until July 1979
- Schmidt, Helmut**, Chancellor of the Federal Republic of Germany
- Schultze, Charles L.**, Chairman, Council of Economic Advisers
- Shultz, George**, Secretary of the Treasury from January 1972 until May 1974
- Simon, William**, Secretary of the Treasury from May 1974 until January 1977
- Singh, Charan**, Prime Minister of India from July 1979 until January 1980



**Smith, Gerard**, U.S. Representative to the Atomic Energy Agency, Ambassador at Large, and the President's Special Representative for Non-Proliferation Matters from July 1977 until November 1980

**Soares, Mario**, Portuguese Prime Minister until August 1978

**Solomon, Anthony M.**, Under Secretary of the Treasury for Monetary Affairs from March 1977 until March 1980; New York Federal Reserve Bank President from April 1980

**Sonoda, Sunao**, Minister of Foreign Affairs of Japan from November 1977 until November 1979

**Sparkman, John J.**, Senator (D-Alabama) until 1978

**Speer, Edgar**, Chairman, United States Steel Corporation

**Springborn, Frederick (Fred)**, Treasury official

**Stammati, Gaetano**, Minister of the Treasury of Italy until March 1978

**Stanton, John**, member, U.S. House of Representatives (R-Ohio)

**Steiger, William Albert**, member, U.S. House of Representatives (R-Wisconsin) until December 1978

**Stevenson, Adlai E., III**, Senator (D-Illinois)

**Stoessel, Walter J., Jr.**, U.S. Ambassador to the Federal Republic of Germany

**Strauss, Robert S.**, Special Representative for Trade Negotiations from March 1977 until August 1979

**Takeshita, Noboru**, Minister of Finance of Japan from November 1979 until July 1980

**Tarnoff, Peter R.**, Executive Secretary of the Department of State from April 1977

**Thatcher, Margaret**, Prime Minister of the United Kingdom from May 1979

**Thornton, Thomas**, member, National Security Council Staff for South Asia and UN Matters

**Todman, Terence A.**, Assistant Secretary of State for Inter-American Affairs from April 1977 until June 1978

**Togo, Fumihiko**, Japanese Ambassador to the United States until 1980

**Truman, Harry S.**, President of the United States from April 1945 until January 1953

**Turner, Stansfield**, Admiral, Director of Central Intelligence from March 1977

**Ullman, Albert C.**, member, U.S. House of Representatives (D-Oregon)

**Ushiba, Nobuhiko**, Minister of State for External Economic Affairs of Japan from November 1977 until December 1978

**Vance, Cyrus R.**, Secretary of State until April 1980

**Vandenberg, Arthur**, Senator (R-Michigan) from 1927 until 1952

**Van Dyk, Frederick T. (Ted)**, Assistant Administrator, Agency for International Development, until September 1977

**Vanik, Charles A.**, member, U.S. House of Representatives (D-Ohio)

**Van Lennep, Emile**, Secretary-General, Organization for Economic Cooperation and Development

**Vine, Richard**, Deputy Assistant Secretary of State for European Affairs until September 1979

**Volcker, Paul**, Chairman, Board of Governors, Federal Reserve System, from August 1979

**Waggoner, Joseph David, Jr.**, member, U.S. House of Representatives (D-Louisiana) until January 1979

**Waldheim, Kurt**, Secretary-General, United Nations

**Wallich, Henry**, member, Board of Governors, Federal Reserve System

**Warner, Marvin**, U.S. Ambassador to Switzerland from July 1977 until July 1979

- Watson, Jack H., Jr.**, President's Assistant for Intergovernmental Affairs and Cabinet Secretary until June 1980; White House Chief of Staff from June 1980
- Weil, Frank A.**, Assistant Secretary of Commerce and Head of the International Trade Administration from February 1977 until October 1979
- Wells, Melissa F.**, U.S. Representative to the United Nations Economic and Social Council from May 1977 until 1979
- Wexler, Anne**, Deputy Under Secretary of Commerce for Regional Affairs until April 1978; Assistant to the President from May 1978
- Widjojo Nitisastro**, Minister of State for Economy, Finance, and Industry of Indonesia until March 1978; Coordinating Minister for Economics, Finance, and Industry of Indonesia from March 1978
- Widman, F. Lisle**, Deputy Assistant Secretary of the Treasury for International Monetary Affairs from 1976 until 1980
- Wirth, Timothy E.**, member, U.S. House of Representatives (D-Colorado)
- Witteveen, H. Johannes**, Managing Director, International Monetary Fund, until June 1978
- Wolff, Alan**, General Counsel, Office of the Special Representative for Trade Negotiations until May 1977; Deputy Special Representative for Trade Negotiations from May 1977 until October 1979
- Yasukawa, Takeshi**, Representative of Japan for External Economic Affairs from 1979 until 1980
- Yondo, Marcel**, Minister of Finance of Cameroon until November 1979
- Yoshino, Bunroku**, Deputy Vice Minister of Foreign Affairs of Japan from 1975 until 1977
- Young, Andrew J.**, U.S. Representative to the United Nations until August 1979
- Young, Charles William**, member, U.S. House of Representatives (R-Florida)
- Young, Milton R.**, Senator (R-North Dakota)
- Zablocki, Clement J.**, member, U.S. House of Representatives (D-Wisconsin)



# Foreign Economic Policy

## International Monetary and Trade Policy

### 1. Message From Vice President-Elect Mondale to President-Elect Carter<sup>1</sup>

Togov 136

Washington, January 18, 1977

#### SUBJECT

Visit to Europe and Japan

The reaction from the leaders of Western Europe and Japan to your announcement of my overseas mission has been positive and enthusiastic.<sup>2</sup> They welcome this early initiative to improve consultations and strengthen cooperation. They view it as a positive signal that you will exercise leadership on the economic, political and defense problems they share in common with the United States.

The January 23–February 1 mission will include discussions in Brussels with the North Atlantic Council, the Commission of the European Communities, Belgian and Dutch leaders; talks in Bonn with Chancellor Schmidt; a brief visit to Berlin; talks in Rome with President Leone and Prime Minister Andreotti; an audience with Pope Paul VI; talks in London with Prime Minister Callaghan, in Paris with President Giscard d’Estaing and in Tokyo with Prime Minister Fukuda. The primary focus of the trip will be on the personal discussions with Schmidt, Callaghan, Giscard and Fukuda.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 67, Transition Messages: To Governor #115–141: 1/8–19/77. Secret; Eyes Only. Mondale did not initial the message, which incorrectly identifies Carter and Mondale as the President and Vice President, respectively.

<sup>2</sup> Carter announced on January 8 that Mondale would travel to Western Europe and Japan for consultations with U.S. allies. (Charles Mohr, “Mondale to Explain Carter Aims on Visit to Europe and Japan,” *The New York Times*, January 9, 1977, p. 1) In message Togov 102 to Carter, January 5, Brzezinski proposed the trip as a way “to underline your commitment to prompt action on international economic issues through close consultations with our principal allies, as well as to reduce pressures for early separate summits.” (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 66, Transition Messages: To Governor #87–114: 12/31/76–1/7/77)

*My primary purpose in these meetings will be:*

—to listen and to report back to you on the subjects foremost on the minds of each foreign leader and the proposals each wishes to offer for your consideration;

—to convey the direction of some of your initial policies and to emphasize your determination to move ahead with the United States' friends and allies quickly, creatively and cooperatively; and

—to move toward agreement on certain initial steps such as summit location and timing, MTN consultations and consultations on issues such as non-proliferation which might be announced by you upon my return in the context of the accomplishments of the mission.

In each of the countries, it is probable that my hosts will raise a number of specific bilateral problems ranging from civil air and fishing rights, to steel quotas to host country negotiations with the IMF. With the exceptions noted below, *I will not get into detailed discussion of contentious bilateral issues, to avoid complicating future specific negotiations.*

The following paragraphs summarize principal issues I anticipate being raised during the visit, the approach I recommend to take on your behalf, and a request for your guidance.

*The Summit:*<sup>3</sup> In discussing the summit and receiving the views of our European and Japanese colleagues, I will stress your objective of collaborating as closely as possible to speed international economic recovery. I will ask my hosts for their thoughts on the summit agenda. I will note that our initial thoughts as to agenda items include both political and economic issues: e.g., economic recovery, North South issues, trade, international financial issues, energy, East-West relations and procedural arrangements for continuing consultations after the summit. I will indicate that we would like to see the European Community participate. I will explore Giscard's suggestion of a side meeting at the summit of the Europeans and the U.S.

I will emphasize the need for adequate preparation of the summit agenda items and offer our thinking on the usefulness of a few high-level preparatory meetings, with the first such meeting perhaps, at the end of February. I believe it would speed the planning process if I were in position to name the U.S. officials who will head our participation in planning meetings for the summit. The Economic Policy Group at its meeting today is preparing a recommendation to you on an individual to head the economic planning effort for the U.S. in coordination

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<sup>3</sup> On December 2, 1976, Giscard publicly proposed the convening of an Economic Summit of the seven major industrialized democracies: Canada, the Federal Republic of Germany, France, Italy, Japan, the United Kingdom, and the United States, known as the G-7. Giscard also approached President-elect Carter about his proposal, which Carter endorsed. See *Foreign Relations, 1969–1976*, vol. XXXI, Foreign Economic Policy, 1973–1976, Document 152.

with the NSC/PRC.<sup>4</sup> I would also plan to indicate your preference for summit timing no earlier than late May 1977,<sup>5</sup> and to indicate that we would be satisfied with London as the site. *With your agreement, I will be prepared to discuss the date, place and preparation for the summit, to name the U.S. participants for the economic and political preparatory meetings, and to propose that the summit date be announced after I return and consult with you.*<sup>6</sup>

*Coordination of U.S., FRG and Japanese Economies:* The visit will allow me to review the details of the stimulative economic package you are sending to the U.S. Congress,<sup>7</sup> a package reflecting your full recognition that healthy economic growth and measures to keep down inflation in the United States are important not only for Americans but for our trading partners as well.

I will state that a key factor in your decision to undertake additional economic stimulus to put the U.S. on a course of stable growth was the positive effect it would have on the economies of our trading partners. If the major economies do not at least meet their growth targets, it will have an adverse impact on these nations and strengthen protectionist pressures.

I will encourage the Germans and Japanese in developing their economic policies to take into account the significant role each country's healthy growth plays in contributing to the recoveries of the weaker economies, to the well-being of the world economy, and thus to international political stability. *If you agree, I will review the U.S. economic stimulation program and encourage Schmidt and Fukuda to stimulate their economies, unless they indicate they will do more than they presently plan to do.*<sup>8</sup>

*Multilateral Trade Negotiations (MTN):*<sup>9</sup> I will make clear your intention to administer U.S. trade legislation in such a way as to avoid solving our trade problems at the expense of others, and in a manner consistent with America's traditional policy of ensuring an open inter-

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<sup>4</sup> No minutes of this meeting were found.

<sup>5</sup> Carter circled the word "late" and wrote "omit 'late'" in the margin adjacent to this paragraph.

<sup>6</sup> Carter indicated his approval of this position and wrote: "except no need to name our participants until agenda approved. Do not limit to 'economic.'"

<sup>7</sup> For the text of Carter's January 31 message to Congress, in which he proposed a 2-year \$31.2-billion economic recovery program, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 47-55.

<sup>8</sup> Carter indicated his approval of this position and wrote: "Schmidt making major statement this week." See Document 2.

<sup>9</sup> The seventh round of multilateral trade negotiations (MTN) held under the auspices of the General Agreement on Tariffs and Trade, known as the Tokyo Round, was initiated at a GATT Ministerial Conference held in Tokyo September 12-14, 1973.

national trading system. While avoiding detailed discussion of specific contentious trade issues, I will note that we are troubled by the trend toward bilateral solutions to trade problems, that such arrangements feed pressures in the U.S. for unilateral action and weaken the multilateral trading framework, and that the U.S., Europe, Japan and Canada must find ways to manage trade issues in a cooperative multilateral fashion, rather than further strengthen the dangerous precedent of bilateral solutions.

I will state your view that the next several months provide the U.S., Europe and Japan with an excellent opportunity to regenerate political commitment to a successful MTN. There is a new EC Commission and new Administration in Japan and the U.S. 1977 thus presents a chance, which we cannot afford to let slip by, to make significant progress on those issues which are central to a successful MTN—agriculture, a subsidies code, a tariff negotiating plan, and North-South trade issues.

I will state your intention to name a top-flight U.S. trade negotiator, adding that the U.S. will be prepared to consult actively with the EC and Japan to break any logjams which occur in the MTN. I will say that we suggest that four or five representatives get together at a high level to see how we might break existing deadlocks and avoid what we see as a dangerous precedent of bilateral deals.

In my meeting with EC Commissioner Jenkins, I will say we would like to begin informal discussions with a representative of the Community as soon as possible, and invite him to suggest an individual.

*With your agreement, I will emphasize that the United States wants to get the MTN moving. I will recommend that we agree on intensive governmental consultations as soon as feasible with our key negotiating partners to develop realistic proposals for MTN progress, and I will seek their agreement on having these consultations announced by you at the conclusion of my trip.*<sup>10</sup>

[Omitted here is discussion of NATO, East-West Relations, Berlin, Communism in Italy, U.S.–Vatican Relations, Non-Proliferation, and Arms Sales.]

*Japan:* In Japan, as in Europe, I will review planning for the trilateral summit and I will encourage early MTN consultations and cooperation on other stops on the trip, I will avoid detailed discussion of contentious issues.<sup>11</sup> I will plan to reaffirm your message to Prime Minister

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<sup>10</sup> Carter indicated his approval of this position.

<sup>11</sup> At a January 22 NSC meeting, during a discussion of Mondale's forthcoming visit to Japan, Blumenthal, noting that Carter would "be confronted with some very important trade issues in the near future," suggested that if Mondale did not explicitly refer to such issues, "the Japanese will consider the omission to be significant. The Japanese need constant pressure." Carter instructed Mondale to tell the Japanese "that unless they are receptive to voluntary agreements this will put us under great political pressure." Blumenthal expressed his "doubt that we should raise the specific question of voluntary

Fukuda emphasizing the importance you place on US-Japanese friendship and bilaterally and in the context of the interests we share in the Pacific with our fellow industrialized democracies.<sup>12</sup>

With regard to the Philippines, I will say that we will be undertaking review of our basing requirements, that we cannot accept the current Philippine negotiating proposal, that the bases are as much in the [interests of?] the Philippines as they are in U.S. interests—and that if the current outrageous demands are not lower we are prepared to do without the bases. I will assure the Japanese that we will consult fully with them during the Philippine base negotiating process.<sup>13</sup>

*I will discuss your policies toward the People's Republic of China and Korea, making sure Prime Minister Fukuda understands the importance you attach to questions concerning Korea, including the issue of troop levels, but not going beyond your stated positions. With your agreement, I will confirm your desire to have close consultations with Japan concerning Korea and U.S. relations with the People's Republic of China, and agreement on the desirability of close US-Japanese consultations on all issues of common interest can be highlighted in your review of the results of the mission.*<sup>14</sup>

[Omitted here is discussion of Southern Africa, Cyprus, and the Middle East.]

*North-South Issues:* I will state your commitment to a constructive relationship with the developing countries, and your desire for close cooperation among the industrialized countries to achieve this objective. I will emphasize that your Administration has not yet had a chance to examine North-South issues in depth and has not come to firm decisions on specific subjects. We will want to consult with the Europeans and Japanese at the earliest possible moment. I will say that we believe there are several suitable forums for such consultations including the Executive Council of the OECD, the Trilateral summit preparatory meetings, and the commissions of the CIEC.

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agreements. We should tell them that they have a large trade surplus and should watch it." When Mondale suggested raising the issue of Japanese color television exports, Blumenthal replied, "As an example." (Memorandum of conversation, undated; Carter Library, National Security Council, Institutional Files, Box 54, NSC-001, 1-22-77)

<sup>12</sup> At the January 22 NSC meeting (see footnote 11 above), Brzezinski suggested that U.S.-Japanese issues be broached "in a somewhat larger framework. We should emphasize the importance of Japan's assuming a major international role. We should put it in the perspective of history. Then we could turn to specific issues where they might play a greater role: trade, North-South issues, defense, etc. But do it in the context of Japan emerging as a major global power." Carter agreed, adding, "If Fukuda raises some specific questions it will give us a better idea of their concerns." When Mondale suggested that the United States and Japan were "immediately establishing closer working relations—this is a beginning," Carter noted that "Japan is now a major world power and we look forward to sharing the responsibility with her."

<sup>13</sup> Carter wrote "Do not be belligerent re Marcos with Fukuda" at the end of this paragraph.

<sup>14</sup> Carter indicated his approval of this position.



*With your agreement, I will make clear your interest in early consultations on North-South issues, and I will assure the Europeans and Japanese that there will be no surprise proposals from the United States.*<sup>15</sup>

*Energy:* In each capital I will state that your Administration will give high priority to establishment of a comprehensive U.S. national energy program to reduce import dependence on Middle East oil, and I will review the initial steps—including your plans for a Department of Energy—that you are taking. I will further state that we strongly support cooperation among the industrialized countries in the International Energy Agency in behalf of concerted long-term efforts to reduce collective reliance on OPEC oil and the imbalances in the world energy market. I will suggest that technical cooperation on research and development of new sources of energy might be particularly fruitful. I will point out that, at present, the details of energy policy in your Administration are being developed as a matter of great urgency. In this regard, Jim Schlesinger is preparing specific talking points for the trip which I will ensure coordination within the Administration prior to my departure. *With your agreement, I will stress the importance you are according to energy policy, the importance you attach to cooperation among the industrialized countries on energy issues, and the value we see in cooperative research and development programs on new energy sources.*<sup>16</sup>

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<sup>15</sup> Carter indicated his approval of this position. At the January 22 NSC meeting (see footnote 11 above), during a discussion of North-South issues, Carter asked whether the U.S. position was “to shift to a multi-national approach.” Vance replied, “On the provision of capital funds, I believe we should,” while Blumenthal noted that, “Many of the solutions in the US involve multi-national fora.” Vance raised the issue of CIEC timing, asking, “Would we like a CIEC meeting before or after the summit? If after, their expectations will be raised and they may not be met. I would prefer early April.” Blumenthal replied, “They already have great expectations about the new Administration. We will have to disappoint them in some regard.” He also suggested that “If others are anxious about it we should have a meeting in April. We could listen but say we have not yet firmed up our views.” Vance agreed.

<sup>16</sup> Carter indicated his approval of this position.

## 2. Memorandum From Zbigniew Brzezinski to President-Elect Carter<sup>1</sup>

Washington, January 19, 1977

### SUBJECT

Preview of Schmidt Economic Announcement

As Chancellor Schmidt promised in your telephone conversation,<sup>2</sup> the German Government has provided us with the attached paper outlining the investment program which he, Schmidt, will announce on January 20.<sup>3</sup> The program calls for approximately 10 billion German marks (\$4.1 billion) worth of investment over a period of four years at the federal, state, and local levels; the federal government share will be more than 50%. The spending will concentrate on river cleanup, regional water supplies, inner-city development, energy saving measures, and protection of seashores.

The 10 billion mark figure—only 1% of GNP—appears unlikely to have a major impact on the German economy. Even if the program becomes effective early this year, it is probable that no more than 1–2 billion marks will be spent over the year as a whole, and most of that will probably be in the second half. The smallness of the program appears to indicate that the government will wait until early spring before making a decision on whether significant additional stimulus is required.<sup>4</sup>

German GNP will probably fall below the 5% real growth target in 1977, although the Germans continue to argue that this target can be

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 1–3/77. Confidential. A copy was sent to Mondale. A stamped notation reads: "The President has seen," and Carter initialed "C" at the top of the page.

<sup>2</sup> No memorandum of conversation of this telephone conversation was found.

<sup>3</sup> Attached but not printed is a courtesy translation of a paper entitled "Public Investment Program for Growth and Environmental Foresight—as per January 15, 1977—."

<sup>4</sup> At a January 22 NSC meeting, during a discussion of national economic stimulus programs and Mondale's forthcoming visit to Europe and Japan, Schultze noted that while the United States was spending 1 percent of its GNP on its economic program, West Germany was spending "only about ¼ of 1% of their GNP" to stimulate its economy. When Vance asked why the West German program was so small, Schultze replied: "Schmidt is just very, very conservative. Also, instead of trying to compromise between labor's desire for greater production capital and business' desire for investment capital, they have done neither. They don't want to antagonize either side." Carter instructed Mondale to tell the West Germans that "we are quite disappointed with their performance in this area" and that "we think 1% of GNP is an appropriate figure. Say we're very disappointed." (Memorandum of conversation, undated; Carter Library, National Security Council, Institutional Files, Box 54, NSC-001, 1-22-77)

achieved. The US Treasury projects 4% growth; the OECD projects 3.5%. Treasury's projections appear to be more accurate. The new measures, although marginal, will probably assure that the Germans attain the Treasury projected figure.

As you promised Schmidt in your telephone conversation, we will provide the Germans with a summary of your stimulative economic package.

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### 3. Presidential Review Memorandum/NSC 7<sup>1</sup>

Washington, January 21, 1977

TO

The Vice President  
The Secretary of State

ALSO

The Secretary of the Treasury  
The Secretary of Agriculture  
The Secretary of Commerce  
The Secretary of Labor  
The Director, Office of Management and Budget  
The Chairman, Council of Economic Advisers  
The United States Representative to The United Nations  
The Special Representative for Trade Negotiations  
The Director of Central Intelligence  
The Assistant to the President for Energy Policy

SUBJECT

International Summit

The President has directed that the Policy Review Committee undertake an analysis of, and provide options concerning, the major policy issues to be addressed at an International Summit. The economic aspects of this analysis are to be staffed through the Economic Policy Group prior to their consideration by the National Security Council. The agencies listed in parentheses should take leadership responsibility for the following subjects:

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<sup>1</sup>Source: Carter Library, National Security Council, Institutional Files, Box 25, PRM-07. Secret. NSC Staff Secretary Jeanne Davis forwarded a copy of PRM 7 to the Secretary of Defense under cover of a January 26 memorandum, in which she noted that he had been "inadvertently omitted from the list of addressees." (Carter Library, National Security Council, Institutional Files, Box 2, PRM/NSC 1-24 [1])

- Global economic recovery and stability (CEA)
- International financial arrangements (Treasury)
- Trade (State)
- North-South (State and Treasury)
- Energy (Schlesinger and State)
- East-West (State and Treasury)
- Investment (Treasury and State)

Each study should, in addition to presenting alternative U.S. positions, and making policy recommendations, analyze the likely positions of other Summit participants, identify points which they might raise, and provide suggestions for response. These studies should be completed by March 28 for submission to the President through the National Security Council.

**Zbigniew Brzezinski**

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#### **4. Paper Prepared in the Office of the Special Representative for Trade Negotiations<sup>1</sup>**

Washington, January 21, 1977

##### *Major Trade Issues*

During the coming months, a number of difficult international trade issues are likely to command considerable attention both in the United States and abroad. Concern will likely focus on (1) the general trade climate and increased pressures for protectionism, (2) specific trade actions which will be presented for decision (in particular, a series of trade complaints under the Trade Act of 1974),<sup>2</sup> (3) progress in the Multilateral Trade Negotiations (which has been painfully slow to date) and (4) the trade aspects of the North-South Dialogue.

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 88, Trade Policy Committee. Confidential. Sent to the Trade Policy Committee (Vance, Blumenthal, Brown, Attorney General Griffin Bell, Secretary of the Interior Cecil Andrus, Bergland, Kreps, Marshall, and Schultze) under cover of a January 21 memorandum from Acting Special Representative for Trade Negotiations Clayton Yeutter. (Ibid.)

<sup>2</sup> President Ford signed the Trade Act of 1974 into law on January 3, 1975. For information on the provisions of the act, see *Foreign Relations, 1969–1976*, vol. XXXI, Foreign Economic Policy, 1973–1976, Document 223.

*General Climate*

The industrialized countries and LDCs are hoping that steady expansion of the United States, West German, and Japanese economies will generate worldwide recovery. While the United States is committed to sustained economic expansion and has been willing to accept the resulting trade deficit, Japan, in particular, has continued to maintain large trade surpluses both with the United States and the rest of non-OPEC world. While the United States has shifted from a surplus trade balance in 1975 of \$4.2 billion to a deficit of \$14.3 billion in the first 11 months of 1976 (annual rate on a CIF basis), Japan continues to run a large trade surplus with ourselves and the rest of the non-OPEC world.

There is a significant danger over the next six months that the combination of the slow economic recovery of the Western countries and their growing oil-related trade deficits will result in an increasing number of protectionist trade measures being imposed. The first substantial movement in this direction has taken the form of requests by the European Community (EC) for Japanese export restraints.

The Japanese surplus, and its concentration in certain products, such as automobiles, consumer electronic products, and steel, has led to near hysteria in Europe. The EC Commission has wrung from the Japanese export restrictions on steel and inter-industry discussions on curbing other Japanese exports. The dangers to U.S. trading interests are that the limitations on access to the European market will result in diversion of these products to the U.S. market in injurious quantities, that the Japanese will open their market in a way which discriminates in favor of European exports at the expense of our trade, and that the maintenance of an open trading system is threatened by the EC-Japanese arrangements.

Strenuous U.S. efforts will be required to rebuild the commitment of Europe and Japan to cooperate with us to manage bilateral trade problems responsibly and to move now toward improving the framework of the international trading system. A further Japanese response to the EC on concrete trade advantages (and export restraints) is due in just over a month. U.S. concerns must be made known to the EC and Japan soon and forcefully, if we wish to avoid having bilateral arrangements take the place of broader solutions.

*Specific Trade Actions*

A number of specific problems which have been raised by petitions under the Trade Act of 1974 will have to be dealt with over the next few months. These petitions have generated concern abroad about the general direction of U.S. trade policy. United States leadership in the effort to avoid a drift towards protectionism is greatly complicated

by the very real domestic legal and political considerations which, in each case, will have to be taken into account.

a. *Escape Clause Cases*

In the first two months of the new Administration, a Presidential decision will be required on whether to place import restrictions on shoes as recommended by the U.S. International Trade Commission. The domestic industry is clearly injured. Last year President Ford decided that the impact on consumers was too great to provide relief. The \$1.4 billion in annual U.S. imports is primarily supplied by Italy, Spain, Taiwan, Korea, and Brazil. Onerous import restrictions would be reacted to strongly by exporting countries, especially the EC, Spain and Brazil, any of which could retaliate against U.S. exports.

Import relief decisions will also more than likely have to be made with respect to imports of televisions (1976 imports \$800 million) and sugar (1974 imports approximately \$1 billion). These cases are likely to be presented for Presidential action during March–May, 1977. A Presidential decision on mushrooms (1976 imports \$71 million) is due by March 11. Under the Trade Act, Presidential decisions in any of these cases can be overridden by a vote of both Houses of Congress.

b. *Countervailing Duty Litigation*

Perhaps of even greater concern than the above cases are two legal actions which have been brought to require the Secretary of the Treasury to countervail against the exemption of exports from taxes normally borne by products abroad. The Zenith Radio Corporation contends that additional duties should be applied equal to the Japanese commodity tax (ranging from 10 to 20%) on imports of \$3 billion of consumer electronic products from Japan. If, as is not unlikely, the Customs Court sides with Zenith under language contained in two old Supreme Court cases, bonds will have to be posted by importers for the potential additional duty. This will have an immediate restrictive impact on trade. A court decision is expected soon.

The U.S. Steel Company has brought a similar case against the rebate of European value added taxes (VAT). The issue is the same in principle as the *Zenith* case, and an adverse decision in *Zenith* would be a precedent for the VAT case. The trial is scheduled for December, 1977.

The rest of the world would view U.S. countervailing against the rebate of indirect taxes (sales and excise taxes, and the VAT), which is a practice expressly sanctioned by the GATT, as an act of completely unwarranted economic aggression. Massive retaliation against U.S. exports would be a real possibility unless the courts or the Congress give the Secretary of the Treasury discretion to avoid countervailing against these common practices.

*c. Steel*

The domestic steel industry has repeatedly pressed its concerns about adverse effects from import competition. Following a period of improvement during the first half of 1976, the industry is suffering from a setback in production, employment and profits. This follows a very poor year in 1975. Imports are increasing.

A major objective of U.S. steel industry is an international agreement which would regulate “cyclical distortions” in steel trade (in times of reduced demand, foreign producers tend to maintain output and employment and cut price; U.S. producers tend to maintain prices and cut production). Partially in order to bring pressure for negotiation of such an agreement, the industry has pursued a variety of domestic remedies, including a successful import relief action on specialty steel (quotas are now in effect), a major suit under the countervailing duty law against an Italian state-owned steel producer, and an action under Section 301 of the Trade Act<sup>3</sup> against the EC/Japanese steel understanding. There is consideration in the industry of bringing a number of additional actions against imports. Further problems are likely to be caused by the EC’s adoption of its Simonet Plan,<sup>4</sup> which could result in the dumping of European steel here as well as in diversion of non-EC steel exports to this market.

*d. U.S. Agricultural Exporters’ Complaints*

A series of petitions has been filed with STR against a number of European trade measures fundamental to the EC’s current Common Agricultural Policy (CAP). These apparently valid complaints by U.S. agricultural exporters against EC export subsidies, and a variety of EC import restrictions is a growing and major irritant to the EC. We are trying to resolve the cases, which concern important U.S. interests, through GATT proceedings but some basic accommodation to the U.S. will be necessary in the MTN to avoid a continuing series of conflicts with the EC on this subject. If this problem is not adequately dealt with, it could easily grow into a major political and economic confrontation

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<sup>3</sup> Section 301 of the Trade Act of 1974 deals with the U.S. response to unfair foreign trading practices.

<sup>4</sup> On January 1, 1977, the EC implemented a common policy designed to deal with its declining steel production; the policy was based on a plan named for EC Commission Vice President Henri Simonet. In December 1976, U.S. and EC officials discussed steel issues, including the Simonet Plan, in Brussels. The following month, the United States delivered an aide-mémoire to the EC outlining its concerns with the plan. (Telegram 11929 from USEC Brussels, December 6, 1976; telegram 12551 from USEC Brussels, December 20, 1976; telegram 3260 to USEC Brussels, January 7; and telegram 490 from USEC Brussels, January 18; National Archives, RG 59, Central Foreign Policy File, D760450–0890, D760467–0401, D770006–0918, and D770019–0224, respectively)

with the EC, which is already hypersensitive to the existence of the complaints, but which is slow in working toward solutions.

#### *The Multilateral Trade Negotiations (MTN)*

The MTN was conceived as a means to further reduce barriers to international trade and improve the rules and procedures that make up the framework for the conduct of world trade. The understandable preoccupation abroad with domestic economic recovery, and with current trade deficits, has prevented dedication of the necessary political will to move the current trade negotiations toward a successful conclusion. There has also been a major obstacle within the MTN to further progress. This has been the deadlock between the U.S. and the EC over what can be accomplished in these negotiations with respect to agricultural trade.

There had been general agreement on an end of 1977 target date for completion of the MTN, but both France and the United Kingdom, neither of which are enthusiastic about a negotiation having substantial results, have emphasized that the deadline can be met, provided that the MTN is downgraded into a mini-negotiation. This position is not justified by European economic difficulties as the MTN will not require any substantial near-term economic adjustments by any participant.

Further movement in the MTN will be dependent upon strong U.S. leadership, and upon our reaching a basic political level understanding with the major participants on what this negotiation is to accomplish.

#### *Trade Relations with Developing Countries*

Increased coordination among developed countries of their policies towards developing countries (LDC's) is necessary in order to avoid developed countries damaging each others' trade interests. The developing countries seek primarily stabilization of earnings on their exports of commodities, preferential market access in developed countries for manufactured products, and international recognition of their right to more favorable trade treatment from developed countries.

The United States and other developed countries have differed in their approaches to the LDC's. The U.S. has been more wary of commodity agreements. We have not been willing to negotiate preferential access for LDC's to the U.S. market (nor to extend discriminatory preferences to individual LDC's). We have also insisted on receiving some concessions for the more favorable market access that we are willing to commit to in the trade negotiations. The LDC's recognize, however, that we are more willing to consider making specific concessions than are other developed countries. Detailed consultations with Europe and Japan on LDC policy should be an early priority.



*Textiles*

The Multifiber Agreement (MFA), which governs most of world trade in textiles, will expire at the end of this year.<sup>5</sup> The MFA provides for the orderly expansion of textile trade without market disruption. Its existence has reduced conflicts over textile trade that were very disruptive to political and economic relations in the past. The United States has pressed for renewal of the MFA without amendment, avoiding a major DC/LDC struggle. The EC and Canada favor modifications which will give them a freer hand to restrict imports. The renewal of the MFA will be a major international issue in 1977, especially if changes must be negotiated.

*Trade Pledge*

During the last few years, OECD countries have pledged to use maximum restraint in the use of restrictive trade measures to deal with economic problems related to the increased cost of oil and the worldwide economic recession. The current pledge expires in June.<sup>6</sup> The Trade Committee is scheduled to discuss the future of the pledge in March. Well before that meeting, the United States is committed to providing a paper on alternative approaches that could be taken with respect to a possible pledge in the future.

*East-West Trade*

The freedom of emigration amendment to the Trade Act<sup>7</sup> continues to inhibit the expansion of U.S. trade with the non-market economy countries. The U.S. has proposed in the OECD that a study be conducted leading to a common approach to a number of problems shared by Western countries in their trade with the East. This study is being carried out by the OECD secretariat with the assistance of experts from capitals. It should have an important bearing on the future evolution of the trade relationship between the East European non-market economies and the OECD countries.

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<sup>5</sup> The Multifiber Arrangement regulated the international trade in clothing and textiles from 1974 until 1994. It set quotas on products developing countries could export to developed countries.

<sup>6</sup> Rising oil prices after the October 1973 Arab-Israeli war resulted in growing trade deficits for oil-importing countries. On May 30, 1974, OECD members pledged to adopt a cooperative approach to the troubles besetting the global economy and to eschew for one year unilateral actions, such as import restrictions, intended to protect their balance of payments; see *Foreign Relations, 1969–1976*, vol. XXXI, Foreign Economic Policy, 1973–1976, Document 209. The pledge was subsequently renewed on an annual basis.

<sup>7</sup> The Jackson-Vanik amendment to the 1974 Trade Act denied most-favored-nation trade status and trade credits to countries with non-market economies that restricted emigration.

## 5. Memorandum From Vice President Mondale to President Carter<sup>1</sup>

Washington, February 4, 1977

### SUBJECT

Results of Visit to Europe and Japan

#### I. Introduction

The leaders of Western Europe and Japan responded most positively to your initiative in launching high-level and substantive consultations in the first week of your Administration.<sup>2</sup>

As a result of my conversations in the various capitals:

—each leader has received a clear and firm statement of your commitment to the collective defense;

—each understands your determination to tackle successfully the economic and political problems confronting the industrialized democracies—and your determination to make progress on such issues as non-proliferation and reduction of international arms sales, which have thus far been neglected;

—each is looking forward to participating with you in the summit this spring;

—Prime Ministers Callaghan and Fukuda were extremely pleased to receive your invitations to visit the United States; and

—the visit to Japan, based on my warm reception there, has served to highlight the importance your Administration attaches to Japan's role in the front ranks of world leadership and responsibility.

As a result of the visit your Administration has confirmed the United States' commitment to the North Atlantic Alliance. My talks with the members of the European Commission and with Secretary-General van Lennep of the OECD have already extended, beyond the actions of past Administrations, your commitment to working more closely with a unifying Europe and with the principal multilateral insti-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 31, Vice President, Europe and Japan, 1/23/77-2/1/77: 1/14-28/77. Top Secret. Carter initialed "C" at the top of the page and wrote: "Comments given on previous memos. J." On February 2, Mondale sent Carter two memoranda: the first was on "Europe/Japan Visit—Personal Appraisal of Leaders;" the second was on "Recommended Actions Stemming from My Visit to Europe and Japan." Both memoranda are *ibid.*

<sup>2</sup> Daily reports on Mondale's trip are in the Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 29, Summit: London: (VP Trip): 1-3/77; Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 31, Vice President, Europe and Japan, 1/23/77-2/1/77: 1/14-28/77; and Carter Library, National Security Affairs, Brzezinski Material, VIP Visit File, Box 8, Japan: Prime Minister Fukuda, 3/21-22/77: Briefing Book [II].

tutions of the industrialized democracies. With these initial consultations, momentum has been established.

The following paragraphs outline findings in each of the major subject areas discussed during the visit. The different points of emphasis in my conversations with Chancellor Schmidt, Andreotti, Callaghan, Giscard d'Estaing, Fukuda and others are summarized and policy recommendations are included.

## II. Findings<sup>3</sup>

—*The Summit*: A tentative consensus is emerging on a mid-May date for the summit in London, following the NATO Ministerial Meeting.<sup>4</sup> A consensus is also emerging that it would be acceptable if the summit were to include political as well as economic issues, although both the French and the Japanese are extremely sensitive as to how this is handled.

*I recommend that you now communicate to Giscard the following proposals on the Summit. They are based on my conversations with other principal Summit attendees and reflect the area of consensus I found.*<sup>5</sup>

*Location and Timing*: The meetings should be held in London in May following the NATO Ministerial meeting with a gap of two or three days.

London is acceptable to everyone including the Japanese if we press them slightly. The timing I have recommended is acceptable to everyone, although it creates a few problems for the Japanese who would like to wait until the Diet is over on May 28, but who will be willing to go along.

*Participation*: The participants should be France, the Federal Republic of Germany, the United Kingdom, Italy, Canada, Japan, and a representative of the EC as determined by the European Community.

—*As agreed on February 2, I called Prime Minister Trudeau and had the State Department contact Ambassador Togo. Thus, we have given the Canadian and Japanese governments your considered views on summit site and timing.*

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<sup>3</sup> Most of the findings in this memorandum were previously submitted to Carter (in an abbreviated, usually verbatim, form) in the February 2 memorandum from Mondale entitled "Recommended Actions Stemming from My Visit to Europe and Japan." Carter's decisions on Mondale's recommendations are recorded on that February 2 memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 31, Vice President, Europe and Japan, 1/23/77–2/1/77: 1/14–28/77)

<sup>4</sup> A NATO Ministerial meeting took place in London May 10–11.

<sup>5</sup> On Mondale's February 2 memorandum (see footnote 3 above), Carter wrote "Have State do so" in the margin adjacent to this recommendation. Telegram 32620 to Paris, February 12, transmitted Carter's views on the Summit to be conveyed to Giscard. (National Archives, RG 59, Central Foreign Policy File, D770050–0593) Carter also approved the recommendations below on location and timing, participation, agenda, and a four-power side meeting.

Both Schmidt and Giscard wanted tight meetings but they recognized the importance of Italy being there and our need to have Canada represented. How they will come out on the European Commission is not clear, particularly since Callaghan is *not* enthusiastic about having Roy Jenkins there on a more or less co-equal basis. We favor European Community participation, with the Europeans working out arrangements. It is up to them to sort out their intra-European politics.

*Agenda: The agenda should be developed by personal representatives of the heads of government. They should not be Ministers (e.g., Foreign Secretaries or Treasury Secretaries). The purpose of the preparations should be, insofar as possible, to develop an agenda and the agreed Summit outcome for each agenda item.*

It is clear that Fukuda, Schmidt and Giscard do not want to have Foreign Ministers or Finance Ministers in charge of the preparations. It apparently raises political problems within each of their governments.

Everyone wants a well prepared Summit. This means we are embarking on a very complicated program of negotiations on substantive issues leading to joint policy decisions to be announced at the Summit. Establishing the agenda should feature those issues on which the Summit is likely to produce results. You have indicated a desire to name your representative *after* we agree on the agenda. Instead, I recommend that you promptly name a specific individual or individuals as your representative who can draw on different departments and agencies as appropriate to develop the agenda and serve as the focus for developing the United States' substantive position on each of the agenda items.<sup>6</sup>

There is no consensus that the Summit should deal with political and security issues. Both the French and Japanese have demurred. This is a subject which we can dodge for now and leave to the preparatory phase, while we maintain our own position.

*Four Power Side Meeting:* You should indicate to Giscard that you are willing to participate in a quadripartite meeting at the Summit if it can be arranged discreetly, on the fringe of the main meetings, with Berlin discussions as the nominal purpose.<sup>7</sup>

*At the same time you communicate your views to Giscard, you should also communicate them to the other potential members so that they know what you are proposing.* In informing Giscard, you will suggest that Callaghan take the lead in coordinating the text and timing of the announcement.

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<sup>6</sup> On Mondale's February 2 memorandum (see footnote 3 above), Carter wrote in the margin adjacent to his approval: "proceed to give me recommended names for a) political b) economic leader."

<sup>7</sup> On Mondale's February 2 memorandum (see footnote 3 above), Carter underlined the phrase "Berlin discussions" and wrote "OK" in the adjacent margin.

The next step beyond that may be slightly disorderly, but the objective should be a more or less simultaneous announcement in all capitals about the time and place.<sup>8</sup>

*The Economic Issues*

*Global Management:* Our economic effort was premised on the concept that the three “locomotive economies”—the United States, Germany and Japan—must at present *share responsibility for management of an increasingly global economy*. There was widespread and favorable interest in your program to stimulate the U.S. economy, and we explained it in some depth.

Our specific goals were (a) significantly more German expansion and (b) full Japanese achievement of their stated targets, which seem roughly acceptable. We noted that your program for the United States, and Fukuda’s for Japan, each approximately 1 percent of our respective GNPs—but that Schmidt’s equalled only 0.25 percent of Germany’s. Germany is also running larger external surpluses and has far less inflation. Hence we calibrated our encouragement, aiming much more at Germany (and the Dutch, when I saw their Foreign Minister) than at Japan. Neither indicated any hostility toward our offering such advice, and both accepted the basic concept. The Japanese, incidentally, were delighted to learn that we were not singling them out in this area, and that the U.S. was no longer focusing on bilateral balances.

I am encouraged by the prospects, though both countries had lots of excuses and one could not expect an immediate response. Schmidt has explicitly left open both the size and pace of his program. Fukuda is negotiating with his opposition on a larger tax cut. By the time of the summit, or even sooner, I would not be surprised to see some additional action by both.

Aides to Schmidt invited further pressure on his government for greater economic stimulus.<sup>9</sup> He explained it on the basis of having to convince the German Central Bank (Bundesbank) of the importance of stimulus, but I believe it was also aimed at his coalition partner, the Free Democratic Party (FDP), which is more conservative and is dragging its heels on stimulus.

We encouraged the weaker economies to hang tough in dampening inflation and stabilizing their currencies. Britain’s stabilization

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<sup>8</sup> On Mondale’s February 2 memorandum (see footnote 3 above), Carter wrote “OK, State coordinate notices” in the margin adjacent to this recommendation.

<sup>9</sup> In his February 2 memorandum to Carter (see footnote 3 above), Mondale recommended that Carter telephone Schmidt “to encourage him to increase the size and pace of his stimulus package.” Carter wrote “done 2/3” in the margin adjacent to this recommendation. Carter spoke to Schmidt by telephone on February 3 from 1:48 until 2:02 p.m.

plan and IMF loan have already been completed. They are taking in foreign exchange at a record clip—\$2 billion in January alone—and have thus bought time to try to deal with their fundamental difficulties (low productivity, an anti-growth tax structure, etc.). The “Barre plan” is starting to bite in France, but the municipal elections in March could bring new speculations against the franc. The underlying situation is shaky in both countries, and unemployment will remain high. Close surveillance by the U.S. will be essential.

*Multilateral Trade Negotiations (MTN):* We strongly advocated rapid and comprehensive revival of the Multilateral Trade Negotiations (MTN) in Geneva as a major element—along with more rapid economic growth in the stronger economies—in avoiding protectionism.

*I recommend that you promptly appoint a permanent Special Trade Representative.<sup>10</sup>*

*He should begin early consultation with the major protagonists—probably bilaterally—to begin developing a negotiating package.*

*The U.S. should press the negotiations as fast as possible while avoiding a commitment to the end-1977 deadline.*

I remain convinced that we must make a major push to move the MTN or protectionist pressures will grow. There was a notable lack of enthusiasm for pressing MTN on the part of everyone I talked to except the Japanese. On the other hand, all countries are worried about our own possible protectionist moves in the next few months—on steel, shoes, color TV—which could set a pattern. The British and Italians say it would put them under “irresistible pressure” to restrict imports. I believe that the new leadership here and in the European Community in Brussels may open the possibility for movement on agriculture—which has been the major stumbling block so far with MTN.

*International Monetary Issues:* No problems arose over the fundamentals of the existing system, based on flexible exchange rates. We stressed the need to assure adequate international financing capabilities, to tide over the sizable payments deficits which will continue to arise, but offered no specific proposals—except to suggest that Saudi Arabia, and perhaps a couple of other OPEC countries, might be brought into the picture. There was general enthusiasm for the latter idea, and we may be able to draw on British and French expertise in the Middle East to develop a specific approach. (However, we were cautioned—by the debtor countries—against creating any new “creditor’s club”.) In response to questions all over, we indicated that we had not

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(Carter Library, Presidential Materials, President’s Daily Diary) No memorandum of conversation of this telephone conversation was found.

<sup>10</sup> On Mondale’s February 2 memorandum (see footnote 3 above), Carter wrote “VP take lead” in the margin adjacent to this recommendation.

yet decided whether to seek Congressional approval for Kissinger's OECD "safety net" or go an alternative route.

Our discussions provided many opportunities to express support for a wide range of important international institutions: EC, IMF, OECD, GATT (for MTN) and the multilateral aid agencies (notably the World Bank/IDA). The institutional framework for world economic management seems to be holding up quite well.

*North-South:* All countries were intensely interested in whether your Administration will be "more forthcoming" to the LDCs, on commodity agreements and other issues, as the LDCs expect. The French hope/believe we might be moving toward them; the others basically fear that we may "leave them alone," and hence looking negative.

We indicated that no new policies had been adopted, that we were hard at work on the issues, and that we would consult with them before adopting any new policies. I did note your intention to increase U.S. contributions to the multilateral aid agencies, and hit the French—possibly with some success—on the proposed cutback in their share. One specific issue is timing of the pending Ministerial meeting.

*You should keep your options open on whether CIEC should be held before or after the Summit.* Though all the other countries, including Canada, favor a CIEC meeting before the Summit, Giscard argued strongly against it being held before the Summit. He feared it would reveal splits among the Allies on North-South issues and create a crisis atmosphere for the Summit. This is essentially a tactical issue and you should reserve your position in CIEC timing to see how the developing countries' position and Summit preparations develop.<sup>11</sup>

The Europeans and Japanese are looking to us for leadership and it is important to engage in a more intensive consultative process, working toward a common position among the industrialized nations.

[Omitted here is discussion of NATO and security issues, non-proliferation, reduction of arms sales, the Middle East, Cyprus, Berlin, Concorde, Iceland, Italy, U.S.-Vatican relations, and Portugal.]

*Japan:* Fukuda's March 21–22 visit to Washington can have more than symbolic meaning if we use the next 7 weeks to prepare to move forward on several matters of substantive concern to them.

My trip allowed the Japanese to place their positions on such hot domestic Japanese issues as nuclear proliferation, Korean troop withdrawals, China policy, potential US countervailing duties, fisheries—they feel that the fees we will be charging under our new domestic leg-

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<sup>11</sup> On Mondale's February 2 memorandum (see footnote 3 above), Carter wrote "Let Canada & Venezuela co-chnm take lead—CIEC before Summit seems better" in the margin adjacent to a slightly different version of this recommendation.

isolation are too high—and civil aviation on the record before our own policies are set irrevocably. This satisfies their domestic political needs and will prepare the ground for more productive discussions in March. In return, we gently put their feet to the fire on matters such as US citrus exports, the EC/GOJ steel agreement and Japanese color television exports.

Items which require further work prior to Fukuda's visit include:

—*closer monitoring of each others' economies.* I proposed in both Bonn and Tokyo that the three big engines of the world economy need not only to work more closely together, but also to monitor each other's progress in achieving sufficiently expansionary goals. The Japanese appear receptive to this and, I suspect, Fukuda would in some ways, even welcome pressure delicately applied. *I would propose that you instruct the State and Treasury Department to use OECD forums and the "Group of Five" Deputy Finance Ministers, to do the monitoring in a more systematic way.*

—*nuclear technology.* I see real difficulties coming up here. The Japanese feel that they signed the NPT in good faith, expecting full access to an assured supply of nuclear fuel and a complete fuel cycle. Now they fear they are being lumped in with Brazilians and Pakistanis and face new obstacles to the achievement of greater energy independence. I suggested that we consult in detail on this question in the near future—a suggestion to which they appear responsive. If a GOJ team could come to the US before the Fukuda visit, it might be possible for that visit to result in some progress. But I must point out that we urgently need a clear definition of US policy on this matter.

Prime Minister Fukuda is imposing some administrative constraints on the exports of color TVs; their economic stimulus program is roughly equivalent in scale to ours. They told me in confidence that the government of Japan will probably remove some impediments to US citrus exports before Fukuda's visit. The two areas of greatest concern to the Japanese are your Korean policy and the impact of US non-proliferation policy on their search for greater energy independence.<sup>12</sup> In addition, the Japanese desire:

- (1) Some access to Alaskan oil;
- (2) a US contribution (\$10 million) to the United Nations University;
- (3) rapid and satisfactory completion of the fisheries negotiations;
- (4) Greater balance in US-Japan civil air arrangements;
- (5) the avoidance of countervailing duties on their color TV exports.

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<sup>12</sup> On Mondale's February 2 memorandum (see footnote 3 above), Carter blocked off the section that begins with this sentence and ends with the sentence "In addition, we should initiate a study of Alaskan oil and review other matters mentioned above," and wrote "Zbig" in the adjacent margin.



I recommend that we utilize the time prior to Fukuda's visit to establish clear policy guidelines toward Korean troop withdrawals and nuclear technology. In addition, we should initiate a study of Alaskan oil and review other matters mentioned above.

—*Korea*. Fukuda, who has been very conservative on security matters, displayed anxiety over our intent to withdraw ground forces from Korea. Essentially they want the status quo. I think I was able to alleviate some GOJ concerns, but we have not heard the end of this. The Prime Minister will want to discuss this with you in some detail when he visits. They can adjust to withdrawals provided they are slow, are accompanied by continued assistance to South Korea and provided U.S. air units are left in Korea. Done under a prudent timetable and without pressure from Congress, a gradual reduction in US conventional forces in Korea could serve US interests and objectives. The PRM process now underway on Korea must be directed toward the development of sensible guidelines for the timing and modalities of troop withdrawals which adequately reflect the concerns of close allies like the Japanese and the situation on the Peninsula. We should seek to be in a position to lay out our thoughts in some detail to Fukuda by March 21. The *Korean* Foreign Minister will be in Washington March 7; some clear direction of our intentions conveyed to him in private at that time will be an essential prerequisite to fruitful consultations.

—*China*. Fukuda did not conceal his preference for the status quo in our China policy. But, while the GOJ is apprehensive about precipitate moves in the direction of normalization, I do not believe the Japanese expect to impede US efforts to normalize relations with Peking on the basis of the Shanghai principles. They wish to be spared any "surprises." I recommend that you keep the GOJ informed in advance of any significant initiatives.

—*trade*. We made some progress here. Fukuda told me in confidence that he feels his government can give us satisfaction on the citrus fungicide problem within six weeks, though he cannot allow this to be discussed in public yet. I suspect he hopes to present this to you as a gift just prior to his trip. He announced publicly that Japan would restrain its exports of color TV's to US, and his aides told me this meant a 10 percent cutback in 1977 from 1976. We need to follow up on steel, though the real impact on us of the EC-Japan deal is minimal.

—*the US in Asia*. The stop in Tokyo had major regional implications. The Asians needed to hear that we intend to remain a Pacific Asian power, that despite Vietnam we do not intend to turn our backs on the area. We need to find ways to demonstrate that we will preserve our substantial interests in Asia, not as in the Vietnam-dominated past, but through new forms of involvement and support for regional initiatives.

I did not raise defense matters but at an appropriate time we should remind Japan about our desire to see qualitative improvements in their air and naval defense capabilities.

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**6. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, February 24, 1977

SUBJECT

Debate Over Financial Support Fund (FSF)

There is currently debate, presently confined to the Solomon-chaired International Monetary Group, on whether the US should support, and seek Congressional ratification of, the OECD Financial Support Fund (FSF), or abandon this approach and seek instead to expand the resources of the IMF.

The FSF was originally proposed by Kissinger as one element in a comprehensive industrialized nations response to the economic problems arising from the 1973–74 oil price increases. It was designed to provide mid-term financing to OECD countries on a “last-resort basis” at market-related interest rates.<sup>2</sup> All OECD countries except for France and the US have authorized participation—when confirmed, all pledges would add up to \$25 billion. Congress has opposed participation to date, arguing: lack of need; undesirable competition with, and duplication of, IMF functions; insufficient link to tough stabilization

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 24, Financial Support Fund (FSF): 2/77–4/78. Confidential. Sent for action. At the top of the page, Brzezinski wrote “plse assess more the implications of the two choices—FSF or IMF—and let us discuss it. ZB” and drew an arrow pointing to Hormats’ name. Aaron also initialed the memorandum.

<sup>2</sup> Kissinger made this proposal in a November 14, 1974, speech before the University of Chicago Board of Trustees entitled “The Energy Crisis: Strategy for Cooperative Action.” (For the text of Kissinger’s speech, see the Department of State *Bulletin*, December 2, 1974, pp. 749–756.) On April 9, 1975, all OECD members, with the exception of Turkey (which signed on May 30, 1975), signed the agreement that would establish the Financial Support Fund, pending its ratification by member governments. (Telegram 15709 from USOECD Paris, June 18, 1975; National Archives, RG 59, Central Foreign Policy File, D750213–0034)

conditions by recipients; skepticism that the two-year life of the FSF was adequate to deal with what is obviously a longer-term problem.

State continues to support the idea of the FSF, arguing that it has been ratified by nearly all other participants and should not now be abandoned by the US, that it can provide a substantial amount of official financing relatively quickly, that the terms of the FSF are already agreed upon and negotiated, and that it can be put into action immediately upon ratification by the US. Treasury opposes the FSF citing strong Congressional opposition to it on the grounds that the FSF competes with the IMF, is linked to a non-existent energy cooperation effort, that there would be a divergence between FSF conditionality and IMF conditionality raising the possibility of conflicts in program and approach, that the FSF excludes many important third-world countries with potential financing needs, and that it will not be able to take advantage of key OPEC donors.

Treasury believes that we should strengthen the role of the IMF either through an *ad hoc* borrowing facility, expanding the General Arrangements to Borrow (i.e. borrowing additional funds directly from industrialized and perhaps the OPEC nations) or forming a new creditors club. All of these have various degrees of merit. All would clearly be better able to induce Saudi Arabia to provide financial support to the weaker economies than the FSF—an important objective which I have been pushing for a number of months.

This memo is intended primarily to acquaint you with the problem, and secondarily to solicit your political judgment among the two approaches. A US contribution to the FSF would require a major effort on the Hill. On the other hand, it would generate new resources quickly (which might be essential to aid Portugal, Italy, or even perhaps Spain over the coming year). It would also be a major manifestation of financial cooperation among the Trilateral nations,<sup>3</sup> although with the admitted drawback of not including important third-world countries. Abandoning this approach for an IMF-oriented approach would serve the essential objective of bringing in third-world nations, but might take a considerable amount of time to negotiate.

My preliminary view is that a number of industrialized nations may need assistance over the next year; there would need to be funds available to avoid our having to scurry around for money as we are now doing in the case of Portugal. The British specifically warned Mon-

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<sup>3</sup> Apparently a reference to countries represented on the Trilateral Commission, a non-governmental organization founded in 1973 by Chase Manhattan Bank Chairman David Rockefeller as an organization devoted to promoting strong relations among the countries of North America, Western Europe, and Japan. Zbigniew Brzezinski was a founding member, and Jimmy Carter was a member before his presidency.

dale against abandoning the FSF unless we were sure we had something to put in its place.

Moreover, it will be difficult, as our initial venture toward the longer-term goal of bringing the Saudis, the UAE, etc. into the system, to ask them abruptly for money before they felt at home in the "club". Indeed, doing so might turn them off to longer-term cooperation. Instead, we should begin to bring them into the "club" through inviting them first to participate in meetings of central bankers and finance ministers in order to improve their understanding of the system itself and their stake in it. This would set the stage for their contributing resources to strengthen the functioning of the system. Absent the FSF, we would need to go to the Saudis almost immediately. Recognizing that we had no other recourse over the next year but to strengthen the IMF mechanisms, their bargaining position on the terms on which they would provide resources to the Fund would be considerably strengthened, if they did not reject the idea entirely.<sup>4</sup>

I anticipate that a USG decision on this will have to be made within the next two or three weeks. Indecision and delay only complicate matters further, and weakens American leadership in a vital area of international economic cooperation.

Do you have a preference:

FSF approach

Prefer IMF-oriented arrangement

Prefer to wait

See me<sup>5</sup>

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<sup>4</sup> Aaron highlighted the last sentence of this paragraph and wrote "Excellent point" in the margin adjacent to it.

<sup>5</sup> Brzezinski did not indicate his preference among these options. Below the options, Aaron wrote: "ZB—I would be inclined to support FSF *if* we can link it to IMF 'conditionality.' We do not want it to undercut the IMF. We should discuss with Hormats + maybe others like Ed Fried. DA."

**7. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, March 9, 1977

## SUBJECT

Cargo Preference Legislation

You asked, Tab A, for a brief on oil cargo preference legislation.<sup>2</sup>

Congressman Murphy, Chairman of the House Merchant Marine and Fisheries Committee, is now holding hearings on H.R. 1037, a bill to "require that a percentage of US oil imports be carried on US-flag vessels". Executive Branch agencies have been asked to testify on March 15. The bill would require that an initial 20%, and by June 20, 1980, 30% of US-imported oil be transported on privately-owned US-built and registered commercial vessels. Similar legislation was pocket-vetoed by President Ford on December 30, 1974 because, as he then noted, of its substantial adverse effect on the US economy and international interests.<sup>3</sup>

This bill would benefit the US maritime industry by increasing the utilization of US tankers and jobs. However, it has a number of drawbacks as well. It would, by extending cargo preferences to commercial cargoes, deviate from the long-standing US policy of fostering competition in international shipping; violate most-favored nation and "national treatment" clauses of our Friendship, Commerce and Navigation Treaties (which require that each treaty partner provide reciprocal treatment to the flag vessels of the other party with respect to international carriage of commercial cargoes); encourage the adoption of similar measures by other countries (particularly oil-exporting countries who are already demonstrating a tendency to get into the oil shipping business); force the US consumer to eventually absorb the higher operating cost of using US-registered vessels as opposed to foreign vessels; and force the US to underwrite the higher construction costs of new

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 14, Congressional: 3/77. Secret. Aaron initialed the memorandum on Brzezinski's behalf. Carter wrote at the top of the page: "Sounds bad. J."

<sup>2</sup> Tab A, attached but not printed, is the second page of what appears to be one of Vance's daily evening reports to Carter. In the margin next to the third item in the report, on "Oil Cargo Preference Legislation," Carter wrote, "Zbig—give me brief on this."

<sup>3</sup> For Ford's "Memorandum of Disapproval of United States Tanker Preference Legislation," issued December 30, 1974, see *Public Papers of the Presidents of the United States: Gerald R. Ford, 1974*, p. 782.

ship tonnage in a world already suffering from an unprecedented tanker surplus.

A diplomatic note expressing “considerable concern”, delivered on March 4 by the UK, Norwegian, Swedish, Greek and Danish Ambassadors, and senior officials of the Netherlands, Belgian, Japanese and Finnish Embassies made a number of these points regarding the bill.<sup>4</sup>

The EPG is now considering whether the Administration should support or oppose this bill.<sup>5</sup>

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<sup>4</sup> Not found. Telegram 49149 to London, Brussels, Copenhagen, Helsinki, Athens, Rome, Tokyo, The Hague, Oslo, and Stockholm, March 5, transmitted an aide-mémoire given to Katz that day on the oil cargo preference legislation. (National Archives, RG 59, Central Foreign Policy File, D770076-0269)

<sup>5</sup> In a March 15 memorandum to Brzezinski, Hormats urged him to attend an EPG meeting scheduled for March 16 in order “to express your strong opposition to the proposed cargo preference legislation.” (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Policy Group Executive Committee: 1-12/77) No minutes of the meeting were found.

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## 8. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, March 12, 1977

### SUBJECT

Negotiations in Geneva on the Multifiber Textile Arrangement

Beginning the week of March 14, *member countries begin negotiating renewal of the Multifiber Textile Arrangement (MFA)*, a multilateral agreement that sets overall standards for bilateral negotiations concerning textile imports.

The *Economic Policy Group has agreed, unanimously, that the United States should press for straight renewal of MFA*, resisting reductions in

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 89, [Treasury Memos] [1]. No classification marking. A typed notation reads “FYI.” Carter wrote at the top of the page: “Mike—ok. J.C.”

the present permitted rate of overall import growth (6 percent annually).<sup>2</sup>

As it stands, *MFA affords us the necessary flexibility* to seek lower import growth limits for particular products or countries in subsequent bilateral negotiations. We intend to seek such relief in appropriate cases.

**W. Michael Blumenthal**<sup>3</sup>

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<sup>2</sup> On March 7, the EPG Executive Committee decided that the U.S. delegate to the Geneva MFA renewal negotiations “should favor straight extension of MFA and should not favor tightening of the MFA’s import growth factor unless tightening appears necessary to secure renewal of MFA. Apart from the instructions, however, the administration would make clear to domestic industry and labor that bilateral quota negotiations would be aggressively pursued where necessary to prevent undue disruption of U.S. markets by imports.” (Minutes of the Economic Policy Group Executive Committee, March 7; Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files) The Multi-Fiber Arrangement was renewed in December 1977 for 4 years.

<sup>3</sup> Blumenthal signed “Mike” above this typed signature.

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**9. Memorandum From the Assistant Secretary of the Treasury for International Affairs-Designate (Bergsten) to Secretary of the Treasury Blumenthal**<sup>1</sup>

Washington, March 16, 1977

SUBJECT

Trade Policy Strategy—Meeting on March 17 with Schultze, Strauss and Cooper

*Issue*

Our trade policy faces five fundamental problems:

(1) *Japan* is running a trade deficit of \$20 billion annually with OPEC and other resource producing countries, and a services deficit with all countries of about \$7 billion. Hence it must run sizable trade surpluses with the U.S., Europe, and other LDC’s. Both aggregate and sectoral (presently, steel and color TV) problems are thus inevitable for the indefinite future.

(2) The *LDCs* are coming (textiles, shoes). They are the real threats in more labor intensive industries. But they must keep going if their de-

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, BP-4-1 Briefing Memos—WM Blumenthal 1977. No classification marking. A copy was sent to Solomon.

velopmental plans are to have any hope, and massive debt problems avoided.

(3) Our own *failure to develop a domestic program of structural adjustment*, as you have been discussing in the broad context of fighting inflation.

(4) Our *half-hearted implementation of the anti-dumping and countervailing duty statutes*. Virtually every industry complaint centers on “unfair” competition by foreign governments, and present law provides ready remedies whenever such situations can be demonstrated.

(5) Our *MTN strategy* has not been geared effectively toward dealing with our domestic problems. Its focus on agriculture is no help in dealing with problems of government intervention—notably export subsidies—in the industrial sector.

#### *A Proposed Strategy*

(1) *A whole new program of structural reform* must be at the center. History indicates that such a program *can* be worked out. It has been done in many specific cases outside the trade area—Studebaker, Armour Packing, and numerous Department of Defense cases.

Three features are necessary:

- More money*, though not necessarily a huge amount.
- An aggressive individual to manage the program*, or perhaps different individuals for each key industry (starting with shoes).
- A focus on communities*, rather than on firms or workers per se, as is done by the Defense Department.

(2) *A tough Treasury stance on anti-dumping and countervailing*. This might diffuse much of the pressure on steel, and some on shoes.

(3) *Reorientation of our MTN strategy* to downplay agriculture and focus instead on export subsidies and other government interventions. Such a reorientation could be announced at the summit, and provide major help for our domestic effort.

(4) Where necessary, until the adjustment program becomes effective and credible, *limited resort to import restraints*.

—*Firming up of Japan’s commitment to reduce its color TV exports by 0.5 million sets in 1977*. I could call Tokyo on this personally, to follow up the commitment made to me during the Mondale trip,<sup>2</sup> and

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<sup>2</sup> Bergsten discussed his observations while accompanying Mondale on his trip to Western Europe and Japan in a February 2 memorandum to Blumenthal. On the issue of Japanese TV exports, Bergsten reported that “Fukuda assured us that they will keep *color TV exports* under control. MITI gave me the details: a 10 percent cutback from 1976 via “administrative guidance.” But we will have to watch them like hawks, on this and steel.” (National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, POL–5 Visits 1977) For the results of Mondale’s trip to Western Europe and Japan, see Document 5.



the Japanese are now maximally willing to compromise to defuse the issue prior to Fukuda's visit.

—A straight tariff increase on shoes (and perhaps color TVs), to be phased down over *two* years as the structural adjustment reforms phase in.

—An international sugar agreement to deal with that product via floor prices, buttressed by direct U.S. subsidies and higher tariffs is necessary.

(5) Continued vigilance in minimizing Japan's intervention in the exchange markets.<sup>3</sup> Appreciation of the yen resolved the U.S.–Japan trade war of 1969–1972, and is a necessary condition for keeping that problem under control now.

(6) *Negotiation with key LDC's*, such as Brazil, of *overall understandings concerning the breadth and depth of their export subsidies*. We can accept such subsidies only if they are limited in extent and phased down over time.

*Recommendation:*

That you advocate all or part of this proposed program to our colleagues. I would be glad to elaborate on each, if you like the basic approach.<sup>4</sup>

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<sup>3</sup> In a February 22 memorandum to Blumenthal, Bergsten noted the appreciation of the yen during Carter's 4 weeks in office and suggested "that there is an intimate causal relationship, based on what must look to the Japanese like a carefully orchestrated American offensive." (National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, POL–5 Visits 1977)

<sup>4</sup> Blumenthal did not indicate his preference with respect to Bergsten's recommendation. No minutes of Blumenthal's March 17 meeting were found.

10. **Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, March 21, 1977

SUBJECT

EPG Meeting on March 21: Footwear

The EPG will meet on Monday, March 21 at 2:00 p.m. to review, among other things, a draft options paper (Tab A) to the President on the footwear import relief case.<sup>2</sup> This will probably be the last inter-agency meeting on shoes because the President must take action before April 9. In view of the extreme importance of this case for our foreign and economic relations, *I strongly recommend that you attend the meeting and strongly oppose shoe import restrictions.*

*Background*

The STR memo points out that this is the largest case of its type in trade history. It involves \$1.4 billion in imports from 75 countries. The domestic footwear industry employs 170,000 workers in 36 states. Shoes account for 1.4% of the Consumer Price Index. In 1976 imports (in volume terms) accounted for 46% of domestic consumption as opposed to 22% in 1968.

Interest in this case is running high both at home and abroad. The *New York Times* and *Washington Post* both had editorials on March 18 arguing against a protectionist US trade policy.<sup>3</sup> The US footwear industry and labor unions see this as a do-or-die proposition and demand import relief. Congress, particularly the Senatorial contingent from the Northeast, wants the President to restrict imports; they may attempt to override his decision if he fails to do so. My best Congressional sources say there are likely to be insufficient votes to override, but a Presidential turndown on import relief would certainly sour the President's relations with Congress.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 89, Economic Policy Group: 1977. Confidential. Sent for action.

<sup>2</sup> No minutes of the March 21 EPG meeting were found. On April 16, 1976, Ford denied import relief to the footwear industry, opting instead to rely on adjustment assistance. For Ford's memoranda to the Special Representative for Trade Negotiations and to Congress on adjustment assistance for the footwear industry, which were released on April 19, see *Public Papers of the Presidents of the United States: Gerald R. Ford, 1976-77*, Book II, pp. 1134-1137.

<sup>3</sup> The editorial in *The New York Times* entitled "U. S. Tariffs, Global Risks" appeared on page 19 of the March 18, 1977, edition. The editorial in *The Washington Post* entitled "The Price of Protection" appeared on page A26 of the March 18, 1977, edition.

On the other hand, our trading partners are worried about rising protectionism in the US and would find it difficult to resist similar demands from their own industries if we show them the way. We could be opening a Pandora's Box of protectionism—which would have extremely adverse political repercussions. More specifically, key friends and allies such as Italy, Spain, Korea, Taiwan and Brazil are major shoe exporters to the US. And, a decision to restrain imports would clearly have an adverse impact on the London Summit and the North-South dialogue.

### *Options*

The US International Trade Commission (ITC) has unanimously recommended that the President establish a "tariff rate quota" system calling for a stiff (40%) increase in duties on all imports above 1974 levels.<sup>4</sup> In 1974, the US imported 266 million pairs of shoes; in 1976, imports totalled 370 million, so the potential trade impact is significant.

The STR memo outlines three broad policy options:

I. Adjustment assistance (to help workers who have lost jobs as the result of imports, to help those businesses either become more competitive or move into some other line, or to help communities attract new industries) but *no* import restrictions.

II. The ITC recommendation.

III. A modified (more liberal) version of the ITC tariff rate quota. It also mentions several other possible options including an increase in duties and orderly marketing arrangements. STR recommends Option III (modified tariff rate quota). This option would call for use of a three-year base period (1974–76) rather than the one (1974) recommended by the ITC. The effect would be to enlarge country allocations and give newer suppliers (Taiwan and Korea) a larger share of the market that better reflects the recent increase in imports from these countries.

Previous interagency meetings on this subject have been inconclusive—with much needless debate about the intricacies of various options. Aside from CEA, which favors adjustment assistance and no import relief, no other agency has yet been willing to reveal its hand. State and, perhaps, Treasury might be prepared at this meeting to table proposals for a comprehensive and expanded program of adjustment assistance, which will be a significant departure from the old, ineffec-

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<sup>4</sup> On January 6, the USITC decided by a 4 to 2 vote in favor of recommending the imposition of a tariff rate quota on shoe imports. The Commission forwarded its recommendation to Carter on February 8. (Edwin L. Dale, Jr., "New Curbs Asked on Shoe Imports; Move Is Least Costly for Consumer," *The New York Times*, January 7, 1977, p. D1; Jane Hinkle, "Shoe Industry Seeks Carter's Protection," *The Washington Post*, March 9, 1977, p. E1)

tive programs. However, they are working separately on this project, and their programs may not dovetail. The Treasury plan will likely call for the establishment of a Trade Adjustment Bank, a development bank for the domestic economy. The State proposal would entail grants and loans on the order of \$50 million. Both see the need for a “footwear czar” with overall responsibility for the assistance programs. DOD and Agriculture may support such a proposal. Strauss, Labor, and Commerce will probably argue for some form of import relief.

#### RECOMMENDATION

Option I (enriched adjustment assistance) *is the only option that would not require a significant cutback in imports, would not penalize the American consumer and would deal with the real problem in this case (i.e., the inefficiency of certain sectors of the footwear industry).* We recommend that you support this option as articulated by Cooper and, perhaps, Blumenthal (although Blumenthal might combine it with an option to moderately restrict imports).

*As a fallback, but only as a desperation fallback, adjustment assistance coupled with a brief (2–3 year), liberalized, tariff quota system would be tolerable. Thus, while not giving up on Option I, you should attempt to ensure that Option III is fashioned in a liberal way—i.e. that the quota level is relatively high [a 1974–76 base period (306 million pairs) with a growth factor of more than the 5% (15.3 million pairs) in the STR option to give some latitude for the newer entrants into the market (mostly developing countries) and to avoid cutbacks for older exporters such as Italy, Spain and Brazil]. All three are politically important, have large trade deficits, and face difficult financial situations. To limit their exports below 1976 levels would be both politically and economically harmful to our interests. The STR option (III) increases Italy’s market share from 47 million pairs in 1976 to 54 million in 1977, which is excellent; but it cuts Spain from 38 to 37 million, and Brazil from 27 to 25 million. You should accordingly argue for a larger overall quota level—above STR’s proposed figures of 322 million pairs—to avoid cutbacks in these countries and raise the level for others as well. [You should not, in this argument, imply support for this option, but point out that you are simply trying to improve it to make it more acceptable if selected by the President.]<sup>5</sup>*

#### BASIC TALKING POINTS

—I take it that we are not going to make a decision here, but are merely trying to refine options for the President.

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<sup>5</sup> Brackets in the original.

—(After Cooper presents State’s adjustment assistance option)—Clearly from a foreign policy point of view this version of Option I is preferable; and it also has appeal as a means of aiding adjustment among workers, businesses and communities.

—The ITC decision is too restrictive. It would trigger not only retaliation—but worse, emulation—we would risk a sudden burst of protectionist measures. Other nations would clearly see this as an excuse for imposing protectionist barriers for which these workers and industries are pressing hard. Callaghan and others have warned the President of this risk; and Mondale was also warned of it. The London Summit and relations with our allies and friends would be severely harmed, and there would be serious financial consequences due to curtailed capacity from such countries as Italy, Spain and Brazil.

—The STR option would likely have a similar effect, and I am not convinced it can be modified to avoid triggering emulation or retaliation. I would, however, like to see the quota of 322 million pairs raised so that Spain and Brazil are not rolled back below 1976. Both have financial difficulties and both are extremely important politically. Clearly, it makes no economic or political sense to cut back their exports; they should have a higher level than 1976. This would improve Option III.

## Tab A

### **Draft Memorandum From the Special Representative for Trade Negotiations-Designate (Strauss) to President Carter<sup>6</sup>**

Washington, undated

#### SUBJECT

Nonrubber Footwear Import Relief Case

Under the Trade Act’s provisions, you must decide by April 9 whether to grant relief to the domestic footwear industry in the form of restrictions on shoe imports, as recommended by the U.S. International Trade Commission (USITC). The Commission recommended that a tariff of 40 percent be imposed on most nonrubber footwear imports above the 1974 level.

The law allows you the option of deciding that such relief would not be in the national economic interest. A decision not to grant relief,

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<sup>6</sup> Confidential.

or to grant relief different from that recommended by the USITC, can be overridden by Congress by concurrent resolution.

### *Background*

This is the largest case of this type in trade history, involving \$1.4 billion in imports from 75 countries, shoe firms employing around 170,000 workers in 36 states, and a product accounting for 1.4 percent in the consumer price index.

The shoe industry has been attempting to get Government action to stem imports for almost a decade. Five separate investigations have been conducted, with relief denied as recently as last year. During this period the number of firms in the industry has declined by about 40 percent (from 600 to 378), and employment by 30 percent (from 233,000 to 164,000). Unemployment in the industry is at 11 percent compared to a national rate of 8 percent.

During the same period, 1968–1976, while domestic production of shoes declined by almost one-third (with a slight recovery in 1976), imports doubled, moving from a U.S. market share of one-fifth to almost one-half. In 1968 most of these imports were leather, primarily from Italy and Spain, with a substantial volume of vinyl shoes from Japan, and a lesser amount from Taiwan. Now the market positions have shifted so that by volume Taiwan is the largest exporter to the United States (156 million pair), followed by Italy (47 million), Korea (44 million), Spain (39 million), and Brazil (27 million). Japan has ceased being an important supplier. Some developing countries and Eastern European countries are beginning to increase their shipments here.

The trend in the domestic industry is toward concentration, with the 21 largest firms producing over half of domestic output. The larger firms are generally profitable and can compete with the imports. Many of the smaller firms cannot. The greatest difficulty the U.S. industry has is the differential in wages between developing countries and our own (from \$.59 total compensation per hour in Korea to \$4.33 in this country). Since shoe production is very labor intensive, the import share of the U.S. market is likely to grow.

### *Factors Favoring Granting Relief*

*Trade Act criteria met.* The industry has clearly been injured by imports. There have been large declines in production and employment in the past decade, soaring imports, and numerous firms with losses or low profits.

*Credibility with Congress, import-competing industries and labor.* This appears to be the type of case Congress had in mind for import relief. In 1974, the Administration promised import relief for footwear in order to obtain support for the Trade Act. Such relief, however, was not

given. Your authority for trade negotiations is implicitly conditioned on granting relief to industries that are injured by imports.

*Adjustment assistance is not an effective alternative.* No one has been able to design a program of meaningful federal aid to make shoe firms competitive if they are declining, nor to retrain and relocate a work force that consists substantially of women over 50 and of minorities. Import restrictions would have the short term effect of encouraging investment in more efficient methods of production and the development of better marketing programs.

*Congressional sentiment.* The shoe industry has less political force in Congress than many other industries, but there is much sympathy for this declining “basic” United States industry. Inaction on this case would almost certainly be subject to a vote in each house. The risk of an override is substantial, because of general sympathy for the plight of this industry, and because shoes are produced in 36 states. An override would be seen as a substantial set-back both here and abroad to Presidential leadership in setting U.S. trade policy.

#### *Factors Against Granting Relief*

*Inflationary impact.* The consumer cost of increased protection would be heavy, ranging from about \$145 million to over \$1 billion the first year, depending on the restrictiveness of the remedy. Shoes account for 1.4 percent of the consumer price index.

*Protectionism abroad.* Internationally, U.S. leadership against protectionism would be weakened. Other countries will feel more free to protect their own industries, from which actions the world economy and the United States economy would suffer.

*Impact on foreign suppliers.* Most of the exporters of shoes to this country are in a far worse economic position than we are, many with very severe balance-of-payments and debt positions. Our restrictions could also radicalize developing countries with an important stake in this market, resulting in an adverse impact on our economic relations with those countries generally.

*Long-term ineffectiveness of relief.* No form of remedy will prevent the longer term contraction of the industry. It is likely that a core of competitive firms will remain even without import relief.

*Possible wind-fall benefits.* Import relief will benefit mainly the large, integrated firms that account for a major part of production and compete profitably. Legislation providing for effective federal assistance (if an appropriate program could be designed) would help those who are injured, without giving windfalls to healthy firms at the expense of the consumer.

*Options*

You have various options involving how much stimulus to give to production and employment, if any, and how much added cost consumers should be asked to bear, if any.

## I. No import restrictions

A. Adjustment assistance (mainly loans or loan guarantees to firms and supplemental unemployment compensation to workers).

B. A new special program with increased benefits that could be developed to provide effective help to the injured firms, workers and communities.

II. Increase the tariff to 40 percent on imports above the 1974 level (a tariff rate quota) as proposed by the USITC. The 40 percent over quota rate would be phased down in the fourth and fifth year. The quota is allocated among countries on the basis of their 1974 market shares.

III. Modify the tariff rate quota (TRQ) of the USITC (Tab A).<sup>7</sup>

A. Increase the tariff to 40 percent<sup>8</sup> on imports above the 1974–76 average level and divide the TRQ between imports valued at \$2.50/pair or less and those valued over \$2.50/pair in order to assure a continued supply of low cost footwear for consumers. Include athletic footwear valued over \$8.00/pair, which the USITC excluded. Allocate country quotas according to 1974–76 shares of the U.S. market so as to reflect more recent trade patterns than the USITC formula.

B. Increase the tariff to 40 percent<sup>9</sup> on imports above the 1974–76 average level plus five percent of 1974–76 imports so as to provide growth for newer suppliers. The over quota rate of 40 percent would be phased down during the five year period (as recommended by the USITC) but the level of imports entering before the over quota rate applied would remain the same throughout the period.

## IV. Other import relief options:

A. A straight tariff increase, e.g., to 30 percent as proposed by one Commissioner. The present tariff rates range from 6 to 20 percent and average 8.5 percent.

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<sup>7</sup> Tab A, attached but not printed, is an undated paper entitled "Modified Version of ISITC Tariff Rate Quota (TRQ)." Also attached, but not printed, are Tabs B through F. Tab B is an undated paper entitled "Considerations the Trade Act Directs the President to Take Into Account." Tab C is an undated paper entitled "Adjustment Assistance Given to Firms." Tab D is an undated paper entitled "Adjustment Assistance Given to Workers." Tab E is an undated paper entitled "The Effect of Import Relief on U.S. Trading Partners." Tab F is an undated paper entitled "Key Non-Rubber Footwear Data."

<sup>8</sup> This option could be made more or less restrictive by adjusting the over quota rate. [Footnote in the original.]

<sup>9</sup> This option could be made more or less restrictive by adjusting the over quota rate. [Footnote in the original.]



B. A quota placing an absolute ceiling on imports, e.g., at the 1975 import level of 287 million pairs, as proposed by the industry.

C. Negotiate restraints with foreign suppliers (orderly marketing agreements), based on absolute limits or a tariff rate quota. Under the Trade Act you would have 90 days after April 9 to negotiate such agreements before restrictions would have to enter into force.

Adjustment assistance can be combined with any of the above import relief options.

On balance, the arguments favor some form of import relief. However, to increase the effectiveness and saleability of a less restrictive remedy than proposed by the USITC, it would be desirable to couple any import relief action with a special adjustment assistance program, which could be developed on a priority basis and the necessary legislation obtained before the end of the year.

Among the options, a tariff increase sufficient to generate any significant amount of production and employment is probably ruled out because the European Community, and possibly other suppliers, would retaliate against a large volume of U.S. exports. Agricultural products would be key targets.

The quota option interferes most with market forces and at any level acceptable to the industry would entail huge costs to consumers.

Orderly marketing agreements would prolong the agony of imposing restrictions. Pressure could arise for another textile-type agreement. Practical considerations (e.g., the 90 day statutory deadline) would probably prevent negotiation with all of the countries involved. The EC would not negotiate and others would resist and resent any cut-back from current levels. The industry would oppose any negotiable level of restraints.

A tariff rate quota offers the flexibility needed to provide relief acceptable to the Congress at lower costs than other import relief options. The USITC remedy, however, requires certain modifications as summarized in Option III above and spelled out in Tab A.

The modified TRQ has the selling point on the Hill of being the same form of relief as that of the Commission. The variations are defensible because:

1. A 1974–76 base would provide adequate relief. The 1974 USITC base was the lowest level of imports since 1970.

2. Country allocations should reflect more recent trade patterns than 1974. The 1974–76 average shares make better provision for newer suppliers. 1976 should not be used because the EC would be cut back, thus generating major frictions jeopardizing broader trade objectives.

3. Introduction of a price break for footwear valued at \$2.50 pair and under will avoid shifts in imports to higher priced models and

maintain a large supply of less expensive footwear. The alternative of excluding the lower price footwear would make the remedy applicable to only 57 percent of imports and give no remedy to domestic production in competing retail price brackets (about 26 percent of total domestic production).

4. Addition of a "growth basket" of 15 million pairs would allow for some growth from newer suppliers whose quota allocation was below their 1976 shipments. This growth basket would be very important in countering foreign countries' claims for compensation or retaliation. Including the basket, the TRQ would allow a level of imports at regular duties that is approximately half way between that of the USITC and the 1976 import volume.

5. While consumer costs would be increased, the burden would be less than under other saleable import relief options.

The interagency Trade Policy Staff Committee and Trade Policy Review Group have considered the USITC report and various options. The agencies represented on these bodies take the following positions:<sup>10</sup>

*Decision*

Option I. No import restrictions

- A. Existing adjustment assistance
- B. Special adjustment assistance program

Option II. Trade Commission remedy

Option III. Modified version of Commission remedy

Option \_\_\_\_ amended as noted

See me<sup>11</sup>

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<sup>10</sup> The various agency positions were not included in this draft memorandum.

<sup>11</sup> No decision is indicated on this draft memorandum.

# 11. Memorandum From the Assistant Secretary of the Treasury for International Affairs-Designate (Bergsten) to Secretary of the Treasury Blumenthal<sup>1</sup>

Washington, March 21, 1977

## SUBJECT

Shoes—For Today's EPG Meeting

I have looked long and hard at the shoe case, hunting for a reasonable compromise. Such compromises *are* available for color television sets and sugar, and we are actively pursuing them. But *I have concluded that we should limit our shoe action to beefed-up structural reform*, for six basic reasons:

1. The industry is a chronic case of inexorable consolidation and decline. Import relief won't help the small firms; it certainly won't trigger increased investment. *The big ones don't need it.*

2. *Ford's decision to avoid import relief in May 1976,*<sup>2</sup> *despite his "commitment" to the industry, is the benchmark against which our decision will be judged—not the ITC or industry recommendations.*

3. This is especially true as *it will be our first big one. Any restrictions will be widely interpreted as presaging "a protectionist tilt,"* with severe costs, even if subsequently proven to be unfounded.

4. This will be the *only big U.S. trade decision prior to the summit.* (Sugar, being agricultural, is viewed differently.) Adoption of restrictions would *greatly weaken the President's position, and significantly undermine our efforts to (a) strengthen the trade pledge and (b) rejuvenate the MTN.*

5. *The effect of restrictions on the North-South dialogue would also be severe.* Twenty-two separate countries, virtually all of them LDCs, would be hit with sharp cutbacks (even if the base period is liberalized).

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, EC-5-2 Economic Policy Group (EPG) 1977. Confidential. Sent through Solomon. Printed from a copy that indicates that Bergsten and Solomon initialed the memorandum. Tabs A–E are not attached. A list at the end of the memorandum identifies them: Tab A, "STR paper" (printed as Tab A to Document 10), Tab B, "Economic Effects of Various Options"; Tab C, "Editorials on Shoe Case" (see footnote 3, Document 10); Tab D, "Analysis of Various Options;" and Tab E, "Detailed Description of Possible Structural Reform Program for Shoes."

<sup>2</sup> Apparently a reference to Ford's April 16, 1976, denial of import relief to the footwear industry. See footnote 2, Document 10.

6. Perhaps most *important is the broad foreign policy effect*. The countries to be hit hardest would be among those most important to us, and with whom relations are most delicate:

- a. *Italy*—Eurocommunism, balance of payments crises
- b. *Spain*—perhaps next big economic crisis, battling to restore democracy
- c. *Brazil*—already rejected U.S. military aid; non-proliferation and human rights confrontations; must be hit on several other economic fronts (countervailing duties, tax rebates)
- d. *Korea*—panicked over announced U.S. troop withdrawals, human rights offensive
- e. *Taiwan*—economic ties increasingly critical as U.S. normalization with PRC progresses
- f. *Mexico*—economic crisis, main industry in several states with overall unemployment rates of 40 percent, hence closely linked to illegal alien problem; agreement with Lopez Portillo seeks increased access to U.S. market
- g. Also key to Greece, Uruguay, several Eastern Europeans and others.

The main argument for import relief is the threat of a Congressional override. But most observers believe that the shoe supporters can't override on their own, and *we can move on color television and sugar to avoid any risk of a joint step*.

#### RECOMMENDATIONS:

1. That you oppose any resort to import relief for shoes, coupled if necessary with agreement to move on color television (Japanese export restraints or higher tariffs a la ITC) and sugar (an international agreement with floor prices, deficiency payments and/or sliding tariffs).
2. If shoe import relief is deemed necessary, a formula less restrictive than the STR proposals:
  - a. A hike in the over-quota tariff to 20 percent instead of 40 percent
  - b. A base year of 1976 (instead of the 1974–76 average)
  - c. A three-year phase-down of the duty and a “phase up” of the quota (instead of five years for the former only)

## 12. Memorandum of Conversation<sup>1</sup>

Washington, March 22, 1977, 10:35 a.m.

### PARTICIPANTS

President Jimmy Carter  
Takeo Fukuda, Prime Minister of Japan  
Vice President Walter Mondale  
Cyrus Vance, Secretary of State  
Iichiro Hatoyama, Minister of Foreign Affairs  
Zbigniew Brzezinski, National Security Advisor  
Sunao Sonoda, Minister of State and Chief Cabinet Secretary  
Thomas Shoemsmith, Charge d'Affaires, American Embassy, Japan  
Fumihiko Togo, Japanese Ambassador  
Keisuke Arita, Deputy Vice Foreign Minister  
Richard Holbrooke, Assistant Secretary of State for East Asia  
Toshio Yamazaki, Director General  
Hisashi Owada, Private Secretary to the Prime Minister  
Koji Watanabe, Division Chief, First Section, North American Affairs Bureau,  
Foreign Ministry  
Henry Owen  
Michael Armacost, Senior Staff Member, NSC (Notetaker)  
Robert Hormats, Senior Staff Member, NSC  
Ryuichiro Yamazaki (Interpreter)  
James Wickel (Interpreter)  
William Sherman, Japan Country Director, Department of State

The President began by outlining to the large meeting the points discussed in his preceding private talk with Prime Minister Fukuda.<sup>2</sup>

[Omitted here is discussion of non-proliferation and nuclear reprocessing.]

The President, turning to a new subject, referred to the impact of accelerated imports of certain commodities from Japan on the U.S. unemployment rate. He noted that the shoe and color TV industries are particularly hard hit at present. Noting the International Trade Com-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 34, Memcons: President: 3/77. Secret; Noform. The meeting, which took place in the Cabinet Room, ended at 11:37 a.m. (Carter Library, Presidential Materials, President's Daily Diary) Fukuda made an official visit to the United States March 20–23. Memoranda of conversation of Carter's March 21 meetings with Fukuda are in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 34, Memcons: President: 3/77.

<sup>2</sup> Carter and Fukuda met in the Oval Office from 10:03 until 10:35 a.m. (Carter Library, Presidential Materials, President's Daily Diary) A memorandum of conversation is in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 34, Memcons: President: 3/77.

mission recommendations regarding color TV imports;<sup>3</sup> the President indicated he would like to avoid both import restrictions and increased tariffs. But, he said, he regarded Japanese export levels of color TVs to the United States in 1976 excessive, and would like a government-to-government agreement limiting the number of such exports. Such an export restraint agreement would enable him to take actions that would not disrupt efforts to reach long term solutions to these problems which we hope to resolve in the GATT. The President suggested, if there were no objections, a level of about 2.5 million color TV imports from Japan this year, and affirmed that he would be happy to negotiate that level privately if the Japanese were agreeable.

Prime Minister Fukuda reiterated his belief that the high color TV export figures for 1976 were an unusual phenomenon about which he had expressed concern at the time. He said he had already asked the electronics industry to exhibit self-restraint. He said that the Japanese Government did not have the capacity to impose such restraints legally, in view of Japan's antitrust laws. But Fukuda emphasized that export levels this year would not reach 2.7 million sets as they did last year. The Prime Minister indicated that he fully appreciated the President's concerns, and he expressed willingness to hold government-to-government talks on the subject after the ITC report was in.

The President emphasized the fact that he did not have much time on this issue. Having received ITC's recommendations on color TV's and shoes, he would be compelled to reach decisions on shoes by April 9, and color TV's a bit later.

Prime Minister Fukuda said that he hoped that the President's reference to 2.5 million color TV sets as a ceiling for 1977 Japanese exports would not get out of the room. If the matter became public, it would become an obstacle to the negotiation of an agreement.

The President noted that he had gotten the figure from Fred Bergsten of the Department of Treasury, who in turn had obtained it from an official of the Ministry of International Trade and Industry in Tokyo in late January. He added that he also would not like a figure mentioned outside the room because 2.5 million TV sets is a large figure and he would not like his people to know that he was such a poor bargainer.

[Omitted here is discussion of China, civil aviation, a potential visit by Carter to Japan, U.S.-Japanese relations, and a Japanese seat on the UN Security Council.]

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<sup>3</sup> On March 14, the USITC found that imports of color televisions were causing injury to U.S. producers. It recommended a 2-year tariff of 25 percent (up from 5 percent), followed by 2 more years at 20 percent, concluding with a tariff of 10 percent. (Paul Lewis, "Tariff is Urged for TV Imports by Trade Body," *The New York Times*, March 15, 1977, p. 1)

13. **Memorandum From Secretary of the Treasury Blumenthal to President Carter**<sup>1</sup>

Washington, March 24, 1977

SUBJECT

Cargo Preference Legislation (H.R. 1037)

*Executive Summary*

H.R. 1037 provides that 20% of the U.S. oceanborne oil imports will be carried by U.S. tankers, with the percentage rising to 30% by 1980.

*The EPG has reviewed H.R. 1037 and is unanimous in opposing it for a number of reasons, including cost and inflationary impact, adverse impact on the Navy shipbuilding program, precedent for other countries, violation of treaties, and exacerbation of the world tanker service.*

*The EPG has also considered possible amendments to H.R. 1037, such as extended timetable of implementation, reduced preference percentages, construction subsidies, and allowance for foreign-built tanker participation. We have also considered supporting an amended H.R. 1037 in conjunction with reductions in the maritime subsidy program. The EPG was unanimous, again, that the bill will be unsatisfactory even in amended form.*

During the campaign, you did make statements which maritime interests understand as commitments to support cargo preference. Some alternative initiatives to assist the maritime industry would mitigate adverse political reaction from a negative stand on cargo preference, and you may wish to consider such alternatives as described in this memorandum. The EPG has not staffed out in detail these proposals, but we felt it appropriate to seek your guidance before proceeding further. In any event we should not take a formal public position until there has been additional consultation with the Congress.

*Options*

The Options are:<sup>2</sup>

*Option A: Oppose H.R. 1037 and take no further action.*

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 14, 3/28/77 [1]. Confidential. Sent for action. A typed notation reads: "The President has seen." Attached is an undated note from Carter to Eizenstat that reads: "Stu—Check w/Congressional leaders or staffs. Then report to me. I want to build up MM [Merchant Marine] but with minimum adverse effect on consumers—HR 1037 may be best way—but I doubt it." Hutcheson forwarded the memorandum to Eizenstat under cover of a March 28 note. (Ibid.)

<sup>2</sup> Carter did not indicate his preference with respect to any of these options.

*Option B-1:* Support H.R. 1037 with amendments.

*Option B-2:* Support H.R. 1037 with amendments in conjunction with reductions in the maritime subsidy program.

*Option C:* Seek postponement of legislative action. (EPG to give urgent consideration to possible new initiatives.)

Full discussion of these options follows.

### *Discussion of Options*

H.R. 1037 provides that 20 percent of U.S. ocean-borne oil imports will be carried by U.S.-flag, U.S.-built tankers, with the preference percentage going to 25 on June 30, 1978, and to 30 on June 30, 1980. Three bills with similar provisions have been introduced in the Senate.

*The Economic Policy Group (EPG) has reviewed H.R. 1037, and is unanimous in opposing it. Advantages and disadvantages considered by the EPG include:*

#### *Advantages*

—*Tanker Safety and Pollution Avoidance*—Advantages are those which stem from existing superior U.S. standards. Future improvement of standards constitutes a separate issue.

—*National Security*—Advantage would lie in the capability to move essential oil imports in U.S.-flag rather than less reliable foreign-flag ships. U.S.-flag tanker fleet is inadequate for this purpose.

—*Employment*—Would generate 13,000 to 49,000 shipyard and supporting industry jobs, depending on the level of U.S. oil imports and the duration of the shipbuilding program, plus 2,100 to 4,800 sea-going jobs.

—*Balance of Payments*—Could improve the U.S. balance by \$170 million to \$250 million. Treasury notes that the reduction in net U.S. payments could create upward pressure on the exchange rate for the dollar, which would make U.S. exporters less competitive.

#### *Disadvantages*

—*Cost and Inflationary Impact*—Would cost an estimated \$560 million/year as of 1985 (1976 dollars) at an import level of 8 million barrels/day and \$1,030 million at 12 million barrels/day. Spread over total U.S. oil consumption, the additional cost would be .18 to .28 cents/gallon. Spread only over the reserved cargo, the cost would be 1.6 to 1.9 cents/gallon.

—*Adverse Impact on Navy Shipbuilding Program*—This was a reason for the veto of the similar 1974 bill. While not inevitable, it is a matter of some concern to DOD.

—*Precedent for Other Countries*—State feels that it would encourage the adoption of similar measures by other countries. Advocates note that many other countries already have cargo preference.



—*Reversal of U.S. Policy*—U.S. policy has favored free competition for commercial cargoes.

—*Violation of Treaties*—Would be inconsistent with existing U.S. obligations under more than 30 bilateral commercial treaties.

—*Addition to World Tanker Surplus*—Foreign tankers totalling more than 30 million DWT are not in layup. Tanker prices are much below U.S. tanker construction costs.

*The EPG has considered possible amendments to H.R. 1037 to make it more acceptable. It is unanimous, however, in the view that the bill would be unsatisfactory even in amended form. Modifications considered include:*

1. *Extend implementation timetable*—Would reduce near term cost impact and might mitigate foreign objection, but would fail to overcome basic objections.

2. *Reduce ultimate preference percentages*—Would reduce advantages and disadvantages proportionately.

3. *Provide operating and construction differential subsidies for preference tankers*—Would minimize direct consumer impact by transferring most of cost to the general taxpayer.

4. *Allow some foreign-built tanker participation*—Would materially reduce costs, potential impact on Navy program, and addition to world overtonnage. Would not obviate basic foreign policy objections.

(It is understood that U.S. maritime unions and shipbuilders would not object to some limited level of foreign-built tanker participation.)

*During the election campaign, you made a number of statements understood and remembered by maritime interests as commitments to support cargo preference. Some of these statements were quite categorical. A decision against cargo preference, which is recommended by the EPG on economic and foreign policy grounds, would be viewed by the maritime unions, and probably by the AFL/CIO generally as the breaking of a promise. It is possible that some alternative initiative or combination of initiatives to assist the maritime industry would mitigate somewhat the anticipated adverse political reaction to a negative decision on cargo preference.*

The EPG believes that under the stated circumstances the decision must be made by the President, and three basic options are worthy of consideration:

*OPTION A—Oppose H.R. 1037 and take no further action.*

*OPTION B—1. Support H.R. 1037 with amendments. Would be consistent with campaign commitments. (An acceptable amendment package, including some combination of the four above noted suggested amendments, would have to be developed under this Option.)*

*B—2. Support H.R. 1037 with amendments in conjunction with reductions in the maritime subsidy program.*

*OPTION C—Seek postponement of legislative action pending development of the Administration position. We would then give urgent consideration within the EPG to new maritime initiatives other than cargo preferences.*<sup>3</sup> Potential initiatives include:

—Support legislative and regulatory initiatives to facilitate expansion of the U.S.-flag dry bulk carrier fleet. (There are currently only 16 active U.S.-flag dry bulkers.)

—Support “3rd Flag”<sup>4</sup> legislation intended to *eliminate predatory rate cutting practices* of carriers, particularly Communist country carriers, who serve U.S. trades other than those with their own countries. Basic intent is to minimize Soviet merchant fleet inroads into U.S. foreign trade.

—Support “all-American” route for Alaskan north slope gas *vice trans-Canada route*. All-American route would generate significant U.S. employment and would involve as many as 11 large U.S.-built liquefied natural gas-carrying ships and more ships in future years operating between Alaska and the West Coast.

—*Repeal U.S. Income Tax deferral provisions relating to shipping income* received by foreign subsidiaries of U.S. corporations. This so-called “Subpart F” income exclusion constitutes a tax subsidy (\$90 million to \$140 million/year) to U.S.-owned foreign flag shipping.

—*Support additional bilateral shipping agreements*. Opposed by many in the Executive Branch as contrary to U.S. free competition policy, such agreements are increasingly common and provide substantial benefits to ship operators.

—*Support extension of U.S. cabotage laws (Jones Act)*<sup>5</sup> to the Virgin Islands for oil. Legislation to effect this was reported out by the Senate Commerce Committee in 1976 and has been reintroduced. It would mean about 2,000 seagoing jobs and employment for about 25 tankers.

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<sup>3</sup> In a March 26 memorandum to Carter, Eizenstat indicated his support for Option C and suggested that if Carter decided in favor of Option C, he should consult selected Congressional representatives “to get their assessment of the strength of Congress’ commitment to Cargo Preference Legislation, as well as to give them a sense of involvement.” Eizenstat also advised a meeting between administration officials and maritime industry representatives “to explain why the Administration cannot support Cargo Preference and to discuss the alternatives we are interested in pursuing.” (Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 14, 3/28/77 [1])

<sup>4</sup> “Third flag” shipping refers to the carriage of cargo between two countries by a ship that is registered in neither the exporting nor the importing country, but instead in a third country.

<sup>5</sup> A reference to the cabotage regulations in the Merchant Marine Act of 1920 (often referred to as the Jones Act), which stipulate that cargo transported between U.S. ports must be carried in ships that are built and registered in the United States and owned and predominantly operated by Americans.

—*Provide for additional contract manning of Navy support ships.* Contract manning of over 100 fleet support ships now crewed by military personnel, plus some MSC ships now manned by civil service crews, would be technically feasible. Costs might be marginally higher, but this would strengthen the Navy–merchant marine bond and would be considered beneficial by the industry.

Thus far the EPG has formally reviewed only Options A and B, and has reached a negative conclusion in both cases. We have not yet staffed out in detail the various proposals under Option C, but we felt it appropriate to seek your guidance at this stage before proceeding further. I should note, however, that there are likely to be economic and foreign policy disadvantages to most if not all the potential initiatives listed under Option C.

You may wish to consult further with Secretary Kreps who has taken the lead in developing this issue. I would also advise that we not take a formal public position until there has been additional consultation with the Congress.

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**14. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, March 26, 1977

SUBJECT

Shoes: EPG Meeting, March 28

The EPG will hold a “principals only” meeting on Monday, March 28 at 2:15 p.m., with the President, on the footwear import relief case.<sup>2</sup> The President must decide before April 9 whether to grant or deny import relief as recommended by the US International Trade Commission (ITC). *I strongly recommend that you support Option I, calling for no import restrictions.*

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 63, Special Representative for Trade Negotiations (STR): 3/77–3/80. Confidential.

<sup>2</sup> The meeting took place in the Roosevelt Room of the White House on March 28 from 2:45 until 4 p.m. (Carter Library, Presidential Materials, President's Daily Diary) No minutes of the meeting were found.

You are familiar with some of the details of this case from my previous memorandum (Tab II).<sup>3</sup> After innumerable interagency discussions, a number of options have been rejected. *No* agency recommends implementation of the tariff rate quota system proposed by the ITC; it is simply too restrictive. Other recommendations for import quotas, voluntary restraint agreements or tariff increases were also considered unacceptable or unworkable. *All* agencies recommend that the President announce a program of expanded adjustment assistance, *regardless* of whether he also decides to provide import relief. Thus, it all boils down to two options:

- I. No import restrictions; with special adjustment assistance.
- II. Tariff rate quota; with special adjustment assistance.

State, Treasury, CEA and HUD support Option I. The details are set forth in Tab A.<sup>4</sup> In brief, under this option the President, on April 9, would announce:

—establishment, by Executive Order, of an Office of Structural Adjustment to coordinate and oversee programs to assist workers, firms and import-impacted communities adjust to import competition. This office would use existing legislative authority under the Trade Act, the Public Works and Economic Development Act, manpower and employment training programs, and other programs under the Small Business Administration and DOD to stimulate productive economic activity in areas suffering from import competition.

—plans to introduce new legislation to facilitate adjustment. These would include a Trade Adjustment Bank, tax relief and/or subsidies for US shoe firms, and additional amendments to the Trade Act to improve existing programs.

STR, OMB, Commerce, Labor and Agriculture (all largely for domestic political reasons) support Option II (Tab B).<sup>5</sup> This would *establish a tariff rate quota which would increase duties on imports above 322 million pairs* (1976 imports amounted to 370 million pairs). This option:

—establishes as its *base* the average of 1974–76 imports (306.6 million pairs).

—provides for a special *growth* basket of 15.3 million pairs (5% of 1974–76 imports) open to all foreign suppliers.

—sets quotas for 18 countries plus the EC with an “all other” basket category for the smaller suppliers.

—imposes a 40% duty on above quota shipments.

<sup>3</sup> Tab II, attached, is printed as Document 10. It sets out the options discussed here.

<sup>4</sup> Tab A, attached but not printed, is an undated paper entitled “Option I (No Import Restrictions, Special Assistance Program).”

<sup>5</sup> Tab B, attached but not printed, is an undated paper entitled “Option II (Three Year Tariff Rate Quota).”

—calls for a program lasting 3 years with the possibility of one 3-year extension.

There are numerous arguments against import relief. We would expect Blumenthal and Schultze to emphasize the *domestic* aspects of the problem, e.g. that relief would be inflationary, hit low income consumers hardest, give the most efficient domestic producers windfall profits, and do little to help the domestic industry improve its competitive position against imports.

From a foreign policy standpoint, trade restrictions would:

—invite emulation on the part of our trading partners (many of whom face severe domestic economic difficulties and have governments too weak to resist an assault by protectionist forces.)

—have especially adverse political repercussions in Italy, Spain and Brazil (although Option II is not harsh in restricting exports from these countries, their peoples will miss the technical nuances and see this as a threat to a key export sector); endanger economic recovery in a number of countries.

—have a highly negative effect on the Summit and North/South relations.

Those who favor protection will likely emphasize the domestic political and Congressional considerations, and downplay the foreign reaction. They will stress that the law exists to deal with such trade injury situations, that the shoe industry has a *prima facie* case for relief, that Congress expects prompt and effective action to restrict shoe imports, and that failure to provide import relief could lead to a Congressional override with possible adverse implications for the President's programs in other areas. They may also argue that Option II allows for an increase in Italian shoe exports and only a slight decrease in exports from Brazil, Spain, etc.

On balance, the costs of restricting imports in terms of our broader foreign policy objectives coupled with the cost in terms of the President's domestic economic goals *far outweigh* any benefits that might accrue to the domestic shoe industry from reduced import competition. Moreover, there are important domestic political benefits—viz. all consumers. *Thus, I strongly recommend that you support Blumenthal, Schultze, and State in opposing import restrictions.*

#### *Talking Points*

—*This is the single most important decision in the area of foreign economic policy that the President will have to make in the first year of his Administration. The stakes are extremely high.*

—It impacts on our relations with key allies, on the Summit, on our relations with the developing nations, and on the international financial and trading system. If the US turns towards protectionism at this critical stage of Western economic recovery, we can expect others (with

weaker economies and governments too shaky to resist protectionist pressures) to follow suit. The liberal trading regime that we have nurtured since the end of World War II may not be able to stand the strain. If the US cannot hold the line against domestic pressures, we can hardly expect the Italians, British and others with payments problems to do so.

—Import restrictions will hit the developing countries in East Asia and Latin America hardest. These are the newest entrants to the US footwear market. They took seriously our advice to diversify exports and seek out new product lines to promote their development. Now that they have done so, and quite effectively, we threaten to shut the door. Our credibility in the North/South dialogue will suffer as a result. Since we are about to renew important discussions in the CIEC, the timing would be most unfortunate.

—(If it is argued that there would be no cutback in Italian exports, and only a slight cut in imports from Brazil, Spain and other LDCs.) This misses the emulation point. Also even if our restrictions are relatively mild, they will be seen as a blow to key industries in these countries, and will stimulate other countries to impose restrictions which will have a more severe impact on the shoe exports, and other exports, of these countries.

—We cannot ignore the impact that trade restrictions will have on our own export sectors. By limiting imports, we are not only asking our consumers to pay higher prices, but also to the extent that our trading partners retaliate or demand compensation we are forcing other US industries and workers to bear the financial burden for protecting the shoe industry.

—Also, the supposed gains in domestic jobs in the shoe industry may be less than expected. The lawyers representing the Mexican footwear manufacturers have gathered data showing that there is a high correlation between Mexican shoe production and movement of illegal aliens into the US. They assert that if we limit Mexican shoe exports, the workers will simply move across the border and market their skills in Los Angeles and elsewhere. A certain percentage of domestic jobs supposedly gained by import restraints would thus be lost to illegal aliens.

**15. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, March 26, 1977

## SUBJECT

Your Monday EPG Meeting on Shoes<sup>2</sup>

Because Cy Vance will not be here to attend your shoe meeting—which will discuss what is probably the single most important issue in the international economic area that you will have to confront during the first year of your Presidency—I want to note briefly a number of foreign policy considerations which Cy and I share.

First, shoes represent a vital export of countries with whom our economic, political and security relationship is extremely important. These include Italy, Spain, Brazil, Korea, Taiwan and Mexico. Many of these countries face extremely difficult financial situations, which they rely in part on their exports to remedy. Restricting their exports will further weaken their economies. It will also make them more difficult to deal with on any non-economic issues.

Second, the implications for the London Summit are very serious. Our imposing import restrictions will, as Prime Minister Callaghan pointed out to you, sour the atmosphere in which the Summit takes place. Further, it will put unbearable pressure on governments too weak to resist protectionist pressures, forcing them to follow our lead and impose restrictions of their own. You will therefore likely go to London in a climate of significantly rising protectionism, shifting the emphasis of the Summit from solidarity, and cooperative efforts to achieve economic stimulus, to bitter recriminations in the trade area.

Third, developing countries seeking to increase exports will bitterly resent this action. The result could well be a deterioration in the North-South dialogue and an undermining of the very constructive start you have made in strengthening U.S. relations with the developing world.

While I am told that you will probably not make a decision at this meeting, and know you will also have a range of domestic considerations to factor in, I thought these points worth your attention.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 78, Brzezinski, Chron—To/From President: 3-4/77. Confidential.

<sup>2</sup> March 28; see footnote 2, Document 14.

16. **Memorandum From the Under Secretary of State for Economic Affairs-Designate (Cooper) to the President's Assistant (Watson)**<sup>1</sup>

Washington, March 30, 1977

SUBJECT

Shoes

The Strauss memorandum fails to point up adequately the considerable difference, both from a foreign policy viewpoint and from the viewpoint of domestic consumers, between an "orderly marketing agreement" approach and a "voluntary restraint" approach to limiting imports of shoes.<sup>2</sup>

A decision to negotiate formal orderly market agreements would be interpreted in the United States press and by the world as a turn toward import restriction. While this course would permit 90 days during which agreements could be negotiated with the two largest suppliers representing over 50% of the imports, the President would have to inform the Congress and the public now of the course he is taking. The impact of the policy decision would thus be immediate. Failing agreement, the President would be required to impose unilateral restraints on *all* imports. Moreover, if agreements were negotiated, they would contain "equity" provisions which would obligate the United States to undertake unilateral restraints against non-agreement countries whose imports "disrupt" our market. This will invite continuing controversy with other exporting countries.

The "orderly marketing agreement" route is in fact a more protectionist solution than the tariff quota option. It results in absolute quantitative limitation on imports and does not permit imports above quota to come in, albeit at a higher tariff. Thus, a tariff quota would, in general, have a smaller impact on consumer prices.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980: Lot 81D134, Box 1, Memorandums, 1977. Confidential.

<sup>2</sup> In a March 30 memorandum to Carter, Watson wrote: "Pursuant to your request, Bob Strauss has prepared the attached memorandum outlining the third option which he proposed at the EPG meeting on Monday [March 28]. As Bob's memorandum indicates, there is still considerable disagreement among the group as to whether option three should follow the course of *voluntary restraints* or one of *orderly marketing agreements*. Mike Blumenthal, Henry Owen, Charlie Schultze, Zbig and Warren Christopher all favor voluntary restraints; Bob Strauss and I think the Vice President, Bert Lance, Juanita Kreps and Ray Marshall prefer orderly marketing agreements." Strauss' memorandum was not attached to Watson's memorandum. (Carter Library, White House Central Files, Subject File, Box FG-92, FG 6-15 Executive 1/20/77-8/31/77)



The alternative of voluntary restraints avoids these problems. The primary relief provided is adjustment assistance with voluntary agreements designed to avoid disruption of the market during the adjustment process. Since the arrangements by their nature are not mandatory, they provide much greater flexibility. They do not create the same complications with other exporting countries. Most importantly, they would not present the image of the President having adopted a protectionist approach in the first and most important trade case coming before him in his Administration.

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## 17. Editorial Note

On April 1, 1977, President Jimmy Carter announced that the United States would seek orderly marketing agreements on footwear imports. Noting his reluctance “to restrict international trade in any way,” Carter asserted: “Only problems as extreme as those faced by the American shoe industry could force me to seek even modest mandatory limits on imports.” Carter explained that his decision in favor of orderly marketing agreements reflected his conclusion that the U.S. International Tariff Commission’s tariff rate quota proposal “did not fairly balance our concerns for domestic jobs and production, inflationary pressures, and expanded world trade.” In addition to the orderly marketing agreements, Carter announced the expansion of corporate and worker assistance for the footwear industry. For Carter’s statement on his decisions concerning the U.S. footwear industry, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pages 550–551. Carter’s April 1 message to Congress forwarding his decisions is *ibid.*, pages 551–552. Carter’s April 1 memoranda to Special Representative for Trade Negotiations Robert Strauss and to various department and agency heads on his decisions are *ibid.*, pages 552–554.

**18. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, April 4, 1977

## SUBJECT

Letter from Bob Strauss to Carry to Prime Minister Fukuda

The State Department and STR believe that the 2.5 million restraint figure on Japanese color TV exports to the US, which you told Prime Minister Fukuda was acceptable to us,<sup>2</sup> would in fact be seen by domestic industry and labor as too high. The ITC finding, which (by raising tariffs) implies an import level of 2.5 million for *all* countries, would probably mean a 1.9 million level for Japan. At Tab A is a letter to Fukuda, which Strauss would like to deliver personally;<sup>3</sup> it indicates that after your examination of the International Trade Commission's report and the most recent trade figures (roughly 25% above comparable months last year), you believe that the figure which you mentioned to Fukuda would prove unrealistic in the US, and that the problem needs a fresh look to arrive at a figure below this level. It expresses the hope that this can be worked out on Strauss' visit to Tokyo.

In seeking to reopen these discussions, we are, of course, going back on the figure you proposed to Fukuda as a US position. But failure to reduce this number would likely provoke a hostile domestic reaction, which would be harmful to our longer-term trade policy and Japan's interests as well.

## RECOMMENDATION

That you sign the letter at Tab A.<sup>4</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 2-12/77. No classification marking.

<sup>2</sup> See Document 12.

<sup>3</sup> Tab A, attached but not printed, is an undated and unsigned letter from Carter to Fukuda. Strauss visited Tokyo April 6-8 for talks with Japanese officials.

<sup>4</sup> A handwritten notation at the bottom of the page reads: "signed revised letter 4/4/77." According to the memorandum's NSC Correspondence Profile, Carter signed a revised version of the letter; a handwritten note on the profile reads: "Sorry. Copies are not available in the NSC/S [NSC Secretariat]. It was [signed] & is being hand carried by Strauss." (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 2-12/77)

**19. Memorandum From Robert Hormats and Michael Armacost of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, April 5, 1977

## SUBJECT

President's Letter to Prime Minister Fukuda on Televisions

We were surprised,<sup>2</sup> indeed concerned, about the final letter to Fukuda which the President sent via Ambassador Strauss.<sup>3</sup> During the meeting with Fukuda the President put forward the 2.5 million figure as an acceptable figure for 1977 exports.<sup>4</sup> He did not press for the Prime Minister's agreement on the spot. He acknowledged that the figure would be considered high by U.S. labor and business circles. Fukuda was prepared to strike a deal on the spot; his advisors suggested that he hold off until he had a chance to consult with his Cabinet and business circles. But the Japanese by no means rejected the figure.

However, this letter implies that having been unable to reach an agreement in Washington, we are going to make another effort to reach a compromise.<sup>5</sup> In fact, of course, Strauss intends to propose a considerably lower figure—and the line about failing to reach agreement is simply a shallow pretext for seeking a better deal.

To make matters worse, Strauss apparently indicated to Ambassador Togo that the President did *not* put forward a U.S. position during his talk with Fukuda, but that the number he discussed was really one which was given to him by a U.S. official who had earlier

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 1–4/77. Confidential. Sent for information.

<sup>2</sup> Brzezinski underlined the phrase “We were surprised” and wrote above it, “I was, too!”

<sup>3</sup> Attached but not printed is an unsigned April 4 letter from Carter to Fukuda, which is different from the letter attached as Tab A to Document 18. The final version of the letter is also in telegram 76428 to Tokyo, April 6. (National Archives, RG 59, Central Foreign Policy File, P850106–2091, N770002–0455)

<sup>4</sup> See Document 12.

<sup>5</sup> The relevant section of the letter reads: “Another important matter which I know is of considerable concern to both of us is trade in color television sets. Since we discussed this subject but were unable to reach an agreement, I have had the opportunity to examine the Trade Commission's Report and the latest trade figures. I therefore think that it is important for us to take a fresh look at this problem without regard to previous positions. I believe that we can arrive at a figure which meets our mutual interests. It would be desirable if Ambassador Strauss and you or your representatives can reach an understanding on an appropriate level of imports, so that this issue might be resolved before the Summit.”

talked with the Japanese, and did not really represent a U.S. position. This shades the truth a bit; it is at best disingenuous.

Obviously, it would be dandy if Strauss could persuade the Japanese to accept greater restraint on TV exports than the President suggested in his meeting with Fukuda. But we fear the language in this letter may seek that worthy objective at the risk of jeopardizing the President's credibility with Fukuda. The Japanese attach great importance to gentlemen's agreements. They are also pragmatic. If Strauss were to straightforwardly indicate to Fukuda that on reflection the President has come to the conclusion that the 2.5 million figure cannot be sold to the American public as plausible rationale for foregoing the ITC recommendations, we suspect the Prime Minister could accept that and would probably be prepared to consider a somewhat lower figure. But this letter is too sly and lawyer-like to be appropriate to this situation.

We presume it is too late to do anything about this, but we did wish to at least register our misgivings.<sup>6</sup>

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<sup>6</sup> According to telegram 5108 from Tokyo, April 8, which summarized Strauss' April 6-8 visit to Tokyo, "two days of intensive discussions on television problem resulted in outlines of several possible approaches to an agreed resolution." The U.S. and Japanese representatives agreed to come to a "mutually satisfactory negotiated settlement on television this month so that this question would be out of the way by the Summit." (National Archives, RG 59, Central Foreign Policy File, D770123-0006) For the conclusion of the U.S.-Japan negotiations on color television receivers, see Document 31.

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## 20. Editorial Note

On April 9, 1977, Secretary of the Treasury W. Michael Blumenthal, acting in his capacity as the Chairman of the Economic Policy Group, forwarded to the President's Assistant for National Security Affairs, Zbigniew Brzezinski, and the Special Representative for Economic Summits, Henry Owen, a paper entitled "Final Report and Recommendations: Economic Issues at the London Summit." The paper, which was drafted by the Economic Policy Group, was prepared in response to Presidential Review Memorandum 7 (see Document 3). (Memorandum from Blumenthal to Brzezinski and Owen, April 9; Carter Library, National Security Council, Institutional Files, Box 25, PRM-07)

During an April 14 Policy Review Committee meeting on Europe, Owen discussed the status of the preparations for the London G-7

Summit, highlighting several issues likely to prove contentious: “British-German differences over economic stimulation, British reservations on trade and strong North-South commitments, and French objections to non-proliferation if reprocessing is excluded from the international fuel cycle evaluation.” Assistant Secretary of the Treasury C. Fred Bergsten asserted “that one version of the small-car rebate included in the President’s energy program would dominate the Summit, suggesting, especially in combination with the Zenith issue, that the United States was turning protectionist.” The national energy plan presented by President Jimmy Carter to Congress on April 20 included a provision to offer rebates on purchases of fuel-efficient cars made in the United States and Canada; purchases of cars produced in other countries would be eligible for rebates “on the basis of treaties or executive agreements entered into between these countries and the United States. The President’s Special Representative for Trade Negotiations will work with other nations to develop equitable rebate agreements.” See the Fact Sheet on the President’s plan in *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, page 674.

Secretary of State Cyrus Vance argued against the institutionalization of summits, suggesting instead that the United States “try to make better use of existing cooperative institutions. Others agreed, while pointing out the utility of informal small groups. Owen pointed out the need for following up the agreements at the Seven Nation Summit. The NATO Summit may foreshadow a successor next year; there will be no commitment to another Seven Nation Summit in London, although the Canadians have talked of initiating one.” (Summary of discussion, April 14; Carter Library, National Security Council, Institutional Files, Box 60, PRC 012, 4/14/77, Western Europe and International Summit—PRM).

## 21. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, April 15, 1977

### SUBJECT

Summit Preparations—A Progress Report

I gather from what you said to me after the Fukuda dinner<sup>2</sup> that you wanted informal progress reports from time to time. I am sending you this report while preparations are still in mid-stream, so that if you do not feel I am on the right track, you can let me know.

To make a success of the Seven Nation and NATO Summits, we need (1) a clear view of their purpose; (2) allied agreement on specific actions to achieve this purpose; (3) means of sharing both these actions and the purposes to which they are directed with public opinion; (4) effective follow-through. This memorandum discusses means of meeting all four needs.

### I. Purpose

The economic and political progress achieved by the industrial world since World War II is threatened by two inter-related problems:

—*Economic.* The world economy has the potential for healthy growth; present trends in Germany, Japan, and the U.S. are favorable. But in the UK, France, and Italy, steps to curb inflation and the eroding effects of inflation itself have slowed economic growth or brought it to a halt. International indebtedness is mounting, partly as a result of high energy costs. In France and Italy, these economic and political problems have weakened moderate forces and threaten a shift to the Left, which could endanger confidence and stability in neighboring Germany. Parochial and protectionist pressures in the industrial world, triggered by these economic problems, also hinder joint action by rich nations to help developing countries.

—*Security.* U.S. and German forces are in good shape, and there is no prospect of early East-West conflict. But NATO is not keeping pace

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5–10/77: Memos and Cables, 4/15–28/77. Confidential. Sent for information. Carter initialed "C" at the top of the page and wrote "good." The memorandum was sent to Carter under cover of an undated note from Brzezinski that reads: "The enclosed is only for scanning. It will be in your briefing book." (Ibid.)

<sup>2</sup> Apparently a reference to a March 21 working dinner held at the White House during Fukuda's March 20–23 official visit to the United States. A memorandum of conversation is in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 34, Memcons: President: 3/77.

with modernization of Soviet forces. It is difficult for NATO to do so, within realistic fiscal ceilings, without rationalization of NATO programs to reduce waste and overlapping. Continuation of present trends could eventually threaten the balance of military power that keeps peace in Central Europe.

These two problems interact: Political and economic trends hinder defense efforts in some European countries, and an evident weakening of European defense could hinder European recovery.

Meeting these problems will require cooperative effort by the main industrial countries. In the economic field they will need to confirm each other in sensible domestic policies, and to join in enlarging international financing, reducing artificial obstacles to trade, improving the balance between global energy demand and supply, and providing more effective help to developing countries. In the security field, they will need to modernize NATO forces and rationalize NATO defense programs.

Action to these ends will confront major obstacles. These cannot be overcome without a powerful political impulse. The purpose of the Seven Nation and NATO Summits should be to generate that impulse. Implementing action can then be taken in other forums.

## II. *Specific Actions*

*Seven Nation Summit.* To serve this purpose, we are negotiating in the international preparatory group to include the following in the draft Seven Nation Declaration:

1. *Domestic.* Germany, Japan, and the United States would commit themselves to achieve present expansionist targets; Britain, France, and Italy would pledge to maintain their stabilization policies until inflation had been brought under control; and both groups of countries would agree to concert about these actions in the *OECD*.

2. *Financing.* The seven nations would agree to support Witteveen's proposal to expand the *IMF's* resources in order to help debtor countries finance their deficits on current account.<sup>3</sup>

3. *Trade.* The seven participating governments would agree to seek specified substantive results, including progress toward an international system of national grain reserves, in 1977 in the multilateral *GATT* trade negotiations.

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<sup>3</sup> In February 1977, concerned that delays in the expansion of IMF member quotas would combine with large-scale demands on IMF resources to produce a situation in which the IMF could not meet its members' financial needs, Witteveen proposed the creation of a "supplementary financing facility." Also known as the Witteveen Facility, this initiative would allow the IMF to borrow funds from member countries that it could then lend to other member countries. (De Vries, *The International Monetary Fund, 1972–1978: Cooperation on Trial*, vol. I: Narrative and Analysis, pp. 545–546)

4. *Energy and Non-Proliferation.* Governments would pledge to reduce energy consumption, increase energy supply, share research and development to these ends, and concert about these measures in the *International Energy Agency*. They would also agree that legitimate nuclear needs should be met, that this should be done without enhancing prospects for nuclear proliferation, and that studies of national and international means of reconciling these two objectives should be pursued.

5. *North-South.* The Summit nations would agree that the level and quality of aid to LDC's should be raised, and that resources of the *World Bank* should be increased—thus permitting more of its resources to be devoted to expanding energy and raw materials production. Governments would agree to negotiate flexibly about individual commodity stabilization agreements, and to finance these agreements through a common fund. I hope that the Summit nations can also agree to ask the World Bank to explore the concept of a world development budget or program; I'll have a better feel for other countries' reactions after the next meeting of the International Preparatory Group.

The agreements outlined above would launch or reinforce action to address the main problems that the industrial countries face, and they would strengthen the international agencies in which that action must be taken. Taken together, they should convey a persuasive impression of governments that are in control of their destiny, and whose policies promise a better future for their peoples.

When I have asked journalists what it would take to convince them that the Summit was a success, their answers have called for a less ambitious outcome. What emerges from the Summit will probably also be less ambitious; we are unlikely to achieve international agreement on all the above points. But I hope that our main goals can be fulfilled. The main obstacle at the moment is that the British draft Declaration is inadequate; our own is better,<sup>4</sup> but the British (as hosts) have the main drafting responsibility. I am encouraging the Canadians to prepare an alternative draft which will borrow the best from the British and American drafts, and which I hope can provide a basis for discussion at the April 25–26 meeting of the International Preparatory Group.

Arms transfers will be taken up in the Four Power Berlin Summit meeting.<sup>5</sup> Human rights will be covered in your NATO speech; it

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<sup>4</sup> Neither the British nor the U.S. draft declaration was found.

<sup>5</sup> The three Western powers occupying Berlin at that time—France, the United Kingdom, and the United States—along with the Federal Republic of Germany, held a Four-Power Berlin Summit on May 9 in London. A joint declaration on Berlin issued on that day is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 840–841.



would not be in our interest to make this a major issue in the Seven Nation Summit, since intensive discussion there would probably generate allied disagreements on which the media would focus, overshadowing constructive economic agreements.

*NATO Summit.* We are consulting with NATO embassies in Washington about the following initiatives for your speech to the North Atlantic Council:<sup>6</sup>

1. *NATO Forces.* Defense Ministers would be asked to develop a program of needed modernization and improvement of NATO forces, and to examine possible changes in NATO machinery to ensure effective follow-through. The Defense Ministers' recommendations would be reviewed (after an interim report to the December NATO meeting) at the NATO meeting of May 1978, which might be held at the Summit.

2. *Defense Production.* The U.S. would indicate its willingness to work with a collective group of European countries in improving present procedures for development, production, and procurement of NATO defense equipment—in order to avoid waste, promote joint European effort, and increase U.S.-European defense trade. This seems like a dull technical issue, but it is tearing NATO apart politically and wastes large resources (perhaps as much as \$10 billion annually) that are badly needed for more effective defense.

3. *Political.* We have in mind that you would speak in some depth about East-West relations. You might suggest launching a major joint reappraisal of the alliance's role in changing East-West relations—also for review in May 1978. This would provide a more effective basis for inter-allied consultation on this subject, and could help to create a political framework in which the need for effective NATO defense effort would be more evident.

These actions would not be dramatic. But they would respond to the main threats that NATO faces and should reassure the Europeans. If followed through, they would eventually reverse the adverse military trends in Central Europe noted under I, above.

### III. *Sharing Perceptions*

It will be important not only that the Summits achieve the purpose defined above but that they be seen to have done it.

This requires explaining to the media and to our own people what we are trying to achieve—creating an environment in which the industrial world can register steady economic growth, helping developing countries achieve more rapid progress, and making NATO a more ef-

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<sup>6</sup> For Carter's speech on May 10 at the London NATO Summit, see *ibid.*, pp. 848–852.

fective means of defense and consultation. It also means explaining how the actions taken at the Summit can help to fulfill these goals—pointing out that this requires an on-going process in diverse forums that Summits reinforce.

I will send you an action memorandum later, raising the question of whether you wish to meet with the Congressional leadership in late April or early May to discuss both Summits, and then meet with the leadership again after you return from London to acquaint them with the results. I will send you another memorandum asking if you would like to meet with business and labor leaders to the same end.

After the Summits, and depending on their results, you may wish to make a TV report to the nation about these results; in such a speech you could present a broad view of these meetings' role in your foreign policy. I will begin drafting an outline, for use in case you decide to make such a speech.

#### IV. *Follow-Through*

The business-like approach to Summitry outlined above hinges on effective follow-through. After the Rambouillet and Puerto Rico Summits<sup>7</sup> this was lacking. At both Summits, for example, it was agreed that Multilateral Trade Negotiations should be concluded by the end of 1977, but this had little effect on the conduct of negotiations.

At the first meeting of the Seven Nation international preparatory group, we discussed whether finance ministers of the seven participating nations should meet regularly to consider whether their countries' policies were fulfilling Summit directives. The general reaction was that this would antagonize non-attending nations and over-burden finance ministers. It was suggested that follow-through should be "flexible" and "informal", which—to judge from past experience—means that it would be slight to non-existent.

Of course, much of the economic follow-through will take place in other forums; the OECD for domestic and balance of payments economic policy, the IMF for international financing, the GATT for trade, the IEA for energy, and the World Bank for aid. The same is true on the security front: The NATO Defense Ministers' Committee is the place for defense improvements, and the North Atlantic Council is the place for consultation. But we need to be sure that ministers and civil servants in these forums are following Summit guidance, instead of allowing that guidance to be eroded by time and new events.

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<sup>7</sup> The Rambouillet Summit took place November 15–17, 1975; the Puerto Rico Summit June 27–28, 1976. Both are documented in *Foreign Relations, 1969–1976*, vol. XXXI, Foreign Economic Policy, 1973–1976.

To meet this need within our own government, you may wish, after the Summit, to arrange for periodic NSC meetings, at which the actions taken to fulfill Summit actions are reported and reviewed. Preparations for these meetings will keep the government's attention focused on carrying out Summit agreements.

On the international level, civil servants of other governments will only concern themselves with follow-through if instructed to do so by their political masters. At the final session of the Seven Nation Summit you might propose that there should be a follow-up meeting, say, five months after the Summit, attended by whatever official each head of government designates. It need not be finance ministers; it could be the same group that has been preparing for the Summit. This meeting would survey progress made in executing Summit decisions and submit a report to the heads of government. If the meeting were conducted quietly and without publicity (meetings of the preparatory group have attracted no media attention), there should be little basis for resentment by countries not attending the Summit. While this would place some additional burden on the officials involved, it would be small compared to the advantages of ensuring that Summit decisions had some effect on what happened in the real world.

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**22. Memorandum From the Representative to the European Communities (Hinton) to the Special Representative for Trade Negotiations (Strauss)<sup>1</sup>**

Washington, April 20, 1977

SUBJECT

Negotiating Agriculture in the MTN

The US agricultural community has feared that agriculture would be left to the last in the negotiations—as in the Kennedy Round<sup>2</sup>—and

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 1, Agriculture 1977. Limited Official Use. At the top of the page, Strauss wrote: “Wolff + Starke—Let’s discuss.” According to another copy of this memorandum, “Starke” was in fact STR staff member James Starkey. (National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 3, European Community 1977)

<sup>2</sup> The Kennedy Round of GATT multilateral trade negotiations took place in Geneva from 1964 until 1967.

that the United States would fail to get major concessions. Our answer has been to insist on negotiating industry and agriculture together. Now, however, we have a chance to improve the situation: we should make agriculture our first priority. Agriculture is central in and by itself and it also poses the key export subsidy problems.<sup>3</sup> Here we have leverage since our countervailing waiver authority expires in early 1979.<sup>4</sup> We should use this leverage to get well ahead in 1977 on agriculture generally and to break the subsidy/countervailing duty code problem by this time next year at the latest.<sup>5</sup>

In our view, the basic US goals in agriculture should be:

—a grains agreement which provides some price stability, relieves us of the burden of carrying almost all the world's reserves and guarantees steady US export growth, combined with restraints on EC use of subsidies on exports into third country markets;

—a *modus vivendi* on subsidies on EC exports into the United States (cheese, hams) and other subsidy practices (which could be incorporated into a subsidies/CVD code);

—tariff reductions on products of special interest to the United States (citrus, tobacco), preferably as part of an application of the tariff formula to agriculture or, if that fails, in a product-by-product negotiation.

### *Grains*

Our best chance of results in the grains area lies not in a frontal attack on access but in an agreement cast in the framework of the world food problem and world trade in grains, but negotiated as part of the MTN package. We would aim for a reserve agreement with a wide price fork. This cover can serve US goals by restraining the Community's use of export subsidies on grains, requiring it to share the burden in adjusting to both surplus and shortage situations, and by dampening excessive price swings. It will meet the Community's goals by being in the form of a commodity agreement with price provisions and by contributing to world grain market stability.

### *Subsidies*

The general problem of export subsidies on industrial goods is not insurmountable. The real problem is how to include agricultural products, where the Community considers export subsidies as an integral part of the Common Agricultural Policy. Arrangements limiting

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<sup>3</sup> Strauss underlined "Agriculture is central in and by itself" and "poses the key export subsidy problems."

<sup>4</sup> Congress had granted the President temporary authority to waive the imposition of countervailing duties on subsidized imports.

<sup>5</sup> Strauss wrote "explain?" in the margin adjacent to the final two sentences of this paragraph.

subsidies may have to have three parts: (1) limits on grain subsidies included in a grains arrangement; (2) limits on certain other commodity export subsidies contained in *ad hoc* or commodity specific arrangements; (3) a general arrangement on subsidies to include all other products and at least by reference other *ad hoc* arrangements.

The US problems with US-Community subsidies are essentially of two kinds: (a) their subsidies on sales to the United States and (b) their competition with us in third countries.

A) *Community Subsidies on Agricultural Sales to the US*

The crucial commodities are dairy products and hams, which are both presently covered under countervailing duty waivers which expire in 1979. While the preferred resolution would be an overall code on subsidies/countervailing which would cover agricultural products, the EC, for domestic political reasons, will not be able to subject its agricultural exports, particularly in dairy, to a general code. Another approach would be to negotiate an *ad hoc* set of arrangements on cheese and hams, and possibly beef and processed foods, by which they would limit their subsidies in our market. This could be based on EC observance of minimum export prices as negotiated on cheese and then dropped in the spring of 1975. The EC has such arrangements with Switzerland and Spain. Their demands will undoubtedly include a trade-off on US dairy quotas and some requirement of injury in US countervailing duties.

B) *Community Agricultural Subsidies to Third Countries*

Apart from grains and flour—which would be dealt with in a grains arrangement—this is not a major problem, but it does have to be handled. The key may be an approach based on avoiding predatory marketing. The challenge is to devise an agreed consultative mechanism which would dry up excessive subsidies in time to avoid market disruption. One approach would be to accept EC subsidized sales to an agreed list of LDC's as aid devices along with a tight EC agreement to respect world prices (as defined during the negotiation) by avoiding market expansion—or taking away existing commercial markets—for all other sales. These rules could be elaborated in the more general subsidies code.

*Procedure*

We must promptly get to the substantive agriculture issues. My proposal to break the procedural impasse at Geneva would be to seek, in return for our accepting the grains agreement approach and commodity discussions for other variable levy items, EC agreement to inclusion of non-variable levy agricultural products under the agreed tariff-cutting formula. Total US exports to the EC in these items amount to over \$1 billion, with citrus and tobacco being particularly important.

While there are, of course, other ways to get to substance, this proposal is a politically acceptable compromise between the US view that industry and agriculture move in lock step and the Community view that agriculture is different. But I repeat that the main assurance we get is that in making agriculture top priority for this year we will know better where we are before we strike the industrial tariff and MTN deals.<sup>6</sup>

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<sup>6</sup> In a May 5 letter to Hinton, Strauss noted that he had read Hinton's memorandum "three times—not because it is poorly drafted but because I think it is exceedingly well thought through. I look forward to our pursuing the subject as well as our many other common problems." (National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 3, European Community 1977)

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**23. Briefing Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Solomon) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, April 21, 1977

SUBJECT

Supplementary Briefing for the G-5 Meetings This Weekend<sup>2</sup>

I think our objective for this meeting should be to get firm agreement among the "Five" to press hard for the Witteveen facility,<sup>3</sup> and to avoid letting action on this get cluttered up or side-tracked by discussions of a further increase in IMF quotas or SDR allocations. We have placed fairly heavy bets on the Witteveen proposal and we need to see that it gets a strong push. This will involve a clear statement from you not only that we support Witteveen's proposal and will participate on a significant scale—on the order of SDR 2½ billion—but that we will drop the OECD Financial Support Fund<sup>4</sup> alternative if Witteveen's proposal flies. Burns is pressing for us to go even further and drop the FSF

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<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977-1980, Chronological File, Box 1, 4/18/77-4/30/77. Confidential. Drafted by Leddy and reviewed by Hessler and Jeanne Davis of the Executive Secretariat. A typed notation reads: "Noted by W.M.B."

<sup>2</sup> For Blumenthal's report to Carter on the April 23 meeting of G-5 financial officials, see Document 24.

<sup>3</sup> See footnote 3, Document 21.

<sup>4</sup> See Document 6.

*now*, but he accepted my view that this was the farthest we could go now—where the FSF is, at least theoretically, a fallback. We have kept the Support Fund alternative open for very good reasons while assessing the prospects for the Witteveen proposal, but we need to remove any doubts the others may have about where our preferences lie.

A second main point we need to nail down relates to the broad character of the Witteveen facility—i.e., that it will be available to countries only on the basis of effective policy conditionality comparable to that applied by the IMF in the higher credit tranches. The British will try to weaken this point and they will get support from the LDCs in the IMF. You will probably get strong support from the Germans, French, and Japanese.

I talked to Witteveen last night, and there is still no clear response from the Saudis. The Finance Minister, Aba al-Khail (to whom you wrote) will be in London for the next few days.<sup>5</sup> Witteveen plans to call him and may go to London to meet with him. There may be a need for you or me to see Aba al-Khail while we are in Europe, which I will explain verbally.

Also, in my discussion with Witteveen last night, he and Bill Dale referred to the possibility of large market borrowings by the IMF. They have been told by Eugene Black, Jr.<sup>6</sup> that they could borrow \$10 billion at the prime rate. I have major doubts about the IMF's real prospects for borrowing in the markets on this large a scale. If this question arises this weekend (which it shouldn't since I doubt Witteveen has told anyone else) I would suggest that you take the position

—that this idea represents a real fork in the road in terms of the character of the IMF and must be given a great deal more thought;

—that any indication that people are thinking in terms of this approach will take the Saudis completely off the hook and destroy any chances for the Witteveen facility.

This is a possibility that we should study and an alternative to keep in our pockets if the Witteveen facility fails, but if it is brought out now it will side track the whole effort.

On the other main points to be covered this weekend in the monetary area—a further quota increase and the possibility of SDR allocations—I recommend the following:

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<sup>5</sup> No memorandum of conversation of Solomon's discussion with Witteveen was found. On April 13, Blumenthal approved transmission of a letter from him to Saudi Minister of Finance and National Economy Mohammad Aba al-Khail, in which he discussed the merits of the Witteveen initiative as well as the need for swift action on it. (Memorandum from Solomon to Blumenthal, April 12; Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 1, 4/1/77–4/18/77)

<sup>6</sup> Eugene R. Black, Jr. was an investment banker with Lazard Frères & Company.

1. We believe a quota increase will be needed but we don't have to decide now on the amount or the distribution. We should keep an open mind even though other G-10 countries are falling into either the "modest" (25-30%) increase adherents vs the "substantial" (50%) adherents. The target date for completion of the quota review is February 1978 and we can let this be discussed in the Executive Board. We should concentrate now on the Witteveen proposal.

2. On SDR allocations, we don't believe there is a need this year, but we do not need to foreclose the possibility for the next several years. We would be willing to look at the question again next year.

I briefed Burns at his and your request this morning for two hours,<sup>7</sup> especially on last night's conversation with Witteveen. Since you don't have free time today I will brief you Saturday<sup>8</sup> morning at the Embassy Residence.

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<sup>7</sup> No record of this briefing was found.

<sup>8</sup> April 23.

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## 24. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, April 26, 1977

### SUBJECT

Finance Ministers Meeting in Paris Saturday, April 23, 1977

Under the Chairmanship of Prime Minister Raymond Barre of France (who is also Finance Minister), the Finance Ministers of the U.K. and Germany, the Deputy Finance Minister of Japan, and myself, accompanied by Deputies and the respective Central Bank Presidents, met in Versailles in a private meeting to review major international and economic questions of common concern.<sup>2</sup>

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 21, 5/2/77 [1]. Confidential. A stamped notation reads: "The President has seen," and Carter initialed "C" at the top of the page.

<sup>2</sup> No memorandum of conversation of the meeting was found; an April 25 memorandum to Blumenthal and Burns from Solomon summarized the discussion. (Carter Library, Anthony Solomon Collection, 1977-1980, Chronological File, Box 1, 4/18/77-4/30/77)



The agenda was dominated by international financial issues, replenishment of the IMF, trade and relations with developing countries. All of these issues will be before the Heads of State at the Summit. The meeting, thus, provided a good preview of likely attitudes for London.

### 1. *General*

The attitude and atmosphere was cordial and cooperative. The French, German, and U.K. Ministers clearly reflected the political weaknesses of their respective governments, i.e., (a) next year's elections in France, which the present government may well lose; (b) the extreme weakness and possible short life of the Labor government in the U.K.; and (c) the weakening position of the SPD-Liberal Coalition in Germany, marked by internal dissension and made somewhat more secure only because of the relative disunity among the opposition.

The weak economic situation in France and the U.K. added to the undertone of caution and the willingness to be cooperative. Each of these governments knows it may need help from the outside, possibly from the "economically strong" countries such as Germany, Japan, and the United States.

### 2. *Chronic World Balance of Payments Imbalances and What To Do About Them*

The chronic surplus in current account of certain OPEC countries and the corresponding chronic deficits of a number of non-OPEC LDCs, as well as some developed countries in the Mediterranean area and elsewhere were the main sources of long-term concern.

Everyone wishes to treat this issue gingerly so as not to threaten the tenuous quality of world financial confidence. Yet no one has come up with any long-term solutions to what is a potentially very dangerous problem. Most of the discussion accordingly centered on short-term measures—to provide additional loans to the deficit countries and to "recycle" the surpluses from OPEC in one way or another.

There is universal agreement that the IMF/Witteveen initiative to raise \$12–14 billion in additional standby credits, with 50% contributed from the OPEC countries, is the highest priority item. All depends on whether the Saudis will agree to contribute at least \$3 billion or more. A major effort is going to be made this week to get the basic commitments and to button down some of the details so that this program can be considered as reasonably firm by the time of the Summit.

Some countries are still looking at the OECD "Safety Net" idea<sup>3</sup> originally proposed by the United States and accepted by all countries but not approved by the U.S. Congress, as a possible fallback. We made

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<sup>3</sup> A reference to the OECD Financial Support Fund. See Document 6.

it clear that the chances for Congressional approval for this approach are dim.

### 3. *Trade—MTN and Protectionism*

There is a general fear of protectionism and agreement in principle that the Summit is a good opportunity for the Heads of State to counteract the trend. There is, however, no clear view on what specifically should be done beyond a general endorsement of the value of trade liberalization.

Denis Healey implied that the economically stronger countries should liberalize more than the weaker ones, a view which I strongly rejected and which was not supported by other Ministers. Beyond that, a general consensus emerged on the need to focus the MTN importantly on new agreements to limit export subsidization.<sup>4</sup> It is felt that this is the new form which protectionism takes around the world and that formal agreement on this question within or parallel with the MTN is perhaps as important as agreement on further tariff reductions and non-tariff barrier commitments.

### 4. *Relations with LDCs*

There was fairly general agreement on a common approach on Commodity Agreements and on a cautious though positive attitude toward exploring sensible Common Fund<sup>5</sup> ideas. I went clearly on record as opposing the German "Stabex" scheme,<sup>6</sup> favoring instead the Commodity Agreement Common Fund or other IMF linked approach. Our viewpoint is likely to prevail although we will hear more about Stabex at the Summit.

There was general agreement on the commitment to the \$1 billion added aid program to be endorsed by the Summit.

### 5. *Portugal*

The Germans and others signaled their basic sympathies to doing something for Portugal. Chancellor Schmidt will wish to negotiate his country's commitment with you at the Summit. The other EEC members and the Japanese will come in to varying degrees, following the lead of what the two of you decide.

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<sup>4</sup> Carter underlined the phrase "export subsidization."

<sup>5</sup> At the end of UNCTAD's fourth session (UNCTAD IV) in Nairobi in May 1976, it agreed to consider the establishment of a Common Fund to finance a buffer stock program designed to smooth out primary commodity price fluctuations. See *Foreign Relations, 1969–1976*, vol. XXXI, *Foreign Economic Policy, 1973–1976*, Documents 304–306.

<sup>6</sup> On February 28, 1975, the EC and 46 LDCs signed the Lomé Convention, which includes provisions for an earnings stabilization fund for LDC primary commodity exports, known as Stabex, and other development assistance initiatives.

The issue will require careful handling with the Germans, who are using it partly to show their displeasure over our attitude toward the German/Brazilian nuclear deal,<sup>7</sup> and partly over the method in which the previous administration launched the Portuguese aid program without prior consultation with them. The German attitude in part also reflects some self-serving tightfistedness in that it seeks to maximize Portuguese sales of gold beyond what Soares is presently contemplating.

#### 6. U.K. Attitude

Of all the countries present at the meeting, the United Kingdom is perhaps least in tune with the other countries. To a large extent this reflects the weak internal economic situation of the British. They are pushing strongly and sometimes not too subtly for the proposition that Germany, Japan, and the United States should stimulate more, so as to help countries like the U.K. toward an export-led exit from their domestic recession. They argue implicitly that even a little inflation in the strong economies is not too high a price to pay. This is the reason why they tend to project a gloomier future for the world economy than do the rest of the countries.

This attitude is perhaps the greatest source of potential threat to a unified position on the world economic outlook emerging at the Summit. It is, of course, an attitude to be resisted and it should not be too difficult to do so.

**W. Michael Blumenthal<sup>8</sup>**

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<sup>7</sup> Earlier in April, in spite of protests by the Carter administration, West Germany had agreed to the sale of nuclear equipment to Brazil. (Craig R. Whitney, "Bonn to Send Brazil Nuclear Equipment, Though U.S. Objects," *The New York Times*, April 9, 1977, p. 1)

<sup>8</sup> Blumenthal signed "Mike" above this typed signature.

**25. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, April 29, 1977

## SUBJECT

Seven Nation Summit

I am transmitting a briefing book that includes:

—Three overall papers that Bob Hormats has prepared (drawing on work by Dick Cooper, Arthur Burns, and CIA) about the international economic setting, the international financial setting, and an overview of North-South issues;

—Six briefing papers on individual issues likely to arise at the Summit: macro-economic policy, financial indebtedness, trade, energy, North-South relations, and non-proliferation. The first five papers were prepared by Bob Hormats and the last by Roger Waldman (NSC staff); all draw on the work of other agencies.

The first step in preparing for the Summit is to ask: What are we trying to achieve?

In one sense, we are trying to achieve something intangible: a close personal understanding among the heads of government. This may be the Summit's most important result, but it's not one I can do much about, so I'll simply note it and pass on to discuss our substantive objectives.

You defined these well when you said in answer to a recent press question about the London Summit: "Our own people are best served when we . . . have open and free trade, when we have proper concern about the less developed countries . . . when we have multilateral lending institutions like the World Bank that can function effectively, when we have a proper and multilateral approach to solving the chronic and rapidly deteriorating energy circumstances . . ." <sup>2</sup>

The main goal of the Summit is to strengthen international institutions for tackling these common problems, and to forge a strong international consensus about their solutions. Only heads of government can provide the political impetus required to this end—and thus persuade peoples in the industrial world that their governments are coop-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5-10/77: Memos and Cables, 4/29/77-5/4/77. Confidential. Sent for information. A handwritten notation at the top of the page reads: "DA—FYI."

<sup>2</sup> Carter made these remarks during an April 25 question-and-answer session with European newspaper journalists in the Oval Office; see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 775-783.

erating effectively to improve their destinies. There was general agreement on that purpose at the International Preparatory Group that met here earlier this week.<sup>3</sup> The hard question is how to apply it to specific issues. I discuss that question below in relation to the Preparatory Group's work on the Summit Declaration, not because its work is that important (it will surely be greatly changed by the heads of government), but because this is a convenient way to get at the specific issues involved and the attitudes of other countries.

#### *Domestic Policy*

The Preparatory Group did not agree on what the Summit should say about domestic economic policy. The disagreement focused on two issues:

1. The British want the Summit to lean on Germany (and implicitly the U.S. and Japan) to reflate more rapidly. They had support only from the French. Callaghan will no doubt urge you to join him in pressing Schmidt. You will recall that you agreed with Roy Jenkins that this would be counter-productive.<sup>4</sup> I feel the same way: It won't have any effect on German policy and will just irritate the FRG and trigger leaks of discord to the media.

2. The British want a long analytical section in the Declaration discussing the world economic situation and giving loud cries of alarm about it—presumably to encourage Germany, Japan, and the U.S. to do more to improve it. The rest of us (the French, again, excepted) felt things weren't really that bad, and could see nothing but damage to business and investor confidence in saying otherwise.

The Preparatory Group, whose members will be in the anteroom at 10 Downing Street, can readily draft language for the Declaration on domestic economic policy, once the heads of government have reached substantive agreement. Most members of the Group believe this language should describe briefly the world economic progress that has been achieved since the last Summit and the problems that remain. It should stress the need for (i) the U.S., Germany, and Japan to keep their policies under review to ensure that they achieve their moderately expansionist target rates of growth; (ii) the UK, France, Italy, and Canada

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<sup>3</sup> The Preparatory Group met in Washington on April 25 and 26. (Letter from Carter to Schmidt, April 29; Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 13, Germany F R: 2-6/77)

<sup>4</sup> On April 18, Carter, Jenkins, and other U.S. and EC officials met in the Cabinet Room from 11:40 a.m. until 12:27 p.m. (Carter Library, Presidential Materials, President's Daily Diary) During the meeting, Jenkins told Carter that "further debate over the extent of stimulation appropriate for the stronger economies would be sterile." Carter replied "that he did not view the Summit as an occasion for further argument over stimulation." (Memorandum of conversation, April 18; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 34, Memcons: President: 4/77)

to continue to pursue their stabilization policies until they have brought inflation under control. The message should be that while we still have problems, we are implementing policies that will correct them. The Preparatory Group agreed that the Declaration should also say something encouraging about efforts to deal with youth unemployment. Callaghan may propose an international conference on this subject, which could be useful.

*International Economic Policy*

The Preparatory Group had no difficulty in agreeing on draft Declaration language dealing with international issues: financing, trade, energy, and North-South relations. I attach the agreed text,<sup>5</sup> which is largely based on the U.S. draft; the British draft, which was more general, met little favor. The Group noted that this agreed language would have to be drastically revised to take account of whatever the heads of government decided at London. Herewith a few comments on the attached draft:

—*Balance of Payments Financing.* The draft supports the large IMF expansion that has been proposed by Witteveen and that would help both developed and developing countries. As of this writing, the IMF Interim Committee<sup>6</sup> is discussing this issue. We will know in a day or two whether its discussions require change in the agreed draft language.

—*Trade.* The British and French, who favored blander language, were persuaded both to accept the proposed U.S. trade language. This language rejects protectionism in strong terms, indicates that the Tokyo Round should achieve results as important as the Kennedy Round, and pinpoints the areas in which the heads of government will seek progress in trade negotiations in 1977. These areas include an international system of national grain reserves (tactfully described as an agreed approach to grain stocks). The British were convinced by the argument that the only way for the industrial countries to avoid succumbing to growing protectionist pressures is by being able to show our peoples that the trade negotiations are making real progress: Hence the importance of each head of government being able to return from London saying that the Summit had achieved concrete results in reviving trade negotiations. This required a Declaration with specific commitments; generalities would not suffice. Bob Strauss made the

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<sup>5</sup> Attached but not printed at Tab B are four undated papers on "Balance of Payments Financing," "Trade," "Energy," and "North-South Relations."

<sup>6</sup> The IMF Interim Committee (formally known as the Interim Committee of the Board of Governors on the International Monetary System) was established in October 1974. It succeeded the Committee of Twenty as the primary international monetary reform group.

same argument, with good results, in Brussels, London, and Tokyo—as I did in talking to Jenkins when he was here. At the Summit you may get either a frontal attack, i.e., an attempt to return to the original bland British draft, or some nibbling at the edges—e.g., an attempt to take out either the reference to the Kennedy Round, which knocks down the notion of a mini-package, or the reference to grain stocks, which is useful in giving a push to negotiations for an international system of national grain reserves. There was some resistance, by the way, to the last paragraph of the draft language, on illicit payments, as being beneath the dignity of heads of government; we argued for keeping it, in order to provide some moral content to the meeting and the Declaration.

—*Energy*. There was general agreement on the need to reduce energy consumption and increase energy production, and to press ahead with measures to exchange technology, which Jim Schlesinger had asked me to mention—as well as commendation for the new U.S. energy program.<sup>7</sup> There was also agreement on the need to meet countries' legitimate energy requirements, and to do this without enhancing nuclear proliferation, as well as on announcing our proposed program of studies as to how these objectives can best be achieved—except for the French delegate, who had not gotten the word as to whether his government was prepared to enter this program. The Italian delegate was mildly unhappy about singling out nuclear energy, which he said was essential to his country's economic future, for special attention. The French delegate objected to the reference to coal which, he said, would make it more difficult for his government to close down uneconomic mines, and Giscard may raise this at the Summit.

—*North-South*. There was agreement on the need for the large general increase in the World Bank's resources that Bob McNamara has in mind, and which he is most anxious to have the Summit support. The language is rather general, since McNamara hasn't made a specific proposal and we don't want to alarm the Congress while it is still considering the IDA appropriation. There was no disagreement on the commodity price stabilization language: All believe that commodity

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<sup>7</sup> On April 18, Carter addressed the nation on the energy crisis; 2 days later, he presented his program of action to a joint session of Congress. For the text of both addresses, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 656–662 and 663–672. He transmitted the National Energy Act to Congress on April 29; see *ibid.*, pp. 740–743. In an April 25 memorandum to Carter, Aaron reported that Schmidt, noting that the U.S. “energy program affected every country,” had recently asked him “why the key countries concerned had not been consulted. He said energy was to be a major subject at the Summit, but he asked what was the point now that the decisions had been made.” Schmidt made the same complaint about non-proliferation and U.S. economic stimulation. In the margin adjacent to this paragraph, Carter wrote, “We are not part of EC & still sovereign.” (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 4/77–3/78)

agreements should be negotiated individually, that prices should be stabilized around market trends, and there should be a common funding agreement for these individual agreements. This is not what the LDC's want, but it's as close as we can get without doing violence to their interests and ours. The Group put in some language about studying stabilization of export earnings; Schmidt will propose this and we see no harm in a study so long as it embraces not only his proposal but other means of achieving the same objective, e.g., an increase in the IMF compensatory financing facility (which would be additional to the general increase in IMF financing mentioned earlier). You will note that the penultimate paragraph of the North-South section refers in rather general language to the world development program and asks the World Bank and IMF to study it. We gave the other members of the Preparatory Group a memorandum on this subject (attached)<sup>8</sup> which the World Bank had prepared. Before seeing this memo, some of them had worried as to whether this venture would generate new demands for increased aid; they now seem reassured, especially since the draft Declaration only proposes that the Summit ask the World Bank and IMF to study the idea—presumably for review by the IBRD-IMF Development Committee,<sup>9</sup> which is interested in this subject and which includes both developing and developed countries.

#### *General Statement*

The Group agreed on the need for a general one page statement concerning the overall meaning and message of the Summit, which would precede the more detailed five page Declaration. The British and I will try our hands at drafting such a statement. Like all other parts of the draft Declaration, it will be revised in light of Summit discussions, as they progress.

#### *European Community*

The European Commission was represented at the preparatory session. British thinking is that Jenkins will attend the second day of the Summit, but not the first—when domestic economic policy, non-proliferation, and other subjects not thought by the French to be in the Commission's competence will be discussed. This will create problems, since it will be difficult to dissociate non-proliferation from energy, which is to be discussed the second day. The British hope that Giscard will relent and let Jenkins come part of the first day, as well.

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<sup>8</sup> Tab A, attached but not printed, is an undated 3-page paper entitled "An Approach to a World Development Program."

<sup>9</sup> The IMF/IBRD Development Committee (formally known as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries) was established in October 1974 to address the problems of developing countries.



### *Conclusion*

Except for domestic economic policy, the chief problem will be the inherent tendency of any meeting to water down controversial specifics and resort, instead, to generalities. Nothing would be more dismaying to the media than a Summit that produced only such bland generalities. We need specific content if our basic purpose—strengthening international institutions and giving a sense of hope and leadership to the industrial democracies—is to be achieved. The Declaration now has that content; I suspect that you will have to fight hard to keep it—e.g., in respect of the listing of trade issues to be settled in 1977, the reference to international grain reserves, the request to the World Bank and IMF to study the World Development Program, and the announcement of the international fuel cycle evaluation program studies.

To judge from the Preparatory Group meetings, you will find the Germans a strong ally in arguing for specificity; the Japanese generally feel the same way, but have to be prodded to say so. The Canadians are also generally on our side; the Italians were pretty much a cipher, but don't seem anxious to disagree with any positions strongly held by the U.S. The push for blandness comes mainly from the British, with French support: The UK is now a weak country, and its representatives are wary of launching initiatives that imply new burdens. In the end, however, they recognize that world economic problems won't wait and are ready to go along with realistic proposals, if strongly favored by the other participants.

### *Follow-Up*

Effective follow-up was largely lacking after previous Summits. At the final session of the Summit, you might propose that there be a meeting of the Group that helped prepare the Summit, say five months after the Summit, to survey progress made in executing Summit decisions and to prepare a report for the heads of government on what has been done and what remains to be done to this end. You will encounter these objections:

—The follow-up takes place anyway in other forums: OECD, IMF, GATT, World Bank, etc. *Answer:* We need to be sure that our ministers in these forums are following Summit guidance, instead of allowing that guidance to be eroded by time and new events, as in the past.

—This would institutionalize Summitry and antagonize non-attending nations. *Answer:* There is no reason why this follow-up meeting could not be as private and free from publicity as the preparatory meetings have been. Countries will not be antagonized by a non-event.

—It would place an additional burden on busy officials. *Answer:* This burden would be small, compared to the advantages of ensuring

that Summit decisions had some effect on what happened in the real world.<sup>10</sup>

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<sup>10</sup> On May 4, Brzezinski gave Carter a 2-page paper on U.S. objectives at the Summit, as well as talking points based on the Summit briefing book. (Memorandum from Hormats to Brzezinski, May 4; Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5–10/77: Memos and Cables, 4/29/77–5/4/77)

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## 26. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>

Washington, May 6, 1977

### SUBJECT

Confidence is the Theme

On the eve of the second debate you decided that leadership was the theme. By focusing on it, you gave your presentation a coherence that your opponent lacked.

The underlying mood of the forthcoming Summit meetings is one of anxiety. That anxiety pertains to the quality of leadership, to the viability of the social systems, and to the West's staying power particularly in the East-West competition.

In that context, I think you should very deliberately project two roles:

(1) By showing command of the issues, by displaying a genuine familiarity with the key problems, you will assure your colleagues that you are capable of dealing realistically with complex dilemmas;

(2) By projecting a sense of confidence about the future, you can both reassure and infuse your colleagues—as well as the publics at large—with a greater degree of optimism, something which they desperately need and something which only America can provide.

By suggesting that confidence be your underlying theme, I do not wish to suggest that you ignore the need for concrete action. Far from it; without concrete proposals the stress on confidence would become just "happy talk." I do feel, however, that there is a danger of becoming ex-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5–10/77: Memos and Cables, 5/5–20/77. Confidential.

cessively absorbed by detail and thus of not responding to the more fundamental crisis of confidence that pervades the West. In other words, it is the old issue of the trees vs. the forest.

I attach a sheet of paper on which some thoughts of a more general nature are briefly sketched out.<sup>2</sup> They can be related to the needed advocacy of concrete actions. I also attach a useful article from today's London *Times* which reinforces the points I am trying to make,<sup>3</sup> as well as the pessimistic polls about East-West relations to which I referred at breakfast.<sup>4</sup>

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<sup>2</sup> Attached but not printed is an undated paper entitled "Some Themes on the Subject of Confidence."

<sup>3</sup> Attached but not printed is an article by Hugh Hanning entitled "President Carter adopts the ways of the Ugly American."

<sup>4</sup> Attached but not printed is an undated paper entitled "European Perceptions of Comparative East-West Military Strength." The President's Daily Diary contains no record of a May 6 breakfast meeting between Carter and Brzezinski, nor was a memorandum of conversation of a meeting found. (Carter Library, Presidential Materials)

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## 27. Minutes of the London Economic Summit Meeting<sup>1</sup>

London, May 7, 1977

### *LONDON SUMMIT—First Session (May 7, 1977)—Morning Session*

Callaghan: I want to welcome all of you to London. We are sitting close together today because in my view the closer we are, and the more intimate, the less likely we are to make speeches. This is not as de-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5–10/77: Memos and Cables, 5/5–20/77. Secret. Sent to Carter under cover of a May 20 memorandum from Owen that reads: "I attach the notes that Bob Hormats took of the Downing Street Summit. They cover the first day and the morning of the second day. They do not cover the afternoon of the second day, which was largely devoted to revising the Declaration." (Ibid.) The sessions of the London G-7 Summit were held May 7–8 in the State Dining Room at 10 Downing Street. Two sessions were held on May 7, the first from 10 a.m. until 1:10 p.m. and the second from 3:30 until 6:16 p.m. The third and fourth sessions on May 8 were held from 10:30 a.m. until 1:24 p.m. and from 3 p.m. until 6 p.m. (Carter Library, Presidential Materials, President's Daily Diary) The minutes of the Summit's second session on May 7, which covered nuclear non-proliferation and human rights, are in the Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5–10/77: Memos and Cables, 5/5–20/77.

lightful a setting as Puerto Rico or as splendid as Rambouillet,<sup>2</sup> but there is a small garden in the back if you wish to walk around. In the past we have made a major effort to keep the same group together throughout all meetings. But I know that the French Prime Minister must return to Paris tomorrow and his place will be taken by M. Boulin. I know President Carter also wants to make a change, but as far as possible we should try to keep the same people around the table.

Also it was agreed that at this meeting the EC would be represented by the President of the Council, namely me. The President of the Commission will be present on matters of EC competence—trade, North-South and energy—to be discussed tomorrow.

As far as agenda is concerned, I propose that we start with a discussion of the economic situation and, if you agree, devote the afternoon to proliferation and human rights. I would like to ask President Giscard to begin the discussion of the world economic situation. I will inform President Jenkins today of any matters which arise which are in the competence of the EC.

With regard to substance, I feel that there has been good preparation for the Summit by our officials. They have met and exchanged views, thereby providing us with a valuable starting ground. Some of these issues are most easily handled by officials, but some will require the thoughtful consideration of those of us sitting around this table. On North-South, for instance, it is a matter of high importance that we develop a common view. We do not necessarily have to put in the communicate everything we decide. We can make a general statement, but more important is what we agree among ourselves.

#### *GENERAL ECONOMIC SITUATION*

If you will allow me to put the ball into play. There are a range of different views on the health of the world economy. We ought to record our successes. For instance, a few years ago we all thought it unlikely that you could have the sort of deep depression we have had and resist protectionism so successfully. There are of course examples of protectionism, but there has generally been strong resistance. This has been helped by the Puerto Rico and Rambouillet Summits and the OECD trade pledges.<sup>3</sup> This is a success we should record. None of us believes in protectionism and the best way now to avoid it is if we give one another combined strength.

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<sup>2</sup> See footnote 7, Document 21.

<sup>3</sup> See footnote 6, Document 4.

Some can also claim success because they have taken harsh measures to reduce inflation. This is hard in a democratic country. The UK standard of living has been cut by 5% to restrain inflation. No wonder people don't vote for us in democratic societies. We must continue for a time to follow harsh policies. But unemployment is also an extremely important problem. There are 15 million people unemployed in the West. I am glad to hear from President Carter that unemployment has fallen in the US last month. But whereas the US seems to be leading in this category, in most countries unemployment is likely to go up in 1977. In the UK and perhaps in other countries, we may be doomed to some further increases in unemployment.

We all recognize, however, that inflation is the enemy—the father and mother of unemployment. Chancellor Schmidt said yesterday that you can beat inflation and still have high unemployment, and you can have high inflation and also have unemployment. First priority is inflation, but does that mean we cannot also reduce unemployment?

In my view it is not right for Britain to press other countries to reflate beyond the level they think necessary or right for their countries, and beyond that which they think is needed to get to their objectives. But I should relate to you a meeting I had with a delegation from the International Conference of Trade Unions which included representatives from the US, Germany, Japan as well as the UK. They said they would sooner have one or two extra points on inflation if it can soak up unemployment. I pressure no one to reflate beyond the level he thinks he ought to go, but unemployment can put the system under serious strain. We should understand the political consequences of unemployment. This springs to mind especially for certain countries which we all know.<sup>4</sup>

A second problem is OPEC's \$45 billion surplus—which is matched by the equivalent deficit of many developed and developing countries. This will likely remain and we therefore must have coopera-

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<sup>4</sup> In a pre-Summit message to Carter, Callaghan discussed his concerns about unemployment. Owen sent Callaghan's message to Carter under cover of a May 3 memorandum, in which he suggested that while Callaghan was "right to be concerned about unemployment in" the United Kingdom, France, and Italy, he was "wrong to think that marginal changes in the rate of German, Japanese, and U.S. expansion can set this problem right." Owen asserted that unemployment would "not yield to quick fixes—only to long run remedies. At present, each of the Seven Nations is embarked on the right long-term policies: moderate expansion in the U.S., Germany, Japan; stabilization in the UK, France, and Italy. Over time, these policies will bring down both inflation and unemployment—if the countries concerned stick to them." (Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5–10/77: Memos and Cables, 4/29/77–5/4/77)

tion in an effort to match these deficits. Countries collectively are not likely to reduce their deficits.

Another problem is that there could be less growth in 1978 than in 1977. From now until 1980, apart from Japan, it is difficult to see who will meet the OECD targets. Only Japan will have larger growth in 1978 than in 1977. The US and Canada are doubtful as are France and Italy. How can we answer this problem?

Also, with regard to balance of payments again, the US has moved to a deficit while the UK is moving to surplus on balance of payments but with less growth than we would like. We must ask whether the IMF proposals are adequate. Are they sufficient? And, I must say that I doubt whether they will be carried through on time.

Helmut Schmidt said, and I agree, that we should project confidence. But this should not be a false confidence. We should give a real assessment on this situation and find real answers. I have one final concern. People are looking for direct benefits from the Summit; we must all keep that in mind as we proceed.

Giscard: I thank you Mr. Prime Minister for living up to London's tradition of hospitality. I welcome also two new leaders. President Carter has already gained considerable popularity in international public opinion. I also welcome Prime Minister Fukuda whom we all know and respect.

I would caution before we begin that the final outcome should avoid a bureaucratic tone. Our experts excel at bureaucracy. We should ensure the final outcome reflects this group in this room.

I have five comments on the economic situation:

First, I deeply believe that profound structural changes have taken place in international economic affairs over the last three or four years. This is not a conventional crisis of 18 months or two years; there are profound changes. We had accustomed ourselves to cheap energy and reliable raw materials. The developing countries were not seen as a threat to our industry. We were accustomed to the healthy growth of the 1960s. We wasted resources and all of our emphasis was on relations among developed countries. All that now is behind us and we cannot go back to an old situation. We must adjust to a new resource distribution by organizing ourselves differently.

Second, on the issue of employment. While things are improving in the US, the situation in Europe is poor. Whether in countries of low inflation (such as Germany) or high inflation (such as ourselves), the unemployment situation is serious. It will have an ideological content for our youths. The Socialist countries seem to have low growth but appear to be able to solve the problem of unemployment. Whatever their economic problems, they solve unemployment. We cannot accept high

unemployment among our youths. The result will be an ideological shift in favor of Eastern Europe. I subscribe to President Carter's views on human rights. One key element of human rights is the right to employment.

Third, energy is at the heart of our problem and the worst may still be before us. When we look at the projections for 1985 and 1990 there will be more difficulties. In 1974 we thought that if we broke OPEC we could cause a drop in the price of oil. But now oil is becoming a rarer substance, and other minerals as well. We must define new and wider range energy policies. For instance, the US made a very positive decision on this a few weeks ago.<sup>5</sup>

Fourth, on trade the industrialized world has gone through three years of crisis without protectionism. But there are new causes of concern with some shifts in trade terms. The share of the market of certain countries has abruptly changed, for instance in steel, shipbuilding, etc. There is also competition in high technology areas, such as aerospace and computers. We should not be compelled to forego our positions because others are stronger in these areas.

Fifth, the developing countries do not like our meeting here in London. It is anathema to them. We should devote a considerable amount of time here to meeting their aspirations. For instance, their high level of debt has repercussions on us. And if CIEC fails, there will be serious consequences.<sup>6</sup> The Canadians are particularly aware of this. We should say that we are concerned about these problems and say that CIEC should succeed.

Fukuda: The world economy is in a serious situation. All of us here are capable of finding a breakthrough. I was posted here in London in the 1930s—one-half century ago. The situation is reminiscent of today. The Hoover depression in the US spread to Britain. It triggered a UK departure from the gold standard. Others followed suit. Unemployment led to social insecurity. In 1933 an international economic meeting was convened in London, chaired by Ramsay MacDonald. I was deeply involved. I recall that in the 1929–34 period there was a drastic decline in world production, by 30%, and a 40% drop in world trade. This led to great social instability. A number of countries turned to totalitarianism and fascism. The 1933 conference tried to deal with these problems but did not succeed. The meeting was recessed and never re-

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<sup>5</sup> Possibly a reference to the Carter administration's proposed energy program; see footnote 7, Document 25.

<sup>6</sup> The final Ministerial meeting of the Conference on International Economic Cooperation took place in Paris May 30–June 3. Telegram 16351 from Paris, June 3, contains the communiqué issued at the conclusion of the meeting. (National Archives, RG 59, Central Foreign Policy File, D770206–0274) The communiqué is printed in the Department of State *Bulletin*, June 20, 1977, pp. 650–652.

convened. We can learn from this. Countries resorted to protectionism. They thus worsened the depression still further. All tried hard to deal with the problem, but the situation instead became a backdrop to World War II.

Today there is a much better regime for international economic cooperation, but in many ways the situation is worse. As Giscard said, there are limited resources and energy. But there is also East-West tension and a North-South rift which did not exist then. The situation is made more serious by such structural problems. The question then is, what to do. We must contain inflation but also do what is necessary to recover world economic health. This is the predominant issue. There is much that President Carter can do in this regard. The US is the greatest economy in the world. It can lead other nations to provide the stimulus for world economic recovery. It is important for all of us to have a healthy recovery in order to stimulate employment. This also has an effect on North-South issues. It is important for us to recover so that others can sell more commodities to us. And it is helpful in dealing with the balance of payments issue. Countries which can help should take the lead. This can lead the world to recovery without rekindling inflation.

I want to mention in this context US policy. The US initially took action to provide a tax rebate; this was a significant step, but it was subsequently withdrawn.<sup>7</sup> Because of this, there might be concerns that you have given up the effort to further strengthen your economy. But I still believe that the US is trying to stimulate its economy. I think the US feels that the rebate is not necessary anymore. I feel that the US is not giving up the idea of leading the world economy. I hope there is no change of policy by the US leadership because I believe that the US can lead us to pull out of the recession. But I still feel a nagging apprehension. Some people feel that the US is moving a little backward.

In the 1930s in London we witnessed the world moving into war. We cannot afford that mistake again.

Andreotti: An analysis of the world economy provides conflicting conclusions. It is better than we thought, but there are still signs of instability and developments in many cases are unsatisfactory. Expansion has been lower at this point than previous similar points of the economic cycle. We have not properly increased the use of human re-

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<sup>7</sup> Fukuda is referring to Carter's January 31 proposal to Congress for an economic recovery program that included, among other measures, individual tax rebates. See footnote 7, Document 1. On April 14, citing changes in the domestic economic environment, Carter announced that the proposed \$50 tax rebates were to be eliminated from the economic recovery program. See *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 618-622.



sources. Unemployment is still very high and inflation affects all of our systems.

With respect to balance of payments issues, only a few OECD countries have surpluses. Most of them, and most LDCs, are in deficit. The surplus OECD countries simply add money on top of the already large OPEC-related deficit. To overcome this, we need to deal with the structural problem. All of us must make an effort to bring the structure to conformity with new realities. This requires time and a gradual approach to adjustment. If not gradual, there will be negative consequences for unemployment. We should reduce our deficits, but this also depends on countries with favorable balances. If the stronger would reaffirm their primary role in achieving growth, it will be easier for the weaker economies.

Also, there must be adequate balance between financing and adjustment. The oil importers have turned primarily to the private markets for finance. Now they are less solvent and find it more difficult to sustain future deficits. The financial market has reacted positively but there cannot be a solid financial position without a positive attitude by the creditor and debtor countries. The creditors have been lending primarily to good-loan risks—the low-risk countries. The debtors could restore solvency if they stress the will and ability to put their economies in order. The IMF has a role to play, in that it can provide adequate resources to support stabilization plans. But the Fund should act more symmetrically in order to lay the preconditions for recovery. We ourselves are contributing through our stabilization policy and by not imposing trade restrictions. This involves major efforts to secure the consent of various elements of society and our political parties.

With regard to unemployment, Giscard highlighted the political aspects of the problem. We should leave no stone unturned to reduce the gravity of the phenomenon. Also, we should discuss the growth of youth unemployment. Seven million young people, 40% of unemployment in the OECD, are a major problem. The young represent 22% of the work force. Also there is high unemployment among degree holders. We cannot await an impact in a drop of the birth rate, which should take effect in the mid-1980s, to deal with this.

Certain actions must be taken. We should refer to this in our final Declaration. Unemployment is a major challenge to us all.

Schmidt: I thank Jim for his traditional UK hospitality and also welcome President Carter and Prime Minister Fukuda. Valery is right in saying this is not a normal situation, or typical business-cycle recession. It is a structural crisis. It reflects a lack of confidence among the world's rich nations, particularly among our consumers. In Germany, we have a 14% rate of savings and the lowest interest rate in history. No one asks for credit, yet we have money available. People do not use it

because there is lack of confidence. This Summit ought to give more confidence in the ability of our countries to pursue complementary policies to achieve growth and lower unemployment.

Conditions are more favorable today than at Puerto Rico or Rambouillet. Prime Minister Fukuda had compared today with the 1930s, but conditions are different. There is greater cooperation in the IMF and through the use of Summits, and there has been no resort to economic warfare. These have prevented us from having the problems of the 1930s.

The reasons for the structural differences and changed business cycles in the 1970s are different from the 1930s. Both periods had high unemployment but the causes are different. We must address the causes of unemployment.

What are the causes of the structural crisis? There are, in my view, three:

First, we should not ponder on the issue of inflation versus unemployment. Unemployment followed inflation. Since the 1960s, inflation has expanded. One reason for this was the way in which the war in Southeast Asia was financed. The US flooded the world with liquidity. But inflation has also been homemade. Parliaments and governments have not resisted inflationary pressures. In addition, there are disparities in the rate of inflation from country to country. Also related to this, and because of these disparities, the fixed rate system of Bretton Woods had to collapse. It was inevitable after the disparities in the rates of inflation. We can get back to fixed rates, but not quickly. We all have a long-range goal, Germany as well as France and others, to get back to fixed rates, but I do not think this is probable for at least 36 months or so.

The whole monetary system was, however, a regulating factor after World War II. With the transition to flexible rates, countries were no longer forced to obey the rules of Bretton Woods. The new flexible rates were also a major uncertainty. If you bought or sold on installments, or on six-month payments, your financial risks of trade were very large. This was especially bad for the smaller firms.

Second, there was the oil crisis and the oil price explosion. This dramatically changed the terms of trade and caused major balance of payments problems. It led to a shrinkage of demand and a reduction of international trade, which came to a low point in 1975, and weakened confidence in the industrialized countries.

Third, is this overall lack of confidence in the world economic order, particularly on the part of industries and trade unions.

We must fight unemployment and inflation together. The prospects for OECD country growth in 1977 are not too bad. Growth was

5% in 1976 and will be 4.5% this year. It differs from country to country. The US and Japan are likely to lead; Germany will not attain the impressive figures of last year, but we will have 4½% to 5% growth this year. We will watch our growth to ensure that we have a healthy economy. If not, we will do something; not by printing money, however. We do this, quite frankly, because we want to survive, but we also do it because of our international responsibilities.

As a social democracy, my first aim is to reduce unemployment. The question is how do we do it. We do this not by neglecting price stability since inflation is the underlying uncertainty. We cannot create necessary capital until there is confidence that we will not have a new round of inflation leading to a new clampdown by governments which will make resources idle. A go-stop policy is disastrous.

But we recognize that in the meantime, without necessary private expenditure, governments must fill in the gaps. There must therefore be additional public capital expenditures. I just launched a 16 billion DM program in addition to the money that the local, state and federal governments are already spending. This is the biggest in our history. But we cannot fix unemployment in a short period of time.

We also have to live with large OPEC surpluses. The structural upheaval in balance of payments is also likely to continue for a while. Energy policy is one important tool in this remedy. For this reason, I welcome President Carter's initiatives to reduce dependence. And there must also be a structural network of balance of payments cooperation. Germany has up-valued the DM by 18% since the beginning of 1976; imagine what that means for our exports—18% in less than 18 months. We do this because we think it is our responsibility to help others. But this has an impact since we export 29% of our GNP. We will stick to our flexible currency regime because it helps others to let this happen. There have, however, been some examples of competitive devaluation; for example, Sweden. I am not talking about you, Jim. (Callaghan: I can do without mine.)

I want to stress that we cannot cure the illness without curing the cause of the illness. We must deal with inflation, the problems of the international monetary system, uneven exchange rates, and unequal distributions of incomes. We need a stable consensus among us and a stable social consensus within our countries. Most of our efforts must be autonomous national tasks, but we also need psychological help from other parties.

The results of the Summit need not stress all of the measures that have been decided—but they should give the impression to the world that we are not going to fight each other by means of economic warfare, and that instead we will have complementary economic policies.

Trudeau: I am encouraged by what has been said so far. Giscard mentioned the ideological difficulties relating to the problems of youth unemployment. Fukuda referred to the 1930s and the consequences for growth. In Puerto Rico we had not gone that far. We had not crossed the threshold. We discussed structural problems without accepting the need for structural change and without even recognizing the structural changes which had already taken place. Our democracies are threatened unless we find ways of affecting the structural changes to which all here have referred. We all see the same problems in terms of fundamental changes which have taken place. These concerns are major ones. I agree with Schmidt that we must tackle the causes if we do not want the causes to continue to produce the same effects.

Giscard also said the freedom of trade should be organized. This warrants our attention. It is not novel but we should take a close look at it. To some extent, this has already been done; for example, by OPEC. There is also a danger that actions by the dominant economies will have consequences for all countries; for example, in such areas as computers and aerospace. We have been dealing with OPEC, for instance, recognizing that it may be essential to organize our markets to defend ourselves. This is in some ways a new task for our liberal economies. In addition, we must also intervene in the mechanisms of the market, perhaps to help the developing countries.

This means that we must realize that our liberal philosophy is undergoing change. When we look to the causes and solutions, we must also look at certain additional measures of cooperation. Cooperation is essential and unavoidable. These types of meetings have in the past prevented economic wars which would have been a disaster to the industrialized world.

We must recognize, however, that there is no single formula to combat unemployment and inflation. We must enlist the support of our citizens. This issue was not addressed sufficiently in Puerto Rico. Problems are caused by excessive hopes and aspirations of our citizens. The problem is that people like to live beyond their means. It is hard to say to them that things are going badly because all unions and employers are asking for more. We need a spirit of discipline in our countries. We should use our democratic institutions to help each other and to direct our attentions to the need for restraint rather than simply allow the market to give free reign to unrealistic expectations.

Callaghan and Schmidt agreed on the need to generate confidence and a spirit of optimism. But how can we encourage people to have confidence in the future and then turn and say that things are going badly. We cannot say that all will be well because things are not all that well unless we scale down expectations. This is the paradox I put before you.

Callaghan said that we need greater confidence but he also said growth will be lower. We should make our people aware of the possible consequences for industrial democracies, of not winning the ideological war. This is not only true with the Third World, although it is important because it will determine whether they look to us or to the socialist countries, who have no unemployment and greater order, as examples. But it will also have a serious impact on our own positions, particularly on growth.

As presently worded, the communique does not sound a warning note. It only talks of structural change without appealing to the people's attitudes and telling them that they share responsibility for the health of the democracy. We cannot fail to invite people to live up to their responsibilities. Each of us needs to do this. If we sound this warning collectively, indicate the threat that our democracies are subject to, and bring about greater awareness in people, we can get support from our people for the necessary measures that we need to accommodate structural change.

Carter: Thank you for your very cordial welcome. I come here not as an economist, though I know many of you are very experienced in this area, but as an eager student. I know many of you were former Finance Ministers and have valuable experience in working together. I look forward to hearing your views so that when I get back I can make better decisions. I recognize the deep importance of our decisions on one another.

We in the US have set specific goals. I give you my assurances that we will maintain our efforts to achieve healthy growth. I believe we can meet our 5.8% target. When I came into office, we had 8.1% unemployment. I predicted we could get it down to 7.1% in my first year. Now it is down to 7%. I believe this is because of a surge in new confidence. This is in part reflected in a US rate of savings of 6% compared to 14% in Germany. There has been a big increase in consumption of consumer goods and we have gotten figures indicating an upswing in investment. This is the reason—after these changes in unemployment and consumer spending—that we saw no need for the \$50 rebate. We still have more than \$20 billion worth of stimulus in the economy. We have tried to focus this on the structural needs of our economy. We have paid direct attention to youth unemployment—particularly summer jobs—as well as employment for adults. We plan to continue our direct attack on unemployment. We hope to get it below 5% at the end of my term. For instance, we have a \$4 billion public works program.

But we are also concerned about inflation. Our basic or underlying rate of inflation is 6–6.5%, although it is higher, about 12%, at the wholesale level. This leads to uncertainties about the future, even though results to date are encouraging. We do not want to stimulate

any more than presently proposed. As I mentioned, we have indications that business investment is increasing rapidly—about 17% or 18%. Discounting for inflation, this means a 10% or more real growth in business investment. At the beginning of my Administration there was uncertainty in the business community about what I would do. But now investment is increasing very well, which to me indicates a new business confidence.

One issue I have been facing is protectionism. I have received a number of very harsh recommendations from the International Trade Commission. These are in response to domestic pressures but give no consideration to international relations. They are designed to protect US industry. I believe I have fought off these recommendations very effectively. We have a deep commitment to fight protectionism. A strong declaration by the Summit against protectionism would help me in resisting it in the US. As many of you know, Congress can override my decisions. But now I believe I am strong enough to prevent this. It is not likely during my first year or two in office.

We are trying to overcome a very large trade deficit, particularly our oil deficit. We collectively will have a \$45 billion current account deficit, which matches the OPEC surplus. We are bearing our part of the deficit. Last year our current account position was zero. In 1975 it was \$12 billion in surplus. This year it will be roughly \$12 billion in deficit. We have over a \$20 billion trade deficit, but our economy is strong enough to absorb this. Germany and Japan, however, continue to have large surpluses; these increase the deficit for others. We can sustain our deficit because we are strong enough to do so, but some countries are too weak to accept this burden. We should all recognize this.

On energy, we have launched a major program. In 1985, we would without this program import 16 million barrels per day. Our program will try to get this to 6 million barrels per day through conservation and by moving toward coal and gas. We have ended our moratorium on the export of fuel; just before I left, I approved a large sale of enriched uranium. Under adequate conditions on the export of enriched uranium, we will be able to meet the world's needs. We believe that supplies are adequate provided that there are strong safeguards to avoid the use of uranium for explosive purposes.

A key issue for all of us is confidence. I feel very confident about the future of the US and the Free World. Vietnam and Watergate shook confidence in the US, but I think this lack of confidence is past and I am not concerned about it anymore. The new confidence can only come from within people and I believe that this has emerged. But we should not be afraid about explaining problems and the need for bold action, and saying that we need one another. If we are timid about stating our problems and the need for cooperation, pessimistic predictions about

the future, predictions about loss of confidence, might come true. We need here a frank discussion of the challenges and how to meet them effectively working with one another.

Also we need to be sure that our decisions are carried out by our bureaucrats. We should not just discuss things, but do something about them. For instance, we should try to have a Tokyo Round of trade negotiations as successful as the Kennedy Round. We should try to meet our energy problems, cooperatively deal with developing countries and effectively deal with the problems of nuclear fuel. We have combined strength and we should use it. We should follow up promptly at staff level to achieve results. And we should be certain to set our goals fairly high. If we set goals too low, they will represent the maximum we will be able to achieve.

On trade, we should say that we would like to do as well as in the Kennedy Round. Unless we set high expectations, others will lower their expectations.

We should also consider how to absorb the new leaders of the economic world. Saudi Arabia comes to mind. Saudi Arabia wants to participate with us in the Horn of Africa, to help the developing countries and to establish fuel reserves so we won't be hurt so much by any embargoes. Their strength and financial influence need to be recognized. We should give them the influence that they deserve along with requesting their financial contributions.

In addition, we should strengthen the IMF and the World Bank. Together they are very effective and provide useful guidance. We welcome the efforts by the IMF to ensure financial accountability on profligate nations. For this reason, we need to strengthen the IMF. Here again Saudi Arabia can be helpful. We should also carry out our commitments at Puerto Rico on strengthening the IMF. We are ready to participate in the Witteveen plan.

I welcome this opportunity to meet with you, and to have your advice and counsel. I am here to learn and I think I can learn a great deal from you. If I ever make a decision which is contrary to your important interests, I hope you will let me know. On two or three occasions, we were too insensitive to your needs, and it has taken me a while to understand this—for instance, on the nuclear fuel issue.

Callaghan: I agree we should try to do just as well on trade as in the Kennedy Round, but we need to reconcile this on one hand and our concerns about such problems as those in the shipbuilding and steel sectors on the other. We need to give guidance to our people on such issues in the communique.

MacDonald: On the issue of confidence, I speak as a lawyer surrounded by economists. But I must say I am not sure that professional economists today know what is going on. The pattern of events that

they talk about does not fit current facts. I have heard Prime Minister Fukuda's excellent analysis of the problems of the 1930s. I fear that people think in terms of Keynesian analysis and are now applying these old patterns to present circumstances and that pattern of thinking is not consistent with present facts. Hoover economics has not been updated to deal with such issues as how do we give resources to developing countries.

Our task as politicians is to make the choices, such as how much of our GNP we give to the developing countries. These are allocating problems. Also for instance, we have discussed youth unemployment. Here there is a problem with the unions, which is part of a generational problem.

We should think about an inter-generational transfer of resources. There is a structural problem in unions which is harmful to youths. How do we transfer resources from the older generation to our youths? This may be how we have to deal with this problem. The job-creation programs today are not necessarily sufficient. I have noted Prime Minister Barre's proposals of a make-work nature for dealing with youth unemployment. When such projects come to an end, we will still have youth unemployment. This should be an important issue discussed here.

Healey: I want to support some of the things that Don MacDonald has just said. Prime Minister Fukuda has used the words "nagging apprehension". Chancellor Schmidt spoke of "lack of confidence". But except in the US, who is confident? In other countries there is a certain malaise, characterized by high savings and low investment, high unemployment, high inflation and election losses. At our meeting in Puerto Rico, we were too complacent and this complacency was unjustified. In some of our countries a downturn had begun, from which President Carter benefited later in the year.

All of us have been taught the relationship between growth and unemployment, and growth and inflation. But all established relationships seem to have disappeared. The inter-relationships appear to be different in different countries. Canada and France have recovered from a recession and have increased output, but also suffer from increasing unemployment. The UK has increases in its labor force and low growth, yet unemployment is falling when we expected it to be rising. We do not quite understand this. We have much work to do to understand these problems and should share the lessons of our experience.

One key element is high inflation and high unemployment. This has contributed to the five-fold oil price increase. The OPEC countries couldn't spend all the money, therefore it led both to inflation and deflation. We must finance the counterpart to the oil surplus or have de-



flation. The problem is that the balance of payments is unevenly distributed. Germany and Japan have substantial surpluses. Others have a \$20 billion shared deficit as a result, on top of other OPEC-related deficits, to accommodate.

Another problem related to this is that we have concentrated on the growth of countries' GNP rather than the source of growth. If growth has been led by exports, as is partly the case in Germany and Japan, the burden on the weaker economies is greater even if the strong countries achieve their growth targets. The stronger economies should follow the US example in taking a bigger share of the deficit.

Countries should agree to stick to announced targets and monitor progress, and they should take action to reach the targets if it appears that they are failing to do so. And we should do our best to see that the global deficit is financed in ways acceptable to the deficit countries and does not weaken the overall financial system.

There is a risk that the type of credit provided by the IMF at the moment is not acceptable to countries who need financing. If the IMF requires stringent conditions, countries might prefer not to borrow from it and resort instead to protectionism or induced recessions, which can lead to the overthrow of the government. Their successors might go for protectionism. What I am talking about does not only apply to the developing countries, but also to some developed countries like Spain, Portugal or Turkey, which have serious financial problems. It is far from clear that they can meet IMF conditions. There are similar problems in the Caribbean, for instance Jamaica and Guyana. We should accept the principle that the Fund should not be so tough on conditionality that the offer of money is meaningless.

And we ought to monitor what happens after this Summit more closely than after previous Summits. There could be periodic reports. We meet frequently in the OECD and IMF. We could do reports on growth, the financing of payments imbalances, unemployment and especially youth unemployment, and extension of the freedom of trade, taking advantage of our opportunity to get together at these various meetings.

Apel: I want to make five quick points. In 1975 we had a growth rate of 5.6% in Germany and will have 5% this year. Yet despite these high growth rates there has been little reduction of unemployment. Some foreign labor has not returned to Turkey, and others took their pensions. We hope to meet our 5% target this year. But even with this high unemployment, we will have large amounts of imports. Our imports from the non-oil LDCs will increase 30%. This shows that our wage-cost level is very high. But on the other hand we have increased our export balance with European countries with very high inflation rates. As you see, there are a lot of German cars in London. This shows

that we are not unwilling to increase imports, but countries with high inflation must stabilize prices if they are to be able to export to us. Last year we had a \$3 billion current account surplus. This year it will be \$2 billion. Therefore, we are approaching equilibrium.

I also agree that that the IMF must play an important role in financing imbalances. The banking system has reached certain limits. I am afraid that certain banks cannot increase their liabilities. Therefore, we need an increase in financing by official institutions. In this respect the IMF is extremely important. We will do our best to strengthen the Fund working with other industrialized countries including the US, Japan, Sweden and Switzerland. It is important to have close contact with the Saudis as well. It is a good idea to have market-related interest rates in the new facility. This benefits the Saudis. This facility also removes some of the risks. A depreciation of national currencies does not hit them to the same extent as it otherwise would, if they put their money in the Witteveen facility. On conditionality, the IMF should be strict, but not too strict. It must depend on the character of the recipient.

My third point is that we should be careful not to put too much emphasis on energy saving. It could reduce economic growth if we do so. We must also understand that we need nuclear energy within the next few years. If we cannot have nuclear energy, it could seriously hurt our industry and we would be in trouble in a few years. We need energy sources now in order to save imports later on.

Fourth, we need resource transfers to the developing countries. But if they ask too much of us, they could destroy their sources of help. If they do this, they will run into trouble because their electorates will not stand for it.

Fifth, we must spread confidence without creating false hopes. Prime Minister Trudeau indicated quite correctly that we should avoid creating false hopes. If we do, we will be confronted with our own words in 12 months. I agree that Rambouillet was a success, but that Puerto Rico was too complacent. Here we should be confident but indicate the dangers which should be overcome.

Blumenthal: I am impressed by the fact that there is a general view here that protectionism is not the answer. President Carter has indicated that we should strive for results which match those of the Kennedy Round in their economic and political significance. The goals we set should attempt to equal those of the Kennedy Round while recognizing that the conditions are different. We should, of course, as suggested, look at shipbuilding and steel, hopefully attempting to achieve greater openness. We should not move toward government-blessed cartels which would work in the opposite way. We hope that the results can be far reaching. We should project a sense of commitment and give assurances of our positive attitude.

Our recovery has also meant that we have a high trade deficit—roughly \$20 billion, which means a current account deficit of roughly \$10 billion. One point in this is not fully understood. The large investment by the Saudis and others in the US and the high demand for dollars keeps our exchange rate higher than would otherwise be the case and thus contributes to our current account deficit. It gives us a higher exchange rate than otherwise. If we did not have such large investment, the dollar would decline in value.

Schmidt: In July of 1972 the dollar was worth 3.20 marks, now it is 2.25 marks, so that the dollar has weakened and not strengthened.

Blumenthal: All I am saying is that the dollar would have been lower without Saudi investment.

Apel: They invest in the Federal Republic too.

Blumenthal: I understand that, but the higher exchange rate contributes to our current deficit because of Saudi investment. On conditionality, we believe it is important and must be retained, but with flexibility. Political leaders must say what they can bear with respect to conditionality. We are trying to be helpful in our bilateral relations to Mexico and Portugal. There are various ways of dealing with these problems in which the IMF is not the most appropriate vehicle.

Healey: I agree, but if other ways are used too often, it could erode the IMF. We should soften IMF conditionality rather than have new channels.

Callaghan: I am not sure I agree with Denis on this. I think politicians should say to the IMF that, for instance in the case of Jamaica, if you insist on these conditions, you will throw them into the hands of the Cubans. Our technicians and officials should be tough. It is leaders who should intervene for political reasons.

Blumenthal: Just to finish up on our energy program, which was mentioned earlier, it is true that we place primary emphasis on conservation and savings, but we also place strong emphasis on the development of other sources of energy.

Jamieson: Do I take this to mean that the US wants less Saudi money? You should be aware that you were the Saudis of Canada for years.

Blumenthal: Yes, we still want Saudi money. I was just pointing out one implication.

Carter: Following up a point on energy, our target calls for an increase in coal of 60% and new uranium enrichment through use of the centrifuge. We expect to get 600 million to 1 billion tons of coal per day. The centrifuge plant is a big investment—perhaps \$4–5 billion. So our program is not just conservation but it also has a strong emphasis on production. We feel that our overall program can reduce the world bal-

ance presently in favor of OPEC, and in so doing reduce the pressure on other oil importers. Also, we recognize that the development of new supplies, for instance, solar energy, is very costly. We should look for ways to reduce the costs of research and development and pilot models. We would like to see additional cooperation on R&D financing in such areas as the EC (JET) project. We would like to pursue this idea further.

Callaghan: We encourage your conservation efforts and support increased cooperation.

Fukuda: I am impressed by the emphasis in this conversation on structural problems. But what are they? One key element is that we are now in an age of finite resources. People are worried about the future. I congratulate President Carter on his bold energy program. We need additional efforts to increase energy sources through strong international collaboration. The US is a large country. But all of us will do better if we engage in a collective effort and effective collaboration to develop new energy sources, such as fusion. We must deal with the problems of petroleum investment and investment in a variety of new sources.

CIEC is particularly important in an energy context as well as in North-South context. Unless we resolve our differences, we risk further difficulty and unrest. All of our efforts will take time. If these are really structural problems, they take time to resolve. But we should see what we can do immediately to address the problem of unemployment and address North-South issues together. We should achieve harmonization between surplus and deficit countries. If the strong countries get together to reflate, it will provide great buoyancy for our economies. Without it, unemployment is bound to rise, and there will be more North-South confrontation. Without it the developing countries will push us further in a number of areas. Economic confrontation and political chaos will result.

This is why we in Japan want to restore our economic vitality. We are carrying a high fiscal deficit. We want to contribute to recovery in the world and to finance the deficits of others. We want to stimulate demand by deliberate action. Through our fiscal actions, we have reinvigorated our economy and generated more effective demand. We have applied \$36 billion of fiscal expansion for public works; 73% will be spent in the first 6 months—April through September. This will create jobs in the Japanese economy and it will also encourage imports into Japan. We import much from the LDCs. Our stimulus helps the LDCs. Also our exports will be more sluggish as a result. Our goal is 6.7% growth. We would like to accomplish this objective at any cost. One way we have attempted to do it is to lower our interest rate. We have lowered our discount rate to 5%. Now our exchange rate is 275

yen to the dollar, up from 300 yen to the dollar. This is a 12% appreciation in 6 months. It will help.

We must also recognize the need for a follow-up to our discussions. I am pleased that President Carter suggested this too. We need this follow-up on other levels and in a variety of institutions, such as the DAC, IMF, OECD, IEA, GATT, etc. All meet separately rather than as part of one unified effort. But we should now attempt to get all of them to concert their efforts in the same direction. When the Finance Ministers meet in these various forums, they should be sure that everything is going in one direction.

There is one trade problem I want to raise. Last year we saw a concentration of Japanese exports of color TVs. There was a torrent of exports. I will see that this is corrected. We all must avoid any inclination to protectionism. I am referring to the protectionism of the 1930s, especially 1934. We must not repeat this. This will weaken us vis-à-vis the East and South. Today the Eastern Bloc is about as powerful as the Free World. If we are lax enough to sink to protectionism, it will be a tragedy. The OECD pledge is important even if we don't repeat it. The spirit is important and we should make sure this spirit is upheld.

Barre: I have three short points. This Summit can have major psychological value as well as practical value if followed up energetically. But it should not raise false hopes. We are, first of all, in a crisis of confidence. This is due basically to the fact that we have had 20 years of prosperity which has slowed down in recent times. Some thought that the slowdown would be a short-term phenomenon, and that soon we would return to the period before 1973–74. We should not allow this thought to continue. We should make public opinion aware of the facts, as President Giscard said. For instance, the oil-importing countries should recognize that the transfer of resources to exporters will reduce the possibility for increasing the quality of living and the standards of living in the developed countries. If we don't do this, we will all expect too much over the short-term. Also confidence has been shaken because of uncertainties over the shortages of supplies and the problem of prices. I believe that the CIEC shows that the oil-importing countries are aware of this difficulty.

The second problem is unemployment. We should not give the impression that our struggle against unemployment replaces our fight against inflation. These efforts must be undertaken side-by-side. We must continue to struggle against inflation which will lead to a reduction in unemployment as well. This should not be done in the Keynesian context of the 1930s. The labor situation has changed. People get unemployment benefits. They are not looking for just any employment, but are looking for a job they will accept. Many women are coming into the labor market and turnover has increased significantly. Youths

today do not have the same motivation. There is less concern with the continuity of work. The struggle against unemployment calls for specific programs to find long-term employment rather than part-time jobs. We should not say we are going to solve the unemployment with a big rush forward because this would soon mean the application of restrictive measures.

My third point is on trade. President Giscard stressed structural changes and the need for organized freedom of trade. We should safeguard the freedom of trade. If we want to guarantee freedom of trade, we cannot repeat the same phrases as in 1960, 1967, or 1973. Public opinion will not be impressed. We should make a collective commitment not only to resist protectionism but also to deal with problems of trade.

We also need access by exporters to important markets which are closed not only because of customs duties, but other barriers as well. The EC has given the developing countries great access and technology. A number of countries are now subsidizing their exports and closing their markets to the developed countries. A lack of symmetry cannot be supported in the future. If this exists, the negotiations cannot deal with the problems in a climate of cooperation. Public opinion will not allow cooperation. We should stress that the new problems require new approaches, and give an acceptable content to the notion of trade, demonstrating that it is not in conflict with the notion of employment.

A follow-up is a good idea. The Summit could lead to positive results on trade, economic growth, and employment.

Callaghan: This has been a useful discussion. We have overlapped into other areas. One essential point which has emerged is that we not only want a good declaration, but good results. We should relate the declaration to our people.

I listened to Prime Minister Fukuda express his concerns and compare this period to the period of the 1930s. I believe that President Giscard was the first to mention structural changes which makes this period different from both the 1930s and the period before 1973. Prime Minister Trudeau also added a point about the consequences of this for ourselves and indicated the need to educate our people, the developing countries, and the oil producers who do not understand the change in the situation. Our communique should have a short analysis at the beginning which points to these matters. We need an analysis of this situation.

On the issue of inflation and unemployment, all of us are agreed on the political consequences of high unemployment. Our number one aim, as Chancellor Schmidt said, is to reduce high unemployment, particularly among the youth. But there are also serious inflationary pressures which must be dealt with.

On the issue of confidence, we need to bring renewed confidence and a greater sense of certainty. We should say that we intend to carry out our commitment on growth for this year. As Prime Minister Trudeau said, we should reinforce each other by telling people not to exaggerate in their minds what can be done. The points that were raised on the IMF and protectionism should also be included.

Another good point was on the proliferation of international institutions. Our actions must be followed up in institutions by our people. We can take a bird's eye-view of what they are doing in these institutions. We must be willing to meet again to keep an eye on what they are doing—to keep an eye on these goals. The Foreign Ministers at lunch should inform our colleagues of these objectives. We should invite our colleagues to meet in the afternoon to draft a communique.

Carter: We should say that unemployment is the most important issue, but follow immediately by discussing inflation to show that they go together. We should let the world know what we discussed and what we think. We should lead off the communique with the main points we agreed on and then follow-up with the supporting facts. We should present our conclusions in the first paragraph.

Giscard: I believe that the communique was read last time only by those who drafted it. It is too long now.

Callaghan: We should cut it down and make it direct.

Fukuda: You have correctly indicated the high points. We should also put in that one change is a tighter supply of resources and energy.

Callaghan: I agree.

Andreotti: The communique should have value, something for public opinion. We want to stress the main points and give reassurances and hope. It should have a political content.

**28. Minutes of the London Economic Summit Meeting<sup>1</sup>**

London, May 8, 1977

*LONDON SUMMIT—May 8, Morning Session**North-South Issues*

Callaghan: We welcome the President of the European Commission, Mr. Jenkins, and M. Boulin, the French Minister of Finance.<sup>2</sup>

Giscard: The French President and Prime Minister by custom, are not supposed to be absent from the country at the same time. I assume that this is because it is felt that were they to disappear it would be a catastrophe. I believe it is the same for the US President and Vice President.

Turning to North-South issues, these are one of the most important subjects we will discuss at this meeting. This is true, not only because the subjects themselves are significant but also because the meeting is being watched with anxiety by the developing countries who are not keen on this meeting of the wealthy nations. As we know, the EC has a Community mandate on this issue so it is suitable that the President of the Commission be here with us.

I would like to briefly discuss how the North-South dialogue came about and its economic and political character. The idea was broached first in 1974. Then there were two strategies vis-a-vis the oil producers. The first was a strategy of confrontation designed to break OPEC and cause a decline in the price of oil. The second was a strategy of consultation to help deal with the problems of the developing countries and thereby to elicit a more responsible attitude from OPEC. Since 1973 the countries of the Gulf, such as Saudi Arabia and the UAE, have taken a relatively reasonable attitude. This is in part because of our policy of consultations on energy and developing country problems. We should continue in this way to encourage the moderate oil producers. If there is a failure of the North-South dialogue, radical producers would gain the upper hand. A first element in encouraging moderation is a Middle East settlement. But the success or failure of the North-South dialogue will also have an impact. We should recognize that if there is an in-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 1, President, Europe, 5/5-10/77: Memos and Cables, 5/5-20/77. Secret. The minutes of the Summit's final session on the afternoon of May 8, which covered Summit follow-up and the Summit declaration, is in the Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen File, Box 27, Summit: London: 5/77.

<sup>2</sup> Robert Boulin was not the French Minister of Finance but the Minister Delegate to the Prime Minister in Charge of Economy and Finance.



crease in the oil price, the total sum involved will be far more than would be channeled for development assistance.

On April 26 the ten co-chairmen will meet to plan the Ministerial meeting to take place on May 30 to June 1.<sup>3</sup> There is some reason for both optimism and for pessimism. I am optimistic because I believe we can reach an agreement. I am pessimistic because Perez-Guerrero recently said that the developing countries were disappointed and anxious about the possibility of ultimate agreement. The European Community has made progress and a number of points were agreed. But it is essential to make two main decisions now—on raw materials and aid to development. We need to establish a common fund to finance the organization of the commodity market. The EC has agreed (with German reservations, which I understand) to establish a common fund. Can we today say that we agree in principle to establish a common fund with the details of the fund to be settled later?

Related to this we need an expression of political intent, of political will, to conclude commodity agreements based on some criteria. Those criteria should be that we choose commodities of most direct interest to the poorest LDCs and accept periodic review of the reference prices of those commodities. It is correct that we should reject indexation, but it is only normal that the LDCs want a review of prices from time to time, and we should agree.

On aid, the developing countries want a lightening of debt—an automatic relief of the debt burden. We agreed to reject this and instead proposed special aid to these countries. There should be a better review of the problems of those countries in debt, but we should provide help on a case-by-case basis. We should respond, in this way, with better procedures and at the same time accept the idea of exceptional additional aid for the poorest with the greatest debt burden. We should explore at this meeting the possibility of a \$1 billion special fund with contributions from the EC, the US and others, and should decide here whether to confirm this or not. The American position is that they prefer a bilateral channeling of this assistance and we should discuss this. We are open-minded. The figure I am talking about for this exceptional aid is very low—\$1 billion—when the oil deficit is \$45 billion. So \$1 billion is not very generous.

But for what we do, we should ask what we should get in return. A system should be set up for periodic consultations on energy (i.e., oil prices) in a CIEC forum so that decisions are preceded by consultations. There should also be principles to protect our investment in the LDCs.

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<sup>3</sup> Reference is to the CIEC Ministerial meeting held in Paris May 30–June 3.

We also need to decide whether we should do or say anything about the inadequacy of aid to development. Development aid is not commensurate with LDC needs. I do not believe that .7% is an acceptable level. I know that target is hard for some countries, but we all should be prepared to step up our aid.

In the present situation, the Socialist countries make virtually no contribution to development aid. They make only a small contribution to the UN. Bilateral aid, contributions to the World Bank and to the European Development Fund are done by Western industrialized states alone. We should take a public stand, a principled stand, in view of the scale of development problems and indicate that the Socialist countries should finance more development aid. We should make proposals along these lines. In Africa, for instance, we finance all development aid and get little political results. The Socialists provide virtually all the military aid with considerable political results. We should get the Socialist countries to contribute development aid. This will bring a reaction from the Soviet Union, but we should not be the only peoples to whom the finger of criticism is pointed.

Callaghan: We cannot make decisions on CIEC at this meeting. But we can concert on national approaches to help in the development of the G-8 position. In 1975 there was a confrontation atmosphere in the UN. There could be another attempt at confrontation at the CIEC or an attempt to drive wedges between us. We should adhere to the major points. I would like to hear the attitudes of others on a common fund and on debt relief.

President Carter: We are willing and eager to participate in the endorsement of the principle of a common fund. We believe it is worthwhile. We feel that export earnings of nations should be stabilized.

With regard to the second point, our system makes it difficult for us to make a contribution through multilateral groups but we will go bilaterally. Also, we are willing to at least double aid between now and 1982. Last year we provided \$8.5 billion in aid. Much of it was bilateral and included military aid. We are prepared to contribute more through lending institutions. On the inclusion of Socialist countries in the aid effort, this is a worthy idea. (I also personally think they should be in the World Bank and IMF. I don't know why they are not.) We should make the proposal that they give more aid in a constructive, non-polemical fashion, perhaps before the CIEC. President Giscard will be meeting with Brezhnev in France. This is a worthy subject for discussion. We should also welcome participation by OPEC. They feel excluded. We have been too rigid in asking financial contributions without giving them a role in the institutions.

Callaghan: We all know your difficulties about your bilateral aid. We need something which looks like special action. If you diffuse it in a

bilateral way, it does not look like something is happening of the nature of special action. Your doubling of aid by 1982 though is clearly tangible.

Vance: We can do this easily bilaterally. We can put our share into the fund. We can do it in a bilateral way so that it will be counted in the total.

Schmidt: I must ask the gentlemen around this table not to lose sight of one overriding principle. We should not have a bad conscience vis-a-vis the LDCs. It is not good that some Westerners go around extolling their bad consciences. We have done well, much better than the Communists. We will do more. We want it to be recognized that we have a moral obligation. And I think we can do better than we are. Although we must ensure that any additional commitments not jeopardize the world economy as a whole.

We have been talking about structural crisis. The oil countries' price increase has had a major impact on the terms of trade, which is part of the structural crisis. What we do should not undermine the world economy. I hold this view as a social democrat, but my liberal friend Genscher also shares it. A smooth world economy is as important to them as it is to us. With respect to aid, \$17 billion worth is provided; 80% comes from OECD countries, 15% from the OPEC countries, and 5% from the COMECON. They provide a lot of military aid. But their economic aid all together is only 50% of that of Germany. They sponsor wars in Africa and we let them get away with it. We should invite them today to participate in the aid effort—to take up their part of the responsibility. The Soviet Union and the East Germans are comparable to some industrialized countries.

In other fields I have the impression, as I said before, that we are going to meetings with bad consciences. We have been willing to give, but we are not asking all others to give as well. I am willing to go to my nation to ask them to give more—to make additional sacrifices. But we also want to get something. I want to get more stability and foreseeability in the system. I want guarantees for foreign investment in their countries. If we do not have this, private investment will diminish and aid requests will increase. This should be in the final act.

OPEC should also give certain pledges in the final act. They have contributed to the structural mess of the world economy. Saudi Arabia needs and deserves praise. It has been especially helpful. But there ought to be a pledge on the quantity of oil to ensure adequate supplies. We should not talk about a price mechanism. I don't believe in a price mechanism very much, but we should at least ask this of them. It is outrageous that they embargo us.

Thus the Declaration should refer to the Soviet Union, LDC investment guarantees, and OPEC assurances on supply. Returning to my point about sacrifices, we should indicate that we will make some.

In Puerto Rico, I gave some figures about what would happen if we concluded commodity agreements for 25 commodities. It would mean that we would not only misallocate resources, but would create other economic mistakes. We would be enlarging the revenues and receipts of countries who do not need it. We would give the US and the Soviet Union windfall price increases. The Soviets already charge Eastern Europeans a lot. Commodity agreements will only raise the price of the exports of Australia, Canada and the USSR. We want to help the developing countries, not the developed countries.

I have made a proposal to help the developing countries. We must, of course, have commodity agreements for a few tropical products. But we should use a Stabex scheme<sup>4</sup> to avoid regulating all of the world's market. This can help the developing countries without over-regulation of most commodity markets. I do this not out of German interests, but to maintain the continuity of the world economic system as a whole. A solution is no good if it is simply a cheap gesture which will hurt the world economy in 1978 and 1979.

We haven't even seen the peak of the world structural problem. We can't stand more economic upheaval. This is true of all of our European partners. Italy, France, the UK, and Germany are all under serious political strains because our people do not believe that our difficulties are insurmountable. They feel we can surmount them. If not, they will vote us out.

Our objective should not be to please, but to help, the LDCs. We may want to please God, but we do not necessarily need to please the LDCs. We should think of the consequences of fixing world commodity prices. We should not repeat the situation of agriculture inside the EC. Too much commodity price-fixing leads to over-production, the cost of storage, buffer stocks, the breakdown of the system and too high costs for our economies. I can go along with anything you decide. I am not out to pursue German national interests. But I do not believe we should please the developing countries for a short while, if in the long run we suffer economically and politically.

Andreotti: We should have considerations that relate not only to humanitarian and welfare concerns, but also to our interests. Without participation of the developing countries, there can be no constant development of the world economy. We should not have regulation of commodities as in the EC. On this I agree with Chancellor Schmidt. I believe we should move from a general statement to a concrete study which Schmidt also referred to.

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<sup>4</sup> See footnote 6, Document 24.

Next, as to aid, we should try to work in multilateral fora. An example is what we are trying to do through the EC. We should create a realization of the solidarity which exists. Like Truman's Point 4 acquired moral leadership in the developing world, if our coordination is to establish more development aid, we should give it a political character. It would be extremely valuable to make this step together with other steps, for instance the transfer of technologies. I also agree with the point of Presidents Giscard and Carter. Public opinion should recognize how little aid the Soviets give. We should say, not only is it scanty, but we do not consider it aid from the point of view of a constructive responsibility for the development effort. We should make sure that our aid is given in relation to effective programs. As in the IMF, we should use stabilization and growth as our criteria for giving aid.

Fukuda: We live in a day of structural change. There are many facets of this, and one is in recent North-South developments. Another is the finiteness of resources in energy. We should have a sweeping review of the situation. These matters are inter-related very closely. Countries of the South should be allowed to participate in the growth of the world economy. They should be given a role to play and be held accountable for their role. CIEC is vital and its success or failure is of vital concern to us all. We should think about how to ensure the success of CIEC. If it fails, we throw the world into a chaotic state.

What can we do to ensure the success of CIEC? If we say something about the orientation of the Common Fund, it will be useful. Debt is also an issue, and it will be useful for us to provide an orientation on this.

President Giscard gave an effective inventory of the issues and covered them very well in the Tokyo Round. We should give special consideration to the developing countries and the matter of primary commodities. When we discuss ways to aid the developing countries, the most effective way is for our own economies to recover their health. When we help increase LDC exports, we are doing something important. When we reflate our economies, we help the LDCs.

Jenkins: CIEC should not be seen as a charitable operation. We should go for better access to raw materials and stable investment. We should see it as a two-way process. The developing countries should be involved and their interests are wrapped up with ours. In many ways a safer way to stimulate our economies is to strengthen demand in the developing countries. We should make a success of CIEC, and I believe we can do this without unwise actions. The preliminary meeting gave us indications which were not too bad, but there still can be a confrontation. Our first need is for a united front vis-a-vis the G-8.

On special action to help the poorest LDCs, we envisage a \$1 billion fund. The EC will give 37.5%. We will need 37.5% from the US and contributions from others. We do attach great importance to its being multilateral. We recognize the US problem, but the money should be seen as additional. It should be money which can be used quickly and not be tied to projects.

There is also a longer-term question of official development aid over the next few years. We should discuss how we can improve our contribution to get more money.

On the Common Fund, we are in agreement that this issue has significant importance. We should accept the principle and approach this cautiously so that it does not cover a wide range of commodities.

And we should consider the stabilization of export earnings as well. There should be agreement to study Stabex at the Paris meeting. The EC Stabex has worked well. The Common Fund and Stabex will support each other. We hope for a study by the Development Committee of the IMF and the World Bank. This would be a good outcome of the CIEC.

Fukuda: I met with the Secretary General of UNCTAD who discussed the Common Fund concept. I had heard about it as a bad concept. I found his explanation made it seem like a more pragmatic proposal.

MacDonald: I would like to discuss three points: politics, success and commodities. The failure of CIEC will have major consequences. OPEC will charge us economic rent one way or another. Saudi Arabia is emerging in a positive way. A conference in which they have played a positive role should be successful. On aid financing, progress has been made in the Witteveen facility. But we should not be overwhelmed by this success. There will be some shifting of resources from the developed to the developing countries.

On commodities, as a major primary producer and exporter, Canada is not seeking a new CAP. We are prepared to compete on commercial terms. We are prepared to participate in a Common Fund and don't want a cartel. The place to continue the discussions is in UNCTAD.

Schmidt: Do you recognize the difference in international competence between the IMF and UNCTAD, and the difference between the developed and the developing countries management?

MacDonald: You have to deal with the LDCs somewhere.

Giscard: The communique should say that the Seven expect a positive outcome to CIEC, accept the principle of the Common Fund and exceptional aid. This will open up the road to a positive solution. And we should invite the Socialists to play a constructive role.

Carter: I sense a concern about additional aid. There is a difficulty in the US about different pockets of aid. We have confidence in the IMF and the World Bank. But it will be hard to sell US participation of 37.5% on a multilateral basis.

There is a proliferation of too many different institutions. We need an analysis of the world development aid situation. We should get the World Bank and the IMF to say what the developing countries need most, and the objectives of aid which need to be assured. The developing countries would trust the World Bank and the IMF to do the analysis. We need a structured sort of analysis to help get increased support in the Congress and public opinion. There are a vast array of different organizations. I am not trying to delay action here. In fact, we are excited about it—but we must begin to develop a structured aid program to pinpoint the needs.

I would like to see the Socialists join the effort. It might be an appropriate time to get the Soviet Union to consider participating. If they join with us in these discussions, we might use these discussions as a mechanism to bring them into future aid programs. They might welcome some alleviation of tension.

I agree with Helmut on the requirement that LDCs agree not to confiscate property without compensation. We could help more if investment could be protected.

I am willing to go the second mile in the US to sell these ideas. But we need a comprehensive analysis and it would help to bring the Soviet Union into the structure.

Jamieson: Roy, are you suggesting that the G-8 should all agree on a CIEC package? How much will the package be affected by separate contributions? You depend one way or another on others to make up the \$1 billion sum. The important thing is that it should be seen as something distinct. But this means the US will have to make up the other 37.5%.

Jenkins: A positive result is needed. We can put some things of a bilateral nature into this particular area. We have to erect a package. We will try to meet our target figure.

Giscard: We should be clear on the point that this must be an additional effort and we should not use existing aid programs. It is not useful today to address how this should be organized. We should pay; we will pay \$1 billion by means suitable to each country. The US could do it bilaterally and others multilaterally. We should be flexible on ways and means. We should say we all agree on the principle, size, and objectives.

Vance: The fact that we do that bilaterally rather than in a common pot should not be a result inconsistent with the principle we are trying to achieve.

Callaghan: Our contribution will be part of our aid, taking advantage of a marginal amount of funds we have left over for this purpose.

Jenkins: This is better than a debt moratorium.

Callaghan: This will help relieve the debt of the LDCs. It is not additional in terms of our budget.

Healey: It is additional to that aid which we have already committed.

Giscard: The idea is that we provide an additional effort. We all have difficult budget positions. We can't look at the budget and simply say this is exceptional aid. The aid must be additional to what was anticipated in behalf of the poorest countries. We should not say this was an amount we were going to give anyway.

Callaghan: We should say we had some funds at the margin which will be allocated for this purpose. They could have gone to some other purpose.

Healey: We are reducing our public expenditures as a result of pressure from the IMF. We salt a little away in our program as contingency reserves. It appears as new money.

Fukuda: This is different from a routine case. It is an emergency situation. We need special measures with regard to the poorer countries—exceptional emergency measures.

Callaghan: I take it that the world development program sounds o.k. to everyone here and should find its way into the Declaration.

Trudeau: We should help the billion people who go to bed hungry. If we do not do it willingly, we will be made to do it unwillingly by OPEC. We agree with Giscard if we are not forthcoming at CIEC, we will be forced to do this through our self-interest. We will pay one way or another. We will help the LDCs or be hurt by OPEC.

Jenkins: We should ensure that funds flow quickly to countries who need it desperately.

Schmidt: We should not hide the fact that this is an additional sacrifice.

Callaghan: As far as our people are concerned, our contribution will be additional when it is published.

### *Trade*

Callaghan: We should now take some time to discuss trade issues.

Carter: I would like to introduce Bob Strauss, our Special Trade Representative.

Callaghan: I would like to ask Prime Minister Fukuda to open up the discussion of trade.

Fukuda: I think it is important to keep in mind that any shrinkage in trade will have an immediate impact on the employment situation



and affect the business climate everywhere. In the final analysis economic recovery will be through trade expansion, not contraction. We should adhere to the OECD pledge. And we should secure the earliest possible conclusion of the Tokyo Round of trade negotiations. We need to deal with these problems to put the minds of our people at rest.

Jenkins: The MTN developed as a result of the Nixon measures of 1971.<sup>5</sup> In 1973 we launched the Tokyo Round officially. In 1975 the actual negotiations began after passage of the US Trade Act. There are now six negotiating groups at work. The EC has made a number of proposals for tariff harmonization on cereals, meats and agricultural products. But the climate has worsened since the Tokyo meeting in 1973.

The EC feels that we should fight against the dangers of protectionism. One way to do this is to go for a successful outcome of the MTN. The Summit needs to give the political impetus. We are ready to enter into vigorous negotiations. A successful outcome is more important than the date of the conclusion. We should use the remainder of 1977 to make rapid progress and have the Ministerial after substantial progress has been made.

On specifics, the EC has a relatively low, harmonious external tariff. Most of our tariffs range between 3% to 17%—only one is above 25%. This is why we want harmonization to reduce the range of countries' high and low tariffs. Also 90% of our tariffs are bound under the GATT. Some partners here have a much lower percentage of their tariffs bound, and we would like to see them bind them.

Agriculture is an important part of the negotiations, and special considerations apply to it. What we want is an expansion of agricultural trade around a background of stable markets. We have a \$5 billion deficit with the US in agricultural trade alone so that our markets are quite open. We believe we can make progress in agriculture in the context of reaching an overall balance at the end of the day. We believe an impetus forward [*forward?*] is desirable. We are willing to participate vigorously.

Carter: What can we do to expedite the MTN? Why is it bogging down?

Jenkins: First there was the delay in getting the US Trade Act, and then the change in Administrations caused certain hesitations. Then there is the problem of the deteriorating world economic climate. But it

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<sup>5</sup> On August 15, 1971, Richard Nixon announced his administration's New Economic Policy, whose measures included the suspension of the dollar's gold convertibility and the imposition of a 10 percent surcharge on dutiable imports. For the text of Nixon's announcement of the New Economic Policy, see *Public Papers of the Presidents of the United States: Richard Nixon, 1971*, pp. 886–891.

is my belief that the way to combat protectionism is to make progress in the MTN.

Fukuda: There are three questions that must be addressed in the Tokyo Round—tariffs, non-tariff barriers and farm products. They are inseparably interlocked and we must proceed together on all three. On tariffs there have been proposals by various parties. We need an agreed formula for tariff reduction. We need not agree here, but we should move forward on this. Once agreed, this will simplify the technical work which will follow and give impetus to the Tokyo Round. We should set a target date of say August or September for us to agree on a formula for tariff reduction.

On non-tariff barriers we must also make progress. These are of a bilateral as well as a multilateral nature. We should quicken the pace of the progress. This is an important goal not only in itself but in the context of broader concerns to avoid protectionism. We must also give consideration to the developing countries in the MTN.

Stammati: There are two reasons to be favorable to the expansion of international trade. Italy has always been favorable to free trade and has gone to considerable efforts to remove protectionist measures. Even though we have deficits, we have made attempts to be integrated in the international trading system. We must fight tendencies in the government and among outside protectionists. There are also dangers in certain sectors or geographical areas who want restrictions. And we must look at the range of restrictions which hinder international trade, certain privileges that are part of legislation in a number of countries, and examine administrative measures that certain countries impose which are frequently less harmful than conventional protectionist measures. We should renew the OECD trade pledge at the end of June.

I agree with Prime Minister Fukuda on the need to intensify the MTN and we hope for substantial progress in the course of the year. We should have balanced results. We should also create liberalization and the safeguards for the nations concerned.

We stressed the importance of trade relations between East and West in the Puerto Rico Declaration.<sup>6</sup> The preparatory group expressed the wish for the development of sound financial and trade relations on a mutually beneficial basis. President Carter wants the Eastern Europeans to be in the IMF and this would be desirable. President Carter's view of this is important.

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<sup>6</sup> For the text of the Joint Declaration issued on June 28, 1976, at the end of the Puerto Rico Summit, see *Public Papers of the Presidents of the United States: Gerald R. Ford, 1976-77*, Book II, pp. 1922-1926.

Callaghan: To our trade unions what matters is their not being put out of jobs. In a slow economy, new jobs are not easily found. There is a relationship between trade and the ability to create jobs.

Schmidt: I agree on the short-term economic problems that you mention, but protectionism will adversely affect jobs. All who have spoken here have supported free trade. All of us have agreed, however, to measures which discriminate against others. Some have applied import deposits, although we all knew that it was inevitable for Italy to do this at the time.<sup>7</sup> I, like the Prime Ministers of Italy and Japan, fully favor free trade and we should be articulate about this in this part of the communique. We ought to state the importance of avoiding any fall-backs to protectionism. Why not say we recommend a renewed commitment to the OECD trade pledge? We are all sinners from time to time. It is good to put in a reference to the OECD trade pledge.

In the draft communique, which I have in front of me, it calls for progress in agriculture, expansion and stabilization, increased cooperation on grains and an agreed approach to grain stocks. It looks like heaven on earth. Is there anything behind it, or is it merely a bureaucratic compromise?

Giscard: The kind of discussion we are having is getting away from the purpose of this meeting. The communique is getting away from the purpose of the meeting. It is getting longer than the meeting. We should not repeat discussions. We need a synthesis on guidelines. It is nonsense to publish a ten-page communique. A four-to-five page communique is enough for our publics.

As regards the aims of the meeting, we should fight protectionism which is linked to the crisis in which we find ourselves. To avoid protectionism, we must draw the consequences of it. In the MTN, we should aim for a symmetrical solution. In trade, we must have a symmetrical solution. Access to markets should be comparable. We should attempt to ensure a better balance in the system of freedom of trade.

On the matter of trade unions, if we merely recite 19th century language of free trade, the unemployed will not understand. We should say we are against protectionism but are aware of the new problems of organizing our economies. We cannot change the market immediately, but in order to fight inflation we need better organization of the freedom of exchange.

We all have moral views and are all aware of the idea of sin. It may be noble to create a deficit but the result on trade is the same. Neither a

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<sup>7</sup> On May 5, 1976, the Italian Government announced an import deposit scheme in order to dampen the demand for imports, a measure intended to combat the declining value of the lira.

structural surplus nor a structural deficit is good. We need a maximum of symmetry in rights and obligations.

Carter: I agree that we should have a briefer paper. We should ensure that people know that an increase in trade is a prerequisite for internal prosperity. We want to discourage protectionism and to expedite the Tokyo Round by establishing its priorities. I am aware of the complications which unemployment poses for trade negotiations. In the US, the unions used to openly advocate free trade and now they advocate protectionism. I have withstood their pressures and not without a certain degree of pressure. Labor deplures my actions. We need to avoid any evasion on this subject. I prefer the strongest possible language. I have no objection to mention of the OECD pledge but it is important that it be seen as only one mechanism.

Blumenthal: I also want to stress the need to give impetus to the trade negotiations. It is important to go beyond the mere affirmations of the past. There are three key areas—a tariff-cutting plan, agriculture and non-tariff barriers. In the first two the deadlock is on the rules of the negotiation rather than on the negotiation itself. On agriculture there is a need to break the deadlock and agree on how to negotiate—to break the deadlock on the rules of the game. We can have a compromise between expansion and stabilization. There should also be an effort to develop stocking arrangements.

MacDonald: We have to be concerned about balanced results, which Mr. Stamatii raised. We should convince people to expect benefits through additional trade rather than just costs in terms of jobs. I disagree with President Giscard that we should have a symmetrical pattern of trade. We in Canada have a limited number of exports in primary products [*products?*]. We must take account of the job issue and the asymmetry of our economies.

We also agree on the need to stress non-tariff barriers, such as government procurement. Our problems are caused as much by non-tariff barriers as by tariffs.

Giscard: The communique should express the content of our discussions.

Callaghan: We should confront the realities of the problem. Free trade and the removal of trade barriers are best for the Free World. Our levels of unemployment are around 5%, but the men out of work are 100% unemployed. If we want to keep to a system which is in the best interests for all of us, we will have to pay attention to adjusting workers to new jobs.

Strauss: I understand that what goes on at the MTN is not likely to reduce unemployment. But a failure to do something positive will add to our unemployment problems. We need a positive and firm thrust in behalf of movement in the MTN without prejudicing the positions of

any of the parties here. We must, for instance, come to grips with issues such as subsidies and other problems which affect our trade relations.

Callaghan: We want to see an expansion of world trade and believe that the present round of negotiations will contribute to this. We also believe that protectionism will hurt jobs and the economic growth.

MacDonald: But we should also remember your point that workers who are unemployed are 100% out of work.

Healey: While at the moment we are all fighting unemployment, we should recognize that we cannot solve unemployment by allowing inflation to revive. Also, a precondition of expansion is free trade and unless you can diminish trade barriers, you cannot get expansion. Likewise, prosperity is a condition to moving toward free trade. We should say we recognize this interdependence. This framework is valuable when we get home.

Giscard: We need an organized and orderly expansion of trade and organization of liberal trade.

Trudeau: We spent yesterday and today shooting down interdependence and free trade. We talked about the need to deal with OPEC and how to tamper with the market to help the LDCs. Now we ask how to tamper with the market to increase employment.

Callaghan: Obviously nations must safeguard themselves when their jugular is attacked on such matters as oil. But unless we can keep barriers as low as possible, we cannot get the best distribution to contribute constructively to the well-being of our peoples.

Healey: Clearly there are structural problems within countries and between countries, and the problem of finite resources. We want the market to regulate relations among us.

MacDonald: Free trade, yes, but free trade in manufactured products? There should be a broad discussion of this and we should discuss the social problems which emerge.

Carter: The text that we come up with should be specific. If it is bland, it will say nothing. We should ask our drafters to be as specific as possible. We want the Tokyo Round to be productive; it must equal the results of the Kennedy Round. That will be an important achievement, although perhaps the results could take different forms from the results of the Kennedy Round.

Callaghan: We give one another strength by our collective commitments. We have protectionist pressures from our industries; and we resist these pressures by pointing to what is happening elsewhere.

Jenkins: I agree that we need a short communique. We should not get into complicated GATT negotiations. At the same time, it would be a pity if the communique contained nothing of substance. We should put ourselves in a position where it is easier for governments to resist

pressure from protectionists. We should say we are not standing still but are going ahead with the MTN.

Schmidt: The Declaration should be short and impressive. It should stress our commitment toward open world trade in order to supply ourselves with a weapon against protectionism.

Jenkins: If we try to stand still, we will go back.

Giscard: Mike Blumenthal and I have discussed these things before 1973, but today the situation is different. In Europe there are seven million people unemployed. If we keep talking about open borders, we will be accused of ignoring the situation. The firm stand against protectionism is impressive. If we stand firm and open our frontiers, we must take into account these problems. We must take into account the need for social symmetry. We know there already have been agreements between Italy and Japan, and the UK and Japan. We must take social problems into account. We should move ahead on an EC mandate to achieve progress, but we should take care not to dis-stabilize the social situation. This should be in the communique.

Carter: I disagree with the notion that our unemployment results from the fact that we have, as President Giscard said, thrown our borders open. Factories are not closing because of greater world trade, although I sense that President Giscard feels this way. Factories close because of constraints on world trade. I am trying to boost our economy and I want growth. I want the opportunity to sell abroad and to buy from you. But we can also survive on our own resources if there were a move toward global protectionism. I am not for dropping all barriers and totally throwing our frontiers open, but at the same time I do not believe that our factories are closing because of trade.<sup>8</sup>

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<sup>8</sup> The Joint Declaration issued in London on May 8 at the conclusion of the Summit and the accompanying appendix is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book 1, pp. 819–824.

**29. Memorandum From the Chairman of the Economic Policy Group (Blumenthal) to President Carter<sup>1</sup>**

Washington, May 11, 1977

## SUBJECT

Review of Specialty Steel Quotas

The Economic Policy Group has reviewed the status of import quotas on specialty steel products and unanimously agreed that you should exercise your prerogative of asking the U.S. International Trade Commission (USITC) to formally review the situation. However, EPG developed two options concerning the timing of your action. You could initiate a review immediately or you may wish to wait between 45–90 days to do so.

*REASONS FOR USITC REVIEW*

The need for an USITC review within the next few months stems from two principal factors. First, there is an apparent economic case against restricting several categories of specialty steel imports. Demand is increasing for flat-rolled steels that are used in consumer durables (although still sluggish for other steels that are more dependent on investment). Our overall assessment is for considerable improvement in the industry as a whole as the recovery proceeds. Second, the European Community has repeatedly protested curtailment of its specialty steel shipments to the U.S., imposed by President Ford last June.<sup>2</sup> On two recent occasions it has formally requested that the U.S. Government initiate the procedures necessary to reduce or terminate import relief.<sup>3</sup> In response, we have stated that we could consider reviewing the quotas

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 7, Steel File #1. No classification marking. A stamped notation reads: “The President has seen.” Carter wrote at the top of the page: “cc: To Strauss & Blumenthal. J.C.”

<sup>2</sup> On June 11, 1976, the White House issued Presidential Proclamation 4445 on the “Temporary Quantitative Limitation on the Importation into the United States of Certain Articles of Stainless Steel or Alloy Tool Steel.” The restrictions were to take effect on June 14, 1976, and continue until June 13, 1979. (41 *Federal Register* 24101, 29089, June 15, 1976)

<sup>3</sup> No formal requests were found. On February 7, the EC “requested that the United States begin a review of the specialty steel quotas and put into effect some immediate improvements.” On April 21, during steel consultations between the United States and the EC, EC officials “urged we seek ITC review of specialty steel quotas.” (Telegram 1192 from USEC Brussels, February 7, and telegram 4059 from USEC Brussels, April 22; National Archives, RG 59, Central Foreign Policy File, D770043–0630 and D770141–0500, respectively)

after the USITC compiled data on the domestic specialty steel industry for calendar year 1976.<sup>4</sup> This data is now available.

#### *PROCEDURES FOR INITIATING A REVIEW*

The first step involved in any reduction or termination of the quotas prior to its scheduled three year duration (from June 14, 1976 to June 13, 1979) would be to request the USITC's advice on the probable economic effect on the domestic industry of such action. (By law, advice is also required of the Secretaries of Commerce and Labor.) It will likely take the USITC at least three months to produce its advisory report.

#### *NATURE OF USITC ADVICE*

The USITC's recommendation is not binding, and you can support, reject, or simply not act on it. To give you maximum flexibility we are recommending that your request for USITC advice pertain to all product categories and that the advice be given on a product-by-product basis.

#### *TIMING OF A REQUEST TO THE USITC*

If you agree to initiating USITC review, the major issue is timing.

*Arguments for an immediate review are:*

—It would be interpreted by the public as an anti-inflation measure. The U.S. steel companies would see it as a signal of strong Administration concern about price increases and it may inhibit further price increases in the steel industry.<sup>5</sup>

—Our trade relations with the EC would be improved and immediate impetus would be given to post-Summit momentum towards trade liberalization. The EC would be more likely to again defer seeking compensation or retaliation under international trading rules.

—An early USITC review would strengthen our hand in urging the EC to resist protectionist measures in dealing with its own steel problems. It would provide an improved environment for international

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<sup>4</sup> On February 14, in response to the February 7 EC request for a review of the U.S. specialty steel quota situation (see footnote 3 above), the EPG decided "to proceed expeditiously with shortfall reallocation," as well as "to postpone decision on request to USITC for advice on reducing or termination relief until 1976 annual survey results are available in March." (Telegram 36061 to USEC Brussels, February 17; National Archives, RG 59, Central Foreign Policy File, D770056-0814)

<sup>5</sup> In a May 17 memorandum to Carter, Eizenstat and Ginsburg urged an "immediate review, primarily because that will clearly indicate to the steel industry (and the general public) your concern over inflationary price increases and your willingness to vigorously use international trade as a tool to keep domestic prices down." (Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 284, Steel/Chrome (CF, O/A 24) (4))



discussions on world steel problems, which should be underway by mid-June in the OECD with US, EC and Japanese participation.

—The USITC investigation will take at least three months—hence an immediate request is really only an opportunity for you to make decisions in the late summer or early fall, when the industry should be in better economic condition.

*Arguments for postponing a review until sometime this summer are:*

—Considerable domestic political opposition would be evoked from the domestic steel industry and unions, who would interpret a USITC request as a prelude to removal of quotas. Some members of Congress could be expected to vigorously oppose any move to relax or eliminate the quotas. This adverse domestic reaction could be postponed until upcoming trade issues such as shoes, color TV's and sugar, including the threat of Congressional override, are settled.

—The longer the delay, the further along the industry will be in the recovery; hence more product categories will likely be included in USITC advice to relax quotas.

—The second year quotas should not begin to actually restrain imports until the fall, thereby limiting the international and domestic economic effects of a modest delay.

—If the request is delayed until late June, the ITC would be able to base its advice on an entire year of import relief. The full year will appear publicly to be a more credible time period during which to assess our experience under the quotas.

—If the request for USITC advice is delayed until mid-summer OECD discussion on world steel problems will be underway, and this might mitigate adverse industry and union reaction.

## OPTIONS

### *Timing*

1. *Request ITC advice immediately.* Treasury, State, CEA, NSC, OMB support.<sup>6</sup>

2. *Delay request for ITC advice.* STR,<sup>7</sup> Labor, Commerce support. (In this case we would come back to you this summer when the time seems right.)

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<sup>6</sup> Carter indicated his approval of this option.

<sup>7</sup> In a May 13 memorandum to Carter, under cover of which he forwarded Blumenthal's EPG memorandum, Watson noted that he had not forwarded to Carter a memorandum to him from Strauss on specialty steel, believing that "Bob's view that the request for I.T.C. advice should be deferred is fully and fairly presented in the EPG memorandum." (Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 284, Steel/Chrome (CF, O/A 24) (4)) A copy of Strauss' May 12 memorandum to Carter

*Procedure*

If you choose to make an immediate request for USITC advice, you may either make the request directly to the USITC, or indirectly, by directing the Special Trade Representative (STR) to take such action on your behalf. A request to the USITC made by the STR might draw less adverse domestic union and industry attention to this study than would a Presidential request.

1. President to sign letters.
2. Ambassador Strauss to sign.<sup>8</sup>

Bob Strauss has provided alternative draft letters (either for your signature or Strauss') to the Chairman of the USITC and letters requesting the advice of the Secretaries of Commerce and Labor (Tab 1).<sup>9</sup>

For your information a copy of the STR memorandum to the Economic Policy Group on this subject is attached (Tab 2).<sup>10</sup>

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on specialty steel import quotas is in the National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 7, Steel File #1.

<sup>8</sup> Carter indicated his approval of this option.

<sup>9</sup> Not attached.

<sup>10</sup> Not attached and not further identified. In his May 13 memorandum to Carter forwarding Blumenthal's EPG memorandum, Watson noted that he had not forwarded "a lengthy memorandum and statistical document prepared by the Trade Policy Staff Committee, a copy of which was originally attached to the EPG memorandum." However, reference may also be to an April 29 memorandum from Strauss to the EPG entitled "Status Report on Specialty Steel Quotas and Steel Trade Issues," a copy of which is in the National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 7, Steel File #1.

### 30. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) to President Carter<sup>1</sup>

Washington, May 14, 1977

#### SUBJECT

Response to your request for possible Presidential action to show concern over recent steel price hikes

At your request I have pulled together potential steps which you might take to put pressure on the domestic steel industry to reduce their recent price hikes.<sup>2</sup> Memoranda for you, done at my request, are attached from Chairman Schultze (Tab A) and Ambassador Strauss (Tab B).<sup>3</sup> Both of these memoranda make the following points:

—While your leverage as President on the steel industry (other than through jawboning) is limited in the international trade area, there are some actions which could be taken.

1) Tariff Reductions under The Trade Act must be negotiated. Tariffs for major steel products are already very low and are not presently an effective barrier against imports even at this time. The United States would receive little practical benefit in return.<sup>4</sup> Nevertheless, an

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<sup>1</sup> Source: Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 284, Steel/Chrome (CF, O/A 24) (4). No classification marking. A stamped notation reads: "The President has seen." Carter initialed "C" at the top of the page and wrote "Stu."

<sup>2</sup> On May 6, the Republic Steel Corporation and the Youngstown Sheet and Tube Company announced that they would raise their steel prices by 6.8 percent to 8.8 percent. On May 9, the United States Steel Corporation, the largest steel producer in the United States, announced that it would raise selected prices by an average of 6 percent. The following day, the National Steel Corporation also announced a 6 percent average price increase. On May 10 and 11, the Youngstown Sheet and Tube Company and the Republic Steel Corporation, respectively, announced that they would reduce their price increases to the 6 percent range. On May 12, three more companies, including the Bethlehem Steel Corporation, announced that they too would raise selected steel prices by 6 percent. (Gene Smith, "Two Steel Companies Lift Prices Sharply; U.S. Agency Critical," *The New York Times*, May 7, 1977, p. 1; Gene Smith, "U.S. Steel to Lift Prices an Average 6%," *The New York Times*, May 10, 1977, p. 41; Gene Smith, "National's 6% Price Increase Follows U.S. Steel Move," *The New York Times*, May 11, 1977, p. D1; Gene Smith, "6% Steel Price Rise Prevailing; 'Voluntary' Move Hailed by U.S.," *The New York Times*, May 12, 1977, p. 1; and "Bethlehem and 2 Others Join Rise In Steel Prices by 6% for June 19," *The New York Times*, May 13, 1977, p. D5)

<sup>3</sup> Both tabs are attached but not printed. Tab A is a May 12 memorandum from Schultze to Carter. Tab B is a May 13 memorandum from Strauss to Carter.

<sup>4</sup> In his May 13 memorandum to Carter, attached at Tab B, Strauss asserted that while it would "be relatively easy to negotiate" a trade agreement involving the reduction of U.S. steel tariffs, "unless there were reciprocal benefits to the United States we would be under serious criticism by the Congress for giving up negotiating leverage in the multilateral trade negotiations."

indication of the fact you are looking into this area *might* send out some chilling signals to the steel industry.

2) Quotas on specialty steel also have little impact on U.S. steel imports since such quotas cover only 2 percent of the total. In order to further reduce these quotas, you must ask for advice from the International Trade Commission. The EPG will recommend to you in a memorandum you will shortly receive, that you ask the ITC to formally review the import quotas.<sup>5</sup> This will send a clear signal (one, I might add, which both labor and industry will vigorously oppose), but the impact on the major steel companies who have recently raised their prices will be minimal since specialty steel accounts for such a small percentage of total industry shipments and revenues and is produced by such a relatively small and specialized group of firms. This would, therefore, have little impact on the larger steel companies such as U.S. Steel and Republic Steel Company, which recently raised their prices. It might have an impact on the specialty steel producers who have announced price increases of 8 percent on their production since May 2.<sup>6</sup>

3) You could indicate that you are considering reducing the "Buy America" preference which U.S. steel producers have in light of their price increases. However, government purchases of steel mill products are not a large portion of the U.S. steel market and, as Ambassador Strauss points out, such reductions might reduce our negotiating leverage in the multilateral trade negotiations as well as with Congress.

4) One other potential action not mentioned in either memorandum is with respect to the 301 Case that the steel industry is presently arguing before the Special Trade Representative.<sup>7</sup> Their argument is that the steel agreement between Japan and the European community is hurting the U.S. industry by directing Japanese steel exports from the European community to the United States and that the U.S. should therefore retaliate. There is some question as to whether the domestic industry has proven its case. You might consider an indication that the STR does not at this time look favorably on the industry's petition and that recent inflationary price rises indicate that the industry apparently is not really feeling the impact of increased Japanese competition.

I would recommend that before you consider any of the potential steps outlined herein and in the memoranda, that you have a meeting with Secretary Blumenthal, Ambassador Strauss, Chairman Schultze

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<sup>5</sup> See Document 29.

<sup>6</sup> Carter highlighted the final three lines of this paragraph, beginning with "raised their prices" to the end of the paragraph. He also wrote "Sounds best" in the margin adjacent to this paragraph.

<sup>7</sup> Reference is to Section 301 of the 1974 Trade Act; see footnote 3, Document 4.

and Director Lance. In addition, the Congressional leadership should be informed before any such steps are taken.<sup>8</sup>

You should be certain that the 6 percent increase is not fully justified. According to Mr. Schultze's memorandum, an analysis by the Council on Wage and Price Stability indicates cost increases in recent years have not been recovered by price increases and that a 6 percent or higher price rise would be necessary to recover those costs. Of course, the sacrifices which must be made in the fight against inflation must begin somewhere, and price increases such as this in the steel industry will have a ripple effect throughout the economy.

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<sup>8</sup> Carter wrote "I agree" in the margin adjacent to this paragraph.

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### **31. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>**

Washington, May 17, 1977

#### SUBJECT

Color Television Receiver Agreement with Japan

We have successfully negotiated an agreement with the Government of Japan on color television receivers which I believe will alleviate the problems of the domestic unions and industry while not impairing Japanese participation or generating inflationary pressures in the U.S. market.<sup>2</sup>

The agreement provides for exports of complete and incomplete (meaning almost complete) color television receivers in the amount of 1.75 million per year from July 1, 1977 through June 30, 1980. While these levels appear to be a significant cutback from 1976 imports of around 2.6 million they are more than 50 percent above 1972–75 average annual import levels and, in fact, there is very little restrictive ef-

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 25, 5/19/77 [2]. Confidential.

<sup>2</sup> A May 17 memorandum from Schultze to Carter entitled "Import Relief for the Color Television Industry," a May 18 memorandum from Blumenthal to Carter entitled "Orderly Marketing Arrangement for Color TV's," and a May 19 memorandum from Eizenstat and Ginsburg to Carter entitled "Orderly Marketing Agreement For Color TVs" are all *ibid.*

fect in terms of the impact on the U.S. market. The Japanese industry has admitted on the public record that a significant part of the growth of imports in 1976 was due to inventory buildup. Our estimates suggest that 500–700 thousand receivers imported in 1976 went into inventories. Thus the impact of Japanese imports in the U.S. market in 1976 was on the order of two million receivers or less. The replacement of complete set imports by sets assembled by Japanese subsidiaries in the United States should be on the order of 400 thousand receivers in 1977 so that a level of 1.6 million receivers imported from Japan in 1977 would have essentially the same impact as 1976.

We estimate that 1977 imports from Japan will be on the order of two million receivers representing substantial growth in Japanese imports in the market as compared with 1976 even if Japanese affiliate production is not counted. Japanese participation will be even higher than the import level suggests due to inventory buildup prior to the effectiveness of the agreement on July 1, 1977 and inventory drawdown after that date. We believe several hundred thousand receivers have been stocked at a minimum, in anticipation of restrictions.

#### *Impact on Japan*

The Japanese apparently feel that the agreed levels will be sufficient to permit them to participate in an acceptable way in the U.S. market. The Japanese predict that their own television industry will move off shore over the next five years. There will be three incentives for the Japanese to come into the United States to invest in assembly operations: (1) quantitative restrictions in the agreement; (2) the potential antidumping duty liability (now requiring posting of a 20 percent bond); and (3) potential countervailing duty liability (now requiring posting of a 15 percent bond). The Japanese were offered an option that provided a slightly smaller first year restraint level than 1.75 million but with growth in later years; however, they preferred the current deal.

Three companies are already operating in the United States and these firms will be expanding production in 1977 and 1978. Two other Japanese companies are on the verge of starting production in the United States and are likely to make substantial additions to domestic production capacity in the United States.

As the definition used for the scope of the agreement will permit importation of Japanese components and subassemblies without restriction, there will be no pressure on domestic U.S. capacity in these areas and the Japanese firms will still realize substantial labor input in their own country.

#### *Impact on U.S. Industry and Unions*

The level of restraint in the agreement is well above that requested by the domestic industry and unions but can be sold to them on the

grounds that they will enjoy the benefits of growth in the domestic color television market. The unions will benefit even where such growth is a result of the operation of Japanese affiliates since such affiliates will generate substantial labor content in the United States. The risk for domestic producers will be that the market will not increase as expected due either to economic problems (which seem unlikely) or competition for the consumer dollar by other products such as video recorders.

In addition to this problem, the risk for unions is that American companies will continue to move their component and subassembly operations off shore. This is an inevitable trend in the industry but its effects will be moderated by the agreement because Japanese companies will be locating assembly plants in the United States.

I believe this agreement can be successfully sold to the domestic industry and unions and I would expect only mild Congressional reaction, if any.

The unions will privately be pleased and publicly say "while it's a good step in the right direction it should have gone farther in reducing imports."

#### *Effect on Consumers*

We would expect only minimal effects on the pricing and availability of color television receivers as the result of the orderly marketing agreement for the following reasons:

1. There is considerable excess capacity domestically (e.g. about 30 percent in 1976).

2. We expect that capacity and production will be expanded by Japanese firms in the United States in the near future and expansions by domestic producers would also be likely. The lead time for such investments is relatively short because of the assembly nature of TV receiver production.

3. Imports from countries other than Japan will be permitted to increase so long as Japanese producers are not disadvantaged. The United States Government will determine if restrictions on such imports are appropriate.

4. We estimate that there are substantial excessive inventories at both wholesale and retail levels in the near term which will assure adequate supplies under expected market conditions. There is also the one million sets coming in prior to the effective date of the agreement (from Jan. 1, 77 to Apr. 1, 77).

5. We will monitor prices and market conditions throughout the period of the agreement and can liberalize or terminate the agreement if conditions warrant such actions.

*Status*

The Japanese are prepared to sign this agreement on May 20 following authorization by their cabinet and by you to proceed. I am convinced that this is a fair and balanced agreement which can be accepted by the Japanese and our domestic interests.

Attached is a description of the elements of the draft agreement which has been initialed on an ad referendum basis (Attachment A).<sup>3</sup>

Your decision is required by May 21, 1977 and I would need your authorization to sign the agreement by the 19th of May. A directive to me implementing this recommendation is provided in Attachment B.<sup>4</sup>

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<sup>3</sup> Tab A, attached but not printed, is an undated paper entitled "Elements of Color TV Agreement with Japan."

<sup>4</sup> Tab B, attached but not printed, is an undated memorandum entitled "Decision Memorandum on Television Receivers." The Decision Memorandum, May 19, is printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 936–937.

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## 32. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, May 23, 1977

### SUBJECT

Footwear Agreements

Pursuant to your directive of April 1,<sup>2</sup> we have negotiated orderly marketing agreements with the Republic of China and the Republic of Korea to moderate the problems caused to our domestic footwear manufacturers, workers, and communities by rapid shifts in foreign exports to this country of non-rubber footwear. Since practically all of the increase in imports was attributable to Taiwan (which increased its exports to the United States from 88 to 156 million pairs from 1974 to 1976) and to Korea (which increased its exports to the United States from 9 to 44 million pairs from 1974 to 1976), the negotiations have been limited to these two countries.

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 4, Footwear 1977. Confidential. Sent to Carter under cover of a June 1 memorandum from Watson. (Ibid.)

<sup>2</sup> See Document 17.



Under the law, your decision of April 1 to grant import relief must be made effective by having trade measures in place no later than June 30. If you approve, I plan to sign agreements with these two countries prior to June 1, if possible.

Both agreements cover a four-year period, starting June 28, 1977. Under the agreements, exports from Taiwan will be limited to 122, 125, 128, and 131 million pairs per year for the next four years, and from Korea to 33, 36.5, 37.5 and 38 million pairs per year. More liberal growth may be provided after the second year if the domestic industry recovers sufficiently.

All footwear on which the U.S. International Trade Commission (USITC) found injury is covered by the agreements except felt boot liners, a non-footwear item that is restricted under the bilateral textile agreements. Subceilings, by type of material in the case of Taiwan and mainly by type of footwear in the case of Korea, are provided in order to prevent shifts into higher-priced shoes or disruptive bunching in particular categories.

In general, the agreements are viewed favorably by the shoe manufacturers, shoe unions (which are small) and workers, and by the Hill. Some concern has been expressed about their effective implementation and about the possibility of disruptive imports from other countries. Concern has also been voiced by importers and retailers about inflationary effects, which we think will be moderate. Although none of the domestic interests are completely satisfied, I think that all can live with these agreements.

Additional background information is contained in Tab A. The principal provisions of the agreements are summarized in Tab B.<sup>3</sup>

#### *ACTION REQUESTED*

Representatives of Taiwan and Korea will seek authorization to sign the agreements as soon as they are advised that we are prepared to proceed. They have indicated that they believe such authorization could be obtained within a few days.

I believe the agreements provide a fair and balanced solution to our footwear problems, consistent with the guidelines in your directive. I have requested an Economic Policy Group meeting on this subject for Wednesday<sup>4</sup> afternoon so that interested agencies will have an opportunity to raise any concerns that they may have prior to your decision. Overall, I believe there will only be mild objection from any

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<sup>3</sup> Tabs A and B are attached but not printed. Tab A is an undated background paper. Tab B is an undated paper entitled "Principal Provisions of the Agreements with the Republic of China (ROC) and the Republic of Korea (ROK)."

<sup>4</sup> May 25.

source. Moreover, the European Community (EC), Brazil, Spain and other nations are exceedingly pleased that we have dealt with this problem in this limited fashion.

A Presidential Proclamation implementing the import relief is also being prepared for your signature. The Proclamation will be submitted to you after we have obtained Justice Department clearance.

Proceed to sign the agreements as indicated above:<sup>5</sup>

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<sup>5</sup> Carter indicated his approval of this option and initialed "JC." See footnote 4, Document 33.

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### 33. Memorandum From the Chairman of the Economic Policy Group (Blumenthal) to President Carter<sup>1</sup>

Washington, May 31, 1977

#### SUBJECT

Footwear Agreements

Ambassador Strauss has negotiated orderly marketing agreements (OMA) with Taiwan and Korea on non-rubber footwear. In a separate memorandum he has described the details of these OMAs.<sup>2</sup> Both agreements cover a four-year period starting June 28, 1977. Over these four years the average monthly exports of non-rubber footwear from the two countries will average 13.6 million pairs or 17% below the 1976 level.

Concerning *economic impact*, STR estimates that these agreements could create 25,000 jobs by 1978 and generate about 3.4% increase in consumer costs or an average of around 44 cents per pair of shoes at the retail level. CEA estimates of the inflationary impact are considerably higher. However, both agencies emphasize that these estimates involve assumptions that are subject to a wide range of error.

*The OMAs have been reviewed by the EPG members and all support them.*

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<sup>1</sup> Source: National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 4, Footwear 1977. No classification marking. Sent to Carter under cover of a June 1 memorandum from Watson. (Ibid.)

<sup>2</sup> See Document 32.

One issue has been raised, however, concerning the proclamation of import relief. *Treasury, CEA and OMB recommend that as part of your proclamation, you request U.S. International Trade Commission advice on liberalization of import relief by March 1979*, in time for possible action at the end of the second year. They argue that since a USITC study is required by law before you can liberalize an OMA, it is important that the USITC advice is delivered before April 1979, when U.S. consultations with Korea and Taiwan will take place as specified in the OMAs. The information and advice provided by the ITC may then be drawn upon in determining what, if any, liberalization is warranted at that time. These agencies believe that calling now for a USITC investigation may be politically more feasible than doing so in the spring of 1979 and would therefore insure that a review does take place. They also argue that in conjunction with the announcement of an OMA, a call now for USITC review would demonstrate your determination to closely monitor the impact of trade restrictions on consumers and inflation.<sup>3</sup>

*STR, State, Commerce and Labor oppose your making a commitment now on a future USITC review.* They believe it would prejudge economic conditions in 1979; that it would therefore be inconsistent with the Congressional intent that such reports only be made when it appears that modification or termination of relief may be warranted; and that it could commit you to a course of action you might not want to take in 1979. They argue that the announcement now to seek USITC review later would be interpreted as an indication that you do not intend to maintain a meaningful level of import relief for more than two years; hence, they consider it likely that this action will lose industry and labor support and lead to a Congressional override. Furthermore, they are skeptical that investment for needed structural adjustment would be forthcoming if it appeared that imports would again threaten the industry within two years.

### *Decisions*

1. *That you approve the agreements with Taiwan and Korea negotiated by Strauss.* (All EPG members support.)<sup>4</sup>

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<sup>3</sup> In a May 31 memorandum to Carter, Blumenthal discussed his support, as Secretary of the Treasury, for an immediate USITC review request in greater detail; Watson sent Blumenthal's memorandum to Carter under cover of his June 1 memorandum (see footnote 1 above).

<sup>4</sup> Carter indicated his approval of this recommendation. The White House announced on June 14 the signing of a 4-year Orderly Marketing Arrangement between the United States and the Republic of China on shoe imports. See *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 1113–1115. The U.S.–ROK OMA was signed on June 21. For the text of Presidential Proclamation 4510 issued on June 22 on the "Implementation of Orderly Marketing Agreements—and the Temporary Quantitative Limitation on the Importation Into the United States of Certain Footwear," see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 1148–1151.

2. That the proclamation for import relief call for USITC review and advice by March 1979. (Treasury, CEA and OMB support; STR, State, Labor and Commerce oppose.)<sup>5</sup>

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<sup>5</sup> Carter indicated his disapproval of this recommendation.

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### 34. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, June 24, 1977

#### SUBJECT

Cargo Preference Legislation<sup>2</sup>

Stu Eizenstat and I have met at length with Senator Long on this issue. I have taken indirect soundings of the leadership of the unions, and talked with others on the Hill. Blackwell of the Maritime Administration believes our labor soundings are accurate.

Politically, something in the way of a Cargo Preference is going to be very hard to resist. Other options don't serve or satisfy the political need, and might even be counterproductive. The unions certainly feel that the Administration is committed to a Cargo Preference Policy.

The Maritime unions claim that a Cargo Preference Act is essential to the future of the U.S. Merchant Fleet and the security of the United States. Other remedies such as those proposed in the several option papers which have been circulated,<sup>3</sup> in their view, do not suit this purpose and are seen either as entirely insufficient or a policy action contrary to their interests. They believe that the Cargo Preference policy will protect seafaring jobs for U.S. sailors and provide substantial on-shore employment in shipyards around America. (They point to the substantial numbers of minority employment in today's shipyards as evidence that the jobs created on-shore would go where the need is greatest.)

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<sup>1</sup> Source: National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 2, Cargo Preferences. No classification marking. Drafted by Strauss and Wolff. A typed note on the last page reads: "By hand to White House 6/24/77."

<sup>2</sup> See Documents 7 and 13.

<sup>3</sup> Not further identified.

What we have determined is that establishing the concept of *Cargo Preferences* is more important than the percentage. When Eizenstat and I met with Russell Long, we finally convinced him of this and left him in the political posture of “anything you fellows can satisfy Jesse Calhoun<sup>4</sup> with, I will take and support.” I believe we can successfully sell less than ten percent preferences stretched out over five or six years and try to get the Hill and the Union committed to this if you desire to go the *Cargo Preference* route. In short, what we have accomplished is determining that the *concept* is far more important than the percentage.

This memorandum is *not* an attempt to justify *Cargo Preferences* over other options. It is intended to provide you with a least possible option at an *initial*, relatively modest cost. There are other memoranda presently before you relating to inflationary and trade aspects.<sup>5</sup> I would be glad to discuss these options with you personally if you desire. It is my personal opinion that we have a day or two “bad story” situation following any available option.

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<sup>4</sup> Jesse Calhoun was the President of the Marine Engineers Beneficial Association.

<sup>5</sup> Not further identified.

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### 35. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, June 29, 1977

SUBJECT

Summit Follow-Up and Chancellor Schmidt

Some issues loom on Summit follow-up. I am writing you about them now, since you may want to raise them during Chancellor Schmidt’s visit.

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 63, PRC 023, 7/9/77, Schmidt Visit. Confidential. Carter wrote at the top of the page: “Zbig—Include items on Schmidt agenda. J.”

1. *Growth Targets.* At the Summit weaker countries committed themselves to effective stabilization policies, and they seem to be fulfilling this commitment. The US, Japan, and Germany committed themselves to achieve their growth targets for 1977, and to adopt further policies, if needed, to this end and to correct trade imbalances. This meant 5% growth for the US, 4½ to 5% for Germany, and 6.7% for Japan.

The US is likely to hit its target, or close to it. German government officials are now talking of 4–4.5% growth in 1977; Treasury estimates that there may be a significantly lower growth rate for 1978 unless additional measures are taken by Germany well before the end of this year. Japanese officials still talk of achieving close to 6.7% growth in 1977. Japan is running a large trade surplus, however, and recent figures on the German trade surplus are also disquieting.

At the recent OECD meeting,<sup>2</sup> the German and Japanese governments indicated that they took their Summit commitments seriously and were seeking to achieve their targets. We have some influence with both and we should use it to reinforce their willingness to adopt needed policies, which would have an effect in 1978, if not before. It is important that we do this in order to:

—Create an economic environment in which worldwide economic growth can proceed and the US trade deficit can be reduced.

—Meet concerns of the UK, France, and Italy, which have kept their part of the bargain and are relying on the stronger economies to keep theirs.

—Maintain our credibility with the US media, to which the importance of these Summit growth commitments was stressed in high-level London briefings.

On the other hand, we do not want to go back to the situation that existed earlier this year, when German officials, from the Chancellor on down, felt that they were being subjected to undue US public pressure on economic policy. A tactful approach might be for you to tell the Chancellor about the measures that the US is taking to ensure fulfillment of the US Summit growth target (5% in 1977), and indicate why you think it is important to achieve this target. This would set the stage for asking what the prospects are for fulfillment of the German target, what additional measures the Chancellor has in mind if German growth seems likely to fall below 4.5% in 1977 or 1978, and how he ex-

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<sup>2</sup> The OECD Ministerial meeting took place in Paris June 23–24. For remarks made by Vance and Blumenthal at the meeting and at a joint press conference after the meeting, see the Department of State *Bulletin*, July 25, 1977, pp. 105–117. The final communiqué, June 24, and a Declaration on Relations With Developing Countries, June 23, are *ibid.*, pp. 118–120.

pects to reduce the German trade surplus in order to fulfill the Summit commitment “to contribute to the adjustment of trade imbalances”.

2. *Trade*. The Summit Declaration says that “We will seek this year to achieve substantive progress in such key areas as:

- “(i) A *tariff* reduction plan of broadest possible application . . .
- “(ii) Codes, agreements, and other measures that will facilitate a significant reduction of *non-tariff* barriers . . .
- “(iii) A mutually acceptable approach to *agriculture* . . .”

Bob Strauss is about to initiate discussions with the European Community, Japan, and Canada about means of achieving these goals. The outcome will depend critically on the European reaction. Jenkins has asked me to let you know that he is prepared to play a personal role in this matter.<sup>3</sup> Whether he can achieve a European Community consensus in favor of progress will depend partly on how much pressure the Federal Republic exerts on its weaker and more reluctant Community partners, particularly France.

You may want to remind Schmidt of the concern which you voiced at the Summit that if progress is *not* achieved in trade negotiations, protectionist pressures will grow in this country as well as abroad. You might express your hope that he will exert his personal leadership in the European Community to achieve that progress—just as you have exerted your leadership to restrain protectionist pressures in the US.

I doubt that the Chancellor will resent the approaches proposed above. He is strongly interested in economic problems; US officials have spoken recently to German officials of our concerns about growth and trade; he will expect the same issues to be discussed with him.

I gather Schmidt may propose another Summit for February. From the standpoint of substance (and weather) April and May would be better, but he and Giscard may figure that a meeting just before the French election would be politically helpful.<sup>4</sup> We should go along.

Meanwhile, we are making progress on other aspects of Summit follow-up:

The recent OECD Ministerial Meeting agreed that a high-level conference on *youth unemployment* should be held by the end of the year.

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<sup>3</sup> In a June 20 memorandum to Carter, Owen noted that Jenkins had asked him to thank Carter for supporting EC participation at the London G-7 Summit; Jenkins also wanted Carter to “know that he will take a personal interest in the Tokyo Round.” Owen reported that he had requested that Jenkins “do just this—since only his leadership could persuade the Community bureaucracy to cooperate with us in trying to get the trade negotiations moving. His agreement to do this is partly a response to your support for Community representation at the Downing Street Summit.” (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 17, European Communities: 3/77-3/80)

<sup>4</sup> Elections for the French National Assembly took place on March 12 and 19, 1978.

—Negotiations regarding the *IMF expansion* are going forward.

—We are now trying to get ECOSOC to convene a diplomatic conference this fall to conclude an agreement banning *illicit payments* in 1978.<sup>5</sup> In the pre-Summit ECOSOC working group, some of our European partners—especially the Germans—were lukewarm. We will need their support, and *you may want to mention this to Schmidt*. At the recent OECD meeting French opposition was evident.

—The international agreement on guidelines for *export credits* was renewed for another six months, and we will use this period to try to strengthen and extend these guidelines.

—A ministerial meeting of the *International Energy Agency* will be held this fall,<sup>6</sup> at which the US will seek (i) concrete commitments to hold total oil import demand by member countries to not more than 26 million barrels per day by 1985; (ii) agreement on means of eliminating wasteful use of energy, greater coal utilization, expansion of nuclear power and appropriate controls, and increased research energy and development; (iii) agreement to review annually these group objectives and the contribution of each country toward achieving them. (State and ERDA are presently working with an IEA committee to develop specific joint projects in the areas of coal refining and solar and wind energy, and it is expected that these projects will be ready for approval at the fall Ministerial meeting.)

—You are familiar with the situation on the *nuclear study*.

—The North-South Summit items are moving forward, and you might want to mention to Schmidt your hope that the key industrial nations will continue to concert closely in this field. The *World Bank general capital increase* negotiations will probably begin in September. The *substantial increase in US aid* hinges on the inside and outside reviews of US aid now underway. The *World Development Program* to examine what is being done and needs to be done to spur development is now being launched by the World Bank staff. Work within the USG on the *common fund* proposal is being completed. The study of *export price stabilization* will probably be launched by the International Development

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<sup>5</sup> On the afternoon of May 8, during the Summit's final session, Carter said in reference to the Joint Declaration: "I think we need something on irregular practices in trade to avoid bribery. I would like to have your support." Giscard replied: "I have had problems with the questions of Swiss secrecy on foreign assets. This is also an irregular practice. Is this referred to?" Carter responded: "I was referring to an international effort now taking place in the US [UN]." Schmidt commented: "I think we should have this here. I have a lot of headaches with banks in the Caribbean and Lipinstein [Lichtenstein?]." (Minutes of the London Economic Summit, May 8; Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 27, Summit: London: 5/77)

<sup>6</sup> The IEA Ministerial Council met in Paris October 5–6; see *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 129.



Committee, which is chaired by the World Bank and IMF, in September. This study will consider a possible increase in IMF compensatory financing, as well as Chancellor Schmidt's favorite STABEX scheme, of which State and Treasury take a dim view.

In all of this follow-up, Tony Solomon in Treasury, Dick Cooper at State, and Bob Strauss have been extremely helpful, as has Bob Hormats of the NSC staff. Each of these agencies takes its responsibilities for follow-up seriously and is working hard at it. Treasury is now putting together estimates of growth and trade imbalances for each of the Summit nations, which we will be sending you later.

Effective follow-up requires comparable action by the other governments, as well. I am proposing to my colleagues in the other six Summit governments that we meet at the end of September in Washington to review Summit implementation. Whether we have a good story to tell them will depend, in part, on what the strongest non-US country, Germany, does about some of the items indicated above. We cannot compel the Germans to do anything that they do not want to do. But they share with us an interest in a strong world economy and in maintaining the integrity of the Summit process; they know people will not take the next Summit, which they will host, seriously if progress has not been made in fulfilling decisions of the last Summit. The emphasis that you placed at London on effective follow-up was justified. Your conversations with Schmidt could be an important part of this process.

**36. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, June 30, 1977

SUBJECT

Steel Industry's Request for Import Quotas

The presidents of 8 steel companies lunched with Bob Strauss today, and laid on the table their specific proposals for resolving their complaint under Section 301 of the Trade Act.<sup>2</sup>

Their primary demand was for immediate imposition of import quotas against all major and minor suppliers. Specifically, they want to roll back Japanese sales from the current level of 8 million tons per year to 5 million tons.

The industries claimed that 3 steel firms will fail in the absence of such action. As far as I am aware, there was no discussion of pricing policy.

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977-1979, Box 1, FT-9 Manufactured Products 1977. Confidential; Nodis. Reviewed by Hessler and the Executive Secretariat on July 1. Copies were sent to Solomon and Brill. A typed notation at the top of the page reads: "Noted by W.M.B."

<sup>2</sup> No memorandum of conversation of this meeting was found, but see Document 51. Regarding the steel industry's case, see Document 30 and footnote 7 thereto.

**37. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>**

Washington, July 1, 1977

## SUBJECT

The U.S. Trade Balance

Our analysis of the U.S. trade balance indicates the following:

A. *The Facts*

The U.S. trade balance will be in deficit by at least \$25 billion in 1977, an increase of some \$16 billion from last year. The deficit in 1978 may be as high or higher. Since we will be paying some \$45 billion for fuel imports this year, we will have a *surplus* of \$20 billion on all other trade. The reasons for this large deficit are several. Major factors include:

1. A substantial increase in our oil import bill. About 40% of the increase in the deficit between 1976 and 1977 is accounted for by our trade with the OPEC nations.

2. Differential rates of growth in the U.S. compared with many of our traditional markets. As we grow faster, we import more. Since our markets abroad are showing only sluggish growth, our exports also will increase less rapidly.

3. Higher food prices and slower growth in the developing countries, particularly those in Latin America, account for 40% of the deterioration in the U.S. trade account between 1976 and 1977. Mexico and Brazil, both of whom have embarked on stabilization programs, account for 20% of the swing.

There is no evidence that our basic export competitive position has declined. The swings are on the import side. In addition, the U.S. has a large and growing surplus on international services, primarily due to large receipts of income from our foreign investments. This surplus offsets part of the trade deficit—thus the current account balance, which includes both trade and services, is expected to show a deficit of about \$12 billion this year.

B. *Am I concerned about this situation?* There is reason to be concerned—but more for political and psychological reasons than for economical ones.

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 88, Trade Deficit [1]. No classification marking. Watson forwarded the memorandum to Carter, with copies to Lance, Schultze, and Cooper, under cover of a July 6 memorandum. (Ibid.)

1. Such large imbalances may “weaken” the dollar. While a fall in the exchange rate in the dollar strengthens U.S. competitiveness and thus reduces excessive trade and current account deficits, this downward movement of the exchange rate is disturbing to some.

2. It gives ammunition to protectionists and special interest groups.

3. To some observers such a large deficit just plain looks bad. This view of trade deficits is deeply ingrained in the conventional wisdom. The purely economic effects—on U.S. output and employment—appear to be negligible and thus not worrisome, at least in the short run.

### C. *What Should We Do?*

1. We should indicate concern and watchful alertness, avoiding any appearance of complacency or inaction. At the same time, we should take every public opportunity to put the situation into proper perspective.

2. We should stress export promotion and financing even though this is unlikely to have significant effects. We should look into possibilities for stimulating exports of agricultural products.

3. We should encourage the strong countries to take action to reduce their current account surpluses, by appropriate exchange rate policies and domestic economic expansion—as was agreed at the Summit. In this respect, recent statements by Prime Minister Fukuda have been encouraging<sup>2</sup>—but this will not have a big impact on our deficit in the short run. Also we should seek to promote sustainable expansion in the LDCs to maintain or increase their import capacity.

There are several things we should *not* do:

1. We should not implement protectionist measures.

2. We should not attempt to artificially depreciate the exchange rate, in violation of international agreements we have taken the lead in negotiating. This probably would not work in any case since others would merely follow suit.

In the final analysis, the basis of our trade “problem” is energy. There is a world oil trade deficit that must be shared until it is eliminated. An effective U.S. energy policy is the key to reducing this deficit,

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<sup>2</sup> Not further identified. In telegram 9730 from Tokyo, June 29, the Embassy noted, among other indications, Japanese press reports on “Fukuda’s consultations with his economic ministers on how to achieve Japan’s GNP growth goals and how to cope with persistent criticism from abroad of Japan’s trade and current account surpluses,” and suggested that “a consensus for a more responsible Japanese trade policy appears to be firming up.” (National Archives, RG 59, Central Foreign Policy File, D770231–1232)

and reasonable expansion by our partners abroad will contribute to a better sharing of the deficit.

W. Michael Blumenthal<sup>3</sup>

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<sup>3</sup> Blumenthal signed “Mike” above this typed signature.

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**38. Memorandum From the President’s Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, July 5, 1977

SUBJECT

Cargo Preferences

I have just received Stu Eizenstat’s memo (Tab A) on which you approved a scaled-down version of cargo preferences.<sup>2</sup> Obviously, there are important domestic policy considerations at stake. But, your decision will also have significant foreign repercussions which I do not believe were adequately spelled out in the Eizenstat memo:

—Our trading partners, particularly the Europeans, will see cargo preferences as a protectionist device. It will raise doubts about your commitment to an open world trading system and to the London Summit Declaration. As you may recall, Prime Minister Nordli told you in London of the serious impact cargo preferences would have on Norway.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 89, Economic Policy Group: 1977. Confidential. Hormats sent the memorandum to Brzezinski for his signature under cover of a July 1 memorandum. (Ibid.)

<sup>2</sup> Tab A is not attached. In his July 1 cover memorandum to Brzezinski (see footnote 1 above), Hormats wrote: “The President has decided to go ahead with a modified cargo preference scheme recommended by Stu Eizenstat. His note on Eizenstat’s memo (Tab A), which we have *never received* (we had to obtain this from the EPG), indicates that Bob Strauss should work with the unions and Congress to obtain agreement on the ‘minimum’ acceptable level of preference.” A June 23 memorandum from Eizenstat and Bill Johnston to Carter entitled “Cargo Preference” is in the Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 89, Economic Policy Group: 1977.

<sup>3</sup> Carter met with Nordli in London from 2:30 until 2:45 p.m. on May 10. (Carter Library, Presidential Materials, President’s Daily Diary)

—Unemployment and inflation in Europe remain very high; governments in power are weak. Leaders are under increasing pressure to adopt trade restrictions to protect jobs at home. The heads of state of the EC Nine last week issued a statement expressing concern about high unemployment and asked for a study recommending measures to deal with five sensitive industries, including shipbuilding.<sup>4</sup> Adoption of cargo preferences by the US will further weaken their resolve to resist demands for protection. Instead, they may emulate our actions. The result would be disastrous for world trade.

—As Bob Strauss indicates, the *concept* of preferences is more important than the actual *percentage* offered.<sup>5</sup> From the standpoint of US trade policy, a 10% preference is as damaging as 25%. It breaches treaties with 30 countries. Moreover, once we have started down the preference road, it will become increasingly difficult to draw the line. The maritime industry will push for more. A 10% preference will merely open the door.

—Commerce and Labor recommend that you defend this action on national security grounds—i. e. that US flag ships will be more reliable than foreign ships in emergencies. State, Defense and I disagree. We believe that it is more probable that in an emergency foreign ports would be closed to US flag ships.

I urge you to reexamine your decision in light of these considerations; my concern is shared by State, Treasury, OMB and CEA.

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<sup>4</sup> The EC Council met in London June 29–30. Telegram 10953 from London, July 1, contains the text of the statement on growth, inflation, and employment issued at the conclusion of the meeting. (National Archives, RG 59, Central Foreign Policy File, D770235–0992)

<sup>5</sup> See Document 34.

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### 39. Editorial Note

In his July 7, 1977, Evening Report to President Jimmy Carter, Secretary of State Cyrus Vance discussed the oil cargo preference issue: “We have called in officials from the embassies of the major shipping nations this afternoon and informed them of our decision to support an oil cargo preference. We told them that their representations had been carefully considered but that because of domestic employment considerations it is necessary for us to support a limited oil cargo preference. We emphasized that given current projections of US oil imports and

other demands for US-flag tankers, the proposed level of cargo preference would not create a demand for new US tanker tonnage which would adversely affect the current world tanker surplus. Embassy representatives were unhappy and recalled our London summit pledge to reject protectionist measures. We have undertaken an urgent review of how to deal with the problems which the preference measure poses for our Treaties of Friendship, Commerce and Navigation." In the margin adjacent to this portion of Vance's report, Carter wrote: "This is my decision. We'll just have to make the best of it." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 18, Evening Reports (State): 7/77)

On July 11, the administration announced that it would support the introduction of cargo preferences. The preferences were to be phased in over a 5-year period, increasing 1 percent per year from an initial rate of 4.5 percent, so that by 1982 9.5 percent of all U.S. oil imports were to be carried in U.S. ships. ("Carter Would Ship More Imported Oil On Tankers of U.S.," *The New York Times*, July 12, 1977, page 39) Carter's support for cargo preferences proved controversial. Republicans charged that the decision was motivated more by politics than by the national interest and that it represented "a blatant political payoff" for the political and financial support Carter received from the maritime sector during the 1976 Presidential election campaign. On October 19, the House of Representatives voted against the cargo preferences bill; many contemporary observers attributed the bill's defeat at least in part to the allegations of political payback lodged against the Carter administration, as well as Congressional supporters of the bill. (*Congress and the Nation*, volume V, 1977–1980, pages 297–299; Judith Miller, "Republicans Attack Cargo Preference," *The New York Times*, August 2, 1977, page 50 (quotation is taken from this article); and Martin Tolchin, "House Defeats Bill to Give U.S. Tankers Cargo Preferences," *The New York Times*, October 20, 1977, page 1)

40. **Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) and Robert Ginsburg of the Domestic Policy Staff to President Carter<sup>1</sup>**

Washington, July 7, 1977

SUBJECT

Adjustment Assistance Program for the Shoe Industry

*General Outline of the Program*

The Commerce Department has developed an adjustment assistance program for the shoe industry which has the following principal components:

1. Commerce will encourage the major domestic retailers (Sears, K Mart, etc.) to increase their purchases from the trade impacted shoe manufacturers. Commerce reports that the retailers have indicated their willingness to participate actively in such a program.

2. Approximately 20 specialist teams will be formed, drawn principally from the private sector, to assist the affected companies in modernization.

3. Financial support would be provided for education and training courses for prospective managers of shoe companies.

4. Financial support would be provided for increased advertising by the domestic industry.

5. Approximately \$40 million in loans and loan guarantees would be made available for increased capital investment in the affected companies and for the purpose of facilitating the sale or merger of affected companies.

The program is more fully described in the attached memorandum from Under Secretary Harman.<sup>2</sup> The total cost for the three-year program would be approximately \$60 million. No new legislation would be required. The general outline of the program has been approved by the EPG.

There can never be certainty that any adjustment assistance program will work—it is extremely difficult to achieve a turnaround for a single company let alone a large number of companies in a declining industry. Nevertheless, against that background, we think that Commerce has designed a good program. Both the industry and the shoe unions support the program.

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<sup>1</sup> Source: National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 4, Footwear 1977. No classification marking. Ginsburg did not initial the memorandum. A stamped notation reads: "The President has seen."

<sup>2</sup> Not attached.



Subject to your separate decision on the advertising component, we recommend that you approve the general outline of the program.

Approve<sup>3</sup>

Disapprove

Let's discuss this further

*Advertising Component of the Program*

Commerce proposes to spend about \$1 million per year (\$3 million total) to provide financial support for increased advertising by the domestic industry. Commerce argues that there is precedent for U.S. Government financial support for advertising (tourism and certain agricultural products) and that such advertising will be helpful in securing retailer support of the program.

Charlie Schultze argues that subsidized advertising is a questionable Government activity and sets a bad precedent for other industries that may seek similar assistance.

On balance, we do *not* think it would be good policy for the Administration to spend money for domestic advertising.

Approve advertising component of the program  
(Recommended by Commerce)

Disapprove (Recommended by Charlie Schultze and us)<sup>4</sup>

*Presidential Announcement of the Program*

Ambassador Strauss believes that you should not personally announce the program. He is skeptical about the viability of the program and thinks there is insufficient reason for you to undertake what he regards as risky personal exposure.

Under Secretary Harman believes it is important that you personally announce the program. He thinks that your personal involvement will increase the chances that the program will work, particularly in solidifying the moral obligation of the major retailers to increase their purchases from the affected shoe companies. We agree and would add the following points:

(1) your personal involvement will demonstrate your commitment to developing good trade adjustment assistance programs and enhance the Administration's credibility in this area generally;

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<sup>3</sup> Carter checked this option and wrote in the adjacent margin: "Kreps announce—not much fanfare. Emphasize 'one-time trial' basis. No precedent being established. No extra budget requests. J.C."

<sup>4</sup> Carter checked this option.

(2) if the program works, you will have personally associated yourself with what will be a significant accomplishment for the Administration; and

(3) the industry and the unions support the program and would be appreciative of your personal involvement.

We recommend that you personally announce the program with a very brief statement at the White House; Under Secretary Harman would conduct the press briefing to follow.

Approve personal announcement

Disapprove<sup>5</sup>

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<sup>5</sup> Carter checked this option and initialed "J" at the bottom of the page.

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**41. Letter From the Under Secretary of State for Economic Affairs (Cooper) to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, July 7, 1977

Dear Zbig:

You may have seen recent alarmist reports of a huge U.S. trade deficit, running an estimated \$25 billion for 1977. I write to try to put this trade deficit in perspective and to alert you to the dangers of trying to do something about it in the short term.

Three major factors contribute to the enlarged deficit:

(1) Zooming growth of fuel imports, now running around \$45 billion a year, up from \$37 billion in 1976. Rapid economic growth, rising oil prices, and the cold winter have all been significant factors. (We have a \$20 billion trade *surplus* if oil is excluded.)

(2) Rapidly rising non-oil imports, due to our economic expansion and rising import prices.

(3) Slack demand abroad for our exports, which are expected to be up over 1976 only a bit more than 1% in real terms due to slow economic growth abroad.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980: Lot 81D134, Box 1, Memorandums, 1977. No classification marking.

Our large and growing surplus income from net investments abroad and the sale of other services leads to a *current account* deficit of about \$12 billion for 1977, up from \$8½ billion in 1976. This \$12 billion is the amount which must be financed by net lending to the United States from foreigners.

The estimated U.S. current account deficit of \$12 billion amounts to about 30% of the total estimated OPEC current surplus of \$40 billion in 1977. The key analytical point is that so long as OPEC has substantial trade surpluses, the rest of the world must have substantial trade deficits. As the world's largest economy and oil importing country, the U.S. should share in these deficits, and indeed must do so if we are to avoid putting unbearable pressure on other oil importing countries.

We have no problem financing our deficit, as many other countries do. So far the financing has been readily supplied to the United States by Arab members of OPEC, as well as by residents of a large number of other countries. Both sources of funds are secure, as long as no radical changes in United States economic policy are contemplated. The fact is that they do not have many other places to go, since both Switzerland and Germany discriminate against incoming funds in various ways. Since we easily obtain more than 30% of OPEC's funds placed in Western financial markets, our objective is to permit the relending of those excess funds to other deficit countries in OECD and the less developed world.

Serious domestic political and economic problems arise from two sources: (1) continuing growing dependence on OPEC oil, and (2) rising import competition for a substantial number of domestic firms, particularly in manufacturing. Vigorous pursuit of the President's Energy Program is an appropriate response to the first of these problems. New proposals for expanded Trade Adjustment Assistance will be a major part of the Administration response to the second problem. In addition, we continue to put pressure on our Japanese and German friends to do more for the cause of global economic expansion to help provide alternative markets for the imports which have sought out our buoyant markets.

A serious danger lies in the fact that if the United States deficit is identified as a "problem", Congress and the public will demand a "solution". The long run solution, as noted above, lies in our domestic energy policy as well as in the rising imports from OPEC countries. We should avoid at all costs the kind of balance-of-payments programs which we had in the 1960s, designed variously to stimulate exports, restrict imports, and discourage capital flows. They do not represent a solution under the current circumstances (except for discouragement to the importation of oil), and on the contrary would weaken the economic condition of many other countries that are already too weak.

Thus the United States trade deficit, while large in absolute terms, is small in comparison both to our ability to finance it and in comparison to other countries' foreign economic difficulties. Over-emphasis on our trade deficit is only likely to raise additional counter-productive protectionist sentiments in various domestic circles.

The medium-term development of our trade balance will be primarily affected by (1) return to full employment in our major trading partners, (2) our energy policy, and (3) any tendency of our exchange rate to depreciate or appreciate, which in turn is influenced by our continued ability to attract foreign funds. There is no reason for pessimism, although the first two factors will probably take longer to have effect than we might like.<sup>2</sup>

Sincerely yours,

Richard N. Cooper<sup>3</sup>

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<sup>2</sup> In a July 14 memorandum to Brzezinski, written in response to a request for his comments on a July 8 Department of Commerce paper on the trade deficit, Hormats reached similar conclusions as to the reasons behind the deficit. Like Cooper, Hormats asserted that "there is no quick remedy for this deficit, nor should we try to decrease it quickly;" rather, the solution lay in "an effective domestic energy program," as well as foreign economic growth and market-driven currency appreciations. Hormats stressed the importance of not "portraying this as a major problem," so as not to risk encouraging the forces of protectionism; instead, he suggested that "any criticism should be turned around to indicate that the sooner the Congress legislates a tough energy program, the sooner the deficit can be reduced." (Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 3, Commerce Department: 2/77-4/79)

<sup>3</sup> Printed from a copy that bears this typed signature.

**42. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, July 8, 1977

## SUBJECT

PRC Meeting on Economic Aspects of the Schmidt Visit<sup>2</sup>

This meeting has two aspects: the first substantive, the second bureaucratic.

*From a substantive point of view*, it provides an excellent opportunity to ensure that (a) economic issues are put to Schmidt in a political context, and there is a consistent approach among the various officials who will be seeing Schmidt. The results of the meeting will also be incorporated in the overview memo for the President.<sup>3</sup> At Tab A is a paper I have prepared for these discussions. It provides background on the various issues and puts them in a political context. It also identifies the specific economic problems which are likely to be discussed during the Schmidt meeting. At Tab B are papers prepared primarily by Treasury with State input, except for the paper on EC enlargement which was prepared by State.<sup>4</sup> Blumenthal will lead off on most issues; Vance on EC enlargement; and Strauss on MTN.

*From a procedural point of view*, this meeting puts the NSC mechanism into the international economic picture on a key subject. I have prepared the background paper with this very much in mind—specifically to demonstrate the linkage between economics and politics.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 13, Germany F R: 7-9/77. Confidential. Sent for action.

<sup>2</sup> In a July 2 memorandum to Carter, Brzezinski indicated that he was “increasingly concerned about the erosion of political confidence in Europe, which is both resulting from and contributing to serious economic difficulties.” Noting that “the Schmidt visit provides an excellent opportunity to review these issues and consider possible actions that can be taken,” Brzezinski proposed a PRC meeting “on how to approach Schmidt on the economic issues.” Carter indicated his approval of the recommendation. (Carter Library, National Security Council, Institutional Files, Box 63, PRC 023, 7/9/77, Schmidt Visit) No minutes of this PRC meeting were found.

<sup>3</sup> Not found.

<sup>4</sup> Attached but not printed are papers entitled “The Adequacy of International Financing Mechanisms,” “Estimate of Supply of IMF Resources Through Remainder of 1977,” “Follow-up to the Summit,” “Increased Protectionism,” “The Future of the International Monetary System,” “Adequacy of German Growth,” “EC Enlargement,” “Portuguese Economic Situation,” “Turkey,” “Spain—Economic Prospects,” and “Revitalizing the MTN.”

Tab A<sup>5</sup>

## Paper Prepared in the National Security Council

Washington, undated

PRC DISCUSSION ON APPROACH TO SCHMIDT ON  
INTERNATIONAL ECONOMIC COOPERATION*Background*

A deep sense of apprehension today characterizes European economic and political life. On the economic side, this results not so much from a single dramatic crisis, although conditions have worsened in some cases, but from a *prolonged period of serious difficulties* and the likelihood that they will continue. The EC expects growth in 1977 to be 3% as compared to an earlier anticipated 4%, and compared to 4.5% in 1976; unemployment is 5.4 million (5.1% of working age population, roughly 6.6% in US terms); inflation remains at between 9% and 10%; investment rates are low, and savings are high.

This unsatisfactory economic climate has both contributed to, and resulted from, major political problems. *Continuing economic troubles are seriously eroding popular confidence in the ability of Europe's leaders and its economic and political systems to bring about solutions. If unabated, they risk profound changes in, and perhaps radicalization of, many of Europe's fundamental social, political, and economic institutions.* The prospects of governments with Communist participation coming to power in France and Italy are enhanced by these countries' serious economic problems (e. g. industrial production in April down 1.6% and 3.1%, respectively). The possibility of Communist participation (which at the extreme implies a dramatic transformation of both countries from market-oriented to state-run economies) in turn contributes to a loss of economic confidence in the rest of Europe. The Germans are particularly concerned about the economic, as well as the enormous political and security, implications of Communists gaining or sharing power in either country, but particularly in France.

*The Mediterranean countries face special problems.* Portugal, Spain, Italy, Greece and Turkey have large current account deficits which are difficult to finance. Spain and Turkey, in particular, could, in the near future, suffer acute financial problems (inability to repay debts, the need for massive borrowings) which would disrupt their societies, further shake confidence in Northern Europe, and raise new concerns about the stability of international financial banking systems.

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<sup>5</sup> Secret.

In Northern Europe the political problems resulting from an unsatisfactory economic situation are further complicated by a lack of popularly perceived national “purpose”. The post-war period has seen vast economic progress, particularly for Europe’s middle classes. *But the ethic of “reconstruction” and “economic growth” is no longer seen as a driving force in European societies.* Less easily achieved social and distributional demands are now levied on governments. Traditional party politics no longer seem to touch the lives, or inspire, the average man. Governments are neither strong enough to resolve the major problems these nations confront nor small enough to address specific “local” or “special interest” problems. They frequently cannot, simultaneously, meet the competing needs of domestic interest groups while achieving traditional goals of economic growth and price stability.

In such circumstances, *governments can be out-flanked on the left by parties promoting radical social improvements and those on the right who criticize the high expenditures and government interventionism to support the social and distributional progress which has already taken place.* Leaders in the middle are often paralyzed—fearing that reduced unemployment and further social progress, which they need for political credibility, cannot be cured except through additional expenditures which would turn their more conservative allies against them, erode trade positions, or risk inflation. The left promises reduced unemployment and more social benefits, along with more efficient government, but avoids announcing a “price tag” which the more conservative parties can shoot down. Unless the moderate leadership can achieve an economic success, either reducing unemployment or inflation, or hopefully both, voters may come to believe that they have little to lose by turning to a more extreme alternative—which at least holds out the promise of an improvement.

#### *Schmidt’s Concerns*

The continuing political and economic malaise in Europe is of enormous concern to Schmidt in its own right and because it has had a major psychological and economic impact on Germany (eroding the confidence of consumers and investors, and in part contributing to the slowdown in German exports, investment and growth). He will be particularly concerned about the risk of Communists gaining or sharing power in France and Italy, the potential for deterioration in the Mediterranean, and prospects for the longer-term recovery of economies and confidence in Western Europe. He will explore possibilities for bolstering the prospects of Giscard, Andreotti and the democratic forces in the Mediterranean, and perhaps convey ideas discussed at last week’s London meeting of the leaders of the EC Nine.<sup>6</sup>

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<sup>6</sup> See footnote 4, Document 38.

*US-German Cooperation in a Political/Economic Framework*

While a supporter of European unity, Schmidt recognizes that many of the answers to the West's problems require strong cooperation between his country and the US. All of the problems on the agenda below require, more than any other single factor, a common approach and effort by the US and Germany.

It would be well to underline to Schmidt at the outset both the positive results of cooperation between our countries in recent months and the objectives we share, stressing:

- Common support for the Witteveen facility;
- Cooperation in assisting Portugal (Germany providing \$200 million; US, \$300 million);
- Common enthusiasm for the multilateral trade negotiations and resolve to resist protectionism (the President and Schmidt were the strongest spokesmen for free trade at the Summit);
- Effective management of our domestic economies; and
- Similar views on North-South issues.

*The over-arching consideration which should guide US-German economic thinking and cooperation is the relationship between economic progress and political moderation and stability in Europe*—particularly efforts to strengthen the Majority in the March elections in France, help Andreotti in Italy, and strengthen democratic forces in other parts of Europe. The US and Germany must play the primary roles in this effort. To the extent possible, we must agree on common objectives and how to achieve them, bearing in mind that the political future of much of Europe hangs in the balance. Cooperation requires especially close consultations between the leaders of the two countries in order to establish the political directions necessary to ensure that our officials work together with a sense of common purpose.

*The Agenda*

Within this framework several key issues should be explored with Schmidt:

—*The adequacy of international financing.* Availability of adequate international financial resources would both instill greater confidence in Europe and encourage deficit countries to take necessary adjustment measures. The Germans prefer to help member Europeans through multilateral institutions to avoid bilateral pressures and to ensure internationally imposed conditionality. The Witteveen facility (\$10 billion expected) is less than the \$16 billion we had hoped for. Is it adequate? If not, should we augment IMF resources through other means, move ahead with the Financial Support Fund, or consider some other vehicle?

A special situation may exist with respect to France. If prospects of a Socialist/Communist victory lead to a further deterioration of confi-



dence and trigger a capital outflow, might the French require financial support from other nations? If so, should we begin to plan now for such an eventuality? When might it be announced for maximum political impact, or would premature announcement merely lead to the panic we hope to avoid?

Are there any other ways we should consider bringing the Arab OPEC nations into a more active financing role, either directly or indirectly?

—*Trade*. Protectionist pressure is growing. The latest evidence of concern about “sensitive industries” and hint of consideration of protectionist measures was reflected in the London meeting of the “European Council” (the nine EC heads of state and government), which expressed its concern at the unemployment situation in certain sectors that are adversely affected by structural changes in the economy. And it invited the EC commission to study “all factors involved”. Callaghan afterwards explained that “we are all aware that there are sensitive areas in our economies where strict application of an open and liberal commercial policy can produce results which were really not anticipated in a period of world recession”. We should express our strong concern about any movement toward protectionism in these areas.

Further, the US and Germany need to work together, as the two countries most interested in progress in the Multilateral Trade Negotiations and in avoiding protectionism, to reverse what appears to be a gradual slide toward protectionism and to achieve progress in the MTN. We want Germany to use its influence in the EC in support of a forthcoming position in the MTN and attainment of the Summit objective of substantive progress this year in key areas such as: a tariff reduction plan; codes, agreements and other measures that will facilitate a significant reduction of non-tariff barriers; and a mutually acceptable approach for agriculture. For our part, we have worked out a comprehensive approach to the MTN which avoids threatening European economic institutions, which is flexible, and which suggests objectives on which the EC and US can agree on to ensure a more open and well-managed international trading system. Bob Strauss will shortly present our position to the EC Commission. We should also stress that we are doing everything possible to avoid an outcome to the Zenith and US Steel Customs Court cases which disrupts trade; that we are hopeful of winning a reversal of the Zenith decision;<sup>7</sup> and that if not, we will assess other options, including that of seeking new legislation.

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<sup>7</sup> On April 12, the United States Customs Court ruled in favor of the Zenith Radio Corporation’s contention that the Secretary of the Treasury was required to levy countervailing duties on imported Japanese consumer electronics exempted from taxes normally imposed within Japan. (Robert Cole, “Court Orders Duties on Electronic Goods Coming from Japan,” *The New York Times*, April 13, 1977, p. D1)

—*Growth*. The central factor in dealing with the political/economic issues facing Europe, and indeed other nations, is the ability of the US and FRG, plus Japan, to achieve stable growth, and to stimulate substantial amounts of new exports from weaker economies. The political situation in countries like Italy, France, Spain and Portugal limit the severity of the stabilization programs they can implement. Stronger input demand by the stronger economies is therefore essential.

The US and Germany have made important commitments at the London Summit with respect to achievement of growth targets. Germany has made efforts to stimulate its economy, but will fall below its 5% target—perhaps to 4%. In part, the problem has been the lack of response by the German economy to earlier stimulus and in part the reluctance to introduce new stimulus for fear of triggering new inflation, despite the expectation of only 4% inflation in 1977. *We want Schmidt and his economic officials to see adequate growth and increasing imports as key international economic and political objectives* (essential to moderate outcomes in France, Italy, and elsewhere in Europe) and to pay extremely close attention to this problem in the months ahead. Even if targets cannot be precisely met in 1977, and we hope the Germans will come as close as possible, we must be certain that actions are taken to ensure maximum non-inflationary growth in 1978.

Regarding current account imbalances, the Germans, Japanese, Dutch and Swiss surpluses may add up to \$12 billion, added to a roughly \$40 billion OPEC surplus. This puts undue financial stress on those countries which we have the greatest interest in helping—France, Italy, (as well as poor countries). The US deficit of roughly \$12 billion makes economic sense, since it results from growing oil imports, a growth rate in the US that is higher than most other countries, our highly elastic demand for imports, and stabilization policies in some of our more important markets. We can sustain this level for a time, but *unless Germany and Japan reduce their surpluses, we will be subject to increased protectionist pressures from those people here who say that it is unfair for the US to have a deficit while Germany and Japan and others maintain surpluses*.

Is there anything further we can do together to strengthen consumer and investor confidence in Europe?

#### *Enlargement of the European Community*

Enlargement of the EC (to include Portugal, Spain and Greece) contains positive as well as negative factors. First and foremost, it should help stabilize the governments in those countries and strengthen their democratic forces. And over the long run, enlargement will contribute to growth in Western Europe through the addition of economies with a potential to achieve high growth rates and act as new markets.

But there are enormous problems in the short-run. Without a substantial transitional period, the three economies will be unable to compete in most manufactured goods with the present EC members. In the agricultural area, however, they will be extremely competitive and thus pose a threat to the agricultural interests in Southern France and Italy. Schmidt is also understood to have expressed concern at the London meeting of the EC Heads of State that admission of these three countries would pose special difficulties for the EC's policy of free movement of labor—i.e. he does not want these countries to send their laborers to Germany and undercut the jobs of more highly-paid German workers.

Because this issue will become increasingly important in the months ahead, both to the EC and to the three applicant nations who regard admission as the European seal of approval of their democratic directions, we have an interest in doing what we can to avoid a breakdown in negotiations between them and Europe and smoothing their way into Europe. We should probe with Schmidt whether there is anything we can do to help these countries assume the responsibilities of Community membership.

#### *North-South*

Continued momentum on North-South issues is important in its own right and because close coordination among industrialized countries, and a cooperative framework with OPEC and other LDCs, can help to reduce tensions in the event of Arab pressures, or threats, regarding the Middle East.

The CIEC Ministerial Meeting, fell short of the expectations of both developed and developing nations, but it did provide the developing countries with a better understanding of the points of view of the developed nations and of the reasons why we cannot do certain things the developing countries want.<sup>8</sup>

The thrust of US policy is to be forthcoming toward the developing countries through measures which we believe to be economically workable. We want to continue a dialogue that concentrates on specific issues in forums most conducive to substantive progress—e.g. World Bank, GATT, UNCTAD commodity groups. We also want to make the UN General Assembly's overview role more productive, perhaps through a new economic committee. We want to build on the improved industrial country coordination and solidarity which worked well in CIEC; based on this we should attempt to develop a constructive counter-proposal to the UNCTAD Common Fund. The idea of a continuing energy dialogue should be reexamined and played low key. We

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<sup>8</sup> See footnote 6, Document 27.

want the North-South dialogue to give more attention to basic human needs, and have suggested that OECD countries come up with a plan on this.

The Germans, at CIEC, took a slightly harder position than the US on a number of issues, and are particularly concerned about commodity agreements, which they see as having the potential to distort markets. Beyond this, the Germans are somewhat more reluctant than the US to go along with any sort of “common fund”—although they grudgingly agree to a pooling arrangement among the funds of individual buffer stocks. Schmidt has pushed a global scheme to stabilize commodity export earnings as an alternative to extensive new international commodity arrangements, but we believe this comes too close to duplicating the IMF’s compensatory finance facility.

This meeting provides an opportunity to convey our position on the above issues and probe the German position. This might also be a useful occasion to determine whether Schmidt has given any further thought to how to induce the Soviet Union to play a more constructive role in the development process—a desire he expressed at the Downing Street Summit. And, given the domestic political benefits which Giscard seems to derive from French-sponsored progress in the North-South dialogue, are there any new measures for which we should let him take partial credit—e.g. co-sponsoring the idea of a new economic committee in the UNGA framework?

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#### **43. Telegram From the Department of State to the Embassy in Japan<sup>1</sup>**

Washington, July 14, 1977, 0228Z

163810. For Ambassador Mansfield. Subject: U.S./EC Consultations on MTN. From: Ambassador Strauss for Ambassador Mansfield.

1. In discussions between myself and EC Commission President Roy Jenkins, on Monday, July 11, we have reached agreement on an ambitious timetable for putting together the major elements of an MTN

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, D770250-0373. Limited Official Use; Priority; Exdis. Drafted by Feketekuty (STR), cleared by Deputy Assistant Secretary of State for International Trade Policy William Barraclough and Thomas G. Martin (S/S-O), and approved by Strauss.

package before the end of the year.<sup>2</sup> I would appreciate it if you could do me the personal favor of explaining the results of my meeting in Brussels to Prime Minister Fukuda, Foreign Minister Ichiro Hatayama and Finance Minister Hideo Bo.

2. On July 11, I met with EC Commission President Roy Jenkins, and Vice President Haferkamp, and Commissioners Gundelach, and Davignon to discuss how we could best implement the Summit commitment to achieve substantial progress in the multilateral trade negotiations in 1977. As you know, both President Carter and Prime Minister Fukuda were quite firm on this goal.

3. I found President Jenkins and his colleagues extremely positive and pragmatic, and very eager to infuse the multilateral trade negotiations with a sense of purpose and urgency. They recognize that an ambitious effort is needed if current protectionist pressures in Europe, the U.S. and elsewhere are to be overcome. Roy Jenkins and his colleagues assured me that they would assume personal responsibility for achieving agreement on the main elements of a substantial MTN package before the end of the year.

4. We also agreed that achievement of our goal would require a set of interim steps, and that we needed to set dates for each of these interim tasks. We agreed to seek the agreement of other MTN participants to a plan along the following lines, though we delayed announcement of the details until the Commission has had a chance to consult all the member states.

A. Agreement during July on procedures for handling negotiations of agricultural issues and non-tariff issues not covered by multilateral codes or agreements.

B. Agreement by October 1 on a tariff plan, including a tariff formula, language covering the treatment of agricultural tariffs, and procedures for negotiating tariff concessions with developing countries, and developed countries not applying the formula.

C. By November 1 all countries would table requests for agricultural commitments and for commitments on non-tariff measures not covered by multilateral codes or agreements.

D. Agreement by December 15 on draft texts for all multilateral codes and agreements to be included in an MTN package.

E. By January 15, all countries would table offers in all areas of the negotiations.

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<sup>2</sup> Memoranda of conversation of Strauss' July 11 meetings with EC officials in Brussels are in the National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 3, European Community 1977.

5. In setting these goals, I recognized, and the EC Commission recognizes, that a very intensive effort would be required by all our staffs. However, we and the EC agreed that such an effort is required if we are to succeed in these negotiations and avoid the dangerous consequences of a slide into protectionism.

6. I also stated to the EC officials the confidence that President Carter and I as his STR had that we could count on the full cooperation of the Fukuda government on this entire program.

7. I and Ambassador Wolff hope to travel to Japan at an early date to consult with the Japanese Government on the MTN timetable and on the substantive issues which must be resolved if we are to succeed.

8. In the interim, I would like to urge Prime Minister Fukuda and his Cabinet colleagues to instruct their staffs to accelerate the work of their staffs in order that we may achieve the goals established at the Summit.<sup>3</sup>

9. Please extend to Prime Minister Fukuda and his Cabinet colleagues my congratulations for their victory in the Upper House elections,<sup>4</sup> and my very best wishes. I also send you and Mrs. Mansfield my warmest affection.

**Vance**

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<sup>3</sup> See footnote 5, Document 45.

<sup>4</sup> After losing seats in a July 10 election, the Fukuda government reestablished a majority in the Upper House with the support of three independent members. (Andrew H. Malcolm, "Fukuda Party Keeps Upper House Control," *The New York Times*, July 12, 1977, p. 1)

**44. Memorandum of Conversation<sup>1</sup>**

Washington, July 14, 1977, 10–11:35 a.m.

## PARTICIPANTS

The President  
The Vice President  
The Secretary of State  
The Secretary of the Treasury  
Assistant to the President for National Security Affairs Zbigniew Brzezinski  
Ambassador Walter Stoessel  
Ambassador Henry Owen  
Assistant Secretary of State George Vest  
Gregory F. Treverton, NSC Staff Member, Notetaker  
Harry Obst, State Department Interpreter  
  
The Chancellor  
Foreign Minister Hans Dietrich Genscher  
Ambassador Berndt von Staden  
State Secretary Manfred Schueler  
State Secretary Klaus Boelling  
Assistant Secretary for Political Affairs Juergen Ruhfus  
Assistant Secretary Dieter Hiss  
Director, Political Office, Klaus Blech  
Mrs. Gisela Niederste-Ostholt, Interpreter for Minister Genscher

[Omitted here are opening remarks and discussion of MBFR and SALT.]

*General Economic Issues*

*Secretary Blumenthal* commented that there was total agreement in his discussions with the Chancellor the previous day on the nature of the economic problems facing the developed countries and on the need for full cooperation between the FRG and the U.S., and among the developed countries, although there were some differences of emphasis on particular measures which should be applied.<sup>2</sup> The rise in oil prices has caused large imbalances on current account in many countries, ac-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 35, Memcons: President: 7/77. Secret; Sensitive. The meeting took place in the Cabinet Room. Schmidt paid an official visit to Washington July 13–15. During a meeting on July 13, Carter and Schmidt discussed, among other issues, the multilateral trade negotiations. Noting the importance of “rapid movement in MTN,” Carter asked for Schmidt’s help in encouraging French movement in the negotiations. Carter and Schmidt also discussed the problems posed by Japanese trading practices. (Memorandum of conversation, July 13; *ibid.*)

<sup>2</sup> Blumenthal, Solomon, and Bergsten met with Schmidt on July 13 from 5 until 6:15 p.m. at Blair House. A memorandum of conversation of the meeting is in the Department of State, Office of the Secretariat Staff, Files of Walter J. Stoessel, 1959–82, Lot 82D307, Box 3, Ambassador—Chron Memos for the Record—1976–77.

accompanied by inflation and unemployment. Periodically, there are serious balance of payments crises, particularly among the Mediterranean states and some LDCs. The OPEC surplus will total some \$45–50 billion this year, while Japan will run a \$7 billion payments surplus and the FRG a \$2.5–3 billion surplus. The U.S., on the other hand, will have a current account deficit of \$12 billion and a trade deficit of \$25 billion. These deficits are unlikely to diminish for some time.

*Secretary Blumenthal* then suggested strategies with which we can deal with these problems.

—Progress on energy is vital, but will take time and the economic effects of the U.S. program will not be felt until 1980 or 1982.

—Non-OPEC countries in surplus or close to payments balance can encourage imports from the deficit countries by meeting the London growth targets. The U.S. will continue to emphasize exports. Surplus countries should let their currencies appreciate. The Japanese have not been completely cooperative on this issue, although there has been improvement lately; they have considerable administrative control over the value of the yen. Our aim is the gradual reduction of the U.S. deficit; that is important because the continued outflow of dollars could be inflationary, although this is less of a problem if currencies are floating, because exchange values accommodate.

—Secretary Blumenthal stressed cooperation to make available financial reserves—through the Witteveen facility and increases in IMF quotas—noting that such assistance can be very effective, as in the case of Britain.

—Finally, Secretary Blumenthal urged that the Chancellor do whatever possible to achieve German growth of at least 4.5%, indicating that he and the Chancellor had discussed Germany's problems and possibilities.

*The President* said that the U.S. will not interfere with the goals various nations set, or with changes that they deem necessary. If they want to change their goals, fine. The Japanese will be close to meeting their goal of 6.7% growth; the U.S. will be close to its 5.5% target, although growth will drop off in the second half of this year. If the FRG cannot attain its goal, the U.S. will understand. But there is an impending problem for the U.S.: with 7% unemployment it is difficult to explain a \$25 billion trade deficit to Congress, especially while the Germans have a \$9–10 billion surplus. But the U.S. and the FRG will not impose policies on each other.

*The Chancellor* commended Blumenthal's summary, as fair and accurate. He stressed the importance of regular, quiet meetings between the Finance Ministers of the U.S., Britain, France and the FRG. The Japanese should be included periodically. Meetings are easier without them because they are not fluent in English or comfortable in such meetings,



but it is important to reduce their intellectual isolation from European and American experience.

*The Chancellor* noted that the *Deutschemark* had been permitted to appreciate in value by some 60–70% since 1970. Recently, the rate of appreciation had been 1% per month. That had been the German contribution to recovery. But this has been difficult on the steel and ship-building sectors. The FRG will have a growth rate of 4.5% this year along with 3.9% inflation and over 4% unemployment.

*Dr. Brzezinski* questioned whether FRG unemployment figures included foreign workers who do not leave Germany, and the Chancellor said they do. One million are unemployed. The German labor force includes 4 million foreigners, who stay in the FRG and collect welfare when they are unemployed.

*The Chancellor* said that there had been a change in the structure of demand. It is now satisfied. There will be no new housing construction, only replacement, but demand for cars is high and demand for holidays overseas is very high (60% of German workers vacation abroad). He noted that 14% of disposable income is saved. Interest rates are very low and there is more money to lend than demand for it. He had decided to raise the VAT by only 1%, not 2%, and to offset that hike by other measures. There will thus be a net tax relief. That has been hard on Finance Minister Apel because of the resulting government deficit. Since private investors will not invest, the government must. A 60 billion DM investment program is underway, despite unenthusiastic response and red-tape delays in the states. The Chancellor wondered what the FRG can do about its surplus on current account but allow the *Mark* to float.

*Secretary Blumenthal* said that if growth could reach 4.5% and the *Mark* were permitted to float, that would be enough.

*The Chancellor* said that was a difficult answer for Parliament to accept; they wanted more growth.

#### *Specific Country Situations*

*The President* asked for the Chancellor's opinion of other nations' economic situations.

*The Chancellor* responded:

—Britain: the "social contract" is breaking down; North Sea oil will resolve British difficulties in 2–3 years, but that the interim will be trying.

—France: is financially more solid than any other Western state, but suffers from structural problems. The unemployment (5%) is very sensitive politically; if the government can cut it by 100,000–200,000, then it can win the elections; if unemployment rises, it is sure to lose.

The Chancellor had spoken with Giscard and Barre; neither thought the government should do more than it is doing at present.

—Italy: growth is not the problem; it is the social differences—North v. South, rich v. poor, etc.

—Holland is in good shape; Belgium is not. Austria is very healthy, but too small to affect general Western recovery. Switzerland is economically strong after expelling its foreign workers. While Norway is fine, Denmark has problems and the Swedish situation is deteriorating.

*The Chancellor* concluded that while there are difficulties, he did not think that there will be further economic decay. He noted that growing productivity complicates German efforts to cut unemployment.

*The President* responded that U.S. productivity is falling.

*The Chancellor* suggested that good labor relations are responsible for the rise in German productivity. Much of the unemployment is a result of women entering the work force.

*The President* said that women also account for much of the problem here; there is also a huge illegal alien population, as many as several million Mexicans.

*The Chancellor* complimented the President on U.S. economic performance in the first two quarters, saying that he thought the change was less one of economics than of mood, a good part of it brought on by the President's arrival in the White House.

*The President* said the low 6% savings rate was the cause of U.S. growth. If the confidence reflected in polls continued, so would the growth.

[Omitted here is discussion of Turkey, Portugal, and Spain.]

*The President* said that both he and the Chancellor were concerned at the public impression of discord between the U.S. and the FRG. He said that they had decided the previous night that should occasional disagreements arise, they would call each other. An image of US–FRG tension is difficult for the weaker states.

*The President* noted that disagreements are always exaggerated by the press and instructed U.S. officials present to inform him of any hints of trouble in the relationship so that he could call the Chancellor.

*The Chancellor* fully endorsed the President's statement. He said that some of the sources of such exaggeration were in his country—those who want a return to the Cold War. Also, there are those in the EC who do not view German economic growth with pleasure and are willing to play up any US–FRG disagreement. Some of the sources are also in the U.S. The Chancellor felt that he and the President should

fight against any discord in US–FRG relations by maintaining personal contact.

*The President* instructed Powell to inform the press that the U.S. is very pleased with Germany's economic performance and attitude toward the nuclear fuel cycle evaluation. We are pursuing the same goals, and the U.S. and European publics should know that. The President joked that agreement between the two leaders is so broad that they needed to find an area of disagreement.

*The Chancellor* suggested one: on the phone the President should speak more slowly.

[Omitted here is discussion of the Law of the Sea negotiations.]

*The Chancellor* said he hoped that the President would come to Germany soon. He understood the President's schedule problems and did not expect an immediate answer, but said that a Carter visit would be received enthusiastically. After Germany itself, Germans look to the U.S. for leadership. All Germans would see a Presidential visit as indicative of the close relations between the two countries.

*The President* was grateful for the invitation as well as for Schmidt's visit to the U.S. He and the Chancellor spoke briefly about a "Friendship Force" visit to West Berlin. The President agreed in principle to visit the FRG in the near future.<sup>3</sup>

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<sup>3</sup> In a July 16 memorandum to Carter, Brzezinski relayed a report from Hiss that Schmidt was "delighted by his visit here. It confirmed him in the impression, which he had formed at London, that you and he could work well together." Schmidt also "profited from the economic discussions with Blumenthal and then with you" and "was comfortable with the way you discussed the growth targets." After discussing Hiss' thoughts on the date for the next economic summit, Brzezinski noted Hiss's confidence "that the Chancellor will press his subordinates and his allies to fulfill the ambitious schedule on trade negotiations that Bob Strauss and Jenkins agreed to last week, to fulfill his summit pledge." Carter wrote "Good" on the memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 4/77–3/78)

**45. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, July 21, 1977

SUBJECT

Strauss Briefing on MTN Development

In this morning's meeting of the Trade Policy Committee, Bob Strauss gave an optimistic reading on MTN moves.<sup>2</sup> He recounted the recent flurry of activity including his own meetings in Brussels,<sup>3</sup> a quick trip by Alan Wolff to the key European capitals,<sup>4</sup> a long discussion between Ambassador Mansfield and Prime Minister Fukuda,<sup>5</sup> and a sharp increase in press coverage in Europe.

Strauss believes that the other countries now fully understand that the United States is serious, and that we will not accept a mini package. He and the EC Commissioners have agreed to conclude the deal by the Spring of 1978; Strauss feels that our package must go to the Congress by May 1978 if it is to be voted by them next year. An important date is the next Summit meeting, which Owen is now planning for June or July 1978; the EC Commissioners clearly hope to finish the MTN prior to that time, to avoid losing control of the issue.

Alan Wolff reports, from his quick trip to Europe, that:

—The Germans are fully supportive of our position, and will push for maximum liberalization though they foresee an eventual tariff cut halfway between our proposal and that of the EC.

—The British want a "medium-size" package, but seem less protectionist than six months ago.

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, Foreign Trade (FT) 1977. No classification marking. Sent for action. Reviewed by Hessler and the Executive Secretariat.

<sup>2</sup> No other record of this meeting was found.

<sup>3</sup> See Document 43.

<sup>4</sup> Telegram 11886 from London, July 19, transmitted a report of Wolff's July 18 meetings with British officials. (National Archives, RG 59, Central Foreign Policy File, D770268–0832) Telegram 11976 from Bonn, July 21, reported on Wolff's talks with West German officials. (National Archives, RG 59, Central Foreign Policy File, D770259–1118) Telegram 21280 from Paris, July 22, recounted Wolff's July 20 meetings with French officials. (National Archives, RG 59, Central Foreign Policy File, D770262–0732)

<sup>5</sup> In telegram 10654 from Tokyo, July 15, Mansfield reported on his discussion of the multilateral trade negotiations with Fukuda during their first meeting, which took place on July 15. (National Archives, RG 59, Central Foreign Policy File, D770252–0563) Telegram 10787 from Tokyo, July 19, contains a fuller description of Mansfield's first meeting with Fukuda. (National Archives, RG 59, Central Foreign Policy File, D770267–1312)

—The French remain the most hostile; their goal is “organized liberalization”. They are following the old pattern of linking trade negotiations to every conceivable issue (Concorde, the VAT case, “dollar devaluation”). However, the Patronat<sup>6</sup> has backed off its opposition to the whole exercise.

One possibly disruptive issue has crept into the picture. You will recall that the Tokyo Declaration promised “special and differential” trade for the LDCs.<sup>7</sup> The British and particularly the French have in mind a new kind of “differential treatment”: differentially *discriminatory* against all “low wage countries”. At today’s meeting, Cooper suggested that we seek partial reciprocity from the LDCs via their cutting tariffs half as much as the DCs.

Strauss mentioned two operational issues:

—He would like you to meet with the TPC for an hour or two, to discuss the Kennedy Round experience,<sup>8</sup> as a guide for this round; I gather he has discussed that with you personally.

—He wants designation of an official from each agency as his regular contact on MTN issues; I assume that I should fill that role.

*Recommendations:*

(1) That you agree to meet with the TPC to discuss the Kennedy Round experience, in the next week or two.<sup>9</sup>

(2) That I be the designated Treasury contact for MTN issues.<sup>10</sup>

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<sup>6</sup> Reference is to the Conseil national du patronat français (National Council of French Employers), known as the Patronat.

<sup>7</sup> For the text of the Tokyo Declaration, issued at the end of the September 1973 GATT Ministerial meeting, see the Department of State *Bulletin*, October 8, 1973, pp. 450–452.

<sup>8</sup> Blumenthal served as the Deputy Special Representative for Trade Negotiations from 1963 until 1967, as well as the head of the U.S. delegation to the Kennedy Round of GATT negotiations.

<sup>9</sup> Blumenthal initialed his approval of this recommendation on July 22.

<sup>10</sup> Blumenthal initialed his approval of this recommendation on July 22 and wrote, “if OK with Solomon.”

## Attachment

### Paper<sup>11</sup>

Washington, undated

#### *MTN Timetable*

On July 11 the United States and the European Community reached agreement on a four-phase timetable to be completed by January 15, 1978. The work done within this timetable will establish the framework for the final stage of the multilateral trade negotiations (MTN) next year. The four phases of the timetable (with target completion dates in parentheses), what each phase entails, and a brief description of the current status of negotiations on the subjects covered by the timetable are given below.

#### I. *Agreement on a Tariff Plan* (October 1)

—Elements to be included in the tariff plan include a tariff-cutting formula, language concerning the treatment of agriculture, procedures for tariff negotiations with non-formula countries, and an agreed basis for special and differential treatment of developing countries.

—Currently, there are four formula proposals on the table. The EC proposal provides for an average tariff cut of around 38 percent before exceptions and for a large element of tariff harmonization. The U.S. proposal provides for an average tariff cut of almost 60 percent before exceptions. In the US-EC bilateral discussions on July 11, and subsequently, the EC has backed away from its earlier proposal and is now proposing a less ambitious tariff cut of around 20 to 25 percent but with no exceptions.

—It is anticipated that the United States, the European Community, Japan, Canada, the Nordic countries, Switzerland, and Austria will apply the tariff-cutting formula.

—The United States has proposed a cross-notification procedure with developing countries, whereby the developing countries would notify the developed countries of those products on which they desire tariff cuts and the developed countries would notify the developing countries of those products on which the developing countries might make some tariff concessions.

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<sup>11</sup> No classification marking.

## II. *Tabling of Requests* (November 1)

—Requests would be made on agricultural tariffs, industrial tariffs of non-formula developed countries and of developing countries, and nontariff measures relating to agricultural and industrial products. Countries would use restraint in making requests on those nontariff measures that would be subject to codes agreed in the MTN (i.e., subsidies/countervailing duties, government procurement, standards, customs valuation).

—A notification/consultation procedure is underway in Group Agriculture that covers both tariffs and nontariff measures. Similarly, notification/consultation procedures are underway for nontariff measures not being addressed in codes, including quantitative restrictions and customs matters other than valuation. The information being gathered in these consultations will aid countries in determining what requests to make of their negotiating partners.

## III. *Tabling of Draft Codes* (December 15)

—Draft codes that could be used as a basis for negotiation would be tabled for those subjects for which no acceptable draft code has yet been tabled. These draft codes would contain bracketed language for those issues on which disagreement still exists. We expect to have draft codes for standards, government procurement, subsidies/countervailing duties, safeguards, and customs valuation. The current status of these codes is as follows:

—An acceptable draft product standards code is already on the table and has been under consideration in the MTN for several years.

—The OECD considered a draft government procurement code for several years and this draft was tabled in the MTN this year. This draft proved unacceptable and a new draft must be written.

—The Canadians have tabled a draft text on subsidies/countervailing duties. This text has encountered considerable opposition, especially by the EC, and a new text will be needed.

—The United States will table a draft safeguards code this fall that should be an acceptable basis for negotiation.

—The European Community will table a draft customs valuation code this fall that should be an acceptable basis for negotiation.

## IV. *Tabling of Offers* (January 15)

—All MTN participants will table offers on tariffs and nontariff measures. Offers on those nontariff measures that will be subject to general codes may not be necessary. Most industrial countries are expected to table tariff offers on industrial products on the basis of an agreed tariff-cutting formula. Tariff offers on agricultural products will

be tabled on an item-by-item basis, taking into account the tariff formula.

—Developing countries may refuse to make any offers until they have a better understanding of what they will receive in the negotiations.

#### V. *Implementation of Timetable*

—Considerable work has been done internally for determining what requests and offers to make. However, a tremendous amount of work, especially in the area of exceptions to a tariff-cutting formula, remains to be done.

—Much work also remains to be done on the draft codes.

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#### 46. **Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Solomon) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, July 26, 1977

#### SUBJECT

Exchange Rates and U.S. Exchange Market Policy

I thought it would be useful to place recent exchange market developments in a historical context.

1. The recent movements in exchange rates are by no means unprecedented: since early 1973, while there have been long periods of relative stability, there have also been times when the dollar exchange rate—against individual currencies and on a trade-weighted basis—has gone through swings much wider than those of the past month.

—The dollar rate against the DM, to take a key example, has moved by as much as 17 percent in one four-month period, and by 8–13 percent on several occasions.

—The weighted average rate for the dollar has moved by 4–10 percent on six occasions.

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<sup>1</sup>Source: Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 2, 7/15/77–7/31/77. Confidential; Nodis. Sent for urgent information. Drafted by Leddy and Springborn and reviewed by Cross. Solomon did not initial the memorandum. Attached is an undated note that reads: “Noted by the Secretary & returned.” (Ibid.)



—These figures compare with changes in the rate against the DM and the trade-weighted rate of 4½ percent and 1½ percent respectively in the past month.

—For the period of floating as a whole (since March 1973), the DM has appreciated by 25 percent. The yen has *depreciated* by 2.6 percent. Again for the period as a whole, the dollar itself has *appreciated* by about 5 percentage points on a trade-weighted average basis.

2. U.S. policy throughout this period has been to rely on the markets to determine the exchange rate and to limit U.S. intervention to that needed to counter disorderly market conditions. The largest U.S. market operations during the period have been to acquire foreign currency needed to liquidate swap debt, to repay the IMF, and to pay down Treasury foreign currency issues accumulated prior to the elimination of gold convertibility in 1971. These operations are not designed to influence the market.

3. The one episode of “substantial” U.S. intervention to influence the market was during the six month period October 1974–March 1975. The DM appreciated by about 17 percent against the dollar, and the dollar depreciated by about 4 percent on average. Markets were frequently disorderly, as the U.S. slid into recession with no clear corrective policy. U.S. intervention amounted to \$1.4 billion in this period, financed largely through U.S. drawings on the swap lines. When U.S. economic indicators improved and the market turned, the U.S. intervened on the other side and repaid the swap debt.

4. Recent movements in rates and market uncertainty are not difficult to understand. Our trade and current account positions have moved into heavy deficit. There are doubts that we will solve our energy problem or control inflation. And there is a general perception that we are “talking the dollar down,” at least against the DM and the yen.

5. We do *not* need to change our intervention policy. The market has been speculative at times, but on the whole has been orderly. The Fed has intervened modestly at times to counter disorderly conditions. An effort to stop the movements—through massive intervention or statements that rate movements have gone “far enough”—would be tested by the market and would run a high risk of failure. It would also represent a failure not only of exchange rate policy but also of our policy to bring about an orderly adjustment of imbalances. We have advocated flexibility in exchange rates to bring about adjustment—and we should not be surprised when rates move.

6. On the other hand, we *can* contribute to a calmer market atmosphere:

—by refraining for the time being from statements that unsettle the market;

—by pointing to the fundamental strength and improvement of the U.S. economy; and

—by persisting in the effort to deal with energy and control inflation as the only effective way of assuring a strong dollar.

Attached are:

a) A summary table on periods of dollar depreciation and U.S. intervention in support of the dollar.<sup>2</sup>

b) The table on foreign intervention and rate movements you requested this morning.<sup>3</sup>

c) The talking points on the exchange rate I sent you last week.<sup>4</sup>

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<sup>2</sup> The attachments are attached but not printed. Attachment a is a table entitled "Depreciation of Dollar: Rates and U.S. Intervention in "Support" of Dollar (Selected Period, March 1973–Present)."

<sup>3</sup> Attachment b includes an undated note on "Exchange Market Intervention by Major Foreign Countries" and a table entitled "Official Market Intervention in Dollars by Major Foreign Central Banks."

<sup>4</sup> Attachment c is an undated paper entitled "Suggested Talking Points" and a July 20 cover memorandum from Solomon to Blumenthal in which Solomon noted that "the markets continue to be unsettled. If the situation continues, it may become desirable or necessary for us to comment in order to try to calm the situation, though without changing our substantive position. (For the moment, I continue to think it best that we minimize public statements to the extent possible and that it is preferable to make any moments that are necessary on a background basis.)"

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**47. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) and Robert Ginsburg of the Domestic Policy Staff to President Carter<sup>1</sup>**

Washington, July 30, 1977

SUBJECT

Administration Response to Steel Price Increases

You asked me to coordinate the development of possible options for your Administration's potential response to the steel price increases

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<sup>1</sup> Source: Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 284, Steel (O/A 6343). No classification marking. Carter initialed "C" at the top of the page.

by U.S. Steel and Bethlehem Steel.<sup>2</sup> I have asked Charlie Schultze, Barry Bosworth (your Director-designate of the Council on Wage and Price Stability) and the Special Trade Representative's office to prepare options.<sup>3</sup>

These options are as follows:

1. **Tariff Reductions.** Strauss and Schultze agree that this would be an inappropriate action since it would have little impact on the industry, would appear to be a punitive response, and might reduce our negotiating leverage in the Multilateral Trade Negotiations. We agree with their conclusion that this option should not be exercised.

2. **Reduction of the "Buy America" Preference.** We agree with Schultze and Strauss that there is little utility in attempting to reduce this preference since it has little impact on the industry, particularly the type of steel product involved here, and, likewise, would appear punitive. (Under this preference U.S. producers have a 6% price preference—and in some cases, a 12% price preference—in general government procurement, and a 50% preference in procurement by the Department of Defense.

3. **Direct GSA and the Department of Defense to remind government purchasing agents of their obligation to make steel purchases from the lowest priced American suppliers.** Charlie Schultze feels that this action will have little impact unless a split market price develops, and that government purchases do not constitute a large enough share of the structural steel and tin mill market to force such a result.<sup>4</sup> Nevertheless, we believe that this would be an appropriate action and might have some actual impact in encouraging the development of a split market. At the very least, it would be a positive action in the right direction and certainly, in and of itself, is appropriate since it re-emphasizes an obligation which government purchasing agents should be following in any event. This action could put the steel companies which

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<sup>2</sup> On July 21, U.S. Steel announced an increase in the price of its structural steel by 6 percent and its tin mill products by 7 percent. The following day, Bethlehem Steel announced that it too would raise structural steel prices by 6 percent and tin mill product prices by 7 percent. (Gene Smith, "U.S. Steel Planning Increases in Prices to Ease Labor Costs," *The New York Times*, July 22, 1977, p. D1; Gene Smith, "Bethlehem Follows U.S. Steel in Move to Increase Prices," *The New York Times*, July 23, 1977, p. 25)

<sup>3</sup> Schultze offered his recommendations in a July 27 memorandum to Carter. (Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 284, Steel (O/A 6343)) Strauss discussed the role of trade policy in a July 25 memorandum to Carter. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 81, [Steel] [7]) Bosworth's recommendations were not found.

<sup>4</sup> In discussing this option in his July 27 memorandum to Carter (see footnote 3 above), Schultze noted: "This requirement is supposed to be followed in any case. The action will have little impact unless a split market price develops for a particular steel product. Emphasis on the requirement would reinforce our earlier statements, however."

have not yet followed the lead of U.S. Steel and Bethlehem under anti-trust and shareholder pressure not to do so—they will be hard put to explain why they are following the prices of the Big Two if they are foregoing increased government business in the process. If this action is to be taken, it should be done very quickly before other steel companies join U.S. Steel and Bethlehem.<sup>5</sup>

4. You could meet personally with the chief executive officers of U.S. Steel and Bethlehem. We agree with Charlie that this action is not warranted for the reasons he mentions.<sup>6</sup>

5. Antitrust Investigations. Although this is not mentioned in Charlie's memo, you might call for an antitrust investigation of these price increases. We would not recommend this, however, because it would appear punitive and because the Justice Department is already investigating the last round of price increases in the steel industry.

6. Schultze's Recommendations: Charlie recommends that you (a) direct the Council on Wage and Price Stability (CWPS) to initiate a study of the increases<sup>7</sup> and (b) have CWPS call in the automobile manufacturers and urge them to exercise restraint in pricing on the 1978 models.<sup>8</sup> For the longer term, Charlie recommends that we (i) continue our efforts in the Meany-Jones Labor-Management Committee<sup>9</sup> to develop mechanisms for dealing with private wage and price decisions

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<sup>5</sup> Carter wrote "ok—Proceed" in the margin adjacent to this paragraph.

<sup>6</sup> In discussing this option in his July 27 memorandum to Carter (see footnote 3 above), Schultze noted: "The steel companies have acted already, and they are unlikely to respond positively to requests to rescind or reduce their increases. A direct request from you would create an atmosphere of confrontation that would leave the companies no graceful way to back down. Even if you did not directly urge a rollback, the press would interpret the meeting as though it were pressure for a rollback, and play up the confrontation." Carter wrote "no" in the margin adjacent to this section of Schultze's memorandum.

<sup>7</sup> In discussing this option in his July 27 memorandum to Carter (see footnote 3 above), Schultze noted that "CWPS could, using existing authority, obtain data from the steel companies on production costs, order backlogs and available capacity in specific product lines. CWPS could supply you with a report on the conditions in the industry that could provide the basis for further comments about the industry's pricing policies. (If you approve, we will immediately draft a directive to CWPS from you.)" Carter wrote "ok" in the margin adjacent to this section of Schultze's memorandum. No directive from Carter to CWPS was found.

<sup>8</sup> In discussing this option in his July 27 memorandum to Carter (see footnote 3 above), Schultze suggested that meetings with the automobile industry "could be initiated by Barry Bosworth at CWPS. If necessary, the meetings could later be escalated to higher levels. Auto prices are the next big area of action, and, in any event we should do this." Carter wrote "ok for Bosworth, no for me" in the margin adjacent to this section of Schultze's memorandum.

<sup>9</sup> On April 15, Carter proposed a series of measures to fight inflation, including the encouragement of labor-management cooperation; this effort was to be led by AFL-CIO President George Meany and General Electric Company Chairman Reginald Jones. For the text of Carter's statement on his anti-inflation program, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 622-629.

and (ii) be prepared to speak out publicly against egregiously inflationary price or wage actions.

We have no objection to any of these recommendations, but would add the following:

1. *Direct Contact with the Steel Companies.* Charlie indicates that he has talked with the chief executives of several of the steel companies which have not yet raised their prices. You might make a private, unpublicized call to one or two of these executives to indicate your personal concern and strong hope that they will not follow the U.S. Steel–Bethlehem lead.<sup>10</sup>

2. *CWPS Hearings.* You could direct CWPS to not only undertake a study but conduct public hearings on the price increases. We believe that both Barry Bosworth and Charlie are concerned that this would be too confrontational and with little to gain. It is, nevertheless, a viable option you might use if you wish to take high visibility action.<sup>11</sup>

3. *Link to Auto Manufacturers.* We think that any Administration discussion with the automobile manufacturers should *not* be publicly linked to these steel price increases. The public might regard calling in the automobile companies as a rather strange and indirect response to price increases by steel companies.

4. *Meet with Labor-Management Committee.* If you want to make a strong personal response to the steel price increases, and if Charlie thinks it advisable, you could call a special meeting of the Labor-Management Committee and lay down in general terms the need for price restraint by business if we are ever to get inflation under control. You could make it clear that you expect business to raise prices *less* this year than last and that continued attempts to improve profit margins by raising prices more than costs (apparently the case for tin mill products) mean a never-ending cost-price spiral. Jody could brief the press afterward on this meeting.

5. *Forestalling Future Steel Price Increases.* If it appears that these price increases will stick, one of your principal economic advisers should quietly tell U.S. Steel and Bethlehem that we expect that this will be the last increase for some time to come (at least January 1, 1978) and that any further increases may well cause a major confrontation with the Administration. This could at least, in a non-public way, help to forestall further steel price increases for some time.

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<sup>10</sup> Carter wrote “no” in the margin adjacent to this recommendation.

<sup>11</sup> Carter wrote “What are likely results?” in the margin adjacent to this recommendation.

**48. Letter From the Under Secretary of State for Economic Affairs (Cooper) to Vice President Mondale<sup>1</sup>**

Washington, August 1, 1977

Dear Fritz:

You asked me recently about the role of monetary policy in dealing with our balance of payments problem.<sup>2</sup> As you know, the U.S. merchandise trade deficit has increased sharply to a projected \$25 billion in 1977, due to higher oil imports, sustained economic expansion at home, and weak economic growth abroad. Our \$11 billion surplus on service transactions has offset a sizable portion of the trade deficit. Voluntary capital inflows, largely from the placement of OPEC surplus funds, have provided financing for the rest of the deficit.

Administration strategy to deal with this problem has two major components: (1) press for the energy program to deal with the high cost of oil imports; (2) wait for changes in the business cycle at home and abroad to improve our exports relative to our imports, while pressing OECD countries to meet their growth targets. To the extent that these factors do not achieve a satisfactory result, the dollar will tend to fall in exchange markets and slowly produce a further improvement in our current account.

A key component of this strategy is continued reliance on voluntary capital inflows to finance the deficit. So far this year, these flows have been forthcoming in sufficient volume to finance the deficit without much decline in the value of the dollar. Obviously, the level of interest rates in the United States relative to those abroad can influence those capital flows. And foreign interest rates have been declining this year while U.S. rates have remained steady or risen somewhat, reflecting the differences in economic activity here and abroad. Thus the present course of monetary policy appears adequate to deal with the problem of assuring that our current account deficit will be financed.

Over the longer run, the rate of inflation in the United States relative to foreign inflation is a prime determinant of the value of the dollar. Clearly, monetary policy has a role to play in this area as well. Both our present and projected inflation rates and our monetary growth targets are on the low side of foreign experience at present. Thus monetary policy is already making its appropriate contribution to the longer-run stability of the dollar.

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<sup>1</sup> Source: Carter Library, Papers of Walter F. Mondale, National Security Issues, Box 82, National Security Issues—Economic [2/5/1977–8/14/1977]. No classification marking. A handwritten notation reads: "Seen. File."

<sup>2</sup> Not further identified.

Moreover, further tightening of money at this time would certainly brake and might bring to a stop the economic recovery. Slowing down the recovery would be a serious error, both domestically and in terms of badly needed buoyancy it provides to the world economy. Even if we had an overall balance of payments problem, which we do not, the U.S. should not halt the recovery of its economy, which is still far from fully employing our resources. Such waste of human skills and capital is not an appropriate answer to a weak balance of payments.

In sum, there is no reason, in today's circumstances, to recommend tighter monetary policy for balance of payments reasons. Such a recommendation would only become appropriate if it became apparent that: (a) our energy policy was doomed to failure; (b) normal cyclical changes would not improve our current account; (c) adequate capital inflows did not appear to be forthcoming. Under such circumstances the dollar might begin to drop for a prolonged period. Then it might be judged that external factors required a tightening of monetary policy, but only after examining carefully the state of domestic production, unemployment, and inflation. Fortunately, the day when such choices must be faced is not imminent.<sup>3</sup>

Sincerely,

**Richard Cooper<sup>4</sup>**

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<sup>3</sup> Mondale also requested the Department of the Treasury's view on the link between monetary policy and the trade deficit. Bergsten and Brill forwarded a draft response to Blumenthal for his signature under cover of a July 29 memorandum. The draft asserts that the best way to address the deficit would be through "an effective energy program" and "continued vigorous growth and relative price stability for the American economy." Asserting that "there is little justification on domestic grounds for a tightening of monetary policy," the draft cautions against monetary contraction "purely for currency reasons," unless, perhaps, "the dollar were to weaken so sharply as to cause (1) significant inflationary effects here and (2) important psychological effects internationally." Blumenthal did not sign the draft memorandum. (National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, IM–6 Balance of Payments 1977)

<sup>4</sup> Cooper signed "Dick" above this typed signature.

49. **Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, August 5, 1977

SUBJECT

GATT for Investment

Per your urging at the EPG meeting on July 18,<sup>2</sup> I have already met with Cooper and others from State to consider a GATT for investment. I will subsequently convene a meeting of my EPG Deputies Group, to develop a paper on the subject over the next few weeks for policy consideration in September.

Because of your interest in the subject I attach an early but well-done draft on the subject (Tab B),<sup>3</sup> and a summary thereof (Tab A). It was prepared by my staff, and has only now been floated outside Treasury. However, *any reaction from you even at this early stage would be of great value to our work.*

On the substance, there is already underway the rudimentary beginning of a sort of "GATT for Investment" through efforts on different parts of the issue in different forums: discrimination in the "national treatment" section of the OECD code, international arbitration in ICSID,<sup>4</sup> multilateral insurance via cooperation among the national OPICs, transfer pricing via an OECD working group, tax harmonization via a series of bilateral treaties, antitrust via bilateral understandings between the United States and several other industrial countries, corrupt practices in the ECOSOC negotiations, etc. But these are only a very tentative start:

—Some issues are not covered at all (e.g., tax incentives to foreign investors and "performance requirements").

—Many which are covered have no enforcement teeth.

—There is no coordination among the many parts of the overall issue.

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, FT–6 Boards, Committees, Organizations, Panels, Working Groups 1977. No classification marking. Sent for information. Reviewed by Hessler on August 8. A typed notation reads: "Noted by W.M.B."

<sup>2</sup> No minutes of this meeting were found.

<sup>3</sup> Tab B, attached but not printed, is a July 26 paper entitled "A GATT for Investment."

<sup>4</sup> The International Center for the Settlement of Investment Disputes (ICSID), founded in 1966 as a part of the World Bank Group, provides a forum in which disputes between member states and private investors can be settled by arbitration or conciliation.



Hence there is clearly room for a major initiative, or series of initiatives, in this area. I will forward further material to you next month.

## Tab A

### Paper Prepared in the Department of the Treasury<sup>5</sup>

Washington, July 29, 1977

#### *A GATT For Investment*

##### SUMMARY

Despite the fact that it has become a major vehicle for the transfer of resources between countries, international investment is not effectively governed by multilateral rules. As a consequence, national governments intervene to tilt the benefits of investment in their favor, thus producing harmful competition and a progressive erosion of the free market system.

Against this background, it is useful to review the possibilities for international cooperation through a "GATT for Investment."

#### *Current Situation*

There are a few international agreements aimed at regulating government intervention in the investment process. The U.S. has a wide network of treaties of friendship, commerce, and navigation (FCN treaties) which prohibit discrimination against American investors and have been negotiated principally with developed countries. The effectiveness of the few multilateral agreements such as the OECD Code of Capital Movements, the International Center for the Settlement of International Disputes, and the OECD Declaration on International Investment and MNEs, is quite limited.

#### *U.S. Interests*

The U.S. has traditionally not taken an active role with respect to foreign investment, in accordance with our general free market philosophy. This philosophy is not shared, however, by other governments which often intervene in investment to and from the United States. The interventions which have the most conspicuous effect on our national interests are the performance requirements imposed on firms by host governments, including quantitative and qualitative job quotas, minimum export quotas, "local content" requirements, and limitation of

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<sup>5</sup> No classification marking.

capital and local ownership. The United States is not necessarily worse off as a result of such intervention than it would be in the absence of foreign investment, but it is very likely worse off with foreign intervention than without it.

#### *Interests of Other Governments*

Cooperation of other governments in pursuing a GATT for Investment would depend on the specific contents of our proposal and the force with which we pursued our objective. Our case should be based on the general proposition that unregulated competition among governments in the investment area is just as detrimental as it would be with respect to trade, and on the proposition that we will no longer passively accept the interventionist policies of other nations. No explicit threats would be necessary, but we would have to make it clear that we are ready to take measures such as regulating the outflow of investment and technology in accordance with our national interests.<sup>6</sup>

#### *Substance of Negotiations*

The various possibilities for topics which could be included in the GATT for Investment fall into three general categories: investor protection, government intervention, and regulation of MNE activities. The specific topics include the following:

##### 1. *Investor Protection*

—A judicial remedies convention could be negotiated which would be designed to ensure that goods produced from expropriated mines and factories can be judicially seized if shipped to the markets of the signatory countries.

—We can strengthen the International Center for the Settlement of Investment Disputes or other similar panels.

—We would face the question of to what extent and in what form we should press for inclusion of the principles of national and most favored nation treatment and treatment according to the minimum standards of international law. These are sticking points particularly with the IDCs [*LDCs?*], who argue that only local remedies should be available to a foreign investor.

—Consideration could be given to several possible approaches for establishing investment insurance on a multilateral basis, but the history of negotiations on such proposals does not give grounds for optimism.

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<sup>6</sup> An unknown hand placed checkmarks adjacent to the second and third sentences of this paragraph and wrote "Necessary?" at the end of the paragraph.

## 2. *Government Intervention*

—The United States managed to get only a weak agreement with respect to incentives and disincentives for investment in the OECD. However, a binding agreement might conceivably be negotiated in this area that was similar to the GATT arrangements with respect to trade.

—GATT-type remedies might also be appropriately applied to performance requirements placed on foreign investors by governments.

—In the tax area we might negotiate a multilateral tax treaty or agreements to extend the range of issues addressed in bilateral treaties.

—The United States might have to respond to demands by other countries that we refrain from imposing requirements on the foreign affiliates of U.S. corporations to further our political goals.

## 3. *Regulation of MNE Activities*

—The developing countries are particularly anxious to require subsidiaries to act independently of parental direction on such questions as pricing, market sharing, and sourcing of inputs. The United States and other developed countries have argued that restrictive business practice limitations should not be extended to intracompany affairs.

—Tax avoidance problems have been met by the extensive international network of bilateral treaties. A GATT for Investment could be useful to national governments in providing a centralized pool of information for national tax authorities.

—Increased disclosure of information by MNEs concerning their activities would be a basic objective of host governments in negotiation of any new agreements.

—In the event that the U.N. negotiations on an anti-bribery agreement are unsuccessful, we could tackle the issue again in the new forum.

## *Forum of Negotiations*

The five basic questions we should have to address in making the complex decision as to which forum or forums we should use to pursue our investment objectives are as follows:

1. Should we rely on a single forum or pursue our objectives in a coordinated fashion in several forums at one time? A single new or existing forum would focus public attention on the negotiating process and facilitate bargaining across issues; multiple forums would result in less politicized negotiations.

2. Should we propose establishment of a new organization for the purpose of negotiating and eventually administering the proposed agreement or rely on existing institution or institutions? Creation of a large new organization would give investment issues a greater prominence in international economic affairs approaching that of the mone-

tary, trade, and development areas. On the other hand, we could expect to encounter resistance from other countries on the grounds that a new initiative in the investment area would undermine ongoing codes of conduct negotiations in the U.N. and in the OECD. The relationship between these exercises and the new initiative might be handled either by keeping them separate or by folding both into a new forum.

3. Should participation in the agreement be universal or limited to a core group of like-minded countries? Universal participation would result in greater coverage of the agreement but might produce a tendency for the negotiations to become politicized and for the agreements to reflect the least common denominator. A "core group" of countries would probably be able to arrive at a stronger agreement, but a number of host countries would be excluded. Under either option agreement would have to be reached on the basis for decision-making, with the two principal models being the OECD procedures under which each country has an equal voice and all decisions must be unanimous, or the IMF, which has weighted representation.

4. If we decide to use an existing forum, which should we choose? If we propose the establishment of a new organization, what form should it take? The OECD has a staff with experience in the investment area, but its membership is limited and its procedures are slow. The United Nations also has some expertise in investment matters and wide membership, but it is highly political. The GATT has a heterogeneous membership and existing mechanisms and procedures which we might use as a model; however, it has not dealt extensively with investment issues.

5. Should we fall back from the bilateral treaty vehicle, rather than rely exclusively on lengthy multilateral negotiations? The United States and other developing countries have a number of FCN treaties and other countries have actively pursued narrower bilateral investment treaties. The major advantage is that they can be concluded with a minimum of difficulty; their fundamental disadvantage is that the public visibility of the effort will be low. Two options we have within the bilateral framework would be to negotiate narrow treaties with LDCs or to negotiate comprehensive treaties which would have the contents of and lay the groundwork for the GATT for Investment.

### *Sanctions*

Sanctions could be used to enforce new agreements in this area which could range from moral opprobrium to private legal action to state retaliation. The appropriate kind of sanction would differ as between the offender and the offense. MNEs would be subject to the local law and sanctions in host countries, but home governments would also play a role, as could some recognized international body. Among the options for enforcing standards on governments are withholding eco-

conomic benefits, imposing countervailing duties, discrimination by host governments against investors of a violating country, and discrimination by home governments against investments in a violating country.

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## 50. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, August 9, 1977

### SUBJECT

Results of My Paris Trip (August 5–7)

*I went to Paris last Friday and Saturday<sup>2</sup> for two purposes: 1) for a meeting with German Finance Minister Apel to clear the air about recent exchange rate movements and to explain U.S. exchange rate policy, and 2) for a meeting with other industrial country and OPEC representatives to try to work out arrangements for supplementing the resources of the International Monetary Fund through the so-called “Witteveen Facility.”*

### *Meeting on Exchange Rates*

*The meeting with the Germans on the exchange rate issue went extremely well. Over the past several weeks the dollar-DM rate has moved noticeably—though not as sharply as on a number of other occasions during the period of floating exchange rates since 1973. The German press had made a major issue of recent rate movements, claiming that the U.S. was acting irresponsibly, “manipulating” the exchange rate and trying to “talk the dollar down” for competitive and other reasons, and charging that the U.S. should intervene on the exchange markets to reverse the rate movement. The German official reaction to the rate movements had been much more restrained, though there was suspicion that the press comments were stimulated by government spokesmen.*

*I explained and reaffirmed our exchange rate policy to Minister Apel—that we support a floating exchange rate system; that our policy is that the dollar’s value should be determined by underlying economic and*

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<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 2, 8/1/77–8/15/77. Confidential. Sent for information. Marked “FYI.” A stamped notation reads: “The President has seen,” and Carter wrote at the top of the page: “Mike—good job. J.C.”

<sup>2</sup> August 5 and 6.

financial conditions; that we intervene in exchange markets only to counter disorderly exchange market conditions. I reiterated our view that a strong dollar is of major importance to the United States and the rest of the world; that the way to maintain a strong dollar is through a strong and non-inflationary economy; and that recent indicators show progress toward that objective.

Minister *Apel* agreed with everything I said, stressed that Germany fully supported the floating exchange rate system, and expressed regret for the German press comment. (The Germans also told us privately that they are now convinced they should take additional stimulus measures to increase their real growth rate, which is running at a very disappointing level. They will be telephoning us this week to tell us what the specific measures will be.)

*Apel* and I held a joint press conference to make clear that we understood and were in full agreement on these matters.<sup>3</sup> I believe this will lay to rest the uncertainties and press speculation.

#### *Witteveen Facility*

We also succeeded in reaching agreement among the major industrial and OPEC countries on the main issues relating to establishing the "Witteveen Facility", to supplement the resources of the IMF for the next two years or so. This reflects the successful culmination of follow-up to one of the most important items at the London Summit. The usable resources of the IMF are extremely low at present, and—given the large payments imbalances in a number of countries associated with increased oil costs and other factors—there is a need to supplement these resources and provide the needed assurance that official financing will be available in adequate amounts to assist countries while they implement needed adjustment programs and eliminate the need for financing.

While no one can be certain exactly how much is needed for the new facility, it has been our view that about \$10 billion or more is required to assure the necessary credibility and confidence. The Paris meeting was designed to raise that amount, and to set financial terms and conditions.

While a couple of participants were unable to say precisely how much they might pledge until they return to their capitals, it looks as though the \$10 billion or an amount very close to it will be raised. In Paris seven industrial countries pledged about \$5.2 billion. Five OPEC countries pledged about \$4.2 billion, and two others (Kuwait and Nigeria) are expected to add to that amount, so that the OPEC total would rise to about \$4.4–4.9 billion. If the total falls slightly below \$10 billion, there are other possibilities for "topping-up" the total.

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<sup>3</sup> A report on the joint press conference appeared in the *The New York Times* on August 7. ("U.S. and Bonn Call Strong Dollar Economically Vital," *The New York Times*, August 7, 1977, p. 3)

I regard this as a *successful outcome*. *The total amount is adequate, and the balance between the industrial country group and the OPEC is reasonable*. I believe Congress will react favorably to the rough equality between OPEC and industrial country participation—OPEC is providing almost half—since the lack of OPEC participation was one of the major objections to the financing proposal put forward by the previous Administration. *The U.S. share* (approximately \$1.7 billion) *is reasonable, and in line with that of other participants* (for example, Saudi Arabia's share is \$2.5 billion; Germany's share is \$1.2 billion). Also, *the interest rate is fair*—we will receive the amount it costs Treasury to borrow for comparable maturities, which is an adequate return without being too severe on the borrowers. And the facility will help strengthen the international monetary system by encouraging those countries with large balance of payments problems to adopt the needed adjustment programs. Tony Solomon, my Under Secretary for Monetary Affairs, did most of the ground work in putting this arrangement together.

Assuming no further hitches develop, the IMF Executive Board will finalize the facility in the weeks ahead. *We are planning to submit the necessary authorizing legislation to the Congress in the present session.*

W. Michael Blumenthal<sup>4</sup>

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<sup>4</sup> Blumenthal signed "Mike" above this typed signature.

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## 51. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, August 12, 1977

SUBJECT

Highlights of Treasury Activities

### 1. GERMANY

As I indicated in my report on my discussions with Finance Minister Apel last weekend,<sup>2</sup> *the Germans are now convinced that additional*

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 44, 8/15/77 [1]. Confidential. Marked "F.Y.I." A stamped notation reads: "The President has seen," and Carter wrote at the top of the page: "Mike. J."

<sup>2</sup> See Document 50.

*stimulus is needed to raise their real growth rate—now running about 1 point below the 4½–5 percent target they accepted at the London Summit. They have now committed themselves publicly to taking action,<sup>3</sup> and have told us privately that on August 31 they will announce (1) a combination of revenue and expenditure measures to increase the fiscal deficit by DM 10 billion (about \$4.4 billion); and (2) an energy-saving action. With these measures, they expect real GNP growth of 4½ percent in 1978—though because of the long lead times involved the 1977 result is likely to be very disappointing.*

Incidentally, I have told Apel that I will be happy to accept his invitation to visit Germany at the beginning of November.

## 2. STEEL INDUSTRY PROBLEMS

*On August 8 I met with a group of steel company executives, led by Speer of U.S. Steel, who were anxious to press their problems with me as they had done previously with Bob Strauss.<sup>4</sup> They stressed that the increasing volume of imports (recently about 18 percent of apparent consumption) was just the beginning of Japanese and EEC producers' efforts to penetrate our markets. Although they did not say so directly, it was clear that they wanted some sort of import relief. I told them that Treasury would enforce the anti-dumping laws vigorously, and urged them to bring such cases to our attention. At the same time I asked them why they did not emulate the Japanese, who reduce rather than raise prices in times of slack demand. They replied that this would not be effective for U.S. producers, since they do not have access to a free global market and only the U.S. market is free to world competition. Moreover, they said, they could not afford to lower prices in periods of slack demand because public pressure kept them from increasing profit margins in periods of increased demand. I told them that we would give their problems further study, but at the same time I asked them whether higher labor costs here might have undermined their ability to compete. (Another problem is the technological superiority of some of the newer foreign plants.)<sup>5</sup>*

[Omitted here is discussion of New York City and domestic finance.]

**W. Michael Blumenthal<sup>6</sup>**

<sup>3</sup> On August 11, for example, *The New York Times* printed a story entitled "West Germany, to Offset a Surge In Joblessness, Raises Spending." (Ellen Lentz, *The New York Times*, August 11, 1977, p. D9)

<sup>4</sup> Possibly a reference to the June 30 meeting between Strauss and representatives of eight steel companies. See Document 36.

<sup>5</sup> Carter wrote "I find their frequent & excessive price increases incompatible with pleas for import restraints. J.C." in the margin adjacent to this section.

<sup>6</sup> Blumenthal signed "Mike" above this typed signature.



**52. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) and Robert Ginsburg of the Domestic Policy Staff to President Carter<sup>1</sup>**

Washington, August 12, 1977

## SUBJECT

The Trade Deficit (At Your Request)<sup>2</sup>

This memorandum summarizes the accompanying papers on the trade deficit prepared by Treasury and Commerce.<sup>3</sup>

*DIMENSIONS OF THE TRADE DEFICIT*

1. *Size.* The trade deficit is expected to be about \$27 billion in 1977, an \$18 billion deterioration from the \$9 billion deficit for 1976. Imports are projected at approximately \$149 billion, with oil accounting for 30% of the total, and exports at \$122 billion.

2. *Trade Account and Current Account.* The current account balance includes the merchandise, agricultural products, and raw materials of the trade account as well as "invisible" items such as tourism, freight and transportation, investment income, and unilateral transfer payments; it measures a country's net balance in international transactions in goods, services, investment income, and transfer payments. Invisibles are projected to be in surplus by about \$11½ billion in 1977 (\$8 billion in 1976). Accordingly, the current account should be in deficit by about \$15½ billion (\$27 billion trade deficit less \$11½ billion invisibles surplus) in 1977 (\$1 billion deficit in 1976).

Although less inclusive, the trade account is often given greater popular and political attention than the current account because in measuring the export and import of tangible products it is viewed by some as a better guide to the net impact of international trade on U.S. jobs. (That view is somewhat overdrawn because: (i) there is considerable labor content in such invisible items as tourism, freight, and banking and insurance services; (ii) there is relatively limited labor content in U.S. agricultural products, which account for roughly 20% of our exports; and (iii) about 50% of our imports are themselves necessary inputs for the production of goods in the U.S.)

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 68, President's Balance of Payments Statement 12/77. No classification marking. Ginsburg did not initial the memorandum. A stamped notation reads: "The President has seen," and Carter initialed "C" at the top of the page.

<sup>2</sup> Not further identified.

<sup>3</sup> Not attached.

3. *Geographical Distribution.* All the projected 1977 trade deficit can be accounted for by deficits the U.S. will be running with OPEC countries. The U.S. will be in rough balance with the non-OPEC world as a whole. However, the deterioration in the U.S. trade balance between 1976 and 1977 is accounted for partly by a deficit in our trade balance with Mexico and Brazil, our fourth and tenth largest export markets (we normally run surpluses with these countries but they are currently embarked on domestic stabilization policies), and a somewhat larger than usual deficit with Hong Kong, Korea, Taiwan, Japan and Canada (we normally run trade deficits with all these countries).

4. *Product Distribution.* The U.S. will run a \$40 billion deficit (\$45 billion in imports, \$5 billion in exports) in fuels (oil, gas, coal, nuclear fuel) in 1977 (\$32 billion deficit in 1976) and a surplus of approximately \$13 billion in all other products. In assessing the \$18 billion deterioration in our trade account between 1976 and 1977 on a product by product basis, the \$8 billion increase in fuels accounts for over 40% of the total and a decline in our surplus in manufactured goods from about \$19 billion in 1976 to \$13 billion in 1977 accounts for another 1/3.

5. *Lag in Exports.* While imports were up 26% in 1976 and are expected to increase by another 20% this year, exports increased only 7% in 1976 and are expected to increase only about 6% in 1977. Since these changes include price increases, the real volume of U.S. exports will be essentially flat for 1976 and 1977. Treasury attributes the imbalance between imports and exports basically to the oil situation and slower rates of economic growth abroad than in the U.S. Commerce is concerned that the lag in exports may also reflect some decline in international competitiveness of U.S. goods.

6. *Prospects for the Future.* The 1978 trade deficit is expected to be as large or larger than that for 1977. Although long-term projections must be considered with caution, Commerce expects a substantial trade imbalance to continue at least through 1980.

#### CAUSES OF THE TRADE DEFICIT

1. *Oil.* Fuel imports, up almost \$17 billion since 1975, are the most important factor in the trade deficit. The oil export revenues of the OPEC countries as a group are so huge that, even with large percentage increases in imports, they are running current account surpluses in the range of \$40–\$45 billion.

In a global context in which the oil-importing countries as a group must run deficits to absorb the \$40–\$45 billion OPEC surplus, the U.S. movement from current account surplus in 1975 to rough balance in 1976 to a \$15½ billion deficit in 1977 has been “appropriate”—without that movement, the financially weaker countries (both developed and LDCs) might be running unsustainable deficits which could be handled

only by sharp and destabilizing changes in their domestic economic policies. However, of the financially stronger countries (U.S., Japan, West Germany, Switzerland, and The Netherlands), only the U.S. is doing its part in assisting adjustment to the international consequences of the OPEC surplus. (To be sure, some of our “strong” allies might argue that we are not doing our part where it counts most—cutting back substantially on imported oil.)

The slow growth and current account surpluses in West Germany, Switzerland, and The Netherlands are particularly damaging to the “weak” countries of Scandinavia, France, the U.K., and Southern Europe. Only expanding markets in *all* the strong countries will allow the world economy to achieve a steady, sustainable growth path.

2. *Favorable Economic Growth in the U.S. and Slow Growth Abroad.* More than 1/2 of the \$18 billion deterioration in our trade balance between 1976 and 1977 is accounted for by non-oil trade (e.g., the \$6 billion decline in our surplus in manufactured goods). This is a function primarily of the relatively strong U.S. economic recovery, which has led to substantial increases in imports, and relatively slow growth abroad, which has constrained our exports.

The impact of differential growth rates on our trade balance is heightened by the fact that U.S. imports respond more sharply to changes in U.S. income than our exports respond to changes in foreign income, i.e., a 1% increase in U.S. income will lead to a 1.5–2.0% increase in our imports while a 1% increase in foreign income will only lead to a 1.0–1.5% increase in U.S. exports. (This is because (i) the U.S. imports a large amount of consumer goods, which are more heavily dependent upon changes in income than the agricultural products and capital goods which we export and (ii) imports constitute a smaller share of our consumption pattern than they do for our trading partners and, accordingly, are more flexible upward.)

It is not only West Germany and Japan that are growing slowly but virtually all of Europe and a number of non-oil LDCs. Some of the “weak” countries of Europe and the non-oil LDCs are embarked on domestic stabilization policies to reduce their debt and get their economies in balance and also have to pay an increasing part of their foreign exchange for oil. U.S. exports to non-oil LDCs, even in inflated dollars, have been virtually flat for the past two years.

3. *U.S. Competitiveness.* Any judgments about changes in competitiveness over relatively short time periods must be inherently conjectural because the conclusions reached will depend crucially on the base period chosen. Commerce points out that the export prices of U.S. manufactured goods increased relative to those of our trading partners during the period between mid-1974 and early 1976. With a 1–2 year normal lag in the impact of changes in relative prices on manufacturing

exports, this "decline" in "competitiveness" may presently be having some adverse effect on manufacturing exports and may continue to do so for the next year or so.

However, Treasury points out that *since* early 1976 U.S. inflation has been lower than the average inflation rates experienced by our major trading partners and, therefore, in terms of relative prices the U.S. has probably made some small gains in "competitiveness" recently. Commerce also notes that most foreign governments do considerably more to promote and even subsidize exports than does the U.S.

The U.S. share of world manufacturing exports was 20.3% in 1976, down from 21.2% in the cyclically high year of 1975 but up from the 19.1% historic low point of 1972.

### IMPLICATIONS OF THE TRADE DEFICIT

1. *Economic Implications.* Lagging exports have an obvious adverse effect on economic growth, jobs, and Federal tax revenues. To the extent that the sharp increase in imports (at a time when U.S. unemployment and excess capacity are high) is due to unfair competition from abroad, U.S. industry is being hurt and domestic production impaired. Beyond these truisms, there is *general agreement that it is appropriate international economic policy for the U.S. to be running a current account deficit at this time.* The questions relate to the causes, size, and persistence of the deficit and our ability to sustain it over time, if necessary, without adverse economic or political fallout.

Commerce believes that "persistent, excessive" U.S. trade deficits would tend to create uncertainty and instability in the world and U.S. economies, with attendant political risks.

Treasury notes that the ratio of the present current account deficit to U.S. GNP is about the same as that for the OECD as a whole (about 1% in each case) and that the U.S., with its strong economy and capital markets and stable political system, is better able to finance and manage a deficit than almost all other countries. Treasury believes that our focus should be on reducing the oil problem and urging the other "strong" countries to expand their economies, that the U.S. competitive position remains strong, and that the U.S. should not take measures which would attempt to improve our trade balance at the expense of our trading partners.

2. *Political-Psychological Implications.* To some, a trade deficit and a depreciating dollar are inherent signs of weakness. To others, they are potent arguments for import restraints (which, in turn, could severely jeopardize our efforts to control inflation). Although these views may have to be met in the political arena with public education, they are without economic merit. Short run "fixes" for the trade deficit (e.g., import restrictions or slowing down economic growth through monetary

and fiscal policy or through import quotas on oil) would be worse than the problem itself.

*POSSIBLE RESPONSES TO THE TRADE DEFICIT*

1. *Short Run.* There is little we can do which will substantially reduce the trade deficit over the next year or two. Those policies which would work—such as import restrictions or cutting back on domestic economic growth—are inherently undesirable.

2. *Recommendations.* Treasury and Commerce are in basic agreement on the following set of responses to the trade deficit:

(a) an energy program which will reduce oil imports;<sup>4</sup>

(b) encouraging the “strong” countries (Japan, West Germany, Switzerland, and The Netherlands) to expand their economies, thereby increasing their imports;

(c) encouraging the “strong” countries to allow their exchange rates to rise, thereby reducing the price competitiveness of their exports (that kind of automatic adjustment is a basic purpose of floating exchange rates but it can be thwarted by government intervention in the exchange markets);

(d) acting against specific cases of dumping or unfair foreign trade practices;

(e) increasing official IMF resources to enable other countries to adjust to their oil problems at reasonable paces without forcing destabilizing cutbacks in their domestic economic policies;

(f) pursuing the reduction of barriers to U.S. exports in the MTN and in direct consultation with countries like Japan;

(g) increasing the export awareness of U.S. producers and increasing the promotion of U.S. exports;

(h) adequate export financing (Commerce supports an expansion of the Export-Import Bank and DISC;<sup>5</sup> Treasury, believing that U.S. goods have not lost their competitiveness and that export subsidization would both undermine our efforts to reduce these practices by others and provoke retaliation, would not go as far in expanding the ExIm Bank and thinks DISC contributes virtually nothing and should be eliminated);<sup>6</sup> and

(i) educating the U.S. public on the problem in order to reduce the possibility of ill-advised political reactions.

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<sup>4</sup> Carter wrote “good” in the margin adjacent to recommendations (a)–(g) and (i).

<sup>5</sup> Carter underlined the abbreviation “DISC” and wrote “no” in the margin.

<sup>6</sup> Carter wrote “I agree” in the margin adjacent to this section of the paragraph.

3. *Additional Responses.* Although not mentioned in the Treasury or Commerce papers, we would add the following to the list of possible responses:

(a) If the trade deficit persists and you determine that more vigorous action needs to be taken, you should seek advice from Secretary Vance and Dr. Brzezinski on possible diplomatic/political responses to encourage more equitable policies by the “strong” countries. The Treasury and Commerce papers are concerned mainly with economic responses. We know that we are pushing Japan and West Germany fairly hard already and would *not* recommend any additional pressure for now, but there may come a time when we need to take a broader look at our options for dealing with the underlying problem of unbalanced economic policies among our allies (probably less for reasons of our own trade deficit than to protect the stability of the “weak” countries of Europe).

(b) The IMF will meet in Washington in late September. All of the leading finance ministers, private bankers, etc. will be here. Normally the President makes brief, non-substantive welcoming remarks. You might use the occasion for a major substantive speech on international economic policy, describing the contribution the U.S. has made to world economic stability in the past few years and indicating that it is time for more equitable sharing of the burden of the oil deficit by *all* the strong economies.<sup>7</sup>

The speech could have the positive international consequences of (i) putting all nations squarely on notice that the U.S. should not be expected to absorb the oil deficit alone and (ii) actually galvanizing our strong allies to adopt more equitable economic policies. It could also have the major domestic benefits of educating the American people and getting out in front in a leadership role on this issue.

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<sup>7</sup> The annual joint meeting of the IMF and World Bank took place in Washington September 26–29. Carter addressed the September 26 opening session; for the text of his remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book II, pp. 1669–1671.

53. **Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>**

Washington, September 12, 1977

SUBJECT

Oil Imports, Trade Deficit, etc.

SUMMARY

The swing in our balance of trade has been very large and projections for the future take it outside the range of “benign neglect.” International financial markets are resilient, however, and we can afford a careful and orderly response.

As Mike Blumenthal suggests, we ought to organize our efforts.<sup>2</sup> But we should *not* restrict our examination to *oil*. I suggest a PRM led by Treasury, which has two goals:

A. An assessment of the severity of our deficit problem under various scenarios.

B. A review of the costs and benefits of alternative responses, both oil and non-oil.

BACKGROUND

1. Secretary Blumenthal’s projections of the *trade deficit* (\$30 billion, 1977; \$40 billion 1978) are about the same as our own. The deficit on *current account* (subtracting U.S. earnings on investment abroad and some other items) would be about \$12 billion a year lower. This is the amount that has to be financed by foreign investment in the U.S.

2. Even with a successful energy program, U.S. oil imports will continue to rise for awhile. An \$80 billion oil import bill in 1981 is a good bit higher than a “quickie” estimate which we have just made. But it is not out of the question.

3. Since we are growing faster than most other nations, our exports may continue for awhile to grow more slowly than our non-oil imports.

4. So long as the U.S. economy is perceived to remain healthy, and particularly so long as our rate of inflation is favorable compared to most other nations (as it now is), we should be able to attract OPEC and other investment to finance large current account deficits.

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<sup>1</sup> Source: Carter Library, Plains File, Subject File, Box 36, Schultze (Charles) Memos, 1977. No classification marking. Schultze did not initial the memorandum.

<sup>2</sup> Not further identified. In his October 18 memorandum to Carter (see Document 66), Blumenthal referred to a report that he made to Carter on September 10 suggesting “that the sharp decline in the U.S. balance of trade and payments requires our immediate attention.”

5. Some depreciation in the value of the dollar may occur if our current account deficit continues to grow. If the depreciation is *moderate* and *orderly*, the bad consequences (increased prices for imports) would be outweighed by the good consequences (promotion of exports).

6. We cannot, however, rule out the possibility that growing trade and current account deficits would have two highly undesirable consequences:

- (a) substantially increase protectionist pressure here;
- (b) a psychological impact on holders of dollars, leading to a sharp and disorderly decline in the dollar, which in turn might lead to competitive devaluation or protectionist measures in other countries.

We think the probability of (b) is quite small, but not zero.

7. Almost any action to reduce the trade deficit substantially will have budgetary, economic, or other costs. But some possible actions would have far less costs than others.

8. There is a list of items we could explore, not all of which relate to oil. (In each category I have tried to list the items in order of least cost.)

A. *Oil imports*

(i) Rescind the plan to cut back Elk Hills petroleum reserves production<sup>3</sup> (up to \$1½ billion lower imports).

(ii) Speed up repairs to Alaskan pipeline and accelerate second phase (can it be done, and at what cost?). The potential national savings on oil imports are very large.

(iii) Stretch out oil acquisition for the strategic petroleum reserves (we think current plans call for about \$4 billion in purchases in 1978).

(iv) Work closely with Saudis, Iranians, and others to see what we can do to encourage increased production, smaller price increases, and willingness to hold dollars (e.g., should we develop special kinds of investment instruments for them?).

(v) Institute additional voluntary gasoline and other energy conservation measures (substantial question if they can have a lasting effect, but could be explored).

(vi) Surcharge on oil imports. Hard to sell to the public; would also raise price of domestic energy and add to inflation.

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<sup>3</sup> Among the measures included in Carter's national energy plan, which he submitted to Congress on April 20, was a proposal to limit production at the Federally-owned Elk Hills Naval Petroleum Reserve in California. See footnote 7, Document 25.



B. *Other measures*

(i) Delay effective date of DISC removal in tax reform bill<sup>4</sup> (\$1/2 to \$1 billion a year in exports).

(ii) Increase export promotion efforts by Department of Commerce (cheap, but of questionable effectiveness).

(iii) Increase funds for Ex-Im bank. (Effective, but may induce competitive response by other exporting nations).

(iv) Promote orderly depreciation of the dollar (takes effect slowly but could have large effect on trade balance; adds to inflationary pressure).

C. *Steps we should not take*

(i) Deliberately slow down growth in economy to reduce imports.

(ii) Higher interest rates to attract more foreign investment. (This would, among other things, also slow the economy.)

(iii) New protectionist measures.

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<sup>4</sup> In an article printed in the August 18 edition of *The New York Times*, Clyde Farnsworth noted: "Ever since his election campaign President Carter has been calling the DISC—essentially an incentive that defers taxes on profits from exports—one of the most expendable of tax advantages for business." (Clyde H. Farnsworth, "Washington & Business: Carter vs. Industry on DISC Benefits," *The New York Times*, August 18, 1977, p. D1) In an August 26 memorandum to Eizenstat, Strauss discussed the utility of the DISC as a bargaining chip in the MTN. (National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 3, DISC 1977) In January 1978, Carter proposed a tax reform plan to Congress that included, among other measures, the phased elimination of the DISC. For the text of Carter's January 20, 1978, message transmitting the tax reduction and reform package to Congress, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 158–184.

#### 54. Memorandum of Conversation<sup>1</sup>

Washington, September 16, 1977, 10:34–11:35 a.m.

##### SUBJECT

Summary of the President's Meeting with French Prime Minister Raymond Barre

##### PARTICIPANTS

President Jimmy Carter  
Vice President Walter F. Mondale  
Secretary of State Cyrus Vance  
Secretary of the Treasury Michael Blumenthal  
Dr. Zbigniew Brzezinski, Assistant to the President for National Security Affairs  
Arthur A. Hartman, U.S. Ambassador to France  
George Vest, Assistant Secretary of State for European Affairs  
Henry Owen, NSC Staff Member  
Robert Hormats, NSC Staff Member  
Robert Hunter, NSC Staff Member (Notetaker)  
Alec Toumayan, Department of State Interpreter  
Raymond Barre, Prime Minister of the French Republic  
Louis de Guiringaud, Minister of Foreign Affairs  
Jacques Kosciusko-Morizet, Ambassador of France to the United States  
Francois de Laboulaye, Under Secretary for Political Affairs  
Henri Froment-Meurice, Under Secretary for Economic Affairs  
Jean-Claude Paye, Advisor to the Prime Minister on International Affairs  
Gabriel de Bellescize, Counselor, French Embassy

*The President* began by saying that he had phoned Chancellor Schmidt.<sup>2</sup>

[Omitted here is discussion unrelated to economic policy.]

*The President* said he understood that Barre and Secretary Vance had discussed some items.<sup>3</sup> If Barre liked, he would go into SALT, MBFR, the UN disarmament conference, or to economics. He is at their disposal.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 35, Memcons: President: 9/1–18/77. Secret; Sensitive. The meeting took place in the Cabinet Room. Carter and Barre also met on September 15; a memorandum of conversation is in the Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 12, France: 1977.

<sup>2</sup> Carter spoke to Schmidt by telephone on September 16 from 9:30 until 9:40 p.m.; a summary of their telephone conversation is in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 35, Memcons: President: 9/1–18/77.

<sup>3</sup> Vance and Barre met on September 15; a memorandum of conversation is in the Carter Library, National Security Affairs, Staff Material, Europe, USSR, and East/West, Hunter/Rentschler Trips/Visits File, Box 27, Brown (Harold) 11/21/77 Meeting with French Defense Minister: 11/77.

(Following some French discussions), the *Prime Minister* said he would begin with economics. (*The President* said fine.) Yesterday, he had defined with Secretary Vance (the *President* said “he told me”) the importance of talking about world economics. (*The President* said: “It would be very valuable to me, sir.”) There are two points: general economic activity in the world and the main problems; and what Giscard and he had said on commercial negotiations—“organized freedom of trade.”

General economic activity will be dull in the next two or three years. If three countries—the U.S., Germany, and Japan—are unable to sustain economic activity, then others will suffer, who have no margin of maneuver. The economies of Europe will go through a difficult period, with much psychological uncertainty. This is an inhibition on both economic partners and on governments. He has talked with Schmidt and his Government on this point. They are cautiously trying to avoid a relapse into inflation; but they understand the need to stimulate economic activity both to help Germany, and to benefit others. Germany’s new program is good, but it is important that the measures be implemented rapidly. Schmidt and Apel gave indications of their policy. But they have to discuss them with the *Bundestag* to see if measures can be taken at once. If Germany takes measures that will only be effective in 1978, then this will be bad for Germany and for others. It would be better for Germany to take modest steps now, than more ambitious efforts that are hedged and work too late.

The Japanese program is a good one. But its economy more directly affects the U.S. than Europe, though it can indirectly help induce economic activity in Europe. For France, the situation now provides a greater possibility to intervene. For one year now, there has been an effort to stabilize the franc, improve the balance of trade, and improve the current account balance of payments—with encouraging results. If inflation remains high, it is not because of a basic inflationary tendency, but rather because of the need for adjustment in public utility rates, and in prices charged by firms. Before, there were strong wage price rises, and rises in the prices of imported raw materials. These repercussions were included in the price rises of the first six months of this year.

To the end of 1977, there will be a continued deceleration in price rises. They adopted measures at the end of August, to support economic activity: in housing, in building, in public works. They hope to avoid any recession this year. The rate of growth will be slightly more than 3%. The main problem is unemployment, deriving mainly from structural factors. This includes the growing number of women in the labor force, looking for part-time jobs. It is difficult to adjust this demand to jobs which are “firm.” There is also the problem of young

people, where the issue is inadequate skills. They have specific programs to help them get more skills and qualifications. But this will remain a problem for France and for all other industrial economies for years to come.

A quick reduction of unemployment is very difficult to achieve, and it will be necessary to have social measures to offset the social and political consequences of unemployment for years to come. There are some conditions to be fulfilled. First, there needs to be better coordination of economic policies, with freedom of maneuver, and there needs to be an improvement of the basic economic situation. He hopes the Summit follow-up, with the seven nations, will help. Second, there needs to be stability at a realistic level of exchange rates, to avoid world monetary uncertainties. The soundness of the dollar would make a decisive contribution to an improved international monetary situation. Third, there is the need for the orderly development of international trade. We must fight protectionism. Our countries are so much involved in trade that if they back down, it would be damaging to all. Fourth, there is a need to adopt (mainly in the U.S.) vigorous energy policies to stabilize the international oil market, and to avoid pressure on oil prices. If the oil-importing countries face in the future regular and large price increases, how can they cope? We have adjusted—but this has not been fully implemented. We benefit from credits. We need to realize (Note: complete) the process of adjustment. Therefore, the stabilizing of international oil markets is fundamental. Thus, in France, they are reducing in all ways their dependence on oil imports.

On trade, Giscard told the heads of state and government in London that France favors the “organized freedom of trade.” Some say that this means France is moving to protectionism. This is absolutely ridiculous. For more than a year, as Minister of Finance, he has fought strongly against protectionism in France, against vigorous assaults in Parliament from some of France’s most distinguished leaders. He has succeeded in avoiding protectionism: why? It is not because of a theoretical position—like being for free trade. It is rather because of the growth of French trade in the last 10 years, so that it is now the number-four exporter in the world. It would be foolish for France to isolate itself, or reduce systematically its imports. This would lead only to retaliation, to rising unemployment, and falling exports. France depends on freedom of trade. It only asks for an *orderly* growth of trade.

In textiles, for example, they have signed the multifiber agreement, and will respect all their commitments. In the first half of 1977, for some textile products, the rise in French imports had been from 60 to 100%. This is destroying some medium-sized and little firms, in relatively non-industrialized parts of France. This creates big unemployment—maybe only a thousand people, but in regions that cannot sustain it.

They had to invoke Article 19 of the GATT,<sup>4</sup> since they could not tolerate this. But he has told visiting ministers from developing countries that France is not against the *orderly* growth of textile imports. If they could agree on an annual increase of textile imports of 10–12%—or something—that would be all right. Imports, after all, are good for fighting inflation, and for the international economy. But France cannot accept an “invasion”, with its disruptive social consequences. In the industrial countries—and in relations between the industrial and developing countries—there is benefit from know-how, technology, capital, low labor costs. But we need to find collective rules of the game, leading to an orderly growth of trade. They will give up this precise formula “Orderly freedom of trade” if this is seen as protectionist: that is not the object. The object is to discuss problems coming after the oil crisis, linked to nations’ eager competition to improve their balance of payments. We must get conditions for regular and orderly growth of trade. He hopes that collective rules of the game can be collectively accepted and implemented. This is absolutely necessary to maintain a satisfactory rate of growth of international trade.

He is ready to answer questions.

*The President* said that in his call to Schmidt, they had discussed the economic stimulus package. It was \$3.5 billion in total: \$1.5 billion in tax cuts, and \$2.0 billion in public works—which depend on the regional governments. Getting them to go along would be difficult. After all, it is only possible to issue an order and have it done, in the United States!! It is important for this to be implemented in Germany—but he has doubts about it. The Opposition wants more stimulus—\$6–7 billion. How it will come out, he doesn’t know.

On Japan, this proposal for stimulus was at the middle of those suggested. He hopes they will do more to reduce their surplus. They have a favorable balance of trade, and we are trying to work more with them on a bilateral basis without protectionism. There has been a growth of Japanese exports as in TVs; and we have sought voluntary restraints. They were dumping in the U.S. market, which was against U.S. law.

On French growth, Barre’s figures are encouraging: 3% or so. We had thought it would be only 2.5%. This is good news. We have similar problems with high unemployment, although in the U.S. it will go down about 1% this year. There are pockets of high unemployment—among blacks and the young—where unemployment is extremely high. Economic growth will be less in the second half of 1977 than in the first half—but will be about 5% for the year; and not too much lower

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<sup>4</sup> Article 19 of the GATT deals with “Emergency Action on Imports of Particular Products.”

next year. We have an economic package of \$21 billion. His economic advisers tell him that in the final quarter, we will see about \$3 billion being felt, since we need time to implement it. In the first quarter of 1978, about \$8 billion will be felt, and it will take the next two quarters to feel the rest. He thinks this is adequate, with tax reform and a lowering of tax rates, which will be effective over the years. There is also the trade balance, unemployment, and inflation. He believes that unemployment will continue to go down. But on the inflation question, he is not sure. The year in agriculture has been one of our best ever. This will mean lower prices for food, which will affect the overall rate of inflation. On labor contracts (with coal still to come), we have more or less managed to get by; and will have one to two years without a renewal of major negotiations, since many labor contracts are for three years.

Mike Blumenthal can talk on trade negotiations. Our assessment is for the need for quick and substantial progress at the MTN. His impression is that the French don't want to see major action, quickly, or as much as do we. Is this erroneous? As a farmer, he can understand France's problems with agriculture. This is difficult to handle. We are trying to work out a formula, with worldwide grain reserves and a sugar agreement. These are difficult problems. We are eager for progress at the MTN. Bob Strauss is a very vigorous negotiator; he will be no impediment to progress! Maybe he will even want to move further than France prefers.

*Secretary Blumenthal* said he has one comment, on the first part of Barre's comments. We see the overall situation of most developed countries in the same way. He would add on freedom of maneuver: it is narrow for *any* nation, now, including the U.S. There are several objectives: getting inflation and unemployment down, handling energy, getting order in our international accounts and having a strong dollar—and these are not totally consistent with one another. For example, vigorous action to restrict imports of energy, if done too fast, would slow down the U.S. economy, and lead to unemployment and other actions. We do not have much elbow room. There is the problem of high imports on our balance of trade; a high current account deficit; the energy situation. These cannot be corrected quickly, but we are trying.

Progress at MTN is of considerable importance. There is pressure on the President because of the imbalance. Domestic groups seek restraints (it is not just the French feeling these pressures). Therefore the timetable—an ambitious one—is important. It will finally show some progress, and itself is a major accomplishment. We will do all that we can; and hope that France will help MTN keep on its calendar. There are ways to agree to a formula while leaving some things open. One can

put in a “working hypothesis”, or some form of words. We could use French help in keeping to the October and November dates.

On orderly arrangements, the word “orderly” has a history. “Orderly marketing” (used by the U.S.) sounds good, but it really means quotas. The word, therefore, causes some concern; and it should not be seen as leading to protectionism. Safeguards are needed—we need them, too—as in textiles, steel, shoes (the *Prime Minister* said “ship-building”)—where all countries have some concerns. Therefore, we should go forward with the MTN timetable, so that there can be some significant cuts, no doubt with some exceptions, while negotiating minimal safeguards to protect against undue social consequences of too rapid growth. If the MTN calendar slips, it would be unfortunate. That would encourage protectionism in the U.S.—people will say we want our own measures to deal with the problem.

*The President* asked what political pressures are on Barre as the election approaches—for greater stimulation and more jobs? Are they significant?

*The Prime Minister* said that the election process had been going on since last October. He used to say there were no such pressures. They pursued cautious policies, while sustaining economic activity. They tried and succeeded in preventing a recession. But it is not possible to protect the franc, improve the balance of payments, and stimulate the economy vigorously. At the end of August, they contributed to growth (i.e. stimulus). If this can be consolidated, then next year’s growth could be 4–4.5%. Investment is going well for big and medium-sized firms. Ambassador Strauss will be in Paris next week, and he will see him. France is not against the good evolution of the MTN. They are not sure that the ambitious calendar can be fully respected—this could be the fault of other governments, too. They must consider proposals—and are not clear on them. It is important to discuss these issues efficiently.

For the other, he did not use the form “orderly market agreements”, since here this means cartels. The form implies orderly growth, and collective rules in international trade. It is not a definite idea. We need to discuss problems and do it by sectors. Textiles would have one arrangement; shipbuilding another. But they should be discussed to avoid difficulties: this is the meaning of the concept. But if these problems are not discussed, then the United States and other countries will move to protectionism under the pressure of public opinion.

[Omitted here is discussion unrelated to economic policy.]

**55. Telegram From the Embassy in Japan to the Department of State<sup>1</sup>**

Tokyo, September 16, 1977, 0813Z

14287. Dept please pass all OECD capitals. Geneva also for MTN. Bangkok for Heginbotham. Subject: U.S.-Japan Subcabinet Talks.

1. Summary: U.S.-Japan Subcabinet talks were friendly, constructive and frank. Both sides agreed A) that OPEC surplus likely to persist for some years and adjustment to it is major impediment to world recovery that requires industrial restructuring efforts, and B) that in face of sluggish world demand, protectionism poses grave danger to liberal trade system. We welcomed Japan's efforts to stimulate domestic demand<sup>2</sup> and pressed Japanese to open market to imports in order to bring current account into deficit at an early date,<sup>3</sup> thereby shouldering greater share of burden of deficit with OPEC. The Japanese identified U.S. energy policy as also needing improvement and forecast that recently announced stimulative measures would reverse current account trend, holding surplus to \$6.5 billion for all of JFY 1977. We welcomed new measures but remained skeptical that they would do the job especially on current account. Japanese agreed to our proposals to set up an informal, technical-level joint forecasting group and a joint steering committee to identify obstacles to and means by which U.S. exports to Japan would be expanded. Views on North-South issues and aid programs were essentially similar. End summary.

2. Although bilateral issues were not ignored, the emphasis at the U.S.-Japan Subcabinet talks September 12-13 was on the macro-economic responsibilities of the world's two largest market-oriented economies. The Japanese were in full accord with Under Secretary Cooper's description of the sorry current state of the world economy, his identification of the OPEC surplus as the paramount immediate problem, and the danger of protectionism tearing apart the international trade framework that has served Japan above all so well. The Japanese likewise recognized that the present imbalance in the pattern of

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, D770353-0857, D770336-0716. Confidential; Priority. Sent for information to Geneva and Bangkok.

<sup>2</sup> On September 3, the Japanese Government announced a program designed to spur domestic economic expansion and curb the country's current account surplus. ("Japan Announces Plans To Stimulate Economy And Cut Trade Surplus," *The New York Times*, September 4, 1977, p. 11)

<sup>3</sup> In the September 23 Evening Report to Carter, Christopher noted that Carter, responding to "reports of Japanese foot-dragging," had directed U.S. officials "to push Japan to reduce its current account and trade surpluses." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 9/77)



current account deficits—especially that of the U.S.—is unsustainable in the face of protectionist pressures ultimately engendered by stubbornly weak global demand. But despite our persistent, if polite, expressions of doubt, and admitting that previous forecasts had been very wide of the mark, the Japanese (Deputy Foreign Minister Yoshino and EPA Director General for Coordination Miyazaki) stuck to his forecast that the recently announced package of stimulative measures will reverse the trend in Japan's current account and hold the surplus to \$6.5 billion for end of the current Japanese fiscal year (ending March 31, 1978).

3. The Japanese called on the weaker economies to place their own houses in order and asserted that by stimulating Japanese domestic demand without igniting the fires of inflation, Japan would make a major contribution to world recovery. Miyazaki identified the lack of Japanese investor and consumer confidence as the toughest impediments to full recovery. Yet further government expenditures would, he asserted, risk inflation.

4. Matsukawa (MOF) noted that the rise in the value of the yen had begun to cut into Japan's exports quantitatively but that a "J curve" effect could be observed. Matsukawa declined to offer an estimate as to when the exchange rate effects would begin to show up in the trade account, but asserted that, on a yen basis, the role of exports in recovery had already begun to diminish. Recognizing that there had been some remarkably large errors in previous forecasting, Miyazaki and Matsukawa agreed to the establishment of an informal joint working group on the technical level to monitor forecasts.<sup>4</sup>

5. Assuming a characteristically aggressive stance, Masuda of MITI<sup>5</sup> asserted that the dramatic rise in the importation of oil accounts in the main for the U.S. current account deficit and this deficit had in turn led to a weakening of confidence in the dollar. Cooper replied that increases in U.S. energy consumption were below historical trends, that imports reflected the decline in domestic oil production as well as increased consumption and that the President's energy package will attempt to bring import levels down to 7.5 million B/D by 1985—below

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<sup>4</sup> Bergsten and Matsukawa discussed Japan's policy on foreign exchange market intervention on September 13. (Memorandum of conversation, September 13; National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, RPTS-3-3 Memcons 1977) Bergsten reported to Blumenthal and Solomon that he had "made clear our concerns re heavy intervention April and July which braked steady appreciations. MOF pointed with pride to relative infrequency of recent intervention but retreated ultimately to view that appreciation was 'too fast.' They indicated plan to check any significant yen depreciation might occur in near future thereby reducing net dollar accumulation." (Telegram 14116 from Tokyo, September 13; National Archives, RG 59, Central Foreign Policy File, D770331-0584)

<sup>5</sup> Minoru Masuda was a MITI Vice Minister.

even current levels. Furthermore, increases in the U.S. trade deficit in recent months were due to the faster pace of U.S. economic recovery and to changes in our trade patterns with LDCs. Bergsten also noted that on a trade weighted basis the dollar had actually strengthened in last two years.

6. In response to Bergsten's question on official export financing, the Japanese denied that official export credit was major factor in expansion of plant exports. Noting that Japanese plant exports remain far behind those of the U.S. and West Germany, Matsukawa (MOF) asserted that while Japanese plant exports had risen 42 percent in last three years, EXIM Bank financing of such exports had only climbed 10.4 percent. Matsukawa also restated that despite rumors to the contrary, Japan still adheres to the Washington agreement on official export financing.

7. Japan's import structure was defended on the grounds that (A) no nearby industrial centers exist in Asia; (B) the huge Japanese domestic market permits economies of scale that account for Japanese competitiveness both at home and abroad; (C) the Japanese distribution system is too complicated to rationalize overnight; and (D) foreign firms have not expended the necessary effort, time and resources to carry out successful marketing strategies. Japanese further asserted volume of manufactured imports is rising, but nevertheless, agreed to our proposal to establish a joint steering committee to study, inter alia, where impediments exist to the importation of U.S. products and how they may be eliminated, which U.S. products might have the highest sales potential in Japan and how MITI might be of more assistance to U.S. exporters.

8. Views on North-South problems tended to converge. The Japanese reiterated their intention to "more than double" ODA in five years, but admitted that they had yet to decide whether it would be on an absolute or portion of GNP basis. The Japanese questioned us closely on our intention to emphasize aid for basic human needs and suggested that not too sharp distinction need be made between aid to infrastructure, where the Japanese plan to lay stress, and aid for basic human needs. The Japanese also revealed they are considering an "equipment loan" category to fall between project and commodity assistance.

9. The Japanese expressed a desire for a follow-on forum to CIEC limited to energy if possible but possibly encompassing other topics as well. Cooper stated the U.S. is relaxed on this issue but would be happy to consider any suggestions.

10. On outstanding U.S.-Japan bilateral trade questions such as sweet cherries, citrus, frozen juices, computers and peripherals, and color film, Cooper noted on two occasions that we are not unconcerned

and would continue to work on those issues, even though they were not our primary reason for coming to Japan.

11. We agreed to hold another Subcabinet meeting in the U.S. 6 to 9 months hence.

12. Press coverage (see septel)<sup>6</sup> was extensive and fair, highlighting our call to bring Japan's current account into deficit at an early date. (In joint press conference Yoshino stated that in accordance with Japan's responsibilities as strong economy, GOJ policy is to work to bring current account into deficit but he doubted this goal could be achieved soon).<sup>7</sup>

13. Not cleared by USDel.<sup>8</sup>

**Mansfield**

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<sup>6</sup> Telegram 14315 from Tokyo, September 16, summarized the press coverage of the talks. (National Archives, RG 59, Central Foreign Policy File, D770336–0864)

<sup>7</sup> In a report to Blumenthal and Solomon on the Subcabinet talks, Bergsten suggested that the Japanese "current account surplus may remain excessive." Accordingly, the U.S. delegation had focused "on winning GOJ agreement to publicly adopt policy objective of 'moving Japan into current account deficit as soon as possible.' In response, Matsukawa indicated at plenary that GOJ prepared accept current deficit and Yoshino told closing press conference that GOJ policy objective was current account deficit." (Telegram 14116 from Tokyo, September 13; National Archives, RG 59, Central Foreign Policy File, D770331–0584)

<sup>8</sup> In his report to Blumenthal and Solomon, transmitted in telegram 14116 from Tokyo (see footnote 7 above), Bergsten asserted that the "Japanese clearly got our message. We repeatedly stressed broad array of dangers inherent in present situation including but going well beyond protectionism. Whether sufficient actions will result is much less clear." Characterizing the tone of the talks as "excellent," Bergsten commented, "Perennial problem of getting adequate action remains, but Japanese seemed genuinely willing and even eager discuss all relevant issues."

**56. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>**

Washington, September 22, 1977

## SUBJECT

The International Monetary Fund (IMF) and "Conditionality"

We have been getting *requests to use our influence to help particular countries in their negotiations for financing from the IMF*, and I wanted to offer my suggestions for our approach.

You know from recent talks with Latin American heads of state that *some are complaining that the IMF is too harsh in its "conditionality"*—i.e., the economic stabilization and payments adjustment measures it requires of countries as a condition for its financing. Peru is the most recent case.<sup>2</sup> Usually they ask us to intercede with IMF management for softer treatment in their particular case.

*This is not a new issue, nor is it confined to developing countries. The IMF has for years served as a kind of whipping boy. Countries facing severe economic difficulties and the need for strong corrective measures often need an external source to blame. The IMF is an ideal candidate and is accustomed to being in that position. If we didn't have the IMF, we would have to invent another institution to perform this function.*

*In many countries there is a division between those who support needed actions and those who want to ignore the economic facts of life and try to pursue programs that are unsustainable. The IMF would not be doing a borrowing country any favor by coming down on the wrong side. Quite the contrary. Reasonable economic and financial stability provides the essential basis for the sustained real growth that developing countries need. Unfortunately, there is no real substitute for policies to restore economic stability—other than grants or long-term aid, which is not the IMF's function. The IMF can provide only balance of payments financing, and in amounts that are usually quite limited relative to the size of the problem. The real value of an IMF program is the policy changes it brings, not the money.*

*The IMF is not, in my judgment, politically unrealistic in its policy prescriptions. It does not ignore political consequences. The IMF looks care-*

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 40, Hutcheson, Rick 9/77 [2]. Confidential. Carter wrote at the top of the page: "cc Mike—I agree. J."

<sup>2</sup> In March 1977, Peru undertook negotiations with the International Monetary Fund for a credit to help stave off a potential default on its massive foreign debt. The conditions under which the IMF was prepared to offer assistance were very controversial in Peru.

*fully at all aspects of a country's situation in a realistic and balanced way, and tailors the program to the country's particular circumstances. The IMF's record is a good one. It has helped a large number of countries to correct their economic problems, and it presses for measures that are consistent with our objectives of an open and liberal trade and payments system. The IMF's contribution to the world economy is widely recognized—including in the Congress, which is much more supportive of the IMF than of the other institutions.*

While the U.S. has an important voice in IMF matters, *we cannot and should not try to control IMF operations.* Any U.S. influence on particular country financing proposals must be used selectively and through quiet, informal discussions. Any changes we could make in a particular program would be marginal. We should not be disturbed by positions taken by the IMF at the outset of a negotiation, since there is a process of bargaining and compromise on both sides. *If we overstep in trying to exercise influence, we will weaken and undermine the fundamental principles and useful work of this valuable institution.*

**W. Michael Blumenthal<sup>3</sup>**

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<sup>3</sup> Blumenthal signed "Mike" above this typed signature.

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**57. Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Solomon) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, September 23, 1977

SUBJECT

German Desire to Conform Views on National Economic Programs

German Finance Minister Apel has sent a message to you, Healey, Boulin, and Boh outlining the new German stimulus package,<sup>2</sup> and ex-

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<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 2, 9/21/77–9/30/77. Confidential. Drafted by Mackour and reviewed by Widman and Hessler.

<sup>2</sup> On September 14, the West German Government approved a multi-billion dollar economic stimulus package. (Paul Lewis, "West Germany Is Planning Modest Boost for Economy," *The New York Times*, September 15, 1977, p. 95)

pressing a desire to meet during the IMF Annual Meeting for “an intensive exchange of opinions and information” (message attached),<sup>3</sup> in order to achieve agreement on a statement of goals and a coordination of national economic policies. Apel’s message is also addressed to Witteveen, which suggests he will approach Witteveen directly over the weekend to discuss this.

There is considerable potential for disagreement on this issue. The German Government, which is a coalition that has a very narrow margin in the lower house and is a minority in the upper house, will take the position it has done all it can politically in the way of stimulus at this time. The Japanese will point to their recent actions as fully adequate.

The British, on the other hand, are poised for a major assault on the failure of the major surplus countries to do more to reflate their economies, and reduce their surpluses, so as to provide for a greater expansion of world trade. This may be a major topic at the Five meetings, and also has important implications for Summit follow-up and the upcoming OECD targeting exercise.

Apel’s message is clearly intended to encourage high-level agreement to stop further public criticism of national economic policies as being counterproductive to the point of being politically harmful from a domestic point of view. There is merit in Apel’s view. We can’t convince our people that cooperation is working if public slanging matches a la Callaghan continue.<sup>4</sup>

#### *Suggested U.S. Position*

—Favor reaching understanding among ourselves (Five) on public posture that policies in effect and recently taken are broadly appropriate—even though some of us may privately be urging that more be done if possible.

—Ask how we can help each other get the public support needed to implement stronger measures.

—Acknowledge that some of our anticipations at time of London Summit have not been fulfilled.

—Recognize that economic policy initiatives are not uniformly capable of fulfillment at same pace in differing economies.

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<sup>3</sup> Attached but not printed is a September 15 letter from Apel to Boulin, Healey, Blumenthal, Bo, and Witteveen.

<sup>4</sup> On September 2, Callaghan suggested that the London G-7 Summit had “not succeeded”; later that day, he said that some G-7 countries, “such as the Federal Republic of Germany and the United States, have not been able to get the degree of expansion in their economies that they put their hands to.” (R.W. Apple, Jr., “Summit in London is Termed a Failure,” *The New York Times*, September 3, 1977, p. 3)

—Explore new ideas as to initiatives that might be suitable to the changed circumstances we face.

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**58. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>**

Washington, September 24, 1977

SUBJECT

The International Monetary Fund and Conditionality

I concur with Mike Blumenthal's recommendation that we be very selective in influencing negotiations between the IMF and individual countries.<sup>2</sup> The IMF has a very sensitive task in negotiating conditions for extensions of Fund credit and we should be careful not to undermine it. Most of the countries involved must take action to insure their continued access to *private* credit markets. The effective use of the limited resources of the Fund and the assurance of appropriate behavior on the part of countries in deficit requires the Fund at times to press for commitment to difficult economic policies.

I do have some problems with the *nature* of the conditionality which the IMF tends to impose. CEA is developing a paper on this which I intend to discuss with Mike. My concerns can be briefly summarized.

We expect that the large surpluses of the oil producing countries will continue for the foreseeable future. As a result, there will necessarily be deficits in other countries. The Fund's policies have not fully adjusted to these conditions. Pressure exerted by the Fund on deficit countries to eliminate their current account deficits has had two important consequences:

1. The Fund has often stressed domestic policies to *restrict demand* as a means of adjustment while there have *not* been symmetrical pressures to expand on countries in surplus. As a result, there has been a contractionary bias in the policies of all countries taken together. This bias has hindered recovery from the 1974–75 recession. It is important that countries in trouble adopt *structural* policies to correct deep-seated ills. It is particularly important for many of them to increase domestic

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 40, Hutcheson, Rick 9/77 [2]. No classification marking.

<sup>2</sup> See Document 56.

investment. But restricting demand is not, in all cases, the appropriate medicine.

2. Some countries are running unsustainable deficits, which must be reduced. But a widespread elimination of current account deficits at the urging of the Fund has forced larger deficits on other countries, some of whom have then been forced to turn to the Fund for assistance. Indeed, one cause of the growth of the U.S. deficit this year has been the success that other countries have had in reducing their deficits.

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## 59. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, September 24, 1977

### SUBJECT

Letter to Prime Minister Fukuda

1. Prime Minister Fukuda sent you a copy of his statement announcing the Japanese expansion program.<sup>2</sup> He probably expects a reply.

2. We now have the Treasury analysis of the Japanese expansion package: It's great on growth (permitting Japan to hit its Summit target of 6.7%), and weak in reducing the external surplus.

3. Hence the attached proposed letter, which gives the Japanese well deserved praise on growth, and an equally well deserved prod on the surplus. (The Japanese have just announced some limited initial measures to cut that surplus.)<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 9-12/77. No classification marking. Sent for action.

<sup>2</sup> Owen sent a copy of Fukuda's September 3 statement to Carter under cover of a September 8 memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 64, Summits: 5-12/77)

<sup>3</sup> Telegrams 14536 and 14731 from Tokyo, September 20 and 22 respectively, provide details on these measures. (National Archives, RG 59, Central Foreign Policy File, D770341-0588 and D770344-1336) In the September 23 Evening Report to Carter, Christopher noted that implementation of the measures "will come only after difficult domestic discussions, and the effect on the surplus is likely to be temporary. We will, therefore, continue to press Japan, both bilaterally and in the multilateral trade negotiations, to reduce its surplus, and we will consider tougher approaches if necessary." Carter underlined the phrase "continue to press Japan" in Christopher's report and wrote "good" in the adjacent margin. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 9/77)



4. I have cleared it with State (Dick Cooper, who is just back from Japan and believes a letter should be sent), and Treasury (Tony Solomon).

*RECOMMENDATION*

That you sign the letter to Prime Minister Fukuda at Tab A.<sup>4</sup>

**Tab A**

**Letter From President Carter to Japanese Prime Minister Fukuda<sup>5</sup>**

Washington, September 26, 1977

Dear Mr. Prime Minister,

Thank you for sending me your statement concerning the new Japanese economic expansion measures. On preliminary analysis, these measures look very promising; I am glad that your government has acted vigorously to fulfill its Summit commitments regarding growth. We have our London Summit growth commitments very much in mind; the United States should reach its growth target this year.

We remain concerned, as you know, by the size of Japan's external surplus. I welcome the indications at the recent US-Japanese sub-Cabinet meeting that your government shares these concerns and will seek actively to reduce that surplus.<sup>6</sup> I have just learned that some initial steps have been taken to this end. Further substantial progress would make it easier to resist growing protectionist pressures in the United States and other countries. It would enable Japan to play its appropriate role in promoting world recovery and strengthening the international financial and trading system.

I hope that our two governments can continue to stay in close touch, in concerting their policies to achieve steady non-inflationary growth and an open world trading system, and that you will write me whenever you feel that an exchange of views between us would serve these ends.

Sincerely,

**Jimmy Carter**

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<sup>4</sup> Brzezinski wrote "Concur, Z.B." below the recommendation.

<sup>5</sup> No classification marking.

<sup>6</sup> See Document 55.

**60. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, September 26, 1977

SUBJECT

Letter from Chancellor Schmidt

Attached is a letter to you from Chancellor Schmidt and an attachment, which describe the new German economic program and indicate that it was taken to fulfill Summit commitments. (Tab B)<sup>2</sup>

I also attach a brief Treasury evaluation of the German program, which suggests that it will result in growth of about 4% next year, as contrasted with 3.5–4% this year. (Tab C)<sup>3</sup> German officials expect somewhat better results. The German Summit growth target was 4.5%–5%.

We should compliment Schmidt, without implying that we believe he has fully met the need, since other measures may well be needed. I attach a proposed letter in this sense. (Tab A) It has been cleared with State (Dick Cooper) and Treasury (Tony Solomon).

**Tab A**

**Letter From President Carter to West German Chancellor Schmidt<sup>4</sup>**

Washington, September 27, 1977

Dear Mr. Chancellor,

Thank you for your letter of September 14. I am glad that you have taken decisions to expand German economic activity. The countries that pledged at the Downing Street Summit to continue effective stabilization programs are largely fulfilling their commitments. The countries with stronger economies have, as you note, a special responsibility

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 13, Germany F R: 7–9/77. No classification marking. Sent for action.

<sup>2</sup> Tab B, attached but not printed, is a courtesy translation of an undated letter from Schmidt to Carter, as well as a translation of a September 14 paper entitled “Decisions of the Federal Government to promote economic growth and employment.”

<sup>3</sup> Tab C, attached but not printed, is an undated paper entitled “German Program for Stimulating the Economy.”

<sup>4</sup> No classification marking.

for world economic recovery and development. The United States expects to meet its growth target in 1977; given the sharp movement in the U.S. external account, partly as a result of our growth, we think it particularly important that others in a strong position take firm steps to meet their targets. I have just received from Prime Minister Fukuda a statement outlining the measures that Japan will be taking.<sup>5</sup>

If our nations can concert effective growth policies, prospects for non-inflationary world recovery will be enhanced. I hope that you and I can continue to share our thoughts about actions to this end.

Sincerely,

**Jimmy Carter**

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<sup>5</sup> See Document 59.

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#### **61. Telegram From the Mission to the European Communities to the Department of State<sup>1</sup>**

Brussels, September 26, 1977, 1602Z

12692. USEEC. Geneva also for MTN. Subj: Visit of Ambassador Strauss to EC Commission. Ref: Brussels 12518.<sup>2</sup>

1. Summary: Strauss visit was marked by highly positive tone, stiff Commission resistance for a while to specificity and at the end mutual recognition that difficult question of tariff formula needed to be resolved or failure to do so publicly acknowledged. After intense talks, both sides agreed on a joint communiqué which revealed the establishment of a “joint working hypothesis” on tariff reductions.<sup>3</sup> To ensure that there would be no ambiguity about what was agreed upon, the two sides also agreed to produce an agreed minute for internal use going into details of this hypothesis. As a result of Strauss visit, EC

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, D770349–1246. Confidential; Priority; Exdis. Also sent Priority to Geneva, all EC capitals, Ottawa, and Tokyo.

<sup>2</sup> Telegram 12518 from USEC Brussels, September 22, transmitted the transcript of Strauss’ September 22 press conference. (National Archives, RG 59, Central Foreign Policy File, D770345–0846)

<sup>3</sup> Telegram 12499 from USEC Brussels, September 22, transmitted the text of the joint U.S.–EC communiqué issued at the end of Strauss’ visit. (National Archives, RG 59, Central Foreign Policy File, D770345–0358)

Commission is now committed to seek greater tariff reductions than previous EC proposals and US to greater degree of harmonization. End summary.

2. Ambassadors Strauss, McDonald and Wolff, accompanied by Ambassador Hinton and STR staffers Feketekuty and Wynne,<sup>4</sup> met with EC President Jenkins, Vice Presidents Haferkamp and Gundelach, Commissioner Davignon, Director General for External Relations Sir Roy Denman, and other high-level EC officials during series of meetings September 21–22. Prior to leaving Brussels, Ambassador Strauss gave press conference presenting joint communiqué and answering questions (see reftel for transcript). Although all areas of MTN negotiations received some attention during US–EC meetings, bulk of discussions was devoted to effort to obtain a joint position on tariff reductions which would allow agreement to be reached by all potential formula participants in the MTN by early October. Meetings were marked by US assertion and eventually EC recognition that failure to reach agreement would threaten entire US–EC understanding to conclude present phase of negotiations by January 15, 1978. Ambassador Strauss emphasized the necessity of agreeing upon specific common language on an approach to tariff reductions and that, failing this, he would feel it necessary, in order to preserve credibility, to state publicly that we had reached an impasse on tariffs with the EC.

3. After September 21 preliminaries,<sup>5</sup> during five-hour series of negotiating sessions September 22 US and EC worked together to produce an agreement, embodied in the joint communiqué contained in reftel. US side also insisted that joint communiqué be buttressed by an internal understanding which would not be revealed in its entirety publicly but which would prevent any further misunderstanding about what had been agreed with respect to tariff reductions. Denman reading from rough notes set it forth at final session with President Jenkins present when it was accepted by all participants subject to being polished by Ambassador McDonald and Denman in Geneva. It is to indicate that both sides agreed to work toward adoption of the Swiss formula,<sup>6</sup> with an average depth of cut of 44 percent, as the goal for tariff reductions, plus or minus 5 percent. This left open the possibility that some participants might adopt a deeper cutting formula or higher formula cuts than the other participants to offset a greater number of

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<sup>4</sup> Gordon Wynne.

<sup>5</sup> Telegram 12571 from USEC Brussels, September 23, reported on Strauss' September 21 meetings with EC officials. (National Archives, RG 59, Central Foreign Policy File, D770346–1304)

<sup>6</sup> Telegram 6090 from Geneva, July 21, summarized Switzerland's positions on various MTN issues, including its tariff reduction proposal. (National Archives, RG 59, Central Foreign Policy File, D770259–1259)

exceptions. Content of agreed understanding was described by participants on both sides at various times during the discussions in varying details and nuances and therefore posts should await receipt of definitive version.

4. Earlier versions of the communiqué, though not the final one included an EC sentence emphasizing that no exceptions should be made to initial tariff offers. Discussion of exceptions revolved around continued EC Commission statements that they would seek to avoid any exceptions and the US noting that some exceptions beyond those mandated by US law would no doubt be necessary.<sup>7</sup>

**Hinton**

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<sup>7</sup> In an October 6 memorandum to Blumenthal, Solomon and Bergsten wrote: “The touted US–EEC Agreement on Tariffs covers up a major discrepancy. The Committee has agreed only to cut by 26% over five years, whereas Strauss envisages a 44% cut over a longer period. The EC has made no commitment to cut after the first five years. In addition, there has been no agreement on exceptions. Hence there is less progress than meets the eye.” (Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 2, 10/1/77–10/17/77)

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## **62. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>**

Washington, September 27, 1977

### SUBJECT

Upcoming Report on the Steel Industry from the Council on Wage and Price Stability (CWPS)

This memo supplements our phone conversation on Tuesday afternoon.<sup>2</sup>

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 81, [Steel] [7]. No classification marking. A stamped notation reads: “The President has seen,” and Carter wrote at the top of the page: “Charlie—Iif report is accurate, let criticism come. J.C.”

<sup>2</sup> Carter did not speak to Schultze by telephone on Tuesday, September 20, or Tuesday, September 27. Carter and Schultze did speak by telephone on Monday, September 26 from 11:33 until 11:35 p.m. (Carter Library, Presidential Materials, President’s Daily Diary) No memorandum of conversation was found.

On August 5, after a large steel price increase, you directed CWPS to prepare a report on the industry.<sup>3</sup> You asked for that report by *September 30*.

Preparation of the report is in its final stages. I have not yet seen it, but Barry Bosworth (CWPS Executive Director) has briefed me on its emerging contents. The report is factual and analytical and makes no recommendations. But it is a *hard-hitting report*, and no matter how diplomatically written, the facts and analysis will *step on a lot of toes*—industry, labor, and government. (See below.)

The CWPS authorizing law expires September 30. A 2-year extender has passed the Senate, but has been hung up in the House because of Andy Biemiller's<sup>4</sup> opposition. We finally worked out arrangements to speed it thru by Friday.<sup>5</sup> But publication of a controversial report might hang it up.

Bosworth will hold up delivery of the report until sometime next week, after passage of the CWPS extending legislation.<sup>6</sup>

You may want a further delay until after your meeting with steel management and labor which is now being arranged for the very near future.<sup>7</sup> Upon receipt, you can announce that you are referring the report to the task force or other group that will be established to prepare recommendations for you on government policy toward the industry.

#### *Some Examples of Tentative Findings to Date*

1. *Operating costs* in the U.S. steel industry have grown far more than the average for other industries.

- Between 1967 and 1977 average wages in the U.S. economy rose 97 percent—*steel worker wages* rose 142 percent, and *coal wages* (coking coal is an important cost) rose 124 percent.

- Most of the earlier U.S. competitive advantage in *raw material costs* has been lost; sharp improvements in shipping costs have reduced the disadvantage to the Japanese of buying U.S. coal.

2. Technologically, new U.S. steel facilities are not inferior to other countries. But U.S. *construction costs* have risen very sharply, which increases the costs and lowers the potential profits from steel modernization investment. Japanese construction costs are much lower and the time it takes to construct a new plant far less.

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<sup>3</sup> See footnote 7, Document 47.

<sup>4</sup> Andrew Biemiller was, as Director of the Department of Legislation, the principal lobbyist for the AFL-CIO.

<sup>5</sup> September 30.

<sup>6</sup> Carter wrote "ok" in the margin adjacent to this paragraph.

<sup>7</sup> Carter underlined the phrase "further delay" and wrote "no" in the margin adjacent to this sentence.

3. *Environmental, health and safety regulations* have been a significant factor in raising U.S. steel industry costs, but *other countries are doing as much or more*. It is hard to blame a deterioration of the U.S. competitive position vis-a-vis the Japanese on environmental, health and safety regulations.

4. A *reduction of imports* to historical levels—say 1969–71 (the earlier voluntary restraint period) or the last five-year average—would *not* significantly improve domestic industry sales. The main way it could “help” the industry is to permit a rise in prices relative to costs.

5. The cost advantages of Japanese producers (without subsidy) are sufficient to allow them to underprice American steel producers within significant parts of the U.S. market without selling below cost. The opposite is true of European steel makers. (These conclusions have important *implications for the dumping cases against European and Japanese steel firms now in the courts.*)

I intend, of course, to review the CWPS draft closely. But no matter how carefully worded, the publication of a dispassionate examination of the facts will arouse a great deal of critical reaction.<sup>8</sup>

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<sup>8</sup> The CWPS report on the steel industry was released on October 7. (Edward Cowan, “Steelmakers Cited As Inflation Source,” *The New York Times*, October 8, 1977, p. 29)

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### 63. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, September 29, 1977

#### SUBJECT

Organizing ourselves on the steel problem

*I met this morning with nearly everyone in the government concerned with the steel problem.<sup>2</sup> We unanimously agreed on the following steps. We*

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 81, [Steel] [7]. No classification marking. A stamped notation reads: “The President has seen,” and Carter wrote at the top of the page “Mike. J.”

<sup>2</sup> Mike Blumenthal (Treasury), Charlie Schultze (CEA), Jim McIntyre (OMB), Bob Strauss (STR), Ray Marshall (Labor), Sidney Harmon (Commerce), Tony Solomon (Treasury), Dick Cooper (State), Stu Eizenstat (DPS), Jack Watson (Cabinet Secretary), and Henry Owen (NSC). [Footnote in the original.]

seek your approval of these plans and suggest that you mention them at your press conference today:<sup>3</sup>

1. The *Under Secretary of the Treasury, Anthony Solomon*, will lead a small and select task force drawn from several agencies, to develop comprehensive policy alternatives, for your consideration, regarding both the domestic and international aspects of the problem. We cannot treat the problem solely or primarily as a matter of import restrictions. We need an integrated approach to the industry's fundamental problems, involving the cooperation of government, industry, and labor. The EPG Steering Committee and Ambassador Strauss will regularly monitor the progress of the Solomon task force. The Solomon task force should have its proposals ready by late November for full review by interested Cabinet Secretaries and White House units. The Administration must have its policies in order for the return of Congress in January. The task force will need to conduct intensive discussions with steel management and labor. Ambassador Strauss will handle all necessary international contacts and negotiations.

2. *Secretary Marshall, Secretary Kreps, and Jack Watson* will immediately make personal visits to steel communities hard hit by lay-offs.

3. Within a few days you will receive from *Stu Eizenstat* proposals to revamp our system for Trade Adjustment Assistance. These proposals deal with all industries hard hit by imports.

4. *Ambassador Strauss* will immediately organize a White House Conference on steel, at which industry, union, congressional, and Administration representatives will seek to educate each other (without commitments by anyone) on the dimensions and complexities of the problem.<sup>4</sup>

5. All of us involved will meet with "steel caucus" members to assure the Congress of our concern and of our commitment to take reasonable action quickly. We must work hard to avoid protectionist legislation prior to the congressional adjournment.

6. You should soon meet, separately, with steel industry and union leaders, and with leaders of the congressional "steel caucus."<sup>5</sup>

7. Each agency should designate a high level officer to hear complaints and ideas from the steel industry, unions, and communities and to pass along this information to the Solomon task force. However, no one but Solomon should "sound out" domestic interests concerning the acceptability of possible proposals.

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<sup>3</sup> For the transcript of Carter's September 29 press conference, during which he discussed the steel industry, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book II, pp. 1684-1693.

<sup>4</sup> Carter wrote "minimize number" in the margin adjacent to this point.

<sup>5</sup> Carter wrote "combine meetings" in the margin adjacent to this point.



To assure that we all pull in the same direction, these various efforts will be continuously coordinated by the EPG Steering Committee.

We seek your authorization to proceed with this action program.<sup>6</sup>

W. Michael Blumenthal<sup>7</sup>

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<sup>6</sup> Carter indicated his approved of this option and initialed "JC."

<sup>7</sup> Blumenthal signed "Mike" above this typed signature.

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**64. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>**

Washington, September 30, 1977

SUBJECT

Steel Dumping Cases

The *Treasury will announce on Monday, October 3, a "tentative determination" under the Anti-Dumping Act that carbon steel plate from Japan is being sold in this country at "less than fair value."* This determination is based on findings that *Japanese producers have been marketing steel plate below the cost of production.* Based on this determination, the Customs Service will be directed immediately to withhold appraisement of the affected merchandise. Importers will then be required to post bonds sufficient to cover estimated dumping duties on all further imports equal to the average margins of dumping found. These margins are about 32% in this case.

A final determination must follow in ninety days; if affirmative, the matter will go to the International Trade Commission for their determination whether a domestic industry is being injured by sales at "less than fair value."

In 1976 imports of this product from Japan were about \$174 million, thus far the largest volume of trade potentially affected by the 1974 cost-of-production amendments to the anti-dumping law.

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, [Steel] [4]. No classification marking. Marked "F.Y.I." A stamped notation reads: "The President has seen," and Carter initialed "C" at the top of the page.

We also understand that *a petition alleging dumping of a number of steel sheet products from European Community countries may be filed in coming weeks.*

**W. Michael Blumenthal<sup>2</sup>**

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<sup>2</sup> Blumenthal signed "Mike" above this typed signature.

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**65. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, October 5, 1977

SUBJECT

Summit Follow-Up

1. Attached is the report on Summit follow-up agreed by the International Summit Preparatory Group that met September 29 and 30. Each national delegation is now submitting this report to its country's Head of State or Government. The report will not be released to the press.

2. The report suggests that most Summit decisions are being well executed. Two failures were noted:

—Germany did not achieve its pledged 4.5%–5% growth target in 1977.

—Japan did not reduce its surplus.

The Group discussed at some length the reasons for these failures. In the case of Germany, there were forecasting errors, which were not recognized in time. In the case of Japan there are structural problems, which will require considerable time to correct. Both the German and Japanese representatives said that their countries' Summit commitments had played a role in the expansionist decisions that their governments took in September.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 64, Summits: 5–12/77. Confidential. Sent for information. Both Carter and Brzezinski initialed at the top of the page. Attached is an October 6 note to Carter from Brzezinski that reads: "Henry's memo provides a good summary. No need to read Tab A." (Ibid.)

3. The report stresses the importance of Germany increasing its growth rate and Japan reducing its surplus. The Japanese said that they would make a 6.7% growth in 1977 and 6% in 1978, and would begin to reduce their external surplus. The Germans said that their 1978 growth target was 4.5%.<sup>2</sup>

The weaker European countries did not believe that they should join in a general economic expansion in 1978. The Italians and French made clear that they were not about to throw away the gains achieved through their stabilization programs by premature and potentially inflationary expansion. The British position was similar but less clear. All three countries were prepared for moderate expansion *if* the stronger economies could achieve a good growth record.

4. This Group may meet in December to review the tentative 1978 growth projections that will have been discussed in the OECD in November. If the net effect of these targets seems unsatisfactory in terms of Summit commitments, the Group might say so to Heads of Government. If the targets look good, the Group might prepare a statement that the Heads of Government could issue in their respective capitals in January 1978, so as to put their full authority behind these targets. The German and Japanese delegates felt that this would make it easier to get agreement in their countries on action to meet these targets.

5. There was some discussion of future Summits. The British and Germans seem to be thinking of a meeting in mid-1978. Callaghan and Schmidt will talk further about this when they meet in Bonn in October. Clappier, the French representative, was attracted by the notion of a brief Paris Summit in late 1977 to discuss 1978 growth targets, at the time of your visit to Paris;<sup>3</sup> but his enthusiasm cooled when he saw that the other countries were thinking of a later Summit.<sup>4</sup>

6. If you have any reactions to all this that you wish me to take into account in further planning, please let me know. I will be talking to my French and German opposite numbers further about these matters, when I go to a Trilateral Commission meeting in Bonn in late October.<sup>5</sup>

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<sup>2</sup> At the end of this paragraph, Carter wrote: "Japan has got to reduce/eliminate trade surplus. They have not tried."

<sup>3</sup> Carter was scheduled to travel to nine countries, including France, from November 22 until December 3; in early November the trip was postponed. (Charles Mohr, "Carter Postpones Foreign Tour To Deal With Energy Legislation," *The New York Times*, November 5, 1977, p. 47) Carter eventually visited France January 4–6, 1978.

<sup>4</sup> Carter wrote "Prefer FRG idea—1978" at the end of this paragraph.

<sup>5</sup> The Trilateral Commission (see footnote 3, Document 6) met in Bonn October 22–25.

**Tab A****Report Prepared by the International Summit Preparatory Group<sup>6</sup>**

undated

*Report on Summit Follow-Up by International Preparatory Group*

This report deals with actions taken since the Downing Street Summit under the five main headings of the Annex to the Summit Declaration.<sup>7</sup> Some of these issues have been effectively addressed; in other cases there have been lags. The central follow-up issues requiring attention of Heads of State and Government appear to us to be (i) macroeconomic policy—particularly achievement of non-inflationary growth targets by the stronger economies and a better distribution of payments imbalances; and (ii) trade—particularly early and substantial progress in the multilateral trade negotiations.

*I. World Economic Prospects*

The countries that pledged themselves at London to continue effective stabilization policies have done so. Taken together, they have made progress in reducing inflation; balances of payments have improved; reserves have increased; currencies have been strengthened. Unemployment remains very high and continues to increase, particularly among young people. Growth is low in the UK and Italy; in France it may be 3% in 1977. Recent limited steps by these countries to increase employment have been consistent with the agreed strategy, which gives first priority to the control of inflation in order to set the stage for later expansion.

Although these countries' ability to fulfill that strategy depends mainly on their internal policies, it also depends on the external economic environment. That environment is shaped, in some degree, by the actions of the economies with greater freedom of maneuver. Germany, Japan, and the United States pledged at the Summit to achieve their growth targets—4.5%–5%, 6.7%, and 5.8%, respectively. They also promised to contribute to the adjustment of payments imbalances.

In September, the German and Japanese governments decided to undertake substantial programs to help fulfill their growth targets.

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<sup>6</sup> Confidential.

<sup>7</sup> For the text of the London G-7 Summit Declaration and the accompanying appendix, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 819–824.

—Following earlier German measures in June, the further German steps will have only a limited effect on German growth in 1977, which is likely to fall about 1% below Summit growth targets; these additional German measures should, however, contribute to improved growth performance in 1978. Germany runs a decreasing but still substantial surplus on current account.

—The Japanese expansion program will probably raise growth in FY 1977 to about the pledged 6.7%. It portends little early reduction in Japanese external surplus;<sup>8</sup> the Japanese Prime Minister has accepted the necessity “to strive for an external equilibrium”, and some initial measures to this end have been announced.

Despite a recent slow-down, the United States should achieve its Summit growth target for 1977. The US current account deficit is very large and does not seem to be diminishing; part of this deficit is due to increasing oil imports, as the US economy grows. This deficit poses a potential problem for US policy because of its size, while large surpluses are being incurred simultaneously by other strong economies.

Unemployment has remained too high in all three of the strong economies; it has been slightly drifting up in Japan and Germany, and down in the United States. Inflation in Germany and Japan has declined—to 4% and 7–8%, respectively; it seems stuck around 6% in the United States. All three countries are concerned to curb inflationary pressures.

Canada’s real growth for 1977 will be less than the 4% projected at the Summit; unemployment will also be higher than expected. Canada’s inflation rate is running at about 7.5%, and it continues to run a substantial deficit on current account.

What can be learned from this record?

Summit commitments appear to have had a useful effect on the participants’ policies. Both the German and Japanese governments have referred to these commitments in announcing expansionist measures.

The obstacles to effective and timely concert of the industrial nations’ domestic policies are substantial. Economic trends cannot readily be predicted with accuracy; they depend on the decisions of millions of consumers and investors. Nor can these trends be altered quickly by public policies, which have to be agreed by diverse political and economic groups before they can be put into effect; and their results may be altered or offset by unanticipated movements in private consump-

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<sup>8</sup> Carter underlined the phrase “It portends little early reduction in Japanese external surplus” and wrote at the end of the paragraph: “We might be facing an unpleasant dialogue—Japan is blocking imports.”

tion and investment. The objectives of growth, price stability, and balance in external payments have proved difficult to reconcile, even in the countries which were thought to have the greatest freedom of maneuver; fear of heightening inflationary expectations compounds the problem. For all these reasons, a significant lag between commitments and execution in economic policy can often be expected.

The fact that concerting economic policy is difficult does not mean that we should abandon the task—only that we need to work harder at it and try to learn from experience as we go along. For example, in planning future Summits, it would be wise to recognize that some time must elapse before policies needed to fulfill Summit targets can take effect. More frequent international monitoring of Summit results may also help to identify shortfalls in time for useful corrective action.

Meanwhile, the job is to get on with fulfilling the commitments made at London. Growth and stabilization are still the dominant needs for the countries that pledged to achieve these goals. The two needs are interdependent: The strong countries' prospects for non-inflationary growth would be damaged by a revival of inflationary pressures in other countries. The stabilization programs that some countries have to follow involve substantial social, political, and economic costs, and it will be difficult for them to continue these programs unless the agreed Summit strategy for non-inflationary recovery is being visibly fulfilled.

Whatever happens to 1977 growth targets, therefore, it will be crucial that overall improvement be achieved in 1978. Thus the November meeting of the Economic Policy Committee of the OECD will be of great importance.<sup>9</sup>

Growth must also be reflected in a much better equilibrium of balance of payments. This will require a reduction or elimination of existing large external surpluses. Failing this, it will be difficult for other countries to reduce their deficits, and existing protectionist pressures will grow dangerously. So far, the international financial system has been able to cope with the counterpart deficits to the OPEC surpluses. But the problems of doing so without further contraction and unemployment will be intensified, in the face of persistent OPEC surpluses, if the only strong economy accepting a corresponding deficit is the United States.

Even if the Summit targets are achieved, major economic problems will remain. Inflation will be difficult to reduce to manageable proportions, and the threat of its revival will be a continuing deterrent to precipitate expansion. Unemployment will be hard to eliminate without structural measures to deal with the special problems of young people

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<sup>9</sup> The OECD Economic Policy Committee dispenses macroeconomic policy advice.

and other groups. In several of our countries, measures have been taken since the Summit to deal with the particularly serious problem of youth unemployment. To help in further developing such measures, the proposal for a conference on youth unemployment foreshadowed at the Summit was agreed by the recent OECD Ministerial meeting,<sup>10</sup> and plans are now being made to hold a Ministerial Conference in December.

We conclude from the foregoing:

1. Viewing the Summit nations as a whole, progress in growth, reducing unemployment, and balance of payments adjustment will not be as significant in 1977 as was hoped at the May Summit. While inflation, especially in the weaker countries, is still much too high, the prospects for its reduction in most countries seem a little better than they did at the time of the Summit.

2. The principal routes to adjustment of present distribution of surpluses and deficits remain: (i) policies in the stronger surplus countries which increase domestic demand consistently with the control of inflation, and orient their economies toward expanded imports; and (ii) stabilization policies in the weaker deficit countries. Among the strong countries, only the United States has moved into deficit. Measures to increase home demand have recently been proposed in Japan and Germany; the Japanese and German current surpluses are still too high.

3. Unemployment is rising in all the countries represented except the United States. Increases in present rates of growth, along with continued restraint of inflation in prices and costs, are the best hope of reducing it.

4. Protectionist policies would increase unemployment and inflation. Unless a sustained recovery takes place, however, pressures for protection can be expected to grow.

## *II. Balance of Payments Financing*

*IMF Facility.* Even assuming satisfactory growth and stabilization policies, there will remain a need for the provision of adequate international financing to complement commercial credits in meeting balance of payments deficits. Final agreement has been reached on establishment of the Witteveen facility, to which the Summit nations pledged their support at London, with firm commitments on financing amounting to SDR 8.6 billion (\$10 billion) provided by fourteen industrial and oil-exporting countries. This should make substantial help available to countries whose deficits are large relative to their quotas and which are following stabilization policies.

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<sup>10</sup> See footnote 2, Document 35.

*Quotas.* Discussions are underway in the IMF on an increase in Fund quotas, as foreshadowed at the Summit; the present target is to reach agreement by the spring of 1978. Like the new IMF facility, the increased IMF quotas should both give countries in deficit access to money which will afford them time to adjust their policies at an appropriate pace and prevent further moves toward protectionism.

### III. Trade

*Protectionism.* High unemployment in the industrialized countries has continued to generate protectionist pressures since the Summit. Nonetheless, there has not been widespread use of import restrictions. The commitments made at Downing Street and reaffirmed in renewing the OECD pledge have proved effective. Pressures for restrictive import measures are likely to continue, however; governments will need to exercise discipline to avoid measures that would transfer the burden of unemployment to their trading partners; they should continue to seek multilateral solutions, in appropriate forums, to pressing trade problems. The best way to reduce pressures for import restrictions is to accelerate overall growth and employment, to reduce substantial imbalances of international payments positions, and to achieve rapid and substantial progress in the Multilateral Trade Negotiations.

*MTN.* In the Tokyo Round of multilateral trade negotiations, agreement has been reached on a timetable for achieving substantive progress by the end of the year, as pledged at the Summit. As a first step toward meeting the timetable, a working hypothesis for tariff reductions, which will guide tariff negotiations, is being developed. The agreed approach should ensure that the Summit goals of substantial reduction, harmonization, and elimination of tariffs in certain cases will be achieved.

Progress has already been made in preparations for tabling requests in the sectors of agriculture and non-tariff barriers, and work has been set in hand on customs valuation, subsidies and countervailing duties, standards, government procurement, and safeguard mechanisms. Only if this momentum is maintained can the aims of Downing Street Summit be met within the time scale we envisage. The objective established for the MTN—a comprehensive set of agreements to the maximum benefit of all—will require a major effort on the part of all participants. The timetable for progress which has been agreed is ambitious; the temptation to delay and settle for limited results should be resisted; wider trade will help to stimulate growth and limit inflation.<sup>11</sup>

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<sup>11</sup> Carter wrote "We'll give our effort" at the end of this paragraph.



*Export Credits.* Progress has been achieved in fulfilling the Summit agreement to reduce counter-productive competition in officially supported export credits, within the existing Consensus. The Consensus expiration date has been extended to December 31, 1977. The object is to improve the present international arrangements before the end of 1977.

*Illicit Payments.* The UN Economic and Social Council has directed the ECOSOC *ad hoc* inter-governmental working group on the problem of corrupt practices to complete an international agreement on illicit payments in 1978, and has recommended that the UN General Assembly convene a conference to conclude such an agreement. The working group's ability to complete its assignment will require, among other things, that the Summit countries give their full support, as pledged at London.<sup>12</sup>

[Omitted here is discussion of energy.]

#### V. North-South Relations

The objectives which the Heads of State and Government set themselves for the Conference on International Economic Cooperation were broadly met.<sup>13</sup> The Conference's results did not meet all the wishes of the developing countries; nor did they entirely correspond to the interests of the industrial countries; but in general terms they should help to further the economic growth of developing countries within the framework of the world economy. The Conference established the basis for continuing the dialogue within international bodies.

*Aid.* Summit and other donor nations pledged at CIEC to increase effectively and substantially their official development assistance flows, and to contribute to a Special Action Program \$1 billion in increased development assistance for low-income countries. It will be important for the Summit countries to follow up these commitments promptly; more effective development will not only enhance the developing countries' welfare but also contribute to wider trade and economic opportunities for all nations.

*Access to International Finance.* The Witteveen supplementary facility contains provision for longer periods of adjustment as part of agreed conditions for IMF assistance to countries with balance of payments difficulties.

*World Bank.* The issue of the World Bank's capital increase is now under active review in the Bank's board. While there is general agreement that World Bank lending should continue to grow in real terms,

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<sup>12</sup> Carter wrote "Let's push this—" at the end of this paragraph.

<sup>13</sup> See footnote 6, Document 27.

as pledged at the Summit, the rate of growth remains to be decided. It should be possible to reach agreement on the general capital increase by June 1978.

*Private Investment.* The Development Committee of the IMF and IBRD has made recommendations on a variety of mechanisms to improve access by the developing countries to capital markets, as pledged at the Summit. These include the use of guarantee authority and technical assistance by the international development banks. The Committee has also decided to study the nature and role of private investment in developing countries, including how host government policies affect the investment climate.

*Commodity Policy*

a. *Common Fund.* At CIEC, the Group of Eight countries agreed that a common fund should be established, to be negotiated in UNCTAD. The participating governments have been meeting with other industrial countries to prepare a proposal to present at what will be a very difficult November session of the UNCTAD Negotiating Conference on a common fund.

Useful progress has thus been made in certain areas of North-South relations. But many key decisions, particularly on aid, remain to be taken. The natural interdependence between the developed and developing countries is clear to all. But, as the CIEC showed, their relationship remains uneasy and potentially divisive. The Summit governments will need to continue to give high priority to their policies and to concerting their actions in this field.

66. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, October 18, 1977

## SUBJECT

The U.S. Balance of Payments

On September 10, I reported to you that the sharp decline in the U.S. balance of trade and payments requires our immediate attention.<sup>2</sup> You agreed that Tony Solomon and I should work with Jim Schlesinger, Charlie Schultze, Dick Cooper, and Bill Nordhaus to review this matter. My summary of the outcome follows:

A. *The Forecasts*

The numbers have not materially changed from the picture I described earlier.<sup>3</sup>

	(\$ billions)		
	<u>1976</u>	<u>1977</u>	<u>1978</u>
Trade deficit	9	30	33–36
Current Account deficit	1	18	21–24

These forecasts are:

(1) based on optimistic assumptions (e.g., *no* OPEC oil price increases in 1978).

(2) subject to the usual uncertainties, things could turn out better in 1978—or they could turn out much worse. (A trade deficit approaching \$40 billion is conceivable.)

B. *The Problem*

The real danger remains the potential for serious problems in international financial markets engendered by these large deficits.

1. *Markets have been nervous and the dollar has been under moderate pressure.* Foreign central banks have intervened in considerable amounts, which, with continuing large private capital inflows, has maintained reasonable stability in the dollar exchange rate. A central

<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 60, 11/23/77 [1]. Secret; Priority. A stamped notation reads: "The President has seen." Carter wrote at the top of the page: "*Confidential*. To Stu. C" and "Yen 3.00 → 2.39 +22%."

<sup>2</sup> Blumenthal's report was not found.

<sup>3</sup> Carter wrote "dep \$ affects oil prices in future; good crops—world; recovery here; oil imports" in the margin adjacent to the table.

factor has been the growing level of oil imports and, perhaps more importantly, fear that Congress will not pass a meaningful energy program to deal with the problem over the longer run.

2. *Any single disturbance*, or spreading international opinion that we cannot or will not act to deal with the trade and energy situation, *could set off chain reactions difficult to contain*. Real upheaval is a possibility and could cost much politically as well as economically around the world.

*Conclusion:*

1. We cannot sit back and hope for the best.
2. We must be seen to be “doing something” about this problem.
3. Therefore, we must develop a program to:
  - a. Reduce energy import costs for 1978 through 1981 (until your longer term energy program begins to have an effect).
  - b. Strengthen our export position (without resorting to protectionist or other internationally irresponsible measures).

*C. Possible Action*

The following are possible components of a U.S. response:

1. *Energy Related Measures*
  - a. *Slow down purchases for the Strategic Petroleum Reserve*. Purchases in 1978 could be reversed or slowed by Congressional action, saving up to \$3.2 billion in that year. Postponement of 1979 and 1980 purchases could save \$1.5 and \$2 billion respectively.
  - b. *Reverse the decision to slow production at Elk Hills*.<sup>4</sup> This would save \$0.6 billion beginning in 1978, rising to about \$1½ billion beginning in mid-1980 if the Sohio pipeline is completed.
  - c. Encourage the owners of the *Trans-Alaskan Pipeline*<sup>5</sup> to *decide now to increase throughput capacity* to the 1.6 million barrels per day capacity of the Prudhoe Bay main field beginning mid-1980—saving \$2 billion per year. In light of a “glut” of oil on the West Coast, it might be advisable to give permission to have, for a temporary period, a trilateral “oil swap” (with Japan) for any Alaskan oil produced in excess of 1.2 million barrels a day.
  - d. Encourage Sohio and the State of California to *resolve impediments which block the Sohio Pipeline project to Midland, Texas*—allowing utilization of increased Elk Hills production, beginning mid-1980, and avoiding the need for a trilateral swap.

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<sup>4</sup> See footnote 3, Document 53.

<sup>5</sup> The Trans-Alaska Pipeline, which carries oil from the Prudhoe Bay in northern Alaska to the port of Valdez in the southern part of the state, became operative in June 1977.

There is also the radical action to restrict consumption of oil by limiting imports and *rationing gasoline*. You have authority to introduce gasoline rationing by Executive action, by declaration of national emergency. Certainly, this would restore U.S. credibility about dealing with our energy problem. Once in place, depending on the stringency of the program, rationing could save \$5 to \$10 billion a year.

*There was general agreement among us that it is not desirable to take this step now.* It could have an important negative economic impact on growth; it is doubtful that the American people are ready for it, and the political consequences could be extreme.

I nevertheless feel it desirable for you to order technical preparations to be worked out, and to continue to develop the political climate, so that this step could be taken with minimum delay. Moreover, I would recommend that we examine other longer-term measures, additional to those in your present energy package, for reducing our oil impact bill.

## 2. *Non-energy Related Measures*

In addition to continuing to press Germany and Japan to stimulate their economies, we could take the following actions to cut the trade deficit in 1978 and beyond:

a. *Expand Ex-Im Bank operations* by about \$4 billion (which would provide additional exports at an increasing rate ranging from about \$0.5 to \$1.5 billion per year).

b. *Expand CCC Budget* by \$1.5 billion per year (which would provide about \$0.5 to \$0.75 billion in additional exports per year).

c. *Moderate expansion of military sales* for off-the-shelf items (about \$0.5 billion per year).

d. *Sell some of our gold holdings* on the private market (up to \$0.5 billion per year).

*If we took actions on all of these non-energy related areas, the maximum potential savings would amount to about \$2 to \$3 billion each year.*

Each of the above actions raises other policy issues. For example, Ex-Im Bank options lie in areas that would involve easing some restrictions on nuclear sales. Similarly, expansion of military sales could partly conflict with your arms sales policy.<sup>6</sup>

## D. *Recommendations:*

*There is no agreement among your advisers on which steps should be taken to remedy the situation.* For understandable reasons, Jim Schle-

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<sup>6</sup> The text of Carter's May 19 announcement of his conventional arms transfer policy is in *Public Papers of the Presidents of the United States: Jimmy Carter, 1977, Book I*, pp. 931–932.

singer does not favor delaying or stretching out the strategic petroleum build-up. Charlie Schultze is reluctant to look to anything that inhibits growth, and so forth. *All of us agree, however, that the situation is serious and that actions on your part are required.*

In view of the above, *I recommend as follows:*

1. *That you meet as soon as possible with Jim Schlesinger, Charlie Schultze, Jim McIntyre, Tony Solomon and myself to agree on a course of action.*

2. *That you should announce within the next few weeks (after Congress enacts an energy legislation)<sup>7</sup> a program of these shorter-term energy measures—and, in a lower key, export expansion measures—designed to reduce the deficits during the period up to the early 80's, when your longer term energy program would take effect. (Any actions taken to increase military sales and to sell gold would not be announced as part of a balance of payments program.)*

3. *My recommendation would involve decisions now to slow petroleum stock purchases for 1978 through 1980; to adopt the other energy measures described above, except for import quotas and rationing; and to introduce a number of non-energy measures to improve the U.S. export position. (Table attached).<sup>8</sup>*

4. *That we engage in a diplomatic offensive to persuade OPEC not to increase the price of oil, at least through 1978.<sup>9</sup>*

Although I have kept Arthur Burns informed generally, you and I should review our proposed program with him.

**W. Michael Blumenthal<sup>10</sup>**

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<sup>7</sup> The National Energy Act, which Carter sent to Congress in April (see footnote 7, Document 25) was not passed until October 15, 1978. The President addressed the nation on November 8 on the energy crisis, the need for conservation, and the rising price of oil. For the text of his address, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 1981–1987.

<sup>8</sup> Attached but not printed is a table entitled “Maximum Possible Impact on U.S. Trade Deficit.”

<sup>9</sup> Blumenthal traveled in the Middle East October 22–29, meeting with leaders in Egypt, Kuwait, Iran, and Saudi Arabia to discuss oil pricing policy. See *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 134.

<sup>10</sup> Blumenthal signed “Mike” above this typed signature

**67. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, October 20, 1977

## SUBJECT

Japan's External Surplus

We may be on the verge of substantial progress in regard to the Japanese surplus.

I spent the greater part of the day with Japanese Deputy Vice Minister for Foreign Affairs Yoshino, a highly responsible Japanese official who is my opposite member for Summit planning, discussing a package of Japanese measures to reduce Japan's external surplus: reduction of barriers to imports; large purchases of US enriched uranium and of US grains for stockpiling in the US; greater Japanese aid and investment abroad; and an increase in the projected FY 1978 Japanese growth target from 6% to around 8%.

The latter is by far the most important of these measures; the FY 1978 growth target will need to be fixed in late 1977.

We agreed that if a package acceptable to both sides could be worked out, it would be useful to dramatize this success by having the matter agreed at a high political level. We talked of various ways in which this could be done; the best would be a Carter–Fukuda meeting. Yoshino said that if you could accept the Prime Minister's standing invitation to visit Japan, this would create enormous pressure on the Japanese government to take the right decisions. Alternatively, he said, Fukuda might come to Washington—although this would be less desirable, since it was Japan that would be making the concessions.

I said that there could be no thought of a Presidential trip unless it was clear that a satisfactory package—including a substantial increase in the Japanese growth target—could be worked out in advance. He said that if he could tell the Prime Minister confidentially that a Presidential trip was possible on this condition, the Prime Minister could then make a political judgment as to whether he could overcome the considerable obstacles to developing a package such as outlined above. If so, he would let us know, and the modalities of extending and accepting an invitation could be worked out. Yoshino hoped that a Presidential visit could take place during your forthcoming trip, after Delhi

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 9–12/77. Confidential. Sent for action. Carter initialed "C" at the top of the page.

or Brussels.<sup>2</sup> If you could only come in 1978, the visit would still be a useful part of the scheme, but some of the package (notably the new growth target) would have been announced beforehand.

*Comment:* A Presidential trip to Japan that ratified a major package of measures to reduce the Japanese surplus would be a large foreign policy success. If your forthcoming trip could include such a visit, this would add notably to the trip's importance. Even a 1978 trip would increase the chances of needed Japanese action, and could be related to that action. We need not fear that Fukuda would fail to deliver the package that he had promised as a condition of your visit; the domestic political costs of a Presidential visit that backfired would be prohibitive. If he issues the invitation, it will be because he has concluded that a package is politically feasible that would have the desired economic effect.

#### RECOMMENDATION

That I be authorized to tell Yoshino, before he leaves Friday<sup>3</sup> night, that there is a good chance of a Presidential trip to Japan—either during your 1977 trip or later—if a major and mutually satisfactory package to reduce Japan's surplus can be worked out in advance.<sup>4</sup>

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<sup>2</sup> Carter's scheduled November trip was postponed; see footnote 3, Document 65.

<sup>3</sup> October 21.

<sup>4</sup> Carter did not indicate his decision with respect to this recommendation. At the end of the memorandum he wrote: "Zbig—Talk it over w/Fritz & Cy. It is likely that in 1979 I'll want to make a trip to Asia. Japan has a long way to go to convince me on their economic attitude. J."



68. **Briefing Memorandum From the Director of the Policy Planning Staff (Lake) and the Assistant Secretary of State for Congressional Relations (Bennet) to Secretary of State Vance<sup>1</sup>**

Washington, October 21, 1977

*Congressional Staffers View Trade Liberalization*

In the fourth of a series of S/P hosted meetings with Congressional staffers, we met informally on October 12 with key Senate and House staffers concerned with international trade issues.<sup>2</sup> The discussion focused on the strength of protectionist sentiment in the Congress, foreign policy related issues, the impact of current trade issues such as steel on Congressional views and on prospects for a successful conclusion of the Multilateral Trade Negotiations (MTNs), and US adjustment to changing trade patterns.

The staffers almost without exception, painted a dark picture for congressional acceptance of trade liberalizing measures so long as pressures from constituents for special protective action remain very strong. They agreed that the problems of domestic industries and unemployment are not likely to improve significantly in the foreseeable future; therefore, stopgap action such as anti-dumping actions and orderly marketing agreements will have to be pursued to avoid even worse restrictive trade legislation. They particularly emphasized the congressional perception that the Administration was not doing all it could to expeditiously use existing authority in the Trade Act to offset unfair trade practices, such as dumping. The group agreed that unless we could produce a trade package providing clear benefits to US industry, Congress would reject the agreements our negotiators concluded.

They expressed Congressional resistance to granting extensive concessions to the upper tier developing countries in the light of their emerging ability to compete with selected US industries. They urged that there be greater coordination among various US policies to ensure consistency; e.g., that we consider the need for LDCs to expand their exports in order to earn foreign exchange to manage their debts to our banks at the same time that we make decisions concerning possible restrictions on LDC products entering our markets.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Executive Secretariat, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 3, S/P-Lake Papers—10/16–31/77. No classification marking. Drafted by Harriet Hentges (S/P).

<sup>2</sup> No memorandum of conversation of this meeting was found.

As for longer range prospects, the group shared mild enthusiasm for the development of a national industrial policy which could address the need for structural change in specific sectors, anticipate new trade patterns, strengthen US competitiveness in selected industries, and assist workers displaced because of a rapid increase in imports. Nevertheless, there was considerable skepticism that this could in fact be accomplished.

In sum, the mood of these key staff people towards our ability to hold the line against protectionism was very pessimistic.

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## 69. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, October 27, 1977

### SUBJECT

Policy Implications of Summit Follow-Up

I sent you recently a memo describing the International Summit Group's follow-up meeting and report.<sup>2</sup> I have since been discussing with some of my foreign colleagues what the implications of this report are for their countries' policies. It suddenly occurred to me that I should also be worrying about what the implications are for US policy. They are twofold:

1. *We should take early steps to assure strong US growth in 1978.* The Summit Group's discussion brought out that if US growth falters, the weak countries (UK, France, and Italy) will be tempted to give up painful stabilization programs, and the strong countries (Japan and Germany) will do less to achieve growth and to reduce their surpluses than they might have done otherwise. Timing is important: The sooner it becomes clear that US policies will be such as to produce a strong US 1978 growth, the more likely other countries are to be influenced by that prospect in shaping their own 1978 policies.

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 49, [London] Summit 1977 [2]. Confidential. Sent for information. A stamped notation reads: "The President has seen." Carter wrote at the top of the page: "cc Schultze. J." A copy of the memorandum was sent to Schultze under cover of an October 31 note from Hutcheson. (Ibid.)

<sup>2</sup> See Document 65.

2. *We should make greater efforts to improve the trade-off between inflation and unemployment.* The Summit Group's discussion kept coming back to the fact that most of the industrial countries have unacceptable levels of inflation, and that fears of inflation hinder the efforts of all these countries to reduce unemployment. If the US could show the way in reducing inflation while pursuing steady growth, it would have made an enormous contribution to the economic prospects and confidence of the industrial world. I have a simple-minded suggestion: Why not tell your chief economic advisors that you find 6% inflation unacceptable, and want a report from them as to the actions that would be needed to bring it substantially lower by 1980. The measures they propose may turn out to be politically infeasible, but that's a decision only you can make. Whether we can get inflation below 6% will do as much as anything else to shape domestic and international economic prospects, and it is not clear that this is going to happen by itself.

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**70. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, October 28, 1977

SUBJECT

Letter to Prime Minister Fukuda

Attached is a draft reply to Prime Minister Fukuda's letter.<sup>2</sup> I have cleared its substance with State, Treasury, Commerce, and Bob Strauss.

Inter-agency work is going forward in preparing a package of measures on which the US and Japan could agree to reduce Japan's external surplus. Our thought is that Bob Strauss would discuss these measures with Fukuda and other Japanese officials, when he goes to Japan in early December—with the object of reaching an agreement

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<sup>1</sup>Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 2-12/77. No classification marking. Sent for action. Brzezinski initialed the memorandum.

<sup>2</sup>The attached draft is not printed. In his October 19 letter to Carter, Fukuda discussed his government's economic stimulus program and urged industrialized country cooperation. (Ibid.) In an October 27 memorandum to Brzezinski, Tarnoff characterized Fukuda's letter as an appeal "for patience and U.S. understanding of the efforts his government has taken to deal with the current account surplus." (Ibid.) Carter's reply to Fukuda is printed as Document 71.

then or as soon thereafter as possible, to be announced simultaneously in Washington and Tokyo.

Yoshino (the diplomat who brought Fukuda's letter) and I agreed that there should be no evident connection between agreement on such a package and a Presidential trip to Japan. I made clear that there could be no trip without prior agreement on a package. He made clear that if this agreement were reached, the Japanese government would hope you could visit Japan—preferably in 1978 and, if not, in 1979.<sup>3</sup>

We don't know whether the Japanese are prepared to do what is necessary to reduce the surplus substantially. Yoshino, who is honest and close to Fukuda, was encouraging; other reports are not. We will only find out by trying.

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<sup>3</sup> In his October 27 memorandum to Brzezinski (see footnote 2 above), Tarnoff noted that, in addition to Owen, Yoshino had met with Cooper, Solomon, Strauss, and Wallich "to get a sense of what GOJ actions the USG thought would be necessary and sufficient in the current situation."

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## 71. Letter From President Carter to Japanese Prime Minister Fukuda<sup>1</sup>

Washington, October 31, 1977

Dear Mr. Prime Minister,

Thank you for your letter of October 19.<sup>2</sup> I am glad that you wrote me so frankly about the need for close consultation, cooperation, and the avoidance of misunderstandings. I agree fully with you. No element of US foreign policy is more important than the connection between Japan and the United States. I intend to do everything I can to keep that connection in good working order. To this end, I hope that you will keep me informed of the domestic economic and political situation in Japan, and I will keep you advised of economic and political trends in the United States that bear on our relationship.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 2-12/77. No classification marking.

<sup>2</sup> See footnote 2, Document 70.

As you know, the size of the Japanese external surplus fuels protectionist pressures in this country. I realize that it will take time to solve this problem. That is why I am so anxious to make a good start.

US officials found the recent Tokyo sub-Cabinet level discussions of bilateral trade questions fruitful.<sup>3</sup> I look forward to early activation of the joint economic projections study group and the joint trade facilities sub-committee that were agreed on then. I welcome the additional measures you have adopted to stimulate the Japanese domestic economy, and the initial steps that you announced on September 20 to expand Japan's imports.<sup>4</sup> I am pleased that additional important actions are also being considered.

I noted and was gratified by your public statement about the need to "strive for an external equilibrium." We need now to work out a procedure for seeking agreement on further steps to hasten movement in this direction. US officials had rewarding discussions with Mr. Yoshino about this during his recent visit to Washington.<sup>5</sup> Our countries' common purpose should be to develop a package of measures that would assure early, substantial, and visible progress to reduce the size of Japan's current account surplus. My economic advisors will be discussing these matters among themselves; and discussions will be pursued with officials of your government in the period immediately ahead. I would hope that Bob Strauss could, in conjunction with Ambassador Mansfield, carry the discussion forward if he visits Japan in early December, so that some understanding about a package of measures—bearing on not only trade, but aid, foreign exchange, and growth policies—could be reached during his visit.

I understand the large obstacles to progress. Working together, I believe that Japan and the United States can overcome these obstacles, and make good progress in helping to build a viable world economy. In isolation, we are all too likely to repeat the failures of the early 1930s, which you described so eloquently at the Downing Street Summit. This is why I have set forth so fully my thoughts about next steps in the US-Japanese dialogue. I hope that you will be equally candid in giving me your reaction. A continuing direct exchange of views between us is the key to progress.

Sincerely,

**Jimmy Carter**

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<sup>3</sup> See Document 55.

<sup>4</sup> See Document 59.

<sup>5</sup> See Document 67.

72. **Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, November 8, 1977

SUBJECT

EPG Meeting on Japan—November 9 at 9:30 AM

*The Issues*

Attached at Tab A is your agenda memo for the meeting; the more detailed interagency paper is at Tab B.<sup>2</sup> After laying out the underlying facts, U.S. objectives and Japanese constraints, the papers outline four policy approaches (detailed in Appendix 1 of Tab B):

- Our option of “assured import shares”.
- Commerce’s proposal that Japan double its imports of manufactures over the next two or three years.
- State’s proposal that Japan achieve a current account deficit in 1979, and adopt precise measures now to achieve that objective.
- A combination of the current account target and increased market shares for imports.

There is widespread agreement on the two key issues. First, all agree that the Japanese must move to (a) reduce/or eliminate their global (*not* bilateral) surpluses in the short run *and* (b) make structural changes to raise the market share of imported manufactured and agricultural goods over the longer run. Hence the eventual package will have to include *both* an immediate current account target and a direct assault on the structural problems, a la one of the first two options.

Second, there is agreement that we here in Washington cannot judge which means to achieve these goals will be least objectionable to

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, IM–6 Balance of Payments 1977. No classification marking. Sent through Solomon. Neither Bergsten nor Solomon initialed the memorandum.

<sup>2</sup> Tabs A–C are not attached. No minutes of the November 9 EPG meeting were found. In the November 9 Evening Report to Carter, Vance summarized the meeting, which Blumenthal chaired: “We all agreed that our efforts with the Japanese must be carefully calibrated so that we have maximum chance to achieve our objectives while keeping faith with your commitments to Fukuda not to ‘shock’ them publicly. Our tentative thinking is that Mike Mansfield, using the personal relationship that he has built up with Fukuda, should begin the process with a private and frank talk with Fukuda. We will send a combined STR–Treasury–State working level group to Tokyo Monday to prepare Mike for his meeting. After that, we should proceed with technical discussions, which would be followed by a possible visit by Bob Strauss.” (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 11/77)

the Japanese. Hence we should essentially present Fukuda with all of our options and ask him to choose which combination is most achievable—assuring, however, that it will achieve our fundamental objectives.

This approach should adequately promote U.S. economic objectives while minimizing the costs to overall U.S.-Japanese relations. However, it is essential that the package we present—and those who present it to the Japanese—assign adequate weight to the structural, longer term measures.

#### *Your Objectives*

Your objectives at the meeting should thus be fourfold:

—To get agreement on sufficiently detailed proposals to make up a credible presentation to the Japanese; the short-term package is detailed in Appendix 2 of Tab B, and the long-term alternatives at Tab C. The real choice is between seeking GOJ agreement/commitment on ultimate goals or on changes in specific policies or some combination of the two.

—To assure full inclusion of the long-term, structural elements in the package.

—To reach agreement on a tactical approach which will assure accurate presentation of the package to the Japanese.

—To create interagency machinery for USG monitoring and follow-up.

For the short-term package, the list in Appendix 2 is acceptable *if* we want to incorporate specific measures to buttress the GOJ current account commitment.

For the *longer term*, we prefer the market shares approach. Value targets (such as a doubling of imports) are overwhelmingly determined by economic growth and other macroeconomic factors. Under this approach, we would seek a GOJ commitment to raise the import component of its consumption of consumer goods (and the other main sectors) from x% to y% by, say, 1980.

However, we must recognize that Japan's ability to meet market share targets is limited, whether the shares are for the entire manufacturers sector or disaggregated, as we would ideally prefer, for consumer goods/investment goods/processed raw materials/agriculture. State opposes this approach because of the political difficulties it could cause Fukuda; we (and Jules Katz) believe that "bottom line targets" of this type may cause *fewer* problems for Fukuda than would a negotiation over detailed policy changes.

On the *tactics*, it is essential that we convey our views to Fukuda and the Japanese bureaucracy very soon. As far as we know, the Prime Minister is still planning to offer a program on November 18. We must inform him, well before that time, that his current thinking would pro-

duce minimal results and that much more far-reaching steps are needed.

Dick Holbrooke feels that only two Americans can credibly carry this message to Fukuda, because of their domestic political credentials: Ambassador Mansfield and Bob Strauss. There is widespread inter-agency agreement that Mansfield, buttressed by a small technical team from Washington, should convey the word early next week if we can get our position together in time. Strauss could then go to Fukuda in December to conclude the final agreement, once the Japanese had decided which approach to choose.

On the *interagency follow-up*, there is now reasonably effective coordination at the Assistant Secretary level (chaired by STR) and at the working level (chaired by State). If a more formalized EPG subgroup is deemed necessary, it should be chaired either by Treasury (due to your chairmanship of the EPG and overall international economic responsibility) or by STR (because these GOJ measures will be almost wholly in the trade area).

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### 73. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, November 9, 1977

SUBJECT

"Year of the Economy"

You were wise to make 1977 the Year of Energy—both because the issue is important and because it is useful to order an administration's activities around a central theme and "subordinate other business to it," as Churchill once said. From a foreign policy standpoint, it would make sense to make 1978 the Year of the Economy—for two reasons:

1. *Economic Issues Are Now Central*: In the industrial world stagflation may not pose as dramatic a danger as the Great Depression did in the 1930's, but it could eventually do as much to weaken moderate political forces in Europe and Japan, and thus to unhinge the existing in-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 121, Trade: 1977. Confidential. Sent for information. Carter wrote at the top of the page: "Stu. C." Brzezinski also initialed the memorandum.



ternational order. In the poorer developing countries, stagnation poses a serious long-term threat.

2. *There is good potential for progress in meeting these problems in 1978.* The single most important factor is the health of the US economy, and others can spell out the opportunities for action on this front. But there is a promising foreign agenda, whose fulfillment would promote US and world recovery:

- concluding an MTN agreement;<sup>2</sup>
- reforming our bilateral aid programs, which is a lot more important now than spending more money on these programs;<sup>3</sup>
- setting up the new IMF \$10 billion lending facility, which is already in trouble on the Hill; progressing toward agreement on new IMF quotas; and getting agreement on a general increase in the resources of the World Bank;<sup>4</sup>
- pushing for increased production abroad of commodities in short supply—notably energy and food—and trying to set up an international system of national grain resources;<sup>5</sup>
- concerting with other oil-importing countries on measures to reduce energy consumption and thus restrain oil price increases;<sup>6</sup>
- concerting with Japan and Western Europe about the industrial countries' macro-economic policies, and with Japan about a package of measures to reduce its external surplus.<sup>7</sup>

Each of these measures is already in train. With Presidential leadership and a little luck, most of them could be brought to a successful conclusion next year. Taken together with the measures on the domestic front that others will propose to you, they would make the "Year of the Economy" one of substantial achievement.

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<sup>2</sup> Carter underlined the phrase "MTN agreement."

<sup>3</sup> Carter underlined the words "reforming" and "aid programs."

<sup>4</sup> Carter underlined the phrase "IMF \$10 billion."

<sup>5</sup> Carter underlined the phrases "increased production abroad" and "energy and food."

<sup>6</sup> Carter underlined the phrase "reduce energy consumption."

<sup>7</sup> Carter underlined the phrases "Japan and Western Europe," "macro-economic policies," "Japan," and "external surplus."

**74. Memorandum From Michael Armacost of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, November 10, 1977

SUBJECT

Major Export Promotion Drive

Our trade and payments position is atrocious, yet as far as I am aware the Administration has made no determined effort to come to terms with this on the export side. We are launching major efforts to try and open up the Japanese market to manufactured goods exports; yet when criticized for having a sheltered market, Japanese officials invariably claim that our businessmen do not try hard enough to compete in Japan. There is some truth to the contention, though it is essentially a self-serving defensive ploy. Nonetheless, it points up the fact that an important adjunct to our Japan initiatives should be a major effort to launch an export promotion drive with the blessings of the White House.

This has been attempted before. But the last attempt (four or five years ago) foundered because it was run essentially out of Commerce which enjoyed little confidence in the business community and little clout in the White House. After a few meetings, it fizzled.

I would suggest that the President bring a few key businessmen and labor leaders in to discuss launching a new export promotion drive to advance foreign economic policy aims and spur employment. The leaders of such a drive—if it is to have any prospect of success—must be recognizable figures, known to the President, enjoying the confidence of the business community and labor, and possessed of successful experience selling products abroad (ideally with some success in the Japanese market). This cannot be a venture limited to the big multinationals; it must be geared at intermediate sized firms as well to give a broad grass roots reach.

My knowledge of the giants of industry is limited, but Irving Shapiro, Chairman of DuPont, might be an ideal person to lead an effort of this kind. Tom Clausen, President of the Bank of America, should be drawn in on it. So perhaps, should John Connor, Allied Chemical (former Secretary of Commerce); and Bob Ingersoll, former Chairman of Borg Warner and Ambassador to Japan. Doubtless Bob Strauss, Mike

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 65, Trade: 11/77-4/79. Confidential. Sent for action.

Blumenthal, Juanita Kreps, and Roy Marshall would all have other candidates.

The important thing is to get moving soon, to think big, to place the leadership of the enterprise on people outside the bureaucracy, and to be willing to invest some White House attention, activity, and prestige in the venture.

RECOMMENDATION:

That you broach this idea at the next foreign policy breakfast with the President and Cy Vance.<sup>2</sup>

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<sup>2</sup> In an attached undated note to Armacost, Owen wrote: "This is a good idea, but I think we should check it with State & Commerce before doing it. I have calls in to Cooper + Weil, + will be back to you. I don't think we should approach President until then." (Ibid.)

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**75. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, November 15, 1977

SUBJECT

Japanese Surplus

1. The US inter-agency exercise sparked by your recent exchange of letters with Fukuda<sup>2</sup> has borne fruit: An inter-agency group is on its way to Tokyo to outline to the Japanese government a possible package of short-term measures and long-term commitments that it might take to reduce and eventually eliminate the Japanese surplus.<sup>3</sup> It's a good package—the right balance between pressure and sensitivity to Japanese concerns. If subsequent discussions go well, Bob Strauss will visit Japan in early December to seek an agreement on all this with Fukuda.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 9–12/77. Confidential. Sent for information. Carter initialed "C" at the top of the page.

<sup>2</sup> For Carter's letter to Fukuda, see Document 71. For Fukuda's letter, see footnote 2, Document 70.

<sup>3</sup> On November 9, the EPG discussed economic strategy toward Japan; no minutes of the meeting were found, but see footnote 2, Document 72.

2. Some indication of how seriously the Japanese take this issue is provided by Prime Minister Fukuda's decision at a special Cabinet meeting Saturday<sup>4</sup> to set up a Special Headquarters for Foreign Economic Policy, answering directly to him; Yoshino, who brought Fukuda's letter to you and with whom we had the discussions of Japan's surplus that I reported to you,<sup>5</sup> will be its Secretary General. This move lifts the surplus issue out of the bureaucracy to the highest political level. It does not tell us how the Japanese will react, however. They seem more alert to our concerns than previously. But there is still a considerable battle to be waged inside the Japanese government before a decision can be reached. That battle may be fought out in public and the US may be implicated, if different groups in that government resort to press leaks. But we're on the right course, and I think there's a fair chance of success.

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<sup>4</sup> November 12.

<sup>5</sup> See Document 67.

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## 76. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>

Washington, undated

### SUBJECT

The Trade Issue in our Relations with Japan

On the eve of important negotiations with Japan on trade and economic issues<sup>2</sup> Mike Mansfield has sent in a general appraisal of our relations with Tokyo.<sup>3</sup> As usual Mike registers some eminently sensible

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 9-12/77. Confidential. Sent for information. Brzezinski did not initial the memorandum. Armacost sent it to Brzezinski for his signature under cover of a November 14 memorandum, in which he noted that the memorandum to Carter had been prepared at Brzezinski's request. A handwritten notation on Armacost's memorandum reads: "used in Weekly Report 11-18-77." (Ibid.)

<sup>2</sup> See Document 75.

<sup>3</sup> Apparently a reference either to telegram 17287 from Tokyo, November 9, on the "State of the Relationship," or telegram 17230 from Tokyo, November 8, on "US-Japan Economic Relations." (National Archives, RG 59, Central Foreign Policy File, D770413-1018 and D770412-0041, respectively)

points. He warns against pressuring the Japanese with such zeal and single-mindedness on trade matters that we lose sight of the broadly convergent interests we share with Japan. He notes with some foreboding that grievances are accumulating on both sides of the relationship, and he underscores our own stake in maintaining cordial and mutually beneficial ties. He reminds us that we must pursue our economic objectives with a realistic awareness of the constraints that are built into Japan's political system. We must avoid the impression that we are insensitive to Japan's economic and political interests, and are giving little more than lip service to preserving our wider partnership with them. He suggests that we forego publicly lecturing the Japanese on our conceptions of their responsibilities. These are useful and timely reminders of important truths. We should bear them in mind.

They are not the only considerations, however, that should guide us in the weeks ahead. The Japanese *have* been derelict in meeting their international responsibilities in the economic field. Our discussions with them on this subject during the past nine months have produced nice communiqués but few tangible results. Many Japanese leaders still regard their massive current account surplus and their bilateral trade surplus with us as cyclical problems which are likely to prove transitory. They are looking for short-term, cheap palliatives which will get us off their backs for a while in hopes that some other issue will emerge to divert our attention. Our most pressing requirement is to strengthen the hand of those within Japan who are prepared to contemplate far-reaching changes in their trade practices—particularly their attitudes toward the import of manufactured goods.

Japanese diplomacy on commercial issues tends to be reactive and defensive. Rapid movement toward equilibrium in Japan's trade or current accounts will not come without the determined application of strong external pressures. And even those Japanese who find such pressures distasteful generally acknowledge that they are an indispensable prerequisite of change. We must apply these pressures adroitly, yet persistently, and we can anticipate some adverse fallout on our political relationship. This should be manageable. Indeed Japan's concern to keep it within bounds will be one of our prime levers (just as it was one of Japan's in the Tokai dispute).<sup>4</sup> Our prospects of success will depend on careful and detailed exposition of what we want, persistence in seeking results, clear signals regarding the consequences of inaction, and some patience and good humor.

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<sup>4</sup> Reference is to the U.S.-Japanese disagreement over the opening of the Tokai Mura nuclear reprocessing facility in Japan. On September 1, the countries announced that they had reached an agreement that would permit the plant to open. (Andrew H. Malcolm, "U.S. and Japan Agree on Tokyo's Opening of Atom Fuel Plant," *The New York Times*, September 2, 1977, p. 1)

The diplomatic scenario for moving on this issue has now taken shape. Mansfield will make a strong presentation to Fukuda on Thursday,<sup>5</sup> highlighting the importance we attach to early achievement of a deficit in Japan's current accounts, and a substantial increase in Japanese imports of manufactured goods. A team, headed by Dick Rivers of Bob Strauss' office, will then propose a package of short-term and medium-term measures to inject greater balance in Japan's trade with the U.S. to the relevant Japanese Ministries. Fukuda will be informed that Alan Wolff will be prepared to go to Tokyo sometime in the next several weeks to move these negotiations along. Bob Strauss will be ready to go to Tokyo to conclude an agreement only if an acceptable package can be worked out. The timing is propitious. The Japanese are now formulating their next budget; they are exposed to criticism on the trade issue not only by the U.S. but the Europeans and non-OPEC developing countries; Fukuda has a strong hand in economic issues within the government, and he faces no early elections; the business community is apprehensive over further large-scale appreciation of the yen.

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<sup>5</sup> November 17. In the November 9 Evening Report to Carter, Vance noted that the EPG had tentatively decided during its meeting that day on U.S. economic strategy toward Japan (see footnote 2, Document 72) "that Mike Mansfield, using the personal relationship that he has built up with Fukuda, should begin the process with a private and frank talk with Fukuda." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 11/77)

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## 77. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>

Washington, November 29, 1977

### SUBJECT

US-Japan Trade Issue: Current State of Play and Next Steps

Prior to his departure from Tokyo last week, Dick Rivers was given an initial Japanese Government response to our suggestions for

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 9-12/77. Confidential. Sent for information. A stamped notation reads: "The President has seen," and Carter initialed "C" at the top of the page. Owen and Armacost sent the memorandum to Brzezinski for his signature under cover of a November 29 memorandum. (Ibid.)

reducing Japan's current account surplus. It fell far short of our requirements in its extent and in its specificity. Indeed, it was a minimal initial bargaining position which eschewed any formal commitments to achieve a deficit on current account by a particular date, to increase significantly the economic growth target for the next fiscal year, or to expand imports of manufactured goods dramatically.<sup>2</sup>

We instructed our Embassy in Tokyo to convey disappointment at this response; to note the priority we attach to Japanese assurances to the international community that it will take the steps necessary to achieve a current account deficit as soon as possible; and to inform the Japanese that Ambassador Alan Wolff, Bob Strauss' deputy, would be prepared to come to Tokyo on December 4–7 to continue the discussion of these issues as a prelude to a possible trip by Bob in mid-December.<sup>3</sup>

Intelligence sources indicate that Prime Minister Fukuda recognizes that his hastily-prepared \$3 billion import promotion program and the recent appreciation of the yen will not be sufficient to reduce Japan's huge current accounts surplus for many months. Thus Tokyo will remain vulnerable to growing pressures from the United States, Western Europe, and non-OPEC developing countries to buy more or sell less. Consequently, Prime Minister Fukuda has ordered his economic advisors back to the drawing boards to draft additional substantive measures, including tariff cuts, quota increases, and a higher economic growth target. He has evidently decided to send a new budget to the Diet in January, instead of waiting till April—which suggests that he has further measures for domestic expansion in mind—to meet pressures from the Japanese business community. The Prime Minister faces an uphill battle on his import policies because his Ministries are feeling the heat from special interest groups—particularly small and intermediate size businesses and farmers. Expressions of our concern about growing protectionist pressures in the U.S. have lent urgency to Fukuda's efforts, and our soundings—with Ambassador Mansfield, Japanese newsmen, the Japanese Foreign Ministry—suggest that the continued application of pressure from us (provided it is adroit and unobtrusive) provides the Prime Minister with much-needed leverage with recalcitrant Ministries.<sup>4</sup>

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<sup>2</sup> Widman reported on the results of the visit of U.S. officials to Japan in a November 22 memorandum to Blumenthal. (Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 3, 11/77)

<sup>3</sup> Telegram 281957 to Tokyo, November 24, transmitted the U.S. reaction to the Japanese response. (National Archives, RG 59, Central Foreign Policy File, D770436–1167)

<sup>4</sup> In his November 30 Evening Report to Carter, Vance noted that both he and Mansfield believed “that we are on the right track and that it is important at this time to continue to move forward with steady but not excessive pressure, trying to reduce somewhat the public air of confrontation which the press has given our discussions.” (Carter

On November 28, the Prime Minister sent his Private Secretary to convey the following message to you:

—He has reshuffled his Cabinet and brought in a more experienced and impressive team to run the Economic Ministries. (*Comment:* Fukuda's primary motivation in selecting these men was his desire to facilitate the development of more forthcoming positions in the negotiations with us.) The new Minister of International Trade and Ministry, Toshio *Komoto*, is a favorite of Japan's big business community, and is pressing for a more expansionary budget. Kiichi *Miyazawa*, the new Director of the Economic Planning Agency, is a genuine internationalist in his outlook and a strong friend of the United States. Tatsuo *Murayama*, Minister of Finance, was formerly the Director General of the Finance Ministry's Tax Bureau; he was Fukuda's junior during the latter's days in the Finance Ministry and is responsive to his direction. Nobuhiko *Ushiba* has been appointed State Minister without Portfolio with responsibilities for International Economic Affairs. Ushiba was formerly Japan's Ambassador to the United States, is a prominent leader in the Trilateral Commission, and has strong experience in international trade and financial matters.

—He would like to continue consultations with the U.S. on trade issues by sending a small group of close confidantes to Washington around December 10. He is thinking of a team led by Ushiba, and including Morizuku *Motono* (Foreign Ministry) and *Owada*. (*Comment:* While a prime objective of such a mission would be to explain the political constraints which impair Japan's ability to produce immediate results, all of these men appreciate Japan's need to move more boldly to reduce its huge current accounts surplus. Thus they can be counted on reliably to report on the political pressures for action that exist here.)<sup>5</sup>

Meanwhile, Ambassador Mansfield confirms what Japanese officials had told us previously: that U.S. pressure has not strained relations between the two countries, and is welcomed by Japanese officials who are pressing for action within the Japanese Government.

Though we had planned to dispatch Alan Wolff to Tokyo this weekend, that no longer seems necessary. We can decide whether Bob Strauss should go to Japan late in December to reach final agreement on a package, after the Japanese mission has been here.

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Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 11/77)

<sup>5</sup> In his November 30 Evening Report to Carter, Vance asserted that Ushiba's visit would be "the key period for us." He continued: "We intend to calibrate very carefully the statements that each Cabinet member makes to Ushiba. We are stressing with the Japanese that the trip will not be the conclusion of our discussions, but only part of the process, and we are still thinking very much in terms of the possibility of a trip to Tokyo by Bob Strauss at the end of the year." (Ibid.)



**78. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, November 29, 1977

## SUBJECT

1978 Summit

This week Dick Cooper, Tony Solomon, and I hold our first meeting to prepare for your 1978 Summit.<sup>2</sup> We will be searching for new initiatives. The more important question, however, is that of purpose and strategy. This memorandum outlines my current thinking, and solicits your guidance.

On the economic front, the Summit's purpose is clear: to concert policies of the industrial countries in order to overcome stagflation in the industrial world and promote growth in LDCs. We can devise a strategy to this end.

But the Summit is also a political exercise—designed to strengthen relations among industrial countries. These relations are now affected by a variety of problems—political and security, as well as economic—which are treated in separate fora: NATO Foreign Ministers, US-Japanese bilateral talks, etc. But the problems interact, and there is no place where they are discussed as a whole and at a high political level. This should be the function of the Summit.

To this end, I am writing my German opposite member, suggesting that the next Summit leave time for the heads of government to discuss the overall state of the trilateral relationship, as a specific agenda item. I am also suggesting that the Summit Preparatory Group address the same issue.

The Japanese and Europeans are used to dealing bilaterally with the US about non-economic issues. This made sense in the 1950s, when

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 64, Summits: 5-12/77. Confidential. Sent for information. A stamped notation reads: "The President has seen," and Carter wrote at the top of the page: "Henry—o.k. We'll have a good agenda re non prolif—SALT III—how Mid East peace was achieved, etc. J.C."

<sup>2</sup> No memorandum of conversation of this meeting was found. Lake and Hormats each sent a memorandum to Cooper on their thoughts about the Summit. (Memorandum from Lake to Cooper, November 21, and memorandum from Hormats to Cooper, November 28; both National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, Current) Ernest Johnston, Cooper's Executive Assistant, forwarded the memoranda to Owen and Solomon on November 30. (Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 24, Summit: Bonn: 5/77-2/78)

Japan and Europe were still weak; it no longer makes sense in the 1970s. The private sector's awareness of this change is reflected in the Trilateral Commission, whose recent meeting in Bonn focused on both economic and non-economic issues.<sup>3</sup> It is time for us to edge the Summit toward increasing trilateral discussion of the political, as well as economic, aspects of relations among the industrial regions.<sup>4</sup>

If you have any reactions that you wish me to take into account in Summit planning, please let me know.

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<sup>3</sup> See footnote 5, Document 65.

<sup>4</sup> Brzezinski highlighted the final four lines of this paragraph beginning with the phrase "whose recent meeting in Bonn" and wrote "I very much agree. ZB."

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## 79. Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Solomon) to President Carter<sup>1</sup>

Washington, December 1, 1977

### SUBJECT

Summary of Steel Task Force Report

The steel task force report consists of three major sections:<sup>2</sup>

- an introduction which provides a background on those problems of the steel industry which are addressed by the report;
- an outline of the general objectives which guided the task force in developing the program; and
- a five-part program which is responsive to problems in those areas where government policies impact upon the industry.

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<sup>1</sup> Source: Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 284, Steel/Chrome (CF, O/A 24) (2). No classification marking. A stamped notation reads: "The President has seen," and at the top of the page, Carter wrote: "a) We should state that pollution standards will not be lowered, b) Tax measures will be 'considered' to encourage modernization."

<sup>2</sup> The task force was chaired by Solomon; see Document 63. Attached but not printed is the undated "Report to the President—A Comprehensive Program for the Steel Industry." A notation on the report's cover page reads: "The President has seen." Carter initialed the cover page and wrote: "To: Stu & Tony—This is ok. See comments on Stu's memo. a) Too many 'task forces' and committees—consolidate if possible. b) Reread this for typos & some confusing language." The memorandum from Eizenstat to which Carter refers is printed as Document 80.

The program proposals are grouped into major areas of: (1) relief from unfair trade practices; (2) modernization of plant; (3) rationalizing environmental practices and policies; (4) community and labor assistance programs; and (5) other general measures.

1. *Relief from Unfair Trade Practices*

A “trigger-price” antidumping procedure<sup>3</sup> is proposed to deal with complaints of steel imports at prices below home market prices or costs of production that injure the U.S. industry.

The trigger-price is to be established for each class of steel mill product based on production costs of the world’s most efficient producer (currently Japan).

—The use of trigger price to initiate proceedings will accelerate the identification and prevention of dumping.

—The system is consistent with U.S. law and the GATT.

—It will not deny to any affected person rights to initiate or contest proceedings on findings under the Antidumping Act.

2. *Modernization of Plant*

—The general tax measures of the Administration’s tax reform proposal will emphasize<sup>4</sup> incentives for modernization.

—IRS will be asked to investigate the appropriateness of shortening useful lives of capital goods for tax depreciation from 18 to 15 years.

—Additional funds will be made available for loan guarantees for modernization under existing programs.

3. *Rationalizing Environmental Policies and Practices*

—A review of EPA regulatory procedures will be undertaken to reduce rigidities<sup>5</sup> and inconsistencies.

—The access of the industry to EPA for discussions with respect to specific policies will be expanded.

—There will be a reexamination of other policies (e.g. offset policies<sup>6</sup>—the transfer of air pollution credits from one facility to another).

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<sup>3</sup> Under the trigger price anti-dumping procedure, also known as the trigger price mechanism (TPM), the Department of the Treasury would launch an anti-dumping investigation when the price of certain steel imports fell below a pre-determined level (the so-called “trigger price”).

<sup>4</sup> Carter underlined the word “emphasize” and wrote “?” in the adjacent margin.

<sup>5</sup> Carter underlined the words “reduce rigidities” and wrote “?” in the adjacent margin.

<sup>6</sup> Carter underlined the words “offset policies” and wrote “?” in the adjacent margin.

4. *Community and Labor Assistance*

—The loan guarantee programs for modernization under section (2) will be geared to plants located in areas of high unemployment.

—Existing EDA funds will be made available to combat unemployment in severely impacted steel communities.

—A task force will be established to examine alternative uses for closed steel plants.

—Consideration will be given to economically viable proposals for community and/or worker takeover of previously closed plants.

5. *Other General Measures*

—Requests for business reviews of joint ventures for research and development and mergers will be expedited by Justice.

—A government review of Federal funding of industry research and development will examine the merits of greater assistance to the steel industry—particularly in regard to energy and the environment.

—A task force will examine regulatory and other factors which lead to high transportation costs for industries processing bulk materials.

—A tripartite committee of business, labor, and government will be established to continue a dialogue on issues of common concern.

These measures will provide a basis for the industry through its own efforts, and the cooperation of labor, to regain a strong competitive position in the domestic economy.

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**80. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) to President Carter<sup>1</sup>**

Washington, December 1, 1977

SUBJECT

Meeting on Task Force Report on Steel

I thought before you read the final steel report<sup>2</sup> you might want to know the results of the lengthy inter-agency meeting which we con-

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<sup>1</sup> Source: Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 284, Steel/Chrome (CF, O/A 24) (2). No classification marking. A stamped notation reads: "The President has seen," and Carter wrote at the top of the page: "To Stu & Tony. JC."

<sup>2</sup> See footnote 2, Document 79.

vened to review the outstanding questions on the Solomon Steel Report.<sup>3</sup>

#### I. REFERENCE PRICE SYSTEM

1. *Time Length*—We had a discussion about the length of time during which the reference price system would last since this was not mentioned in the initial summary. There was a clear consensus that the report should make clear that while there is no set deadline on the reference price system, that it was intended to be *temporary* and would be *reviewed periodically* to determine its effectiveness and in light of changing circumstances.<sup>4</sup>

2. *Dropping Anti-Dumping Cases*—The question here was whether we should seek specific assurances from the major steel companies to drop their pending anti-dumping cases and to forego filing ones that are now in the process of being prepared. The Justice Department felt strongly that no such assurances can be asked on legal grounds. Companies could not be asked to forego their legal rights in return for this system. However, presumably the course taken by the industry on anti-dumping suits would be a factor in the Treasury's determination as to the length of time the price should be maintained. Tony Solomon has implied to them, as strongly as he can within legal bounds, that the Administration cannot be expected to simultaneously pursue this "fast-track" reference price system and the more laborious investigation of anti-dumping actions.<sup>5</sup>

3. *Legal Issues Regarding Reference Price*—There are essentially two legal issues involved, which the Department of Justice had not had the opportunity previously to explore. First was the authority of the Secretary of the Treasury to self-initiate a dumping investigation, which is a key ingredient in this fast-track reference price proposal. While the Justice Department does not yet have a formal opinion, the Assistant Attorney General for the Office of Legal Counsel indicated that he thinks (as does the Treasury Department) that a strong case can be made that

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<sup>3</sup> No minutes of this meeting were found. On November 23, Blumenthal sent a summary of the Steel Task Force's recommendations to Carter for his approval. Carter sent Eizenstat Blumenthal's cover memorandum on which he wrote: "Stu—You, Solomon & others work out differences. Then submit to me," adding as a postscript "Expedite." (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 81, Steel (7)) A copy of Blumenthal's November 23 memorandum to Carter, without Carter's comments but with the summary of the Task Force report attached, is in the Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 81, [Steel] [6].

<sup>4</sup> Carter wrote "I agree" in the margin adjacent to this paragraph.

<sup>5</sup> Carter highlighted the final sentence of this paragraph and wrote "good" in the adjacent margin.

the Secretary does have such authority. He will be able to give a favorable formal legal opinion next week.

The second major legal issue regarding the reference price is whether it is violative of the antitrust laws. The Assistant Attorney General for Antitrust, who was at the meeting, indicated that the reference price system, in its general concept, could probably sustain legal challenge, although there might be some judges who would call this an illegal parallel pricing agreement by industry. He made it clear that he could not give a better opinion at this time until he saw the actual numbers which would be used for setting the reference price. The actual reference price will not be available for several months.<sup>6</sup>

4. *Limitation to Steel Industry*—The question here was whether or not the reference price system would have to be extended on equity grounds to other industries. Dick Cooper made it clear that if other industries fit the criteria he would have no objection to their applicability to other industries. Treasury maintained, seemingly to the satisfaction to the group, that a strong case could be made that there are unique circumstances here, both due to injury involved to the steel industry from imports and the large number of anti-dumping cases which are straining Treasury's resources. Thus, this reference price system is merely an administrative method of expediting the handling of these cases, which are largely concentrated in the steel industry.<sup>7</sup>

5. *Multilateral Discussions*—As you are aware, STR had raised the issue of including in the report and the announcement an indication that multilateral solutions would continue to be sought to steel trade problems. Treasury and Charlie Schultze felt strongly that no language should be included which implied multilateral negotiations would be forthcoming toward an agreement. A compromise was reached where language would be used favoring the need for continued *consultations* on a multilateral basis.<sup>8</sup>

6. *Inflation Impact*—I raised the question of whether the inflation impact for this program could be known at this time, before the actual reference price was set. Charlie Schultze indicated that it could not be known but that this reference price system would be less inflationary than the other major options—quantitative restrictions on steel imports or allowing the massive number of anti-dumping suits to proceed.

7. *Quid-Pro-Quo On Price-Wage Behavior*—This was one of the most disappointing parts of the meeting for me. Treasury felt quite strongly that if we attempt to tie this program to wage and price moderation

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<sup>6</sup> Carter wrote "Be careful about this" in the margin adjacent to this paragraph.

<sup>7</sup> Carter wrote "Temporary nature of reference price can help here" in the margin adjacent to this paragraph.

<sup>8</sup> Carter wrote "ok" in the margin adjacent to this paragraph.

that the industry would balk and simply continue to file anti-dumping cases. The most we could get agreement on was that the report would reference the fact that the steel industry's problems were not solely due to imports but that costs were also a factor and some very general language would be put in about costs. In addition, the statement will be made that it is the hope of the Administration that the reference price system will be used for increased production, with the implication that it should not be used for price increases (although Charlie Schultze feels that the industry will use this to increase their profit margins). Barry Bosworth pointed out that since the reference price is based on the cheapest foreign production costs, there is a built-in pressure on price restraint.<sup>9</sup>

8. *Shift to Fabricated Products*—In its memo STR raised the concern that since the reference price would not apply to certain steel imports, such as carbon steel plate and fabricated steel products, foreign governments would simply shift their imports to these lines.<sup>10</sup> It was agreed that a general statement would be made in the report concerning a monitoring effort by Customs on such products.

9. *Exchange Rates*—OMB in its memo had raised the question of whether the recent changes in exchange rates may reduce the need for industry protection.<sup>11</sup> It was felt that the reference price system was still needed but that exchange rates would be one of the factors that would be reviewed when the reference price was evaluated.<sup>12</sup>

10. *Fixing the Reference Prices*—After the meeting, Tony Solomon indicated that he had reasonable confidence in the ability of Treasury to fix the "right" level of reference prices. They will use data developed by COWPS in their study of the steel industry.<sup>13</sup>

## II. DOMESTIC PROPOSALS

1. *Reduction in Guideline Life*—Questions had been raised about reducing the guideline life of steel equipment from its current level of 18 years to 15 years. You had questioned its impact on other heavy industry in your note.<sup>14</sup> Treasury mentioned the following:

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<sup>9</sup> Carter wrote "Business-Labor-Govt task force should address productivity question" in the margin adjacent to this paragraph.

<sup>10</sup> The STR memorandum was not further identified; however, Strauss discussed his concerns about the Steel Task Force report in a November 29 memorandum to Carter. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 81, [Steel] [6])

<sup>11</sup> The OMB memorandum was not further identified.

<sup>12</sup> Carter wrote "Don't eliminate this factor" in the margin adjacent to this paragraph.

<sup>13</sup> Carter wrote "Consult & let me see ref price & comments" in the margin adjacent to this paragraph.

<sup>14</sup> Not further identified.

a.) This report would merely recommend that the IRS study the possibility of reducing guideline life.

b.) Different industries now had different useful lives for their equipment so that there would not be an impact on other industries by changes here.

c.) Reasonable assurances of modernization by the industry would help give a justification for reducing the guideline life.

2. *EDA Revolving Fund of \$215 million*—As you are aware, OMB had significant problems with the use of a revolving fund since they correctly believe that this is contrary to good budget management and simply guarantees continuing loan guarantees with little oversight. Indeed, OMB in 1973 essentially stopped the use of this revolving fund. After a good deal of discussion it was agreed that the report would simply mention, without a dollar figure, the *general use* of EDA loan guarantee authority. This would permit the use of existing authority and the regular appropriations process, rather than a revolving fund.<sup>15</sup>

3. *Joint Venture-Merger Guidelines*—Treasury has accepted the revised language which has been drafted by the Antitrust Division of the Justice Department. There are now no disagreements in this area.

4. *Tripartite Committee*—You had questioned this.<sup>16</sup> This had been suggested by the Department of Labor. Barry Bosworth was not terribly favorable to it but no one had strong objections. Tony Solomon made an excellent point that since his draft report has leaked with this recommended committee in it,<sup>17</sup> it might seem odd to pull back on such an innocuous recommendation.

5. *Other Points*—You also had question marks by several of the recommendations on community and labor assistance. The \$20 million from EDA is for planning grants to combat unemployment in the affected steel communities and is generally consistent with our recommendations in the trade adjustment assistance area. The recommendation regarding communities and/or worker takeover of abandoned steel facilities is merely a commitment to evaluate the results of a study proposed by certain Church groups in Youngstown and involves no commitments of funds by the Task Force.<sup>18</sup>

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<sup>15</sup> Carter wrote "Loans should be sound" in the margin adjacent to this paragraph. He also underlined the last five words in the paragraph, "rather than a revolving fund," and wrote "good" in the adjacent margin.

<sup>16</sup> Not further identified.

<sup>17</sup> On November 30, for example, *The Wall Street Journal* printed an article on the unreleased Steel Task Force report that referred to the formation of a joint labor/management/government committee. (David Ignatius, "Carter Weighs Plan to Revive Weak Steel Mills," *The Wall Street Journal*, November 30, 1977, p. 2)

<sup>18</sup> Carter underlined the words "no commitments of funds" and wrote "good" in the adjacent margin.



## III. TIMING OF RELEASE

Treasury would like to release it tomorrow because of their fear of further leaks. However, most of the substantive information is unfortunately already in the papers and if you feel that a few extra days is necessary, Tony Solomon believes it would not be a tragedy to release it Monday or Tuesday.<sup>19</sup>

Tony has indicated that he has consulted widely with Congress, although, of course, he has not been able to give them the final results for the report. I have talked to Frank Moore about congressional consultations. A release early next week would allow for more time for Congressional briefings. Frank indicated that if he knows in the morning that you have approved the report, he could get together at least a small group of the steel caucus (most Congressmen are out of town at this point and will be back Tuesday) for a pre-press conference briefing around 1:00. He could get a larger group together Tuesday, when the House comes back in session.

Jack Watson and I believe releasing it early next week will give everyone a chance to review the final report, which no one will have seen until tomorrow morning. We feel there is little to lose by a few extra days delay and much that can be gained by a careful review of the report.<sup>20</sup>

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<sup>19</sup> December 5 or 6.

<sup>20</sup> At the end of this paragraph, Carter wrote: "Fri, Sat, Mon or Tues ok w/me." At the bottom of the page, he wrote: "Press release should emphasize a) Minimum inflation impact b) No violation of anti-trust laws c) Pollution standards upheld d) Budget impact small e) Modernization/productivity f) Maintains competitive market forces." Next to this note, Carter added: "If ready Fri afternoon, go ahead—I have no preference. J." On Tuesday, December 6, the White House announced that Carter had approved the recommendations contained in the Solomon Task Force's "Report to the President—A Comprehensive Program for the Steel Industry." See *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book II, p. 2083.

**81. Memorandum From Acting Secretary of State Christopher to President Carter<sup>1</sup>**

Washington, December 9, 1977

*Ushiba Visit.* Next Monday,<sup>2</sup> Japanese Minister of State for External Economic Affairs Ushiba will begin a four-day visit which will include talks with Bob Strauss, Mike Blumenthal, Ray Marshall, Juanita Kreps, Bob Bergland, Charles Schultze, Arthur Burns, Henry Owen, Dick Cooper and Congressional and business leaders. We hope the Vice President will also see Ushiba at the outset to set the overall tone.<sup>3</sup> An interagency group will complete three weeks of intensive work tomorrow on a common set of talking points and briefing papers to assure that we are all working from the same base.

By Ushiba's own admission in recent press conferences, the proposals he is bringing fall short of our maximum expectations.<sup>4</sup> Our preliminary analysis, and that of Mike Mansfield,<sup>5</sup> is that while the Japanese measures are indeed deficient, they represent forward motion with the prospect of more to come. Our aim during the Ushiba visit is to keep steady pressure on the Japanese, but avoid the kind of overt shock that will fuel antipathies toward the Japanese here and make it more difficult for them to respond at home. Accordingly, we believe we should: (a) defer definitive response to Ushiba's measures until after he departs, and then send a coordinated interagency message, and (b) publicly treat the Ushiba visit as an important stage in an ongoing consultative process rather than a confrontation, and work against inevitable pressures from the press to brand the visit a failure.

[Omitted here is discussion unrelated to the Ushiba visit.]

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 12/77. Secret. Carter wrote "Warren. J" at the top of the page.

<sup>2</sup> December 12.

<sup>3</sup> Carter wrote "ok w/me" in the margin adjacent to this sentence.

<sup>4</sup> An article in the December 9 edition of *The New York Times* reporting a recent interview given by Ushiba is entitled "Japanese Indicate They Cannot Meet U.S. Trade Demands." (Andrew H. Malcolm, *The New York Times*, December 9, 1977, p. D1)

<sup>5</sup> In telegram 18972 from Tokyo, December 9, Mansfield assessed the proposals that Ushiba would make in Washington. (National Archives, RG 59, Central Foreign Policy File, D770458-0415) Armacost provided his assessment of Ushiba's proposals in a December 13 memorandum to Brzezinski. (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 9-12/77)

**82. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to the President's Assistant (Watson)<sup>1</sup>**

Washington, December 12, 1977

## SUBJECT

Foreign Economic Policy Coordination

I have just learned that in September the President asked Mike Blumenthal to work with Jim Schlesinger, Charlie Schultze, Dick Cooper and others on a review of the US balance of payments situation.<sup>2</sup> Subsequently, Mike, Charlie and Cy Vance sent the President separate memos outlining possible policy responses for dealing with our trade and current account deficit.<sup>3</sup> I did not receive these memos and so did not have an opportunity to comment on important policy recommendations. The President then met with a group on November 23 to review the situation.<sup>4</sup> I only became aware of this exercise because Cy Vance's memo of December 1 was routed to the NSC for action.

Foreign economic policy, including trade and monetary matters, is an important aspect of overall US foreign policy. I would like, in the future, to receive copies of all memos going to the President on these subjects, so that I can have an opportunity to comment on them. I would also like to have Henry Owen, who is working on this range of issues with me, to be invited to attend meetings, such as the one that took place on November 23.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Assistance Strategy: 10/77–5/78. No classification marking. Sent to Brzezinski for his signature under cover of a December 9 memorandum from Owen, who wrote: "As we discussed on the phone, we have prepared memos for your signature to Jack Watson, Rick Hutcheson and Tim Kraft asking that they take appropriate steps to assure that you (1) receive copies of all memos sent to the President concerning foreign economic policy and (2) are invited to meetings where such policy issues are discussed." (Ibid.) The December 12 memoranda to Hutcheson and Kraft, initialed by Brzezinski, are attached but not printed. (Ibid.)

<sup>2</sup> Not further identified, but see Document 66.

<sup>3</sup> Blumenthal's memorandum to Carter is Document 66. Schultze presented his views in a November 15 memorandum to Carter entitled "Secretary Blumenthal's Memo on the U.S. Balance of Payments and Proposed Measures to Reduce It." Vance offered his views to Carter in a December 1 memorandum entitled "The U.S. Balance of Payments." Eizenstat and Schirmer also submitted a memorandum to Carter on the issue, dated November 19 and entitled "Analysis of Blumenthal Memo: Balance of Payments." All three memoranda are in the Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 60, 11/23/77 [1].

<sup>4</sup> No minutes of this meeting, which took place from 11:35 a.m. until 12:05 p.m. in the Cabinet Room, were found. (Carter Library, Presidential Materials, President's Daily Diary)

**83. Letter From the Under Secretary of State for Economic Affairs (Cooper) to Vice President Mondale<sup>1</sup>**

Washington, December 14, 1977

## SUBJECT

Recent Movements of the Dollar in Foreign Markets

In recent weeks the dollar has fallen noticeably against major foreign currencies, as the probable outcome of the U.S. energy policy debate has been deteriorating daily. The major factor affecting the dollar is the present and prospective deficit in the current account of the balance of payments, running at a rate of \$17.5 billion in the first half of 1977 and expected to worsen in 1978. The current deficit is as large as it is because of a more vigorous economic recovery here than abroad and because of the rapid growth in our dependence on imported oil.

Between November 30 and December 13, the dollar fell an average of 1.1 percent against the currencies of our trading partners. The downward movement has been erratic rather than continuous, with brief periods of recovery. These movements carry the Japanese yen and the German mark further along the paths of appreciation they have been following since September.

A longer view of exchange rate movements shows that since March 1973 (when currencies began to float against one another on a general basis) the dollar has appreciated on all the various measures that we use, by amounts varying from 1 percent (against the SDR) to 10 percent (against a bundle of 46 currencies weighted by their importance in U.S. trade). Since the beginning of 1977, the dollar has appreciated by 0.9 percent on the measure most relevant to the U.S. but it has depreciated by about 3 percent against the SDR—the main difference being the greater importance of depreciating currencies of less developed countries in the trade-weighted index than in the SDR. These changes are negligible.

The recent appreciations of the German mark and of the Japanese yen are rightly alarming to Germany and to Japan. But they can avoid such currency appreciations by expanding their domestic economies more rapidly, and in the case of Japan by taking steps to encourage more imports (the real pressure on Japan in their current discussions

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<sup>1</sup> Source: Carter Library, Papers of Walter F. Mondale, National Security Issues, Box 82, National Security Issues—Economic (2/5/1977–8/14/1977). No classification marking. Forwarded to Mondale under cover of a December 16 memorandum from Clift; a note on Clift's memorandum reads: "The V.P. has seen." (Ibid.)

with us is the appreciation of the yen, which is largely a consequence of their own policies).

You are right to be concerned about the possible impact of currency movements on OPEC oil pricing decisions, and that is our chief concern with the relatively modest depreciation of the dollar in recent weeks. An index of exchange rate changes weighted by OPEC trade shows a depreciation of the dollar by about 3½ percent between January and the end of October. This will be used by the price hawks as an argument for increasing the dollar price. An inhibiting factor is that OPEC assets are denominated mainly in dollars, and the leading OPEC countries will not want to take steps that reduce the real value of their own assets. But there is no doubt that depreciation of the dollar in these weeks immediately before an OPEC pricing decision is awkward.<sup>2</sup>

PERCENTAGE CHANGE IN VALUE OF U.S. DOLLAR  
IN TERMS OF

	<u>SDR</u>	<u>U.S. Trade- Weighted Currencies</u>	<u>OPEC Trade- Weighted Currencies</u>
Mar. 20, 1973–Nov. 30, 1977	+1.9	+11.3	+3.0*
Dec. 30, 1976–Nov. 30, 1977	-1.8	+1.8	-3.5*
Nov. 30, 1977–Dec. 13, 1977	-1.3	-1.1	—

\*To Oct. 1977

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<sup>2</sup> An OPEC Summit conference took place in Caracas December 20–21. At its conclusion, a 6-month freeze on oil prices was announced.

## 84. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, December 19, 1977

### SUBJECT

Briefing Paper on Trade Issues for Your Visit to Paris and Brussels in January 1978

### BACKGROUND

The multilateral trade negotiations should feature prominently in your discussions with EC President Roy Jenkins and French President Giscard d'Estaing during your upcoming visit to Europe.<sup>2</sup> Your visit will be extremely helpful in persuading the EC Commission to support a substantial negotiating package by the mid-January target date for completing the preparatory phase of the negotiations and in persuading the French government to support (or at least not to veto) such a package in the Council of Ministers. The Council is expected to meet on January 17 to decide whether the Commission should be allowed to proceed on the basis of the initial negotiating documents.

The London Summit produced the political will necessary to move the MTN off dead center. Since then, the EC Commission (Jenkins, Haferkamp, Gundelach, Davignon) has worked well with us in developing a plan for reducing industrial tariffs by 40 percent, and I would suggest that you commend the Commission for their leadership in this area.

At the same time, you should press the Commission to maintain their leadership role in working out other elements of a substantial MTN package, including agreements of substantial benefit to agriculture and a comprehensive solution to the subsidies/countervailing duty issue. I would hope that you could conclude your session at the Commission with a forceful communique that will pledge the U.S. and the EC to provide the leadership necessary to negotiate a substantial MTN package before the summer holidays.

### KEY ISSUES

1. *Tariffs.*—The U.S. and the EC Commission have worked out a plan for reducing industrial tariffs by 40 percent. Formal adoption of the plan, and the exchange of offers, is scheduled for the week of Jan-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 6, President, Europe and Asia, 12/29/77–1/6/78: Stop Papers, Brussels, 1/6/78. No classification marking. Forwarded to Carter under cover of a December 20 memorandum from Owen. (Ibid.)

<sup>2</sup> Carter visited France January 4–6, 1978, and Belgium on January 6.

uary 15. The Commission will not be able to proceed, however, until the member states have approved it, and French consent will be key. The French government is reluctant with the March parliamentary elections only a few months away and with widespread public concern about imports from the third world and Japan. They have asked us to minimize publicity over the 40 percent tariff cutting goal.

The ability of the EC Commission to press ahead towards a major result in the MTN could depend on whether you can obtain a French commitment to support, or at a minimum not to veto, tabling of the European Community's tariff offer by January 20. We can acknowledge that the 40 percent cut should not be given major press emphasis. Instead the major focus should be on the improvement of trade rules in such areas as subsidies, safeguards, standards, and government procurement.

2. *Safeguards*.—The European Community has conditioned its tentative support for a 40 percent tariff cut on the negotiation of a safeguard agreement that would permit them to restrict, on a selective basis, imports for particular countries when they become disruptive. In essence, they are saying that their economies can adjust to increased competition from the U.S., but not from some of the less developed countries, and perhaps Japan. We have indicated a willingness to work out an understanding on this issue, but we have been reluctant to accept unlimited selectivity because it could open the door to protectionism by making safeguards too easy to use; it could lead to a fragmentation of the world trading system and exacerbate North/South relations; it could lead to a diversion of exports from the EC to the U.S. market; and it could be used against us. We have insisted that any move toward selectivity be circumscribed by conditions for its use and better international discipline.

The French government has been pushing hard for selective safeguards, as part of their concept of organized liberalism. They consider it essential to reduce public fears about a potential flood of imports from the third world. Your ability to obtain assurances from French leaders on tariff cuts is likely to depend, in part, on our willingness to support them on this issue.

3. *Non-Tariff Barriers (including subsidies and agricultural trade barriers)*.—Both the U.S. and the EC have emphasized the importance of non-tariff barriers in the current trade talks. We have made progress on a number of these, but we have yet to make such progress on some of the tough negotiating issues, such as plans for reducing *barriers to agricultural trade* and rules for minimizing the trade-distorting impact of *subsidies*. Disagreement on these issues evoke strong emotions on both sides of the Atlantic, and in the absence of substantive solutions in the MTN we are headed for a major confrontation that would tend to

poison the political atmosphere in other areas. This negotiation is likely to be our only chance for quite a few years to put in place an improved international framework for resolving conflicts arising from differences in agricultural policy and in industrial policy. As a practical matter, we cannot conclude an MTN without adequate solutions in these areas; and a major political effort will have to be made to reduce U.S./EC differences.

4. *Protectionist Pressures.*—The primary concern of the Europeans is likely to focus on current pressures for trade restrictions. They will be particularly anxious about problems relating to trade in steel (Annex A).<sup>3</sup> They will also be concerned about the protectionist mood in the U.S. more generally. They will welcome a forceful expression of U.S. intention to resist pressures for trade restrictions.

#### *Talking Points*

In Paris.—

1. We have been pleased by the progress that has been made in the MTN trade talks in some key issues as a result of close cooperation between the EC Commission and U.S. negotiators.

2. We are anxious that similar progress be made in the near future on non-tariff barriers affecting agricultural trade and subsidies.

3. We sincerely hope that the French government will support the package of proposals, including the 40 percent tariff cutting goal, which the EC Commission will present to the Council of Ministers on January 17 as a basis for further negotiation.

4. We understand the sensitive political situation in France and the need to find an acceptable political formulation for the negotiating package, including a de-emphasis of the tariff goal and major stress on improved trading rules, including those on safeguards.

5. If needed—We understand the need for more flexibility in the use of safeguard measures, but we must avoid arrangements which will open the door to protectionist forces and increase North/South tensions.

In Brussels with the EC Commission.—

1. We are pleased by the momentum that has been achieved in the MTN trade talks as a result of the close working relationship that has been established between the EC Commission and U.S. trade negotiators headed by Ambassador Robert S. Strauss. A substantial result from these talks is crucial to the maintenance of the open trading system.

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<sup>3</sup> Not attached.



2. We hope that the Commission will exercise the leadership necessary to make substantial progress in these talks on such difficult issues as plans for reducing agricultural trade barriers and minimizing the trade distorting impact of subsidies. Adequate solutions are needed to put the U.S. and EC relations on a sound footing over the years ahead and to avoid political problems.

3. We look forward to approval by the Council of Ministers on January 17 of the comprehensive package of negotiating proposals that have been worked out between U.S. and EC negotiators. [If warranted by the results of the Paris talks—We have been assured by the French government that they will be supportive of the proposals.]<sup>4</sup>

4. We attach great importance to the exchange of negotiating offers during the week of January 15. The U.S. is prepared to make a substantial offer, and we very much hope that the EC will do likewise.

5. If needed—We understand the need for more flexibility in the use of safeguard measures, but we must avoid arrangements which will open the door to protectionist forces and increase North/South tensions.

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<sup>4</sup> Brackets in the original.

85. **Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) and the Associate Director of the Domestic Policy Staff (Schirmer) to President Carter<sup>1</sup>**

Washington, December 19, 1977

SUBJECT

Decision Memorandum on Balance of Payments Options (At your request)

I. *THE NATURE OF THE PROBLEM*

A. *The Forecasts* (Provided by Treasury)

	(\$ billions)		
	<u>1976</u>	<u>1977</u>	<u>1978</u>
Trade deficit	9	30	33–36
Current Account deficit	1	18	21–24

These forecasts are:

(1) based on optimistic assumptions (e.g., no OPEC oil price increases in 1978).

(2) subject to the usual uncertainties, things could turn out better in 1978—or they could turn out much worse. (A trade deficit approaching \$40 billion is conceivable.)

B. *Recent Performance of the dollar*

In the last three months, the dollar has depreciated 9% against the German mark, 13.5% against the Swiss franc, 10% against the Japanese yen and over 6% against the British, Belgian, and Dutch currencies.

II. *Approaches to the Problem*

Your advisors have put forward several different views of how the U.S. should deal with the balance of payments/current account deficit problem. There is, however, consensus on several points:

- confidence in the dollar is critical to our continued ability to finance existing and projected U.S. trade and current account deficits;
- enactment and implementation of a strong national energy program is central to our ability to deal with the trade deficit problem and our excessive dependency on foreign oil;

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 65, 12/21/77 [2]. Secret. Schirmer did not initial the memorandum. A stamped notation reads: "The President has seen," and Carter wrote "Stu. J" at the top of the page. Attached is a December 20 note to Carter from Eizenstat that reads: "Since the final typing of this memo, Mike Blumenthal has called me to tell me that Cy Vance now favors some sort of general statement of concern on the balance of payments problem." Carter wrote "ok" on the note. (Ibid.)

- we should continue diplomatic efforts to encourage more rapid growth by our strongest trading partners; and
- public education about the balance of trade issue is needed here at home.

A. *The Blumenthal approach*<sup>2</sup>

Confidence in the dollar has waned in recent weeks, and speculation has developed which has further depressed the dollar exchange rate and confidence in our currency. There is now some risk of a major speculative run against the dollar with serious implications for the preservation of the liberal trade and payments system, U.S. leadership internationally and our own domestic economy. Relationships with European monetary authorities are becoming increasingly difficult. The market disorder is receiving heavy and disturbing press play. The widespread market perception that the U.S. is not prepared to make any attempt to stop the decline of the dollar tends to deter the capital inflow needed to finance the current account deficit. Because the world monetary system is based on the dollar, lack of confidence in the dollar also damages confidence in the world economy which is crucial to global economic expansion.

While Blumenthal does not recommend efforts to slow U.S. economic growth, he does recommend actions designed to convince traders, businessmen, and foreign governments that the Administration intends to act forcefully to bring its current account under control and keep the dollar strong. This cannot be achieved solely by monetary measures such as increasing intervention in the foreign exchange market.

He also considers it psychologically important that the deficit next year be somewhat smaller than in 1977. For this purpose, he recommends that you express public concern (but not alarm) about the dollar. This statement should be supported by new energy measures as well as discussion of the Administration's fiscal policy and tax policy objectives. He recommends a number of actions designed to reverse what he believes to be a widespread perception of "malign neglect" by the Administration even though the specific measures recommended would not in themselves reduce the deficit dramatically.<sup>3</sup>

B. *The Vance/Schultze view*<sup>4</sup>

The size of the U.S. current account deficit, particularly oil imports, is a matter for concern. Although it creates a drag on U.S. economic recovery, the deficit does not indicate a fundamental weakness in the U.S.

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<sup>2</sup> See Document 66.

<sup>3</sup> Carter wrote "ok" in the margin adjacent to this paragraph.

<sup>4</sup> See footnote 3, Document 82.

economy. Our ability to compete is unimpaired. Our foreign markets are simply growing slowly or not at all, while U.S. economic growth leads the industrial world.

The dollar has depreciated considerably against slow-growing countries, many of which are now in surplus as a response to our deficit. The recent exchange rate adjustments will help to keep our deficit in line and reduce the surpluses elsewhere. The exchange rate changes also put pressure on the countries in surplus to take needed action to stimulate their economies. Although there may be alarmist press coverage, Vance and Schultze see little risk that exchange markets will get out of hand. In fact, this risk is likely to be increased rather than reduced by major policy reversals and high visibility statements that emphasize our alarm.

Schultze and Vance recommend low key public education, pursuit of diplomatic efforts to stimulate adjustment by countries in surplus and quiet adoption of reasonable, low-cost measures.

### *C. Schlesinger Comment*

We must recognize that while approximately half the deterioration in our balance of trade is attributable to increased oil imports, the other half is not. Over the past two years, there has been a significant deterioration in our trade balance in the industrial products sector, and some deterioration in the agricultural sector. Our biggest single problem—the \$12 billion annual Japanese trade surplus—is largely unrelated to energy imports. It is interesting to note that, considering the relative sizes of GNPs, the Japanese import the equivalent of twice the amount of oil as does the United States and yet still manage to run an enormous balance of trade surplus. Thus, when considering the balance of payments problem, we must keep the non-energy component in mind and act accordingly. This should call into question any strategy which does not focus on a broad range of remedial actions.<sup>5</sup> Those actions, however should be implemented gradually, and any energy-related actions should be implemented without an explicit linkage to the balance of payments problem.

### III. OPTIONS FOR DECISION

The pros and cons of each of the options suggested by Secretary Blumenthal are outlined below. Some of the impacts of these options can be described as either positive or negative, depending on the basic approach to the problem which you feel is most appropriate. For example, a highly visible expression of concern about the *strength* of the dollar would be a plus under the Blumenthal approach, and a negative under the Schultze/Vance approach.

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<sup>5</sup> Carter underlined the phrase “broad range.”

1. *Defer or slow down purchases for the Strategic Petroleum Reserve*

Pro:

- Deferral of further purchases until 1981 would save \$3.2 billion in 1978, \$1.5 billion in 1979, and \$2 billion in 1980, (but would add to outflows in future years).

- Various rates of slowdown, short of complete deferral of purchases, are available which could be selected to demonstrate our concern, particularly in 1978.

Con:

- Legislative revision would be required for any schedule which delays storing the first 500 million barrels beyond December 1980.

- This program is popular with the Congress and the public. It was a major element of your April 20 Energy Program,<sup>6</sup> and is aimed at counteracting our petroleum import supply vulnerability.

- Delaying SPRO may be taken as a sign that we do not really believe that the energy problem is serious, although Blumenthal suggests that it could also be cast as reflecting our perception of the easing of mid-East tension as a result of the Arab-Israeli talks.<sup>7</sup>

- Surpluses in the world oil market are likely to continue over the next two to three years which should keep OPEC price increases to a minimum. SPRO purchases during these years are therefore optimal from a price and availability standpoint.

- Vulnerability studies to date show that the SPRO, at least at the 500 million barrel level, is a worthwhile insurance policy against supply interruptions or cutbacks.

- Deferral of SPRO would undermine efforts to encourage our allies to undertake storage programs (which may ultimately reduce the size of necessary U.S. storage.)

COMMENT: This would be the most dramatic evidence of U.S. concern over the balance of payments problem. It would reverse a major element of your energy policy which has been consistently stated since the early days of the campaign. Blumenthal believes this change would be appropriate, indicating a belief that “embargo insurance” is not as urgent as our trade deficit. Vance does not believe that the change in the deficit would be more than cosmetic.

A decision could be made to continue with the first 500 million barrels, and to adjust the fill rate (or a decision on the second 500 mil-

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<sup>6</sup> See footnote 7, Document 25.

<sup>7</sup> Direct Egyptian-Israeli talks began with Egyptian President Anwar Sadat’s November 19–21 visit to Jerusalem.

lion barrels) if the balance of payments picture or the oil supply situation should change. Under this alternative, the immediate impact on the deficit would be foregone, but it would reduce future pressures on the picture.

Blumenthal recommends slowdown in purchases in 1978 through 1980. Vance, Schultze, Schlesinger and we recommend keeping on schedule with the first 500 million barrels but keeping an eye on the need for and the economics of the second installment.

Slow down SPRO purchases (Blumenthal)

Maintain current schedule for first increment but defer decision on next increment (Vance, Schultze)<sup>8</sup>

Maintain current plan for full SPRO (Schlesinger)

*2. Increase rate of production at Elk Hills and expedite construction of the Sohio pipeline*

Pro:

- Would save \$.6 billion in 1978 and up to \$1.5 billion in mid-1980 (assuming completion of the Sohio pipeline).

- All federal and state permit issues for Sohio have been worked out. The one remaining issue (between Sohio and the local utility) can probably be solved soon. The project has a decent chance of completion by the time Elk Hills can be cranked up to full capacity.

Con:

- If the Sohio project cannot be completed in time, Elk Hills production cannot be increased to its maximum since no transportation capacity, even to the West Coast, will be available.

- Would constitute a change in earlier policy, although this is not likely to be either controversial or noticed by other than local interests.

COMMENT: All parties recommend full production of Elk Hills, including moving forward aggressively to fund a new gas plant in the field and secure related transportation systems.

Begin work for full production of Elk Hills (all recommend)<sup>9</sup>

Continue Elk Hills slowdown

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<sup>8</sup> Carter indicated his approval of this option and wrote "Maintain 1985 schedule on purchases."

<sup>9</sup> Carter indicated his approval of this option.

3. *Encourage an immediate decision by the owners to increase the throughput of the Trans-Alaska Pipeline System (TAPS)*

Pro:

- Would add 400,000 barrels per day to domestic production saving \$2 billion/year beginning in mid or late 1980.
- If completed, Sohio can handle at least part of this additional capacity.
- This is the single most cost effective option available to reduce the underlying levels of oil imports and the balance of payments deficit over the next 3 years.

Con:

- The additional Sohio transmission capacity will probably not be sufficient to handle Elk Hills *and* Alaskan oil. Some of this oil would have to be tankered through the Panama Canal or swapped with Japan.
- While a Japanese oil swap would not increase U.S. dependence on foreign oil, it has been violently opposed by numerous members of Congress. A swap would be politically difficult.
- Would reverse a previously stated policy of avoiding oil swaps which received substantial favorable press.

COMMENT: Vance, Schultze, Blumenthal, and Schlesinger recommend increasing TAPS throughput and arranging for a swap with Japan if needed. We concur with this recommendation on the merits, but believe that announcing or implementing such a decision should be deferred until we have consulted extensively with members of Congress and California officials. We strongly urge you not to even float the idea of a swap until the energy bill passes and until there has been adequate Congressional consultation.

Encourage an increase in TAPS throughput and swap oil with Japan if needed. (all recommend)<sup>10</sup>

Delay announcement and implementation pending consultation. (all recommend except Blumenthal)

Continue with current policy.

4. *Direct limitation of oil imports (quotas/import fees)*

Pro:

- Most direct means of curtailing consumption of oil, but would require some sort of domestic allocation or consumer rationing. Use of

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<sup>10</sup> Carter indicated his approval of this option and wrote “No reference to Japan swap.”

quotas (or fees) could reduce payments by \$5 to \$10 billion, depending on the stringency of the program.

- Would constitute dramatic evidence of our determination to deal both with the trade deficit and with our energy problem.

- Some argue that rationing is fairer means of inducing conservation than price increases.

Con:

- Rationing in the absence of a major supply interruption would be perceived as a drastic, and probably unnecessary step by the public.

- Reduction in oil import availability could have a significant negative impact on economic growth.

- Any rationing system is cumbersome and expensive administratively.

- Revised rationing plan (and other contingency plans) is still in preparation. These require congressional approval after submission, and implementation of the plans is subject to a one-house veto.

- Other steps, short of rationing, are available to cut back consumption.

- No rationing system can be completely equitable. Hardships would be caused in certain sectors of our society.

COMMENT: You have the legal authority to impose import quotas for balance of payments reasons. You also have the authority to impose gasoline rationing (subject to Congressional disapproval). None of your advisors recommends rationing at this time. All agree, however, that development of rationing and contingency plans (and analyses of import quotas or fees) should continue expeditiously.

Continue plan preparation, but avoid rationing (all recommend)<sup>11</sup>

Proceed to develop rationing plan for immediate implementation

5. *Expand CCC budget by \$1.5 billion per year*

In the FY 1979 budget session on agriculture you decided to increase the CCC budget from \$750 million to \$1.5 billion.<sup>12</sup>

6. *Expand Eximbank lending by about \$4 billion*

This issue will be reviewed in detail in the Eximbank budget session on December 20 so will not be treated in this memo.<sup>13</sup>

<sup>11</sup> Carter indicated his approval of this option.

<sup>12</sup> Carter made a checkmark in the margin adjacent to this paragraph.

<sup>13</sup> Carter wrote "\$3.6 Total" in the margin adjacent to this paragraph.



7. *Sell some of our gold holdings in the private market*

Pro:

- This would have a slight, but positive impact on the balance of payments.

- It is consistent with our longer term goal of removing gold from the international financial system.

- Sales can be timed so as to avoid disrupting the international market, or impacting upon the French elections.

Con:

- There are a small number of highly vocal critics (including some in Congress) who believe that selling gold undermines the stability of the dollar and the entire monetary system.

- Immediate sales could offend the French and this could become an issue in the March elections.

COMMENT: All of your advisors believe that this is a sensible policy. No announcement, however, should be made until after the French elections in March.

Gold sales should be justified on the grounds that this is sensible monetary policy, and should not be announced as part of a balance of payments strategy.

Approve gold sales after the French elections (all recommend)<sup>14</sup>

Disapprove gold sales

8. *Moderate expansion of military sales for off-the-shelf items*

Pro:

- Would generate about \$500 million per year

Con:

- Would be at least a partial retreat from your efforts to reduce arms sales

- Foreign military sales from past commitments are expected to rise from \$6.9 billion in FY 1977 to up to \$9.2 billion in FY 1978 as it is.

- Acceleration of shipments in 1978 could come only by temporarily degrading our own defense capabilities.

- The impact on balance of payments is relatively small.

COMMENT: Blumenthal recommends that sales be expanded but makes clear that this should *not* be publicly linked with balance of payments. Schultze, Vance, and we recommend against any such increase

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<sup>14</sup> Carter indicated his approval of this option and wrote “modest.”

on the grounds that the low level of temporary impact is not significant enough to warrant contradiction of your present arms sales policy.

Approve increase in arms sales (Blumenthal)

Disapprove increase in arms sales (Schultze, Vance, Eizenstat)<sup>15</sup>

#### IV. PACKAGING OF THE OPTIONS SELECTED

Blumenthal believes that a demonstration of your concern is of far greater importance than the actual statistical effect to be expected from these specific measures. Therefore, he recommends that you announce your determination to maintain a strong dollar, relying primarily on:

- policies to maintain a growing, non-inflationary domestic economy;
- an effective energy program, but including as specific balance of payments actions such energy-related measures as you select;
- expansion of CCC and EXIM budgets;
- speculation against the dollar might then be stopped and some visible improvement in the current account position achieved during 1978.

Blumenthal further states that although we should continue to urge economic expansion abroad in appropriate cases, we should recognize that we have pushed the Japanese and Germans about as far as they will tolerate at this time. In an effort to avoid further currency appreciation both countries are now turning to restrictive measures on capital inflow.

Vance, Schultze, Schlesinger, and we recommend against such an announced package on the grounds that:

- even if all of the options were selected, the total impact on the balance of payments is fairly small. If this is touted as our whole program, it may appear too small and discourage international confidence in the dollar;
- calling particular attention to the problem could set off more alarm in the international market than not doing so;
- the U.S. balance of payments picture is already relatively well-known by sophisticated observers and participants in international money markets and it has not seemed to do the dollar great or disorderly harm. In fact some appreciation of the mark and the yen will encourage the stimulative policies by Germany and Japan which we seek. As long as this appreciation occurs in an orderly way, it is not undesirable.

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<sup>15</sup> Carter indicated his approval of this option.

Package energy options together and link to balance of payments (Blumenthal)

Proceed to implement options, but do not expressly link to balance of payments (Schultze, Vance, Eizenstat)<sup>16</sup>

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<sup>16</sup> Carter did not indicate his preference with respect to these options. At the end of the memorandum he wrote: "Statement approved for use when/if needed. JC."

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**86. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) to President Carter<sup>1</sup>**

Washington, December 20, 1977

SUBJECT

Proposed Statement For Release Tomorrow

Attached is a draft of the proposed statement to be issued under your name on the balance of trade and payments issue.<sup>2</sup> I have had it reviewed by Henry Owen on Zbig's staff, by Schlesinger's staff, and copies have been provided to Charlie Schultze and Dick Cooper. I will attempt to get their comments in the morning; they were unavailable at any time tonight.

As a result of the meeting this evening with Dr. Burns, Secretary Blumenthal, Charlie Schultze, Dick Cooper, Tony Solomon and others,<sup>3</sup> both Charlie and Dick Cooper are now apparently convinced that a statement along these lines should be issued. As you are aware from the memorandum which I forwarded to you earlier<sup>4</sup> that this was not their previous position.

While the Department of Energy does not appear to be enthusiastic about such a statement, since it effectively announces new energy

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 65, 12/21/77 [2]. No classification marking. A stamped notation reads: "The President has seen," and Carter wrote at the top of the page: "Stu—OK only after Schultze & McIntyre have ok'ed it. Clear any significant changes with me. J.C."

<sup>2</sup> Attached but not printed. For the text of the December 21 statement on the U.S. balance of trade and payments announcing measures to improve the U.S. trade position, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book II, pp. 2159–2160.

<sup>3</sup> No other record of this meeting was found.

<sup>4</sup> See Document 85.

policy with virtually no Congressional consultation, they will go along with it if there is indeed a crisis situation which requires a statement tomorrow. It seems to me that there is a risk in that the statement may be seen as pressuring the conferees. Moreover, it is unclear to me that the type of statement attached hereto will have any measurable impact on exchange markets. However, in light of the very strong feelings on the part of Blumenthal and Burns, I certainly defer to their expertise regarding the need for this statement.

The only substantive change suggested is that the Department of Energy would prefer no specific dollar figure be mentioned in terms of the expected improvement in our trade position, or at least that a range be given of "\$3–5 billion". They are concerned that a \$5 billion figure standing alone will lead reporters to attempt to compute the amount of Prudhoe Bay oil which must be produced, which in turn may lead reporters to surmise that we are considering a Japanese swap.

I have notified Jody to expect release of this statement in the morning—if you so desire. It will be released around 11:30 and the Treasury people will do a briefing at that time at the Treasury Department.

I might add my own view that an additional day be provided for Congressional consultation, particularly on the new energy pronouncements so that we are not perceived to be taking precipitous action without review. Perhaps you might call Blumenthal in the morning to determine whether a 24-hour delay in issuing the statement to provide for this review would be acceptable.

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**87. Telegram From the Embassy in Japan to the Department of State<sup>1</sup>**

Tokyo, December 20, 1977, 0910Z

19510. For Under Secy Cooper from Amb Mansfield. Subject: US-Japan Economic Talks. Ref: State 302526.<sup>2</sup>

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, D780003–0458, D770474–1116. Confidential; Immediate; Exdis.

<sup>2</sup> Telegram 302526 to Tokyo, December 20, instructed Mansfield to meet with Fukuda about the U.S. response to the economic proposals delivered by Ushiba during his recent trip to Washington (see Document 81). (National Archives, RG 59, Central Foreign Policy File, D770473–0268)

1. Summary: Ambassador conveyed talking points to Prime Minister Dec. 20. Fukuda outlined drastic fiscal policy measures he was taking to reach 7 percent growth target and expressed hope they would meet core of U.S. concerns. He was not specific on current account target. He said Ushiba would continue work on specific measures about which he had conveyed latest U.S. views to FonOff earlier. Meeting closed with expressions of hope that issues would be resolved to make mid-January Strauss visit possible. End summary.

2. Ambassador saw Prime Minister afternoon Dec. 20 to convey points in reftel.

3. Prime Minister thanked Ambassador for his help in preparing Ushiba mission and securing access for him to so many important Americans. He said he felt the visit had promoted good U.S.-Japan relations. Some issues remain to be dealt with but he is doing his best to resolve them by the end of the year or early next year.

4. Fukuda said his basic problem is how to deal with Japanese economy for next year. The seven percent growth target is the highest of any of the industrial democracies and he was now busily at work trying to develop measures to achieve it. He said his basic thinking was that Japan could not rely on exports but had to stimulate domestic demand. There are real problems in knowing how to best create domestic demand; long term investment which would usually be the major pillar is not too promising; consumption, while it will grow at a stable rate cannot be the leading factor; therefore the government sector must provide the main stimulus. He is therefore planning drastic emergency measures in fiscal policy to bring Japan to the seven percent target. Japan will be covering a 37 percent deficit by issuing bonds. Fukuda sees these measures as quite exceptional in the international community but since he sees the current situation as a real emergency he is planning major stimulus which will increase imports. As to exports, government cannot legally control them in a free market economy but he hopes for "correct" export practices assisted by the strong yen. A possible oil price hike might also affect import prices and all together should have a favorable impact on the current account balance. He said he hoped U.S. would agree that he was making extraordinary efforts responsive to the core of U.S. concerns on the macro-economic level.

5. He noted that Ushiba would be continuing to work on the other issues outside the macro-economic field.

6. Prime Minister made no specific comments on Ambassador's presentation except to inquire what timing we envision for Strauss visit. Ambassador confirmed that if mutually satisfactory progress was made we would envision a visit around middle of January.

7. Prime Minister also inquired about prospects for U.S. domestic economy and trade balance for 1978.

8. Embassy had conveyed detailed USG views to FonOff early afternoon Dec. 20 (State 302527).<sup>3</sup> Fukuda appeared not to have been briefed on them.

**Mansfield**

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<sup>3</sup> Telegram 302527 to Tokyo, December 20, transmitted the U.S. response to Ushiba's proposals. While welcoming Japan's 7 percent growth rate target for the coming year, the United States urged Japan to issue a policy statement on its intention to reduce its current account surplus; to offer "deeper than formula cuts on products of specific interest to the US and other countries" in the MTN; to enact structural changes in its trade policy; and to take steps to encourage imports, including the liberalization of selected quotas. The telegram suggested that it would help "Japan's image as a liberal trading nation" if Japanese decisions on ways to reduce its current account surplus were "announced, perhaps in conjunction with Ambassador Strauss' visit, as part of a set of measures aimed at implementing Japan's intent to move into a current account deficit position and to increase access to Japan's domestic markets." (National Archives, RG 59, Central Foreign Policy File, D770473-0269)

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**88. Message From the President's Deputy Assistant for National Security Affairs (Aaron) to President Carter<sup>1</sup>**

Washington, December 23, 1977, 0128Z

WH70679. Subject: Message From Helmut Schmidt.

Attached is an urgent message from Chancellor Schmidt which seems to have no immediate operational implications. We will continue to monitor the international monetary situation and if there are any sudden developments will notify you immediately. We will also prepare an appropriate response to the Chancellor concerning his views on the timing of the upcoming summit. I will share the relevant portions of this message with Secretaries Blumenthal and Vance.

Federal Republic of Germany  
The Federal Chancellor  
His Excellency  
Mr James Earl Carter,

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, Germany, Federal Republic of: Chancellor Helmut Schmidt, 5-12/77. Secret. Sent with the instruction to deliver to Philip Wise immediately. Carter, who initialed "C" at the top of the page, was in Plains, Georgia. (Carter Library, Presidential Materials, President's Daily Diary)

President of the United States of America,  
Washington, D.C.

Mr. President,

Dear Jimmy,

The development on the foreign exchange markets during the past few months fills me with growing concern. From the public statement you made yesterday, 21 December 1977,<sup>2</sup> I take it that you have similar worries. I therefore hurry to give you directly and without delay my assessment of the situation.

From my discussions with my colleagues in the European Council I know that they, too, share this concern. In my view, this development is not just a transitory disturbance but possibly the beginning of a crisis of considerable dimensions.

If this development continues it may lead to a renewed recession and grave structural distortions, initially in the countries mainly affected, but ultimately with an adverse effect on the whole world economic system. This gives the problem a crucial political significance over and above its economic repercussions.

As regards the economic problems, I quite appreciate that it will not be possible for the United States Government to predict an early reduction of its current account deficit. A decisive factor in this respect is your energy programme, which I hope will soon be adopted by the legislative bodies. Otherwise, I see a danger of capital flows from the OPEC countries slowing down as well, money which, up to now, has financed part of the US deficit.

As you know, a considerable proportion of the US current account deficit has been financed not by the reflow of capital to the United States by the private financial markets but by central banks, principally in Europe. To support the exchange rate they have bought in 1977 more than 30 billion dollars and channelled them back to the United States. Should the central banks stop absorbing these dollars then there would be a great danger of liquidity in the Asian and European dollar market being further inflated, which would mean an alarming growth of the present world-wide inflation potential.

Further pressure on the dollar could, moreover, ruin our joint efforts to exhort the OPEC countries to pursue a moderate price policy for the sake of the world economy which appear to be successful at the present time.

The overvaluation of some currencies as a consequence of dollar undervaluation raises the danger of recessive world economic tend-

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<sup>2</sup> See footnote 2, Document 86.

encies regaining the upper hand. This applies to Europe particularly and is by no means restricted to the Federal Republic. It would foil our jointly elaborated growth strategy and I fear it might give more stimulus to protectionist tendencies. In such a process the European snake<sup>3</sup> would also be in danger—with all the risks this entails for the future of the European Community. I am deeply convinced that the necessary leading role of the United States and the strength of the American currency are inseparably linked with one another. I am confident, Jimmy, that you share this view. Our common interest therefore makes it necessary in public as well we should very seriously plead the cause of a strong dollar. I therefore welcome what you said on this point yesterday. A high rate of employment and reasonable economic growth are still priority objectives of my government's economic policy. The Federal Government has already drawn the necessary consequences from this and embarked on a considerably more expansive course of credit and financial policy. The combined deficits of the public budgets for 1978 have therefore been put at a good 4 per cent of the GNP. We hope that this policy will also help improve the international balance, in the way you intend with your energy policy and proposed tax programme. In keeping with this, further success on the price front should continue to be our aim because it is precisely inflationary tendencies which undermine confidence in the currency.

Secretary Blumenthal has informed me about your proposed economic policy measures.<sup>4</sup> I welcome them just as much as the fact that in the meantime further contacts have taken place between our Ministers of Finance and Central Bank Governors. I have encouraged the German Central Bank President and Finance Minister Apel to keep on fostering this fruitful co-operation.

With regard to the date for the next Economic Summit, it seems to me at the moment, as I explained in my talks with Mr Brzezinski<sup>5</sup> and Secretary Blumenthal, that mid-July would be the best time. I am pre-

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<sup>3</sup> On March 11, 1973, six members of the EEC—Belgium, Denmark, the Federal Republic of Germany, France, the Netherlands, and Luxembourg—announced that after March 16 the values of their currencies would jointly float vis-à-vis the value of all other currencies, while remaining relatively fixed vis-à-vis one another. That is, their currencies would form a “snake,” whose value in relation to non-snake currencies would be determined by market forces.

<sup>4</sup> Blumenthal met with Schmidt in Bonn on November 2. A memorandum of conversation of the meeting is in the National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 1, Memoranda of Conversation RNC—Aug.–Dec 1977.

<sup>5</sup> Brzezinski met with Schmidt in Bonn on September 27. A memorandum of conversation of the meeting is in the Department of State, Office of the Secretariat Staff, Records of Cyrus Vance, Secretary of State, 1977–1980: Lot 84D241, Box 7, Western Europe. It is scheduled for publication in *Foreign Relations, 1977–1980*, vol. XXVII, Western Europe.



pared to suggest Bonn as the venue. Before July it would hardly be possible to make a genuine reassessment of economic prospects for 1978/79 since all governments are currently doing their best to enter 1978 with a vigorously expansive economic and financial policy. July would also suit the British and French Prime Ministers, with whom I discussed the matter on their recent visits to Bonn. For the time being it would perhaps be better not to make our plans for a meeting of heads of state and government public so that, as on previous occasions, we shall be able to make our final decision in, say, May in the light of the preparatory work undertaken by our personal representatives, without being committed.

Your visit to the Federal Republic, Jimmy, without any connection with an Economic Summit, would be most welcome to me, the Federal Government and the citizens of this country, already in the first half of 1978 if this is convenient to you, and I wish to renew herewith my cordial invitation to you which you have, in principle, accepted.

Should you not be in a position to schedule your visit to the Federal Republic of Germany for the first half of the year, may I suggest that you perhaps make a two-day visit directly before the next world Economic Summit?

Finally, I want to tell you how very much I admire the energy with which, in spite of unavoidable setbacks and delays, you continue to pursue your policies, not only in the economic sphere. I very much want to see you succeed because Europe, too, depends upon reliable and credible American leadership.

With kind regards,

Yours ever,

(sgd.) Helmut Schmidt

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**89. Memorandum From Secretary of State Vance to President Carter<sup>1</sup>**

Washington, December 23, 1977

[Omitted here is discussion of FRG-Brazilian nuclear developments and Berlin.]

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 12/77. Secret. Vance wrote at the top of the page: "Merry Christmas. Cy." Below his note, Carter wrote "cc Cy. J."

3. *European Protectionism*: I am increasingly apprehensive over the degree to which European governments are succumbing to protectionist pressures. If the trend of recent events continues, there will shortly be no credibility left in the Downing Street commitment to reject protectionism. This has serious implications internationally as well as for our ability to meet your domestic economic objectives.

The Europeans have just agreed in the EC Council to a steel program<sup>2</sup> which, if carried out, will tend to undermine domestic support for Tony Solomon's market-oriented approach which you approved. Our program was intentionally designed to deal with dumping and to have minimal interference with trade. Our steel industry will see the EC plan as more restrictive than ours and will press us to imitate.<sup>3</sup>

Although the EC has agreed to renewal of the Multifiber Agreement, it is doing so only after negotiating highly restrictive bilateral textile agreements with the LDC exporters. We can fully expect our textile industry to bring considerable pressure on us to seek equally restrictive agreements. The Nordic countries and Canada are already responding to this kind of domestic pressure.

In the MTN it looks as if the French and the UK will prevent the EC from meeting the commitment to table by January 15 a substantial tariff cut offer—on the order of 40 percent. They are also insisting on freedom of action in taking discretionary import relief actions. This will brake the substantial progress which was so arduously worked out by Bob Strauss over the past few months.

These actions reflect a growing pessimism in Europe over governments' ability to deal with the serious economic problems and adjustments brought on by the recession. The risk is that this protectionist mood will now gather steam, threatening to overwhelm our efforts to stimulate the economy and reduce unemployment. Such a development will have profound adverse effects on international political as well as economic relations. Most importantly, it will greatly reduce your own political flexibility in dealing with our own economic difficulties.

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<sup>2</sup> Meeting in Brussels December 19–20, the EC Council of Ministers agreed on a steel program involving import controls, EC-wide price increases and market restraints, and industrial reorganization. Telegram 19130 from USEC Brussels, December 21, transmitted the EC press release detailing the new steel program. (National Archives, RG 59, Central Foreign Policy File, D770476–0409) Telegram 18991 from USEC Brussels, December 20, discussed the import controls. (National Archives, RG 59, Central Foreign Policy File, D770474–0196) Telegram 19129 from USEC Brussels, December 21, described the measures to be taken within the EC. (National Archives, RG 59, Central Foreign Policy File, D770476–0394)

<sup>3</sup> Carter wrote "We should protest strongly" in the margin adjacent to this paragraph.

Bob Strauss has done a first-rate job in deflecting protectionist pressure here and, thereby, keeping your international commitment to resist protectionism. Unless Europe shows courage and leadership, these efforts could well prove to have been in vain. I believe that you will have to bring home the serious implications of their recent actions to the European leaders you meet on your forthcoming trip.

Since these developments occurred after the preparation of your briefing papers, I am sending over through Zbig additional points to add to your briefing materials.<sup>4</sup>

[Omitted here is discussion of Belize, Ethiopia, Indian nuclear policy, and Philip Habib.]

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<sup>4</sup> Not found.

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**90. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>**

Washington, December 27, 1977

SUBJECT

Steel Decisions

Two important steel decisions were not dealt with by the Solomon Task Force—(1) the question of continuing specialty steel import quotas and (2) our disposition of a complaint by the steel industry under section 301 of the Trade Act against the EC/Japanese voluntary agreement that restricts Japanese steel exports to the EC. Both of these issues have been reviewed through our interagency process and the attached memoranda present recommendations for your review on the respective cases. If you accept our recommendations, I would plan to announce the decisions simultaneously in order to minimize any adverse reactions domestically or internationally. The specialty steel recommendation would be favorably received domestically but not internationally. The section 301 case recommendation would generate the opposite reaction.

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 7, Steel File #1. Limited Official Use. A stamped notation reads: “The President has seen,” and Carter wrote at the top of the page: “cc Strauss. JC.”

## Attachment

### Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>2</sup>

Washington, December 27, 1977

#### SUBJECT

Section 301 Complaint by the American Iron and Steel Institute

#### *Background*

In October 1976, the American Iron and Steel Institute (AISI) filed a formal complaint with the Office of the Special Representative for Trade Negotiations (STR) under section 301 of the Trade Act of 1974. The complaint alleges that the European Community (EC) and Japan had entered an agreement on steel that restricted steel exports from Japan to the EC and resulted in a substantial deflection of Japanese exports to the United States. In June 1977, the AISI proposed that quantitative restrictions be imposed on U.S. steel imports from both Japan and the EC as the appropriate remedy for the deflection problem.

Section 301 of the Trade Act of 1974 confers a right to petition the President through the Special Trade Representative for the elimination of unfair practices of foreign governments that burden U.S. commerce. Under the authority of this section you may take whatever retaliatory action (e.g. quotas, tariffs) you think is appropriate to achieve removal of such unfair practices. In general, there is no internationally accepted framework for such actions, as there is in the case of "escape clause" cases like footwear and color television receivers. Thus, retaliation would most often be contrary to our international commitments, and could result in counter measures being taken against U.S. trade.

We have reviewed the AISI allegations on the basis of publicly available data (including briefs filed in this case) and private discussions with representatives of the EC and Japanese Government. Our findings have been reviewed by the interagency Section 301 Committee consisting of the Departments of State, Treasury, Commerce, Labor, Interior, Agriculture, and Defense.

The length of time taken to prepare recommendations on this case reflects a fundamental dilemma as to how to cope with both the measurement as well as the remedy for a deflection problem. Despite the logic of the case we have been unable to clearly establish a causal relationship between the EC/Japan understanding and the surge in Japa-

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<sup>2</sup> Limited Official Use.

nese steel exports to the United States. We communicated our concerns informally to the AISI last spring and indicated that dumping appeared to be the industry's major problem. While the causal relationship could not be established, we were reluctant to discontinue the case on the basis of insufficient evidence because that finding would seriously undermine our continuing criticisms of the EC's efforts to do similar deals with other countries and in other product areas and we were not certain that we would not have to resort to some action under section 301 in the face of the worsening steel situation.

### *Findings*

1. *The AISI allegation that an agreement exists between the EC and Japan to restrict Japanese steel exports to the EC is essentially correct.* While there is no formal or written agreement there is a clear understanding between the two governments. This understanding was reached originally in late 1975 during their regular semi-annual steel consultations, and has been extended regularly in ensuing consultations. It called for a 5% cutback from 1975 shipments by Japan to the EC. On November 28, 1977 the two governments agreed to extend the restriction through 1978 at the same level as the previous two years (1.22 million metric tons). The restriction is implemented through a Japanese cartel approved by the government, consisting of the six largest Japanese steel companies (which account for about 70% of Japanese steel exports). The small Japanese companies are not directly restricted although the large companies and the government probably try to influence their behavior.

2. *The AISI allegation that this restriction has caused a substantial deflection of Japanese steel exports to the U.S. market cannot be substantiated.* Japanese steel exports to the United States did increase dramatically in 1976 and have remained at those record high levels in 1977. However, Japanese steel exports to the world have behaved in the same fashion, principally reflecting the internal pressures to produce for export because of large overcapacity in relation to depressed domestic steel demand in Japan. Further, Japanese steel exports to the United States of the products covered by the restriction to the EC generally did not increase more rapidly than U.S. demand for those products. Finally, the Japanese cartel shipped substantially less than the agreed amount to the EC suggesting the understanding did not have a substantial restrictive effect. Our conclusion is that if there was any deflection as a result of the understanding, it was very minor. The surge of Japanese exports to us was basically the result of dumping and stronger demand conditions here as compared with other markets.

3. *Even if it could be clearly established that the EC-Japanese understanding had created substantial deflection to the U.S. market, given the facts in this particular situation a more appropriate remedy would be antidumping*

*procedures.* The Treasury Department has already concluded that there is sufficient basis to believe there is a pervasive dumping problem in steel trade to justify implementation of a trigger price system on all steel imports. It is likely therefore that any trade restriction, such as the Japanese cartel for exports to the EC, would only increase the likelihood of dumping in other markets. If the dumping is stopped, there would be little basis for a claim of deflection since one would expect U.S. imports to increase from more competitive producing countries, whether or not other markets are restricted.

#### *Recommendations*

*I recommend that STR announce discontinuance of its review of the AISI section 301 complaint* on the grounds that the Treasury Department's trigger price system to deter dumping will eliminate any unfair burden on the U.S. steel industry which may be resulting from the EC-Japanese understanding.<sup>3</sup> I would indicate that while we were able to determine that such an understanding exists, we were unable to measure its impact. We had kept the case under review, however, because significant diversion would have posed a threat in the deteriorating domestic steel situation. As it became clear that widespread dumping was the central trade problem, we turned to antidumping remedies. With the trigger price system, we believe that any unfair burden in U.S. trade due to the EC-Japanese understanding will be remedied. I would announce further that we continue to believe that such informal arrangements are not in the interests of the world trading system and should be brought under better international discipline.

The Departments of State, Treasury, Commerce, Agriculture, Interior, Labor, and the Council of Economic Advisers concur in the above recommendation. Eizenstat and NSC also concur.

There may be some adverse reaction from the domestic steel industry and the Congress to discontinuing this case, however, it may be riskier not to dispose of it. There are already legislative proposals to put statutory deadlines on our handling of section 301 cases, which would limit our flexibility to achieve solutions in these cases, because they usually involve extended negotiations. The adverse domestic reaction should be ameliorated by the implementation of the trigger price system by Treasury.

The EC and Japan would, of course, welcome dropping the case. It is regrettable that we have no better international rules available to us to cover the arrangement in which they have participated. We are working on a safeguard code in the Multilateral Trade Negotiations

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<sup>3</sup> A typed notation in the margin adjacent to this sentence reads: "See Tab A." See footnotes 15 and 16 below.

which may bring greater discipline to the use of such voluntary export restraints.

RECOMMENDATION: Discontinuance of section 301 case complaining of adverse impact of EC-Japanese steel restraint agreement.

Approve<sup>4</sup>

Disapprove

Please discuss with me

Other

### Attachment

### Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>5</sup>

Washington, December 27, 1977

#### SUBJECT

Review of Specialty Steel Import Relief Program

#### *Background*

In May 1977, you decided to review the existing specialty steel import relief program and to initiate the procedures required by law prior to reducing or terminating import relief.<sup>6</sup> On your behalf, I requested that the U.S. International Trade Commission (USITC) and the Secretaries of Commerce and Labor provide you with advice on reduction or termination of import relief. The statute requires that you have this advice before making a decision to modify the quotas, but the advice is not binding. Also, your decision to review the quotas does not commit you to modifying them.

The USITC reported to you in October the results of its study of the probable economic effect on the domestic specialty steel industry of reducing or terminating import relief.<sup>7</sup> Two of the four USITC Commissioners who voted on this issue advised against reduction or termination of relief. A third Commissioner advised that termination of relief

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<sup>4</sup> Carter indicated his approval of this recommendation and initialed "JC."

<sup>5</sup> Limited Official Use.

<sup>6</sup> See Document 29.

<sup>7</sup> The USITC decision on the specialty steel case was announced on October 11. (Brendan Jones, "U.S. to Push Trade Talks And Attempt to Aid Steel," *The New York Times*, October 12, 1977, p. D1)

would not have a substantial adverse impact on the domestic specialty steel industry. The remaining Commissioner advised that moderate (6.7%) increases in the second and third year quotas for each product category would not have a serious adverse economic effect.<sup>8</sup>

In December, the Secretaries of Commerce and Labor reported to you their advice regarding reduction or termination of relief.<sup>9</sup> The Secretary of Labor determined that such action would have a deleterious effect on domestic specialty steel employment, and thus advised that no change be made in the status of import relief. The Secretary of Commerce also recommended that the existing import restraints not be terminated or modified at this time, stating that such action would have a detrimental effect on the domestic industry.<sup>10</sup>

The picture that emerges of the recovery of the domestic industry from the 1975 recession is mixed, with some segments showing substantial improvement and others remaining depressed. Employment increases have generally lagged behind gains in shipments and production. Price performance has also been mixed with some products showing no downward flexibility while others have moved up and down in line with demand conditions. Profits have improved but remain low relative to earlier peaks and the overall manufacturing average. There have been substantial increases in investment by the industry since the quotas were put into effect.

While there has been considerable grumbling by other countries about the quotas, there is little expectation that the quotas will be eliminated in view of the overall domestic U.S. steel problem. At the moment, the major concern abroad is with the trigger price system for carbon steel (specialty steel will not be covered).

There is no provision for a Congressional override of your decision on this issue. However, there has been considerable Congressional interest in this case, especially from representatives of steel-producing states such as Pennsylvania, Ohio, New York, and Maryland. At least 100 members of the Congress have written you or me on this issue and they almost unanimously support no modification of the quotas. In addition, there have been submitted to us petitions signed by over 100,000 Pennsylvanians as well as petitions and resolutions from numerous other communities urging no change in the quotas.

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<sup>8</sup> Carter wrote "2 Keep, 1 Term[inate], 1 reduce" in the margin adjacent to this paragraph.

<sup>9</sup> These reports were not found.

<sup>10</sup> Carter wrote "Labor Keep, Com[merce Keep]" in the margin adjacent to this paragraph.



*Recommendations*

The interagency Trade Policy Staff Committee (TPSC) has reviewed the USITC, Commerce, and Labor advice regarding reduction or termination of relief. The TPSC (acting on behalf of the Cabinet-level Trade Policy Committee) has a statutory responsibility to make recommendations to you on import relief actions. Set forth below for your decision are the options recommended by one or more TPSC agencies.

No TPSC agency recommended that you terminate specialty steel import relief. All TPSC agencies recommend that you remove chipper knife and RM 81 (band saw) steel from coverage under the alloy tool steel quotas. These two minor products are available only in limited quantities from American manufacturers, and shortages are currently endangering the operations of domestic firms which consume these materials. The domestic specialty steel industry supports exclusion of chipper knife steel and only two firms might oppose exclusion of band saw steel. Sweden has expressed particular interest in the exclusion of chipper knife steel from the quotas.

All TPSC agencies further recommend that, to compensate for the removal of chipper knife and band saw steel from quota coverage, the Swedish and EC third year quotas be reduced. We would consult with the EC and Sweden before making such an adjustment. This adjustment would be small in relation to the total specialty steel quotas due to the small import volume of these two products in the base period but would reduce adverse domestic reaction to the exclusions.

*Option I:* The TPSC recommends the following action:<sup>11</sup>

Retain the specialty steel quotas for all product categories at their current levels.

I support this recommendation along with the Departments of Treasury, Commerce, Labor, Interior, Defense, and Agriculture. Eizenstat concurs.

The TPSC recommends no increases in quotas for the following reasons: (1) domestic specialty steel employment conditions have not fully recovered from depressed 1975 levels; (2) most of the domestic industry economic recovery has occurred during the first half of 1977 and this recovery was not sustained in the third quarter of 1977; (3) production levels in the third quarter of 1977 were the lowest since 1975 and

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<sup>11</sup> A typed notation in the margin adjacent to this sentence reads: "See Tab B." See footnotes 15 and 16 below.

unused capacity ranged from one-fourth to three-fifths of total capability depending on the segment of the industry; (4) increased imports resulting from modifying the quotas could significantly reduce the profitability of domestic firms, many of whom are making efforts to adjust to import competition; (5) we would get little credit internationally for modest quota increases and the anti-inflation benefits would be limited; (6) the reactions of the industry, union, and the Congress to even small quota increases would be highly critical. The domestic reaction could well lead to efforts to legislate limits on the President's ability to modify import relief, and (7) a decision against reduction or termination of relief would not endanger the positive climate on steel created by the Solomon program in the Congress, domestic steel firms, the steel workers union and steel communities.<sup>12</sup>

*Option II:* The Department of State and the Council of Economic Advisers recommend the following action: as do OMB and NSC.<sup>13</sup>

Increase the second year quotas for stainless sheet and strip, bar, and rod by seven percent. Increase the third year quotas for these three products by an additional ten percent (which includes the three percent growth factor already contained in the current third year quota levels). Leave the quota for stainless steel plate at its current levels.

Agencies favoring Option II recommendations argue that these moderate quota increases (1) are warranted due to the recovery in the domestic industry that has occurred since the imposition of the quotas; (2) would demonstrate our concern about inflationary impact of domestic specialty steel pricing developments; and (3) would generate some favorable international reaction by demonstrating our willingness to relax restrictions as economic conditions improve.<sup>14</sup>

For your information, I am attaching a copy of the analytical paper upon which the TPSC based its recommendations (Tab A). I am also attaching copies of the USITC, Commerce, and Labor advice regarding reduction or termination of import relief (Tabs B, C, and D).<sup>15</sup>

Once you have reached a decision, I will prepare the necessary papers to announce and implement your decision.

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<sup>12</sup> Carter indicated his approval of this option and wrote: "Why not remove quotas on chipper knife & band saw steel? JC."

<sup>13</sup> A typed notation in the margin adjacent to this sentence reads: "See Tab B."

<sup>14</sup> Carter did not indicate his preference with respect to this option.

<sup>15</sup> An unknown person struck through the word "attaching" both times it appears in this paragraph. Tabs A-D are not attached.

**Tab A**

**Paper<sup>16</sup>**

Washington, undated

TAB A—Section 301 Complaint

The Treasury Department *supports* discontinuance of the steel industry's complaint against the EC/Japanese agreement, but *objects* to Strauss' statement that the Administration's new trigger price system "will eliminate any unfair burden on the U.S. steel industry."<sup>17</sup>

STR and Treasury have since worked out mutually acceptable language for announcing this decision, according to Stu.<sup>18</sup>

**Tab B**

**Paper<sup>19</sup>**

Washington, undated

TAB B—Specialty Steel Quotas

*Option I:*

*Eizenstat* concurs with Strauss *et al*, and cites this additional argument:

- liberalization of the quotas would again subject the Administration to charges of inconsistency in our economic actions—on the one hand, we develop a trigger price system to protect the domestic steel industry from foreign competition in basic steel, and on the other, we re-

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<sup>16</sup> No classification marking.

<sup>17</sup> In a December 28 memorandum to Carter, Solomon explained Treasury's opposition to this statement: "We have found no such burden resulting from the agreement. Rather, our recommendation that this review be discontinued is based on the fact that the U.S. steel industry has been unable to substantiate its allegation that the EC/Japanese agreement has caused substantial deflection of Japanese steel to the U.S. market. This was agreed at the staff level and conveyed to the steel industry last spring, *well before* the trigger price system had been developed. I therefore recommend that, in discontinuing this review, STR simply explain that investigation has shown the industry's allegation of injury to be unfounded. I recommend against making any connection between discontinuance and the Administration's new trigger price system." (Carter Library, Anthony Solomon Collection, 1977–1980, Subject File, Box 8, Acting Secretary—Signatures)

<sup>18</sup> Carter wrote "ok. J" below this paragraph.

<sup>19</sup> No classification marking.

duce the amount of protection the steel industry has against foreign competition in specialty steel.

*Eizenstat recommends*, in addition, that you instruct Ambassador Strauss to reflect our concern about inflationary price increases either in his formal announcement of this decision or in private communications with specialty steel manufacturers.<sup>20</sup> We should let the industry know that we expect its continuing economic recovery to be based on the expansion of production—and not just inflationary price increases.

*Option II:*

OMB and NSC concur with State and CEA.

- *OMB*: “the recommended relaxation would be a positive indication to domestic and foreign observers alike that the Administration is serious about eliminating unfair imports and minimizing restrictions on imports entering fairly.”

- *NSC*: According to ITC Commissioner Minchew, a moderate increase in quotas *would not* have an adverse impact on the domestic industry, and *would* show our trading partners that the US is prepared to reduce import relief when economic conditions improve. Firms producing stainless steel sheet and strip, bars and rods have substantially recovered from the 1975 recession.

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<sup>20</sup> Carter drew an arrow to this sentence and wrote “ok. J.”

**91. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, December 28, 1977

## SUBJECT

Year-End Review

Last summer I sent you my views about the Administration's first six months' foreign policy.<sup>2</sup> Here are some thoughts about the first year, and also about the lessons to be drawn for the year ahead. I have concentrated on the area I know best: Economics may not be the most glamorous aspect of foreign policy, but few things so directly affect the average man and woman.

*1. Overall Economic Policy*

(a) *Domestic Targets.* The London Summit marked an advance in fixing domestic growth and stabilization policies internationally. Germany and Japan failed to achieve their 1977 Summit targets, but there would have been less growth in both countries in the absence of Summit commitments and of post-Summit consultations. The Summit agreement also strengthened the ability of the French, British and Italian governments to hold to needed and painful stabilization policies. We should build on this good start in 1978: keeping the pressure on Germany and Japan to follow expansionist policies, and focusing 1978 Summit growth commitments on 1979—which is far enough in the future for Summit-induced policies to take greater effect.

(b) *Balance of Payments.* The Japanese did not fulfill their Summit commitment to bring their external accounts into better balance, but recent U.S.-Japanese consultations foreshadow some progress on this point. Meanwhile, you are on the right track in trying to reduce the U.S. deficit by pressing Germany and Japan to follow more expansionist policies, by urging Japan to open up its import markets, and by seeking a more effective U.S. energy policy—instead of treating the symptoms by raising interest rates or intervening in money markets (except to counter disorder).

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 121, Trade: 1977. Confidential. Sent for action. Carter wrote at the top of the page: "Good memo. J." Brzezinski also initialed and wrote: "Concur."

<sup>2</sup> Owen sent Carter an August 26 memorandum entitled "Foreign Policy: The First Six Months." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 26, Foreign Policy: 5/77–11/29/77)

(c) *U.S.* Our ability to press other governments to follow sensible economic policies will depend partly on how well we do at home ourselves. As you know, I feel that a plausible and effective anti-inflationary program in 1978 will be the key to sustained growth. I also believe that such a program is most likely to come about if it is placed in the hands of a politically savvy person who does nothing else but manage and negotiate its implementation with the interest groups concerned—like Bob Strauss in the trade field. This would have the added advantage of dramatizing your interest, at home and abroad.

## 2. *International Indebtedness*

The new IMF Witteveen facility foreshadowed at the Summit is being established, to help countries meet external deficits while they work out long-term domestic adjustments. The task in 1978 will be to get this agreement through the Congress without crippling changes.

## 3. *Trade*

At the start of 1977, few people expected trade negotiations to have progressed as far as they have. A lot of the credit goes to Bob Strauss; he is the first to say that the Summit commitments you persuaded your London colleagues to accept and your post-Summit support were essential to his success. There are large obstacles ahead: We will have to keep the heat on foreign governments (especially France) to ensure that we get not only deep tariff cuts but also extensive non-tariff agreements in time to go to the Hill in early 1979 with a sufficiently balanced and comprehensive agreement to head-off protectionism. This issue will come to a head at the 1978 Summit, when the trade negotiations will be reaching their climax.

## 4. *Energy*

Your decision to make energy the centerpiece of your policy in 1977 was a wise and necessary one which should pay off over the longer term.

(a) *Conventional Energy.* The recent OPEC oil price freeze that you helped to secure<sup>3</sup> gives us more time to seek the increased energy production and reduced energy consumption agreed at the Summit. If the heads of government whom you visit on your forthcoming trip<sup>4</sup> can be persuaded to speak publicly about the need for an effective U.S. energy program, this may help to give your energy proposals a push when you return to the U.S. U.S. action would set the stage for pressing other

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<sup>3</sup> See footnote 2, Document 83. Documentation on the U.S. efforts to forestall increased oil prices is in *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980.

<sup>4</sup> Carter visited Poland, Iran, India, Saudi Arabia, Egypt, France, and Belgium December 29, 1977–January 6, 1978.

countries also to do more; an interagency group is being set up to consider whether new proposals for international cooperation to increase energy output can be developed, which you might advance at the 1978 Summit.

(b) *Nuclear*. The International Nuclear Fuel Cycle Evaluation Program which you persuaded the Summit to launch is making good progress. But it will only head-off proliferation if it leads to agreement on some way of internationalizing the nuclear fuel cycle that will offer importing countries an alternative to reliance on dangerous nuclear technologies. The U.S. will have to take the lead if such an initiative is to be developed. You will have to keep pressing if the U.S. Government is to develop such a proposal in 1978 instead of focusing on more short-term and less difficult goals.

#### 5. *North-South Relations*

Aid levels set or foreshadowed in 1977 are going up, in fulfillment of Summit commitments. You have also fixed the right priorities for 1978: fulfilling our pledges to the IFIs, and reforming the bilateral U.S. aid program, in preparation for a substantial expansion of that program in 1979. These goals will only be achieved if we can learn how to consult more effectively with the Congress on the IFIs, and if we can get the executive branch to agree on proposals for major reforms in the present bilateral aid program. Your leadership will be essential on both points if there is to be progress.

#### 6. *U.S.-European-Japanese-Relations*

You put more emphasis on the U.S.-European-Japanese relationship in 1977 than any U.S. President in recent years. We made good progress in strengthening NATO and promoting economic cooperation among industrial countries.

Nonetheless, serious problems persist in U.S. relations with both Europe and Japan. It will be important in 1978 to address not only these specific issues, but also the ways in which they interact to affect the U.S.-European-Japanese relationship as a whole. It would be useful to do this at the next Summit. To the same end, it would be useful to invite the President of the European Community (a position that rotates every six months among European heads of government) and the President of the European Commission (Jenkins) to come to Washington twice a year for a broad review of U.S.-European relations. This would not take up more of your time, since each of these leaders is likely to come to Washington anyway; it would show your interest in European unity, as well as in U.S.-European relations.

#### 7. *Conclusion*

In your first year you have set the right goals and priorities, addressing underlying problems that were long neglected. In the year

ahead, the need will be for follow-through. This will require not only persistence but innovation, which comes hard to most governments, including our own. Without your continuing leadership in most of the areas mentioned in this memo, it won't happen.<sup>5</sup>

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<sup>5</sup> On December 21, Lake sent to Vance a paper prepared by the Policy Planning Staff entitled "Foreign Economic Policy: The Last Year and the Next," which offered the Department of State's take on the Carter administration's foreign economic policy achievements and challenges. (National Archives, RG 59, Office of the Executive Secretariat, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 3, S/P-Lake Papers—12/16–31/77)

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## 92. Telegram From the Embassy in Japan to the Department of State<sup>1</sup>

Tokyo, December 29, 1977, 0807Z

19974. Pass STR electronically. Subject: US-Japan Economic Talks. Ref: A) Tokyo 19884; B) Tokyo 19885.<sup>2</sup>

1. Summary: Latest Japanese response appears meet basic U.S. concerns. With some possible final polishing, it should provide good basis for a successful Strauss visit in January and the closing out of current phase of what in any case must be a continuing process of close U.S.–Japan consultation. End summary.

2. GOJ package transmitted with reftel goes far to meeting U.S. concerns expressed over recent months. We have reviewed key points and offer following comments on them in the order followed by GOJ paper transmitted in reftel. Agriculture quota measures are covered in septels.<sup>3</sup>

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, D780001–0386. Confidential; Immediate; Exdis.

<sup>2</sup> Telegram 19884 from Tokyo, December 28, transmitted the Japanese response to U.S. agricultural trade requests. (National Archives, RG 59, Central Foreign Policy File, D770483–0268) Telegram 19885 from Tokyo, December 28, transmitted the Japanese response to the December 20 U.S. trade requests (see footnote 3, Document 87). (National Archives, RG 59, Central Foreign Policy File, D780013–0407, D770483–0568)

<sup>3</sup> Telegram 19967 from Tokyo, December 29, discussed the proposed Japanese agricultural quota measures. (National Archives, RG 59, Central Foreign Policy File, D780001–0303)



3. BOP statement covers both current account and growth policy. Statement on growth has all the elements we suggested and seems satisfactory.

4. We pointed out to Ushiba that statement in paper on achieving current account deficit did not appear to be as forthcoming as U.S. paper of Dec. 20 had envisioned. Ushiba did not make direct reply but Motono, who was not present at meeting, called EC Min at midnight to assure us that GOJ statement represented maximum possible at this stage and had been hard won over hesitations of many in GOJ. Motono raised possibility that Amb. Strauss would be free to put more favorable cast on GOJ undertaking in public statements he might make following visit here.

5. Much of para. 1 of Japanese statement, read carefully, is close to our desiderata. It recognizes that accumulation of large surplus is not appropriate and that Japan's persistent surplus is undesirable. It later spells out what looks to us like a reasonable current account projection for 1978 and 1979 insofar as results are susceptible to policy management. Given GOJ's by now understandable reluctance to have its projections portrayed as commitments, it will be hard to get language that smacks more of a policy commitment to reach a deficit. However, sentence, that reads "If current account deficit occurs in such a process, GOJ is prepared to accept it," is particularly unfelicitous. We would hope a Washington wordsmith could find a more satisfactory formulation.

6. Regarding tariffs and MTN, when we asked Ushiba about possible use of words "deeper than formula cuts,"<sup>4</sup> he referred to last sentence in para. 3 which he said is responsive to U.S. concerns. We believe Japanese bureaucracy is also still working along lines discussed with Lande and that some further private statement may be forthcoming.

7. Para. 5 of Japanese paper on import financing can be described as indication of positive Japanese reaction to world situation. Since we are not aware of any complaints that exports to Japan are being hampered by shortage of credit, there is not much we can ask.

8. Government procurement statement is probably also as much as we can expect. Announcement of JNR award to IBM with substantial U.S. input is hopeful sign that Cabinet decision will produce tangible results.

9. Export credit paragraph does not say much but can be described as helpful recognition of Japan's need to slow rate of increase in export credits.

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<sup>4</sup> On the phrase "deeper than formula cuts," see footnote 3, Document 87.

10. On non-tariff measures, paper says the right things about recent positive actions, renews pledge to make Trade Facilitation Committee work<sup>5</sup> and to cooperate on code in MTNs.

11. On logs and lumber, GOJ has picked up our suggestion of special study group.

12. On aid, reply sounds generally responsive within constraints of the possible.

13. Conclusion takes the healthy up-beat tone we should encourage, sets proper tone for a Strauss visit and looks to continuation of essential close consultations.

14. We think time has arrived to close off this set of discussions, to schedule Strauss visit and start work on the papers needed for it. Despite Japanese holidays, there is time for a few clarifications.

15. We have thought we should plan a joint statement to be issued probably by Strauss and Ushiba at conclusion Strauss visit plus an up-beat airport departure statement. In addition we should collaborate on an agreed classified check list that recapitulates various Japanese undertakings over recent months. In all this we should recognize that we have some flexibility about saying somewhat more at home than we or the Japanese can in Japan. Further, Japanese officials and Amb. Strauss can exchange unpublicized assurances on other items.<sup>6</sup>

**Mansfield**

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<sup>5</sup> In mid-September 1977, U.S. and Japanese officials agreed to form "a joint Japanese-US group to examine ways of facilitating trade." (Telegram 223396 to Tokyo, September 16, 1977; National Archives, RG 59, Central Foreign Policy File, D770338-1128) Kreps and Japanese Minister of International Trade and Industry Tatsuo Tanaka formally agreed to the establishment of the Trade Facilitation Committee during a September 27 meeting in Tokyo, at which Tanaka "welcomed establishment of Trade Facilitation Committee both to find ways to increase U.S. sales and to 'wipe away' image of Japan as closed market." (Telegram 14901 from Tokyo, September 27, 1977; National Archives, RG 59, Central Foreign Policy File, D770351-0621) See also Andrew H. Malcolm, "Secretary Kreps Warns Japanese Trade Imbalance Is Unacceptable," *The New York Times*, September 28, 1977, p. D16.

<sup>6</sup> In telegram 310056 to Tokyo, December 30, the Department responded to the latest Japanese proposals, suggesting that "while a number of individual aspects of package require clarification to be considered adequate, we believe that these responses can serve as the basis for concluding the current round of US-Japan consultations." Wolff was to lead a small negotiating team to Tokyo in the second week of January to work on the remaining areas of disagreement, to be followed by Strauss a few days later. (National Archives, RG 59, Central Foreign Policy File, D780002-0712)

**93. Letter From President Carter to West German Chancellor Schmidt<sup>1</sup>**

Washington, December 30, 1977

Dear Helmut:

I am grateful for your letter of December 22 and your expressions of support.<sup>2</sup>

I wholly share your view about the importance of a strong dollar. Like you, I was concerned in recent weeks about the possibility that disorder in the foreign exchange markets affecting the dollar, the deutschmark, and the yen might reach proportions that would adversely affect the world economy. These concerns led to my statement of December 21.<sup>3</sup> It was designed to assure the world that the United States is deeply concerned about the value of the dollar, and is prepared to counter disorderly conditions that may appear in exchange markets.

I hope that my statement has eliminated any misconception about U.S. policy. Minister Apel's supporting comments were most welcome.<sup>4</sup> The success of our diplomatic effort to dissuade OPEC from increasing the price of oil has also been helpful. But the primary tasks for the United States are still ahead.

We must obtain legislation that will reduce our excessive dependence on imported oil. I will do all I can to persuade the Congress to take necessary action as soon as possible; I am confident the Congress will respond.

The United States will meet the growth targets for 1977 that I stated at our meeting in London. The tax reductions and other economic policies that I will propose in my messages to the Congress in

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, Germany, Federal Republic of: Chancellor Helmut Schmidt, 5–12/77. No classification marking. Owen sent Carter a draft letter to Schmidt for his signature under cover of a December 28 memorandum in which he noted that the letter had been cleared with the Departments of State and Treasury. Owen commented: "This is a long reply, but the subject is important and complicated, and it is one in which the Chancellor has a deep interest. This reply is about the same length as the Chancellor's incoming letter." (Ibid.) The letter was sent for delivery in telegram Secto 13016 to Bonn, December 30. (National Archives, RG 59, Central Foreign Policy File, P840072–1258)

<sup>2</sup> See Document 88.

<sup>3</sup> See footnote 2, Document 86.

<sup>4</sup> An article in the December 23 edition of *The New York Times* noted that Apel, "who has warned that the dollar's recent slump could damage Europe's economic recovery from the recession welcomed Mr. Carter's new assurances about the dollar." (Paul Lewis, "Dollar Up Sharply on Carter's Stand," *The New York Times*, December 23, 1977, p. D1)

January should assure continuing healthy, non-inflationary U.S. growth through 1978 and into 1979. While slower domestic growth would no doubt reduce our trade deficit, I doubt that it would strengthen the dollar on the foreign exchange markets; investors will have more confidence in a dynamic rather than a stagnant United States. Moreover, an expanding U.S. economy is necessary if we are to overcome the twin dangers of trade protectionism in industrial countries and lagging growth in developing countries.

It is important that vigorous U.S. growth be matched by expansion in the other strong industrial economies, as we agreed at London, if the U.S. deficit is to be reduced.

I have been encouraged by the growth targets that Prime Minister Fukuda has set for Japan in 1978 and his commitment to reduce the Japanese current account surplus. He has recognized the need to put aside traditional limitations on Japanese Government borrowing to finance a budgetary deficit, and has substantially increased the degree of governmental stimulus. Whether these actions will be sufficient to enable Japan to realize its goals remains to be seen, but the direction is certainly right.

I welcome your statement that a high rate of employment and reasonable economic growth are priority objectives of German policy, and am glad that you have adopted a more expansive credit and financial policy. If it appears that these measures will not have the desired result, in terms of domestic growth or international balance, I trust that you will be prepared to consider whether further stimulus measures by the Federal Republic would be helpful. Higher German growth is needed to reduce the problems we face in foreign exchange markets, while contributing to the economic well-being of the entire industrial world.

If the United States can adopt a strong energy program, if Japan can achieve its announced growth targets, and if the Federal Republic can fulfill its growth potential, I am confident that the U.S. current account deficit will decline and that disorder in the foreign exchange markets will subside. We must, as you point out, be continually alert to the danger of inflation, which could undermine all this good work.

A successful conclusion of the MTN and refraining by European Community nations from protectionist actions will also be of great help in assuring a stable economic system. I will be discussing this with President Giscard d'Estaing next week.<sup>5</sup>

I share your views about the importance of continued close international cooperation and consultations on these issues. The periodic

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<sup>5</sup> At the end of Owen's December 28 memorandum (see footnote 1 above), Carter instructed Brzezinski to add this paragraph. Carter visited France January 4-6, 1978.

meetings of our Finance Ministers, both bilaterally and in small groups, have been helpful. It is good that we are able to communicate with one another directly, both by letter and by periodic visits.

Mid-July sounds fine to me for a Bonn Summit. I agree that this date should not be made public until preparatory work by our personal representatives has progressed further. I am glad to hear from Henry Owen that Dieter Hiss will call a meeting of these representatives in Bonn sometime early next year, to start work on the Summit agenda. I hope that we can find a place on that agenda for a broad review of the European-Japanese-American relationship, in addition to addressing the specific problems that our countries confront. The fact that we have six months in which to prepare for the Summit should give our representatives time to search out imaginative approaches to these problems, as you suggested to Mike Blumenthal when he was last in Bonn.

It was good of you to renew your invitation to visit Germany. If the Summit is in July, I would be glad to come two days ahead of that meeting for the visit. I look forward very much to continuing and extending our association.

Sincerely,

**Jimmy Carter**

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#### 94. Editorial Note

In December 1977, Under Secretary of the Treasury for Monetary Affairs Anthony Solomon proposed to West German officials that the U.S. Treasury and Bundesbank conclude a 1-year \$1-billion swap arrangement. In an undated message to the President's Assistant for National Security Affairs, Zbigniew Brzezinski, Solomon argued that the "arrangement will back up President's statement on balance of payments and exchange rates, and explicit Treasury involvement will indicate this is a full U.S. Government effort and not just Federal Reserve activity." Secretary of the Treasury W. Michael Blumenthal, the Federal Reserve Board, and Brzezinski all concurred in this initiative. (Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 5, President, Europe and Asia, 12/29/77–1/6/78: Stop Papers, Warsaw, 12/29–31/77)

On January 3, 1978, Blumenthal sent a message to President Jimmy Carter, who was abroad on a 9-day multinational trip, of the "very dis-

orderly" conditions of that day's exchange markets, noting that "the dollar has depreciated sharply against the other major currencies following several days of persistent decline." Asserting that "exchange rate movements of these magnitudes are a cause of considerable concern, and I am quite worried about them," Blumenthal reported that the Bundesbank had agreed to the swap arrangement with the U.S. Treasury, which would be announced no earlier than the morning of January 5 at the request of the West Germans. Blumenthal also assured Carter that his "economic advisors are consulting on the situation and options," promising him "a further report and recommendations within 24 to 48 hours." Carter initialed Blumenthal's message. (Message WH80047 from Blumenthal to Carter, January 4; Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 66, Trip to Mideast and Europe, 12/29/77-1/6/78 No. 2 [2])

On January 4, the U.S. Treasury and Federal Reserve Board announced a series of measures to shore up the value of the dollar, including the new swap arrangement with West Germany. (Clyde H. Farnsworth, "U.S. Will Intervene to Protect Dollar; Currency Rebounds," *The New York Times*, January 5, 1978, page A1) On that same day, in remarks in Paris before the Palais des Congrès on the challenges facing the world's democracies, Carter spoke about the global economy and asserted, among other things, that "America's efforts will be directed toward maintaining the strength of the dollar, continuing steady progress against unemployment and inflation, and stimulating private investment." (*Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pages 21-27; quotation is on page 24)

On January 5, Blumenthal sent a message to Carter (who was still in France) in which he noted "that the sharp decline of the dollar has at least temporarily been reversed. Your statements in Europe and activation of the swap line have worked as well or better than we could have expected. Nevertheless, I continue to be very concerned about the situation of the dollar. There is absolutely no assurance that another major assault on the dollar could not take place at any time. Our resources could be rapidly depleted. We are surveying other steps which could be taken. None are very attractive and all have high domestic political costs impinging on your other priority programs." Asserting that "one reason for the recent problems has been the deadlock over the energy program," Blumenthal urged Carter, upon his return to the United States, to use the issue of the dollar's weakness "to create a sense of urgency in the Congress and the country in support of early passage of your energy legislation" and suggested several concrete actions Carter could take to this end. On a cover sheet attached to Blumenthal's message, Carter noted his agreement. (Message from Blumenthal to Carter, January 5; Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 67, 1/9/78 [1])

On January 13, in a memorandum to Blumenthal and the Chairman of the Council of Economic Advisers, Charles Schultze, Carter noted that he wanted “to be informed and involved in the preparation of plans to deal with the dollar problem should further difficulties arise” and requested “a joint memorandum which identifies the options open to us in meeting contingencies that might occur during the period ahead,” to be submitted by January 18. In particular, Carter requested information on foreign currency-denominated securities issued by the U.S. Treasury, an idea suggested to him by the Chairman of the Board of Governors of the Federal Reserve System, Arthur Burns; further means of curtailing oil imports, if necessary; and “other options you think we ought to consider.” Carter promised to meet with Blumenthal and Schultze to discuss their memorandum once he had reviewed it, proposing that they “also discuss what our basic objectives ought to be, under various circumstances.” (Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 3, 1/1/78–1/16/78)

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**95. Memorandum From the President’s Assistant for Domestic Affairs and Policy (Eizenstat) and Robert Ginsburg of the Domestic Policy Staff to President Carter<sup>1</sup>**

Washington, January 9, 1978

SUBJECT

Strauss Memorandum on Steel Decisions

*Section 301 Complaint*

We agree with the unanimous recommendation of Ambassador Strauss and the interagency committee that the STR discontinue its review of the steel industry’s Section 301 complaint.<sup>2</sup>

The essence of the complaint is that the EC/Japanese voluntary restraint agreement on steel has caused the diversion of a substantial amount of Japanese steel exports from the EC to the U.S. However, the interagency committee has *not* found a causal relationship between that

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<sup>1</sup> Source: Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 283, Steel (O/A 6237). No classification marking. Ginsburg did not initial the memorandum.

<sup>2</sup> See Document 90.

agreement and the sharp increase in Japanese steel exports to the U.S. in 1976–1977—that increase seems to have been more the result of dumping and stronger demand for steel in the U.S. than elsewhere.

In his memorandum to you, Tony Solomon concurs with Ambassador Strauss' recommendation for discontinuance but disagrees with the proposed rationale, i.e., that the trigger price system can handle any unfair burden resulting from the EC/Japanese agreement.<sup>3</sup> We understand that Treasury and STR have since worked out mutually acceptable language (which we will review) for announcing this decision—so there is no longer any disagreement.<sup>4</sup>

#### *Specialty Steel Quotas*

We also agree with Ambassador Strauss' recommendation that the specialty steel quotas be retained at their current levels (Option I).

In addition to the reasons given by Ambassador Strauss (the domestic industry has not recovered fully, the political cost would far outweigh any benefit, etc.), we are concerned that liberalization of the quotas would again subject the Administration (unfairly) to charges of inconsistency in our economic actions—on the one hand, we develop a trigger price system to protect the domestic steel industry from foreign competition in basic steel and on the other hand, we reduce the amount of protection the steel industry has against foreign competition in specialty steel.

We also agree with the unanimous interagency recommendation to remove two minor products available only in limited quantities from American manufacturers—chipper knife steel and RM81 band saw steel—from coverage under the quotas.

However, we do think it would be worthwhile to let the specialty steel industry know that we expect its continuing economic recovery to be based on the expansion of production and not just inflationary price increases. A substantial part of the industry's present recovery is due to price increases. While this should be no surprise under a quota system, it is not inevitable and we do not have to give the impression that we are indifferent to the industry's aggressive pricing practices. Accordingly, we recommend that you instruct Ambassador Strauss to reflect our concern about inflationary price increases either in his formal an-

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<sup>3</sup> Possibly a reference to Solomon's memorandum of December 28, 1978; see footnote 17, Document 90.

<sup>4</sup> The White House announced the dismissal of the Section 301 complaint on January 18. ("U.S. To Keep Quotas For Steel Imports," *The New York Times*, January 19, 1978, p. D3)



nouncement of this decision or in private communications with the specialty steel manufacturers.<sup>5</sup>

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<sup>5</sup> The White House announced the retention of the specialty steel quotas on January 18. ("U.S. To Keep Quotas For Steel Imports," *The New York Times*, January 19, 1978, p. D3)

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## 96. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, January 18, 1978

### SUBJECT

Tokyo Round

The United States and other countries participating in the multilateral trade negotiations are scheduled to table their detailed tariff-cutting offers in Geneva this Friday.<sup>2</sup> Bob Strauss' status report is attached.

The working hypothesis of the tariff negotiations is that each country will make offers to cut its tariffs an average of 40%, with high tariffs to be cut proportionately more than the low tariffs. The US offer about to be tabled would reduce tariffs on the average by about 45 percent. If the other countries were to match our offers, the negotiations would result in deeper cuts than the Kennedy Round (35 percent). This is not likely to be the case, for reasons indicated below:

The Council of the European Community agreed yesterday to indicate that the EC would be prepared to begin negotiations on the basis of an average tariff reduction of 38 percent. But the Council qualified this statement by making an entry in the Council minutes indicating that the reduction of the EC external tariff should be between 25 and 35 percent.<sup>3</sup> This means that the EC, prodded by the French, will be looking for excuses to back off from its initial offer.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 1-5/78. Confidential. Sent for information. Carter wrote at the top of the page: "ok. J."

<sup>2</sup> January 20.

<sup>3</sup> Telegrams 994 and 1016 from Geneva, both January 17, reported on the EC Council decisions on the multilateral trade negotiations. (National Archives, RG 59, Central Foreign Policy File, D780025-0714 and D780025-0655, respectively)

The US offer will provide opportunities for the EC to do this.<sup>4</sup> Because of political sensitivities in this country, about 8 percent of US total dutiable imports of non-agricultural and non-petroleum products will be excepted from the initial US offer, and another 5 percent will be subject to less than 40 percent tariff cuts. These exceptions will be mainly apparel, leather, electronic, and other light manufactured products. Some of these products are of interest to EC member states. Thus France and others will be able to insist that the EC respond to these US exceptions by pulling back on some items of interest to the United States. This will probably mean that the tariff-cutting results of the Tokyo Round will be less far reaching than realized in the Kennedy Round.

Developing countries will argue that the US offer fails to give them the special and differential treatment agreed on in the Tokyo Declaration. They will also point out that the US offer would result in an average cut of about 33 percent on products of primary interest to them, substantially less than the offer we are making on products of interest to the industrialized countries.

In reply, US negotiators will cite the limited reciprocity offered by the developing countries and stress that our tariff-cutting offer on items of interest to the LDS,<sup>5</sup> other than textiles and light manufactures, will range from 46 to 77 percent. Nonetheless, we can expect the LDCs to take every opportunity to put pressure on us to be more forthcoming.

I see no practical alternative to going ahead on the current basis. Even if we had enough time to improve our offer marginally, and even if this could be done without unacceptable domestic political risk, the overall configuration would not be altered materially. Thus I conclude that the US offer, as it now stands, should be tabled in Geneva this Friday.

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<sup>4</sup> Dodson noted in a January 11 memorandum to Hutcheson that "State, Treasury, and CEA are suspicious of the EC's intentions and are concerned that the U.S. not table an offer that will make it easy for the EC to pull back from its agreement in principle to table an average tariff cut of 40 percent." (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 89, Economics/International: 1/77-7/78)

<sup>5</sup> Carter underlined the abbreviation "LDS." "LDS" appears to be a typographical error and should read "LDCs."

**Attachment****Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>6</sup>**

Washington, January 9, 1978

## SUBJECT

U.S. Offers in the Multilateral Trade Negotiations

This is a brief report on the status of the multilateral trade negotiations (MTN) in Geneva, particularly with respect to the tabling of U.S. and other countries' offers in mid-January, which will mark the beginning of the negotiating stage. You will recall that last summer we agreed with the European Economic Community (EC) to a timetable for getting the negotiations under way.<sup>7</sup> This timetable required that offers on tariff and nontariff measures would be tabled during the week of January 15, 1978. The tabling of such offers would set the stage for the months of hard bargaining that will be necessary to conclude an agreement.

The countries participating in the MTN have agreed that offers on agricultural tariffs and nontariff measures would be made in response to specific requests from other countries. Offers on particular industrial nontariff measures would also be made in response to such requests and would be additional to multilateral negotiations that are directed toward the development of general rules or codes on government procurement practices, subsidies and countervailing duties, product standards, customs valuation, quantitative restrictions, and import licensing. Outlines or texts of draft agreements on these subjects have been developed to serve as negotiating documents.

An informal understanding has been reached that tariff offers by developed countries on industrial products would be tabled according to a harmonization formula proposed by Switzerland that requires larger reductions on high rates of duty than on low rates of duty and that would result in an average tariff cut of 40 percent. It appears, however, that the EC will not be in a position to table a detailed offer to achieve this result. In fact, as you know from your discussions last week in Paris and Brussels,<sup>8</sup> the EC's ability to table any tariff offer, in

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<sup>6</sup> Limited Official Use. Carter initialed "C" at the top of the page.

<sup>7</sup> See Document 43.

<sup>8</sup> Memoranda of conversation of Carter's meetings with Giscard in Paris and Jenkins in Brussels, both on January 6, are in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 1/78.

the light of the French elections in March, will depend on the outcome of a Council of Ministers meeting on January 17. However, we anticipate that Japan and Canada will table a detailed and comprehensive offer at the same time as the United States.

During the course of the negotiations there will undoubtedly be some slippage from this 40 percent average cut. The Kennedy Round, for example, resulted in an average cut of 35 percent even though the original objective was 50 percent.

Over the past several months we have been preparing the U.S. offers to be tabled during the week of January 15. These offers have taken into account the recommendations of the industrial, agricultural, and labor advisory committees; the advice of the U.S. International Trade Commission with respect to economic sensitivity; the public hearings conducted by this Office; consultations with Members of Congress; and various correspondence from the private sector. They are now being reviewed and within a few days should be approved by the interagency Trade Policy Committee structure.

U.S. offers will be well within the authority granted to you by the Congress under the Trade Act of 1974.<sup>9</sup> Careful account has been taken of the potential effects that these offers, if implemented, would have on U.S. production and employment. As required by the Trade Act, no tariff offers will be made on petroleum and petroleum products, certain ceramic dinnerware, stainless steel and alloy tool steel, ball bearings, non-rubber footwear, and color television sets. Because of their economic sensitivity, no offers, or very limited offers, will be made on many textile, glass, and leather products. Furthermore, for various reasons offers are being deferred on benzenoid chemicals and rubber footwear, which are subject to the American Selling Price basis of customs valuation, and on all pending escape-clause cases—ferrochromium, nuts and bolts, stainless steel flatware, CB radios, and slab zinc.

The U.S. offers to be tabled during the week of January 15 will mark only the beginning of the negotiations. In addition to receiving overall reciprocity from other countries, the maintenance of many of these initial offers is conditioned on receiving specific tariff and non-tariff concessions. Consequently, some U.S. offers will undoubtedly be withdrawn during the course of the negotiations. Additional U.S. offers might also be made in response to the requests of other countries in exchange for additional trade concessions on their part.

During the next few months I shall try to work out the best possible deal. Before concluding any agreement I will consult closely with

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<sup>9</sup> Among other things, the Trade Act of 1974 granted the President the authority to negotiate changes in tariff and non-tariff barriers and conclude trade agreements with foreign countries.

the Congress and will submit the final package of U.S. and foreign tariff and nontariff concessions to you for your approval.

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**97. Memorandum From the Director of the Office of International Monetary Affairs, Department of the Treasury (Syvrud) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, January 17, 1978

SUBJECT

United States-Japan Trade Talks—An Insider's Assessment

In the U.S./Japan trade talks on January 9–13 Ambassador Strauss laid on the line his personal credibility with the U.S. Congress in return for the Japanese commitments described below.<sup>2</sup> He made it clear that the credibility of the U.S. Delegation and specifically his own personal credibility was at stake in these talks. He wanted to insure that the Japanese commitments would permit him to counter effectively the growing protectionism in the U.S. Congress. I don't think Strauss was completely convinced that the statement he went home with achieved this purpose but he knew that the alternative of not having an agreed statement was even less acceptable.<sup>3</sup>

Ambassador Strauss recognized publicly that the agreement did not eliminate protectionist pressures in the United States but those forces, he said, would have been stronger without the agreement.<sup>4</sup> So

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<sup>1</sup> Source: Department of the Treasury, Office of the Secretary, Executive Secretariat, 1978 Files, 56–83–69. Confidential. Sent through Solomon. Printed from a copy that bears a handwritten notation indicating that Solomon initialed the original. Copies were sent to Bergsten, Widman, Hufbauer, Karlik, Junz, Leddy, Cross, and Fisher (not further identified; possibly Assistant to the Secretary of the Treasury Richard W. Fisher).

<sup>2</sup> Wolff and other U.S. officials met with Japanese officials for two days of trade talks in Tokyo in advance of Strauss' January 12–13 discussions in Tokyo. (Telegram 396 from Tokyo, January 10; National Archives, RG 59, Central Foreign Policy File, D780014–0852)

<sup>3</sup> The statement issued at the end of Strauss' discussions with Japanese officials in Tokyo was printed in *The New York Times* on January 14. ("Text of Communique Issued by U.S. and Japan on 2 Days of Trade Talks," *The New York Times*, January 14, 1978, p. 4)

<sup>4</sup> According to a report published in *The New York Times* on January 14, Strauss said of the growth of American protectionism: "I do not think we have eliminated these forces, but had we not reached agreement, they would have become much stronger." (Andrew H. Malcolm, "U.S. and Japan Reach an Accord on Easing of Tensions in Trade," *The New York Times*, January 14, 1978, p. 1)

the significance of the agreement lies as much in what we avoided as in what we achieved. We avoided confrontation in trade issues with the Japanese. We possibly avoided an increase in protectionist pressures in the United States, and we certainly avoided a sharp deterioration in U.S.-Japanese relationships.

The Joint Statement announced by Ambassador Strauss and Ambassador Ushiba on Friday, January 13, covered three important areas: macro-economic policies, multilateral trade negotiations and some bilateral trading issues. (copy attached)<sup>5</sup>

#### *Macro-economic Policies*

The Japanese committed themselves to a 7 percent growth target and to reducing the current account surplus considerably (to \$6 billion) in fiscal year 1978, aiming at equilibrium by the end of FY 1979 and thereafter, with a deficit accepted if it should occur. (The Japanese fiscal year is from April 1 to March 31.) While the Japanese had previously announced the 7 percent growth target, their previous commitment was for "around 7 percent". The commitment is now firmed up for 7 percent and the economic policies are directed toward achieving that target.

During the talks, there was some skepticism raised about the ability of the Japanese Government to meet its 7 percent growth target. There is some justification for this skepticism since a great deal depends upon private sector consumption and investment. I have suggested that we publicly avoid raising skepticism since it would tend to affect adversely the confidence factor and in a self-fulfilling way bring about that lower growth rate.

The focus of the Japanese economic program is on domestic demand. This means a structural shift in the Japanese economy away from the export-oriented growth, resulting in additional bankruptcies, unemployment, and a lower growth rate than otherwise would be the case, but it is clearly an emphasis which is consistent with the needs of the international economy and should be welcomed.

The language on the current account reflects a significant shift in the Japanese position. I was told that this position was approved by Prime Minister Fukuda. What it really means is that, in the medium-term, Japan's objective has shifted from equilibrium on basic balance to an equilibrium on current account.

#### *MTN*

Ambassador Strauss' STR team (he was accompanied by his number two man, Alan Wolff, his number three man and chief negoti-

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<sup>5</sup> Attached but not printed. See footnote 3 above.

ator at Geneva, Alonso McDonald, and his General Counsel) focused heavily on achieving Japanese commitment to a partnership in the multilateral trade negotiations which begin next week. They sought partnership with the Japanese to achieve basic equity on their trading relations by the end of the MTN period, eight to ten years. (See paras 5–7 of Statement) Strauss emphasized that the objective of parity in the levels of bound tariffs (para 6) was the only non-negotiable element in the statement.

#### *Bilateral Relations*

On the bilateral side, the Strauss team sought specific commitments on a range of trade items: oranges, hotel beef, citrus juice, timber, etc. This group of commitments on the part of the Japanese was estimated in value to not more than \$100 million of total Japanese imports, of which perhaps the United States would benefit from \$30 million. It is obviously peanuts in terms of amounts, but Ambassador Strauss placed heavy emphasis on the symbolic importance of these items. They are the kinds of things that the unsophisticated understand much more than the current account commitment. Moreover, they are of interest to specific Congressmen in key committees.

#### *Follow-Up*

There are many areas of follow-up to these trade talks. We did not use the word “monitor” or “surveillance” but obviously the implementation of Japanese commitments and the performance of the Japanese economy is vital to the achievement of our objectives. There are a number of study groups and purchasing missions to the United States to follow up on the bilateral issues, listed in paragraph 8 of the Joint Statement. These involve Agriculture and Commerce. The Subcabinet Group involving State and Treasury is expected to meet in the spring in Washington to review macro-economic developments. There will also be a follow-up in the MTN with Ambassador McDonald and his Japanese counterpart instructed to work hand in hand throughout the negotiations. Ambassador Strauss and Ambassador Ushiba will be present in Geneva to begin the proceedings and the Joint Statement includes an agreement that they will meet again in October to review the progress under this agreement.

#### *Some Questions*

The major unanswered questions are:

- (a) The probabilities of achieving the 7 percent growth target?
- (b) The probabilities of achieving the \$6 billion current account surplus?
- (c) The seriousness of the Japanese commitment to opening up their markets?

(d) The effectiveness of the exercise in stemming protectionism in the United States?

*Summary Comment*

Ambassador Strauss is correct in his assessment that the significance of this agreement with the Japanese is that it is a longer-term commitment for opening Japanese markets and that it will stem the rise in protectionism in the United States Congress from what it otherwise might have been. He has taken on what I believe to be a significant risk to his credibility but I think the risks are clearly worth taking, and he should be given every support.

I believe that this agreement represents a consensus within the Japanese Government, including the Finance Ministry, the Economic Planning Agency, the Foreign Ministry, and possibly other ministries, to open the Japanese markets to imports. Once this consensus is achieved in the Japanese decision making process it is likely to be reflected in many policy areas which are not included in the statement.

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**98. Memorandum From Secretary of the Treasury Blumenthal and the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>**

Washington, January 19, 1978

SUBJECT

Contingency Planning with Respect to the Dollar

You asked for a memorandum identifying the options open to us in meeting contingencies with respect to the dollar.<sup>2</sup>

Our basic objective with respect to the dollar and our balance of payments is to maintain a position which enables us to pursue our domestic economic objectives both in the short run and in the longer term within a healthy world economy.

*Contingencies*

The fact that we are growing faster than most other industrial nations, in combination with our large oil imports, has tended to put downward pressure on the dollar.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 8, Balance of Payments: 12/77-2/79. Confidential.

<sup>2</sup> See Document 94.



The contingency we need to worry about is *not* a modest and orderly further depreciation of the dollar. That should cause no major problem for us, although some other countries—Germany in particular—would complain. Given an outlook that shows no improvement in the U.S. trade balance over the next two years, we do not want to close the door on gradual exchange rate adjustment as a means of ultimately reducing the deficit.

We would be in serious trouble, however, if there should occur a massive capital flight from the dollar and a sharp depreciation of its value in foreign exchange markets. Failure to get an energy program might lead to this result. And, given the nature of foreign exchange markets, it could conceivably be set off by events we cannot now foresee.

Such a development could:

—Depress economic growth and reduce unemployment abroad by adversely affecting business investment and consumer spending.

—Create major disturbances in money, capital and commodity markets that could threaten the stability of the domestic and international financial systems.

—Detract from U.S. ability to exercise leadership in world affairs, both political and economic. Foreigners equate a strong country with a strong currency.

—Exacerbate inflationary pressures in the United States by increasing import prices.

—Increase protectionist pressures as sentiment grew to curb imports as a means of aiding the dollar.

—Lead OPEC to raise the price of oil and shift to other currencies for oil investments.

We must avoid such developments.

#### *Current Situation*

Since the beginning of 1977, the dollar has declined by more than 20% against the Swiss franc and Japanese yen, and by 10% against the Deutschemerk—but by only 4.7%<sup>3</sup> against all OECD currencies on a trade weighted average. The bulk of this change occurred in the fourth quarter when there was downward pressure on the dollar in the markets reflecting:

1. growing awareness of the size of the U.S. trade and current account deficits;

2. a perception that no effective actions were likely to be taken to halt and later reverse the deteriorating trend—and in particular, doubts that an effective U.S. energy policy would be introduced;

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<sup>3</sup> An unknown person underlined “4.7%.”

3. recognition that with the German economy (and others) growing very slowly, our exports were not likely to show much expansion; and

4. a perception that the U.S. was not concerned about its exchange rate.

Recently the situation has stabilized as a result of:

—your December 21 statement that we would intervene in the markets to the extent needed to counter disorderly conditions;<sup>4</sup>

—announcement of a new Treasury swap facility with the German central bank, providing us with additional DM for intervention;

—a greater perception of U.S. concern about the dollar exchange rate;

—more U.S. market intervention: since December 21 we have sold foreign currencies (Deutschemarks) to the extent of \$977 million. Recently the problem has been particularly the DM-dollar rate.

The markets have been calmer lately. Nonetheless it is not clear that the psychology has turned, and the situation could deteriorate rapidly at any time. *Our options:*

#### *More Intervention in the Exchange Markets*

We are considering several techniques to obtain more foreign currency to finance intervention:

A. *Expand short-term Fed and ESF swaps with the Bundesbank and possibly other foreign central banks.* A problem is that intervention expands the German money supply, which worries the Bundesbank. Treasury and the Fed are exploring possible ways to mitigate this effect, which could increase the Bundesbank's willingness to enlarge the present \$3 billion of swap arrangements.

B. *Sell special drawing rights for foreign currency.* The U.S. could use some of its SDR holdings of SDR 2.3 billion (\$2.8 billion equivalent) to acquire foreign currencies. Preliminary discussions with the Germans suggest some willingness to sell us DM for SDR, up to several hundred million dollars.

C. *Issue medium-term, DM-denominated Treasury securities, as proposed by Arthur Burns.* There are two possibilities: issues on the market or to official holders. This approach could provide us with substantial intervention resources that would not have to be repaid in the short-term. But there are major disadvantages:

—Such issues would imply long-term support of the exchange rate, which we do not want to commit and which could draw substantial Congressional criticism;

—If the terms were attractive enough to induce foreigners to purchase the securities, the offer could induce exchange transactions in the

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<sup>4</sup> See footnote 2, Document 86.

wrong direction, by encouraging dollar holders (including Americans) to sell their dollars to switch to this new DM asset;

—U.S. willingness to issue such bonds would trigger strong demands by OPEC and others for exchange rate guarantees on their large dollar holdings—OPEC has been pressing for such “indexation” for some time;

—Specially attractive Treasury issues for foreign investors would bring strong U.S. public and Congressional criticism; and

—Although perhaps of relatively minor importance, such issues would expose the Treasury (the Fed would not be involved) to potentially very large exchange rate losses—the U.S. went this route once before in the 1960’s and is still paying off the debts at substantial cost.

We may in the end need to sell a limited amount of such issues to foreign officials—specifically the Bundesbank—if market conditions do not permit reversal of outstanding swaps within one or two years. Refinancing the swaps would provide a defensible rationale for confining such guarantees to one or a very few countries and currencies. But we believe the serious problems with foreign currency issues in general argue strongly against such issues except in this limited contingency situation.

Another possibility, which we do not recommend for consideration at this time, is a U.S. drawing on the IMF. We have a reserve position in the IMF of about \$5 billion, which could be drawn upon a formal representation of balance of payments need. Large U.S. drawings, however, would virtually eliminate the IMF’s balances of usable currencies, would raise serious questions about U.S. participation in the Witteveen Facility and could trigger an adverse market reaction as a sign of U.S. weakness.

#### *Other Possible Actions*

Although it is not a source of foreign exchange, we are planning to initiate modest *gold sales* as you have authorized. Such sales might reduce net U.S. gold imports by \$400 million or more per year. We have not decided on the timing, in part because of the forthcoming French elections. Again, however, any implication that gold sales were being instituted as a desperate measure to defend the dollar could have a perverse market reaction.

At this point we are hopeful that expectations can be changed so as to reduce the market pressures on the dollar. Much will depend on early Congressional approval of an energy program, public appraisal of the economic policies you will be announcing in the next few days<sup>5</sup>—

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<sup>5</sup> Carter’s message to Congress accompanying the President’s Economic Report, his message transmitting the FY 1979 budget to Congress, and a message to Congress on tax reduction and reform, all January 20, are printed in *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 129–144, 158–189.

and prospects for European economies (e.g., growth in Germany and political developments in Italy). Fukuda's 7% growth target is helpful, but German unwillingness to take more expansionary measures is very discouraging and damages the prospects.

*What Else, If necessary*

If developments are not favorable—if Congress fails to pass an energy bill—the market situation could worsen seriously at any time in the months ahead. Market intervention in such event would probably not be adequate. There is too much potential for shifts in the timing of payments for our trade (running at \$300 billion per year) and for shifts of financial assets out of dollars. We would have difficulty financing the intervention, and other countries (most specifically Germany) would not want the impact on their domestic money supply.

Should such a situation develop, we might need to consider much more significant moves in the energy area—such as a temporary import fee on oil. The fee would be designed to remain in effect only until a satisfactory energy bill were in place. Such an action might help to galvanize public pressure for action on the energy legislation.

Another possibility would be to suggest a more rapid build-up of the wellhead tax on domestic oil.

*Some More Extreme Steps*

If these various measures failed and we came face to face with an imminent threat of massive capital movements, we would have to consider

- controls over international capital movements,
- a surcharge on all (or most) imports, or
- sharp reduction in our domestic growth rate.

Any of these actions would have severe negative consequences. Capital controls would, moreover, probably be ineffective in stopping capital flight. The other alternatives might stop the exchange market pressure but would themselves pose threats to world trade and economic growth almost as serious as those posed by an exchange market crisis. We should not consider them except in a serious emergency. Certainly reducing our domestic growth rate through significantly higher interest rates because of dollar problems should be last on our list.

A final point: it seems to us that any major additional steps taken by the U.S. in coming months to stabilize the dollar should be accompanied by a renewed effort to convince Chancellor Schmidt to speed up growth rate as a companion action. The Germans share responsibility for the DM/dollar exchange rate. They are also the key to growth in all of Europe—the French, for example, have said that if the Germans would grow faster they would also be willing to do so. Nothing we

could do would have as positive an impact on that rate as an announcement from their side that they are increasing their target for economic growth above the present inadequate level.

*Summary*

We are proceeding with exploring expanded swaps and sales of special drawing rights, as well as planning gold sales. We do not plan to issue foreign-denominated securities at this time.

Any significant action on oil will be dictated principally by the pace of progress on the energy legislation.

We do not contemplate any of the more drastic steps at this time—these further steps would, of course, involve major Presidential decisions.

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**99. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>**

Washington, January 26, 1978

SUBJECT

U.S.-Japanese Economic Relations

While the joint communique with the Japanese on the above-captioned matter<sup>2</sup> is a dramatic breakthrough in setting some new directions and spelling out a new philosophical thrust for Japanese trade policies, it is only a *first* step. The extent of economic impact of the policies and measures that the Japanese agreed upon will be entirely dependent on our ability to constantly review their progress, both in terms of their efforts and their achievements.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 1–5/78. No classification marking. A stamped notation reads: “The President has seen,” and Carter wrote at the top of the page: “Bob—Whom do you suggest? J.”

<sup>2</sup> See footnote 3, Document 97.

<sup>3</sup> During a January 26 Trade Policy Committee meeting, Strauss asserted “that Japan had made a very far-reaching statement on what was to be done in order to bring about an adjustment in her trade relationship with the rest of the world. At the same time, the statement resulted in very little in the form of concrete actions that would have an immediate impact. The value of the exercise will depend on the extent to which the political commitments in the communique are implemented by the Japanese government. The U.S. government will need to monitor Japanese policies on a continuing basis and to hold regular consultations with Japanese officials.” (Summary minutes of the Trade Policy

We had four main objectives:

1. Obtain formal Japanese commitment to a high level of economic growth. This, of course, was a unilateral, sovereign decision of their Government but was substantially influenced by your meeting with Minister Ushiba when he was in Washington<sup>4</sup> and my continuing negotiations. There is reason for skepticism as to their ability to attain this target but at least it will make them aim higher and increase their expansionary measures if we continue to monitor.

2. To obtain their commitment to reduce their current account balance from the present surplus of \$11 million. They agreed to reduce to \$6 million during 1978 and to equilibrium the following year, if possible.

3. We obtained a Japanese commitment to achieve parity with us through the implementation of the Geneva trade talks in terms of their market being as open as our own. This to be accomplished over a period of years.

4. To immediately open the Japanese market to certain imports through a series of specific trade acts and measures.

While politically the ten-fold increase in beef quotas and the three-fold increase in citrus quotas made headlines here, in terms of meaningful, long-term, substantive trade significance to us, it is more likely that the Japanese pledges to reduce their barriers to parity in the MTN, to liberalize their foreign exchange control system, and to open up their government purchasing to foreign bidders are surely the most significant steps. What we can accomplish here remains to be seen and requires the monitoring to which I referred. Also very important is the work of our Trade Facilitation Committee set up by Juanita Kreps and headed by Frank Weil which has the job of helping individual U.S. companies get their products into Japan.<sup>5</sup> Weil understands this problem and what needs to be done.

The bottom line, Mr. President, is that we have only set forth what they say they will do and now we need to put the necessary political will into the program or it will revert to what it was after a few "one-shot" purchasing deals.

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Committee meeting, January 26; Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 88, Trade Policy Committee)

<sup>4</sup> Carter met with Ushiba, Togo, Strauss, and Brzezinski in the Oval Office on December 15, 1977, from 4:35 to 4:45 p.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation was found.

<sup>5</sup> See footnote 5, Document 92.

It is my judgment you now need to instruct someone in the Government<sup>6</sup> to begin and then follow through regularly, with vigor, on a continuing monitoring and review process, with periodic reporting to you and to the Congress.<sup>7</sup>

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<sup>6</sup> Carter underlined the phrase “someone in the Government” and drew a bracket in the margin adjacent to this paragraph.

<sup>7</sup> In a February 21 memorandum, Carter instructed Strauss “to assume responsibility for ensuring that the Japanese take all reasonable steps to reach the goals contained in the January 13 Joint Statement.” (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 1–5/78)

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**100. Memorandum From John Renner of the National Security Council Staff to the President’s Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, January 31, 1978

SUBJECT

The Dollar and Oil Imports

At the present time, the Administration is trying to deal with the weakness of the dollar and our oil imports as if they were completely separate issues. The Treasury Department has used traditional monetary measures in an effort to stabilize the dollar. But they have not been able to deal with one of the main underlying reasons for the weakness of the dollar, our enormous oil imports, because this matter falls within the competence of the Energy Department.

In my judgment it is essential to fashion an integrated approach to these interrelated issues. This would benefit the development of both monetary and energy policies. The dollar should begin to strengthen when money managers become convinced that the United States has taken and will continue to take hard measures to reduce oil imports. Relating more explicitly the strength of the dollar to the level of oil imports should make it easier to persuade Congress and the country to make the sacrifices necessary to reduce consumption of oil and to develop alternative sources of energy.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 8, Balance of Payments: 12/77–2/79. Confidential. Sent for action.

To begin to integrate these policies, I recommend that you talk to the President and send out the memorandum at Tab A.<sup>2</sup> I have talked at length to Treasury, State, and CEA. They would welcome such a memorandum. It is possible that DOE will protest. Accordingly, it is essential that the President know why he is being asked to send out this memorandum.<sup>3</sup>

Henry Owen agrees.

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<sup>2</sup> Tab A, attached but not printed, is an undated and unsigned draft memorandum from Brzezinski to the Secretaries of State, Treasury, and Energy, the CEA Chairman, the OMB Director, and the President's Assistant for Domestic Affairs and Policy entitled "The Dollar."

<sup>3</sup> A handwritten notation at the bottom of the page reads: "A memo to the President is being prepared in response to your request." According to the NSC Correspondence Profile, the memorandum was subsequently redrafted. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 8, Balance of Payments: 12/77-2/79) The final version is printed as Document 105.

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## 101. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, February 4, 1978

### SUBJECT

Germany and the Summit

1. In the wake of German Economics Minister Lambsdorff's visit last week, we are developing what may be a promising strategy to get a higher rate of German growth. This strategy is similar to the one we adopted in dealing with Japan. That strategy had two key elements:

a. Offering the Japanese something they wanted: an across-the-board agreement that would relieve both the tension in US-Japanese relations and upward pressure on the yen.

b. Making clear to the Japanese that they could only get this outcome by making specified concessions—particularly a higher (7%) growth target.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 4/77-3/78. Confidential. Sent for information. An attached note from Brzezinski to Owen reads: "The P[resident] & Mike spoke at the last Cabinet meeting in this general vein." At the bottom of the same note, Brzezinski wrote: "OBE or call me." (Ibid.)



2. Our German strategy also offers the FRG something it wants: a mid-July Summit in Bonn, with a Presidential visit to Germany thrown in. And it makes clear that they are most likely to get this outcome by adopting policies that will create better growth prospects in Germany. You made this point implicitly in your last letter to Chancellor Schmidt;<sup>2</sup> the Vice President and I indicated to Lambsdorff that it would not make sense for any of our countries to go into a mid-July Summit unless the spring review of the Summit Preparatory Group indicated a good growth outlook in key countries. He got the point and did not take offense.<sup>3</sup>

3. State (Dick Cooper), Treasury (Tony Solomon), and CEA (Charlie Schultze) agree with this strategy. I believe the French will favor it. The British may too. I will be in touch with my opposite members in these countries to that end.

4. This strategy needs to be pursued quietly and with tact. If Schmidt were made to feel that he was being overtly or publicly threatened, he could well over-react. We should avoid public or private lecturing of the Germans on economic policy. It's unnecessary; it makes them resistant to change; and it worsens US-German relations. You may want to speak in this sense at an early Cabinet meeting.<sup>4</sup>

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<sup>2</sup> Apparently a reference to Document 93.

<sup>3</sup> In a February 13 letter to Stoessel, Owen noted that Lambsdorff responded to this approach by saying "that although the German Government was taking the public position that there would be no further German governmental stimulus measures, in fact there would be an internal review of German economic prospects in the spring and a decision then as to whether further stimulus measures were needed. I urged him to ensure that this internal German review was completed in time for its results to be reflected in the Preparatory Group's report to heads of government, and in the heads of governments' decision about Summit timing." (Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 24, Summit: Bonn: 5/77-2/78) In a January 27 memorandum to Carter, Blumenthal suggested that the United States "indicate that the next Economic Summit, in Bonn, should not be held until all governments have shown substantial progress toward the Downing Street commitments." (Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 70, 1/30/78)

<sup>4</sup> Telegram 29128 to Bonn, February 3, transmitted a letter to Schmidt in which Carter agreed "that we should plan for another Summit in mid-July. The final decision should await a review of our personal representatives' preparatory work—including their assessment of economic policy and prospects in the Summit countries, since we want to be sure that another Summit can be followed by useful results." (National Archives, RG 59, Central Foreign Policy File, D780052-0212)

## 102. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, February 7, 1978

### SUBJECT

Escape Clause Case on Bolts, Nuts, and Large Screws

### *Background*

On December 12, 1977 the U.S. International Trade Commission (USITC) reported to you under section 201 of the Trade Act of 1974 its findings that the domestic bolt, nut and large screw industry was injured or threatened with injury due to increased imports. Three of the four Commissioners participating in this case recommended that you proclaim increased tariffs for a five-year period. These tariffs would be 30 percent in the first two years, phasing down to 20 percent in the fifth year (current duties are less than one percent on nuts and bolts and 9.5–12.5 percent on screws). If you do not accept the USITC remedy, your decision will be subject to Congressional override by joint resolution of a majority of those present and voting in both houses—in which case the USITC remedy would take effect.

### *Action Required*

By *February 10, 1978* you must decide and announce whether import relief for the domestic nut, bolt, and large screw industry is in the national economic interest. If you decide relief is appropriate you must also announce at the same time what form of relief will be given. Relief must then be proclaimed within 15 days of the announcement, unless you decide to negotiate orderly marketing agreements in which case you have 90 days to proclaim relief.

### *Key Factors*

This is the second escape clause case filed by the domestic industry in the last three years. In 1975, the USITC found that the industry was not being injured or threatened with injury due to increased imports by a 3–2 vote. Subsequent developments leading to the present case persuaded one Commissioner to switch his vote, resulting in a 3–1 decision in favor of the industry.

U.S. imports of bolts, nuts, and large screws have increased their share of the U.S. market in each year since 1969, rising from a 21 percent share in 1969 to 44 percent in 1976. Imports of nuts now account for

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 4, Fasteners. Confidential.

more than half of U.S. consumption. The value of imports involved was \$229 million in 1976.

Japan is the largest foreign supplier to the U.S. market, representing about three-fourths of total imports. Canada is the second largest supplier with about eight percent of the total (Note: Canada also ships a substantial volume of these products under the bilateral Automotive Products Trade Agreement<sup>2</sup> which is not covered by the USITC injury finding). Other sources of imports are the European Community (EC), Spain, Taiwan, and India.

The domestic industry consists of a large number of small and medium sized firms operating about 180 plants. These operations are concentrated in Ohio, Illinois, Michigan, Pennsylvania, and Connecticut. More than two-thirds of the industry's shipments are to original equipment manufacturers (OEMs) and the remainder to distributors. About one-fourth of the total U.S. market and a higher proportion of domestic shipments is accounted for by the automotive industry where there is very little import competition. Domestic fastener producers also have little import competition in sales of specialized fasteners to other OEMs.

Domestic production and shipments by the industry are off substantially in the last three years as compared with the 1969–74 period. There has been some improvement since 1975 due mainly to strong automotive demand. Employment is also down significantly and has not recovered. Since 1974 about 4,500 production worker jobs have been lost, representing about one-quarter of industry's production worker employment (which is now approximately 13,000 persons). Many unemployed fastener workers are now receiving Trade Adjustment Assistance benefits. According to Department of Labor data, over 4,000 bolt, nut, and large screw workers had received adjustment assistance funds, through September 1977. The Department of Labor predicts continuing erosion in employment if relief is not granted.

Despite these setbacks, the industry remains reasonably profitable with a return on sales in excess of the average for all manufacturing, although it should be noted that a number of firms have ceased operations. According to the industry, the most profitable segment of its business is the automotive industry and returns are much lower in other markets where import competition is more severe. Firms that do not serve the automotive industry are said to be much worse off than those who do.

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<sup>2</sup> The 1965 Automotive Products Trade Agreement, also known as the Auto Pact, governed trade in cars, trucks, buses, and automotive parts and facilitated the integration of the U.S. and Canadian automotive industries.

The implementation of the trigger price system for steel imports by the Treasury Department this month is expected to have an adverse impact on the domestic bolt, nut, and large screw industry. It is estimated that 25 percent of the steel used by the fastener industry is imported and that the trigger price system could increase import prices by about 20 percent. Depending on the assumptions used, this could raise total costs of production of bolts, nuts, and large screws by 10–16 percent for firms relying solely on imported steel.

The Federal Preparedness Agency (FPA) has just completed a staff study of fastener requirements during a national emergency.<sup>3</sup> The scope of the study is broader than the products covered by the escape clause case and the results are preliminary. It concludes that under certain conditions, notably restricted access to foreign supplies, the U.S. would face serious shortages of fasteners in a wartime emergency. These findings have become publicly available and a number of Congressmen have already written to you stressing national security aspects of the case.

We have been contacted by about 50 Congressmen and 12 Senators, almost all of whom have expressed support for the industry's case. The Congressional delegations from Ohio, Michigan, Illinois, Pennsylvania, Connecticut, Indiana, and Missouri account for most of these contacts.

### *Recommendations*

The Trade Policy Staff Committee (TPSC), acting on behalf of the Cabinet level Trade Policy Committee (TPC), recommends without any agency dissent that you *direct the Secretary of the Treasury to undertake an expedited national security investigation on iron or steel bolts, nuts, and large screws under section 232 of the Trade Expansion Act of 1962*. Such an investigation would define our national security interests in this industry and could lead to appropriate actions by the U.S. Government (including trade actions) to protect those interests.

I recommend that you approve this TPSC recommendation.<sup>4</sup>

The Trade Policy Staff Committee split on the question of granting import relief in this case. Labor, Commerce, Interior, and STR recommend that you grant import relief in the form of a tariff rate quota. State, Treasury and Defense recommend that you deny relief on the grounds of national economic interest. Agriculture has not taken a position on this case.

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<sup>3</sup> Not found.

<sup>4</sup> Carter did not indicate his preference with respect to the recommendation.

*Option 1: Tariff Rate Quota*

Labor, Commerce, Interior, and STR recommend that you proclaim a three-year tariff rate quota based on 1976 import quantities for three product categories—nuts, bolts, and large screws (including lag screws). Imports up to the 1976 level would be dutiable at the present tariff rate (less than one percent for nuts and bolts; 9.5–12.5 percent for large screws) while imports in excess of that level would be charged a 30 percent duty on bolts and large screws and a 40 percent duty on nuts (see Attachment 1 for details).<sup>5</sup>

These agencies feel that if the domestic industry has not already been seriously injured, it is certainly threatened with serious injury. The proposed remedy is not designed to roll back the situation but to prevent further deterioration. In conjunction with the recommended national security investigation, this relief would prevent any erosion of domestic industry production capability that we might find costly to our national security interests as a result of that investigation. By applying additional duties only to volumes in excess of the 1976 import level (which is only slightly less than the 1977 level), the costs to consumers through inflation is minimized. Imposition of this tariff rate quota system could create some additional jobs although fewer jobs would be created than under USITC's proposed remedy. Adjustment assistance, in the form of income maintenance, has already been made available to many of the unemployed workers in this industry alleviating pressures on those who would remain out of work. The foreign policy implications of this proposal are judged to be much less serious than under the USITC recommendation. The Japanese Government has in fact informally indicated it would probably not retaliate against a moderate remedy such as this one.

The proposed tariff rate quota remedy falls far short of the domestic producers' expectations. However, their criticism would be much harsher if no relief were given and the receptivity of Congress to the industry's case would be much greater in the absence of relief.

I am personally very concerned about the political sensitivity of this case. To deny relief to the industry on its second attempt while at the same time substantially increasing its costs through the steel trigger price system, could be perceived as unfair by many members of Congress. With the additional element of national security concerns in the background, the industry might find considerable support in the Congress for an override. By granting the moderate relief provided by the tariff rate quota, these pressures would be substantially defused

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<sup>5</sup> Attachment 1, attached but not printed, is an undated chart entitled "Three-Year Tariff Rate Quota System."

and the climate in the Congress for trade agreements we hope to bring back from the MTN would be more favorable. (Note: The Chairmen of both the House and Senate Trade Subcommittees have substantial faster production in their areas.)

State and Treasury have indicated that they believe this approach would minimize the adverse domestic economic and foreign policy costs of relief, although it would weaken our general commitment to reject protectionism.

I recommend that you proclaim the tariff rate quota proposed by Interior, Commerce, Labor, and STR.<sup>6</sup>

*Option 2; No Import Relief*

State, Treasury, and Defense recommend that you determine import relief is not in the national economic interest. They argue that there is insufficient economic justification for import relief. The industry has remained quite profitable despite depressed production and employment. The costs of relief to consumers would be substantial. It is estimated that relief would result in a net job loss to the overall economy due to the drain on consumer expenditures for other goods and services. A significant portion of the industry does not face serious import competition and might receive windfall profits if relief is given. The 20 percent appreciation of the yen during 1977 is expected to alleviate competitive pressures from Japan. (Note: Import prices for a small sample of items were found by the USITC to range from 43 to 93 percent of U.S. producers' prices in the first half of 1977.) Finally, it is not clear that the industry would undertake major adjustments during a period of import relief to improve its competitiveness.

The foreign policy consequences of granting relief are judged by these agencies as adverse. The U.S. Government would be seen abroad as moving away from its general commitment to reject protectionism. Benefits to developing countries under the Generalized System of Preferences (GSP) would be removed if relief is given (though these benefits are nominal due to low tariffs on the products involved). The Governments of Japan, Canada, Australia, India, and the EC are opposed to relief and the Canadians have threatened retaliation if action is taken.

These agencies support a national security investigation under section 232 as the appropriate way to determine our national security interests and feel the industry will not deteriorate so rapidly that we cannot wait on the results of that investigation.

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<sup>6</sup> Carter did not indicate his preference with respect to the recommendation.

For these reasons State, Treasury and Defense recommend you determine relief is not in the national economic interest.<sup>7</sup>

#### *Views of Other Agencies*

Three agencies outside the TPSC structure have expressed an interest in this case. CEA and OMB support Option 2 (No Relief). FPA supports import relief.

#### *Implementation*

Attached are drafts of the necessary documents you would need to direct the Secretary of the Treasury to initiate a national security investigation (Attachment 2);<sup>8</sup> and to report your decision to the Congress and in the *Federal Register* should you choose the tariff rate quota option (Attachments 3 and 4).<sup>9</sup> We have prepared documentation for option 2 should you choose it.

If you decide to grant relief we will prepare the necessary Presidential Proclamation for your signature within 15 days of your decision.

Also attached for your staff is the TPSC report on this case.<sup>10</sup>

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<sup>7</sup> Carter did not indicate his preference with respect to the recommendation. On February 10, however, he notified Strauss, Blumenthal, and Congress of his decision against the provision of import relief on economic grounds. He also directed the launching of an investigation into U.S. fastener imports from the point of view of national security. For the texts of Carter's memorandum to Strauss and letters to Blumenthal, the Speaker of the House, and the President of the Senate on his decision, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 299–302.

<sup>8</sup> Attachment 2, attached but not printed, is an undated and unsigned draft letter to the Secretary of the Treasury.

<sup>9</sup> Attachments 3 and 4 are attached but not printed. Attachment 3 consists of two undated and unsigned draft letters, one to the Senate and one to the House of Representatives, submitting the President's report on "Import Relief Action." Attachment 4 is an undated and unsigned draft memorandum to the Special Representative for Trade Negotiations.

<sup>10</sup> Attached but not printed is a February 6 Trade Policy Staff Committee Action Record, Document 78–10, on the "Review of the USITC Section 201 Report on Bolts, Nuts and Large Screws of Iron or Steel," which covers a 39-page report.

**103. Letter From President Carter to West German Chancellor Schmidt<sup>1</sup>**

Washington, February 9, 1978

Dear Helmut,

I am extremely pleased that you were able to arrange to see Mike Blumenthal. I asked for this meeting because of the concern that I share with you about prospects for the world economy.<sup>2</sup> A liberal trade and payments system will be harder to sustain without economic growth to reduce unemployment and to maintain a viable pattern of international payments. The political as well as the economic future of the Atlantic Alliance will be powerfully shaped by the outcome.

We in the United States are doing all we can do to foster necessary growth. Mike will describe what I hope to achieve with the economic policy and tax proposals that I have put before the Congress,<sup>3</sup> as well as the status of our efforts to get a strong and effective energy policy. And, as you know, the Treasury and Federal Reserve have, in close cooperation with German monetary authorities, acted forcefully to restore a degree of order to the exchange markets.

But action by the United States, alone, will not be enough. Indeed, there is a real question as to whether we can make meaningful progress in improving our current account position in the absence of faster growth abroad. And it will be difficult to strengthen the dollar without broadly-based growth, which would contribute to exchange rate stability.

I wholeheartedly agree with your recent statement to the Bundestag that this non-inflationary growth can only be achieved if shared

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, Germany, Federal Republic of: Chancellor Helmut Schmidt, 1-12/78. No classification marking. Sent to Carter for his signature under cover of a February 9 memorandum from Owen, who noted that "Mike Blumenthal would like to carry a letter from you to Schmidt when he sees the Chancellor next week." (Ibid.) In a January 27 memorandum to Carter, Blumenthal, noting that West Germany's "very sluggish" growth would likely continue and that Schmidt's government refused "to consider major new stimulative measures," reported that the EPG had decided "to bring home to the FRG, in a confidential but firm manner, the world economic need for faster German growth." (Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 70, 1/30/78)

<sup>2</sup> Telegram 29128 to Bonn, February 3, transmitted a letter from Carter to Schmidt, in which Carter asked Schmidt to receive Blumenthal in Bonn on February 13 "for a general review of economic prospects, and exchange of views." (National Archives, RG 59, Central Foreign Policy File, D780052-0212) For Blumenthal's report on the meeting, see Document 111.

<sup>3</sup> See footnote 5, Document 98.



by several countries.<sup>4</sup> Mike will brief you on the outcome of our recent discussions with the Japanese Government about its efforts to achieve more rapid growth. I hope that you will share with him your view as to future prospects and policies regarding German economic growth, and that both of you can exchange thoughts about how to generate more growth in other countries.

Timing is of the essence, since it is important for all our countries that prospects for broad-based economic growth improve before our Summit meeting. German and American close concert in this endeavor could be the key to its success.

Sincerely,

Jimmy Carter<sup>5</sup>

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<sup>4</sup> Apparently a reference to Schmidt's January 19 policy address before the Bundestag. (John Vinocur, "Schmidt Rebuffs U.S. Anew on Calls to Spur Economy," *The New York Times*, January 20, 1978, p. D1)

<sup>5</sup> Below his signature, Carter added the handwritten note: "Best wishes—J."

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#### 104. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>

Washington, February 9, 1978

##### SUBJECT

Ambassador Warner's letter on U.S. Treasury borrowing of Swiss Francs

You asked for my comments on a letter to you from Ambassador Warner.<sup>2</sup> The Ambassador's letter reports on an offer by private Swiss bankers to make a Swiss franc loan to the U.S. Treasury.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 17, State: 2-3/78. No classification marking. Carter initialed "C" at the top of the page.

<sup>2</sup> Attached but not printed is a February 3 letter from U.S. Ambassador to Switzerland Warner to Carter. Carter wrote at the top of Warner's letter: "Schultze—I see you have a copy—any comment?"

<sup>3</sup> Warner explored this offer more fully in a January 31 letter to Blumenthal and included a copy of telegram 491 from Bern, January 30, which provided further details. The proposal involved a \$2 billion loan by the four largest Swiss banks to the United States, repayable at 3½ percent interest over a 5- to 10-year period. Blumenthal replied to Warner in a February 22 letter: "The specific suggestions in your letter troubled me however. The question of sale by the U.S. Government of foreign-currency-denominated securities is

In our January 19 memo to you (copy attached),<sup>4</sup> Secretary Blumenthal and I identified a number of disadvantages to the Treasury's borrowing in foreign currencies. Borrowing from the private market has even more serious problems. Hence, we rejected this approach for now and considered it a future option only for borrowing from foreign official institutions if market conditions did not permit an unwinding of foreign currency swaps within one or two years.

The Ambassador's letter suggests that borrowing in Swiss francs at 3½ percent would save money for the Treasury. It would not. Swiss franc interest rates are generally in the neighborhood of 3½ percent, in part reflecting the low inflation rate in Switzerland. If we borrow in Swiss francs, given low Swiss inflation, we would probably have to repay more dollars because of an appreciating Swiss franc. In general, borrowing in the currency of foreign countries with low interest rates would probably cost about as much as in dollars, but the risk is clearly greater.

The Ambassador has already received a reply through Secretary Vance to his earlier cable to the Secretary concerning the proposals of the Swiss bankers.<sup>5</sup> The reply gives our view that foreign currency borrowing would not be effective. I suggest you do *not* reply to the letter you received, but forward it to Secretary Vance for appropriate handling.

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one which we have examined thoroughly but found both ineffective and undesirable. We are not prepared to use such securities and hope that discussion of this idea will quickly die out. Please do not encourage it in any way." Both letters are in the Department of the Treasury, Office of the Secretary, Executive Secretariat, 1978 Files, 56-83-69.

<sup>4</sup> Printed as Document 98.

<sup>5</sup> Vance's reply to telegram 491 from Bern (see footnote 3 above) is contained in telegram 31572 to Bern, February 7. (Department of the Treasury, Office of the Secretary, Executive Secretariat, 1978 Files, 56-83-69)

**105. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, February 14, 1978

SUBJECT

The Dollar

Secretary Blumenthal and Chairman Schultze are worried that persistent flabbiness of the dollar could provoke unfair trade practices, lead to competitive devaluation of currencies, make international economic cooperation more difficult, and undermine U.S. foreign policy.

In a recent memorandum to you (at Tab A)<sup>2</sup> Secretary Blumenthal and Chairman Schultze examined macroeconomic, monetary, and trade options open to us in meeting contingencies with respect to the dollar. Wishing to avoid being forced to consider some of the more extreme measures, mentioned in this memorandum, they think that an Administration wide effort should be put in motion to assess the extent of the problem in 1978 and beyond. In view of the importance of oil imports in the current account deficit, this assessment would be based on an up-to-date estimate of future U.S. oil imports. The exchange rate implications of alternative current account developments would also be examined.

Henry Owen and I share their concern and agree with their prescription. In our judgment, your endorsement is needed to ensure that the agencies involved assign a high priority to this effort and devote sufficient resources to it. We recommend that you approve my sending the memorandum attached at Tab B.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 8, Balance of Payments: 12/77–2/79. Confidential. Sent for action. A stamped notation reads: "The President has seen." Schultze, Solomon, Cooper, Robert Ginsburg, and Edward Randy Jayne (OMB) all cleared the memorandum. (Memorandum from Dodson to Hutcheson, February 14; *ibid.*)

<sup>2</sup> Printed as Document 98.

<sup>3</sup> Printed as Document 106. Carter indicated his approval and initialed "J."

106. **Memorandum From the President's Assistant for National Security Affairs (Brzezinski)**<sup>1</sup>

Washington, February 15, 1978

MEMORANDUM FOR

The Secretary of State  
The Secretary of the Treasury  
The Secretary of Energy  
Director, Office of Management and Budget  
Chairman, Council of Economic Advisers  
Assistant to the President for Domestic Affairs and Policy  
Director of Central Intelligence

SUBJECT

Outlook for U.S. International Payments and Exchange Rates

The President is concerned about the continued large current account deficit. To get a better fix on the full extent of the problem and to begin examining possible solutions, the President requests the following:

—Projections of the U.S. current account position in 1978 and beyond, under a range of reasonable assumptions about economic policies here and abroad. Considering the importance of oil imports in the current account deficit, an up-to-date estimate should be made of the value of foreign oil the United States will import in 1978 and beyond under the oil supply, demand, and price conditions likely to prevail during this period. The exchange rate implications of alternative current account developments should also be provided.

The Secretary of the Treasury should take the lead and work with the Department of State, the Department of Energy, the Council of Economic Advisers, the National Security Council, the Domestic Council, the Office of Management and Budget, the Director of Central Intelligence and other agencies as required.

The President would appreciate having a report by April 30.

**Zbigniew Brzezinski**

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 8, Balance of Payments: 12/77-2/79. Confidential. Carter wrote at the top of the page: "ok. J."

**107. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to the Under Secretary of the Treasury for Monetary Affairs (Solomon)<sup>1</sup>**

Washington, February 15, 1978

## SUBJECT

U.S. Policy Toward SDRs—A New Approach

A compelling new factor motivates me to suggest that we rethink our policy toward SDRs: *they are the only means of creating liquidity through the IMF which does not require new legislation.*

I therefore recommend that we reassess sympathetically our position on possible SDR creation beginning next year. I have always thought there was a straightforward case for doing so: the huge shift in payments balances occasioned by the increased price of oil created a clear need for additional world liquidity to finance the ensuing imbalances.

It is true that this argument was stronger in 1974 than in 1978. On the other hand, concern about the inflationary impact of additional SDR creation caused much greater concern then than would be logical now. Structural payments imbalances remain large, and the world economy remains sluggish—for the fourth straight year. *There is thus a strong rationale for SDR creation.*

The practical consideration is that, *under existing Congressional authorization, the U.S. can participate in each basic period of SDR creation up to the level of the U.S. quota at the Fund.* As soon as the Sixth Quota Increase comes into effect, our Fund position will rise from SDR 6.7 billion to SDR 8.4 billion. *It is difficult to see how anyone could argue a need for appropriations to let us receive SDR, and the existence of adequate authorizing legislation would even avoid any occasion on which that issue might naturally arise.*

This means that the U.S. could take SDR 8.4 billion in each basic period of SDR creation without further Congressional action. *Hence about SDR 40 billion could be created on a global basis over each succeeding five years, if that were to represent the “basic period” as originally intended.* (The only “basic period” to date was for three years, which would enlarge even further the scope for action.) This would permit a

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 2, International Monetary. No classification marking. Drafted on February 14. Copies were sent to Cross, Leddy, Widman, and Jacklin.

sizeable expansion of liquidity over the next few years—*obviating our need to return to Congress for any IMF transactions for the foreseeable future.*

I recommend that we give very serious attention to the possibility of meeting expanded IMF liquidity needs through SDR creation. The substantive case is there and the politics are right. You might want to call an IMG meeting on the topic shortly.

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#### 108. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, February 22, 1978

I have come to the conclusion that things have reached a point where *it is essential for you to take vigorous action to halt the drift of events on energy and on the dollar.* The cost of going on as we are is now dangerously high and I urge that you act now.

*On energy,* I do not believe that you can any longer afford to wait while Congress continues its interminable debate. *Domestically,* all sense of urgency about the energy problem is being lost, and your Administration will increasingly be seen to have failed in a critical area. Finally, if things continue as is, what you are likely to get in an energy tax bill (if you get one at all) will be so weak and so unlikely to save much energy, that it may well be considered a failure anyway.

*Internationally,* all the “swaps” in the world and all additional “bridging actions” to slow down the deteriorating position of the dollar, really will not help over any extended period. Nothing works unless the world feels that you are willing to act decisively to halt the increasing consumption and imports of energy; that you have set your goals, and that you will achieve them—if not in one way, then in another.

*My recommendation* is that you act decisively and do so as soon as possible, *along the following lines:*

My recommendations are as follows:

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 74, 2/23/78. Secret. A stamped notation reads: “The President has seen,” and Carter wrote at the top of the page: “Schultze brief assessment. JC.”

1) Arrange to sign into law those parts of the energy legislation that Congress has already agreed on.<sup>2</sup>

2) Urge Congress to continue work on natural gas deregulation and a strong and effective energy tax package that will really save energy, pledging to step up your personal involvement in this effort.<sup>3</sup>

3) Use your powers to immediately impose an oil import fee. Make it as high as you can but in any case no less than the equivalent COET tax would be.<sup>4</sup>

4) Indicate that the fee will remain in effect until a satisfactory energy tax bill is enacted.

5) Possibly, promise more steps and proposed legislation at an early date to further reduce energy imports and to promote domestic production.

You will achieve important benefits, domestically and internationally, merely by being seen to be acting decisively to achieve your policy goals. In that sense some of the details of the action are not all that important. The central ingredient would be the oil import fee and your intention to stick to it for as long as necessary.

The details of the program lend themselves to endless debate and controversy among your economic and energy advisers. I therefore hope that you will set a very short fuse deadline, holding the matter closely and enabling you to decide and act quickly.

If you move, we would of course also need a couple of days for international preparations, such as briefing the Saudis and others, as well as getting maximum leverage out of this action with the Europeans and the Japanese.

**W. Michael Blumenthal<sup>5</sup>**

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<sup>2</sup> Carter wrote “not passed by Congress” in the margin adjacent to this paragraph.

<sup>3</sup> Carter wrote “ok” in the margin adjacent to this paragraph.

<sup>4</sup> Carter wrote “later?” in the margin adjacent to this paragraph.

<sup>5</sup> Blumenthal signed “Mike” above this typed signature.

**109. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, February 22, 1978

## SUBJECT

Package to Strengthen the Dollar

1. I have seen Mike Blumenthal's memo of February 22, proposing that you now take specified steps in the energy field, and that you ask Germany, Japan, and others to step up their growth policies in return—all with the object of halting the downward drift in the dollar.<sup>2</sup>

2. I am not competent to judge the merit of the energy steps that Mike proposes, although they sound sensible. If they are, I believe that:

a. we might be able to get some German and Japanese economic pledges in return for a promise to take immediate energy action;

b. the combination of energy action in the US and of stepped up growth pledges abroad would strengthen confidence in economic prospects generally, and in the dollar specifically, at home and abroad;

c. your role as a leader would be enhanced, in the US and overseas.

3. If this idea seems to you worth exploring, I recommend the following scenario:

a. Ask Mike to work urgently with DOE and other agencies to develop a detailed proposal, which could go to you (with any dissents) in the next few days for review and decision.

b. If you approve that proposal, Treasury should urgently consult Germany, Japan, and perhaps other countries, to see if they would pledge to take needed expansionist actions, in return for the promise of quick US energy action.

c. After consultation with these countries and the Congress, we would move simultaneously to take the specified energy actions at

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 74, 2/27/78 [2]. Secret. Sent for information. Forwarded to Carter under cover of a February 25 note from Hutcheson (*ibid.*), which also forwarded Schultze's February 25 memorandum, Document 112.

<sup>2</sup> See Document 108. In a February 22 note to Brzezinski, Owen noted that Blumenthal had given him a copy of his February 22 memorandum, asking that Owen and Brzezinski "do what we can to support this initiative." Noting his belief that Blumenthal's proposal "makes sense internationally," Owen hoped that Brzezinski would endorse his own memorandum to Carter. Owen asserted: "This is urgent and important—an opportunity for effective leadership which could, if exploited urgently, do a lot to enhance the Administration's standing at home and abroad—in addition to halting the continuing slide of the dollar." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 8, Balance of Payments: 12/77-2/79)



home and to have other countries announce these growth actions abroad.

4. There may be a large opportunity here, if the energy steps are feasible—and if we can move quickly.<sup>3</sup>

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<sup>3</sup> Brzezinski wrote at the bottom of the page: “I concur. ZB.”

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**110. Memorandum From Timothy Deal of the National Security Council Staff to the President’s Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, February 24, 1978

SUBJECT

Export Credits: Gentlemen’s Agreement

On February 22, the 20 member states participating in the present “consensus” on export credits (the Gentlemen’s Agreement) concluded a new international Arrangement on Officially Supported Export Credits, which will take effect on April 1.<sup>2</sup> The arrangement provides for some improvement over the existing “consensus” in reporting requirements, definitions, and procedures for notification of other participants when a country intends to derogate from the guidelines.

We did not achieve our goals on minimum interest rates. Originally, we had proposed an increase in the rate structure, particularly for longer term credits (more than 8.5 years) to developing countries. The EC would not buy that proposal. The EC also refused to provide annual reports on mixed (those with a substantial grant element) and tied credits, which we had sought. Nonetheless, we did succeed in closing some troublesome loopholes.

Other participants were simply unwilling to raise minimum interest rates and shorten repayment terms. They were concerned about the reaction among LDCs. Forcing through tougher standards, even if

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Assistance Strategy: 10/77–5/78. Confidential. Sent for information.

<sup>2</sup> The original “consensus” on export credits was reached in 1976. It was designed to regulate the terms under which governments would offer official financial assistance for exports in order to avoid excessive competition in the realm of export financing.

possible, would have been an illusory achievement. The EXIMBANK would observe the guidelines but our competitors would not. As under the existing "consensus," the Italians, French, Japanese *et al* would ignore their commitments if the price were right. But the expanded reporting requirements will at least force governments to notify other participants so that they may offer matching terms.

The Arrangement applies to credits for both rich and poor countries as well as Communist states, most of which fit in the so-called "intermediate" category. The main objective of the "consensus" was to avert counterproductive competition in providing export credits to the USSR and East Europe. It largely accomplished its purpose, although most of the reported violations of the "consensus" involved sales to the Soviet Union. As the financial value of these transactions is frequently large, and because the Soviets are especially hard bargainers, there will be continuing pressure on the Europeans to shave interest rates and lengthen repayment terms to meet the demands of the Soviet borrowers. The Arrangement we have just concluded will not stop such practices entirely, but it will force them out into the open—maybe.

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#### 111. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, February 24, 1978

##### SUBJECT

My Discussions with Chancellor Schmidt

I have given you an oral report last week on my discussions with Chancellor Schmidt. It may nevertheless be useful to supplement this with a written summary of the principal points, particularly since this relates to what we do in our relations with the Europeans and with the Germans over the next few months, the tactics on preparing for the Summit, and how we handle any energy actions you may decide to take.

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 74, 2/24/78. Confidential. Copies were sent to Vance and Brzezinski. A stamped notation reads: "The President has seen," and Carter initialed "C" at the top of the page.

### 1. *German Growth Prospects*

After delivering your letter,<sup>2</sup> I inquired about German growth prospects for 1978, but did not put any pressure on Schmidt to accelerate these efforts nor directly ask for a raising of the 3.5% target they have set for 1978. Obviously the Germans assumed I would be doing some of these things and the Chancellor almost immediately gave a very defensive analysis, making three points:

- (1) doing more than 3.5% was not possible;
- (2) he thought the chances of achieving this number were relatively good;
- (3) while he might consider a further stimulus if the economy performed badly, he was unwilling to so indicate now.

I restricted myself to noting that 3.5% was a relatively modest target; that he was starting practically from a no-growth situation, and that, therefore, to get a 3.5% average implied an increase in the German economic growth rate to 4.5% by year end. I also said that bringing about that kind of result would be quite an achievement and would constitute considerable progress over 1977.

### 2. *The Summit*

The Chancellor raised this issue with a 20-minute lecture on the political importance of the Summit. He said it was obvious that these meetings may be called Economic Summits, but that they are really political. The London Summit had been useful for reasons quite apart from the discussions of economic issues, and the need for a similar meeting was urgent for it would provide opportunities to discuss such matters as the Middle East, the Horn of Africa, SALT, and other political matters. I agreed that a Summit meeting between world leaders provides opportunities for discussions beyond economics, but reiterated our position that there was no escaping an “economic” label, and that the Summit, with no hope of success in that area, would be counterproductive. The conclusion here is obvious: the Chancellor is vitally interested to insure that the Summit does take place in Bonn in July. If handled well, it does give us some leverage with him.

### 3. *The Need for German “Leadership” in Europe on Economic Matters*

I told the Chancellor that I thought Germany had a responsibility to provide leadership, particularly to help other European countries emerge more quickly from the recession of the mid-1970s. The U.S. could not be expected to provide such “leadership” alone.

This argument caused the Chancellor to engage in another lengthy lecture on the dangers of Germans taking the lead on anything. The main point was that the fear of Germany remains great and war-time

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<sup>2</sup> See Document 103.

memories are long. I did not debate this issue with him but merely acknowledged that I understood the problem while gently suggesting to him that the trick was to find the fine dividing line between not causing new animosities by overaction on the one hand, or rekindling the same animosities because of lack of action on the other hand.

#### *4. U.S. Economic Policy*

I described your economic program to the Chancellor, emphasizing the point that you were doing your best to meet your commitments and growth targets while working hard to reduce unemployment and keeping inflation under control. I also outlined the strenuous efforts you are making to secure passage of the energy legislation. The Chancellor had no specific criticisms of U.S. policy and acknowledged that we had been doing well on the growth and unemployment front. He did continue to point to the lack of energy legislation as a major problem, a point of view with which I agreed.

#### *5. Collaboration in Exchange Markets*

The Chancellor voiced no disagreement or criticism of U.S. action over recent months to help stabilize exchange markets. We agreed in the joint judgment that U.S.-German collaboration to help smooth out excessively rapid movements was working well and we noted the technical work being done to think through possible additional "bridging actions" for the future. The Chancellor accepted without argument my statement that we were not contemplating issuing foreign currency denominated Treasury bonds and my explanation why such a step might in any case turn out to be counterproductive. There was an agreement that the solution to exchange rate instability lay in the fundamentals, which he defines as U.S. action on energy imports and in which I included satisfactory growth rates in Germany and elsewhere.

#### *6. Public Debate and Controversy*

I told the Chancellor that I thought public criticism and finger-pointing because of the weakness of the dollar was not helpful to anybody. I emphasized that no U.S. official from the President on down had publicly criticized the Germans for a low growth rate. While not directly saying so, I implied that the same had not been true on the German side with regard to U.S. actions on the dollar. This point seemed at least implicitly accepted by the Chancellor and we agreed that public criticism from either side was to be avoided in the future.

#### *COMMENT*

If the Germans did really achieve an average of 3.5% real growth with an even higher level at year end, this would improve our position moderately. But this is not a realistic assumption, and it is a high possibility that the Germans will not act to take additional measures until it is too late to have any impact this year.

There is now, however, increasing evidence that the pressures on the Germans are becoming very great—not so much from us as from other Europeans. We have also had recent evidence of differences of view on this subject within the German Government itself. With an EC meeting of heads of government coming up in April,<sup>3</sup> I think there is therefore an increasing possibility that some German action may be forthcoming in spite of the Chancellor's strong protestations to the contrary. With the leverage of the Summit meeting in the background, we have therefore no reason to give up as long as we avoid public debate on this subject.

Most importantly, I believe that there is an opportunity for a deal, if you decide to move on the energy front. It may be possible to negotiate a European-German statement committing to coordinated actions for more growth. While taking some steps that are advisable for domestic reasons alone, you could therefore get considerable credit for resolution of an international problem. It is well worth trying and our informal contacts indicate that it may be doable.

**W. Michael Blumenthal<sup>4</sup>**

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<sup>3</sup> The EC Heads of Government met in Copenhagen April 7–8.

<sup>4</sup> Blumenthal signed "Mike" above this typed signature.

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## **112. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>**

Washington, February 25, 1978

### SUBJECT

Import fee on crude oil: Secretary Blumenthal's memo<sup>2</sup>

I have talked to Jim Schlesinger and Frank Moore about this. We agree on the following approach:

1. First, get the natural gas compromise nailed down;

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 74, 2/27/78 [2]. Administratively Confidential. Sent to Carter under cover of a February 25 note from Hutcheson (*ibid.*), which also forwarded Owen's February 22 memorandum, Document 109.

<sup>2</sup> See Document 108.

2. Then, immediately assess the prospects for COET;
3. If it appears either that a long delay will occur or that the chances are against getting COET at all, we should be prepared to *impose a fee* on oil imports as a means of seizing the initiative on energy.

The import fee should be set so as to imitate as closely as possible the effect of COET on petroleum prices and consumer incomes. Too large a fee would raise prices sharply, and drain income from consumers, thereby raising inflation and reducing economic growth. We should also be prepared to modify our tax proposals to return the proceeds of the fee back to consumers, as we promised to do with the net proceeds of COET. (Unfortunately, we can't begin returning the funds until October—the effective date of the tax bill.)

Several other considerations have to be taken into account.

- Before we move we should inform the Saudis; we need to be sure they won't react the wrong way—i.e. "why shouldn't we get the higher prices instead of the U.S. Treasury." With the proper explanation they will, I believe, react favorably.

- Blumenthal and Solomon think there is at least an outside chance we can use such an action to influence the Germans—i.e. we take strong action, via the fee, to help the dollar; they take some action to promote greater German economic growth.

Much technical work needs to be done: What is the proper size of the fee; should it apply to petroleum product imports as well as crude oil; etc.? We also need to think through the political ramifications, the timing, the specific conditions under which it should be invoked, and how we sound out the Germans without a leak.

### *Recommendations*

I suggest you ask Eizenstat, Schlesinger, Moore, Blumenthal, Vance, and Schultze to submit to you, by Tuesday, March 7, a paper which spells out:

- a *specific* scheme for an import fee;
- an assessment of the conditions under which it would be desirable to impose one and the timing of the action;
- an evaluation of the political, legislative, and economic consequences;
- a scenario for international consultation, including an assessment of the possibility of a German "deal."

I am attaching a draft directive to the above-named people.<sup>3</sup> Either Schlesinger, Blumenthal, or I could chair the group. The draft names Schlesinger, but it's a close call.

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<sup>3</sup> Attached but not printed is an undated draft memorandum. Carter signed a re-typed version of the memorandum, which is dated February 27. (Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 74, 2/27/78 [2])

**113. Memorandum From John Renner of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and the Special Representative for Economic Summits (Owen)<sup>1</sup>**

Washington, February 27, 1978

SUBJECT

International Economic Policy

The public airing of differences between the United States and Germany over economic policy is having adverse effects. This persistent policy dispute has created a feeling of uncertainty and uneasiness about future developments. Chief Executive Officers are wary about large investment projects. The stock market is nervous. International money markets are in disarray. Every time we urge Germany to expand further and Germany refuses, the dollar falls and the stock-market gets more jittery. Every time Germany points the accusing finger at our huge oil imports while the energy bill remains stalled, the mood of money managers and investors gets blacker.

We should act now to break this downward spiral. What is needed to change the psychological climate is to give the impression that governments are acting in harmony in pursuit of agreed objectives.

Let us stop urging the Germans to be an economic locomotive. Regardless of the merits of our case, Germans of all political and economic persuasions are united in opposing this role. They disagree with our economics (however sound), resent our pressure (however gently applied), and cannot resist the political credit from standing up to us.

We can pursue the same objectives more indirectly. Most governments want to increase economic growth and at the same time not fan inflation. Differences arise mainly over means and degree, not ends. Perhaps we could defuse the policy dispute and create a more positive atmosphere by approaching the problem together with Germany, Japan, and other OECD countries.

I realize that this matter has a long history, that many ideas have been tried, and that by now no one's motives are considered to be pure. But what is needed is a new beginning.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 89, Economics/International: 1/77–7/78. Confidential. Sent for information. Copies were sent to Solomon, Bergsten, Widman, and Junz (Treasury); Cooper, Katz, Vine, and Hormats (State); Schultze, William Nordhaus, and J. Shafer (CEA); and Hunter (NSC).

I would favor trying:

—To persuade the Germans that we are no longer going to push them to expand more than they think they should and to convince them to stop taking public pot shots at us. We would also try to work out with them a unified approach to the following problems. Blumenthal started this process in his recent talk with Schmidt.<sup>2</sup> So the ground is prepared.

—To get agreement in the OECD to study the relationship between growth and inflation, with specific reference to the extent to which and the manner in which each OECD country could increase its rate of economic growth without provoking general price increases. The OECD study should concentrate on how best to increase investment in each country. It would also be useful to have an OECD study of the current account consequences of all OECD countries simultaneously expanding their economies to the prescribed extent.

—Exploring with the key OECD countries their experience with and ideas about encouraging non-inflationary economic growth by stimulating investment in areas that need additional capital in order to solve other pressing problems such as conserving energy, developing alternative sources of energy, and improving the environment. It might well be politically feasible to adopt policy measures to encourage business investment for these ends without also stimulating final demand to an inflationary extent.

—To examine and evaluate the long experience the Europeans have had with intervention in the money markets. We could at the same time explain our concerns about systematic intervention to support a given exchange rate. We should also reassure the other OECD countries that we do not want the dollar to fall further. The President has already done this. So has Blumenthal. But the other countries still are not sure of our intentions.

In conjunction with these steps, the President could make a major speech to explain our domestic and international economic policy, indicate our strategy and priorities, and show how we see the interrelationship between growth, inflation, money, trade, and energy.

This series of interrelated actions should help tighten the gloomy economic mode, contribute to a more cooperative atmosphere, take a few steps toward solving some of the hard problems, and set the stage for a positive, constructive meeting of the heads of governments at the Bonn Summit. Unified movement in this direction, even if cautious,

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<sup>2</sup> See Document 111.



could help settle the foreign exchange markets and give Wall Street a positive boost.<sup>3</sup>

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<sup>3</sup> In a February 22 memorandum to Brzezinski on “the continuing spate of reports about quarrelling with the West Germans,” Hunter suggested the “need for a re-think of some basic attitudes.” Specifically, he questioned whether the United States should continue to pressure West Germany by linking the success of its efforts at economic expansion to the timing of the next G–7 Summit, proposing that Brzezinski reconsider this tactic with Carter, Vance, Owen, Blumenthal, and Strauss. At the top of Hunter’s memorandum, Aaron wrote: “I tend to agree.” (Carter Library, National Security Affairs, Staff Material, Office, Outside the System File, Box 49, Chron: 2/78)

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#### 114. Memorandum of Conversation<sup>1</sup>

Washington, March 9, 1978, 8:26–8:34 a.m.

##### SUBJECT

Summary of the President’s Telephone Call to FRG Chancellor Helmut Schmidt

##### PARTICIPANTS

President Jimmy Carter  
FRG Chancellor Helmut Schmidt

*The President and the Chancellor* exchanged greetings.

*The President* said that he had called to say he had read with care—and deeply appreciated—the Chancellor’s recent speech in Hamburg.<sup>2</sup> It reflected the President’s sentiments exactly, and would show that reports of disagreement between them are false. He just wanted the Chancellor to know that he cherishes the deep friendship between them and between our peoples.

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<sup>1</sup> Source: Carter Library, Plains File, President’s Personal Foreign Affairs File, Box 1, Germany, Federal Republic of, 9/77–1/80. Secret; Sensitive. Carter spoke to Schmidt from the Oval Office. Carter wrote at the top of the page: “ok. J.”

<sup>2</sup> On March 8, Brzezinski sent Carter a copy of Schmidt’s remarks on U.S.–FRG relations during a March 3 speech in Hamburg. In his cover memorandum, Brzezinski noted that Schmidt, although recognizing that the United States and West Germany were bound to disagree sometimes, had emphasized the importance and overall strength of the relationship. Brzezinski also provided talking points for Carter’s telephone call to Schmidt. (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 4/77–3/78) In a March 8 memorandum to Carter, Owen suggested that Carter urge Schmidt to agree to a proposed U.S.–FRG statement on measures to support the dollar that would “create a strong public impression of the two countries’ determination to act forcefully.” (Ibid.)

*Chancellor Schmidt* replied that it was kind of the President to say this. This morning, he had given his annual "state of the union" speech, and in it there were two or three pages devoted to the deep-seated and deep-rooted relations between our two peoples, and the historical ties. He would like the President to have the full text, and would arrange for the U.S. Ambassador to get one.<sup>3</sup>

*The President* said he knew they were thinking alike on this; and he asked how things are going in Germany.

*Chancellor Schmidt* replied that, in terms of the domestic situation, there are two complexes of different factors. On the one hand, there is, stronger than before, the problem of labor disputes, since they have about 1 million people out of work. But on the other hand, the economic situation is going up. In the last quarter of 1977, they had a real increase in growth of 6%, calculated on the "Anglo-American" yardstick. This was an enormous upswing, though he could not say whether it would endure into the first quarter of 1978. But the domestic outlook is fine. The foreign outlook, however, is not as good, especially with exchange rates and currency. (*The President* agreed.) U.S. officials from Treasury, and German officials from the Finance Ministry, will be working together this weekend, on a common communique,<sup>4</sup> which should show the market what we jointly would do. We should do all that we can to defend the dollar.

*The President* said he looked forward to seeing the communique, and was sure it would be very positive. On energy, we are moving forward here. On natural gas, we should have a result shortly. He is invoking the Taft-Hartley Act,<sup>5</sup> with regard to the miners. Some coal production is going up—though the miners are certainly an independent lot. He cannot predict the outcome of the strike.

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<sup>3</sup> In telegram 4556 from Bonn, March 13, the Embassy summarized and commented on Schmidt's March 9 "Report on the State of the Nation" before the Bundestag. (National Archives, RG 59, Central Foreign Policy File, D780112-0064)

<sup>4</sup> An unknown person underlined the phrase "will be working together this weekend." On March 13, the United States and West Germany announced a joint dollar support program that included increasing the U.S.-FRG swap from \$2 billion to \$4 billion; U.S. acquisition of \$740 million in marks through SDR sales, as well as the suggestion that the United States would seek up to \$5 billion in IMF assistance if necessary; and a shared commitment to "continuing forceful action," as well as "close cooperation," to combat "disorderly" exchange market conditions. The joint U.S.-FRG statement also noted that exchange market stability hinged "on a climate of confidence and a high degree of stability in the world economy. Although progress has been made in some respects, these conditions have not yet been adequately met: growth rates in some countries are still lower than desirable; unemployment remains too high and inflationary pressures persist in many parts of the world, hampering more growth-oriented policies." (Clyde H. Farnsworth, "Plan is Announced by U.S. and Germany to Stabilize Dollar," *The New York Times*, March 14, 1978, p. 1)

<sup>5</sup> The 1947 Taft-Hartley Act, officially the Labor-Management Relations Act, regulates the activities of labor unions.

*Chancellor Schmidt* asked about a natural gas vote in the Senate.

*The President* replied that a compromise proposal had come out of the Senate conferences, and was going to the conferees of the House. Following that there would be a vote. This is the first breakthrough in months on energy.

*Chancellor Schmidt* returned to the subject of currency. Their chances would be great of convincing the market, if there were no limit on the instruments and the quantities that would be employed. The smaller the quantities available, the less convincing would be their effect. They need to make the market believe that enormous quantities of resources are available, and then they probably won't have to use them.

*The President* said that he understood. Perhaps this could be reflected in the communique this weekend.

*Chancellor Schmidt* said that this was a consequence of his meeting with Mike Blumenthal, recently.

*The President* said that that was a productive talk. And he said that we were happy to have had the Finance Minister here. He is looking forward to having the Chancellor here in May for the NATO Summit.<sup>6</sup> But if in the meantime there are any problems, at any time, the Chancellor should send a dispatch or phone him, and they would get it resolved.

*Chancellor Schmidt* said he would do so if necessary. He thinks that on currency questions, SALT, and the neutron bomb, we are having very close consultations, for which he is personally gratified. These are very deep consultations.

On the other hand, at the time of the NATO Summit, he would be going for two days beforehand to the UN Special Session on Disarmament to give a speech. There would be some time in between—perhaps Saturday the 27th, or Sunday the 28th, or Monday the 29th—if the President thinks it would be worthwhile to have a private chat, he would be happy to come by, perhaps just to slip into the White House for a talk.

*The President* said that this was very good, but they should see how things go. He does not have his schedule with him, but that they could work it out, if it seemed advisable.

[Omitted here is discussion unrelated to currency issues.]

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<sup>6</sup> A NATO Summit took place in Washington May 30–31.

## 115. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>

Washington, March 14, 1978

### SUBJECT

Message from Callaghan

At Tab B is an incoming message from Prime Minister Callaghan, concerning his talks with Chancellor Schmidt this past weekend.<sup>2</sup> He reports the Chancellor as pessimistic on economic prospects, and that he "sees no prospect of agreement between us on the way through the problem of low growth and high unemployment." Schmidt also suggests that the swap-line between us and the British be activated, on a token basis, in order to promote confidence.

Specifically, Callaghan:

- asks whether officials of our two countries should talk about the swap proposal;

- asks to see you—mainly or wholly tete-a-tete—on March 23, for as long as possible and extending through lunch;

- suggests discussion of a British package of ideas for collective action at the 7-Nation Summit, to restore confidence, generate growth and develop world trade. Each nation, in different ways, would take steps on commitments to growth, the maintenance of world trade, currency stability, the long-term use of capital surpluses, and conservation of energy.

- is willing to send you a paper on these ideas, which might form the basis of the British contribution to the March 31 meeting to prepare the Summit.

At Tab A is a draft message of reply.<sup>3</sup> It has been cleared in substance with Scheduling, Treasury, and Henry Owen.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 20, United Kingdom: Prime Minister James Callaghan, 2/77-5/78. Secret. Outside the System. Sent for action. The date is handwritten.

<sup>2</sup> Tab B, attached but not printed, is a March 13 message from Callaghan to Carter.

<sup>3</sup> Tab A, attached but not printed, is an undated message from Carter to Callaghan, at the end of which Carter wrote "ok." In the message, Carter agreed that "a package of collective action would be in everyone's interest" and suggested "low-key" discussion of a U.S.-U.K. swap (which Carter characterized as problematic) and a multilateral swap. Carter accepted Callaghan's suggestion that they meet on March 23, agreeing "that we cannot sit back and let the free world economies drift downwards" and adding his "hope that the agreement that the U.S. and German governments worked out over the weekend will be an effective start on common action." Carter indicated that in the meantime, he "would very much welcome" a British paper on the economic situation. On March 16, Callaghan sent Carter a proposal entitled "International Action on Growth, Currency, Stability, Energy and Other Matters." (Letter from Callaghan to Carter, March 16; Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 15, Great Britain: 8/77-3/78)

*RECOMMENDATION:*

1. That you approve the message to Prime Minister Callaghan at Tab A.<sup>4</sup>

2. Do you want us to ask whether Mrs. Carter would like to invite Mrs. Callaghan to lunch on March 23?<sup>5</sup>

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<sup>4</sup> Carter did not indicate his preference with respect to this recommendation, but see footnote 3 above.

<sup>5</sup> Carter indicated his approval of this recommendation, writing “but leave it up to her.” Beneath this, Brzezinski wrote: “R[ick] I[nderfurth]—check with Mrs. Carter.”

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**116. Memorandum From John Renner of the National Security Council Staff to the President’s Assistant for National Security Affairs (Brzezinski) and the Special Representative for Economic Summits (Owen)<sup>1</sup>**

Washington, March 14, 1978

SUBJECT

Upcoming Choice for the President on Economic Policy

At this afternoon’s meeting of the International Monetary Group battle lines were drawn for a future fight about economic policy.

Solomon and Wallich (Federal Reserve) argued that the dollar crisis cannot be terminated satisfactorily without following somewhat more restrictive fiscal and monetary policies. They contended that the dollar continues to fall because of the sour psychological mood of the money managers and that nothing less than a hard-nosed anti-inflation program would work.

Nordhaus (CEA) said that more restrictive fiscal and monetary policies would halt US economic growth and freeze unemployment at present levels. He preferred to see the dollar depreciate further.

I supported Solomon on foreign policy grounds and advocated the adoption of a comprehensive program along the lines of my memo to

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Policy Group Executive Committee: 1/78–3/80. Confidential. Sent for information. Carter initialed “C” at the top of the page.

you of this morning.<sup>2</sup> On the basis of Solomon's presentation of the extremely gloomy mood among money managers, I would add to the list of measures I recommended moderately restrictive fiscal and monetary policies. This means at a minimum not allowing the budgetary deficit to increase and raising interest rates slightly.

It seems to me that the President will soon be faced with a tough decision:

Option 1: In order to stabilize the dollar and avoid a deterioration of our national security position, take measures to restrain economic growth and freeze unemployment at the present level with the resultant undesirable domestic economic and social consequences.

Option 2: In order to keep the economy growing and unemployment falling, let the dollar continue to depreciate with the risk of a major flight from the dollar with all of the serious economic and political repercussions that would follow.

The policy dilemma is put in stark terms for clarity. In reality, I think that economic growth could be restrained somewhat and unemployment held at present levels without serious economic or political consequences. A higher rate of economic growth and lower level of unemployment could be pursued after the dollar had stabilized and after the current account disparities had been reduced to tolerable proportions.

I recommend that you give serious consideration to my recommendation that the President create a "council of war" to consider and decide on an integrated, comprehensive program to stabilize the dollar.

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<sup>2</sup> In his March 14 memorandum to Brzezinski, Renner proposed a number of measures, in addition to an oil import fee, to stabilize the dollar: the convening of "a 'council of war'" to devise a comprehensive stabilization program; a Presidential effort to encourage the energy bill's passage; a subcabinet investigation into executive action to accelerate oil conservation; a report from Blumenthal on increasing U.S. foreign exchange reserves so as to augment the government's ability to intervene in the exchange market; Treasury market intervention "to stabilize the dollar in an acceptable range;" foreign government cooperation; wage and income guidelines to stem inflation; and a major Presidential statement. (Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 21, Treasury Department: 2/77-3/78) On March 15, Renner sent Brzezinski and Owen a revised version of the program (which omitted the report from Blumenthal, but suggested that Carter "clamp a firm ceiling on the budgetary deficit," as well as a moderate interest rate increase by the Federal Reserve); in his cover memorandum, Renner noted Solomon's "100 percent" agreement with the proposals. (Carter Library, National Security Council, Institutional Files, Box 68, PRC-058, 3/16/78, Monetary Situation)

**117. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Katz) to Secretary of State Vance<sup>1</sup>**

Washington, March 15, 1978

Effects on our Foreign Relations of Administration Inaction on  
Energy and Inflation

The market is losing confidence in the dollar. It is persuaded that the US is drifting, unable to take the critical measures to reduce its large oil bill or to keep price increases in its economy under control. Capital is moving out of the US, private capital inflows have fallen off, and OPEC is shifting out of dollar-denominated assets into non-dollar deposits in the Euromarket. In the absence of corrective action, these movements out of the dollar will intensify. Intervention alone will not check these movements, as the market reaction to the US-German statement on Monday demonstrated.<sup>2</sup> Indeed, unless we take early decisive action on energy and inflation—which are essential to restore market confidence in our ability to manage our affairs—we may be confronted at any time with a flight from the dollar that could swell to panic proportions.

Inaction by the Administration to check a steep decline in the dollar would have disastrous consequences for our foreign policy:

—The pressure on OPEC to raise oil prices directly or by denominating oil prices in SDR's would become irresistible. The US—not OPEC—would be blamed by all other importing countries for this result.

—The MTN would be halted in its tracks. Our trading partners, who are already complaining that the depreciation of the dollar is excessive, indeed deliberate, and gives the US an unfair competitive advantage, would be quite unwilling to reduce tariffs or cooperate on non-tariff barriers.

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<sup>1</sup> Source: Department of State, Office of the Secretariat Staff, Records of Cyrus Vance, Secretary of State, 1977–1980, Lot 84D241, Box 7, International Economic Policy—1977–78–79. Secret; Nodis. Drafted by Ruth Gold, Katz's Special Assistant. The initials "CV" are stamped at the bottom of the page.

<sup>2</sup> March 13; see footnote 4, Document 114. A report in the March 14 edition of *The New York Times* on the U.S.–FRG dollar stabilization program noted that the program's announcement had "failed to impress foreign exchange markets. The American currency, which had shown strength early in the day in Europe on high hopes that significant steps would be announced, tumbled after the measures were made public." (Clyde H. Farnsworth, "Plan is Announced by U.S. and Germany to Stabilize Dollar," *The New York Times*, March 14, 1978, p. 1)

—Protectionism in other countries would be given a powerful fillip and would be justified by the steep and “unfair” decline in the dollar.

—Our domestic objective of steady, stable growth at home would be undermined. Business confidence would erode, the stock market would sag, inflation would intensify as the dollar price of US imports rose and induced a further rise in the prices of US domestic goods that compete with imports, capital outflow could become feverish, and interest rates would rise.

—Economic activity abroad which is on a rising trend would be depressed as uncertainty about the economic outlook intensified and gloom became contagious.

—Depressed economic activity in the developed countries, which the increase in the price of oil would exacerbate, would hurt developing countries whose import costs would rise while their earnings fell off.

—The US would be blamed for converting a slow but steady recovery to a world-wide recession.

—Furthermore, the dollar is not only a major trading currency but the world’s most important reserve asset. The US would be accused by oil-exporting countries, the non-oil LDCs, and many developed countries who hold all or a substantial portion of their reserves in dollars, of serious mismanagement of its affairs that had caused severe losses in the value of their reserve assets, inadequately compensated by interest payments on the dollar. The accusation would be all the sharper because the US has resisted efforts by others to strengthen the SDR as an alternative reserve asset.

—The dollar costs of our military establishment overseas would mount. The rising budgetary burden of maintaining these forces would face us with difficult decisions: to curtail domestic social programs, to retrench on our defense expenditures, or to increase our budgetary deficit with adverse effects on domestic inflation.

—US leadership of the Western military and political alliance would be undermined. The weight of the US in the world economy is so great that our major allies perceive themselves as helpless to protect their own interests in the face of US drift. Leadership requires decisive action. In its absence, recriminations will intensify and cooperation with our major allies, on which our strength and security ultimately depend, will weaken.



## 118. Summary of Conclusions of a Presidential Review Committee Meeting<sup>1</sup>

Washington, March 16, 1978, 10:30 a.m.–12:15 p.m.

### SUBJECT

Dollar Crisis

### PARTICIPANTS

#### *State*

Secretary Cyrus Vance

Richard Cooper

Under Secretary  
for Economic Affairs

#### *Defense*

Secretary Harold Brown

#### *Treasury*

Secretary Michael Blumenthal

Anthony Solomon

Under Secretary for  
Monetary Affairs

#### *Energy*

Secretary James Schlesinger

#### *Council of Economic Advisors*

Charles Schultze

#### *Federal Reserve Board*

William Miller

#### *White House*

Zbigniew Brzezinski

David Aaron

Henry Owen

David Rubinstein

#### *NSC*

Timothy Deal

### SUMMARY OF CONCLUSIONS

The group agreed that we have a potentially serious problem on our hands. In recent months, the dollar's depreciation against major currencies has accelerated and markets have become increasingly disorderly. The trend is continuing despite public efforts to turn the tide. We have used up \$3 billion through intervention in exchange markets. Additional intervention by other countries has totaled \$20 billion. Private capital is beginning to flow out of the US, and in the 4th quarter of 1977 net capital outflows amounted to \$10 billion. New purchases of US securities by Saudi Arabia and other OPEC states have declined markedly.

The main factors behind these developments are: (1) our large trade and current account deficits, and (2) a lack of confidence abroad in the US economy, relating to concerns about both energy and inflation. The US trade deficit will probably deteriorate further this year to \$30–32 billion despite earlier more optimistic forecasts. The US

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<sup>1</sup>Source: Carter Library, National Security Council, Institutional Files, Box 68, PRC–058, 3/16/78, Monetary Situation. Secret; Sensitive. The meeting took place in the White House Situation Room. Brzezinski sent the Summary of Conclusions to Carter under cover of a March 18 memorandum in which he noted "that Schultze and Schlesinger agree with Blumenthal on the recommendations." (Ibid.)

business and banking community and foreign investors are not confident that the US is able or willing to deal with the dollar crisis. In their view, we are not acting forcefully to correct fundamental problems.

The group saw the following possible consequences if the US could not halt the dollar's decline:

1. *OPEC would increase oil prices.* OPEC might either raise them directly or begin to denominate them in non-US currencies. Either action would have an adverse impact on the US and world economy.

2. *Domestic inflationary pressures would intensify.* A depreciating dollar raises domestic prices. (Depreciation to date in 1978 is projected to raise prices by 0.5% by the end of the year.) The dollar's decline is partly responsible for the stock market's malaise. These developments could further erode business confidence and dampen private investment flows. Eventually, depreciation-induced inflation might have a snowballing effect leading to still further adverse consequences.

3. *US leadership abroad in economic policy and foreign affairs would suffer.* The trade negotiations would probably fail; the North/South dialogue would deteriorate. The international economic system would enter into a decline with a serious impact on Allied solidarity and the probability of adverse social and political consequences in key Allied countries.

The group agreed that the Administration must act now to deal with the dollar problem. We cannot afford to wait until self-correcting forces (e.g., a depreciating dollar leading to increased exports) take hold. Immediate action would forestall more drastic measures later. The group agreed on the following steps to deal with the dollar crisis:

1. *Energy.* The President should next week call in appropriate Congressional leaders and energy conferees and inform them in general terms that because of the deteriorating international economic situation, if they are not able to agree on an energy tax program by late April, he will be compelled to restrict oil imports by other means. The public announcement of such a meeting should be carefully phrased to avoid the appearance that the President has given Congress an ultimatum, and should be linked to the other measures described below. If the Congress does not act in a month or so, we should be prepared to impose a fee on imported oil. The group agreed that there are strong national security grounds for this action. Consequently, if we present our case effectively and give Congress advance warning of our intentions, the risk of Congressional action to withdraw the President's power in this area should be manageable.<sup>2</sup>

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<sup>2</sup> Carter wrote "?" in the margin adjacent to this paragraph.

2. *Anti-inflation program.* The President should announce an anti-inflation program. The group agreed that this program should emphasize the anti-inflation controls in our original economic strategy and would not entail any basic change in our overall economic objectives. We would continue on a growth path designed gradually to reduce unemployment.<sup>3</sup>

3. *Export promotion efforts.* The Administration would announce a series of measures to stimulate exports.

*Next Steps:* The President will be given separate action memoranda recommending anti-inflation steps, export promotion measures, and the meeting with Members of Congress. The PRC recommended that the President announce all three actions simultaneously.

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<sup>3</sup> Carter wrote “ok” in the margin adjacent to this and the next two paragraphs.

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## 119. Memorandum From the Chairman of the Cabinet Economic Policy Group (Blumenthal) to President Carter<sup>1</sup>

Washington, March 21, 1978

### SUBJECT

Measures to stem oil imports and improve exports

The Policy Review Committee of the NSC unanimously agreed on March 16 that strong actions to fight inflation and to improve our trade deficit (chiefly through limiting oil imports) are urgently needed to avert a possible international financial crisis connected with the failing dollar. The PRC minutes (attached at Tab A)<sup>2</sup> reflect the unanimous view that there is an immediate need for a statement by you on new anti-inflation measures and on the possibility of Executive action to stem oil imports.

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 78, 3/24/78. Secret. Sent for priority action. Carter initialed “C” at the top of the page. Eizenstat discussed Blumenthal’s memorandum in a March 23 memorandum to Carter. (Ibid.)

<sup>2</sup> Tab A is attached but not printed; see Document 118.

The Economic Policy Group<sup>3</sup> met Monday, March 20, 1978, to discuss possible actions.<sup>4</sup> We are sending you a separate decision memorandum on the anti-inflation measures considered by the EPG.<sup>5</sup> The present memorandum deals with measures to improve the trade deficit.

### *Oil Imports*

All agencies recommend that you call in the Congressional leadership<sup>6</sup> before your foreign trip<sup>7</sup> and urge expedited action on the Energy Bill—and in particular on COET—in view of the mounting dollar crisis and associated domestic economic problems, and that you then make a public statement reflecting your discussion with the leadership. (Talking points and a draft statement are attached at Tabs B and C.)<sup>8</sup>

### *Decision*

Agree to meeting<sup>9</sup>

Date/time<sup>10</sup>

Disagree

However, two EPG agencies—DOE and DPS—dissent from the view that you should mention the possibility of administrative action on oil imports at this meeting and in the subsequent public statement. These agencies believe:

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<sup>3</sup> In attendance were the Vice President, Stu Eizenstat, Secretaries Blumenthal, Marshall, and Kreps, OMB Acting Director McIntyre, Ambassador Strauss, Ambassador Owen (NSC), CEA Member Gramley, Under Secretary of State Cooper, CWPS Director Bosworth, and DOE Assistant Secretary Alm. [Footnote in the original. Alvin Alm was the Assistant Secretary of Energy for Policy and Evaluation from 1977 until 1980.]

<sup>4</sup> Cooper provided his impressions of this meeting in a March 22 memorandum to Vance. (National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 3, Memorandums from RNC to Secretary, Deputy Secretary, 78)

<sup>5</sup> A March 21 memorandum from Blumenthal to Carter contains the EPG recommendations on anti-inflation initiatives for Carter's decision. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Policy Group Executive Committee: 1/78–3/80)

<sup>6</sup> Suggested list of members is at Tab B. [Footnote in the original.]

<sup>7</sup> Carter traveled to Venezuela, Brazil, Nigeria, and Liberia March 28–April 3.

<sup>8</sup> Tab B, attached but not printed, consists of an undated paper, "Talking Points for Use with Congressional Leaders, Protecting the Dollar by Acting on Oil Imports," and another undated paper, "Suggested attendees for meetings on energy and the dollar." Tab C, attached but not printed, is an undated paper, "Press Conference Statement."

<sup>9</sup> Carter indicated his approval of this option, writing in the adjacent margin: "While I'm gone, you, Miller, Cy can brief 3 or 4 key members of Congress. J."

<sup>10</sup> Carter wrote "any time after my trip—sooner/better" above this option.

- that substantial progress in passing COET is not possible by May 1;
- and that mention of administrative action may disrupt negotiations on a natural gas compromise and will likely persuade Congress to shelve COET and allow you to take sole responsibility for raising domestic oil prices.

All other agencies (Treasury, State, CEA, OMB, NSC, and Commerce) endorse the PRC recommendation that you inform the leadership, and announce publicly, that the dollar crisis may force you to limit oil imports through administrative action if substantial progress on COET is not forthcoming by the end of April. These agencies believe:

- that the mounting dollar crisis could well compel early administrative action, and that in fairness the leadership should be told this as soon as possible;
- and that a firm, public commitment to early administrative action, in the event of Congressional stalemate, is now necessary to reduce the risk that the dollar may soon come under sudden and excessive selling pressures, possibly triggering increases in capital outflows, an OPEC price rise, an increase in domestic inflation, and a sharp rise in domestic interest rates, with consequent damage to the domestic economic recovery and to all elements of our foreign policy.

#### *Decision*

Mention possibility of administrative action (Treasury, State, CEA, OMB, NSC, and Commerce recommend)<sup>11</sup>

Avoid mention of administrative action (DOE and DPS recommend)

#### *Export Policy*

All EPG agencies agree that you should now call for a national policy to improve our export performance. We recommend that you direct Secretary Kreps to organize a Presidential Task Force and report to you by May 15 on how government policy in the following areas might be rationalized to enhance the capacity of U.S. business to sell its goods and services abroad:

- export financing
- export development
- government regulation
- taxation
- research and development
- anti-trust

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<sup>11</sup> Carter wrote "I'll decide before mtg." above this option.

A draft statement on exports is attached at Tab D.<sup>12</sup> You should know that this step may further dim prospects that Congress will accept the phased elimination of DISC proposed in our tax reform bill.<sup>13</sup> However, the urgent need to address the trade deficit requires that we at least attempt to develop a coherent policy toward exports.

Treasury believes the statement on exports, to be credible in the dollar markets, should be made only in the context of a strong statement on limiting oil imports.

*Decision*

Agree to task force and export statement (all agencies recommend)<sup>14</sup>

Disagree

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<sup>12</sup> Tab D, attached but not printed, is an undated paper stamped "Draft," entitled "Proposed Statement by President Carter on the Need for a National Export Policy."

<sup>13</sup> For the text of Carter's January 20 message to Congress proposing a series of tax reduction and reform measures, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 158-184.

<sup>14</sup> Carter indicated his approval of this option. On April 11, Carter announced his anti-inflation policy before the American Society of Newspaper Editors in Washington. Among the measures he proposed was the creation of a task force on export promotion, which would be led by the Secretary of Commerce. For the text of Carter's remarks, see *ibid.*, pp. 721-727.

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## 120. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, March 21, 1978

SUBJECT

Prime Minister Callaghan's Forthcoming Visit

I have just seen Prime Minister Callaghan's March 16 letter to you and his accompanying proposal for a five-part "package" agreement

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 76, United Kingdom: 1-3/78. Secret. Sent to Blumenthal for his signature under cover of a March 20 memorandum from Bergsten, who noted that the memorandum had been prepared at Blumenthal's request. Bergsten also noted Solomon's concurrence in the memorandum, as well as Cooper's and Owen's support for the Treasury Department position. Bergsten observed that "Cooper is not as worried as I about the implications of the Callaghan proposals and thus is more inclined toward a stance of 'listen and defer judgment.'" (National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977-1979, Box 2, Political)

among the major countries as a means of restoring confidence in international economic leadership.<sup>2</sup>

Callaghan's call for commitments to take specific measures on growth looks reasonable, although his proposal that we jointly pressure Chancellor Schmidt to commit before mid-May on further stimulus measures would go beyond the recent U.S. agreement with the Germans and is unlikely to be accepted by Schmidt. Callaghan's points on long-term capital flows, energy and trade seem generally unobjectionable, although I do not find anything new in them likely to have much impact.

The new significant proposals are in Callaghan's fifth point—"currency stability." I strongly advise that *we not commit ourselves to the actions in the currency area which he proposes*. Unless tailored carefully, they could start us down a road back toward fixed exchange rates, which in turn could place a strait jacket on U.S. domestic economic policy and create huge exchange losses for us if the dollar were to weaken further.

If we act on the fundamentals, particularly energy and price stability, the exchange markets will take care of themselves. If we fail to do so and a major crisis becomes imminent, we can re-examine the feasibility of multilateral currency operations. But *implementation of any such scheme should begin with the Germans, and perhaps the Japanese, not the British*. I therefore believe that you should make no commitment to Callaghan.

*I think it is also extremely important that you reject Callaghan's proposals for longer term reform of the international monetary system.*<sup>3</sup> New authority for the International Monetary Fund, agreed upon two years ago,<sup>4</sup> will become effective in the next few weeks. These new IMF pro-

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<sup>2</sup> See footnote 3, Document 115. On March 22, Owen forwarded Callaghan's letter and the accompanying proposal to Carter. In his cover memorandum, Owen summarized and commented upon the British proposal, which included measures to stimulate domestic growth; increases in the flow of long-term capital and aid; more energy conservation and investment; encouragement of trade liberalization and disavowal of protectionism; and multilateral measures to stabilize the dollar, such as a widening of the swap network, U.S. sales of SDRs, and a U.S. drawing on the IMF. (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 15, Great Britain: 8/77-3/78)

<sup>3</sup> The British proposal suggested the need to address several questions concerning the evolution of the international monetary system, including "whether the US authorities are going on a continuing basis to ensure that the dollar functions appropriately as the only important international reserve asset; and how the other main powers—and the markets—are going to react over time if the dollar does not fulfil this function. Linked with these questions there will also be that concerning the viability of the present exchange rate regime."

<sup>4</sup> In January 1976, the IMF Interim Committee agreed on a program of international monetary reform; see *Foreign Relations, 1969–1976*, vol. XXXI, Foreign Economic Policy, 1973–1976, Documents 128 and 129.

visions will provide the right framework for the improved management of the system which is needed. Callaghan's proposals raise major substantive problems but, beyond that, *any proposal to reopen long-term system questions at this time of currency instability would be very disruptive and damaging to world confidence.*

I will provide you with additional material on the Callaghan proposals before your meeting Thursday,<sup>5</sup> but I wanted to let you know now of my concerns about his currency proposals.

**W. Michael Blumenthal<sup>6</sup>**

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<sup>5</sup> March 23.

<sup>6</sup> Blumenthal signed "Mike" above this typed signature.

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## 121. Memorandum of Conversation<sup>1</sup>

Washington, March 23, 1978, 11 a.m.–noon

### SUBJECT

Summary of the President's Meeting with UK Prime Minister James Callaghan

### PARTICIPANTS

President Jimmy Carter  
Vice President Walter Mondale  
Secretary of State Cyrus Vance  
Secretary of the Treasury W. Michael Blumenthal  
Dr. Zbigniew Brzezinski, Assistant to the President for National Security Affairs  
Ambassador Kingman Brewster, U.S. Ambassador to the United Kingdom  
Ambassador Henry Owen  
Robert Hunter, NSC Staff Member (Notetaker)  
UK Prime Minister James Callaghan  
Ambassador Peter Jay, British Ambassador to the United States  
Sir John Hunt, Secretary of the Cabinet  
Kenneth E. Couzens, Treasury  
William S. Ryrie, Minister (Economics), British Embassy, Washington, D.C.  
Kenneth Stowe, Principal Private Secretary to the Prime Minister  
T.D. McCaffrey, Press Secretary to the Prime Minister  
Thomas McNally, Political Adviser to the Prime Minister

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 2–3/78. Secret; Sensitive. The meeting took place in the Cabinet Room. Callaghan was in Washington on a private visit.



(From 11:00 to 11:25, the President and the Prime Minister met privately in the Oval Office, then joined the others in the Cabinet Room, as follows.)

(The President, the Vice President, and the Prime Minister began by discussing the recent biography of President Truman.)

*The President* said (in a jocular way) that he and the Prime Minister had not had enough time alone. They make constructive and frank comments to one another, and they needed more time for their conversation.

He is very thankful to have the Prime Minister here. The economic subject is an important one; and it is important that *they* address it, as well. To give a brief analysis, the Prime Minister sees that we should let the world know that the Summit Conference nations will act in concert, whenever they can reach a common approach. There are five areas to be considered: economic growth, long-term capital flows, energy, trade, and resisting protectionism (*sic!*). The Prime Minister had sent him a separate presentation, which the President had studied and learned from.<sup>2</sup> The Prime Minister's associates had worked on it for several months. The Prime Minister had told him that one can't press Germany to act against its own interests. We had pressed Schmidt to the limit of his ability to move. He (Schmidt) is concerned over U.S. failure to act effectively enough to stabilize the dollar. We recognize that there are different responsibilities. But it is good to express oneself clearly, if a leader feels that one nation is not acting in the interests of others. The Prime Minister has described well our own concern, and world concern, with the role of the dollar. When the U.S. economy is in good shape, we pay no attention to the dollar. But when we have problems, we react with consternation at the comments of others. We must learn to see that issues of the dollar are not just domestic matters, but also international. Secretary Blumenthal is worried half to death about the dollar! It is important that the dollar play a strong role.

It is important that we (all) use the time between now and July to prepare the Summit carefully, and see what we can do separately and collectively.

The Prime Minister had suggested (*the President* continued) that when each of the Summit nations act—on inflation, etc.—they should do so within a common framework. They would undertake to consult with one another—though not to give a veto. When the President thinks he must do something, then the Prime Minister says (and he, the President agrees with him) that he should send a private dispatch, to

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<sup>2</sup> Carter is referring to the proposal that Callaghan sent him on March 16; see footnote 2, Document 120.

get suggestions, and to reassure our major trading partners. The Prime Minister said that he would be calling Schmidt—and he would not do it to ask him (about this?), but only to tell him that, when the U.S. acts, it will tell him (Schmidt). The world economic situation has deteriorated, and bold and decisive action is needed, or it will deteriorate further.

He (the President) had no further details at the moment. He would like to have the Prime Minister's comments. They should talk frankly: there are no sensibilities on this side of the table. He wants to thank the Prime Minister for coming; he comes as a good friend. We are honored to have him here. As an added bonus, the Prime Minister will see his grandchildren. We and the world benefit from the Prime Minister's unselfish work on these complex issues. This is beneficial to everyone.

*The Prime Minister* said thank you very much—and also expressed thanks to all who had worked on the British paper. It had gone through 3 or 4 drafts, and was beginning to be a rigorous analysis. It is not a plan, but areas for examination. Something needs to be done. He had lived for years, including his time as Chancellor of the Exchequer, in this economic world. There are now fewer signposts in international finance and economics than ever before. They had all been swept away. We need basic, long-term signposts, new criteria by which the international community can make judgments, as well as ourselves. This is needed for the long-term. But in the short-term, how can we make improvements in the next one to two years? These matters will have profound political implications unless we are careful.

That is the background for what he wants to say. Also, there is no question of the UK's thrusting itself into the driver's seat. The U.S. has the lead, with its weight in the world economy. U.S. economic strength leads to political strength, and together they lead to Western security. He told Chancellor Schmidt the same thing. We should ask our people (staff) to get some proposals, together, on these subjects or other areas we can agree upon.

What is involved is getting people to do what they do not want to do. If we are to get Schmidt to act, it can be done only if others will also act—from a common (position?). What should Britain do? He had written down four things, which are not very onerous. First, there should be more energy conservation. Britain should help with the Common Agriculture Policy in regard to the Multilateral Trade Negotiations—and will take this line in the European Community. Britain would also help—for example if the U.S. activated an IMF drawing (which should be big, not a piddling amount)—if so, then Britain would itself make an early repayment to the IMF. But for immediate steps, they have a budget in about ten days. If it could be done under complete secrecy, they could see what could come of talks with the U.S., talking about the budget, and make this part of the coordinated

plan. He would have to see whether Chancellor Healey would have any objections. Perhaps the United States could do the same on energy?

At the root of the matter is confidence. We must all be able to present what we do between now and July as part of a coordinated approach. What we all do, between now and July, would be greater than the sum of the parts. Each nation could do something it does not like, and if all would do this, then each one could. Schmidt might swallow this. With Japan, more is needed on foreign aid, in the form of long-term capital flows.

Now, all these nations are moving individually, often against one another. There are no guidelines since the collapse of Bretton Woods. Each nation takes defensive actions. But the world needs to feel that the leading countries are taking the situation in hand. There should be no declaration—this would fail, as with the Downing Street declaration—but they should show that they are acting collectively. What measures are put in the package are less important than the restoration of confidence in the world, which would lead to more investment.

If he talks about the dollar, he would recommend that the U.S. not deflate—and hopes there are other ways (to help the dollar)—for if so, that would be the end of world trade this year. That would be a gross waste of human resources—as last year, when world-wide trade only went up by 4%.

He and the President and the other leaders (*the Prime Minister* continued) should collectively say to the technicians (who can do anything they are asked to do) that we want to give a political impetus, and say we want it done with regard to a group of proposals. This would give the world a feeling that we are in charge again.

*Secretary Blumenthal* said that he could not improve on what the Prime Minister had said, concerning the requirements. He agreed that the guideposts are gone. This is true in trade and in monetary relations, where the new system is under strain because of energy and capital movements. He agrees that there are limits in the short-term, and that we must primarily deal with psychology. A sense of unity would best assure that we can inject a sense of confidence. We will really turn around the markets by working on the fundamentals, but that cannot be done in the short-term.

The fundamentals include energy, where we are trying hard on getting action, and to limit our oil import bill. He is hopeful that we will get some progress soon. Even if the numbers are low, still there would be the psychological value. (*The Prime Minister* agreed.) There is also internal (?) inflation. In the U.S., the first quarter of 1978 was poor, with the coal strike and the weather, but the growth outlook is good for 1978—though it will accelerate inflation. To keep control of inflation, with growth, there needs to be an international component.

These are the two fundamentals. On growth, with Germany and Japan this is also a fundamental. Even if Schmidt goes now to reach 3.5%, it takes time. Reaching 3.5% implies an accelerated rate of growth, which would be hard for anyone to do. They hesitate in Germany to go forward very fast. Concerning Japan, its current account surplus of \$13 billion is very worrying. It will not be easy for Japan to achieve a 7% growth rate. 5.5% or 6% may be the best it can do. In 1978, therefore, there will probably still be a \$9 or \$10 billion Japanese current account surplus.

These are the fundamentals. We will do our part. We seek to limit disorderly market conditions (working with the Germans), sometimes with indifferent success. He had prepared some figures on the amount spent on intervention. Since October 1, Japan had spent \$11 billion, yet the Yen is at 230 (to the dollar) and is still going down. Germany has spent \$5 billion, and we have spent almost \$3 billion, with \$2 billion since the first of the year. We couldn't get Congressional approval for a large effort. The Exchange Stabilization Fund is limited.<sup>3</sup> Therefore, intervention is not the answer.

*The Prime Minister* said this is true in the short-term, if it (the dollar?) can be turned around. He hopes the U.S. will be able to do so.

*Secretary Blumenthal* said that Germany would see the risk of inflation.

*The Prime Minister* said he doubts that the U.S. could get a new swap.

*Secretary Blumenthal* said we did get one recently, doubling the amount, but there are still worries. We must work together on trade and aid and to resist protectionism—it will be difficult. On the Prime Minister's idea about motivating the Saudis to place dollars for the long-term in the U.S., this was good.<sup>4</sup> And they (the Saudis) have done a lot already.

*The Prime Minister* said he didn't realize that the Saudis were placing money for 8 years.

*Secretary Blumenthal* said that the Saudis were moving to the long-term—two to five years and longer. But this is a sensitive matter, and there is a need to be careful.

*The Prime Minister* asked what was offered on a stable dollar.

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<sup>3</sup> Through the Exchange Stabilization Fund, established by the 1934 Gold Reserve Act, the Treasury Department can, among other things, intervene in the foreign exchange market.

<sup>4</sup> The British proposal suggested that "a clearer indication by the Saudis that they were prepared to place funds in the US at longer term would strengthen the capital account."

*Secretary Blumenthal* said that they (the Saudis) have expectations of its improvement. They are committed to the strength of the U.S. economy. They think it is sound. They want to stay with the dollar. If they see energy action in Congress, and if they see that the Summit is working, then it will be all right.

*The President* said that in 1978, some facts are good. Interest rates are up, which attracts dollars. The prospect is that the differential in growth rates will be reduced, not by the U.S. growth rate's going down, but by the others' going up some. The average differential last year was 3%. Therefore, we could buy goods abroad, and they could not. He does not see imports of oil going up. In 1977, there was a rapid rise, but now it has leveled off, with new sources from Alaska, etc. But the basic psychology exaggerates the underlying factors of concern. The Prime Minister's advice is good. Whenever the British or we act unilaterally, this should be the result of consultations, under the umbrella of a comprehensive approach. Therefore, each step would be more effective. He can act on oil imports and to control inflation. If the public knows that he is consulting with the Prime Minister and with Schmidt, then this will help.

*The Prime Minister* raised the question whether the Summit should be held earlier. They should not hold up action until July, but they also should not move the Summit up, because of complications with Schmidt.

*The President* said he had not raised that question.

*The Prime Minister* said he thinks they can work along these lines between now and July. All should do what they do not want to do. Therefore, the U.S. should lead, though he (the Prime Minister) had put in their pail

*The President* said he had noticed that! Could they talk about the British alternative currency idea?

*The Prime Minister* said that there are some similarities between the position of the U.S. dollar, and that of sterling in the mid-'60s. Treasury Secretary Fowler<sup>5</sup> had then helped Britain with swaps, in order to preserve sterling in the front-line. He (Fowler) saw that if sterling went out as a reserve currency, then there would be an attack on the dollar. Britain and America worked together, therefore. But now that (attack on the dollar) has happened. He would now speak, not as a British politician, but as a friend. He believes that the burden of having the dollar as a reserve currency is too great—though he knows that the U.S. Treasury people would not like him saying this! After all, the U.S. share of world trade is smaller than it was 20 years ago. The U.S. needs a

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<sup>5</sup> Henry Fowler was Secretary of the Treasury from April 1965 until December 1968.

greater trade share in order for the dollar to be a reserve currency. Otherwise, the U.S. would either be nagged to do things that it does not want to do, or to assist the world in ways that would not fit with U.S. needs. There is some similarity with sterling, though in other ways the dollar and the sterling situations are not similar—e.g. U.S. productivity. But when he sees surges against the dollar, he is moved to say what Mike Blumenthal said 10 years ago (about sterling).<sup>6</sup>

Therefore, this is a personal matter. He believes it would be wise for the President to reactivate SDRs; this would therefore be an act to bring SDRs back to life. He would like, in the U.S. interest and in the world interest, to build up SDRs alongside the dollar—though not to replace it. The situation was different in the 1960s—then it was hard to get SDRs accepted. The argument was about whether more liquidity was needed. France was against increasing liquidity, and may have been right.

Therefore, it would be tough to get his proposal accepted. But if it were possible to get such a system, to convert part of reserves to SDRs, along with other (?) currencies, then the U.S. would have an added pillar.

The basis of a reserve currency is that it is a constant store of value—or the Saudis will say what they will do. With floating rates, there is no constant store of value. He is against floating. His belief is for being close to fixed rates—though he knows he is in the minority! Peter (Jay) is gritting his teeth! And all the President's experts are doing the same! But without a constant store of value, the U.S. will be in trouble. Thus this (proposal on SDRs) is in the U.S. interest and in the world interest.

*The President* then adjourned the meeting for lunch. (12:00)

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<sup>6</sup> Not further identified.

**122. Memorandum of Conversation<sup>1</sup>**

Washington, March 23, 1978, noon–1 p.m.

## SUBJECT

Summary of the President's Luncheon with UK Prime Minister James Callaghan

## PARTICIPANTS

President Jimmy Carter  
Secretary of State Cyrus Vance  
Secretary of the Treasury W. Michael Blumenthal  
Dr. Zbigniew Brzezinski, Assistant to the President for National Security Affairs  
Ambassador Kingman Brewster, U.S. Ambassador to the United Kingdom  
Ambassador Henry Owen  
Robert Hunter, NSC Staff Member (Notetaker)

UK Prime Minister James Callaghan  
Ambassador Peter Jay, British Ambassador to the United States  
Sir John Hunt, Secretary of the Cabinet  
Kenneth E. Couzens, Treasury  
William S. Ryrie, Minister (Economics), British Embassy, Washington, D.C.  
Kenneth Stowe, Principal Private Secretary to the Prime Minister  
T.D. McCaffrey, Press Secretary to the Prime Minister  
Thomas McNally, Political Adviser to the Prime Minister

(The participants reassembled in the Private Dining Room on the first floor of the Mansion. At 12:17, the President invited Secretary Blumenthal to continue the discussion.)

*Secretary Blumenthal* said that the Prime Minister is right that in the Treasury there are experts and technicians who take theological views. But he can assure him that Tony Solomon and Fred Bergsten have no theological baggage. He sees two issues: first is the question of the floating rate system—which we are trying to make work; second is the question of whether the dollar alone can bear the burden in the future as *the* reserve currency. There *are* burdens, we have learned, and a connection with our domestic economy. There has been a rude awakening with our trade percentage down—we had thought we could separate the domestic and the international (factors?).

On fixed vs. floating rates, he joins those, in the United States and Britain, who feel that the old fixed-rate system couldn't work again. The flexible rate system is best suited in a world where fundamental changes are not finished. We need perhaps a decade of flexibility. He feels that the flexible rate system is needed, but maybe it does not work

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 2–3/78. Secret; Sensitive. The meeting took place in the Private Dining Room on the first floor of the Mansion.

well enough. New articles for the IMF—in the next few weeks—will increase the IMF's surveillance role. This will strengthen the IMF.

On SDRs, we are for thinking about the Prime Minister's proposal. The roof leaks, but we should not give cause for concern to the markets, that we are tinkering with the whole system. This would be another element of uncertainty in a delicate situation. Maybe the Prime Minister has a point in the long-term; maybe this is something for the U.S. in the long-term, but only the long-term. We must be very, very careful about this: we can think about it, but must give no impression that we are working on it. This is delicate.

*The Prime Minister* said he had planned just to note the issue, only the President had then asked about it. He is worried, too, about the markets. But it should be all right to talk as friends. He agrees that the markets (?) are important; this is the psychology of the situation. Money is like a woman's virtue; it is most safeguarded when least talked about. On fixed rates, he will accept what has been said. But in the long-term, he hopes thought will be given to them. The situation is not good. He hopes people will not think that the issue is solved, even as we get through this present period. It will still be with us after the U.S. amends its Constitution and the 4th Carter Administration is beginning

*The President* said he hopes to get to the fourth year

*The Prime Minister* said that there is a problem, and that it is basically in the United States' and the world's interest for it to be solved.

*Ambassador Jay* said he agreed about that in the long-term.

*Mr. Couzens* said that he agreed with the Prime Minister on the fundamentals. If they are talking of other issues, it is because there is so much common ground between the United States and the United Kingdom. Therefore, we should not get the issues out of proportion. On SDRs, he agreed that it would be dangerous in the markets to say anything. But there is really nothing to say: the proposal has already been made. Information on it has got into the press from Witteveen. Therefore it is in the press, and there is a debate, without our acting to bring this about. It is best that the idea has come out in public that way. And he hoped that the United States will think about it.

*The Prime Minister* asked what the proposal was that was put forward by Witteveen.

*Mr. Ryrrie* said that it would replace some reserves with SDRs.

*The Prime Minister* asked if there were a U.S. proposal.

*Mr. Couzens* said no, and that there was not a British proposal, either.

*The Prime Minister* said that yes there is, he had made it this morning! He then agreed that the two sides should "work it out."



*Secretary Blumenthal* said that there is an Interim Committee Meeting next month. Would this idea come up?

*Mr. Couzens* said that it might come up.<sup>2</sup>

*The Prime Minister* said that he hoped that this would not be worked on by countries individually. Do they talk with one another?

*Mr. Couzens* replied that this is going on constantly.

*Secretary Blumenthal* asked what could be done before the Summit to increase growth rates. He hoped that Henry Owen would talk about the Preparatory Meeting. It was important to have some sense of the level of numbers before the Summit. Then there could be some level of commitment before then. If nations would put their weight behind it, this would be good.

*Ambassador Owen* said that in preparing for Bonn, one question is how to create the needed climate with Germany and Japan. The Prime Minister had suggested putting this into a framework, with each nation's contributing to the right approach. There should be a package, with each contributing, and each gaining. Therefore in Bonn, the issue will be how to fashion this approach, and how to get agreement. Between now and Bonn, we need to find how to work on all the information (?), then have the Summit, and see what should happen next.

*Sir John Hunt* said that, on getting a satisfactory response at the Summit, we will not get this from Germany without something on currency stability—*something*—that will convey a sense that the issue is being tackled.

*Ambassador Owen* said that we should distinguish between symptoms and the fundamentals—such as energy and inflation in the U.S. Where should the balance be struck? Mike Blumenthal might talk about multilateral swaps and long-term currency borrowings, which they had not covered.

*Secretary Blumenthal* said that, on multilateral swaps, if we activated a line with several countries, including Britain, this would lead to expectations for intervention on the dollar–sterling link, as well as on the French franc, the lira, and the yen. There would be a number of serious problems. First, there are not enough resources. Second, this is an expensive process, even with *one* currency. Third, the key Congressional chairmen are unalterably opposed even to what we are doing now. Fourth, the market is not the real problem. Intervening on cur-

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<sup>2</sup> Witteveen's proposal, which involved the substitution of newly-created SDRs for dollars in national currency reserves, was slated to be discussed by the IMF Interim Committee when it met at the Ministerial level in Mexico City on April 29 and 30. (Hobart Rowen, "Witteveen Plan Aims To Ease Dollar Pressure," *The Washington Post*, April 12, 1978, p. D13; Clyde H. Farnsworth, "U.S. Resisting Witteveen's Plan For Supplanting Surplus Dollars," *The New York Times*, April 24, 1978, p. D1)

rencies will not deal with the perception of the dollar's instability. Fifth, what are the costs of commitment in a multilateral system of larger numbers of currencies?—it could be substantial.

*Secretary Vance* asked about the yen in terms of perceptions.

*Secretary Blumenthal* said that the yen is a special case: the Japanese have a huge current account surplus. There is no way, without the market's seeing a rapid reduction in this current account surplus, for intervention to work. And the yen does not pull the D-mark and sterling. The D-mark pulls other European currencies, and is the key currency in the snake. Japan wants us to act. But there are no resources to do so. And it would not be understood here, in terms of trade and protectionism, that we were trying to maintain the dollar-yen rate, with that \$13 billion Japanese current account surplus. The President would be put in an impossible position. This is difficult for the Japanese, but the U.S. will not agree to maintain the dollar-yen rate. Is that what the British really want?

*The Prime Minister* said no. But if the U.S. says that it will not intervene, then there will be political nervousness, and a reaction. How will the U.S. deal with that? Schmidt said that getting sterling in would help. He (the Prime Minister) is not keen on that, but he is willing for psychological reasons to help—though he does not think it would really help.

*Mr. Couzens* said that there are two sides to the issue. Britain has not ruled out putting its money where its mouth is. This had helped in the past. It spreads the burden. But Britain is not pressing the approach.

*The Prime Minister* said that if the U.S. leaves out this approach, how will it finance its deficit?

*Secretary Blumenthal* said that on the 13th of March, we set up additional swap lines with Germany. We will see further what to do on SDRs, and will draw from the IMF if need be. He hopes—in talks with Schmidt—that Germany will use other currencies than the dollar for intervention in the snake. We will have more SDRs, and the IMF approach, and work on fundamentals. We hope to have action on energy, and there is the President's anti-inflation program; if these are seen as biting, this will give assurances on the course of the U.S. economy.

On the question of the sale of foreign-currency denominated bonds, it has been his experience that there is a clamor for a new bandaid as the answer to problems. We put on a bandaid, and there is a new clamor. Thus, this is not the answer; it is just another way to borrow foreign currencies, and is dangerous for the United States. First, the Saudis—and OPEC generally—are loyal in their support for the U.S., and stay with the dollar. Their interests are in dollar-denominated securities. As soon as there were some in D-marks or Swiss francs, then the Saudi finance ministry would say it now wants the same rate secur-

ities for Saudi Arabia. Therefore, there would be a counterproductive reaction. Second, there is total opposition to this approach in Congress. The exchange risk is great. The Roosa bonds,<sup>3</sup> for example, were very costly to us.

*Mr. Couzens* said that they cost the U.S. an arm and a leg!

*The Prime Minister* mentioned Roosa—who is on Wall Street making a fortune!

*Secretary Blumenthal* asked how we could account for these in the Exchange Stabilization Fund? It was nearly broke. With the Roosa bonds, we borrowed in Swiss francs at 4 to 1 to the dollar, and now it is 1.8 to one. The paper loss is enormous. Some people are saying that we should borrow even more—\$10–20 billion worth. They should see Senator Proxmire's comments! Thus we don't want to do this, and would have difficulties if we did.

*The Prime Minister* agreed that we should focus on the long-term. The Market is short-term. Therefore, how do we get from here to there? He does not say that Roosa bonds are the answer, but with market psychology, we must show we are dealing with real fundamentals. This is a similar time to ten years ago in Britain.

*Secretary Blumenthal* asked whether the Prime Minister feels that, if the U.S. is seen as acting on energy and on inflation—in believable ways, *and* if people saw international concord and commitment to reach growth targets, *and* with swap lines, *and* with U.S. drawings on the IMF, *and* with SDRs, *and* maybe the U.S. were prepared to sell gold—can't we turn the situation around?

*The Prime Minister* replied yes—for two to three years (although there were a lot of "ifs"). It is vital to make this the focus for July.

*The President* said that none of the "ifs" listed by Secretary Blumenthal are difficult for the U.S. to do; all are possible for us.

*The Prime Minister* said that other steps are needed in some (countries?). It would be tough to get Germany on board.

*Sir John Hunt* agreed. If the United States did all these things, this would be a considerable help. The present problem is to relate these steps together, as energy action is related to the wider situation—this helps considerably.

*Mr. Couzens* referred to the latter part of the list—like IMF drawings: these are goods in the shop window. They show that we are using the international system, and not acting just bilaterally, hand-to-mouth. This will help, if it looks like a score on the Summit list.

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<sup>3</sup> During the 1960s, the Treasury issued medium-term securities that were denominated in foreign currencies; these were called "Roosa bonds," after Under Secretary of the Treasury for Monetary Affairs Robert Roosa.

On SDRs, these should be used with Germany, but linked to the international system. Therefore, this would be less offensive to Britain and to others. It would achieve many of the same things, but it would not be bilateral or unilateral—rather, all would be acting together. Therefore, there is a virtue in this approach, within the Blumenthal context.

*Secretary Blumenthal* agreed, in context. He continued that, on the IMF, we are in the middle of getting the Witteveen facility. Our IMF action will show Congress that the Witteveen facility is not foreign aid, since we would be using it (the IMF).

*The Prime Minister* said that the U.S. has to carry the technical things on. Could Henry Owen and John Hunt tell us secretly how to carry on?

*Ambassador Owen* said that, at the preparatory meeting, they would go down the main heads for discussion from the British paper. Maybe more preparatory work will be needed. There will be reports of the Seven, such as how they will work out jointly on energy. The Bureau in the OECD would look at non-inflation ideas. Then there would be another preparatory meeting, and if each government were keeping to the framework, then we could go to the Summit for a success. He will not know about this until he sees German officials next week. There will be a Presidential letter to Schmidt, and Ambassador Owen would be seeing Schmidt.

*Sir John Hunt* said that Germany will not say yes (on growth?) or do anything before the Summit. Part of the operation is getting others to do what they should. Schmidt wants a good Summit. Intellectually Schmidt thinks that Germany should not do more, but he may do it. Therefore, next week they will get little at the Preparatory Group, but there will be a report to heads of government on what they will have covered. They should try to get agreement on the objectives; later, they can try for agreement on the means. Before Bonn, there will be a European Summit on April 7 and 8. It is his guess that they could get help for their approach at this European Summit. We will need top level political encouragement at each stage.

*The Prime Minister* said that, on Germany, he had seen Schmidt. Sir John is right about Schmidt's attitudes. Schmidt said that the Prime Minister should come to see the President. Schmidt agrees on the problems, but he disagrees on the remedy. He (the Prime Minister) thinks we can move Germany and Schmidt, but he fears that Schmidt will make a gesture in May, then at the Bonn Summit say that what he did in May was his contribution. Therefore, we need to get him to act, and can do so. Part of it is how we dress it up.

*Secretary Blumenthal* then reviewed paragraphs 4 and 5 of the text of the March 13 agreement with Germany,<sup>4</sup> to indicate that Germany—on paragraph 4—may move. This was a German paragraph. It implies that after the first-quarter figures are in, there may be more action. Paragraph 5 was on energy, in which the U.S. was committed to look further at its efforts.

*The President* said that we found this meeting worthwhile. It has clarified some possibilities. The Prime Minister now understands U.S. limits and inclinations. He seconded what Mike Blumenthal had said about announcements by Germany before the Bonn Summit. Though maybe Schmidt will wait until Bonn to act, in order to create an aura of success. As we will do, these steps would be identified as part of the overall approach. He guesses that Schmidt would like the heads of state to leave with a sense that Germany was helping, and had made some sacrifice. Schmidt would not want to be seen as an obstacle to progress. On political pressure, we should not underestimate the German ordeal in the 1920s.<sup>5</sup> We understand.

All this has been very helpful. With the Prime Minister at Copenhagen, and as we also present ideas to the press, this should not be put forward as an American and British plan. He would like to say to Schmidt that he would like him to understand the U.S. view of the problems and the way we are addressing them. All of us need to work together, and ease Schmidt forward. He then asked Dr. Brzezinski to draft a message to Schmidt, emphasizing our conviction that efforts should be multinational, but that each nation would need to do something. The draft should say what we can do, with cooperation and consultation.

*The Prime Minister* said that he will write to Fukuda.

*The President* said he would, too; Fukuda thinks he is left out, sometimes.

(The President then adjourned the lunch at 1:00 for a private Oval Office meeting with Prime Minister Callaghan, which continued to about 1:25.)

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<sup>4</sup> See footnote 4, Document 114.

<sup>5</sup> Apparently a reference to the German hyperinflation during the early years of the Weimar Republic.

## 123. Information Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, March 24, 1978

### SUBJECT

Inflation, Energy, and the Dollar

I want to summarize for you a series of recent developments that, taken together, heighten my concern about the inflation, energy, and dollar situations.

### *Inflation*

All the recent statistics are very troubling.

- Treasury and CEA now estimate that the CPI will rise 7.0–7.1% between the fourth quarter of 1977 and the fourth quarter of 1978. As recently as January, our published estimate was 6.1%.

- Early indications suggest that the GNP deflator will rise at an annual rate of 7.8% in the first quarter of 1978, as opposed to only 5.9% in the fourth quarter of 1977.

- In January, the CPI rose 0.8%, i.e. an annual rate of 9.6%. The February numbers will likely be equally discouraging.

- The wholesale prices of consumer foods increased by 2.9% in February, foreshadowing sharp retail food price increases.

As statistics like this accumulate in the next few weeks, they will fuel inflationary expectations throughout the private sector and will impart a new, upward thrust to the wage-price spiral.

### *Budget*

Inflationary expectations may be further aggravated by the budgetary situation.

In January, we proposed a \$60 billion deficit for FY 1979. We defended this figure as being smaller than the FY 1978 deficit. Since then, however, we have re-estimated the FY 1978 deficit at \$53 and our proposed FY 1979 deficit at \$59 (due in each case to spending shortfalls). This has put us in the very awkward position of arguing that the deficit should grow substantially between FY 1978 and FY 1979—even though by 1979, unemployment will have fallen further, capacity and labor

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<sup>1</sup> Source: Department of the Treasury, Office of the Secretary, Executive Secretariat, 1978 Files, 56–83–69. Secret. In a March 24 note to Hutcheson, Hessler wrote: “Mike Blumenthal asked whether the President might see this Monday [March 27], before his trip. It is an information memo, and Mike has no objection to it being staffed routinely—so long as the President gets to see it before his trip.” (Ibid.) Carter traveled to Venezuela, Brazil, Nigeria, and Liberia March 28–April 3.

markets will be tighter, and inflation will be higher. What's worse, there are enormous pressures, at every program point, to enlarge the FY 1979 deficit beyond our January figure.

A few examples:

Urban program	\$1–3 billion
Farm legislation	\$1–3 billion
Elimination of some tax reforms	\$2–4 billion (at minimum)
Tuition Tax credit	\$1–2 billion
<hr/>	
Total	\$5–12 billion

Unless we exercise a very firm hand, the FY 1979 deficit will almost certainly balloon—despite shortfalls and contingencies—to \$63–65 billion, i.e. at least a \$10 billion increase over FY 1978.

Against this inflationary background, financial markets will inevitably tighten, either spontaneously or through a more restrictive monetary policy by the Federal Reserve.

### *Energy*

The Energy Conferees have recessed for another 10 days, with no action in sight on COET. For this bill, the end is always in sight, but never in hand.

There are gathering signs that OPEC will not long hold back from price-raising action. King Khalid's letter to you is one straw in the wind.<sup>2</sup> The Kuwaiti-led drive for a 5% price rise is an equally serious portent.

### *Dollar*

Given this environment, the foreign exchange markets remain nervous. The pressure has momentarily subsided on the German mark and Swiss franc but demand for the Japanese yen is especially strong. The dollar has depreciated against the yen by 4.4% so far this month, despite intervention by Japanese authorities totaling \$4.1 billion. We are seeing signs that central banks as well as private firms are shifting financial reserves into yen; our information is incomplete and sensitive but the amounts appear to be quite substantial.

Private bankers are telling me that capital is continuing to flow out of the U.S., following an estimated fourth quarter 1977 net outflow of almost \$10 billion.

I am very concerned about the impact on the market of next week's release of the CPI and leading indicators for February. The leading in-

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<sup>2</sup> The text of Khalid's March 12 letter to Carter is in telegram 1941 from Jidda, March 13; National Archives, RG 59, Central Foreign Policy File, D780112–0063.

dicators may be down due to a decline in money supply and to weather and coal strike<sup>3</sup> effects, following on the heels of a decline in January of 1.9%. It is unlikely that this and the inflation figures for February will be well received, especially after we just this week revised upward our estimate for the 1977 current account deficit to \$20.2 billion.

These trends seem to me to dictate three conclusions:

1. Immediately after your trip, we should inform the Congress that, absent prompt passage of COET, circumstances will require imposition of an oil import fee. This would not be intended as a threat but as a step necessary to our economic and political security.

2. The anti-inflation program you announce after your trip must be tough and credible. I have asked the EPG to review the plan submitted this week with this in mind: we may propose additional options to you.

3. In light of the economic and political risks of accelerating inflation and continuing weakening of the dollar, we should review our economic goals and the fiscal policies designed to achieve them.

We still have time to master these related threats to our prosperity, but not much time. If we shy from taking difficult actions now, we may face almost impossible difficulties in the future.

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<sup>3</sup> Coal miners were on strike from December 1977 until March 1978.



**124. Letter From President Carter to West German Chancellor Schmidt<sup>1</sup>**

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.

To have the maximum psychological impact, however, these national measures should be seen as part of a wider cooperative effort. If

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, Germany, Federal Republic of: Chancellor Helmut Schmidt, 1–12/78. No classification marking. Sent to Carter for his signature under cover of a March 24 memorandum from Owen, who noted Fallows' concurrence. Owen explained that the letter's length arose from his concern that "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." (Ibid.) Similar letters were sent to Fukuda and Giscard on March 27; substantive differences are indicated in footnotes below. These letters are in the Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 1–12/78, and Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 13, Germany F R: 1–6/78, respectively.

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<sup>2</sup> that is open to each of our countries.<sup>3</sup> 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.<sup>4</sup>

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<sup>5</sup> about U.S. inflation. I expect soon to announce further strong anti-inflationary U.S. measures, which can be related to our

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<sup>2</sup> In Carter's letter to Fukuda, this phrase reads: "margin for action on growth."

<sup>3</sup> In Carter's letter to Giscard, this sentence reads: "I hope that preparatory studies will help us to draw conclusions regarding the margin for growth that is open to each of our countries."

<sup>4</sup> In Carter's letter to Fukuda, an additional sentence was added to the end of this paragraph: "I look forward to discussing with you in early May the contribution that both our countries can make to this growth strategy." Fukuda paid an official visit to Washington May 1-3.

<sup>5</sup> In Carter's letter to Fukuda, this phrase reads: "rising US concerns."

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.<sup>6</sup>

4. In *trade*, I hope the Summit Preparatory Group can define the areas that heads of government will need to address,<sup>7</sup> in order to ensure successful conclusion of the Multilateral Trade Negotiations and to forestall any revival of protectionism.<sup>8</sup> 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.<sup>9</sup>

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.<sup>10</sup>

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

<sup>6</sup> In Carter's letter to Fukuda, the final sentence of this paragraph was replaced by these two sentences: "I understand the economic difficulties that you now confront; I am hopeful that if progress can thus be made on fundamentals, currency disorders will subside. As you know, we do not intend to intervene to defend any fixed dollar rate or target range, but I believe our impending actions on energy and inflation will make a real contribution to improvement in global prospects."

<sup>7</sup> In Carter's letter to Fukuda, the phrase "at the Summit or before" was added at this point in the sentence.

<sup>8</sup> In Carter's letter to Giscard, the paragraph ends here. In his March 24 covering memorandum to Carter (see footnote 1 above), Owen noted that "the letter to Giscard has less on trade than the others, given his views on this subject."

<sup>9</sup> In Carter's letter to Fukuda, the final sentence of this paragraph was replaced by these two sentences: "I look forward to discussing with you in early May the further measures to be taken by both our countries in fulfilling the Ushiba–Strauss agreement, including the additional MTN offers required to meet the objective specified in that agreement. Given the size and continued growth of Japan's current account surplus, I know you will agree that it is important that every effort be made to achieve progress in the areas listed in that agreement." Regarding the Ushiba–Strauss agreement, see Documents 97 and 99.

<sup>10</sup> In Carter's letter to Giscard, the final sentence of this paragraph was replaced by this sentence: "I know of your own long-standing interest in aid to these countries." In Carter's letter to Fukuda, this paragraph reads: "As part of this package approach, we should consider how to increase *long-term capital flows*, particularly from the surplus countries, to developing countries. Expanded private investment and untied bilateral and multilateral aid to these countries would facilitate world economic recovery, particularly during this period of low growth in the industrial countries. I was pleased to hear that you have recently taken steps to this end. I hope that we can talk about further steps by both our countries in May."

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.<sup>11</sup>

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.<sup>12</sup>

Sincerely,

**Jimmy Carter**

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<sup>11</sup> In Carter's letter to Giscard, an additional sentence was added to the end of this paragraph: "This would be consistent with your view that Summits should only be held if they can do something useful—which must depend, in the end, on the heads of government themselves."

<sup>12</sup> In both Carter's letter to Giscard and his letter to Fukuda, this paragraph is different. In the letter to Giscard, the final paragraph reads: "How does this all strike you? I look forward to hearing your thoughts, given your wide knowledge and experience in this field. In closing, Valery, I would like to express my personal admiration for your leadership as President of the Republic during recent months. Now that your elections are past—with such a remarkable turn-out of voters in support of the democratic process—I look forward to continuing our close and personal relations. I felt in January that you and I had helped to begin a new era in Franco-American friendship, and I shall do all that I can to strengthen that friendship in the days ahead." In the letter to Fukuda, the final paragraph reads: "I look forward to learning your views on these issues when you and I meet, little more than a month hence. I greatly value your judgment, given your wide knowledge and experience in this field. 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 close and continuing communication."

**125. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, April 8, 1978

## SUBJECT

Chancellor Schmidt's Messages to You About the Summit

1. When I saw him last week,<sup>2</sup> the Chancellor told me that he accepts the notion of a package approach suggested in your recent letter to him.<sup>3</sup> This report summarizes his comments on the package's three main elements—US action on inflation and energy, German and Japanese growth, and UK and French acceptance of more liberal trade policies—and submits for your approval a draft letter to Schmidt.

2. *US Action*

a. *Inflation.* The Chancellor stressed the need for effective US anti-inflationary action to strengthen the dollar; he said that he realized from his own experience both how painful such measures were bound to be politically in the US, and how necessary it was to stick with them, year in and year out, if inflation was to be brought under control.

b. *Energy.* The Chancellor asked about energy prospects. He made clear that nothing would do so much to enhance European confidence in US leadership as effective action to limit oil imports, and asked when you would act, if the Congress did not.

The Chancellor said that we were on the right track in thus addressing the causes, rather than the symptoms, of the dollar's decline. Neither he nor any of his subordinates showed any desire to see us intervene more actively in exchange markets.

3. *German and Japanese Action*

a. *Japan.* I told the Chancellor that my Japanese Summit colleagues in the Summit Preparatory Group felt that there was a good chance of Fukuda submitting an expansionist budget to the Diet in September, intended to raise Japanese 1978 growth from 5–6% to something over 6%. Schmidt was skeptical the Japanese would reach such a high figure.

b. *Germany.* He said the German government would introduce a stimulus package if the FRG could not achieve its 3.5% 1978 growth

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, Germany, Federal Republic of: Chancellor Helmut Schmidt, 1-12/78. Confidential. Sent for action. Brzezinski initialed the memorandum, which Owen sent to him under cover of an April 10 note. (Ibid.)

<sup>2</sup> No record of Owen's meeting with Schmidt was found.

<sup>3</sup> See Document 124.

target. He warned that he would not say so publicly, until and unless the time came to act. He was unclear about timing; at one point he indicated that he would only make his decision in August, i.e., after the Summit. His subordinates, by contrast, favored announcing the proposal for a tax cut before or at the Summit. I stressed to them the difficult situation in which you would find yourself attending a Summit, if German growth was low and the German government gave no sign of wanting to do something about it.

The Chancellor wanted you to know how hard he had worked to achieve a tax cut last year when he realized that German growth was falling below target; he asked me to tell you that he was confident that he could get parliamentary approval this time if it proved necessary. He implied that German stimulus measures would hinge on a favorable international environment—i.e., the US vigorously attacking its inflation and energy problems.

4. *UK and France.* One German official said: "The politically tough decisions in this package have to be made by the US and Germany; there's nothing we want from the UK and France except better trade policies." He is right. A successful MTN and avoidance of specific forms of protectionism should be the UK's and France's contribution to an economic package, since they are the worst offenders on trade policy. The Chancellor asked about creeping US protectionism; I said there was nothing wrong with US trade policy that a successful MTN wouldn't cure.

5. *Conclusion.* My hour and a half meeting with the Chancellor was specific and business-like. He asked me to tell you that Germany would loyally support US policy, and that he wanted to cooperate closely with you. The discussion covered much the same ground that you did with Callaghan and gave us most of what we wanted: German agreement to a package approach, and a commitment to stimulus measures, if needed. It did not settle the important problem of stimulus timing. I suspect, as you indicated at the Callaghan lunch, that the Chancellor will eventually agree to action at the Summit, since he wants a successful Summit. But he will have to decide this before the Summit, since several weeks of advance consultation with party leaders will be required.

6. *Action.* I attach a letter to Schmidt, cleared with State, Treasury, and Jim Fallows, thanking him for the messages he sent you, nailing down his commitments, and nudging him politely on timing. (Tab A)<sup>4</sup>

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<sup>4</sup> Tab A, attached but not printed, is a copy of the signed April 11 letter from Carter to Schmidt.

**126. Briefing Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Solomon) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, April 12, 1978

## SUBJECT

Supplemental Briefing for Fowler Committee Meeting April 13—Witteveen's Proposal for a "Substitution Account"

This proposal (described in Tabs D and F of your Fowler Committee briefing)<sup>2</sup> may become a focus of both the Fowler Committee and Interim Committee discussions. It has potentially wide implications, and we need to take a very careful approach.

In the C-20 reform negotiations,<sup>3</sup> there were extended discussions of proposals for substitution of SDRs for foreign official holdings of dollars, in the framework of a resumed system of par values and convertibility of currencies into "primary" reserve assets (SDR and gold). The idea was to establish a new account in the IMF that would buy dollars from official holders with newly created SDR, and hold the resulting claims on the U.S. The par value reform approach was dropped, and serious negotiations on terms of a substitution account never materialized. But it was widely assumed (hoped) by others that the U.S. would bear exchange risk *and* pay market rates of interest on substituted dollars, and would undertake some form of amortization obligation.

Witteveen's proposal is supposedly much more modest, and is not cast in terms of reform of the system. He has been trying to develop support for an SDR *allocation*, but has run into strong German and other European objections on grounds that additional international liquidity is not needed. He has hit on this scheme as a way of getting his SDR allocation and meeting European objections to increased liquidity: at the same time there is an SDR allocation, countries would make irrevocable

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<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 4, 4/78. Confidential. Drafted by Leddy and reviewed by Cross.

<sup>2</sup> The briefing was not found and no other record of the April 13 Fowler Committee meeting was found.

<sup>3</sup> In July 1972, the IMF Board of Governors established the Committee on Reform of the International Monetary System, also known as the Committee of Twenty or C-20. After 2 years of negotiations, the C-20 approved an Outline of Reform for the international monetary system at a Ministerial meeting held in June 1974 in Washington. For the text of the Outline, as well as the accompanying C-20 final report, see de Vries, *The International Monetary Fund, 1972–1978: Cooperation on Trial*, vol. III: Documents, pp. 165–196.

deposits of foreign exchange (mainly or wholly dollars) in a special account at the IMF. Each country's deposit would be equal to its allocation or to some agreed fraction of its allocation; the deposit would be illiquid and therefore no longer counted as reserves; and it would earn interest at longer-term rates based on IMF investment of the deposits in Treasury securities. (Although Witteveen's paper doesn't say so, he is entertaining an idea proposed by some that the U.S. would be expected to deposit gold.)

The advantages Witteveen claims for this scheme are a) modest movement toward making the SDR the "principal reserve asset in the system" and b) improvement in the "quality" of international liquidity.

There has been only very brief discussion of this proposal in the Executive Board. To generalize:

—A number of the Europeans are reluctant to increase liquidity, but if there has to be an SDR allocation anyway, this would be a way of mitigating the liquidity impact.

—The LDCs want a straightforward SDR allocation, and they do not want the study of a substitution account to delay an allocation. They profess some interest in the Witteveen idea if it is *additional* to a regular allocation—though they will probably oppose any *permanent* deposit of dollars as required in Witteveen's proposal.

—Nearly all are attracted in some degree by the implied reduction in the dollar's role in the system. This attraction is particularly strong so long as we are not regarded as dealing adequately with our balance of payments situation, and may overwhelm the views of some countries on the narrower question of SDR allocation *per se*.

As Witteveen has framed it, the proposal avoids some of the objections of some earlier substitution account proposals. He proposes no U.S. assumption of exchange risk or amortization obligations. The U.S. would be regarded as making a "cooperative" gesture, in agreeing both to an allocation and a modest movement of the system away from dollars.

*But I am very leery of this proposal.*

—Its stabilizing effect would be nil to negligible at best, and possibly adverse depending on the psychological reaction. The reaction could be bad. In any case, we could expect to get little credit for agreeing to it.

—Both the earlier reform discussions and the initial Board discussion of this proposal suggest a very tough negotiation on terms—interest rate, exchange risk, amortization, liquidity of deposits, what the U.S. puts in, etc.—and we, as issuers of dollars, have a fundamentally different position on these questions from the 131 dollar holders we would be negotiating with.

—There are serious legal questions about our authority to make the irrevocable deposits that would be required, whether in gold or



dollars, and serious questions of Congressional attitudes regardless of the legal position.

—Finally, there are political overtones and potential systemic implications that we need to test carefully. (For example, some may point to the fact the proposal is receiving serious consideration as evidence that the U.S. has mismanaged its affairs—we may hear some of that in the Fowler Committee.)

*Even if we were to decide that Witteveen's proposal were attractive to the U.S., our best tactical negotiating position might be one of skepticism and reluctance.* For the time being certainly, I think we should be skeptical, but willing to look at the proposal and hear the views of others. We should not be in the position of demandeur.

## 127. Memorandum of Conversation<sup>1</sup>

Washington, April 17, 1978, 2:27–2:47 p.m.

### SUBJECT

Summary of Telephone Conversation between the President and Prime Minister Callaghan

The following is a paraphrase of the conversation:

The President: Jim, how are you?

Callaghan: Fine.

The President: It's a great pleasure to talk with you.

Callaghan: I called just to exchange thoughts after the Neutron bomb decision.<sup>2</sup> How was Camp David?<sup>3</sup>

The President: Very good. It was the first time we'd done it. We reassessed the first fifteen months of the Administration, and the problems in an administrative sense. We also discussed several themal

<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 4/78. Secret; Sensitive. While the memorandum indicates that Carter spoke to Callaghan from the Oval Office, the President's Daily Diary states that the call took place in the Cabinet Room. (Carter Library, Presidential Materials)

<sup>2</sup> On April 7, Carter announced his decision to defer production of the neutron bomb; for the text of the statement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, p. 702.

<sup>3</sup> Carter met with select Cabinet members and senior advisers at Camp David on April 16 and 17. (Carter Library, Presidential Materials, President's Daily Diary)

issues, we talked about the mood of the country, and went over opinion polls. I think it cleared the air and helped to eliminate the kind of sniping and backbiting that is liable to occur. I think we came away with a renewed spirit, and a new sense of team. It was very, very good.

Callaghan: I think that's necessary now and again.

The President: I agree. It was the first time we'd done it. But I think we'll do it every three months or so. Camp David has all sorts of facilities.

Callaghan: It makes people feel they're part of a team.

The President: It breaks down tensions and alleviates all sorts of problems. There was some question about one junior staff member.

Callaghan: Jimmy, at this end the main issue on the cards is whether Europe goes it alone more than it cooperates with you in the United States. I detect more inclination in that direction here in Europe. Not in defense, of course; there you must remind those who would go it alone that European defense cannot be separated from the United States. But in the economic and monetary field I do detect a tendency. There is talk here, for instance, of enlarging the European "snake". If that were done, the only reason would be to insulate us a bit from what happens to the dollar.

When I talked with you before Easter I told you I was not in favor of enlarging the "snake".<sup>4</sup> That is still my view. I did go along with a technical examination of the question. But, frankly, an enlargement of the "snake" is not attractive to the United Kingdom or, I think, to the world economy as a whole. That is a political judgment. I will make sure that the question is not looked at from a political standpoint until after the Bonn Summit. But there is this feeling in Europe, and I thought you should know about it.

The President: I appreciate that. We had some reports from the periphery of the Copenhagen meeting.<sup>5</sup> We have been concerned, but not too seriously yet. Here there has been some reversal of previous concerns—such as inflation, the failure to pass the energy bill and the Panama Canal vote tomorrow. That concern has been alleviated here recently, to some degree. But I understand the concern in Europe and Japan over the appreciation of the yen and the Deutschmark.

Callaghan: That is wrapped up with other problems, especially unemployment.

The President: Here we have had considerable success in reducing unemployment over the last fifteen months.

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<sup>4</sup> See Document 121.

<sup>5</sup> The EC Heads of Government met in Copenhagen April 7–8.

Callaghan: (interference on line) When that is linked to the fall of the dollar, people begin to say: “The United States can stand on its own, we must do what we can by ourselves.” That would be extremely unfortunate.

The President: We must consult, at least at the level of Henry Owen. We should have an open and frank discussion—we have nothing to hide—of the advantages and disadvantages of our basic interdependence.

Callaghan: Helmut Schmidt is the key to the European view. I’m not sure you get his point of view clearly.

The President: I doubt it.

Callaghan: Germany is the strongest economy in Europe, and what it does makes a great deal of difference. Helmut feels strongly that Europe must organize itself to do better. You—not you personally, but your people—need to know his point of view better. It’s hard to understand. There is the coalition government, and Helmut and Genscher are not always on the same wavelength. Then there is the Bundesbank that has certain kinds of independence. But I’m not sure you get the depth of his view.

The President: I’m not sure I do. When we talk, either personally or on the phone, or when we exchange messages telegraphically, we have a good meeting of the minds. I will make a comment and he will respond that it is a good answer, that he agrees. But then I hear that he has expressed concerns about our actions and policies. That is something I have not been able to solve.

Callaghan: It’s very difficult if he won’t tell you what he thinks. My understanding of his view is that the United States cannot continue to expand, the dollar is in trouble and therefore the Europeans should do what they can to insulate themselves. I don’t know if you have heard it that way. But it is a stronger and stronger view in Europe. I don’t know how to obviate it.

I think it very likely that Giscard will re-enter the European “snake” before the Bonn Summit. I’m 99 per cent certain that I won’t. But the alternatives are complex. Helmut is the key.

The President: He is coming to Washington before the NATO Summit.<sup>6</sup> In view of what you’ve said, I’ll prepare myself very carefully—of course I’ll use words that don’t reveal where I heard of his view. When he comes, I’ll be more briefed than usual. He can speak

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<sup>6</sup> Giscard was in the United States May 26–31 to attend the UN Special Session on Disarmament. He had a working dinner with Carter on May 26. (Carter Library, Presidential Materials, President’s Daily Diary) The NATO Summit took place in Washington May 30–31.

frankly, bluntly. Why he is reticent with me, I can't understand. I'll try to break that down.

Callaghan: If I might suggest, perhaps you could have Miller with you, and he might bring Emminger or someone else from the Bundesbank.

The President: That's a good idea. We might perhaps have a luncheon, with a tiny group.

Callaghan: I think I would do that. If it's a tiny group, he'll talk frankly. He knows economic issues very well . . .

The President: Much better than I do.

Callaghan: . . . he was Finance Minister, he has had considerable experience, and he cares a great deal. He thinks the United States position is all wrong.

The President: I appreciate your advice, Jim, your admonition. It is very valuable to me.

Callaghan: Let me leave it there. Whatever you hear, you can be sure that I won't allow action on the "snake" before Bonn. Perhaps by then you'll have the measure of it.

The President: I do have one source of confidence—the strength of the U.S. economy. We did meet our goals for inflation and growth set at the London Summit, while some other countries did not. Barring unforeseen circumstances, we will meet them again this year. The goal for unemployment by the end of the year we've met already. There is no potential problem with our economy.

Callaghan: That's right. What is a matter of concern in Europe is the external value of the dollar. That is a difficult technical problem. If you could reduce your balance-of-payments deficit by some action on energy, that would be very healthy.

The President: Jim, thank you. I appreciate you being a good enough friend to speak frankly.

Callaghan: I would hope that in May at the NATO Summit we could have a declaration that means something, that talks about the interdependence of Europe and the United States.

The President: Right.

Callaghan: You know, as do I, that the Soviet Union believes it is the largest power in Europe but without comparable, matching influence in Western Europe. It will try to strengthen its position. Unless Europe responds and the United States recognizes that it is inextricably bound up with what happens in Europe, we'll all go under at some point. I saw Harold Brown for an hour today, and I have asked him and Fred Mulley to begin working on such a statement. I knew you wouldn't mind. Then I could raise the idea with Helmut Schmidt, who

I'll be seeing on Sunday.<sup>7</sup> The declaration would show the Soviet Union that there is no difference between us, and it would also demonstrate to the people of Europe and the United States that they must remain together.

The President: That is exactly our commitment and our purpose. That is the reason I suggested escalating the level of the NATO meeting. I think there is a new commitment to NATO in Europe, and a renewed commitment here. There was doubt in the past, but now the Alliance is strong. Our renewed, deepened commitment is reflected in our budget decisions and in many others. I think a strong statement in May would be very important.

Callaghan: That kind of statement could have repercussions on economics as well.

The President: Yes.

Callaghan: I remind those in Europe who could go a separate way about defense. We couldn't have close defense relations while economically we were pursuing different directions.

The President: Yes, Jim, you're a great man.

[Omitted here is discussion of the Comprehensive Test Ban Treaty and Carter's trip to Latin America and Africa.]

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<sup>7</sup> April 23.

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## 128. Paper Prepared by the National Security Council Staff<sup>1</sup>

Washington, undated

### THE DOLLAR CRISIS AND NATIONAL SECURITY

The prolonged decline of the dollar could have an adverse effect on the conduct of our foreign policy. Because of the importance of psy-

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 68, PRC 058, 3/16/78, Monetary Situation. Secret. Sent to Brzezinski under cover of an April 20 memorandum from Renner, who wrote: "Following the failure of CIA and State to produce any useful indication of foreign reactions to the dollar crisis, I wrote the attached paper on the basis of reason and instinct." Renner noted that the paper incorporated the suggestions of several NSC Staff members and commented: "It is ironical that the dollar has strengthened in the last several days. Perhaps the traders heard that the NSC was taking a serious view of the crisis!" (Ibid.) Renner sent a draft of the paper to Brzezinski and Owen under cover of a March 15 memorandum. (Ibid.)

chological factors, it is difficult to measure the impact of the falling dollar on the US position abroad. Nonetheless, a plausible case can be made that the falling dollar and our perceived inability to take adequate corrective measures is contributing to the development of an attitude toward the United States that could undermine our credibility abroad.

### *General*

Our ability to influence events in the world in order to protect our vital interests depends, in large measure, on military and economic power and foreign perceptions of our capacity to bring this power to bear in a controlled fashion on foreign situations. Thus, foreign attitudes about our determination and skill are almost as important as our strength.

Although the weakened dollar has undermined neither our military power nor the basic health of our economy, foreigners may have begun to question our willingness to use our strength in pursuit of our interests and to doubt our ability to grant and withdraw benefits. Our perceived inability or unwillingness to take corrective action may be changing foreign attitudes about our persistence in pursuit of our aims.

If we are seen as not having the resolve and expertness to take the steps necessary to strengthen the dollar, some foreigners may well be asking themselves whether we have the resoluteness and mastery to shape even more complex and hazardous situations. Some foreigners may pose the question to themselves this way: Can a country that has not been able to prevent its currency from tumbling be relied on to act decisively and effectively to influence events far from its shores?

Foreign assessments of the strength and determination of the US are based on many factors in addition to the fall of the dollar. Their appraisal of how the US might act in any given situation depends on their perception of the totality of these factors; and any one factor probably is not decisive.

Also the impact on foreign attitudes of the decline of the dollar and our reaction to it will be heightened if the crisis continues for an indefinite period. On the other hand, if the dollar stabilizes within a short time, it is probable that the damage to our perceived strength and resolve will not be permanent.

### *The Industrialized Democracies*

Our friends and allies fear that we either are indifferent to the fall of the dollar or are actively encouraging the depreciation of the dollar to stimulate US exports. In the former case, they fault us for lack of concern for their welfare. In the latter case, they accuse us of "malign neglect". In either case, they worry that their interests will suffer—that

their exports will fall, their income from investment and tourism drop, and their economies falter.

If they see our position on money as either ineffective or selfish, will this not begin to influence their attitude toward our reliability as a NATO partner? No European country, not even France, thinks that Western Europe can either defend itself against the Soviet Union or stand up alone to the tremendous political pressure the USSR could and would bring to bear on Western Europe if the US power and resolve came to be discounted. So much of the willingness of the Europeans to contribute to their own defense and to follow policies contrary to the wishes of the Soviet Union depends on their appraisal of the strength, steadfastness, and reliability of the United States.

The Japanese, in addition to sharing the European worry that the US is not able to act decisively and effectively to strengthen the dollar, are concerned that they are being discriminated against. Historically sensitive about being treated differently, the Japanese are not happy that the US intervenes to maintain orderly conditions in the Dollar–DM market and not in the Dollar–Yen market. They fear that the United States is using monetary policy to force changes in Japanese economic policies in a way and to an extent that the US would not with regard to Germany.

#### *The Soviet Union*

The Soviets are constantly trying to judge the priorities we assign to specific foreign policy objectives and the extent to which we are prepared to use our political, economic, and military strength to attain them. They probably see the dollar crisis and our perceived inability to deal with it as a sign of weakness. This perception could be a factor in persuading the Soviets that they can exploit opportunities in the world with less risk of American opposition than otherwise might have been the case, thus increasing the possibility of miscalculation that could result in dangerous confrontation.

#### *OPEC Countries*

The OPEC countries denominate their oil sales in dollars and keep their monetary reserves largely in dollar instruments. They decided to do so because they considered the dollar to be a stable currency. With the recent fall in the dollar, some OPEC countries have begun to question the wisdom of depending so heavily on the dollar. They have asked for OPEC consideration of denominating oil sales in other currencies and diversifying reserves. The Saudis have resisted these pressures. Whether they will maintain their faith in the long-term stability of the dollar will depend in large measure on their assessment of the ability of the US to deal with the fundamental causes of the depreciation of the dollar. If the Saudis and the Iranians decide that they should

switch away from the dollar, it is probable that their foreign policy outlook will be affected also. If they conclude that the US has neither the determination nor the ability to handle its currency properly, it is unlikely that this appraisal would not also influence to some extent their attitude toward broader cooperation with the United States. Such a change of perception might spill over onto the delicate Middle Eastern situation in ways and degrees that cannot be predicted.

*The Small and Weak Countries*

Most countries throughout the world do not have the resources to defend themselves adequately against foreign invasion. Their sovereignty and welfare are not entirely in their own hands. Many are dependent on the implicit acceptance of their frontiers by stronger nations. These small, weak countries feel obliged to live by their wits and, above all, their ability to align themselves directly or indirectly with powerful countries who might protect them or at least not harm them. Thus, the weak watch the strong and try to determine the extent to which the strong are likely to use or threaten to use their strength to harm or protect them.

This is an inexact science; the indications of the willingness of the strong to use their strength to affect foreign events are often fuzzy and contradictory. It is probable that the perception of the weak countries of how the US manages its economy and its money will condition their appraisal of how the US might respond to an armed struggle far from American shores. Thus, the decline of the dollar and the nature of our response may affect to some extent the way the small, weak countries judge the ability of the US to influence political and military events of importance to them.<sup>2</sup>

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<sup>2</sup> In an April 25 memorandum to Brzezinski, Renner wrote: "In view of your comments about my little paper on the dollar and national security, I am seeking your guidance regarding the next steps." He offered three options: that Brzezinski formally ask the CIA to prepare a report on "what foreign leaders and opinion makers have been saying about the decline of the dollar and our policy responses;" that Brzezinski discuss with him "what additional work you would like to have done and how best to get it done;" or no further action at that time. Renner counseled taking no further action. Given the stronger dollar, Renner argued, "if the energy bill is passed with COET, the chances are reasonably good that the previous precipitous decline will not be resumed;" moreover, accurately assessing and understanding foreign views was a very difficult task. Brzezinski indicated his approval of taking no further action. (Ibid.)



**129. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>**

Washington, April 28, 1978

## SUBJECT

Visit of Prime Minister Fukuda

The appreciation of the Japanese yen vis-a-vis the U.S. dollar over the past six months has caused Prime Minister Fukuda both economic and political difficulties. About six weeks ago, he instructed his cabinet to seek out every possible opportunity to make high-level representations to the U.S. about the need for U.S. action to stabilize the dollar.<sup>2</sup>

Japanese irritation was exacerbated by the fact that the U.S. was intervening by selling Deutschemarks but not by selling yen. It is neither politically feasible nor economically appropriate for us to intervene to support the yen-dollar rate, especially while Japan is running large trade and current account surpluses.

For the time being, Japanese concern over the yen-dollar rate has eased because the dollar has been slightly firmer for the past month. Recognizing that the U.S. is not prepared to commit itself to support the dollar against the yen through intervention, Fukuda has now established a public posture which will enable him to treat our announced

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, VIP Visit File, Box 8, Japan: Prime Minister Fukuda, 4/30/78–5/6/78: Cables and Memos. Confidential. Carter wrote at the top of the page: "ok. J." The memorandum was sent to Carter under cover of a May 1 memorandum from Owen, who noted that "the daily consultation referred to in this memo would be between the Federal Reserve Bank of New York, as the US Treasury's agent, and its opposite number, the Bank of Japan. Communication between our Treasury Department and the Japanese Finance Ministry would also be more frequent. It may not amount to much substantively, but it will give Fukuda something to take home and therefore it could be important politically." (Ibid.)

<sup>2</sup> In his March 31 reply to Carter's March 27 letter (see footnote 1, Document 124), Fukuda asserted that Japan's ability to reduce its current account surplus depended upon the major industrialized nations strengthening "their concerted action for stabilizing the world economy, especially the international monetary situation. I sincerely hope that the United States, which is the key currency country, gives due considerations to it." (Letter from Fukuda to Carter, March 31; Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 1–12/78) According to telegram 6538 from Tokyo, April 15, during an April 14 meeting with Schultze, Fukuda "spoke candidly about his expectation that U.S. as world's largest country whose currency is key currency would show greater concern about decline of dollar lest further declines lead to oil price increase, reversal of progress of last five years and resultant political confusion and chaos." (National Archives, RG 59, Central Foreign Policy File, D780161–1041)

intention to promote the stability of the dollar through action on the fundamentals (energy and inflation) as responsive to his request.

Nevertheless, the appearance of discrimination in our treatment of the yen and the Deutschmark rankles Fukuda personally and hurts him politically. As a means of easing this problem, we have offered to upgrade the consultations<sup>3</sup> between our monetary authorities to the level of our consultations with the Germans.

This will mean daily<sup>4</sup> telephone contact between officials directly responsible for exchange market developments.

We understand that Fukuda is highly pleased with this suggestion and wants to convey the Japanese response to you personally. In his comments to the press he will probably wish to treat the arrangement as an achievement of his visit.

If we are asked about it subsequently we would be prepared to state as follows: "In view of the importance of exchange rates to our broader economic relationship, we have agreed to strengthen the consultative procedures between U.S. and Japanese monetary authorities. For some time we have had consultations with German authorities daily. Similar procedures will now apply to Japan."<sup>5</sup>

**W. Michael Blumenthal<sup>6</sup>**

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<sup>3</sup> An unknown hand underlined the phrase "upgrade the consultations."

<sup>4</sup> An unknown hand circled the word "daily" and wrote a question mark above it.

<sup>5</sup> The final four paragraphs of this memorandum are highlighted. In his May 1 cover memorandum to Carter, Owen noted that he had "sidelined" those portions of Blumenthal's memorandum dealing with the new procedure for U.S.-Japanese monetary consultations.

<sup>6</sup> Blumenthal signed "Mike" above this typed signature.

### 130. Memorandum of Conversation<sup>1</sup>

Washington, May 3, 1978, 12:30–1:50 p.m.

#### SUBJECT

Summary of the President's Meeting with Prime Minister Takeo Fukuda

#### PARTICIPANTS

##### *U.S.*

President Jimmy Carter

Secretary of State Cyrus Vance

Secretary of the Treasury Mike Blumenthal

Zbigniew Brzezinski, Assistant to the President for National Security Affairs

Ambassador Robert Strauss, Special Representative for Trade Negotiations

Mike Mansfield, U.S. Ambassador to Japan

Ambassador Henry Owen, President's Special Representative for Summit Preparations

William Gleysteen, Acting Assistant Secretary of State for East Asia and Pacific Affairs

Mike Oksenberg, NSC Staff Member (Notetaker)

Mutsuyoshi Nishimura (Interpreter)

##### *Japan*

Prime Minister Takeo Fukuda

Sunao Sonoda, Foreign Minister

Nubihiko Ushiba, Minister for External Economic Affairs

Fumihiko Togo, Japanese Ambassador to the U.S.

Yoshiro Mori, Deputy Chief Cabinet Secretary

Masuo Takashima, Deputy Minister of Foreign Affairs

Toshiji Nakajima, Director-General, Ministry of Foreign Affairs

Hisashi Owada, Assistant to the Prime Minister (Notetaker)

Ryuichiro Yamazaki (Interpreter)

President Carter: Mike, why don't you get the discussion started with the analysis of the economic situation.

Secretary Blumenthal: Fine, Mr. President. We have gone through a difficult economic period. In our view in recent weeks the situation has begun to improve. We are engaged in communication with your colleagues on a number of mutual problems and are working up to the Bonn Summit in July.

I have been fully aware of the difficulties caused Japan by the rapid movement in exchange rates. We have tried to adopt both fundamental and short-run measures to ameliorate the situation. The basic insta-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 5/78. Secret; Sensitive. The meeting took place in the White House Dining Room. Fukuda made an official visit to Washington May 1–3. Memoranda of conversation of two meetings between Carter and Fukuda, as well as U.S. and Japanese officials, during the morning of May 3 are *ibid*.

bility in exchange markets has been caused by the energy crisis, resulting in different rates of growth and rates of inflation, causing trade surplus in Japan, Germany, and Switzerland, and inflation in the United States.

The long-term solution to inflation in the United States was outlined by the President in his April 11 speech.<sup>2</sup> Our goal is a 4½ percent growth rate. We intend to reduce the rate of inflation, and we will soon secure final enactment of an Energy Bill. This, plus the success of the Multilateral Trade Negotiations and our determined resistance to protectionist sentiment will make a success of our efforts.

Our monetary policy remains committed to following a flexible exchange rate. We will not peg the dollar to a particular level of value, or even to a zone or range of value.

Here are our measures for correcting short-term disorder in exchange rates:

—*International Collaboration.* The United States and Germany have developed and expanded a swap agreement which helps stabilize the dollar-yen relationship.

—*Our gold sales* are intended to provide further stability.

—*Consultations with Japan.* The Bank of New York and the Bank of Japan, as well as our Treasury and the Ministry of Finance, will exchange information daily to help deal with short-term problems.

As to the long-term solution, Japan clearly has an important role to play. Reduction of Japan's trade surplus is a key requirement. And key to this is for Japan to achieve a 7 percent growth rate.

Co-financing of the World Bank with a Japanese contribution would also improve the stability of the dollar-yen exchange rate.

A final element of our own policy is to work closely with you and to collaborate in the international organizations. We are engaged in efforts to secure maximum contributions to the World Bank and to such regional banks as the ADB, with aid on an untied basis. Collaboration in the International Monetary Fund is equally important. The Witteveen facility will contribute to this. We discussed the IMF surveillance mechanism in Mexico a few days ago and we should all collaborate closely on the results of that meeting.<sup>3</sup>

I am not going to comment on trade. Ambassador Strauss may want to do that.

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<sup>2</sup> Carter announced his anti-inflation policy on April 11; see footnote 14, Document 119.

<sup>3</sup> The IMF Interim Committee met at the Ministerial level in Mexico City April 29–30.

Prime Minister Fukuda: I thank Secretary Blumenthal for his remarks. I agree with his assessment. I basically agree with him as to how we should proceed.

Last year at the London Summit, various countries set targets as to the growth rate they intended to attain: West Germany pledged 4 percent and reached 2.4 percent; the United States pledged 5.8 percent and reached 4.9 percent; Japan pledged 6.7 percent and reached 5.3 percent. All the other countries did not meet their targets of growth.

In current account balances, your country had a deficit of \$10 billion while the Japanese surplus was \$14 billion. The situation is even more difficult this year.

The dollar is the key currency in the world. It is essential for the dollar to be stable. Japan and West Germany are trying to rectify their trade surpluses. These endeavors are not just to benefit the United States but benefit the whole world economy. We recognize our responsibility to rectify our trade surplus.

The depreciation of the dollar and the appreciation of the yen, however, meant that we were unable to reach our growth rate target. Had the dollar-yen exchange rate remained stable, we would have reached our goal of 6.7 percent last year. But because prices in the United States went up, the dollar value of our exports also went up. We expect another large surplus this year.

This year our goal is a 7 percent growth rate and a reduction in the surplus of our current accounts. Attainment of these goals is our responsibility to the world economy.

My major concern presently is how to cut the surplus. Let me give you my analysis of this.

On the export side, the yen value appreciated 30 percent in the past year, but this appreciation has not yet had its effect. Three exports account for 43 percent of the total value of Japanese exports to the United States:

—*Steel*. Due to the trigger price mechanism, we anticipate that steel exports to the United States will decrease 10 to 15 percent in volume.

—*Automobiles*. Though there is a long list of orders for automobiles, our goal is to keep the volume of sales the same as last year or less, if possible. We are pursuing administrative measures to this effect.

—*Color TVs*. We talked about this last year. We expect a 30 percent decrease in exports below the level of 1976, the year during which sales surged in the American market.

How these efforts to reduce exports in three key commodities will affect the dollar value of our exports is uncertain. If inflation continues in your country, then the value of these exports will still rise.

We appreciate the measures you intend to take to curb inflation. Anyway, the value of our exports to the United States will be affected not just by our own restraint but by your capacity to control inflation.

As to imports, our goal of a 7 percent growth in GNP should help. Some Japanese economists are pessimistic and doubt that we can attain a 7 percent growth rate. But based on my observations in the last four months, I am quite optimistic. I believe we are on the path to a 7 percent growth rate which is necessary in any case for domestic reasons. If the steps we have already taken are not sufficient, I will then take the necessary measures. This growth rate will increase imports, but there will be a time lag.

I have therefore concluded that urgent measures are necessary for the following:

—We seek to increase our import of enriched uranium and make advance payment for it. I request the President to consider favorably this proposal.

—We have sent the Ikeda purchasing mission to the United States.<sup>4</sup>

—We intend to stockpile non-ferrous metals.

—We intend to stockpile petroleum.

—We will purchase such civilian airplanes as the DC-980.

But I would repeat my concern that if inflation continues and the dollar continues to be devalued, then we are in a vicious cycle. Specifically, I have two concerns. First, the depreciation of the dollar will have a worldwide negative impact on trade. And second, as to Arab oil prices, although there is no immediate sign of problems given the supply of oil, as the dollar continues to be depreciated, then the Arabs may increase the price of oil, and this would become a worldwide problem. The background is the oil problem. United States consumers use 2½ times as much oil as the Japanese. I know of the Energy Bill. When I visited Congressmen yesterday I asked the Senate for an early conclusion for the Energy Bill for the rest of the world.

As to the international monetary situation, the results of the Mexico Conference were satisfactory. As to your suggestion that we cooperate with the World Bank, we will study this on a case-by-case basis.

I have proposed that we float World Bank bonds in Japan.

As to special economic assistance, we had earlier pledged to double ODEA assistance in five years, but we have changed this target to three years.

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<sup>4</sup> In keeping with the January agreement reached between Strauss and Japanese officials (see Documents 97 and 99), Yoshizo Ikeda, President of Mitsui & Company, led a mission in March to promote Japanese imports of U.S. goods. (Peter Kihss, "Japanese Offer a Ship to Display U.S. Export Goods in Their Ports," *The New York Times*, March 16, 1978, p. D16)

As to various research and development projects in the energy field, and joint research, I believe a joint energy resources fund would contribute greatly. I request the President to consider this. Japan is willing to cooperate, and cooperation would make a global contribution.

I repeat my view that a strong United States is important to world peace and prosperity.

I welcome the daily consultations on matters of currency exchange rates. As to the IMF, we will keep close contact with its officials and with you.

Also related to the energy situation, I talked to you last year about nuclear energy. It is necessary to cooperate in this field. We believe that nuclear energy is necessary. Japan is strongly in favor of nuclear non-proliferation. We are also in favor of pursuing the peaceful use of nuclear energy. We do not believe these two goals are incompatible. Last year, I made a request about Japan's strong interests in the peaceful use of nuclear energy. I request the President carefully to consider this request.

President Carter: We are scheduled to adjourn at this point. I hope I can impose on you to stay a few more minutes.

We are making every effort to solve our economic problems and to hold down inflation. The Congress and the American people are willing to join me.

Congress is considering a major bill, as you know. We have particular problems because we are both one of the leading producers of petroleum as well as leading consumer. It might be easier to settle the problem if we were simply a consumer. But I believe we are making progress.

As to nuclear energy, I believe the existence of Nuclear Fuel Cycle Evaluation will lead first to further peaceful uses of nuclear energy research and second to improved safeguards. I am committed to nuclear power with comprehensive safeguards that will prevent nuclear [proliferation?].

I would like to inform you briefly that we are making progress with the Soviets in our strategic arms limitation talks and with the Soviet Union and Great Britain in our efforts to reach a comprehensive Test Ban Treaty. We have good relations with the Arab oil producing nations.

We know we have a responsibility for maintaining world monetary stability. Japan shares with us the view that steady moderate growth and a minimum inflation are extremely important for the world economy. The moderate Arabs share that view with us.

I was gratified a few months ago with the Ushiba–Strauss Agreement<sup>5</sup> that was reached with your help. I might ask Bob Strauss to comment so that the two of us would be informed if we should discuss anything between us.

Ambassador Robert Strauss: I will be brief. Under the leadership of President Carter, this Administration is committed to free trade at a time when protectionist sentiment is as strong as I have ever seen it. Last week the issue was fasteners. The clock is running out on this.

Rather than adversaries across the bargaining table, we should consider ourselves members of the same team working together. Japan simply must upgrade the quality of its offer. We must have help there so that together we can beat back the protectionist sentiment. Optical measures are frequently helpful. But they must also be substantive. You should find room for a bit more beef and citrus. This will have an impact on the Congress to give us and you time to move forward. When you send a mission, be specific with plane purchases and timber. Look for specific things. Even if the dollar value is not large, it will have an impact.

Prime Minister Fukuda: The Bonn Summit must be a success. Some say it will be a place to agree to disagree, but we must agree there. We must reaffirm our commitment to free trade.

The Multilateral Trade Negotiations will have reached a conclusion by then. Last year at the London Summit I said that strong countries must pursue as high a growth rate as possible. We will cooperate in order to stabilize international monetary currencies.

On another subject, the purchase of Alaskan oil, I understand that one-third of this oil now goes to the West Coast and two-thirds to the East Coast. Would it be possible for Japan to either buy some of this oil or swap for it? I know you have some problems with this, but we have thought about it for a long time.

President Carter: I know. I know you discussed this with Vice President Mondale just a few hours after I had become President and we had talked about it last year. We will certainly keep this suggestion in mind.

I apologize for keeping you overtime. Our discussions have been important and fruitful. There have been no toasts because this has been an informal luncheon. But I wish to express my gratitude to you. We have shared the past, we share the present, and we will share the future together.

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<sup>5</sup> See Documents 97 and 99.



Prime Minister Fukuda: Thank you very much. Thank you for your kind words and for your hospitality. You are the President not only of the United States but of the whole world.

(As the meeting broke up Prime Minister Fukuda told the President that he hoped to see him in Japan.)

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**131. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) and the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, May 26, 1978

SUBJECT

Economic Issues at Your Tuesday Breakfast with Chancellor Schmidt<sup>2</sup>

This is a joint memorandum, since we are both interested in the Summit—Owen as your representative on the International Summit Preparatory Committee, and Schultze as chairman of a group of economic experts that met last weekend to prepare a report on macroeconomic policy for that Committee. This memo also reflects the views of your advisers in State and Treasury. A report on the Schultze group's meeting is attached at Tab A.<sup>3</sup> The Summit Preparatory Group will meet this coming weekend; if anything develops during this meeting that you should know, Owen will send you a supplementary note before you see Schmidt.<sup>4</sup>

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 6, [Bonn Economic] Summit 1978 [1]. Confidential. Sent for information.

<sup>2</sup> Carter and Schmidt held a breakfast meeting in the Oval Office on Tuesday, May 30, from 8:04 until 9 a.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation was found.

<sup>3</sup> Tab A, attached but not printed, is a May 25 memorandum from Schultze to Carter entitled "Economic Policy and the Summit."

<sup>4</sup> In a May 28 memorandum to Carter, Owen reported that "nothing emerged" from the May 27–28 meeting of the Summit Preparatory Group that would "change the briefing memo that Charlie Schultze and I sent you" on the breakfast meeting with Schmidt. (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 4–6/78) Owen's May 31 report on the Summit Preparatory Group meeting is in the Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 25, Summit: Bonn: 6/1–23/78.

1. *Introduction.* Whether Schmidt decides to take the decisions that we believe are needed for a successful Summit will depend partly on the impressions that he forms in his meeting with you Tuesday.

Schmidt's German colleagues have told us that he was puzzled in past bilateral meetings as to whether you agreed with him or not; in some cases, they say, he mistook your courtesy for assent, and was upset afterwards if he concluded that this had not been the case. They urge that you make clear any disagreements with him; he respects people who do.

You may want to start by thanking Schmidt for the statements that he has made, in answer to your telephone request, about the energy bill.<sup>5</sup> He spoke about this in his interview with the *Washington Post*,<sup>6</sup> in his BBC interview with Callaghan, and in a speech at Hamburg (which was misinterpreted in the US media as an attack on your policy).<sup>7</sup> The German Ambassador has been told how grateful we were, and that we hope Schmidt will speak further about this question while he is in Washington—to the press and to any members of Congress whom he may meet.

2. *Schmidt's Views.* Schmidt wants to preside over a successful Summit. He wants the US to contribute to that success by curtailing inflation and limiting oil imports;<sup>8</sup> he wants the UK and France to contribute by adopting sensible trade policies; and he indicated to Prime Minister Callaghan that he is prepared to contribute by taking addi-

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<sup>5</sup> During an April 13 telephone call, Carter said to Schmidt: "Any time you have the chance to speak out on the importance of our action on energy, please do so. Your words are closely monitored in this country." Schmidt replied: "I use the words 'assistance to the President's energy conception.'" (Memorandum of conversation, April 13; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 4/78)

<sup>6</sup> On April 20, *The Washington Post* published a report by Michael Getler on his "lengthy and wide-ranging interview" with Schmidt on April 19. ("Bonn Anxious on Dollar's Fate," *The Washington Post*, April 20, 1978, p. A17)

<sup>7</sup> A *New York Times* report on Schmidt's April 28 speech in Hamburg bears the headline "Schmidt Attacks U.S. Attitudes on Oil and Economics," while a *Washington Post* report is entitled "Schmidt Assails U.S. On Economic Policy." (*The New York Times*, April 29, 1978, p. 29; *The Washington Post*, April 29, 1978, p. A6)

<sup>8</sup> Earlier in May, Blumenthal and Owen urged Carter to press Congress to pass the energy bill; should Congress fail to act, they suggested that he take executive action to curb oil imports before the Bonn G-7 Summit. Eizenstat and Schirmer opposed this recommendation, while Schultze and McIntyre offered alternative ways of strengthening the U.S. Summit position. (Memorandum from Blumenthal to Carter, May 8; memorandum from Owen to Carter, May 11; memorandum from Eizenstat and Schirmer to Carter, May 11; memorandum from Schultze to Carter, May 11; and memorandum from McIntyre to Carter, May 11; all in the Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 85, 5/15/78 [2]) Owen's May 11 memorandum to Carter is printed in *Foreign Relations, 1969-1976*, vol. XXXVII, Energy Crisis, 1974-1980, Document 149.

tional economic stimulus action if German growth appears to be falling short of the earlier FRG forecast of 3.5%.<sup>9</sup>

Although most German estimates suggest that 3.5% growth will not be achieved without further stimulus, there is little political pressure in Germany for expansionary action. Moreover, there are substantial differences of opinion in Germany as to the *form* that any action should take. Thus it will be easier for Schmidt to act if he can present his actions in the context of international cooperation, including action by the US.

Schmidt may elaborate to you on his difficulties, indicate that he doubts more than a small stimulus—if any—will be needed, suggest that he would like to make up his mind only *after* the Summit, and add, as in his last letter to you, that the Summit should focus on underlying structural issues (i.e., inflation, energy, and trade, where the action would come from others), rather than on short-term issues (i.e., growth, where the action would have to come from him).<sup>10</sup>

He may also make clear that if he does take stimulus action he will insist on reciprocal action by others, including US action on inflation and energy. As in his conversation with Owen,<sup>11</sup> he may say that it makes no sense for Germany to accelerate its growth unless the dollar is strengthened by such US action, ask when you will take administrative action on energy if the Congress does not act, and urge on you the merits of raising the US crude oil price to the world level.

4. *Our Position.* We want the Summit to develop an economic package along the lines that you and Callaghan discussed: US action on

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<sup>9</sup> In a May 10 memorandum to Carter, Owen relayed a U.K. report on a Schmidt-Callaghan meeting, in which Schmidt appeared “prepared to participate constructively in a concerted plan of action for the Summit, and *he told the Prime Minister explicitly that if President Carter would act on inflation and energy, then he would act (notwithstanding his lack of intellectual conviction) on stimulating the FRG economy.* We do not think that he intends to take any such action until July, and the size of what he will do will no doubt be influenced by how he judges the rest of the package. Nevertheless the readiness seems to be there, though he hoped we would not press him too much publicly between now and July.” (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 111, President’s Europe Trip: 4-5/78)

<sup>10</sup> In a May 17 message to Carter, Schmidt suggested that it was “extremely important that at the July summit we should devote special attention to the long term structural aspects of economic development.” (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 4-6/78) In a May 18 letter to Carter, Trudeau also stressed the importance of addressing the Summit agenda “in a way that brings clearly to our minds the longer-term, structural nature of the forces with which our policies must contend.” Owen noted in a May 18 memorandum to Carter Johnstone’s belief that Schmidt’s message and Trudeau’s letter “were both the result of a phone conversation between Trudeau and Schmidt.” (Both in Carter Library, National Security Affairs, Brzezinski Material, President’s Correspondence with Foreign Leaders File, Box 3, Canada: Prime Minister Pierre Elliott Trudeau, 1/77-8/78)

<sup>11</sup> See Document 125.

energy and inflation, British and French agreement (along with the other Summit countries) on sensible trade policies, and German and Japanese efforts to improve their growth, to the extent feasible without adding to inflation. Each of these elements of the package depends on the others being present. More specifically, significant action by Germany to promote growth is an indispensable part of any coordinated set of measures, since it will largely determine what other European countries are able to do to increase growth in their economies, and whether they would be willing to reduce their barriers to wider trade.

The *scale* of German action will be important; Schmidt is probably thinking in terms of expansionary measures that would add  $\frac{1}{2}\%$  or less to GNP. The US view is that a stimulus on the order of 1% of GNP (i.e., DM 12 billion) would be a more appropriate policy. When Schultz suggested such a stimulus, the German member of his group did not object, although he may not have reflected Schmidt's thinking. In any event, we wish to cast the Summit discussion in terms not of numerical growth targets but of the need for a significant improvement from current prospects, which are well below the earlier forecasts for both Germany and Japan (which were 3.5% and 7%, respectively).

5. *Talking Points.* You might organize your discussion of economic issues with the Chancellor around the main components of a Summit package:

a. *US Action on Inflation and Energy:* It is important to stress the priority that the US is giving to dealing with inflation and, even more importantly, to persuade Schmidt of your willingness to commit yourself at the Summit to get US domestic oil prices up to world market levels over a very short period. This is crucial from his standpoint.

b. *Trade:* You might stress your support for international efforts to keep an open trading system and to prevent the spread of subsidies and other measures to prop up unviable industries, and indicate that we will work at the Summit and otherwise to bring the French and British into agreement along these lines.

c. *Growth:* You might point out that it will be easier for you to take the politically difficult actions that Schmidt wants, particularly on energy, if they are balanced with actions by others that will also contribute to world economy recovery. You might mention Fukuda's recent expression of willingness to announce further Japanese stimulus at the Summit, if this proves needed to achieve Japan's own growth objective, and mention your hope that Germany will be able to do the same.

You might indicate your understanding of the delicate political problem that Schmidt faces; your recognition of his desire to avoid "stop-and-go" policies, and your agreement on the need to promote *long-term* sustainable growth. You might suggest that a substantial German expansionary move at this time could pave the way for steady

and continuing improvement in both the world and German economy, carrying well beyond 1978 and 1979.

(In all of this, it will be well to avoid the term “stimulus”, since Schmidt equates this with short-term “quickie” measures; you might speak, rather, of action to achieve sustained economic growth.)

6. *Conclusion.* If Schmidt leaves Washington with a clear understanding of the importance that you attach to German action on growth and US action on energy, the chances of his taking the lead in developing a successful Summit are reasonably good.<sup>12</sup> The critical point to convey is that a successful Summit will require that all countries shape their policies in ways that contribute to world recovery. We agree with the Chancellor that the Summit should not be the occasion for programmatic decisions (a point on which the Chancellor feels strongly); but it *should* be the occasion for defining policy directions. A meeting that resulted only in an exchange of views would be widely criticized.

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<sup>12</sup> In a June 9 memorandum to Carter, Owen discussed two pieces of “evidence that your breakfast with Schmidt was useful,” concluding that it had begun “to look as though our package strategy may pay off.” (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 4–6/78)

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### 132. Decision Memorandum From Secretary of the Treasury Blumenthal and Acting Secretary of Commerce Harman to President Carter<sup>1</sup>

Washington, May 30, 1978

SUBJECT

Export Tax Incentive

We have been fighting for repeal of the Domestic International Sales Corporation (DISC) on the grounds that it is not cost-effective.

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<sup>1</sup> Source: Carter Library, White House Central Files, Subject File, Box TA–6, TA 3 1/1/78–5/31/78. No classification marking. Sent to Carter under cover of a May 30 memorandum from Blumenthal, who wrote: “We decided at EPG last Thursday [May 25] to have the attached decision memorandum on DISC forwarded immediately, as the Ways and Means Committee is presently marking up the tax bill. It is in keeping with the Export Task Force package to be presented to you on June 15 and has the endorsement of the Task Force’s membership.” (Ibid.) Minutes of the May 25 EPG meeting were not found.

The existing DISC rewards companies for export profits, not for export sales. The rewards go primarily to big multinationals that export anyway. At best, the additional exports created in 1978 by DISC are only about \$3 billion, while the revenue cost is about \$1.1 billion.

These arguments are still valid. Yet there appears to be virtually no chance that Congress will terminate the DISC program this year. Twenty-eight of the 37 members of the Ways and Means Committee have indicated their opposition to any cutback in DISC benefits. It appears, however, that some of those members are willing to talk compromise. *The Export Policy Task Force has developed an export tax incentive proposal that contains the elements of a compromise which reconciles the needs of trade policy with the needs of tax policy, and holds the possibility of turning this issue into a victory for the Administration.*

#### *Operational Constraints*

The policy considerations stem primarily from our growing balance of payments problems:

—The U.S. badly needs to recoup export market shares. Adjusted for inflation, U.S. exports have not grown since 1974; the volume of U.S. manufactured goods has actually declined. The rest of the industrial world, by contrast, has seen a 12 percent growth in export volume since 1974;

—Incentives will have to be provided to medium and small-sized firms if we are to augment the export accomplishments of large multinationals;

—In the eyes of the business community, a credible and effective export policy must include an appropriate incentive for exports;

—The Congress views a tax incentive as the simplest, fastest and most nearly self-executing method of export stimulation. Rightly or wrongly, it is in no mood to jettison DISC in the absence of an alternative.

#### *Proposed Alternative*

The Export Policy Task Force's basic proposal would: (1) *reduce* the benefits of the present DISC program; (2) *restructure* the benefits to emphasize export sales rather than export profits; and (3) *use part* of the revenue saving to create, within the DISC framework, a direct export incentive targeted on small and medium-sized companies. The specifics of this proposal are summarized at Tab A.<sup>2</sup> *The revenue cost totals \$750 million, a \$350 million reduction from the present DISC program.*

This proposal is designed to make the DISC significantly more cost-effective while keeping the number of legislative changes to a minimum. The Congress has no appetite for a complicated revision of

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<sup>2</sup> Tab A, attached but not printed, is an undated memorandum entitled "Specifics of Export Policy Task Force Proposal."

DISC. Moreover, the more complex the Administration proposal, the less certain we can be of the final outcome.

*MTN Considerations*

DISC itself, and any new variant, is contrary to the thrust of our international negotiations to limit export subsidies. Further, the adoption of a new incentive for small and medium-sized firms will be seen as inconsistent with our vigorous enforcement of the U.S. countervailing duty statute against the export subsidies used by the EC, Canada, Brazil, Colombia, and other nations. Ambassador Strauss, however, believes that while the recommendation might be awkward to our international posture, it would not be fatal to the negotiations. *A smaller DISC is clearly more acceptable to our trading partners than a larger DISC.*

*Recommendation:* That you authorize Treasury, in consultation with Commerce and others, to negotiate a revised DISC with the Congress along the lines suggested.<sup>3</sup>

**W. Michael Blumenthal<sup>4</sup>**

**Sidney Harman<sup>5</sup>**

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<sup>3</sup> Carter did not indicate his preference with respect to this recommendation; however, see Document 135.

<sup>4</sup> Blumenthal signed "Mike" above this typed signature.

<sup>5</sup> Harman signed "Sidney" above this typed signature.

**133. Memorandum From the Head of the Delegation to the Multilateral Trade Negotiations (McDonald) to the Special Representative for Trade Negotiations (Strauss)<sup>1</sup>**

Geneva, June 2, 1978

SUBJECT

Assuring U.S. Trade Success and Tokyo Round Approval

In looking ahead to the task of obtaining approval for the Tokyo Round results, we should begin thinking how these fit into an overall U.S. trade program that could significantly expand our political and public base of support. In my view, this means complementing the Tokyo Round results, which are predominantly "offensive" toward trade liberalization, with a comprehensive and aggressive "defensive package" aimed at assuring increasingly fair trade now and for the future.

Such a program would call for a major reorientation and reinforcement of U.S. trade practices which should have wide appeal even to many interest groups opposing the liberalization moves. Thus, with such an enlarged effort we could shift focus appropriately from the more distasteful liberalizing moves to encompass a broader constituency who must favor a reinforcing and upgrading of the system and the U.S. role in assuring fair trade.

For example, this approach might well elicit the support of Senators like Heinz and Danforth, who consider U.S. present practices as too weak and ineffective, as well as those key industries who need a long-term, aggressive U.S. posture to preserve and build their positions in international trade (e.g., chemicals,<sup>2</sup> electrical machinery, capital goods producers).

The remainder of this memorandum lays out some initial ideas for the defensive elements in such a program, leaving aside for the moment the offensive aspects of trade policy (e.g., tariff reductions, freer flow of agricultural products, lowering of trade barriers, opening or expanding accesses to markets). Obviously, these ideas need a lot of elaboration and refinement but we must begin that process shortly if we are

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<sup>1</sup> Source: Carter Library, Records of the Office of the Assistant to the President and White House Staff Director, 1979-1981, Box 25, Special Trade Representative 6/78. Personal and Confidential. A copy was sent to Wolff.

<sup>2</sup> McDonald discussed recent consultations with chemical industry representatives in a June 2 memorandum to Strauss entitled "Reconciliation of STR Chemical Industry Positions." He noted that he "spent considerable time trying to think through with them some solutions to their problems so that we could obtain their full support by the time we get the Tokyo Round results to Congress." (Ibid.)



to have a solid and clearly winning series of trade proposals ready for Congress in January that will help ensure approval of the Tokyo Round results.

*“DEFENSIVE” ELEMENTS OF TOKYO ROUND RESULTS*

1. *Major Moves for “Fairer Trade”*

Much of our focus in the Tokyo Round centers on improving the international system leading to “fairer trade.” These include the following aspects that we must negotiate in Geneva and emphasize in our public presentations.

A. *Codes*: Central themes through all of the codes call for

- increased discipline in the system
- greater transparency of domestic and international procedures with an increased opportunity to air individual cases and complaints
- greater opportunities for consultations over problems before they reach the crisis stage
- objective reviews of differences
- expanded international understandings with more common ground rules, leaving less latitude for arbitrary manipulation of trade measures and administration

B. *Dispute Settlement Mechanism*: Our aims here are for

- reinforced procedures
- easier notification and consultative arrangements
- accelerated, objective reviews of trade complaints and violations of understandings
- greater tendency to build over time a series of case precedents that themselves permit the evolution of the GATT to deal with changing circumstances.

2. *More Realistic Safeguards*

Also as a defensive measure, our aims here are to widen the range of options for safeguard actions and avoid a major confrontation and diplomatic incident whenever safeguards are involved. While increasing the actual level of discipline within the system by encompassing many sub-rosa activities, we need to be able to protect the legitimate interests of American industry when trade is diverted by informal arrangements and secret procedures.

Moreover, we should have the international right to invoke consultations on a government-to-government basis without threatening a trade war or taking Article XIX<sup>3</sup> actions when we face or anticipate problems from import disruptions. These consultations should provide opportunities for reviewing a whole range of trade problems, including

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<sup>3</sup> Article XIX of the General Agreement on Tariffs and Trade deals with “Emergency Action on Imports of Particular Products.”

new concerns such as excessive capacity build-ups through government policy and financial intervention.

### 3. *An Upgraded and Modernized GATT*

Within the GATT framework itself, we are seeking

A. Improved understandings and guidelines for

—balance of payments actions

—preferential arrangements between LDC's, and

B. The introduction of the concepts of

—graduation for advanced LDC's, and

—embryonic guarantees of supply access (e.g., limitations on export restraints)

### *REORIENTATION OF U.S. TRADE POLICY WITH "DEFENSIVE" APPEAL*

In addition to the elements of a defensive package that are being negotiated in the Tokyo Round, these must be supplemented by some wide ranging reorientations of overall U.S. trade policy. Key elements should probably include the following:

#### 1. *Improved Domestic Programs and Processes*

A. *Adjustment Assistance*: Here we need a workable, substantive effort with the support of organized labor to help pragmatically the adjustment of workers displaced in industry, particularly in those sectors with rising imports. Both Murray Finley and Sol Chaikin, during their Geneva visits,<sup>4</sup> said they felt this is a must. Certainly Congressman Vanik has been disappointed that no new program has come forward yet from the Administration in this area.

B. *Programs for Youth Training and Retraining of the Unemployed*: A Government-sponsored series of incentives to private industry for (a) building skills in our otherwise unemployed youth and for (b) retraining workers dislocated through industrial restructuring is badly needed. This would have wide appeal. One would expect for relatively small sums of money, with the active support of private industry, this could represent a major move toward ensuring higher levels of employment long-term for the less qualified elements of our society.

C. *Simplification of Processes on Injury Determination*: One of industry's major complaints is that the U.S. Government itself is the biggest obstacle to gaining recognition of its problems and obtaining ap-

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<sup>4</sup> Finley visited the U.S. MTN delegation in Geneva on April 12 and 13. (Telegram 5683 from Geneva, April 18; National Archives, RG 59, Central Foreign Policy File, D780166-0167) Chaikin visited Geneva on May 17 and 18. (Telegram 7836 from Geneva, May 22; National Archives, RG 59, Central Foreign Policy File, D780215-0151)

propriate relief within a reasonable timeframe. The procedures for bringing complaints about unfair trade practices and finding injury in subsidy/countervail, anti-dumping, and safeguard actions need to be simplified.

A fast-track opportunity also needs to be included as an option for those industries who feel totally stymied by the normal time delays and who feel their businesses are being threatened irretrievably by current administrative delays. There may also be circumstances identified requiring mandatory reference by the U.S. to the GATT.

Improvements here could go far to underline our interest in combating unfair trade practices on every front, domestically and internationally. They could also make an injury test in a subsidies code a more compatible concession because of the side benefits gained for business in improving injury processes for anti-dumping and safeguard actions.

D. *“Buy America” Adaptations*: For countries that do not sign the code or who later do not live up to our international understandings, we should continue “Buy America” preferences. This would have wide appeal. Senator Heinz also indicated interest during his recent visit to Geneva<sup>5</sup> that his activities and our aims in the Government procurement code could converge around this theme if the code appears to be a realistic first step toward opening major foreign markets for U.S. exporters.

E. *Advise U.S. Industry on How Best to Deal with Trade-Related Problems*: STR should provide positive guidance to industry on where to go and how to proceed within the U.S. Government on trade questions.

## 2. *An Aggressive Bilateral/Multilateral Program for Maintaining Fair Trade Relationships*

Too many people feel currently that our trade relationships are flabby, inconsistent, and have not been aggressively pursued on a regular basis. Certainly we will need the following kinds of efforts:

A. *Japan*: This will be a continuing negotiation since only by a process of aggressive erosion can the United States hope to move toward the realization of a parity of opportunity of the kind essential for both of our countries. Our steps toward this aim in the Tokyo Round will need to be constantly policed and reinforced.

B. *Advanced LDC’s*: These groups are establishing precedent-setting patterns on a day-to-day basis as they move toward development. Many of their industries are increasingly among the more effi-

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<sup>5</sup> Heinz was scheduled to visit Geneva May 16–19. (Telegram 121386 to Geneva, May 12; National Archives, RG 59, Central Foreign Policy File, D780202–0485) No report on his visit was found.

cient and progressive. Thus, our trade relationships with such countries as Brazil, Korea and others will take constant vigilance and a regular series of bilaterals to enforce adherence to reasonable rules of the game in fair trade.

An aggressive policy with the advanced LDC's may also permit us to segregate the LLDC's for some special privileges which we want to confer for humanitarian reasons. This would cost us very little in trade problems. Of course, such a two-pronged effort would in itself reinforce the concept of graduation by making it a reality in U.S. practice.

C. *EC*: With the largest trading entity we will also want to maintain essentially a continuing dialogue cum negotiation to make sure we are playing by the same rules. Then, together we must insist on the adherence of others who have access to our markets. Our long-term interests are converging and we collectively can provide enormous discipline for the system if the EC will join us in this effort.

D. *Multilateral Efforts*: Here we must make the GATT work. We should do the following:

- devote the time and effort needed to upgrade and reinforce its mechanisms and secretariat
- get the codes off to a good start with constructive, positive precedents
- provide mandatory referrals of legitimate complaints by U.S. industry to the GATT
- maintain strong U.S. positions to provide a continuing role of leadership
- keep a broad-based, commercially oriented discussion going to reduce political build-ups of pressure in the UN, UNCTAD and other political fora.

### 3. *STR Responsibility for Building and Defending U.S. Export Interests*

As the President's Special Trade Representative, the office of STR should be charged with the responsibility to build and defend U.S. export interests on a consistent and effective basis. These efforts, in cooperation with many of the executive department entities, should include:

- initiate and provide leadership for key U.S. programs to expand exports and support the needs of exporters
- audit across the board of U.S. programs to comment on their impact on our international competitive position
- serve as a persistent, continuing watchdog over U.S. export results and trends and our balance of trade.

### 4. *Active Management of the Trade Interface with Non-Market Economies*

We have no good solutions yet to our relationships between the Western economies and the Communist/Socialist countries whose markets are essentially closed to us. We must make sure that our market is not glutted by their merchandise when they have followed no

reasonable rules of economics in developing industries or pricing products.

For example, in textiles we should move to negotiate a textile quota arrangement with the People's Republic of China.<sup>6</sup> With the Eastern Bloc countries, we will also need to determine rules of the game for a series of industries, and particularly in chemicals where their expected capacity in the next few years will equal that of the United States.

#### *5. Continuation of a Trade Advisory System*

Our Government should establish an Office of Trade Relations as a part of STR. This entity should provide for a continuing dialogue on a constructive, substantive plane between those officials responsible for developing and administering trade policy and those executives most knowledgeable about the trends and competitive elements affecting our industries.

This effort over time, similar to the interchanges between the ISAC's and the U.S. Delegation in Geneva over the last six weeks, could become the nucleus of a constructive interface on trade issues between the Government and the private sector, reaffirming for both their respective rights and obligations for our common well-being in the international trade field. This also assumes the continuation, on a permanent basis, of a private sector advisory system similar to the one established for the Multilateral Trade Negotiations.

Other elements undoubtedly should also be considered, but the above could provide the core for a solid defensive package. Then linked to our MTN results, I believe this would enormously enhance the appeal to Congress and the public support for the results of the Tokyo Round.

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<sup>6</sup> McDonald discussed ways of addressing problems associated with trade in textiles in a June 1 memorandum to Strauss. (Carter Library, Records of the Office of the Assistant to the President and White House Staff Director, 1979–1981, Box 25, Special Trade Representative 6/78)

**134. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, June 5, 1978

SUBJECT

DISC

1. *Introduction.* Mike Blumenthal and Juanita Kreps have recommended to you that we propose to the Congress a smaller and more cost-effective DISC, and a new direct export incentive within the DISC for small and medium-sized firms.<sup>2</sup>

2. *The Pro Argument.* A cost-effective DISC and a direct export incentive would help to sustain US exports and thus to stabilize the dollar. By the same token, the National Export Policy now being developed<sup>3</sup> will lack credibility in the business community if we are still opposing DISC when it is announced.<sup>4</sup>

3. *The Con Argument.* State argues that these proposed export incentives would step up the pace of export subsidy competition and thus go counter to the type of international subsidies code we are trying to negotiate in MTN. (See State memo at Tab A.)<sup>5</sup>

I doubt that negotiating a reformed DISC with Congress will significantly reduce our chances of securing an international subsidies agreement. Indeed, in seeking a reformed DISC, we could inform both the Congress and foreign governments that we will propose its repeal if a satisfactory international agreement is negotiated. This would show the Congress that we are tough negotiators, and give foreign governments a tangible reason to seek an international agreement.

In any event, the chances of negotiating a subsidies code are uncertain, at best. In the absence of a code, common sense argues for having a cheap and effective DISC, instead of the present expensive and ineffective one—which the Congress will otherwise insist on our retaining.

4. *Conclusion.* *Substantively*, the arguments favor DISC reform. *Procedurally*, I see little merit in deferring your decision pending further

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/International: 1-6/78. Confidential. Sent for information. Brzezinski initialed at the top of the page.

<sup>2</sup> See Document 132.

<sup>3</sup> See Document 119.

<sup>4</sup> In his tax reform plan announced on January 20, Carter included a measure calling for the phased elimination of DISC. See footnote 13, Document 119.

<sup>5</sup> Tab A, attached but not printed, is a June 3 memorandum from Christopher (as the Acting Secretary of State) to Carter entitled "Export Tax Subsidy."

interagency consideration, as State suggests, since we already know the views of the principal agencies involved and since delay would prevent us from influencing the current Congressional review of pending tax reform issues. I therefore recommend that you approve the Treasury-Commerce proposal. Bob Strauss does not oppose this proposal, although he can hardly support it explicitly, given his STR responsibilities.

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**135. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) and the Director of the Office of Management and Budget (McIntyre) to President Carter<sup>1</sup>**

Washington, June 6, 1978

SUBJECT

Treasury/Commerce Memo re Export Tax Incentive

Treasury and Commerce propose that you authorize them to try to negotiate with Congress a revision of the Administration's DISC proposal which would (1) restrict the applicability and reduce the revenue loss of the present DISC and (2) introduce a new tax credit for "export promotional expenses".<sup>2</sup>

While the first part of their recommendation is sound and would be a significant reform of DISC, the second part of this proposal represents unsound tax and budget policy and is as likely to result in a political embarrassment for the Administration as the "victory" suggested by Treasury and Commerce.

The present Administration position is to try to eliminate DISC in its entirety and if we cannot succeed with that proposal to try to eliminate as much of DISC as we can (e.g., by limiting its applicability to small businesses). The rationale for that position is that DISC is bad tax and budget policy, expending a great deal of revenue for little net benefit.

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 3, FT–10 Export Policy. No classification marking. Included as Tab B of a June 26 memorandum from Bergsten to Blumenthal. (Ibid.)

<sup>2</sup> See Document 132.

Under the Treasury/Commerce proposal, the Administration would, in effect, be reversing its position on DISC and saying that (1) a restructured DISC *is* appropriate tax policy and (2) in addition, there should be a *new* tax credit (the Credit) for export promotional expenses. The Credit would be equal to 50 percent of "export promotional expenses" (subject to a \$50,000 limit per firm per year) for firms with less than \$5 million in export sales.

We oppose the new Credit for the following reasons. First, *Treasury/Commerce present no cost-benefit analysis whatever for the Credit*. Each dollar of "export promotional expenses" would be eligible not only for the 50¢ credit but also for deduction as a business expense (thereby saving the average DISC roughly 30¢ in taxes). Accordingly, the Federal government (or the taxpayers generally) would be paying 80¢ of every dollar of export promotion expenses and the exporter 20¢.

This formula might promote ill-conceived foreign sales efforts financed by the taxpayers and is inconsistent with the tax reform approach of the Administration. Its potential benefits are not analyzed. (CEA's memo<sup>3</sup> indicates they are likely to be very small.) For many export operations the major effect of the Treasury/Commerce proposal will merely be to shift the accounting entry for the *same* export expenses from the parent company to the DISC in order to get the 50% credit.

Second, such a proposal is inconsistent with the thrust of our tax reform. There is no reason for a tax reform minded Administration to propose a new tax incentive which, if ever passed, may become the target of tax reform efforts by future Presidents.

Third, as Treasury/Commerce recognize, the new credit would be inconsistent with our international trade posture of opposing export subsidies by our trading partners. While this may not be "fatal" to the international negotiations, it certainly might undermine them.

The same basic forces (G.E. and the multinationals) that are lobbying so effectively against the elimination of DISC would also oppose the Treasury/Commerce compromise since it does not do anything for them.

We are concerned that if the Administration defuses its opposition to DISC and indicates that as a matter of principle it actually *supports* tax credits for export activities, *Congress will wind up keeping DISC and coming up with some new, wasteful export tax credit of its own*. Given the present mood in Congress, there is a substantial downside risk involved here.

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<sup>3</sup> Not found.



*Conclusion*

Accordingly, we recommend that you (a) approve of Treasury attempting to modify DISC (as a fall back to eliminating it), along the lines proposed—limiting income allocated to the DISC to 4% of export sales, (b) disapprove the new tax credit, and (c) so that you are not forced to publicly reject a published proposal by the Export Policy Task Force,<sup>4</sup> ask that the recommendation for a new tax credit not be included in the report.<sup>5</sup>

*Decision*

Approve Treasury/Commerce proposal (Recommended by Treasury and Commerce)

Disapprove Treasury/Commerce proposal (Recommended by OMB, DPS and CEA) and Congressional Liaison.<sup>6</sup>

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<sup>4</sup> See Document 119.

<sup>5</sup> In the margin adjacent to this paragraph, Bergsten wrote: “Note *here* their support for DISC alteration.”

<sup>6</sup> Carter indicated his approval of this option and initialed “J.”

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**136. Discussion Paper Prepared for the Economic Policy Group<sup>1</sup>**

Washington, undated

**MTN AND THE BONN SUMMIT***I. Overview*

We, the EC and Japan are committed to reaching political agreement on a comprehensive MTN package by July 15. We are also working to have Canada join such a consensus. Our aim is to enable the participants at the Bonn Summit on July 16–17 to endorse such a package as part of an overall program for economic cooperation.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 1, Trade. No classification marking. Forwarded to Hessler under cover of a June 7 memorandum from Feketekuty, which indicated that the paper was for a June 8 EPG meeting on the MTN and the Bonn G–7 Summit. (Ibid.) No record of the EPG meeting was found.

The negotiations in Geneva have been making progress on most negotiating issues over the past few months, and the outlines of possible agreements in the various areas of the negotiations have begun to emerge. Nevertheless, a considerable amount of work remains to be completed, and the possibility remains that a political impasse may develop on one of the key issues in the negotiations, such as market access for U.S. agricultural products, the development of satisfactory disciplines for agricultural and industrial subsidies, or the achievement of a substantial cut in tariffs.

The possibility also remains that one of the summit participants may link agreement on a key issue in the MTN to other topics on the Summit agenda. While we have no evidence at this point that such linkages will be established, France in the past has made a major issue of a link between trade liberalization and reform of the international monetary system.

## *II. Using the Summit context for maximizing the MTN package*

Inclusion of the MTN on the Summit Agenda makes it possible to place MTN issues into the broader context of economic and political relations among the major countries. It may be useful to pursue the following themes:

1. The rapid growth of trade has been a major engine of growth during the past 30 years. We should achieve a credible result in the liberalization of trade in the MTN in order to ensure that expanded trade will continue to be a dynamic element of our economies over the next decade or two. On the other hand, even a tariff cut in the range of 35–40 percent would be unlikely to create difficulties of economic adjustment, since the existing levels of most tariffs are already low, key cuts are expected to be spread out over 8 years, and the possibility will remain for postponing a portion of the cut should economic circumstances worsen.

2. The tendency of governments to intervene in our economies to achieve a variety of social and economic goals has grown considerably in recent years. While this trend has made possible an improved social environment, it has also introduced some rigidities and inefficiencies in our economies that retard growth. The guidelines we are seeking to develop in areas such as subsidies, standards, and agriculture should help us in achieving a balance in our economies between the achievement of social goals and avoidance of the more excessive forms of intervention in our economies that can prove costly for economic growth.

Government policy measures involving subsidies, standards and the stabilization of agricultural income can also have a major impact on the trade interests of other countries, and thus tend to create political friction among countries. A stable economic and political relationship

is, therefore, not possible without the means for minimizing the distortion to trade that can result from such policies and without the means for resolving any disputes that arise before they assume major political proportions.

### III. *Scope of a likely MTN package*

Negotiators in Geneva have been working on an MTN package encompassing the following elements:

1. Offers to cut industrial and agricultural tariffs.
2. Offers to remove or to reduce specific non-tariff barriers affecting both industrial and agricultural items.
3. Agreements (or Codes) covering subsidies, safeguards, government procurement, standards, customs valuation, licensing, export restrictions, dispute settlement, use of trade measures for balance of payments purposes, and right/obligation of developing countries in the GATT.

We expect that by July 15 the countries participating in the Summit will have been able to achieve agreement on a technical level on all but a few key issues and that Ministers will have found appropriate political solutions for those issues. Further technical discussions will be necessary after July 15 in order to translate such political solutions into concrete technical language.

### IV. *Relationship to other countries participating in the MTN*

While our negotiators in Geneva have concentrated on achieving agreement on individual negotiating issues among the key countries, efforts have continued to expand the number of countries who would be able to endorse such agreements.

By July 15, we would hope that most of the other developed countries participating in the MTN will be able to support the major elements of the agreements reached. It is likely that substantive negotiations with the developing countries will need to continue after July 15 in order to accommodate their interests.

## Appendix

### Paper<sup>2</sup>

Washington, undated

#### Key Objectives on Critical Issues

The following is a discussion of key issues in the MTN, including those points which may require political-level resolution early in July.

*Agriculture.*—Agricultural issues are the most difficult in the MTN. We are committed to Congress and the U.S. agricultural community to conclude agreement of substantial benefit for U.S. agricultural trade.

The primary interest of our agricultural community is to achieve improved market access for specific U.S. commodities. It has become apparent, however, that even modest results in this area will require a major negotiating effort.

Another objective of the United States is to achieve a better basis for international cooperation on issues involving agricultural trade. Since the GATT has been totally ineffective in this area, and since disputes over agricultural policy usually involve powerful political interests, we see progress in this area as vital for a harmonious relationship between the U.S. and Europe in the future. However, our agricultural community does not see progress in this area as an adequate substitute for improved market access.

The basic interest of the European Community in agriculture is to achieve, in addition to market access for EC exports, greater price stability in world markets in order to reduce the pressure exerted by the world markets on the common agricultural policy. In the EC, some share our desire to establish a better basis for cooperation on agricultural issues, most notably Finn Gundelach, EC Commission Vice President in charge of agriculture. However, as in the United States, this is not a popular issue politically.

The following are major agricultural policy issues which remain to be resolved. They are listed in order of priority and negotiating difficulty.

(1) Response by the EC, Japan and Canada for improved access for U.S. exports of key commodities.

(2) Nature of discipline to be developed on the use of agricultural export subsidies.

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<sup>2</sup> No classification marking. An unknown person made several marginal notations throughout this paper.

(3) U.S. response to EC requests for improved access to the U.S. dairy market.

(4) With respect to commodity arrangements being negotiated:

(a) Wheat—

1. Role and nature of the notional floor and ceiling prices in the agreement.

2. Level of stocks which would be held.

3. Nature of subsidy disciplines in the agreement.

(b) Coarse grains—extent of economic provisions, if any, to be included in the coarse grains agreement.

(c) Dairy—

1. Degree of U.S. participation in a commodity arrangement on dairy products, particularly degree of U.S. commitment to adhere to minimum export prices.

2. Nature of subsidy discipline in the agreement.

*Subsidies/Countervailing Duties.*—The issue of subsidies is one of the most sensitive issues in the MTN. Other countries consider U.S. acceptance of an injury test prior to the imposition of countervailing duties as one of their major objectives. The United States, in turn, is interested in achieving greater international discipline in the use of subsidies.

Although progress has been made on this issue in recent weeks, including the development of a joint U.S.–EC negotiating paper,<sup>3</sup> a number of critical issues remain outstanding. They include:

(1) Agreement on guidelines for use of domestic industrial subsidies;

(2) The extent to which countries can take unilateral actions against illegal subsidy measures (nullification and impairment under Article XXIII of the GATT);<sup>4</sup>

(3) We also need appropriate disciplines for agricultural export subsidies, as indicated earlier.

*Tariffs.*—1. Level of Tariff Cuts.—The United States has actively supported a substantial tariff reduction under the assumption that (a) lower tariffs would reduce the degree of discrimination inherent in regional preferential arrangements such as those currently existing in Europe and (b) that a substantial overall cut would provide the means for bringing down the higher tariffs of Japan and Canada to the level of

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<sup>3</sup> Telegram 8161 from Geneva, May 26, discussed the U.S.–EC draft “non-paper” on subsidies and countervailing duties. (National Archives, RG 59, Central Foreign Policy File, D780226–0718)

<sup>4</sup> Article XXIII of the General Agreement on Tariffs and Trade deals with “Nullification or Impairment.”

U.S. tariffs. Even though the current economic situation will make reaching agreement on a substantial tariff cut difficult, economic adjustments required will not be great since existing tariffs are already low, any cuts will be spread over 8 years, and part of the cut could be delayed if warranted by economic circumstances.

*The U.S. tariff offer*, as tabled in January would result in 42.2 percent average reduction in our tariff rates.

*The EC has offered* a 37.8 percent reduction in items of interest to the United States. If the EC were to implement a list of withdrawals that it has tentatively distributed, the depth of cut offered would drop to 31.1 percent. Since that time, the EC Council of Ministers has approved an additional list of withdrawals that would lower their depth of cut further.

*The Japanese offer* amounts to a 20 percent reduction of applied rates and a 47.4 percent reduction of legal rates. We have received indications that they are willing to increase that offer to a 28 percent reduction from applied rates.

*The Canadian offer* amounts to a 40.9 percent cut on GATT rates, and a 26.7 percent cut on applied rates.

2. Composition of Tariff Reductions.—In order to achieve a satisfactory tariff package, we must achieve adequate tariff reductions in key U.S. export industries. The offers now on the table from our major trading partners fall short in key U.S. industries such as paper, electronic products, chemicals, construction equipment and photographic film.

*Government Procurement.*—There is currently a strong presumption against foreign procurement by publicly-owned entities, much of it high technology items in which the U.S. is strongly competitive. Given this fact, plus the current trend of greater public ownership in many foreign countries, we feel that negotiation of a government procurement code is particularly important.

The two main issues in the government procurement area are:

(1) The degree to which governments will provide the information necessary to judge whether new rules for greater access by foreign suppliers are being followed.

(2) The public entities, commodities, and type of contracts which are to be subject to the rules (coverage) of a new code.

*Standards.*—The standards code which is under negotiation will contain international guidelines for the development of product standards to assure that they do not unnecessarily distort trade. Major issues in the standards area which remain are:

(1) The extent to which a standards code would apply to state, local, and private standards setting bodies;

(2) Access by outsiders to regional certification and standards-making systems.

*Safeguards.*—A safeguards code would provide updated rules for the temporary imposition of trade restraints when a surge of imports threatens to disrupt domestic markets.

The major question to be resolved in this area is the degree to which it should be permissible to apply safeguard measures selectively against individual countries, rather than on an MFN basis against all countries. International legitimization of selective application of safeguards is a key objective of the European Community. While we have agreed that a safeguard code may need to permit limited use of selective safeguards, it should be reserved for only the most extraordinary circumstances and should be circumscribed by strict rules and international surveillance.

*Customs Valuation.*—It would appear at this point that there will not be issues on customs valuation which will require political-level attention between now and mid-July. In exchange for acceptance of a new system of valuation, however, the United States has continued to insist upon adequate reciprocity and compensation in other areas of the negotiations.

*Role of Developing Countries.*—

(1) Provisions for a legal basis for special treatment for developing countries in the form of an “enabling clause” to be added to the General Agreement. The critical issue on this topic is whether GSP should be covered by this clause.

(2) Reciprocity/Graduation—This topic deals with obligations in the trading system the developing countries would assume as they reach more advanced stages of economic development.

*Use of trade measures for balance of payments purposes.*—The U.S. supports a general commitment by developed countries to avoid the use of such measures. The EC Commission is sympathetic to our approach, but faces opposition from the UK, France, and Italy.

*Dispute Management.*—We are seeking to negotiate improved and, to the extent possible, uniform rules whereby disputes that arise between contracting parties are settled.

*Export Restrictions.*—The United States is seeking improved guidelines for the use of export restrictions by governments, in order to recognize their disruptive impact on trade. The EC and Japan generally support our approach, but Canada, Australia and most developing countries have consistently opposed our efforts to develop an agreement in this area.

**137. Editorial Note**

On June 19 and 20, 1978, the Special Representative for Trade Negotiations, Robert Strauss, and other U.S. officials met with representatives from the European Communities (EC), Japan, and Canada in Washington for a discussion of the status of the multilateral trade negotiations (MTN). No memoranda of conversation of these discussions were found. A summary of the talks, included in a weekly status report by the Office of Economic Policy, Bureau of East Asian and Pacific Affairs, noted that they "were designed to clarify MTN issues before the final three weeks of bargaining. Each side explained its position and listed the top priorities it felt it needed for a settlement." The participants also "confirmed that July 15 is the deadline for the MTN and agreed on a stringent timetable for drafting and decision-making to meet that date." (Telegram 163753 to all East Asian and Pacific diplomatic posts, June 27; National Archives, RG 59, Central Foreign Policy File, D780267-0486) Speaking to the press, Strauss said: "We now have in hard and final form what the bottom line is for each of the constituencies we represent." (Clyde H. Farnsworth, "Key Nations Supporting Tariff Cuts," *The New York Times*, June 21, 1978, page D1)

On June 23, the Special Representative for Economic Summits, Henry Owen, recommended, at Strauss' request, that President Jimmy Carter send letters to Canadian Prime Minister Pierre Trudeau and Japanese Prime Minister Takeo Fukuda asking them to address outstanding trade issues. (Memorandum from Owen to Carter, June 23; Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 1-12/78) In a June 26 letter to Trudeau, Carter asserted the necessity of redressing the "imbalance between our tariff offers on both industrial and agricultural items," noting that the United States "badly needs an improvement in the Canadian offer if our offer is to stand." (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 3, Canada: Prime Minister Pierre Elliott Trudeau, 1/77-8/78) In a June 26 letter to Fukuda, Carter stressed the need "to improve access for agricultural products, reduce industrial tariffs, and reach agreement on such issues as government procurement and a meaningful code on subsidies" and called for "Japanese leadership in liberalizing trade." In particular, Carter asserted to Fukuda that "improvements in your negotiators' offer in Geneva and other efforts to liberalize access to Japan's import market are essential, if agreement is to be reached before the Bonn meeting on the main unresolved issues in the Multilateral Trade Negotiations." Noting Japan's interest in a U.S. pledge to limit oil imports, Carter noted that his ability to offer that pledge at Bonn "de-



pend, in good part, on what actions other countries are prepared to take on growth, trade, and aid." (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 1–12/78)

In his June 23 memorandum, Owen also noted Strauss' recommendation that Carter discuss the trade negotiations with British Prime Minister James Callaghan, who made a private visit to the United States on June 26. Earlier that month, on June 5, Carter had sent Callaghan a handwritten note that reads: "Without your active help, prospects for substantive achievement in Multilateral Trade Negotiations are not good. Can you join us in a more concerted effort?" (Carter Library, Plains File, President's Personal Foreign Affairs File, Box 2, Great Britain, 6/77–12/80) Callaghan's response, which Owen forwarded to Carter under cover of another June 23 memorandum, noted that he was "well aware of the importance of" the trade talks and asserted that "obviously there must be a good deal of give and take, not just from Europe on matters of concern to the United States, but from the United States on issues to which we attach importance." In his cover memorandum, Owen reported that British Ambassador to the United States Peter Jay believed that Callaghan's reply suggested "that the P.M. is prepared for a deal: He will give on trade if the US gives 'on issues to which we attach importance.'" Owen suggested that Carter tell Callaghan that the United States could "make a meaningful pledge on limiting oil imports *if* other Summit countries can make equally meaningful pledges on growth and trade."

Owen's June 23 memorandum also relayed Strauss' talking points for Carter's conversation with Callaghan: "We are missing the essential elements of a deal. The US is being responsive to your concerns, but needs help with respect to its needs. We hope that the UK will be able to support efforts by the Commission to work out acceptable solutions in each of these areas on a reciprocal basis: meaningful rules on subsidies; market access for a number of US agricultural products; tariff and non-tariff barrier reductions for US industrial exports; and allowing exporters to compete for foreign government procurement." (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 15, Great Britain: 4–8/78)

Carter and Callaghan held a breakfast meeting on the patio outside Carter's private office on June 26 from 7:26 until 8:35 a.m. (Carter Library, Presidential Materials, President's Daily Diary) No record of the meeting was found.

### 138. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, June 23, 1978

SUBJECT

Our Summit Goals

1. The main purpose of US participation in the Summit is to strike a three-way deal, which will involve:

- a. the US pledging action to limit oil imports<sup>2</sup> and control inflation;
- b. the Germans and Japanese pledging additional measures to stimulate domestic demand;<sup>3</sup>
- c. all Summiters agreeing to freer trade policies<sup>4</sup>—which will be especially difficult for the British and the French.

Thus each head of government would pledge actions that are in his country's interest, but that would be politically difficult unless done as part of a package that included concessions from other countries. I won't elaborate further on this concept, since you are familiar with the steps that we are taking to try to give shape to it.

2. In addition to this package of immediate measures, our object at the Summit is to tackle two *longer-term structural problems*: energy production and conservation (other than US imports), and North-South relations.<sup>5</sup>

3. On *energy*, I hope the Summit can agree on actions—coordinated research and development, increased investment, etc.—to reduce energy consumption and increase energy production in the industrial world. An international sub-group (on which DOE is represented) is spelling out details, which we will submit to you shortly.<sup>6</sup>

4. On *North-South relations*, the two key issues are aid and trade. It is through these means that the vast majority of resources move from

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 111, President's Europe Trip: 6/23–30/78. Confidential. Sent for information. Carter initialed "C" at the top of the page. Brzezinski wrote on the memorandum: "Concur—this summarizes the strategy on which we are basing our preparations. ZB."

<sup>2</sup> Carter underlined the phrase "to limit oil imports."

<sup>3</sup> Carter underlined the phrase "stimulate domestic demand."

<sup>4</sup> Carter underlined the phrase "freer trade policies."

<sup>5</sup> Carter underlined the phrases "energy production and conservation" and "North-South relations."

<sup>6</sup> A July 7 memorandum from Vance, Blumenthal, Schultze, Brzezinski, and Owen to Carter entitled "Energy and the Summit" is printed in *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 156.

the industrial world to LDCs, and it is by improving these means the industrial countries can act most effectively to enlarge that flow. On *aid*, we propose that the Summit call for differing measures to meet the needs of middle-income and poorer developing countries:

—The *middle-income countries* need more private investment, hard loans, and technological collaboration (such as our intended new Foundation for International Technological Cooperation).<sup>7</sup>

—The *poor countries* need growing concessional aid, including generous replenishment of IDA—the World Bank’s soft-loan window.

We also propose that the Summit call for more assistance to help non-OPEC developing countries produce or conserve *energy*, with the World Bank being asked to play a financial, advisory, and coordinating role. The Canadians are suggesting that the Summit countries establish a special fund to receive voluntary contributions for grant aid for energy exploration in LDCs.

On *trade*, the heads of government should direct their MTN negotiators to ensure that LDCs share fully in post-Summit MTN negotiations, and that LDC concerns are fully taken into account in these negotiations. Lowering trade barriers would be the most effective means of increasing LDC export earnings.

The Summit should also encourage *commodity agreements*, which will help to stabilize these earnings.

These Summit actions on aid and trade will be directly responsive to LDC concerns. If we are able to arrange effective follow-up, which will not be easy in the present mood of the Congress, they can make a large contribution to the welfare of the roughly billion human beings who live in desperate poverty in the Third World.

The *Common Fund*<sup>8</sup> poses more difficult problems. The gap between LDC and industrial country attitudes will be difficult to bridge, except over a prolonged period of negotiation. This issue is of more symbolic than economic importance to LDCs, but must be addressed.

5. *Conclusion*. If the Summit can agree on the package described in paragraph 1 and address the longer-term problems set forth in paragraphs 3 and 4, it will be seen to have contributed significantly to a healthier world economy.

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<sup>7</sup> See Document 311.

<sup>8</sup> See footnote 5, Document 24.

**139. Memorandum From John Renner of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, June 30, 1978

SUBJECT

US Current Account Deficit

In response to your tasking memo of February 15 (at Tab A),<sup>2</sup> an interagency group under the chairmanship of Tony Solomon has been working steadily to arrive at a reliable estimate of the probable magnitude of future current account deficits and the probable impact on the dollar.

The report of the Solomon Group is virtually finished. The principal conclusions are that, in the absence of major policy changes, the US current account position will not improve and may deteriorate over the next five years and that as a consequence the dollar will depreciate further.

Blumenthal and Solomon are worried this report will leak to the press and cause a run on the dollar. Consequently they are considering not sending the President the report but to brief him orally.

It does not make much difference whether the President is told orally or in writing about the findings of the Solomon Group. But as the future of the US current account position and the repercussions for the dollar are among the most important international economic issues that the President needs to focus on, it is essential that Blumenthal and Solomon brief the President promptly and certainly before the Summit. If you agree, I will take this line with Solomon.<sup>3</sup>

*What should the next steps be?*

Faced with the prospect for large current account deficits over the next five years and additional pressure on the dollar, the question is whether anything can be done about it.

I think there are additional steps that can and, given the adverse consequences of a continually falling dollar, definitely should be taken. There is much that could be done, given sufficient resolve, to reduce

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/International: 1-6/78. Secret. Sent for action. Sent through Owen. Brzezinski initialed at the top of the page.

<sup>2</sup> Printed as Document 106.

<sup>3</sup> Brzezinski underlined the last part of this paragraph beginning with "essential that Blumenthal," and he indicated his approval of this recommendation.

our imports of oil, to expand our exports, and otherwise increase the inflow of foreign exchange. But these actions would require a reordering of our national priorities.

To prepare to take such measures, I propose to start talking to people around town about a draft tasking memo (Tab B).<sup>4</sup> There probably will be opposition. Nonetheless, I think it essential that the Administration move in this direction. But before doing battle, I want to make sure I have your support.<sup>5</sup>

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<sup>4</sup> Tab B, attached but not printed, is an unsigned draft memorandum from Brzezinski to the Secretaries of State, the Treasury, the Interior, Commerce, Transportation, and Energy, the OMB Director, the CEA Chairman, and the President's Assistant for Domestic Affairs and Policy on the "US Current Account Deficit and National Security Repercussions." The memorandum, citing the need to "take prompt steps to reduce substantially the deficit," called for the intensification of the development of a national export policy; establishment of an interagency task force on ways to reduce oil imports; and IMG recommendations on additional measures "to increase the inflow of foreign exchange."

<sup>5</sup> Brzezinski indicated his approval of this recommendation, writing in the adjacent margin: "if both you & HO think it a good way to generate the needed response. ZB."

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#### 140. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, July 3, 1978

##### SUBJECT

Summit Strategy

1. The essential US goal at Bonn is to strengthen world economy. More specifically we want:

a. German and Japanese economic expansion, which will help other European countries and the US.

b. European and Japanese MTN concessions, which will benefit the US and other industrial and developing countries.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 13, President, Germany, 7/13–17/78: Economic Summit [I]. Confidential. Sent for information. Sent to Carter as Tab A of Owen's July 3 cover memorandum forwarding briefing materials for the Bonn G-7 Summit. (Ibid.) Owen sent additional Summit briefing materials to Carter under cover of a July 11 memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 13, President, Germany, 7/13–17/78: Economic Summit [II])

c. Increased aid to LDCs—particularly by those with large surpluses, i.e., Japan and perhaps Germany.

d. Stepped up action on energy research, development, and production by all the Summit countries.

2. To assess the likelihood of these goals being achieved, we need to review the attitudes of other Summiters. These are summarized below, on the basis of impressions that I formed at Preparatory Group meetings.

3. *Schmidt* wants a success, both because he is host and because of his domestic political difficulties. He is prepared to pay for that success with some German economic expansion (we don't know exactly how much), if he can get what he wants from other countries in return:

a. He wants the US to limit oil imports. He believes that continuing heavy US oil imports will hurt Germany's economy and would offset any German expansion.

b. He wants reduced trade barriers. He knows this is particularly difficult for the British and French.

He is also concerned about US inflation, but my impression is that he isn't looking for any new US action—only for you to describe the existing program, which he will applaud; he wants to be convinced that you will stick to it, despite political costs.

He also wants a general US blessing for European monetary unification and US assurances that nuclear fuel supply will not be interrupted while INCFE is underway. This may provide us with some US bargaining leverage on other issues.

*Schmidt* (and others) may wish to stress the role of private investment in stimulating growth; this is in the draft Declaration; it makes sense and would be welcome to the business community.

4. *Callaghan* has a large stake in the Summit's success, since he has spoken a good deal in the US about his role in producing a package Summit result. The main element in that package, as far as the US is concerned, is German growth.

*Callaghan* says that he is prepared to pay for that growth with trade concessions. It is not clear what or how significant these concessions will be. He probably has in mind that the MTN negotiations will fail to resolve key issues before Bonn, and that the Summit will give a political directive to shape their resolution in post-Summit negotiations.

*Callaghan* shares the general European concern about US energy policy.

He would like some apparent Summit progress on North-South issues; there is no evidence he is prepared to contribute more than forgiveness of some past LDC debts to the UK to achieve it.

5. *Fukuda's* main goal is to do something about the problem that worries him most: the weakening US dollar. He also wants to turn back the protectionist tide in Europe. And he is anxious to get the industrial countries off his back on the Japanese surplus issue. In short, he wants a substantive success.

To achieve these goals, he may be prepared to pledge additional expansion measures; this depends on whether his present optimism about achieving 7% growth continues right up to the Summit and on whether Fukuda decides for electoral reasons to convene a special Diet session to which he might propose additional stimulus. Fukuda also says that he will improve Japan's MTN offer, and that he will pledge additional aid to developing countries. This could be a fraud or a real increase depending on whether the base for his projected doubling of aid is 1976 (bad) or 1977 (good), and whether the comparison is in dollars (bad) or yen (good). He will want the other Summit countries to welcome these Japanese measures as an effective response to Japan's surplus problem.

Fukuda is anxious to secure European concessions in MTN, and US assurances about energy and inflation.

Fukuda may invite the Summit to be held in Tokyo next year. This prospect would have a healthy effect on Japanese economic policy between now and then. My guess is that post-INCFE nuclear energy issues will also figure largely in the next Summit.

6. *Giscard* shares some of the other European countries' concerns: Like the UK, he wants German growth; like Germany and the UK, he wants to know whether the US will limit oil imports; like Germany, he wants a general US blessing for European monetary unification; and like the UK and others, he would like some progress on North-South issues.

Giscard is not the host, like Schmidt; he has not talked up what he hopes to achieve, as Callaghan has; and he is not as hard pressed at home as Fukuda is. But he has goals he wants to fulfill, and the Germans believe he is prepared to make some trade concessions to this end. His representatives say that this would be France's contribution to a successful Summit.

7. *Andreotti's* representatives seldom speak at preparatory meetings, and then only to echo other European views.

8. *Trudeau* has a special interest in North-South relations. He will support aid to LDCs, particularly to help them produce more energy.

9. This run-down suggests that other leaders' goals are, in varying degree, congruent with our own: Schmidt and Fukuda want a good MTN result; so do we. Callaghan and, to a lesser extent, Giscard want German and Japanese growth; so do we. Most of the other heads of

government want to see more energy research, development, and production in the industrial world, and more aid to developing countries; so do we. They are likely to welcome your anti-inflation program and expressions of strong intent to prosecute it, such as you have voiced in recent US speeches.

Even on US energy policy what the other heads of government want you to *do* is what you may well want to do: pass the bill at this session or take administrative action in January. The question is how far you can go in committing yourself at the Summit to such action without eliciting a counter-productive domestic response. The other heads of government face somewhat similar problems: Schmidt and Fukuda on growth, and Callaghan and Giscard on trade. So all will want to agree on commitments that foreshadow progress without being so phrased as to reduce their margin for maneuver in overcoming domestic obstacles to that progress. You may be able to lead them toward greater specificity or generality in their pledges, depending on how you want to handle energy; their tendency will probably be to settle on more general language, given the problems that they face—particularly on trade, where large EC concessions are still needed.

Reaching agreement will be eased by the fact that at least three leaders—Schmidt, Callaghan, and Fukuda—want very much to achieve an evident success. Your Friday meeting with Schmidt<sup>2</sup> will provide an opportunity to work out an understanding about the types of agreement that would serve this purpose. Schmidt will breakfast with Fukuda just before the Summit, and could then share any conclusions that you and he had reached with the Prime Minister.

My guess is that what will emerge is a Declaration that contains rather general pledges on growth by Germany and Japan and on energy and inflation by the US, plus confirmation of any MTN progress and a directive to complete trade negotiations by a date certain (hopefully with some indication of likely movement in such key areas as subsidies). The Preparatory Group will be sitting as the heads of government meet; it could revise and amplify the draft Declaration along these lines, if that is the direction Summit discussion takes.

Such a Declaration would be less specific than some (including me) had hoped for. Fortunately, most of the press here—and according to our Embassy, in Germany—have been expecting even less. We will

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<sup>2</sup> Carter met with Schmidt on Friday, July 14, from 10:32 a.m. to 12:05 p.m. in the Chancellor's office in Bonn. (Carter Library, Presidential Materials, President's Daily Diary)



work to keep the expectations low. Nonetheless, there would probably be some press reports pointing out the contrast between such a Declaration and more specific outcome that Callaghan, Lambsdorff, and others had forecast. (If so, our answer should be that the test will be post Summit performance, not Declaration language.)

In addition to whatever is said about the more controversial items of trade, growth, and energy, the others will probably be ready to agree on the draft Declaration language stressing the need for expanded research, development, and investment in energy in the industrial countries, and the desirability of more aid to developing countries, including aid for energy production. These last two issues are important:

—We need increased energy investment in the industrial world; the pre-Summit energy working group that we set up developed some useful ideas on follow-up.

—Bob McNamara would welcome the draft Declaration's strong support for IDA replenishment and the invitation for the World Bank to examine proposals for improving aid for energy production in developing countries. A strong Summit stand on foreign aid should help us with the US aid bill, which will be voted on after the Summit.

You may want to press for making these parts of the Declaration as strong as possible, and for effective follow-up.

10. Bob Strauss spoke to me of the need to avoid placing you in the position of being made to seem responsible for any lack of progress. I don't see why this should happen, if we play our cards sensibly—since political considerations will probably constrain the other heads of governments' pledges as much as yours, and since all of them will be more interested in taking credit for what they will portray as a success than in blaming others for a failure that would damage them all.

11. Nonetheless, you will be the leading figure, because of dominant US power. As in NATO, others will look to you to speak to the common interest, to the need for according it priority over more parochial concerns, and to the US willingness to play its full part in mutually reinforcing actions to this end. The other heads of government know of your problems with the Congress; they don't expect the Summit to make them go away. But they want to be reassured about your own constancy in pursuing the larger goals that you and they share; they want to know that you will not be diverted, even if you are delayed, by obstacles along the way.

For this you don't need briefing papers—only to speak your mind, as I have heard you do in meetings in the Executive Branch and with members of the Congress. If you do, the most important prerequisite to a successful Summit will be fulfilled.

What will it all add up to?

Mike Blumenthal said in his speech to the Press Club that the measure of a successful Summit is what happens in the year that follows.<sup>3</sup>

The measure of the Bonn Summit will be:

- whether the Germans and Japanese propose additional expansion to their parliaments this fall, and if so how much;
- whether the British and French make MTN trade concessions—either before or after the Summit;<sup>4</sup>
- whether your energy program prospers—having been more helped than hurt by what you did at the Summit;
- whether increased energy R&D and investment by Summit countries follows;
- whether the pledges for increased aid to LDCs are fulfilled.

I'm more worried about whether these later actions will take place than I am about the ability (which I suspect will be considerable) of the heads of government at Bonn to portray what they have achieved as a success. Limited and ineffective follow-up could lead to growing re-creation and divisions and, more importantly, to lost opportunities after the Summit.

It is trite to say that we are at a turning point, but in this case it seems to be true. The industrial world is poised between a relapse into protectionism and an advance which will, if it is to take place at all, have to extend to growth and energy, as well as trade. Bonn may not decide the issue, but it could give things a substantial impulse one way or another—not only by what is said in Declaration, but even more by what you and the other heads of government agree about effective follow-up.

At best, Bonn will be a modest success. But even a modest success could make a considerable difference in determining what directions things take in the year that follows.

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<sup>3</sup> Blumenthal spoke before the National Press Club on June 30; a report on his remarks was published in the July 1 edition of *The Washington Post*. (Hobart Rowen, "Blumenthal Sees Danger in Fed Policy," *The Washington Post*, July 1, 1978, p. D8)

<sup>4</sup> Under cover of a July 4 memorandum, Owen forwarded three letters on the multilateral trade negotiations to Carter for his signature: one to Giscard, one to Schmidt, and one to Jenkins. Noting that Strauss had requested that Carter send the letters, Owen reminded him that "a large gap still separates the US from EC positions in these negotiations and a powerful political impulse will be required to close it." Carter signed the letters, which are dated July 5. In the letter to Giscard, Carter expressed hope that the EC and the United States could reach "agreement on key issues in the Geneva trade negotiations prior to the Bonn Summit." In the letter to Schmidt, Carter expressed hope that Schmidt could "convince your colleagues that the Community must be sufficiently flexible to negotiate a mutually satisfactory multilateral trade agreement." In the letter to Jenkins, Carter asserted the need for Jenkins' leadership to secure U.S.-EC agreement on a trade deal. (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 12, Europe: 1978)

#### 141. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, July 6, 1978

On July 4 I met with Ambassador Togo and other representatives of the Japanese Government.<sup>2</sup> On being advised that they would not be forthcoming on beef, citrus and certain other agricultural products, I took an exceedingly firm line. I was very clear on what I thought of the future of this market for Japanese imports with Congressional protectionist attitudes hardening daily. They were also advised that neither you nor I could hold off the Congress much longer. I also expressed my extreme displeasure over their failure to do better in the industrial sector.

On the same day, I received information with respect to the negotiating mandate granted the EC negotiators by their Ministers.<sup>3</sup> If they give everything under their mandate, there would be insufficient agriculture access on tobacco, grain, citrus and so forth. We were also advised by the European Community that the Ministers would not meet to even consider improved authority prior to September 30. They are also too negative on export subsidies, among other things.<sup>4</sup>

Accordingly, yesterday after talking with Stu and Jody, I went public with the fact that we would not have a complete trade package in time for the Bonn Summit.<sup>5</sup> In my judgment, the firmness of our negotiation position was well received by domestic agricultural and in-

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 8, White House Official #2. No classification marking. Printed from a copy that does not bear Strauss' initials.

<sup>2</sup> No other record of this meeting was found.

<sup>3</sup> On June 27, the EC Council of Ministers approved the negotiating mandate for the final stage of the multilateral trade negotiations. According to telegram 12679 from USEC Brussels, June 28, the issues that proved to be "the major sticking points" among the EC Ministers and officials were agriculture, subsidies and countervailing duties, and selective safeguards. (National Archives, RG 59, Central Foreign Policy File, D780267–0843) Telegram 12714 from USEC Brussels, June 28, and telegram 12739 from USEC Brussels, June 29, discussed the EC negotiating mandate. (National Archives, RG 59 Central Foreign Policy File, D780267–1042 and D780270–1199, respectively) Telegram 12788 from USEC Brussels, June 29, described unofficial French, British, and Italian reservations to the mandate. (National Archives, RG 59, Central Foreign Policy File, D780269–0612)

<sup>4</sup> It is not clear how Strauss received this information. On Strauss' instructions, McDonald met with Gundelach on July 4 in Brussels to talk about the trade negotiations; among the items they discussed were agriculture and subsidies. (Telegram 10138 from Geneva, July 5; National Archives, RG 59, Central Foreign Policy File, D780275–1148)

<sup>5</sup> Both *The Washington Post* and *The New York Times* printed articles in their July 6 editions. See James L. Rowe, Jr., "Trade Accord Called Unlikely Before Summit," *The Washington Post*, July 6, 1978, p. A1; and Edward Cowan, "Strauss Pressing European Nations to Lift Curb on U.S. Farm Imports," *The New York Times*, July 6, 1978, p. A1.

dustrial interests. Additionally, you will leave for Bonn a week from now with *my* having failed to deliver a trade package for the Summit—not *you* having failed to return with one. I am leaving tomorrow for Geneva and will furnish Henry Owen with last minute details so that he may adequately brief you on the way over. I will go from Geneva and be in Bonn on Friday.<sup>6</sup>

Mr. President, I discussed with Jim McIntyre again this morning a “hiring freeze”. I hope you will consider imposing one, without notice, and before it begins to be speculated in the press. In my judgment, it will be exceedingly well received in this country and also gives you one more additional anti-inflation move having been made when you arrive at the Summit.

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<sup>6</sup> July 14.

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#### 142. Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Solomon) to the Special Representative for Economic Summits (Owen)<sup>1</sup>

Washington, July 7, 1978

##### SUBJECT

Probable Foreign Exchange Market Reaction to the Bonn Summit

The market will be most sensitive to what the President says about energy and inflation, Chancellor Schmidt says about German growth, and the Europeans say or decide to do about European monetary arrangements.<sup>2</sup> Decisions or statements on North-South issues, the MTN, and general energy policies are *not* likely to have a significant market impact.

Some pre-summit dollar selling has already taken place, in the expectation of minimal success at the Summit, but this movement has

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 111, President's Europe Trip: 7/78. Confidential.

<sup>2</sup> On July 6 and 7, the EC Heads of Government met in Bremen where they considered, among other issues, the establishment of a European Monetary System. Solomon discussed how the EMS might affect the United States in a July 10 memorandum to Owen. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 29, European Monetary Arrangement) See also Document 143.

been limited, and the market may go either way depending on the results of the meeting. A summit “failure” has *not* been discounted. Heavy dollar selling is possible if: (a) the President is unable to offer reasonable assurance on limiting oil imports, either by Congress or administrative action, (b) Schmidt does not announce his intent to stimulate the German economy, and (c) the Europeans announce a regional arrangement for “monetary stability” which is perceived as a means of insulating themselves from a falling dollar. Obviously, an appearance of a breakdown in cooperation between the U.S. and Europe could cause heavy dollar selling.

The market is probably not expecting the President to announce further actions against inflation, and if significant new measures were revealed, the market would tend to react positively.

The President’s position on European currency arrangements will be closely observed. *A blanket endorsement, without qualifications, is likely to be taken as a sign of U.S. weakness and lead to an effort to shift out of dollars.* If a Presidential endorsement of the general effort to improve EC cooperation were carefully qualified, however, to demonstrate U.S. concern about the implications of possible detailed arrangements for the global monetary system and the dollar, such a reaction could be minimized.

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#### 143. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>

Washington, July 11, 1978

##### SUBJECT

Assessment of Proposals for a New European Monetary System

You asked if I would prepare an assessment of the new European Monetary System. We labor under the disadvantage that the outline

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 53, Memos to President, 7/78–8/78. Confidential. Under cover of a July 11 memorandum, Owen forwarded to Carter a July 7 message from Schmidt that described the decisions on EMS taken by the EC Heads of Government at the July 6–7 meeting in Bremen. Owen noted that Treasury, State, and CEA would prepare “a memorandum analyzing the scheme.” Carter wrote at the top of Owen’s memorandum: “ZB—I have a good memo from CEA—will study before Bonn.” (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 12, Europe: 1978) Under cover of a July 15 memorandum, Owen for-

proposed at Bremen was very broad and general. Given that limitation, this memorandum (i) discusses the background for the proposal; (ii) outlines it; (iii) evaluates the likely impact of alternative formulations of the proposal on the United States' and world economy; and (iv) states my view on what our reaction should be. Before the Summit, you will receive an interagency memorandum with further discussion and agreed-upon talking points.

### *I. Background for the New Proposal*

The new European Monetary System (EMS) proposals must be seen in light of both a long history of the functioning and subsequent breakdown of the Bretton Woods system, and the current frustrations with economic policy in Europe today. A short history of postwar international monetary arrangements is given in an Appendix.<sup>2</sup>

*Why are the European governments proposing EMS now?* First, most high officials in Europe do not like floating exchange rates. Second, Europeans believe that U.S. "benign neglect" of exchange rates (our view that market-determined, floating rates are appropriate) reflects an enduring lack of concern about exchange market instability. They believe, therefore, that measures to achieve greater exchange rate stability must be taken without active U.S. participation.

Most important, I suspect that this is a brilliant ploy for deflecting criticism from the failure of European economic policy. The central need in Europe and most of the world today, outside the U.S., is to restore economic recovery. By taking the initiative on a dramatic and bold new action and focusing everyone's attention on EMS, Schmidt may well remove the sting of German failure to promote adequate economic growth. It should be emphasized, however, that exchange rate instability cannot be reasonably counted as the central cause of economic weakness in Europe. The cause is basically failure to take appropriate monetary and fiscal policies.

Schmidt does genuinely believe that exchange rate instability has been a significant drag on economic growth, especially in Germany. In fact, there is little evidence to date that exchange rate appreciation has markedly dampened German exports (and therefore growth). Exchange rate instability is a symptom of fundamental disparities in economic conditions among countries. Moreover, attempts to impose ex-

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warded to Carter a July 15 memorandum from Blumenthal that provided more information on the EMS. (Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 13, President, Germany, 7/13-17/78: Economic Summit [II])

<sup>2</sup> Attached but not printed is an undated paper entitled "A Short History of Postwar International Monetary Arrangements."

change rate stability on countries with widely different inflation and external positions could well do more harm than good.

*What are current views on fixed vs. floating rates?*

- There is very little support in the United States for moving back to a fixed rate regime. Such a move would put a straitjacket on domestic economic policies. As in the late 1960s, we would have to weigh the balance-of-payments consequences of every major government transaction. (As Director of the Bureau of the Budget in the mid-1960s, I literally had two sets of books: one for dollars spent in the U.S., and another for dollars spent abroad.) Ultimately, we might be forced into raising unemployment to cure a trade deficit.

- The view from Europe is different. Countries that are smaller and more open than the United States, and have close economic ties with one another, have sound reasons for pursuing economic integration, including monetary unification. About one-fourth of the E.C. GNP moves in world trade, as compared with 7 percent of U.S. GNP. Moreover, half of E.C. trade is within the E.C. *Unnecessary* exchange rate fluctuations are disruptive of trade and investment. By joining together, these countries hope to reduce unnecessary fluctuations. (But inevitably this must involve harmonizing domestic policies as well as providing for monetary union.)

## II. *Proposals for a European Monetary System (EMS)*

The heads of government in Bremen decided that competent E.C. groups would *study* the German-French “scheme” with an eye to adopting an EMS in December. It should be emphasized that no agreement was reached in Bremen on the substantive scheme. The main features of the German-French scheme are:

—Setting limits on movements of E.C. currencies relative to each other;

—The establishment of a pool of reserves, consisting of dollars, E.C. currencies, and gold to support these rates;

—There would be “conditionality” on borrowing of pooled reserves, i.e., countries in deficit would have to institute policies to eliminate their deficits. (Note: The Bremen scheme states that responsibilities apply to “deficit and surplus countries alike.” I am very skeptical whether surplus countries will be subject to effective pressures for adjustment.)

—The adoption of a European Currency Unit (ECU) whose value would be based on a basket of EC currencies as “the center of the system;”

—The ultimate establishment of a European Monetary Fund to hold the pooled reserves and oversee the system.

These arrangements would be phased in over two or more years beginning in early 1979. At least during the transitional period they would be superimposed on the existing Snake arrangements. Cur-

rencies *not* now in the Snake might initially have leeway for greater rate fluctuations than now exist among the Snake currencies, but it is envisioned that when fully implemented the new system would be at least as restrictive as the Snake.

As you know, the U.K. and Italy have serious reservations about such a plan, and did not endorse it at Bremen. Moreover, the features are all subject to change and negotiation.

### III. *Analysis of the Proposals*

As the exact details will be unclear for weeks or months, we can only pose a series of potential problems that the EMS may hold for the U.S. and world economy.

1. *Will EMS restrict the ability of the dollar to reflect underlying market forces?* If the EMS only attempts to reduce fluctuations among European currencies, extreme fluctuations of the dollar against *individual* European currencies may be reduced. (For example, the dollar might depreciate less against the German mark and more against the French franc than it would have otherwise.) *On average*, the depreciation against European currencies might well be unaffected. There are some hints in the Bremen statement and from other reports, however, that the new system might be used to manage the value of the dollar against European currencies. If these operations went beyond efforts to counter disorderly markets, they could deprive us of needed exchange rate flexibility.

*Comment.* We must be assured unequivocally that the dollar will be free to adjust when fundamental economic conditions warrant. It must not be pegged.

2. *Will the proposals destabilize the dollar?* The discussion and development of these new proposals is itself likely to create nervousness and uncertainties in exchange markets—indeed, some has already occurred. This probably will be temporary and modest. Moreover, initially speculators will test the new set of intra-European exchange rates rather than focus on European/U.S. rates.

If the new system uses dollars to intervene when it is buying or selling currencies of its members, and if the transactions are not balanced between buying and selling, then the value of the dollar would be affected.

A more fundamental question arises as to whether the development of more stable rate relationships within Europe, and perhaps ultimately the emergence of a European currency, will make European currencies relatively more attractive compared to the dollar as international money. This may occur, but it is unlikely to occur overnight. Moreover, the dollar as the key currency is likely to face growing competition from the DM and the yen in any case.



*Comment.* Although technical provisions need to be worked out, it is clear that the dollar may be subject to unnecessary pressures if the details are not carefully drafted. For example, the intra-European intervention arrangements should be generally neutral with respect to the dollar. Our technical people must be kept abreast of the details as they develop.

3. *What effect will the new system have on growth in Europe?* There will be a number of offsetting forces at work within the new system, that will affect economic growth. (i) Because countries in payments deficits will not be able to depreciate their currencies, they may have to adopt more restrictive internal policies to deal with their deficits. (ii) The provision of additional resources for loan to deficit countries will, on the other hand, help ease the pressure on them to take such restrictive policies. (iii) But, finally, the fact that the loans will be conditional on adopting “stabilization policies,” and the lack of any equivalent leverage on surplus countries, may create a contractionary bias in the system. This is the source of much of the Italian and British reluctance to participate.

Implementing the system at a time when large and stubborn differences in inflation rates exist among participating countries increases the likelihood that even with fairly large financing resources some countries will be forced to take sharply restrictive action or abandon the system.

Any overall contractionary bias in the system could be reduced (i) by allowing periodic adjustments in intra-European exchange rates; or (ii) imposing and enforcing symmetrical responsibilities on both surplus and deficit countries to adjust internal policies. Little has been said so far concerning the responsibilities of countries in surplus.

4. *Will a New European Monetary System be viable?* I have some doubts about whether EMS will succeed. A new system of fixed rates will be subjected to severe strains almost immediately:

—Significant current account imbalances exist within Europe.

—Large differentials in inflation rates will lead inexorably to the overvaluation of currencies where inflation is high and undervaluation of currencies where inflation is low.

—More fundamentally, a fixed exchange rate regime in Europe requires institutions to assure that Europe has a concerted fiscal and monetary policy; and that harmonization of inflation rates will occur. The EMS proposal puts the cart of exchange rate stability before the horse of economic harmonization.

Past experience with maintaining fixed rates under such conditions suggests that a system of fixed rates is not likely to last. Britain, France, and Italy have been in the Snake already, and have dropped

out—France twice. As the respected German *Handelsblatt* wrote yesterday, “An old worn out dress has been ironed again.”<sup>3</sup>

#### IV. Recommended U.S. Reactions

1. At this stage, the Bremen agreement is very general; its implications for the U.S. and the world economy cannot be assessed until its further details are worked out.

2. Although there are some *political* disadvantages for the United States, we should *not* take a negative attitude on general principle, and indeed should support the broad objectives of European economic integrations, including monetary cooperation.

3. When this subject arises in meetings with your Summit counterparts, especially Schmidt, Giscard, and Callaghan, you should indicate: (i) we have historically supported moves toward European integration; (ii) we cannot render a final judgment on EMS until the specific features have been worked out; and (iii) we do have a major interest in seeing that certain broad principles are incorporated and certain dangers avoided.

A. We have an obvious interest in what the system implies for the relationship of the dollar to the basket of European currencies in the system. The system should *not* be designed or operated in ways that reduce the flexibility of the dollar.

B. Given the current depressed state of the European economy, we think that over the next several years it will be especially important that the system not exert a contractionary force.

C. The specific technical choices made in the design of the system will inevitably have important repercussions for the dollar and for U.S. economic interests. For that reason, you should urge that the United States be kept closely informed at all stages of the technical discussions, so that we can make our views known before arrangements are frozen.

4. Finally, it is critical that discussion of the Monetary System *not* distract us from recognizing the central requirement in Europe today: a concerted policy to expand the European economy especially in the strong countries like Germany, Switzerland, and Benelux. It would be a tragedy if EMS removed attention from the necessary expansionary measures which must be taken.

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<sup>3</sup> Telegram 12607 from Bonn, July 10, reported on the *Handelsblatt* editorial with this statement. (National Archives, RG 59, Central Foreign Policy File, D780282-0589)

**144. Editorial Note**

As the July 15, 1978, multilateral trade negotiations deadline approached, representatives of countries participating in the Geneva talks intensified their negotiations. Robert Strauss, Special Representative for Trade Negotiations, frequently briefed the press on the progress of the negotiations. (Telegram 10442, July 10; telegram 10456, July 10; telegram 10640, July 12; and telegram 10796, July 13, all from Geneva; National Archives, RG 59, Central Foreign Policy File, D780282–0527, D780282–0683, D780285–1118, D780288–0052, respectively) Henry Owen, Special Representative for Economic Summits, reported to President Jimmy Carter in a July 12 memorandum that there had been “good progress” at the Geneva talks and that Strauss would “bring a respectable US–EC trade package to Bonn. This agreement will not include the Japanese. US–Japanese negotiations at Geneva have come to a virtual halt, due to Japanese recalcitrance.” (Carter Library, National Security Affairs, Brzezinski Material, President’s Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 1–12/78)

On July 13 in Geneva, representatives of the United States, the European Communities, Japan, Canada, the Nordic countries, Switzerland, New Zealand, and Austria agreed on a “Framework of Understanding on the Tokyo Round.” According to the statement announcing the agreement, the framework included “the necessary elements, as may be elaborated in further negotiation between these and other participants, to ensure a successful conclusion of the negotiations in accordance with the objectives of the Tokyo Declaration of September 1973.” (Telegram 10789 from Geneva, July 13; National Archives, RG 59, Central Foreign Policy File, D780288–0362)

In a July 15 memorandum to Secretary of State Cyrus Vance, Under Secretary of State for Economic Affairs Richard Cooper commented: “The trade talks in Geneva, as you undoubtedly know, went quite well. We are still far from having agreement, but enough progress was made there for the Summit to note with satisfaction, and then give another rhetorical push.” Cooper noted “two difficulties in the current negotiations: The European Community has withdrawn some of its tariff offers to the Canadians, and the Japanese tariff offer remains much too small. [Japanese Prime Minister Takeo] Fukuda would like to offer more, but has not yet been able to persuade his Cabinet. Japan should be criticized at the Summit for its trade offer, to strengthen Fukuda’s hand back home.” Cooper also reported France’s assertion “that the EC trade representatives exceeded their mandate at Geneva, but all other countries supported the negotiator on this” and the United Kingdom’s continued reluctance on selective safeguards. Cooper noted

that on safeguards, the United States, West Germany, and Japan stood “strongly with the developing countries, and we and the Germans hope to get recognition in the communique on the importance of not going too far in the use of selective safeguards, but the British (supported by the French) will probably resist.” (National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 3, Memorandums from RNC to Secretary, Deputy Secretary, 78)

On July 15, Strauss and Owen each met separately with Fukuda in Bonn to discuss the U.S.-Japanese impasse. As a result of these meetings, Fukuda instructed his trade negotiator, Nobohiko Ushiba, to meet Strauss on the following day to try to reach agreements on industrial tariffs and export restraints on particular Japanese goods, such as cars. Fukuda also promised to send a representative to Washington to discuss “access for agricultural commodities of special concern to the US (including those of interest to California, the Midwest, Texas, and Florida).” (Memorandum from Owen to Carter, July 15; Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 13, President, Germany, 7/13–17/78: Economic Summit [II]) No memorandum of conversation of Strauss’ meeting with Ushiba was found.

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#### 145. Minutes of the Bonn Economic Summit Meeting<sup>1</sup>

Bonn, July 16, 1978, 10:10 a.m.

##### BONN SUMMIT

##### Session 1

Schmidt: Cordial welcome to Bonn. Room was for 30 years Cabinet Room of FRG.

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<sup>1</sup>Source: Department of State, Office of the Secretariat Staff, Records of Cyrus Vance, Secretary of State, 1977–1980, Lot 84D241, Box 9, Vance NODIS Memcons 1978. Secret. Drafted on August 8. Attached but not printed are two cover pages that indicate that Hormats drafted the minutes and identify the Summit participants: Trudeau, Jamieson, and Chretien; Giscard, Monory, de Guiringaud, and Deniau; Schmidt, Lambsdorff, Genscher, and Matthoefer; Andreotti, Forlani, and Pandolfi; Fukuda, Murayama, and Sonoda; Callaghan, Owen, Healey, and Dell; Carter, Vance, Blumenthal, and Strauss; and Jenkins. This first session of the Summit, which took place in the Palais Schaumberg, began at 10 a.m. and ended at 12:42 p.m. (Carter Library, Presidential Materials, President’s Daily Diary) Carter’s handwritten notes on the Summit are in the Carter Library, Plains File, President’s Personal Foreign Affairs File, Box 4, Summit Meetings, 7/78–6/80.

Coverage of conference kicked up a lot of dust. Should not give impression of just bilateral drifting. Should not raise hopes which deflate in day-to-day business of our inter-relations.

We are at foot of a mountain but we are determined to reach the summit. Governments working together is a good sign.

On the other side of Rhein there are seven hills. Each of us climb one individually. But we would all find it hard to climb this Summit alone. We should all tie our hopes in a rope party of reason and work together.

Satisfaction will depend on the public: they watch while we climb. Success will affect everyone.

Press reaction after the Downing Street Summit not very friendly. Some said *no* concrete results. I feel value of Summit lies in opportunity for a direct exchange of views—all acted in the spirit of the Downing Street talks 14 months ago.

We introduced additional measures in the FRG equaling 1% of GNP in the form of tax relief. We have not, however, resolved all our international economic problems because of changes in the world economic structure and we must, therefore proceed step by step, from Summit to Summit. But we have avoided a deterioration in our relations. Many countries, especially in Europe, have improved their current account balances. Inflation has been reduced, for example, the OECD foresees 7% inflation versus 8% last year. The US has been successful in reducing unemployment. The MTN is making headway.

Public hopes for the Summit are very high. We must see discussions against the backdrop of popular hopes. Failure will have a psychological impact on the world economy.

We need a package deal which shows that the developed countries are capable of managing the world economy. Long term growth requires that we continue to fight protectionism and make progress on energy, fighting inflation and stable currency.

We should all be gratified to our personal representatives who have provided us with a draft declaration.

I suggest that the discussion proceed as follows. First, a general discussion about relationships among subjects we will discuss. Second, monetary and energy issues, which would be this afternoon. On Monday<sup>2</sup> morning we will discuss trade policy including the MTN, protectionism and adjustment. This would be followed by North/South relations. Before noon on Monday, and shortly after noon we would discuss the declaration. The draft declaration should be con-

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<sup>2</sup> July 17.

stantly reviewed by delegations based on the information of our notetakers.

We have also agreed that there should be only three people from each country at the table, although substitutes are possible for individuals if the delegations so wish. In addition, of course, there would be Roy Jenkins and a notetaker from each country.

Before the meeting I received a delegation from the International Conference of Free Trade Unions. I believe Jim Callaghan received the same group last year. All of our countries were represented in the delegation. The Group gave me a paper, which I have distributed to you.<sup>3</sup> The only point I want to make is that the trade unions do not have a recipe for us either.

Giscard: We should discuss the text of the declaration as we proceed. The Ministers present can then agree during the next two days on the parts discussed and then present them to us.

Schmidt: It is a good idea to update the draft as we go along, but nothing should be published before the end. Who now wants the floor? Jim Callaghan?

Callaghan: The countries represented here have over 50% of the world trade. The results of this meeting will be extremely important to investors confidence, trade unions and money markets. It is important that we recognize our responsibilities in this situation of many tensions, such as protectionist pressures. Protectionism has been growing, but we have managed to keep it at bay as a result of the Downing Street Summit and earlier meetings. Protectionism arises from pessimism, which is hurting our ability to achieve growth. What we can produce will be seen to be of great significance.

At Downing Street we joined to make general commitments. We will not make them this time, but should be more specific. There are blank spaces in the communique. If each of us can make contributions to fill those blank spaces, it will have a great impact. The Sherpas<sup>4</sup> demonstrated that what we all need is a package approach. Each of us will be called on to make conclusions that are not popular but will be of value to the world as a whole. The package approach can reach certain collective conclusions that we might not reach individually.

The fact of this meeting is important and the results will influence people. All of us should make individual contributions. The thought of individual decisions will be greater than the sum of its parts.

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<sup>3</sup> Not found.

<sup>4</sup> The "Sherpas" refer to the representatives of the G-7 heads of government who were responsible for the planning and preparation for each G-7 Summit; Henry Owen was the U.S. sherpa during the Carter administration. The term derives from the term used for guides employed in Himalayan climbing expeditions.

Carter: Coming together is a great help. I shook hands with Helmut Schmidt on Friday<sup>5</sup> and the stock market went up 15 points. We should understand the importance of individual commitments. We have tried to carry out our Downing Street commitments. US growth was 5.7% last year, but will drop some this year. We have also made a great deal of progress in reducing unemployment. Energy imports are up only 1% in 1977. During the first five months of this year, oil imports are down by about 1 million barrels a day.

I have introduced a five-part program on energy. Three are in little dispute. A conference committee has agreed on the fourth part, on natural gas. A few oil pricing elements are also agreed. As far as oil is concerned, the sum total of these agreed efforts will reduce oil consumption by 2.3 million barrels per day by 1985. I will attempt to raise the price of US oil to world market prices by 1980. I will check back home on these things so I am not doing what is politically unfeasible.

With respect to the budget, our 1978 deficit will be in the 50 billions. This coming year it will be in the 40's and the next in the 30's of billions. This represents a small part of the GNP. We are also limiting government spending.

We know our balance of trade is important to all of you. We are able to buy your goods better than you are to buy ours. Exchange rate changes should deal with some of these problems. Also, the dollar is down; while we regret this, it should help to correct the imbalance.

This meeting can provide a tone of general progress and specific commitments. We will do our share.

Schmidt: I believe Summits have been constructive on the whole. I know more about other countries problems than I would have otherwise. I am pleased that US Congressional leaders have demonstrated more of a personal interest in foreign affairs. We were pleased with Senator Byrd's visit to Europe.<sup>6</sup> We are also pleased that there is interest in the US in the success of Summits.

In a number of ways this Summit has already achieved some success by encouraging positive programs in certain countries. The proof of our efforts is what we do here and what the declaration says. For instance, progress in the MTN is essential. We should emphasize the progress that has been made, show appreciation for our negotiators, give them support, and encourage them to continue with this progress. There are also protectionist measures. To the extent that we

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<sup>5</sup> Carter arrived in Bonn on Thursday, July 13. On Friday, July 14, he met with West German officials in Bonn; the next day, he visited Frankfurt and Berlin. (Carter Library, Presidential Materials, President's Daily Diary)

<sup>6</sup> Byrd visited Spain, Belgium, the Federal Republic of Germany, and the United Kingdom July 1–9.

can demonstrate success in the MTN we can put obstacles in the path of protectionist pressures.

Giscard: We should be frank in our analysis here. I know countries do not like to be offensive, but the analysis will remain among ourselves and will not be seen to be offensive in the outside world.

The French problem is unemployment. It is both a social and a political problem. Compared to the East the fact that the West has unemployment, particularly unemployment among the young, is a handicap we must do something about. Also, the LDCs are directly tied to our difficulties. We should not just pay lip service to them but include a discussion of LDC problems among our own. We are interdependent with them.

Let me assess the causes of our problems. During the 1960's and the early part of the 1970's there was a considerable amount of growth. There was then a gradual slowdown, and an increase in oil prices. This resulted in a new disequilibrium in the world. Things were improved a bit because of the oil price freeze. But there now may be a period of oil price increases, in part for international monetary reasons. There will be catastrophic economic difficulties if there is once again a steep oil price increase. This would cause an impossible situation, causing countries to tighten their belts and try to increase their exports. It will lead to huge increases in unemployment. The period between now and 1982 will be dangerous. We here have an economic responsibility. There is a long lead time before economic measures are felt. To influence events beyond 1979 we must take steps *now*. We should start to do things this summer or early autumn to be effective in future years.

Fukuda: This is an age of uncertainty. There is an opaque future for all of us. People are insecure. Many economic and social problems contribute to a lack of confidence. There is uncertainty in East/West and North/South relations. Within ten years there could be an oil crisis. We need a clearer vision for the future. We should adjust ourselves to the post-petroleum era, and should work toward a clearer vision of that era. In addition, we should cooperate to help the peoples of the world regain confidence. We should pool our wisdom and by the next Summit should take up the long-range future energy problems of the world.

Andreotti: The fact of this meeting has a useful purpose. It enables our people and public opinion in our countries to become accustomed to interdependence in the solutions of economic and social problems both among the industrialized countries and between them and the rest of the world. The issue of the LDCs is not a matter of aid but an element in the overall progress of humanity and attention to these problems in LDCs can reduce demand for improvement in our countries, which have already developed.



Giscard: Let us remind ourselves of the importance of solving the unemployment problem. In London we shared a joint commitment to solve that problem. Some have achieved a great deal of progress, particularly the US. Others have done little. The Bonn message should be understandable—particularly to young people. Today and tomorrow we should pinpoint some actions which our public opinion can perceive as conveying a commitment to solidarity and interdependence. These actions should both help our countries and show we have a broader vision of humanity as well.

Trudeau: We must establish goals and seek to establish a feeling of confidence. Our deliberations will affect the world and determine the degree of optimism and pessimism in world public opinion. Our communicate must take account of this and show we can tackle problems. I also agree with Fukuda that we should extend our thinking to the long term, although we will probably have to take some steps only from Summit to Summit. There is a contradiction between our attempt to achieve progress here and what some of us believe in our hearts—that these problems cannot be resolved in the short-term. We must think more in the long term and have studies which show public opinion that we are seeking long term solutions. For instance, are we at the bottom of a curve that will go up again, are we at the end of the second industrial revolution, or is all we need is a little fine tuning. We should determine whether there should be studies, in groups such as the OECD, so that we can resolve in our own minds these issues and identify the structural difficulties we face.

Among the new difficulties are entrance of third world exporters to our markets, adjustment to higher energy costs and difficulties with slower rates of growth. There is some contradiction. Can we reduce energy imports and grow at the same time? We should examine whether or not we are at the end of a cycle of development based on the electrical revolution and are now in the faltering stages before a new period of expansion. We should study this so that our population can be informed that we are looking at the long term structural problems rather than attempting only to solve short-term economic problems. As long as we are on the analogy of the Summit, we should determine whether there is an “abominable snowman” out there to get us.

Schmidt: I don't know if there is a long-term Kondratieff cycle<sup>7</sup> or if this concept is useful to us at this time. The problem is that world-wide pessimism is in part caused by the increase in oil prices and by the collapse in the balance of payments structure leading to exchange rate disarray. We must overcome inflation and also achieve international mon-

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<sup>7</sup> Reference is to the theory, named for Russian economist Nikolai Kondratieff, that economic activity is characterized by decades-long waves, or cycles, of boom and bust.

etary stability. We must achieve balance of payments equilibrium and exchange rate stability. I was interested in Carter's statement regarding the US objectives of bringing oil prices in the US to world levels by 1980, to reduce US oil consumption and to ensure that the US current account deficit is reduced. I am sure that I and others will point out what we can contribute to the party, i.e. spell out these square brackets.

If oil prices increase in the coming year, there will be problems. Our Saudi friends have helped a great deal. But if oil prices go up, it will mean disarray in exchange rates. If the Middle East situation once again places oil exporters under pressure from the other Arabs, there will be a significant deterioration. This will be very serious for countries without oil, although less so for the US than for countries without energy. For economic and strategic reasons it is vitally necessary to limit oil import dependence. The EC at Bremen decided to reduce energy imports by 50%. This will be difficult for France, Germany and Italy. We spend .5% of GNP to subsidize coal. We already import vast amounts of energy. Our resolve is firm and unswerving to increase nuclear production. This is the only way we can increase domestic energy. We should look to the long term energy policy. I agree with Fukuda on this. But I would take it still further—to make individual countries much less dependent on imported oil. I stress this for strategic reasons, because of the depletion of fossil fuels, because of oil's impact on payments balances and exchange rate stability and because it will affect protectionist pressures.

Let me add something on the latter point. There are protectionist pressures in many areas such as steel, textiles and shipbuilding. If any of us gives in, all may follow suit. This will lead to an increase in unemployment. In the communique we should re-emphasize the crucial importance of combating protectionist pressures. We should also agree to open our markets more to one another and to the LDCs, too. There has been progress by Strauss, Haverkamp and others. We should also discuss investment tomorrow, when we discuss trade, and how to make the system more open than in the past.

Regarding the question of growth, we have not done as well as we would like although our inflation has been only 2.5%. Our growth has been less than 4%. We can pay for our oil by exporting, and we do not have to finance oil imports from anywhere. We have a small current account surplus, but we would be happy to do away with the surplus because it constitutes a transfer of real resources abroad. We let the DM go up to offset this. It has increased three times more than GNP, and more than our exports. As a result, a certain amount of unemployment has developed. The DM was undervalued for two decades. This directly affected incentives for exports. These exports are now slowly decreasing. We need 5–7 years to correct the export-oriented focus of our

industry by investments oriented toward the home market. We no longer for instance export ships or cameras.

Giscard: The Leica is a fine camera.

Schmidt: But it is too expensive. I can't do much for shipbuilders by monetary action. Interest rates are up significantly in the FRG. A 1.5 billion DM loan had to be taken off the market because of a steep increase in interest rates.

We have serious constitutional difficulties as well—the opposite of Proposition 13.<sup>8</sup> The Federal budget opposes giving more credit than there are budget receipts. If I say the FRG will contribute to the package, on the assumption that others will do so as well, this will pose constitutional difficulties. Thus, in our declaration we should choose our words carefully to give us the flexibility needed to deal with constitutional difficulties. But we are prepared to contribute to the package if others are willing to do so.

Jenkins: Unemployment is a major problem. It also leads to protectionist pressures which would lead to more unemployment. There has been significant progress in the MTN in the last few days. I agree with Giscard that energy price increases hurt our economies—but we should remember that there were underlying difficulties before. Our economies may also be running out of steam. Perhaps, the great stimulus of the past has begun to exhaust itself. Inflation is an inhibiting factor in our economies.

Regarding energy, there could be a blow like 1973 in the not too distant future—in the 1980's. We should reduce our dependence on oil in this period and have new methods for producing energy. Also, we must think of the LDCs and give attention to encouraging them not to produce goods already in surplus but to focus on such goods as energy and food.

On growth, one can grow more effectively and safely if this is done on a concerted basis rather than individually.

Trudeau: Schmidt said FRG and Japan would suffer more if there were an increase in the price of oil. But a German economist has recently written that if a product's price is set by a cartel, other prices are reduced. Thus, if Japan imports 10% of its imports in oil and the price of oil goes up, the price of 90% of its imports go down and thus Japan benefits. In the US the price of energy goes up but the price of other goods it exports goes down.

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<sup>8</sup> In June 1978, Californians voted in favor of Proposition 13, an initiative that decreased the current level of property taxes and limited both future property tax rates and annual increases in property value assessments.

Schmidt: The reason for this is that if you have to spend five times more on energy, industry is not fully employed and thus it does not need as much raw material, so raw material prices go down.

Trudeau: There is a real transfer of resources to OPEC, but the balance of adjustments shifts to those who import lots of oil and against those who export other goods and commodities.

Giscard: This is a tax decided by OPEC. It goes with the transfer of real resources.

Fukuda: Let me identify measures taken by Japan. The oil shock dealt us a serious blow. We are heavily dependent on imported oil. Growth this year was 5.4%. We are aiming for 7% growth, and our economy is moving full steam ahead to this end. Our balance of payments had done too well. We have an \$11 billion current account surplus. This is my biggest headache, and we are most seriously concerned about it. For JFY '78 we have taken an obligation to reduce our trade surplus by expanding imports, reflating by expanding domestic demand to achieve 7% growth. This is the crucial test. Many thought it would be difficult to achieve 7% growth, but for the first quarter we have had 10% annual growth. We can't maintain that momentum, but I am confident that we can achieve 7% for the year. If 7% seems doubtful, I am ready to take additional measures which may be needed. During August and September we will be able to see if additional measures are needed and determine the type of measures which will be necessary. By the end of September we will table a bill in the Diet.

The effects of our actions already taken will take time. That is why in the first half of this fiscal year we have a fairly large balance of payments surplus. To deal with this problem I have embarked on an emergency import scheme, including purchases of enriched uranium and oil stockpiling. There should be an improvement with respect to our balance of payments. But expanding imports alone is not sufficient. That is why I am contemplating adjustments of exports. The volume of exports in FY '78 should be the same as in FY '77. I will see to it that the volume of exports in '78 does not exceed that of 1977. If this goal is achieved and the price of Japanese exports is the same as 1977, the surplus will be liquidated soon. But the prices keep rising and thus increase the value of Japanese exports. The single most important factor here is that we attain price stability in Japan and in the international market. For the same volume of exports, prices are now 20% higher in monetary terms than in the previous year. That is why even if we hold down the volume of exports (undesirable as that may be) we still need to hold down global inflation. For the first time in history I am overriding opposition in Japan by regulating exports. But our efforts will be defeated if there is inflation in markets abroad, because if there is, the value of those exports will go up even if the volume does not. Thus, I am asking

you to give attention to inflation. This is of cardinal importance. I would like to have all of you share your concerns about inflation.

Still we recognize we have a very large current account surplus. I will also make efforts on the capital account by floating foreign bonds in the Japanese market. Also, we will double aid in three years—a decision which took much courage.

I can assure you that I am doing my utmost. I am doing all within my power. Whether our efforts will be productive will depend on inflation. Other countries must make efforts to counter inflation if this effort is to work. I am doing my utmost, and I would like to see my efforts matched by yours.

Carter: I listened with care to Fukuda and Schmidt's commitment to do the utmost within their countries. These were very forthcoming and instructive. Schmidt will eliminate his current account surplus and achieve greater growth in the FRG. Fukuda will reduce his surplus and double aid in three years. We will do our part on our goals to reduce the consumption of energy and improve energy production in order to hold down imports; and we will increase coal production.

On trade we are launching a new program to improve our exports. They account for 7% of our GNP. We will increase our agricultural production, and it should be higher this year than last. We have reduced our unemployment even at a lower rate of growth. We now believe we can grow with a very slight increase in oil consumption. We are forcefully holding down our budget—more than any Democratic president has done in the past, with the cooperation of the Congress. Our balance of payments deficit is too high—1.5% of GNP. For the first five months our energy trade deficit declined by \$3–4 billion, but the balance of trade in manufactured goods became worse.

I have a political problem concerning oil. Previous Congresses were heavily influenced by oil producers. Now there is an equal interest and influence by oil consumers. The big problem is to change thinking domestically.

We enjoy a very wonderful relationship with the Saudis. They have gone the second mile in holding down oil prices in recent months. You have gotten a bargain price for oil because it is tied to the dollar. We expect, however, that prices will increase, but hope this can be kept within the inflation rate. We hope we can incorporate OPEC into efforts to shape the world economic situation. We would also like to bring the Soviet Union into compatibility with us in dealing with economic matters. Surplus and deficit countries have a responsibility here. The commitments of Fukuda and Schmidt will help to make this conference successful and we will try to do our part as well.

Schmidt: With respect to the declaration, if we get similar gestures from other participants, I will go to our constitutional committees and

legislatures. As a possible FRG commitment, I could put in the declaration that "as a contribution to reduce world-wide disequilibrium the German delegation stated that it could put additional measures to increase demand and rates of growth to the legislature in the coming autumn."

Carter and Giscard: Do you have a number to add?

Schmidt: I can see additional measures designed to strengthen demand and to strengthen economic growth. I am not talking of tenths of percent of GNP.

Giscard: I appreciated Japan's figures and deadlines—measures by the end of September. Have you (Schmidt) thought of saying which measures would be in your text?

Schmidt: The Government would, if others make commitments, transmit to its legislature broader additional measures in the month of September with a view to bringing about increased demand and higher rates of growth. We will have to meet in our Cabinet, and with others, in order to determine what types of measures our legislature will accept. Also, recognize that the opposition has a majority in the Bundesrat. The opposition has other measures in mind. In principle, I will get agreement to measures to stimulate demand and lead to higher rates of growth. Others must also commit themselves in the same direction. I must also say that there is some skepticism as to whether these measures can obtain growth.

Fukuda: I will give some phraseology for Japan early in the afternoon.

Jenkins: At Bremen the communique took a commitment on growth of a relatively general nature. What Schmidt has said will give more sharpness to the declaration. The communique as a whole cannot give quantitative indications for the EC because it cannot go beyond Bremen.

Callaghan: We have made much progress externally to improve our debt profile and we have improved our level of reserves. Our level of inflation has been cut by two-thirds. We will ask for another year of wage restraint. Our rate of inflation is now about the OECD average. We will continue with counter inflation measures. Unemployment is also down. Imports are high, and we have a high import propensity. North Sea oil helps to finance our high imports and has given a healthy boost to UK growth. We, of course, in this respect welcome high oil prices, but will do our best to keep oil prices down, and we will use our influence to achieve this because it is good for all countries.

We cannot make a contribution at this time to world growth. But if there is an improvement in the world climate we will consider going forward. Let's discuss this over lunch and see how far we can get.

Schmidt: I suggest that the EC language which Jenkins read be included in the declaration before we come to the FRG, because we are acting under the EC declaration. Then we can have the German commitment. Then we can quote Callaghan's contribution saying he will carry on the fight against inflation. It will help me in the FRG.

Callaghan: It will help me, if we commit ourselves here, to resist inflation back home.

Giscard: Much work has been done in the OECD group under Charles Schultze. We said we agree to the goals set for us in that group. We are the leaders of Europe in growth. We agreed with Schultze that we should have a stimulus of .5% of GDP. Our contribution will go hand-in-hand with the fight against inflation—a decrease in our budget deficit of 10 billion francs. We are prepared to put this in the final communique.

Carter: Our part of the statement concentrates on reducing inflation, our trade deficit and our energy imports. I have a feeling that Schmidt's verbal statement was more forthcoming and specific than his written statement. The US portion of this is too lengthy and we look to your advice as to how we can extract the pertinent sentences. If the FRG and Japan are reluctant to indicate specific expressions of their goals it will make it more difficult for me to project more specific goals on energy. I would like to agree on specific goals if others are willing to do so. Percentage increases indicated in the declaration are more convincing to the general public. We can give specific figures on the dates and goals to be achieved. If others do the same, it will help me. We should clarify this today. We know what we can do if others do the equivalent amount. Criticize us if you believe our statement is not sufficiently forthcoming. Let our aides negotiate specific language.

Andreotti: We can say we are moving in the right direction. In 1977 we had a \$1.7 billion current account surplus. In 1978 there will be a \$3.5 billion surplus. But we still have a very large budget deficit. I will introduce very large cuts in public expenditure in new legislation. The task is difficult because inflation is still very high. And because of unemployment, an austerity program is not regarded with much enthusiasm. Our weak side is the employment problem.

Schmidt: Could you indicate something about Italy's fight against inflation as the Italian contribution? We can leave it to the experts to determine the wording.

Trudeau: I agree that it is desirable for the participants to put something in the communique. We will put a phrase in it. Our situation is not very good or very bad. We have the fastest growing labor force in the OECD. We are creating jobs at a rate exceeded only by the US. But unemployment will remain high. We could refer to our rate of growth and to measures we are taking to fight inflation. We are now entering a

decontrol period. We can mention our commitment to ensure that during this period there is no renewed spurt of inflation.

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#### 146. Minutes of the Bonn Economic Summit Meeting<sup>1</sup>

Bonn, July 16, 1978

##### BONN SUMMIT

##### Session 2

Schmidt: I will brief the press from 4:15–4:30. Can I do it in behalf of all participants?

Carter: I think this is a good idea, but you should leave specific items until tomorrow when they can be presented in a package, not piecemeal.

Giscard: Agree with Carter. You can bring atmosphere and the idea of progress but not reveal texts.

[Omitted here is discussion of a joint statement on hijacking and energy policy.]

Schmidt: Let us now turn to a discussion of monetary issues.

Giscard: I guess I should start the ball rolling. There are a number of somewhat vague paragraphs in the Declaration, but they do impart a positive impression. They say we should seek stability in our monetary relations. This point will strike public opinion favorably. It is useful to reiterate it here, especially for the Americans and Japanese.

Let me take a few minutes to explain why we seek stability in the European Community. We have noted that there are three monetary zones represented at this table—North America, the yen zone, and the EC. Of the three only the EC has experienced a high degree of internal instability with currency variations as high as 60% between two extremes. This explains, in a small way, slow EC growth. Japan has had

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<sup>1</sup> Source: Department of State, Office of the Secretariat Staff, Records of Cyrus Vance, Secretary of State, 1977–1980, Lot 84D241, Box 9, Vance NODIS Memcons 1978. Secret. Drafted on August 8. For more information on the drafting of this memorandum and a list of Summit participants, see footnote 1, Document 145. This second session of the Summit, which took place in the Palais Schaumberg, began at 3 p.m. and ended at 6:43 p.m. (Carter Library, Presidential Materials, President's Daily Diary) The portion of the discussion relating to energy policy is printed in *Foreign Relations*, 1969–1976, vol. XXXVII, Energy Crisis, 1974–1980, Document 157.



11% growth in two years, the U.S. has had between 9 and 10%. EC growth is less than one-half of these. I can't develop a direct numerical relationship between instability of exchange rates and rates of growth, but I believe there is some. The structure of EC trade is that one-half of our trade is within the Community. If stable exchange rates eliminate one-half of the instability, that will improve prospects for one-half of our trade.

Much thought has been given as to how such stability would be achieved. We have agreed to adopt within the EC the type of mechanism which operated worldwide in the 60's, i.e. to achieve stability of exchange rates tied to intervention and a credit facility operating in a short-term and medium-term. There will be other mechanisms to correct the problems of differential rates of growth. In the new scheme there would be an estimated 20% of currency reserves available, which would equal roughly \$20 billion of reserves. The same amount would be paid in the national currencies of European countries and would thus be a total of \$40 billion in reserves. This is a very large sum, but compared to the Eurodollar market it is not unduly large. We will be issued under conditions similar to that of SDR's, i.e. against the opening of credits resulting from currency deposits. I should say, of course, that Mr. Callaghan's government has expressed a certain measure of reservation. The results would be stable exchange rates offering the possibility of adjustment by permitting changes in parities, with agreement by participants. This would be done infrequently, as a result of substantial changes in commercial and trade relations.

We would coordinate with the U.S., Japan and other countries so that among the dollar, the yen and other currencies there would be coordinated intervention on exchange markets. All European currencies would move in parallel vis-a-vis the dollar, the yen and other currencies. Coordinated intervention by central banks would be used for this.

Within the EC we would then have relatively stable exchange rates which would stabilize one-half of our foreign trade and a grouped float vis-a-vis other currencies. One-half of the trade would therefore be with countries participating in this grouped float. As a result, the rate of exchange of the ECU would be lower than the deutschemark and higher than that of weaker currencies of the system. This then would be an indirect way of acting on the economic policies of some countries. The FRG would stimulate more strongly because its currency would be weighted down by others. Other countries with exchange rates which are higher than at present would be more stable.

I informed President Carter of our thinking of this as did Chancellor Schmidt. I indicated that as a result of instability in the EC we decided to do this. We still have not reached a clear judgment as to what

the plan will look like. The Ministers of Finance will meet and develop a plan for the next EC Council meeting in December.<sup>2</sup>

I repeat though that in no way can we separate the problems of coordinated monetary policy from that of economic growth. A high level of monetary uncertainty in Europe depresses our economies. A zone of greater monetary stability will create a stronger market and a stable monetary situation vis-a-vis all areas of the world. Progress will contribute to reduced unemployment and encourage higher levels of growth.

Fukuda: I highly value the significance of the Bremen Summit. Since the London Summit the Japanese economic growth target could not be achieved. Others also could not do so because international currency instability played havoc with our projections, and that is why our projections were not realized. In the case of Japan, failure to achieve growth was caused in large measure by appreciation of the yen and depreciation of the dollar. If they had not taken place, 6.7% growth could have been easily achieved. But we have not exceeded 5.4% because the yen fell abruptly.

In Europe a similar situation prevailed. Monetary instability affected all of the growth projections. As a result, the situation today differs from that of Downing Street. Monetary instability looms larger than last May. I believe monetary instability is a very crucial issue which must be tackled with priority. First, we must deal with fundamentals such as inflation and growth. The surplus countries must reduce their surplus. These are the fundamentals. At the same time we need to pay heed to abrupt fluctuations in exchange rates. We must make an effort to overcome and avoid sharp exchange rate fluctuations. It takes time to achieve fundamental improvements. While we deal with fundamentals, we must have a parallel effort to prevent sharp fluctuations in parities. We must make a major effort on these two fronts.

In this context the dollar is important, because it is a key currency. As long as it is unstable the whole world economy can never be secure. I urge the U.S. to prevent excessive fluctuation in the dollar. The situation of the dollar looms more important than ever. Every other country should offer the maximum cooperation to achieve dollar stability. If further dollar depreciation occurs, we cannot hope for stability in the world economy. I urge President Carter to make maximum effort to ensure a stable dollar. And I ask others to do all within their power to stabilize the dollar.

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<sup>2</sup> The EC Heads of Government met in Brussels December 4-5.

Carter: I have only a limited knowledge of the details of European monetary policy. I recognize that there is no unanimity among leaders involved. Our policy is to encourage the EC and its cohesiveness in political and economic matters. It is better for the U.S. if there is a strong and united Western Europe.

There is some concern about this problem, possibly it is based on lack of adequate detail. We are pleased by the revised articles of the IMF. We hope that the European plan is compatible with its principles. We assume no adverse intention regarding the dollar, and I doubt that there is any toward the dollar. We would like to be kept abreast of plans so we can voice an opinion if we feel affected.

We favor maintenance of dollar stability and protection against temporary aberrations. But we do not favor interfering with trends. The way to deal with trends is to attack the fundamental causes of them. We would like to understand how the new fund might be used. We are interested in growth in Europe and want to see strong and growing economies. We will be concerned if the new system causes contraction by putting more pressure on deficit rather than on surplus countries. We also have some concerns related to growth. We favor a strong economic and monetary system in Europe. It is not completely accurate to say failure to meet London Summit growth targets was caused exclusively by a drop in the dollar. Perhaps some will be correlated to exchange rates, but some countries have not attained much more than one-half of their growth targets. This was perhaps the cause of the drop in the dollar rather than the other way around. Japan's surplus has increased. It is not accurate to attribute failure to meet goals to the drop in the dollar when in fact this failure has contributed to the drop in the dollar. We do not want to interfere, though we want to let our concerns be known.

Jenkins: I support the analysis of President Giscard. If we look back to the period when circumstances were such that Bretton Woods operated well, it was a productive period. External exchanges are obviously needed because of inflation and energy. The critical point, however, is the economic effect of any instability. It is not a question of blaming the dollar, but instability does more damage to growth in Europe than in the rest of the world. It would be like monetary fluctuations between New York and San Francisco, or Tokyo and Osaka. It is highly desirable to get stability without too much rigidity. Under this scheme our currencies would be more closely linked together than has hitherto been the case. This will lead to more growth within the EC.

This will not, of course, solve the whole problem of exchange rate fluctuations, but can reduce excessive fluctuations. It should not be thought of as a scheme hostile to the dollar. If we in Europe use our own economic power responsibly, it would make it more difficult to

speculate against the dollar by going into European currencies. I also see the scheme as having a major advantage in ensuring positive growth in Europe.

Schmidt: Let me respond to President Carter. The real reasons behind our action is our understanding of recent history. There was a period of despair regarding fixed exchange rates. Because of differences in rates of growth and inflation, these could not be sustained. Following this, there was great enthusiasm for exchange rate fluctuations. But in recent years there has been criticism of instability. We are now in a period of adjustments relating to changes regarding raw materials, energy and new LDC production and competition. The rigid monetary system of the 60's was not flexible enough to support adjustment and if it existed now, there would be a crisis. Now we need a more flexible international monetary system, but Europe still can have one with more stability. Europe has certain characteristics in common. Except for the UK, we do not have energy, we all have heavy industry, and we are in competition with new countries. We do not have an historical system of flexible currency changes. We don't need a system which involved parallel adjustment. When we hear it said that currencies are going up and down, it creates uncertainty which affects half of our foreign trade. If we remove elements of uncertainty in the EC, we can also move toward structural change in the future. We can better adapt to new conditions when the EC decides on monetary cooperation. I see no reason why we cannot openly exchange information with the U.S. and Japan on this.

My second comment relates to the dollar. My currency has increased since 1969 by 78% against the dollar—38% in real terms. It has not appreciated against any major currency as much as against the dollar. Imports have grown more than exports. Other countries are also pegged to the dollar. Our imports have grown three times as fast as our exports in the last three years—a 25% increase of imports in real terms. Our GNP is up only about 1/5 of that. We have exported jobs as a result of changes in our currencies. This has hurt us, but we recognize that it is our contribution to world growth. We are shortly coming to a situation when we have to think of monetary stability in the interest of the market.

We recognize, however, that there is no way in which we in Europe can influence the long-term development of the dollar's exchange rate. The long-term movement of the dollar depends on fundamentals such as U.S. inflation and incentives to limit the imports of oil. And, U.S. companies have a certain disadvantage because of their lack of aggressiveness in exporting. There is a huge U.S. domestic market and thus for many there is little reason to seek out exports. We in Europe cannot influence these factors, but we can influence the volatility, speed

and sensitivity of currency markets' reactions to them. I agree with Roy Jenkins. That is why we need a large basket of currencies. But we cannot reduce underlying trends.

Also, I was surprised that after the Washington discussions<sup>3</sup> our purpose is not better understood. Our efforts in Europe to create more stability in Europe are conducive to a better overall situation. None of us have yet gone fully into the technical considerations. But if we create stability in the EC, it will be conducive to high rates of growth for all countries. Some countries have more constrictive, and some have more outgoing, money supplies. We can achieve some harmony here. We should not put these comments into a final communique, although I am grateful to Giscard and Jenkins for what they said. Perhaps we can indicate that we have notified you of this, but we do not need to relate this discussion. We believe it essential to create confidence in business circles and we might indicate why monetary issues affect that confidence.

Giscard: We might say we informed our main partners of our intentions and procedures on how we can create a zone of monetary stability in Europe.

Schmidt: The dollar is the asset of central banks of the major industrialized countries outside of the U.S. The holdings have increased by 30 to 35 billion dollars in an effort to help stabilize the exchange rate. I do not believe that this level of intervention will continue in the future because to intervene means creating national currencies. I do not believe that the central banks of the developed countries will in the future intervene on the order of magnitude of \$30–35 billion. There is a danger that the central banks will decide that they do not need more dollars. If this is the case, additional deterioration of the dollar exchange rate is bound to happen.

Carter: My impression from this discussion—from the points made by you, Giscard and Jenkins—is that your objective is not to reduce the volatility in Europe, but to reduce instability between the dollar and the European exchange rates. (SCHMIDT: No, no, that is not the point. GISCARD: No.) CARTER: I don't know that the dollar is now overvalued or undervalued. I can't say. Your currencies have been undervalued in the past. Many things determine the rate of exchange. To a relative degree, the U.S. is obviously not as concerned about changing rates of currency as you are. But we have not detected the export problem that you describe. Our own exports have suffered more than yours. We had a decline in our trade deficit in oil by about 3–4 billion dollars in the first few months of this year, but we have had a large in-

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<sup>3</sup> Not further identified.

crease in the U.S. deficit on manufactured goods. We have not tried to impose restrictions on your goods. In fact, U.S. proposals in the MTN moved farther, earlier than your offers. On some of our agricultural items foreign markets are closed to us. I don't say this to criticize, but to be clear. There is little criticism of the U.S. for excessive imports of manufactured goods, but there is criticism of our excessive use of oil imports.

We would like to be kept informed and ask you to assess our views during discussions among yourselves. We favor more stable European currency and avoidance of temporary aberrations in the value of the dollar.

Callaghan: This has been a useful discussion. Fukuda made some interesting points. We agree that traders dislike currency fluctuations. Although this helps the City because lots of money is made writing insurance—especially when the Pound rose from \$1.35 to \$1.95. The U.K. would like a scheme to lessen fluctuations. But we have had a bitter experience in trying to beat the market. It helps if you have a lot of reserves. Some fluctuations occurred in the past because we did not have adequate reserves.

Jenkins and Giscard put forward strong points of view. And Helmut believes this will contribute to higher rates of growth.

However, I do not believe the analogy with the U.S. is quite perfect. It is true in the U.S. that San Francisco is not concerned about fluctuations. But there has been a drift of industry in the U.S. from the Northeast to the South. The U.S. imports 9 percent of its GDP. In the U.K. the figure is over 30 percent. The U.K.'s share of trade is 39 percent in the EC and 62 percent outside of the EC. Thus, the EC scheme will not affect 62 percent of our total trade. We will try to work out these factors. Lots of work needs to be done if we are to find a satisfactory scheme. Such a scheme should not operate against the dollar.

I would like to reemphasize Fukuda's point. These techniques may be useful, but they will not deal with the fundamentals. We need success in equalizing inflation and reducing disparities in the balance of payments. This will mean more stable exchange rates in the long term.

All of us in the EC want to keep the U.S. fully aware of events here. It is right to emphasize that all developments have to be done with the full knowledge of the U.S. and in consultations with them. I hope for a satisfactory and constructive conclusion.

Carter: We wish you well.

Schmidt: I would like to respond to the American President. It is a good course for the USG to bring about more export mindedness amongst its people. In agricultural trade all of us are sinners—both the

U.S. and the EC. Our scheme that we have been discussing is to bring about monetary stability in the EC. We cannot influence basic trends of currency outside of the EC. We cannot and we will not. We hope to reduce very volatile movements in the short term, but in the long run currencies cannot be stabilized by monetary devices. Stability in exchange rates requires discipline. If not, exchange rates will go up or down. Letting the DM go up reduces inflation. But this has caused too much trouble with our neighbors.

We will inform our friends in North America and Japan and keep you fully informed of developments.

Trudeau: One point of information. We don't have a Common Market in North America. We try to have stability and would like to have stability but the Canadian dollar has gone from U.S. \$1.03 to \$.89. Thus we do not really have stable exchange rates.

Schmidt: We will meet again at 10:30 tomorrow.

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## 147. Minutes of the Bonn Economic Summit Meeting<sup>1</sup>

Bonn, July 17, 1978

### BONN SUMMIT

#### Session 3

Schmidt: This morning we have agreed to discuss trade and relations with developing countries. First we might spend a minute or two on the hijacking statement.

[Omitted here is discussion of a joint statement on hijacking.]

#### TRADE

Jenkins: The document worked out in Geneva last week<sup>2</sup> was an attempt to resolve the question as to whether there was a reasonable

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<sup>1</sup> Source: Department of State, Office of the Secretariat Staff, Records of Cyrus Vance, Secretary of State, 1977–1980, Lot 84D241, Box 9, Vance NODIS Memcons 1978. Secret. Drafted on August 8. For more information on the drafting of these minutes and a list of Summit participants, see footnote 1, Document 145. This third session of the Summit, which took place in the Palais Schaumberg, began at 10:30 a.m. and ended at 1:01 p.m. (Carter Library, Presidential Materials, President's Daily Diary)

<sup>2</sup> Reference is to the Framework of Understanding on the Tokyo Round, agreed to by the U.S., EC, Japanese, Canadian, Nordic, Swiss, New Zealand, and Austrian MTN delegations in Geneva on July 13. See Document 144.

prospect of concluding the MTN by the end of this year. The conclusion was that it is possible. This was a major and positive step toward the success of the biggest trade negotiation yet undertaken.

The USG has decided that it will build an injury test into its legislation in return for increased discipline on subsidies. There was also agreement that there would be selective safeguards but differences on modalities. Some elements of a tariff package were agreed with a substantial amount of liberalization. There was a move to agreement on agricultural commodities and substantial progress on an international framework for the conduct of world trade. If we can now build on the elements which were agreed, there will be a major liberalization of trade, improved GATT rules, greater fairness and discipline in the international trading system and additional benefits for the developing countries including special and differential treatment. But a lot of work needs to be done before the end of the year.

Strauss: Let me add a few words to what Jenkins just said. Not only does the document set out what has been done but it also covers what has not been done. It is a most significant agreement because it is also approved by 18–20 other countries not in this room who have endorsed and support it. It lives up to the mandate given us by the London Summit, and it sets out a schedule for us to conclude our work. This document is a framework of understanding made public in Geneva and approved by the EC, Japan, Canada and the U.S.

Deniau: With respect to the communique, we have a reservation on the first point which states that “we welcome and endorse the Geneva paper.” In Geneva we made definite progress on some subjects, on others there was vague progress and others there was little progress. With respect to the report given us on the negotiations, we feel it difficult to give final approval to this interim report. We can welcome progress on some points but we cannot welcome and endorse the report. We would agree to language which says we were informed of current progress and express the hope that the negotiations would be promptly concluded and provide balanced and real results for all participants. Yesterday the text I proposed was “we have been informed of the present state of progress of the MTN. We have expressed the wish that they be concluded before the end of the year.”

Strauss: We strongly oppose weakening the language. We could, however, agree instead of using the word “endorse” to a change which would read “welcome and strongly support the progress”. To say we were only informed moves back to the Downing Street Summit. Since then, great progress has taken place and we should have language which indicates it. I should also point out that there is full conditionality with respect to each issue. Also, this has been discussed with the



Nordics and others support it as well. Weakening would be a major setback on trade at the Summit.

Carter: Does this modification meet French concerns?

Giscard: Before we seek to find words let us look at the problem. Negotiations are still underway. They have made substantial progress thanks to Strauss, who, I am told, is energetic and persuasive, and even difficult from time to time. We are not negotiating directly with the United States but through the European Commission. The Commission consults countries in the EC through an internal EC procedure under Article 113 of the Treaty of Rome.<sup>3</sup>

The Geneva framework of understanding was accepted by a representative of the Commission. Subsequently, France expressed reservations about the document.<sup>4</sup> While we agree that negotiations should move along these lines and will re-emphasize the point that progress has been made, we do not want to give formal approval of a document on which France has reserved. We support the view that progress has been made which reflects our converging opinions, but we can't approve a document which we have reserved on.

Lambsdorff: I recognize the legal reservation here. But last evening we expressed our political support for progress at Geneva.<sup>5</sup> That is why we could agree to what Bob Strauss had suggested. We can say we appreciate and strongly support the progress as set forth in the framework of understanding. We could welcome the results and say we appreciate the results. But by saying we appreciate what is set forth in the document we also recognize that it is true that many points remain unsettled. But the first line spells out that not all problems have been or can be resolved.

A further point in Mr. Deniau's text is point 2. I believe the last section of the text echoes what Deniau suggested. This stage of the Geneva negotiations was timed so that we could give new impetus at the Summit. For political reasons it is desirable to recognize the achievement at Geneva and lend support to it.

Schmidt: On the last bracket, it is not clear whether there is a difference in substance between the end of the year and December 15 conclusion.

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<sup>3</sup> The Treaty of Rome, signed by Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands in 1957, established the European Economic Community.

<sup>4</sup> Telegrams 13806, 13820, and 13831 from USEC Brussels, all July 14, report on the French reaction to the Geneva Framework of Understanding. (National Archives, RG 59, Central Foreign Policy File, D780289-0020, D780289-0143, and D780289-0387, respectively)

<sup>5</sup> Presumably a reference to remarks at the dinner for the Heads of State and Chiefs of Government on the evening of July 16.

Deniau: This is a detail. The negotiators are trying to protect their Christmases. We can accept the 15th of December.

Carter: I should like to ask the President of France a question. Is our formulation on the first paragraph acceptable to you? Can we say we support the progress made?

Giscard: There is some ambiguity in this matter. Jenkins' report is exactly on the point. There are questions not yet resolved and there are vague sentences which can be interpreted in one way or another. I have followed since 1973 the U.S. position in favor of a considerable tariff reduction. Europe also wants a tariff reduction as well as *other* aspects of trade to be dealt with. In the text of the framework the provision on tariffs is clearer than that relating to the obstacles to trade. Thus, there may be a certain commitment in our agreeing to the declaration. But by using these words we don't want to hide our differences. Also, I am not yet clear about what Japan will do.

I prefer a formula which makes it clear that in the declaration there are points of real agreement but that ambiguities still exist.

Trudeau: One might say we support progress as set forth in the framework. Thus, we would not endorse the framework but we could say we appreciate and clearly support the progress as set forth in the framework, although there are still some differences and important issues to be resolved.

Giscard: That is a useful contribution from our bilingual friend and is a possible solution. Each word must be weighed carefully. "We appreciate and support the progress as set forth in the framework of understanding on the Tokyo Round of the Multilateral Trade Negotiations made public in Geneva on July 13, 1978, even though within the framework of understanding some difficult and important issues remain unresolved."

Deniau: With respect to the last paragraph on page 1, in a certain number of countries there are reservations to the GATT based on the right to keep previous legislation. The U.S. has the right not to apply all GATT rules. One purpose of the MTN is to have equal application of the GATT rules. We want agreement on uniform application of GATT rules. The U.S. wants to move as promptly as possible. I would suggest that we have the language "there must be agreement on uniform application of GATT rules".

Giscard: That seems fair.

Strauss: We can't accept that. It would impair our ability to get support at home. We can't accept the word "must". We can say that we intend to move in this direction and have so stated. There should be agreement to move. The use of the word "must" would impair dramatically our ability to deliver what you want, i.e. to bring our laws into harmony with GATT rules. We can say we "seek".

Carter: We should not use the "must" in the communique. I can assure you that we will move toward this goal. If we use "must," it will hurt in the Congress. I cannot accept "must" when Congress has to join with me in making the decision.

Giscard: Our Parliament feels strongly about this issue as well. There can be no French support for tariff cuts unless the negotiations seem to be a joint effort. They must seem to be joint and mutually balanced. In the Kennedy Round there was a U.S. commitment to seek to apply GATT rules. We do not want to repeat the Kennedy Round in which U.S. seeks to apply these rules, but Congress puts political obstacles in its path. We will act only when the U.S. authorities have acted in order to assess the application of GATT rules.

Lambsdorff: France has conveyed what it would like to see. "Must" is probably not appropriate in this situation. We must recognize the circumstances. Many countries had their own regulations prior to the GATT. We cannot get rid of all of these before December 15. We cannot have unrealistic commitments. While we recognize the French desire for this wording, it is not politically realistic. We should bring this as close as possible to a commitment, recognizing that a commitment is not possible. We should not overreach ourselves here.

Carter: I don't disagree with the paper. But if I go back with a text saying "must," it would make Congress more obdurate than they already are. I am in a difficult situation to use the word must. We should not use such language in dealing with sovereign nations. I will seek as strong language as possible. I cannot say "must" when it is not my decision.

Schmidt: We have two subjects here. It is clear that on the first one, the U.S. President is actively seeking unified application of GATT rules. There is no doubt about this. But he is afraid of counterproductive language. The French President says we have heard such statements of intention for years. I am skeptical about the will of the Congress. Therefore, I warn you that we have difficulties as well and we might not apply reductions of tariffs.

No one wants to harm or jeopardize the ability of the two governments to get their Parliaments to agree to what we jointly seek. Thus, we have to find language which doesn't hurt the two countries which have spoken. Why can't we say for instance that we will seek agreement on uniform application of the GATT rules as soon as possible.

Dell: I agree with this. We in Europe will not implement the agreement unless it is implemented in the U.S. I agree to your language. Or we can say we intend to move to do this, which is an essential condition for implementation of the Tokyo Round.

Strauss: There can't be one essential condition, as there is total conditionality in the negotiations. We can't say there is one condition which overrides everything. We have attempted in every instance to determine the political difficulties of other nations and solve them while we solved our own. The Zenith case showed the good faith of President Carter. We fought against our own company all the way up to the Supreme Court and we won. This showed the good will of the President.<sup>6</sup>

Trudeau: We should say there must be agreement on uniform application of GATT rules. Uniform application of GATT rules is essential, and we agree to move as promptly as possible in that direction.

Lambsdorff: We can accept the last proposal. Trudeau's proposal gets around the difficulty expressed by Strauss. More conditions would tie our hands in Geneva. We should not lose sight of the French objective, but we need flexibility in Geneva.

Giscard: Dell clearly indicated our position on substance. On the tariff measures we need to ask approval of our Deputies. We cannot obtain their agreement unless the U.S. takes some decisions in a symmetrical manner. We could accept Trudeau's proposal to use the word "essential."

Strauss: This would read "uniform application of GATT rules is essential and we shall move in that direction as soon as possible."

Carter: Essential is too far-reaching. It would not be appropriate to put in essential. Perhaps vital.

Giscard: We accept vital. It means that it is a life and death issue. It is stronger than essential.

Carter: It means life. We can live with vital. I hate to see this as a prerequisite of all other progress.

Ushiba: I can go along with this.

Trudeau: We can say vital or important or necessary. All go in the same direction.

Schmidt: We should keep in mind that there are other preconditions as well.

Giscard: We should agree not to have too much technical detail. Also, we do not want another Kennedy Round where we enact everything and wait for the U.S. Congress to ratify. We want progress before

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<sup>6</sup> On June 21, the U.S. Supreme Court ruled against the Zenith Radio Corporation's contention that the Secretary of the Treasury was required to levy countervailing duties on imported Japanese consumer electronics exempted from taxes normally imposed within Japan. (Warren Weaver, Jr., "Court Calls Import Duty Optional, Probably Averting Price Spiral," *The New York Times*, June 22, 1978, p. NJ21; Carol H. Falk, "Supreme Court Rejects Zenith's Protection Bid," *The Wall Street Journal*, June 22, 1978, p. 2)

Christmas, also. I also note that the negotiators have put in some complimentary language about themselves. Perhaps, we should mention their names as well . . . Strauss, Haferkamp, Ushiba? (laughter)

Strauss: There is an old Dizzy Dean<sup>7</sup> quote “it ain’t braggin’ if you done it.”

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<sup>7</sup> “Dizzy” Dean was a baseball player who pitched for the St. Louis Cardinals, Chicago Cubs, and the St. Louis Browns.

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## 148. Minutes of the Bonn Economic Summit Meeting<sup>1</sup>

Bonn, July 17, 1978

### BONN SUMMIT

#### Session 4

Schmidt: Let’s now turn to the declaration.

Giscard: (to Schmidt)—Regarding the growth paragraph, I would hope that you could add some additional language of greater specificity on growth. If possible, it would give greater strength to the text. Perhaps indicate anticipated growth increase of ½–1% of GNP.

Schmidt: We would indicate a willingness to say this but others had criticized mention of this figure.

Carter: What is the most exciting figure, the highest figure, you would be willing to mention?

Schmidt: I would be willing to say ½% to 1% increase in expenditure. But your delegation turned this down.

Carter: I agree with up to 1%.

Callaghan: I am sure that if the phrase is left in a general way, we will be asked what was said in the meeting. I therefore agree with Giscard and Carter.

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<sup>1</sup> Source: Department of State, Office of the Secretariat Staff, Records of Cyrus Vance, Secretary of State, 1977–1980, Lot 84D241, Box 9, Vance NODIS Memcons 1978. Secret. Drafted on August 9. For more information on the drafting of these minutes and a list of Summit participants, see footnote 1, Document 145. This fourth session of the Summit, which took place in the Palais Schaumberg, began at 3:34 p.m. and ended at 6:18 p.m. (Carter Library, Presidential Materials, President’s Daily Diary)

Schmidt: The U.S. Delegation requested the figure be taken out. Do I now understand that the U.S. President has changed the mind of the U.S. Delegation?

Carter: About how much is 1%?

Schmidt: 13 billion deutsche marks.

Giscard: Yesterday Fukuda used the figure of 7% growth. Since others are using figures in their paragraphs, we might remind people in the declaration that the Japanese target is 7%.

Fukuda: Others have not mentioned specific growth targets. Therefore it is not appropriate for Japan to give specific figures. The Japanese people may feel that Japan has been singled out. The word "significantly higher" implies 7%. If asked, you can say 7% growth target is what was meant. You can quote me.

Trudeau: If it helps in this exercise, I can include for Canada a figure of up to 5%.

Giscard: Now that we have a Canadian figure, we need a Japanese figure.

Fukuda: But that is not a figure which represents a growth target for the economy. If Japan is the only one to give a growth target, I can't do it. You can tell people that the Japanese Prime Minister has used the figure of 7%.

Carter: Would you be willing to set a percentage of increase that you will set as a goal?

Fukuda: Last year our growth was 5.4%.

Carter: Would you be willing to indicate a net increase in growth of about 1.5%.

Fukuda: The present phrase is all right. If we set a target, we will be the only country to do so. People will add up 5.4% and 1.5% and it would be almost the same thing as setting a target.

Schmidt: Canada has indicated its intention to achieve a 5% growth rate in 1978. Germany has said it will take additional measures to increase growth of up to 1% of GNP. Giscard said France will increase its budget deficit by ½% of GNP. Italy has indicated that it will do 1.5% better than in 1978. In light of the foregoing four countries which have made quantitative pledges, it would be useful if Japan were to do likewise. Carter has used the phrase "which is 1.5% higher than the previous year." This would not single you out. It would be similar to the foregoing four countries.

Fukuda: In the case of the U.S., it did not spell out its growth rate. There would be certain criticisms within Japan when we are asked questions of why we said in the declaration 7% growth.

Schmidt: Maybe we should look for another kind of language which avoids mentioning the growth rate such as "measures toward the expansion of domestic demand on the order of 1.5% of GNP."

Fukuda: Last year we had 5.5% growth. If you add 1.5, you will be setting a target in a different way. We will not oppose the other countries' paragraphs, which are somewhat vague. We can say that we will do higher than last year's 5.5%. We will obtain our real growth target for FY '78. This means 7%. It is quite clear that for FY '78 our target is announced. This satisfies your intention, doesn't it?

Schmidt: Could we say Japan will achieve its real growth target as already announced for FY '78?

Fukuda: I could agree to buy Carter's suggestion that we indicate we will do 1.5 above the previous year.

Callaghan: The press is likely to say what does this all add up to on unemployment and growth.

Carter: We can say that we all have made several strides forward. Germany and Japan agreed to greater growth and we agreed to restrict oil consumption and inflation. It is a brave new world.

Schmidt: We cannot calculate the effect of these measures. We cannot foretell the results; the situation looks a little brighter.

Giscard: A slightly more scientific answer is needed. The origin of this effort was in the OECD Working Group, under Charlie Schultze, working with the European Commission. The OECD indicated that if growth were 4.5% there would be a certain fall in unemployment because 4.2% seems to be the threshold in Europe above which unemployment declines. All figures for the Schultze group except those for the FRG seem to have been taken up here. We will ask the OECD to assess the impact. But the net results should enable us to pursue an increased growth rate and a decrease in unemployment.

Schmidt: There seems also to be some issue of subsidies and discipline.

Carter: We think we should say we will look for greater discipline in the use of subsidies so that they do not distort the normal flows of world trade. We would like to add a sentence to this effect.

Callaghan: It depends on how we interpret this. I am not ready to see firms destroyed by world recession when they require subsidies to keep them going.

Jenkins: Suddenly to insert this at this stage when this is a complex MTN issue is very difficult.

Giscard: Countries using subsidies feel they do not distort world trade. We do not believe this sentence would have practical content; in fact we believe it will have no meaning.

Schmidt: I see this as an instrument for countries to avoid pressures for new subsidies. I do not think it is being pointed against participants here.

Callaghan: I don't particularly want this wording at all.

Schmidt: The UK has not been mentioned.

Callaghan: If anything would be mentioned, it would be the common agricultural policy.

Giscard: It is a question of method. We can't open the door on subsidies at 4:30. We can accept this because it has no practical consequences. But this would not be honest on our part. U.S. firms for instance have favorable contracts on defense production. Is this a subsidy? Let's put this on the agenda for the next Summit.

Carter: I will yield on this issue but I do not accept the French argument. We are concerned about the excessive use of subsidies. We tried in our phrasing to be as innocuous as possible but apparently this caused some embarrassment to some countries. We will not insist on it, but we are concerned about excessive and perhaps growing subsidies.

Schmidt: We must not [*now*] spend some time on North/South issues.

Fukuda: We are surrounded by LDCs. We enjoy a close relationship with ASEAN, whose views and philosophy we find compatible with industrialized nations. The developing countries want us to suppress protectionism and there are a number of institutional matters on which the developing countries request our decisions. They want expanded imports by the developed countries. They also want establishment of a common fund and want specific consideration by developed countries of commodities. They urgently want a conclusive attitude on the common fund to achieve results by next year's UNCTAD meeting in Manila.<sup>2</sup> It is important for the developed countries to take some improved philosophy or posture. On the common fund, we should show an attitude of determination to work on the common fund idea to provide a conclusive idea by the end of the year. This would be a meaningful gesture to the LDCs.

As for Japan, we will double aid in 3 years. We are also trying to improve our growth and to provide co-financing through the international financial institutions. Some success resulted from the UNCTAD meeting last March,<sup>3</sup> but we must still deal with the mounting debt problem of LDCs and develop a conclusive attitude on rising debt.

Schmidt: In addition to the general evaluation of the situation, do you want to alter the communique?

Fukuda: I do not propose any changes, but you mentioned common fund. In addition to the draft, I suggest that we approach our

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<sup>2</sup> UNCTAD V took place in Manila May 7–June 3, 1979.

<sup>3</sup> The negotiating conference on the Common Fund, agreed to at UNCTAD IV in May 1976, held a preliminary meeting in Geneva March 6–April 3, 1977.



experts to come up with conclusions by the end of the year. The communicate is, however, okay in draft.

Andreotti: I am not proposing any changes, but I have two comments. It is important that in addition to concerning ourselves with the problems of the developed countries we also concern ourselves with the problems of the developing countries. I was impressed with what Prime Minister Fukuda said about the problems of the future, such as the water and arable land. We should study in the future our approach to the LDCs. It is important to remind people in the developed countries, particularly our young people, of the problems of the developing countries—to remind them that 1.5 billion people in this world earn less than \$90 a year. Maybe it will make us more willing to sacrifice in our own countries if we do not forget world poverty.

Carter: I would like to add on the common fund point in the communicate that we should pursue negotiations to a successful conclusion. We should get going on the common fund and make clear that we are going to go ahead and wrap it up.

Giscard: There is considerable emphasis on multilateral aid in this paper. It is also important that we give attention to bilateral aid for political reasons. We should highlight our own aid to indicate the progress we have made in dealing with the problems of the LDCs.

Schmidt: I see no problem adding Carter's four words. However, I support Giscard on aid. Most people in LDCs have no idea of where the aid they get comes from when it comes from the World Bank. It is also difficult to raise appreciation for foreign aid when LDCs criticize my country. LDCs should not see aid as coming out of the vaults of the World Bank. Aid depends on national legislatures. What Giscard said was important; not too much aid should be multilateral. We should make it clear to LDCs where the aid comes from.

With respect to the Eastern countries, I do not agree that we should say "invite." We invited them at London to provide more aid and nothing happened. Instead, they stepped up their deliveries of weapons and advisers to Africa—including military advisers from the GDR. Invite is meaningless. We should spell out that the 7 countries here reproach COMECON for not contributing substantially to LDCs.

The last section of this declaration is meaningless on commodities. There are no direct German interests involved. There are no Germanophone countries. I am talking from a general economic point of view. I am concerned about and question whether the common fund is essential, as well as certain commodity agreements. To my mind, stability of export earnings is even more important for LDCs. A copper agreement would be good for the Soviet Union and give it a lot of profits. But a common fund should not enable the rich to get richer. A copper agreement would help Zaire, Zambia and Chile, but it would be better for

the U.S. and the Soviet Union. Commodity agreements are of more use to developed than to developing countries. I don't think my consumers and taxpayers should be asked to contribute to the well-being of large developed countries rather than poor LDCs.

I am extremely dissatisfied with the way in which examination of stabilization of export earnings has been handled so far. The common fund and commodity agreements mean large rich countries get more benefits than poor countries. The great majority of LDCs derive no benefit whatsoever. This is what I feel. We will say this in international fora about this approach.

I also repeat that I find the language on COMECON too friendly.

Trudeau: You speak from the heart, but you also speak for a lot of us.

Carter: We should say we deeply regret the failure of COMECON to assist developing countries.

Trudeau: On the point above, the common fund and STABEX, we are all growing impatient with the failure to find methods to achieve this objective. We all want to transfer resources to LDCs. But when we gave lots of bilateral aid there was a great deal of overlap and confusion.

On the common fund, LDCs want to stabilize prices and price increases. If third world countries rely on one commodity, they face very real problems. People may use less sisal, but we can't be blamed for that. We should use the time between now and the next Summit to clarify our objectives and not mix in the common fund, Lome, etc. The 77<sup>4</sup> always try to do everything at the same instant. The LDCs want something because it sounds good.

Callaghan: I support Pierre's point about the risk of countries going from multilateral to bilateral aid. We can influence governments a bit when aid is bilateral but very few changes are made as a result. The common fund idea has changed a lot since 1974 and 1975. It now has become a political necessity.

Schmidt: I acknowledge that although it will not help 90% of LDCs.

Callaghan: We must maintain our position on the common fund until the developing countries move, but when they do, it would be advisable for us to support the second window. If the price is to give in on the second window and some direct contributions—if that is required to get it out of the way, we should move at an appropriate moment.

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<sup>4</sup> Reference is to the Group of 77, or G-77, the developing countries group established at the conclusion of the first UN Conference on Trade and Development in 1964. For the Lomé Convention, see footnote 6, Document 24.

I would like to see agreement to double the capital of the World Bank, which is \$31 billion now. The World Bank handles its affairs well. I would like to see the World Bank used as the main instrument for the development process. I hope we can return to this. Also, the level of aid as a percentage of GNP has substantially declined. This is a bad sign.

On retroactive terms adjustment, we have reduced debt. Let's face it, the LDCs will never repay their loans. It would have some meaning in LDC eyes if we move more in this direction.

Schmidt: This is the first time we are discussing the LDC issue. You should feel free to put up new ideas on this new subject.

Giscard: At the next meeting we should give more time to North/South policy. Regarding the paragraph on COMECON, we should say we invited once more COMECON to do their share in assisting LDCs.

Carter: We should say we deeply regret the failure of COMECON countries to do their share of financial assistance to LDCs and invite them once more to do so.

Schmidt: I have a proposal to make outside of the text—that is a joint procedure among ourselves envisaging further action. Our notetakers will bring to our attention proposals made in this field. We should evaluate our situation in the field of development aid. In less than two years the developing countries will become aware that the common fund would not really help them. We should prepare for this.

I should also say that nothing has been done on the study of export earnings since our meeting at Rambouillet.

Trudeau: We should say that we will meet before the next Summit to tackle this problem. Were you counting on our aides to assess progress in the next 6 months?

Schmidt: Yes. They should assess progress across the board.

Carter: I would like to propose that we meet in Japan before the end of June next year.

Schmidt: Our notetakers and aides should follow up our discussion.

Giscard: We should say that our officials will meet toward the end of the year to review progress. We should not announce a date for another Summit because the economic situation may make a meeting necessary at one time or another. We should say that the next meeting will take place as and when circumstances make it desirable.

Fukuda: Followup is an important matter. I would like to urge on you that we say we will followup in an appropriate phrase in the communique.

Schmidt: I agree. We should also say we have instructed our Ministers to, by the end of '78, convene in order to review progress in car-

rying out the provisions of this declaration and that we intend also in 1979 to have a similar meeting between ourselves.

Giscard: We have not said this in the past. We do not want to institutionalize this. There are two advantages of announcing our intention to come together in the spring of '79. If we announce today, people will not think that such a meeting when called is a signal of urgent danger. And there will not be such great expectations.

Callaghan: I agree. I would like to institutionalize this body so that it meets every twelve months. It also reduces pressures from others to get in.

Giscard: Let's not be bureaucratic. Let's keep some flexibility and say that we have decided to meet again when the situation seems appropriate. We can say we reflected on the invitation of Japan to meet next year. In the declaration we can say we envisage a similar meeting between ourselves at an appropriate time next year. We should also say that we instructed our representatives to, by the end of 1978, convene in order to review progress in carrying out this declaration.

Schmidt: I think this was an excellent meeting. Let's now adjourn and then we can go over to the press building.<sup>5</sup>

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<sup>5</sup> For the final text of the Bonn G-7 Summit Declaration issued on July 17, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1310-1315. Carter's remarks to the press at the conclusion of the Summit are *ibid.*, pp. 1309-1310.

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**149. Memorandum From John Renner of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and the Special Representative for Economic Summits (Owen)<sup>1</sup>**

Washington, July 19, 1978

SUBJECT

International Economic Policy Balance Sheet

Now that the Bonn Summit is history, we should take a look at how our international economic policy is doing.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Policy Group Executive Committee: 1/78-3/80. Confidential. Sent for information. A handwritten notation at the top of the page reads: "DA has seen. 7/21."

Over the last year our efforts have been directed primarily at reducing our large current account deficit and strengthening the dollar. The depreciation of the dollar should make our exports cheaper and imports more expensive. When the pipeline is drained of earlier orders, this change in relative prices should have some impact on our trade balance. However, it could be several years before the full impact is felt.

Meanwhile no progress has been made and none is expected this year. The current account deficit for the first quarter of 1978 was running at an annual rate of \$28 billion, almost twice the 1977 deficit, and no large improvement is in sight. The dollar is hovering around its all-time low with regard to the Mark and the Yen, and it probably will sink further.

Our campaign to improve our current account position and strengthen the dollar, aside from allowing the dollar to float, has had five major elements. We have:

—Encouraged foreign governments to stimulate their domestic demand, expecting that this would suck in more imports.

—Attempted to gain passage of an energy bill to begin the protracted process of reducing our dependence on imported oil.

—Tried to persuade foreign governments to reduce barriers to foreign goods, including ours.

—Begun the effort to develop a national export policy designed to expand our exports.

—Announced an anti-inflation program and have assigned a high priority to it.

My purpose is to scrutinize each element and suggest what additional measures should be taken.

#### *Economic Activity Abroad*

To date we have been unsuccessful in our efforts to bring about increased economic activity in our major trading partners. The rate of economic growth in the US in 1977 was greater than that of Japan and more than twice that in all the other Summit countries. The first quarter data suggest that the disparity in economic growth may be diminishing somewhat, in part due to a less bouyant US economy. However, there is little evidence pointing to a sharp upturn in economic activity abroad.

If Schmidt and Fukuda deliver on their promises at the Summit, economic activity in Germany and Japan could pick up. We should keep a close watch and maintain the pressure on the surplus countries to expand domestic demand.

#### *Energy Bill*

Our efforts to date to gain passage of the energy bill have flopped. One of the key features of the bill, the COET, appears no nearer passage

now than six months ago. All my contacts on the Hill and in the private sector say it has virtually no chance this year or next.

However, even if the energy bill is passed and even if the domestic price of oil is brought to the world price level by 1980 as the President promised at the Bonn Summit, the impact on consumption and production will be slow and insufficient. Our oil imports will remain immense unless we quickly institute additional measures. There are many steps we could take over and beyond those currently contemplated to stimulate domestic production, encourage the shift to other sources of energy, and to bring about greater conservation.

I think the President should appoint a high-level public task force and assign the members the job of preparing specific recommendations on means to this end. The task force should examine the extent to which incentives and disincentives other than price would be required to reduce steadily our oil imports. Here are examples of questions the task force should consider:

—Are additional incentives necessary to bring about greater shifting from oil to coal?

—How could public transportation of all types be made cheaper, more reliable, more pleasant? Should subsidies be used?

—What additional incentives and disincentives would be needed to reduce the use of private vehicles to and from work?

—Should taxes be increased on luxury and leisure vehicles, boats, airplanes?

—How much energy would be saved if night-time advertising were cut in half?

—Should trains, which use electricity, be subsidized further?

—Should research on renewable forms of energy be subsidized by a substantially greater amount?

#### *Reducing Foreign Trade Barriers*

Our bilateral and multilateral negotiations have not produced much in the way of tangible benefits.

Following intense pressure, the Japanese agreed to take a series of measures to encourage and facilitate imports. But the results cannot yet be seen in the trade figures. Nor does the Japanese performance in the Geneva multilateral trade negotiations suggest that they are serious about opening their market. The Japanese negotiators have been haggling over every half of one percent decrease in tariffs on items of special interest to us. I regret to say that the time probably has come to consider mounting another campaign. This might entail some political costs but how else can we get the Japanese to move?

The European Community negotiators are more sophisticated and smoother. But their opposition to big reductions of trade barriers is just as adamant as the Japanese. In Geneva this last week, agreement was

reached on a report on the status of the Tokyo Round.<sup>2</sup> It has a lot of nice sounding words but very little hard positive results. In fact, the European Community withdrew previous tariff-cutting offers, including the entire paper sector, which is important to us politically and economically. Without the support of the US paper industry, the prospects of getting Congressional approval of the MTNs would be reduced.

In the fall, when the serious, detailed negotiations are joined, we should insist on:

- Substantial tariff cuts by the EC in the paper sector.
- Major tariff reductions by the Japanese on high technology products, including computers and related equipment.

To have a reasonable chance of getting these concessions, the US will have to forego the planned withdrawal of tariff cuts in the textile and apparel sectors.

### *National Export Policy*

Following the President's directive to develop a national export policy, Frank Weil chaired a task force to examine possible steps to expand exports and has come up with a draft report to the President based on a consensus of the views of the task force members. Although this consensus report does not go nearly as far as required to deal seriously with the problem, it has run into heavy opposition. OMB does not want to spend any additional money; CEA puts its faith entirely in macro-economic policies; DPS is negative for religious reasons.

I think it is important for the US to have a hard-hitting, practical, and effective national export policy that will create incentives for exports and eliminate the multiple disincentives that exist now. This cannot be done, in my opinion, unless basic attitudes toward the importance of exports change and until national priorities are re-ordered to subordinate particular policy objectives to the need to export.

Exports are required to enable us to acquire the foreign exchange to pay for needed and desired imports. Expanding exports would contribute greatly to reducing our current account deficit and to strengthening the dollar.

I recommend that you both take every opportunity to stress the importance of an effective national export policy to the President, Eizenstat, Strauss, and Schultze.

### *Inflation*

We have not cut taxes as planned; we have increased interest rates; we have jaw-boned. Some think that these measures (especially the in-

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<sup>2</sup> See Document 144.

crease in interest rates) threaten recession. But prices continue to go up. What can we do?

In my opinion, modern societies have a structural bias toward price increases that, short of a depression, are not responsive to the standard macro-economic techniques to reduce prices. Demand will remain high. I think more work needs to be done on the supply side to increase productivity and production. This requires savings and investments. Both have been quite low in recent years. This is so because of uncertainties arising from inflation, unpredictable energy costs, fluctuating exchange rates, and proliferating governmental regulations. It is also so because the risk-benefit ratio of business investment is low.

In my judgment it would be highly desirable to stimulate business investment by an appropriate mix of reduced corporate income tax rates, accelerated depreciation for investment, especially for research and development and energy conservation and production, and reduced capital gains taxes. The loss of revenue should be off-set by reduced government expenditures. Certainly the big industrialists will benefit. But in our system the little guy probably will not be able to improve his welfare unless the fat cats are persuaded to take risks with their capital.

### *Summary*

We are not doing well. Our international economic policy goals are not being attained. We need to stress the importance of these objectives and give higher priority to means to attain these ends.<sup>3</sup>

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<sup>3</sup> In memoranda to Brzezinski and Owen dated July 28 and August 4, Renner discussed how the organization of the international economic policymaking process was affecting the achievement of the administration's foreign economic goals. (Both in the Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 59, Administration's Policy: General: 1978)



**150. Memorandum From the General Counsel, Office of the Special Representative for Trade Negotiations (Rivers) to the Special Representative for Trade Negotiations (Strauss) and the Deputy Special Representative for Trade Negotiations (Wolff)<sup>1</sup>**

Washington, July 21, 1978

SUBJECT

Extending the Countervailing Duty Waiver

Very shortly you must decide whether and under what circumstances, you will ask Congress to extend the authority to waive countervailing duties.<sup>2</sup> As you know, the present authority expires January 3, 1979, and Congress has announced its intention to adjourn *sine die* on October 7, 1978. The key question is whether you believe the recent progress towards a subsidies agreement—in particular the prospect of progress on agricultural export subsidies—provides a defensible basis for asking Congress to extend the waiver authority 6, 8, or 10 months in the hope of concluding an acceptable agreement this fall.

Needless to say there are risks, whatever you decide. Treasury has exercised the waiver fifteen times, on trade valued at approximately \$500 million, on products ranging from canned ham and cheese, to butter cookies and handbags, and most recently, Canadian groundfish. (See attached table.)<sup>3</sup> There is little doubt that collecting the duties on January 3, 1979 would disrupt the trade and complicate our efforts to negotiate a satisfactory conclusion to the MTN. (Treasury and Agriculture are preparing economic analyses; State, a political analysis, of the consequences of collecting duties on the products involved.) Clearly, the Europeans (Gundelach, in particular) expect you to seek a waiver, and failure to even seek one would damage their trust in you. On the other hand, it is equally clear that seeking an extension of the waiver in the present climate risks a pre-election Congressional debate on the MTN and trade policy in general, and the likelihood of undesirable, extraneous amendments.<sup>4</sup> Time is short, but there is no shortage of legis-

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 2, Countervailing Duties 1977. No classification marking. Printed from a copy that does not bear Rivers' initials. A handwritten notation at the top of the page reads: "discuss Finance Committee + Both Staffs."

<sup>2</sup> Congress had granted the President temporary authority to waive the imposition of countervailing duties on subsidized imports.

<sup>3</sup> Attached but not printed is a February 2 table entitled "Current CVD Waivers."

<sup>4</sup> John Donaldson of the STR staff discussed Congressional attitudes regarding an extension of the countervailing duty waiver in a July 21 memorandum to Strauss and

lative vehicles, provided the votes are there to control the matter and push the bill past the shoals.

If we should fail to gain an extension of the waiver, there is one other option for avoiding collection of the duties: Treasury could reach deep into its bag of administrative tricks and come up with a way of merely "suspending liquidation" of the duties, although technically the authority does not really exist. This would be an act of desperation which could compound the problem, i.e., damage our credibility abroad (we've been saying we have no option but to collect the duties January 3, 1979) and possibly enrage elements of Congress.

Finally, you should be reminded that Murray Finley has thirteen countervailing duty complaints pending at Treasury involving approximately \$1 billion worth of textile products from less developed countries.

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Wolff. (National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 2, Congressional Correspondence 1977)

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## **151. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, July 25, 1978

SUBJECT

National Export Policy

Juanita Kreps is sending you the recommendations of the inter-agency task force on means to increase US exports.<sup>2</sup>

Increased exports are essential if we are to reduce the current account deficit. Other measures (energy, anti-inflation, etc.) will help, but they cannot do the job alone.

Juanita Kreps' recommendations would put us on the road to improved export performance, which the US pledged to seek in the

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 91, Export Controls: (National Export Policy): 8/77-7/78. Confidential. Sent for information.

<sup>2</sup> See footnote 14, Document 119. No memorandum from Kreps to Carter with the recommendations of the task force, which was headed by Frank Weil, was found, but see Document 15.

Summit Declaration. No doubt there are arguments against each recommendation. But unless the essential package is approved, they will not have the desired effect. A few isolated actions will not do the job.

If you approve the package, it would be good if it could be announced as such, with a certain amount of fanfare. This would give you an opportunity to make clear that promoting exports is a goal to which you assign the highest priority. To underline this point, you might indicate your willingness, which you mentioned a while back, to spend a day with the fifty State governors discussing how each of them could improve his or her State's export promotion. Export promotion has been the step-child for the US Government and, I suspect, for US business for so long that only strong Presidential leadership, coupled with concrete measures to stimulate exports, will turn the situation around.

Expanding US exports should be politically popular. You would be the first President in recent history to take effective action to create a national export policy, which would mean more jobs for more Americans.

I do not want to overstate the merits of Secretary Kreps' proposal, because the measures proposed are modest. But they are a beginning and, if presented as such, would be well received by business and the public generally.

There is one recommendation in this report on which I do not feel competent to comment: the proposal for a shift in policy regarding use of export controls as a foreign policy tool (Item #7). This raises issues with wider implications, which I have not studied sufficiently to judge. Otherwise, I recommend approval of the report.

152. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) and Robert Ginsburg of the Domestic Policy Staff to President Carter<sup>1</sup>

Washington, July 28, 1978

SUBJECT

Export Policy

Attached are:

(1) a memorandum from Commerce setting forth the recommendations developed by the Export Policy Task Force;<sup>2</sup> and

(2) separate memos from CEA and OMB setting forth their views on the Commerce paper.<sup>3</sup>

CEA recommends that you accept Commerce's basic package (items 1-12) *except* that you reject the proposal for a continuing review of the need for an export tax incentive. CEA also recommends that you request a PRC study of the major export barriers (such as Jackson-Vanik, anti-boycott and anti-bribery legislation, etc.) which it feels were not dealt with adequately by the Export Task Force. CEA's general views are that: our recent export performance has been poor but not disastrous; the Task Force recommendations are unlikely to have a significant impact upon exports; and each individual proposal should be considered on its own merits, rather than being viewed as part of an all-or-nothing package.

OMB believes that: the Task Force recommendations are not significant enough to amount to a "national export policy"; the financial incentives called for are likely to be costly in budgetary terms but not very effective in promoting exports; and that the major disincentives to exports have not been adequately reviewed. OMB recommends that you defer all decisions involving increased tax or budget expenditures until the fall budget reviews and that the Administration undertake, under White House direction, an intensified review of all potential impediments to exports.

*Because of the diversity of viewpoint among Commerce, CEA, and OMB on the nature of the "export problem" and the Commerce recommendations, we recommend that you read all three memos.*

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<sup>1</sup> Source: Carter Library, White House Central Files, Subject File, Box TA-6, TA 3 6/1/78-7/31/78. No classification marking. Neither Eizenstat nor Ginsburg initialed the memorandum.

<sup>2</sup> Not attached.

<sup>3</sup> Not attached.

We believe that your decisions on the specific recommendations should be taken within the following overall framework:

1. *We generally agree with the CEA/OMB conclusion that the Commerce recommendations are unlikely to have a significant impact on exports.* In our view, the hard truth (and the reason we were hesitant about getting the Administration involved in a high-profile, public effort in this area) is that as far as unilateral policy actions are concerned the U.S. can dramatically increase its exports only by taking initiatives along the following lines:

- (a) terminate or severely curtail our arms sales and human rights efforts and repeal the foreign bribery and Arab boycott laws;
- (b) provide massive tax and/or spending subsidies for exports.

We regard the first set of initiatives as unwise on both policy and political grounds and the second set as inappropriate for economic and budgetary reasons.

2. *Nonetheless, the Commerce recommendations do include some modest steps in the right direction. We should take these steps and take credit for them.* Largely because of the depreciation of the dollar, the U.S. export performance is likely to be strong over the next year or more in any case. (We are already beginning to see improvement in the June export figures.) Some of this positive performance will redound to the credit of whatever export policy we announce.

3. The Task Force has made 14 policy recommendations, which Commerce has divided into 12 “essential measures” and 2 “additional measures.” Commerce states that the first 12 measures are “essential to a comprehensive and credible export policy” and that “the elimination of any of them would substantially weaken the total effect, and the psychological impact would be jeopardized.” *We strongly disagree.* Many of these recommendations are relatively insignificant. You should not regard this as an all-or-nothing package. For example, take two of the recommendations (which we in fact support):

(a) Commerce proposes that you increase Eximbank’s direct loan authority for FY 1980 from the \$3.9 billion budget mark currently in effect to \$4.1 billion. In light of the facts that we have increased Eximbank’s loan authorization 5-fold over the past two years (up from \$700 million in FY 1977) and that the present budget mark is already \$300 million over the FY 1979 authorization of \$3.6 billion, it is difficult to understand how an extra \$200 million could be deemed “essential” to a “credible” export policy.

(b) Commerce proposes that SBA be directed to target up to \$100 million of its current authorization for loans to exporters. Since SBA already does such targeting without any formal requirement, this item is without real substance.

In addition, the items involving the Justice Department’s enforcement of the antitrust laws are largely window dressing. *Accordingly,*

*you should feel free to consider each of the recommendations on its own merits, rather than feeling obligated to approach this package on a take-it-or-leave-it basis.*

4. We do *not* agree with the OMB recommendation that you should defer your decisions on the financial incentives in the package until the fall budget reviews. In our view, that approach is politically unsound and would provoke genuine criticism that the Administration is not capable of enunciating any export policy.

5. We do not oppose the CEA and OMB recommendations that the Administration conduct a serious review of some of the fundamental barriers to exports such as arms sales and human rights policies. However, we are skeptical as to the results of such a review and do not want the Administration to become involved in another public effort which unduly raises outside expectations and concerns. Accordingly, we recommend that, if you decide to order such a review, your order not be publicly announced and the review be held very tightly within the White House.

Our recommendations on the Commerce proposals follow:

1. *Presidential Commitment.* Commerce believes that your personal involvement will give a boost to the export policy announcement. On the other hand, as we have indicated above, there is substantial doubt as to whether these proposals constitute a significant enough "policy" to merit your personal involvement. We recommend that you *defer* your decision on this proposal until after you have decided what will be in the export package and after you have heard from Jody and Gerry Rafshoon on this.

2. *Export Tax Incentive.* Commerce proposes that the Administration reaffirm its opposition to DISC but at the same time state that we have no philosophical objection to an export tax incentive per se and that the Secretaries of Treasury and Commerce will be directed to continue to review the need for an export tax incentive. The problem with this is that Secretary Blumenthal, Ambassador Strauss, Undersecretary Cooper, etc., are telling our foreign trading partners that the U.S. *does* object to export subsidies and that foreign governments should eliminate or curtail such subsidies.

Another basic problem is that the better targeted an export tax credit is, the more in violation of GATT and our MTN posture it will be. We have just completed an interagency effort to develop an export tax credit, and the best proposal presented was one which you and your senior White House advisers rejected. Further publicly directed review in this area is a no-win situation:

(a) either we conduct a study and come up dry again, which will embarrass us and disappoint much of the business community; or

(b) we develop a more effective alternative to DISC (which will likely be illegal under international trade rules) and we then become obligated to renew our fight on DISC next year—that is a decision which we should preserve for 1979.

In any case, our major exporters are unlikely to have their confidence and certainty enhanced if we tell them that we are undertaking a study to develop a substitute for DISC which will channel DISC benefits from them to smaller companies.

We recommend that you *disapprove* this proposal.

3. *Increased Eximbank Funding.* Commerce proposes that you increase Eximbank's direct loan authority from the FY 1980 budget mark of \$3.9 billion (up from \$3.6 billion in FY 1979) to \$4.1 billion. Of the various financial incentives for exports, Eximbank is probably the best vehicle. A \$500 million increase over FY 1979 would be a substantial initiative for which the Administration could take considerable credit. We recommend that you *approve* this proposal.

4. *Taxation of Americans Abroad.* The Administration has already made a proposal in this area (which you personally approved last February), which would cost about \$245 million.<sup>4</sup> The Ribicoff bill, which has passed the Senate and which is also a responsible approach to the problem, would cost about \$310 million.<sup>5</sup> There is no House bill and the Ways and Means Committee has not yet even reported out a bill. Joe Waggonner's subcommittee has recommended a bill to the full Committee which would cost about \$590 million. Commerce proposes that the Administration drop its own proposal and support the Ribicoff bill.

While we would be willing to state in the export policy announcement that the Ribicoff bill is a responsible approach, we do *not* think the Administration should change its position before conference and before the House even has a bill. That would merely up the ante by \$65 million and encourage a more expensive bill in the House. Treasury's Congressional liaison staff and Frank Moore's shop agree that it would be unwise legislative strategy to drop our proposal at this time.

Accordingly, we recommend that you *disapprove* this proposal.

5. *SBA Targeting to Exporters.* We recommend that you *approve* this proposal.

6. *Export Consequences of Regulations.* Commerce proposes that agency and department heads be required to take into account the ef-

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<sup>4</sup> The Tax Reform Act of 1976 contained provisions designed to augment the amount of taxes collected from Americans working overseas. The Carter administration's February 1978 proposal on this issue is described in "New Income-Tax System for Americans Who Work Abroad is Proposed by Carter," *The Wall Street Journal*, February 24, 1978, p. 12. No other record of Carter's approval of this proposal was found.

<sup>5</sup> The Senate bill, which was passed in May 1978, is described in "Senate Votes to Give Americans Abroad Break on U.S. Taxes," *The Wall Street Journal*, May 12, 1978, p. 48.

fect on U.S. exports of their major administrative and regulatory actions that have significant export consequences. This could be an important item in reducing the arbitrary impediments to U.S. exports. We recommend that you *approve* this proposal.

7. *Use of Export Controls As a Foreign Policy Tool.* Commerce recommends that export consequences be weighed as a factor, along with other factors, when considering the use of export controls for foreign policy purposes. We agree that the effect on exports should be considered as a major factor, along with foreign policy, in decisions involving the use of export controls. However, we do not think that exports should be given an automatic priority and caution that the reference in the decision memo to giving "particular weight" to whether the U.S. goods are available from alternative suppliers may have that effect. We recommend that you *approve* this proposal but that you cross out the second sentence of this item from your decision memo.

8. *Guidelines Clarifying the Foreign Corrupt Practices Act.* Commerce recommends that the Justice Department be directed to issue guidelines clarifying the requirements of the anti-bribery statute. We have discussed this matter with the Justice Department and they are prepared to provide some affirmative guidance as to the kinds of violations they deem most serious; however, it would be improper for them to indicate which violations of the law they will not prosecute. With that understanding as to the "guidelines" Justice will provide, we recommend that you *approve* this proposal.

9. *Antitrust Business Review Procedure.* We recommend that you *approve* this proposal, which calls for prompt Justice Department response to business questions on international antitrust issues and additional educational work by the Justice Department. We have discussed this item with Justice and, although they regard it as window dressing, they will be glad to cooperate.

10. *Expansion of Webb-Pomerene Exemption to Include Services.* The Webb-Pomerene Act provides an exemption under the antitrust laws for U.S. firms forming a consortium for the export of goods. Commerce proposes that we seek to amend the Act to provide a similar exemption for the export of services. Some members of the business community believe that this Act restrains their ability to bid on foreign engineering and construction contracts. The Justice Department disagrees and points out that there have not been any prosecutions under the Act in over 20 years. Justice has agreed to provide us with language for the export policy announcement which would provide further guidance and reassurance to businessmen in this area but believes we should not amend the Act because that would be inconsistent with the Administration's antitrust stance and could provide some encouragement for foreign cartels. Although we do not regard the issue as vital one way or



the other, we recommend that you *disapprove* this proposal, with the understanding that Justice will provide helpful language for the export announcement.

11. *Export Assistance Programs*. We recommend that you *approve* Commerce's de minimis request for an additional \$20 million to provide better assistance to U.S. exporters.

12. *Interagency Committee on Export Expansion*. Commerce proposes that you create an interagency Committee on Export Expansion, chaired by Commerce, to oversee the Administration's export effort. The Committee would publish an annual, public report for the President on the progress made. Our experience over the past several months has made us very skeptical about the wisdom of, in effect, making the Export Task Force a permanent Administration body, complete with annual report. We would suggest instead that the export expansion effort be monitored by the Commerce Department and/or the EPG. Consideration should also be given to reviving the President's Export Council, a private sector advisory group which has been dormant in recent years. Businessmen continue to be interested in the Council and would probably appreciate its revitalization. Accordingly, we recommend that you *disapprove* this proposal.

13. *Agricultural Financing and Assistance*. Part A of this proposal represents *existing* Administration policy and, accordingly, you need not make a new decision on this issue. Part B calls for Administration support of legislation setting up agricultural assistance offices abroad. The Department of Agriculture is already moving to provide this assistance under existing authority. We believe there is merit in providing such assistance but that it should be provided on a case-by-case basis as it can be justified rather than legislatively mandated. Accordingly, we recommend that you *disapprove* proposal (B).

14. *Multilateral Discussion of Compensatory Defense Agreements*. We recommend that you *approve* this proposal.

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### 153. Editorial Note

In early August 1978, Special Representative for Trade Negotiations Robert Strauss wrote to European Communities (EC) Vice President Wilhelm Haferkamp, EC Commission Director General for External Affairs Sir Roy Denman, and EC Vice President Finn Gundelach on the issue of the countervailing duty waiver. Strauss, citing recent discussions with members of Congress, expressed doubt as to whether

a bill extending the waiver would pass; moreover, he worried that such a "bill would serve as a target for the attachment of many protectionist amendments and with the mood of this country, we would end up doing more harm than good. Quite frankly, I am becoming convinced that the risk of regressive legislation is too great for us to gamble on introducing the extension." Strauss offered a solution, asking "whether or not any possibility exists for us to make sufficient additional progress on subsidies by mid-September to encourage congressional support of the extension of the waiver. I presume that this is not a practical suggestion because of the time schedule with the August recess." (Telegram 199311 to USEC Brussels, August 7; National Archives, RG 59, Central Foreign Policy File, D780323-0662)

On September 14, West German Minister for Economic Affairs Otto Graf Lambsdorff wrote to Strauss urging him "to use all means at your command to prevent" the imposition of countervailing duties on EC goods after the January 1979 expiration of the waiver. Such duties, Lambsdorff claimed, "would without shadow of doubt call forth a demand for incisive countermeasures on the part of the Community and impose a strain on the climate of world trade that would be diametrically opposite to our common objectives in the MTN." Lambsdorff continued: "If the MTN are to be successful, I feel it is absolutely necessary that a *fait accompli* be avoided in the vital area of subsidies/countervailing duties. I fully recognise and very much appreciate all you have done in talks with the Congress to ward off this eventuality. However, I do not believe that the suggestion of additional progress on subsidies by mid-September is a realistic option because it amounts to one partner making unilateral concessions with a view to the final package." While West Germany would do all it could "to ensure that the agreed 15th December 1978 deadline for a successful conclusion of the MTN is met," Lambsdorff doubted that the EC would be "prepared to make unconditional concessions in the final phase now in progress unless there is some prior guarantee that a satisfactory solution can be found in the matter of the application of countervailing duties after 4th January 1979." Lambsdorff encouraged Strauss to do what he could "to avert a situation in which the United States would inevitably be held responsible for endangering the GATT negotiations." (National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 2, Countervailing Duties 1977) In his reply to Lambsdorff, Strauss asserted that the administration would continue its efforts to secure the necessary legislation, despite the fact "that the negative position of some members of the Community at the Bonn Summit has complicated our present task." (Telegram 234044 to USEC Brussels, September 15; National Archives, RG 59, Central Foreign Policy File, D780375-0068)

On September 18, Haferkamp replied to Strauss's letter of the previous month. Haferkamp asserted that countervailing duties on EC goods "would inflict grave damage on our exporters, would lead to strong pressures for retaliation and since not only Community exports would be affected could thus unleash a trade war of considerable dimensions." Warning that "the slim chance, as you now judge, of the waiver being prolonged at this point in time creates a very serious situation," Haferkamp stated that it would not be "realistic for us to propose to our member states that we conclude these negotiations in the absence of an assurance that the waiver on countervailing duties will be extended. Nor indeed do Finn Gundelach and I think it realistic to put to our member states the need for the political decisions which all of us will have to face in the final stage of the negotiation when it will be clear that as a consequence of US legislation a trade war is in prospect in only a few weeks time." Haferkamp assured Strauss that the EC would continue to "pursue vigorously discussions and negotiations in Geneva with the aim of concluding these negotiations by 15 December," but cautioned "that unless the uncertainty over the imposition of countervailing duties from 4 January can be resolved the common assumption of shared responsibility on which we have based the Tokyo Round would no longer exist and these negotiations could not be concluded." (National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 2, Countervailing Duties 1977) The next day, September 19, Denman notified the U.S. Mission to the EC in Brussels that the EC Council "was unanimous in its support" for the position set out by Haferkamp. (Telegram 17722 from USEC Brussels, September 19; National Archives, RG 59, Central Foreign Policy File, D780381-0146, D780404-0193)

On September 19, the head of the U.S. Delegation to the Multilateral Trade Negotiations, Alonzo McDonald, cabled Strauss from Geneva: "To add a sense of urgency and solid credibility to December 15 deadline, we are taking the line here that our only hope to find a solution to the CVD waiver problem depends on having a completed MTN package in hand before January 1979. In effect, we are thus attempting to use the waiver deadline for the same purposes that the expiration of our negotiating authority served in the Kennedy Round. It is our understanding that this was Congress' original intent to avoid a last minute scramble in which the subsidies issue would be simply postponed because it is too hard to resolve. We need some legal or mandatory date against which to work to force our other negotiating partners to close out, particularly the LDC's who would prefer to wait until the opening of UNCTAD V next May, thinking that a political furor then might improve their Tokyo Round results." McDonald concluded: "This is not a proposal but an assumed reality. Unless otherwise instructed, will pursue the line persistently that CVD waiver deadline

forces us to have a completed package in hand by year end.” (National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 2, Countervailing Duties 1977)

**154. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to the Under Secretary of the Treasury for Monetary Affairs (Solomon)<sup>1</sup>**

Washington, August 7, 1978

SUBJECT

Discussion with Professor Chiaki Nishiyama on August 7, 1978

Professor Nishiyama opened our meeting by presenting a letter from Prime Minister Fukuda to Chairman Miller concerning Nishiyama’s visit.<sup>2</sup> He indicated that he was conveying the concerns of the Prime Minister and referred to his meeting with Secretary Blumenthal “on Thursday”.<sup>3</sup>

Nishiyama focused on the increasing Japanese concern over the “speculative appreciation” of the yen, which in turn was hindering the outlook for Japanese economic growth. At this point, the GOJ was expecting growth in JFY 79 to be 1–1½ percentage points less than in JFY 78 and was not sure that it could make the 7 percent target for JFY 78. Nishiyama stressed that the GOJ did not oppose appreciation of the yen; indeed, they viewed it as inevitable as long as inflation rates remain lower in Japan than in the U.S. However, they believe that recent

<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 4, 8/78. Secret; Nodis. Solomon forwarded this memorandum to Blumenthal as background for an August 9 meeting with Chiaki Nishiyama, a professor of economics at Rikkyo University. In his August 8 cover memorandum to Blumenthal, Solomon noted that Nishiyama had “also spoken to Bill Miller along the same lines.” Advising that they “remain noncommittal” for now, Solomon said that it was unclear whether Nishiyama enjoyed “any official status” or if Matsukawa would espouse “the same line” during a visit to Washington later that week. (Ibid.) Matsukawa visited Washington August 10–11, meeting with Cooper, Solomon, and Blumenthal. (Telegram 197372 to Tokyo, August 4; telegram 208102 to Tokyo, August 16; telegram 210864 to Tokyo, August 18; National Archives, RG 59, Central Foreign Policy File, D780320–0059, D780336–0407, and D780340–0212, respectively)

<sup>2</sup> The letter was not found.

<sup>3</sup> August 10. Apparently a reference to the August 9 meeting between Nishiyama and Blumenthal referred to in footnote 1 above. No other record of a meeting between Nishiyama and Blumenthal was found.

movements in the exchange market had overshot and that the current equilibrium rate is about 200–210 yen to the dollar.

Nishiyama indicated that the GOJ “was screaming at us” and “begging us” to do something to reduce the speculation in the exchange markets”.<sup>4</sup> He made no specific request, but in response to my question indicated it should be “something like you did for the Germans”.<sup>5</sup> There need be no public announcement of such U.S. steps; the agreement could be a tacit one with periodic (e.g., semi-annual) review. Nishiyama stressed the political distinction which is felt in Japan concerning the differences between the U.S. policies toward the two countries on this issue, but in response to my further question indicated that they also believed that the U.S.-German agreement had stabilized the DM market.

In return for USG help on this issue, Nishiyama said that Japan would offer the following:

—A commitment to sell dollars to keep the yen from weakening beyond 205:1.

—A reduction in the prime interest rate to 2 or 2½ percent, from the present level of 3%.

—A supplementary budget in September of 4 trillion yen (about \$20 billion) instead of the 2½–3 trillion yen now under active consideration.

—Periodic, perhaps monthly, review of developments to see if the agreed targets were being achieved.

Nishiyama indicated that these measures would be aimed at assuring Japanese growth of 7% in JFY 78, compared with the current outlook of 5½ percent, and a rate of 7½ percent in JFY 79. He strongly implied that the lower supplementary budget now under consideration might well fail to achieve the 7 percent target for JFY 78.

In response to my question, Nishiyama foresaw a Japanese current account surplus of \$16 billion in JFY 78 dropping to \$6 billion in JFY 79 if growth were to reach 7% in JFY 78 and 7½% in JFY 79.

I indicated that these current account numbers were still very high, and wondered whether anything could be done about them in the short

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<sup>4</sup> Japanese concerns about dollar depreciation were reinforced the following week. In telegram 14808 from Tokyo, August 17, Mansfield reported on an August 16 discussion of economics with Fukuda, who “closed meeting by asking me to report the concern which he had expressed over the dollar’s decline and I of course said that I would do so. I have no doubt that his concern is real and that he feels strongly on this matter.” (National Archives, RG 59, Central Foreign Policy File, D780335–1005)

<sup>5</sup> In telegram 13938 from Tokyo, August 2, the Embassy noted a statement appearing in that day’s *Nihon Keizai*, a Japanese business newspaper, “that the FRB has never even once activated the swap with Japan, while it has done so in the cases of Germany and Switzerland.” (National Archives, RG 59, Central Foreign Policy File, D780315–1244)

run. Nishiyama replied that we should “tell them what to do”. He quickly added that there was active consideration of emergency import measures to a total of about \$3 billion. However, his failure to initiate discussion of this issue suggested to me that it was not part of the current GOJ “offer”.

I thanked Nishiyama for conveying these thoughts. He urged me “not to stop there,” but I simply indicated that we would be talking to him again later in the week.

C. Fred Bergsten<sup>6</sup>

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<sup>6</sup> Printed from a copy that bears this typed signature.

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**155. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, August 14, 1978

SUBJECT

Foreign Exchange Market Conditions

Market behavior indicates a lack of confidence in the U.S. Government's ability to deal with the fundamental U.S. problems of inflation, energy policy and trade. Monetary policy is regarded as no longer effective, fiscal policy moves as unlikely in the near future, and the anti-inflationary program as a failure. The market sees the Administration as resigned to await future developments, which may, over the horizon, be helpful but which offer no present incentive to hold dollars. Adjustment by Japan, in particular, is seen as a long-term process. There is no fear, at present, that the U.S. will impose controls, either domestically or over capital movements.

The market does not appear to be very sensitive to or cautious about the record low dollar exchange rates. There is little caution

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 2, International Monetary. Confidential. Drafted by Fred Springborn and reviewed by Widman and Hessler. A stamped notation reads: “Noted by W.M.B.” Bergsten wrote at the top of the page: “Mike—This is rough but, I'm afraid, an accurate picture. New lows today re all European currencies. Fred.”

among traders in pursuing the practice of selling dollars, covering positions, and selling more dollars. Interest rate differentials are not important factors. The market remains dominated by the professionals; that is, while corporations and foreign governments have undoubtedly been trimming dollar positions, there is a large potential for further shifts out of dollars. The professionals are able to deal on this presumption.

The market is aware that official intervention is now ineffective, and that foreign monetary authorities are no longer even seeking to curb rate movements by large intervention.<sup>2</sup> The state has been reached where, in the absence of some highly visible political action, intervention expenditures are simply swallowed up. There are no credible trading levels which seem to be dependable.

The main contribution of intervention by the United States is to demonstrate to foreign authorities, as well as to the market, that the U.S. continues to adhere to its policy, that we are concerned about disorderly market conditions and that we continue to operate to counter such conditions. The question is how much we should spend in pursuing this objective.

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<sup>2</sup> Attached but not printed is an "Intervention table showing daily intervention in dollars by the U.S., Germany, Switzerland and Japan since July 1."

## 156. Summary of a National Security Council Meeting<sup>1</sup>

Washington, August 15, 1978

### IN ATTENDANCE

The President, the Vice President, Chairman Miller, Secretary Vance, Secretary Blumenthal, Secretary Schlesinger, Messrs. Brzezinski, Eizenstat, Jordan, Moore, Owen, Powell and Schultze

1. The Secretary of the Treasury and Chairman Miller discussed the dangers posed by the decline in the dollar abroad.<sup>2</sup>

2. The Secretary suggested a three-stage approach:

(a) a calming statement to be issued now by Chairman Miller and himself;

(b) a program of financial measures to strengthen the dollar in the short term, which could be negotiated in the next few days;

(c) a program of fundamental measures to strengthen the dollar over the longer term, some of which might be announced by the President Friday.<sup>3</sup>

3. These suggestions were discussed, as were possibilities for Congressional consultation.

4. The President:

(a) authorized Secretary Blumenthal and Chairman Miller to issue a calming statement now.<sup>4</sup>

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 56, NSC-011, 5/18/78, U.S.-Soviet Relations. Secret. Carter initialed "C" at the top of the page, and Brzezinski signed at the bottom of the page. The meeting, which took place in the Cabinet Room, began at 3:04 p.m. and ended at 4 p.m. (Carter Library, Presidential Materials, President's Daily Diary)

<sup>2</sup> An August 16 memorandum from Brzezinski to Carter forwarded a report by Robert Hunter, who had recently visited Europe: "In all my [Hunter's] conversations in Europe, it seems clear that the leadership of the Administration is now being judged—not so much in terms of issues like the neutron bomb or U.S.-Soviet relations—but much more on the management of the U.S. economy, the enactment of energy legislation, and the role of the dollar. Psychologically, the fall of the dollar is having a profound impact in Western Europe (with continual front-page news) and is having an impact on perceptions of our reliability in general." (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/International: 7/78-1980)

<sup>3</sup> August 18.

<sup>4</sup> On August 16, the White House issued a statement expressing Carter's "deep concern over developments in foreign exchange markets in recent days." For the text of the statement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1426-1427. See also footnote 3, Document 158.



(b) understood that Secretary Blumenthal and Chairman Miller would be negotiating about financial steps;<sup>5</sup>

(c) directed Secretary Blumenthal to submit to him by mid-Thursday a paper outlining options regarding fundamental measures;<sup>6</sup>

(d) directed that appropriate steps be taken regarding Congressional consultation.

5. It was agreed that all this should be handled in a way reflecting the highly sensitive nature of the issues involved.

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<sup>5</sup> In an August 17 note to Brzezinski on the actions taken in response to the August 15 NSC meeting on the dollar, Owen reported that "Treasury's discussions about a swap with the Japanese (which is the most important and difficult of the financial measures) are not sufficiently advanced to permit a useful progress report." (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/International: 7/78–1980)

<sup>6</sup> In his August 17 note to Brzezinski on the actions taken in response to this meeting, Owen reported that he expected agency recommendations on energy policy by the end of the day. On inflation, he noted that Schultze and Blumenthal were "still arguing about whether anything useful can be recommended to the President about inflation now. They will meet to settle the argument in early afternoon. My guess is that Charlie will win, and he will then give us the memo of which I spoke to you yesterday: saying that there won't be any recommendations on inflation to the President for a few weeks." (Ibid.) No record of a meeting between Schultze and Blumenthal was found.

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## 157. Telegram From the Department of State to the Embassy in Japan<sup>1</sup>

Washington, August 18, 1978, 2236Z

211040. Eyes only for the Ambassador. Subject: US–Japan Swap.

1. Action: You should call on Prime Minister and indicate to him that Under Secretary Solomon, in recent phone talks with Matsukawa, was reflecting views of administration at the highest level: We are prepared to activate a U.S.–Japan swap provided the technical conditions can be worked out, if the GOJ will take effective measures to reduce Japan's surplus—i.e., propose a 4 trillion yen stimulus to Diet and reduce discount rate to 2.5 percent, while also following constructive policies in MTN. Please stress to Fukuda that Solomon's statement to Mat-

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, P840140–2350. Secret; Immediate; Nodis. Drafted by Solomon, cleared by Special Assistant to Secretary Vance Arthur Houghton, Owen, and Sydney Goldsmith (S/S), and approved by Cooper. Sent for information Immediate to the White House.

sukawa that a swap without these Japanese actions would not have sufficient effect on the exchange markets to be worth activating is firm U.S. position, that we are convinced 4 trillion yen stimulus is essential if Japan's Summit commitment to 7 percent growth is to be fulfilled, and that we believe change in discount rate is needed to influence capital flows. These views should be communicated to Fukuda as a matter of great urgency and highest importance.<sup>2</sup>

2. Background: Following information is for Ambassador's background: Building on message from Prime Minister Fukuda which was conveyed to U.S. officials through Nishiyama last week,<sup>3</sup> Solomon telephoned Nishiyama Tuesday night<sup>4</sup> to indicate a readiness to enter into discussions with the Japanese on the conditions under which the U.S. would be prepared to announce readiness to intervene in yen for U.S. account.

3. Nishiyama had suggested possible readiness of the Japanese to propose supplemental budgetary measures in the range of 4 trillion yen and to lower the discount rate by 1 percent. Solomon indicated that these actions would help create climate of confidence that Japanese surplus was being appropriately dealt with, and would provide basis for U.S. to cooperate with GOJ in intervening to deal with market disorder. Solomon did not specify trade measures which might also be taken by GOJ but did say that such measures would add to credibility of program.

4. Solomon's message was communicated to Fukuda who then designated Matsukawa to carry on negotiations on behalf of the Japanese. Timing has become of extreme importance because of developments in the foreign exchange markets and U.S. desire to announce actions to deal with this situation at earliest feasible date. In telephone conversations last night and this morning, however, Matsukawa made clear that Fukuda could make no promises concerning the size of the supplemental budget prior to the Cabinet meeting scheduled for September 2. He also said that the lowering of the discount rate would be extremely difficult since it would bring the rate below the interest rates offered by the postal savings system. Matsukawa said that the postal savings rate was under control of a group dominated by consumer interests who would not wish to reduce the rate paid on such savings.

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<sup>2</sup> In telegram 214420 to Tokyo, August 23, the Department instructed Mansfield to "make clear that USG conditions for agreeing to a swap should not be interpreted by the Prime Minister or other Japanese officials as diminishing the importance we attach to all of the other Strauss-Ushiba undertakings (i.e. other than growth and MTN)." (National Archives, RG 59, Central Foreign Policy File, P840140-2395)

<sup>3</sup> See Document 154.

<sup>4</sup> August 15.

5. Solomon told Matsukawa that the U.S. could not (repeat not) proceed with actions signaling a U.S. readiness to intervene in yen in the absence of Japanese commitments on the satisfactory supplemental budget and discount rate cut. We therefore will delay any U.S. action or announcement indicating possibility of intervention activities pending assessment of GOJ fiscal measures after September 2.

6. As you will appreciate, the fact that these discussions are taking place as well as the substance of the discussions is being held extremely closely.<sup>5</sup>

Vance

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<sup>5</sup> Mansfield reported on his implementation of these instructions in telegram 15073 from Tokyo, August 21. (National Archives, RG 59, Central Foreign Policy File, P840156–2596)

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## 158. Memorandum From Acting Secretary of the Treasury Carswell to President Carter<sup>1</sup>

Washington, August 30, 1978

### SUBJECT

Impact of the July Trade Deficit

The large and unexpected *increase in our trade deficit* (from \$1.6 billion in June to \$2.9 billion in July) which was announced Tuesday<sup>2</sup> *had a severe impact on the dollar's position in the foreign exchange market and wiped out virtually all the dollar gains* achieved through the monetary actions announced by the Federal Reserve and the Treasury following your statement on August 16.<sup>3</sup> While there may have been special

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 100, 8/31/78. Confidential. The memorandum bears the incorrect date of August 30, 1979. Carter initialed "C" at the top of the page. The memorandum was sent to Carter under cover of an August 30 memorandum from Owen, which both Carter and Brzezinski initialed. (Ibid.)

<sup>2</sup> August 29.

<sup>3</sup> See footnote 4, Document 156. In the days after this August 16 statement, the administration undertook three initiatives to strengthen the dollar. On August 18, the Federal Reserve Board increased the discount rate by .5 percent. Four days later, the Treasury Department announced that it would increase its monthly gold sales from 300,000 ounces to 750,000 ounces. Finally, on August 28, the Federal Reserve Board eliminated domestic reserve requirements in an effort to encourage U.S. borrowing in the Eurodollar market.

factors that contributed to the disappointing July trade figures, preliminary analysis has not identified them.

The markets remain cautious because of the uncertainty created by the statement that we expect to announce a series of continuing actions.<sup>4</sup> But *lacking positive steps in the relatively near term, we cannot be certain that the decline will not continue or accelerate.* Foreign governments and private traders are stating publicly and privately to us that only forceful measures to deal with inflation and reduce the trade deficit will save the dollar from further declines, with serious consequences for the world economy and our leadership in world affairs.

It also would appear that the Japanese have concluded that U.S. agreement to intervene in yen is not worth the price that we have requested—a 4 trillion yen supplemental budget and a 1% decrease in the discount rate as well as further progress on the trade issues. They have advised us that the overall magnitude of the supplemental budget would be 2½ trillion yen.<sup>5</sup> It seems quite doubtful, therefore, that it would be advisable to proceed with any IMF drawing as a means of acquiring yen for intervention. While there have been suggestions that we announce a sizable sale of special drawing rights to the Germans for deutschmarks to hold for purposes of intervention, there is doubt that this would have a very significant or lasting impact on the market. In any event, *the German monetary authorities are reluctant to have us continue to intervene in marks* until we have taken more fundamental U.S. domestic measures. They are providing almost no dollar support them-

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(Hobart Rowen, "The Fed Raises Borrowing Rate To Bolster Dollar," *The Washington Post*, August 19, 1978, p. A1; James L. Rowe, Jr., "U.S. Is Doubling Sales of Gold To Assist Dollar," *The Washington Post*, August 23, 1978, p. A1; Hobart Rowen, "New Steps Designed to Aid Dollar," *The Washington Post*, August 29, 1978, p. C1)

<sup>4</sup> On August 17, after a press conference in which Carter had offered few clues as to what the administration would do to shore up the dollar's value, Blumenthal issued a statement suggesting that "a series of continuing actions" would be undertaken "as decisions are reached over the next few weeks." (Hobart Rowen, "Statement Follows Carter's Press Conference," *The Washington Post*, August 18, 1978, p. F1) For Carter's remarks on the dollar at the press conference, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, p. 1441.

<sup>5</sup> In his August 30 cover memorandum to Carter (see footnote 1 above), Owen commented: "Although this budget falls short of the four trillion yen that we have felt was needed to justify activation of a US-Japanese swap, it is a very substantial stimulus (about 1% of GNP). A great deal will depend on composition of this stimulus: A hard 2.5 trillion package could be worth at least as much as a soft 4 trillion package; a soft 2.5 trillion package would be a very different situation." Owen promised that when more was known about the Japanese package he would "recommend whether a statement should be issued indicating your pleasure at Fukuda's fulfillment of his Summit commitment, similar to the statement we issued after the recent German cabinet decision on growth." For Owen's subsequent recommendation to Carter, see Document 160. The White House statement on the West German decision was issued on August 3; see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, p. 1360.

selves. Thus, *little more can be done with strictly monetary measures* other than a tightening of the domestic money supply.

The EPG is meeting tomorrow morning on specific steps that you might take to reduce the rate of inflation. Work is also going forward to provide you with options to reduce imports of oil into the United States either through a fee or quota system. We would hope to have this *work completed for you by the conclusion of your Camp David meeting so that you will be in a position to take prompt action.*<sup>6</sup>

**Robert Carswell**<sup>7</sup>

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<sup>6</sup> Carter met with Egyptian President Anwar Sadat and Israeli Prime Minister Menachem Begin September 5–17 at Camp David, where they negotiated framework agreements for peace in the Middle East.

<sup>7</sup> Carswell signed “Bob Carswell” above this typed signature.

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### 159. Telegram From the Embassy in France to the Department of State<sup>1</sup>

Paris, September 8, 1978, 1529Z

29812. USEEC. USMTN. Pass STR electronically for Ambassadors Strauss and Wolff. Subj: France and MTN—Storm Signals.

1. Summary: With the end of the summer lull, we have begun receiving the expected signals of trouble brewing on the MTN. This is not surprising following French discomfiture over the Geneva memorandum of understanding<sup>2</sup> and the Bonn Summit communiqué.<sup>3</sup> During the past few days, French Ambassador de Laboulaye has talked with me and MinEcon has also reviewed the situation with Paye,<sup>4</sup> Barre’s diplomatic advisor. (I would appreciate it if our friends could be protected, and details of this message not get back to French

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, D780366–0774. Confidential; Immediate; Limdis. Sent for information to Bonn, Brussels, and the Mission in Geneva.

<sup>2</sup> For information on the Geneva memorandum of understanding, see Document 144. Regarding French concerns, see footnote 4, Document 147.

<sup>3</sup> See footnote 5, Document 148.

<sup>4</sup> Jean-Claude Paye served as Barre’s counselor for international questions from 1976 until 1979. No record of meetings between Hartman and de Laboulaye or the Embassy’s Minister for Economic Affairs and Paye has been found.

sources.) French policy on MTN seems to be rather tightly laid down by Giscard himself. I believe our best approach for the early fall is to keep in touch informally with the French; to proceed with business as usual in Geneva; and to take them on frontally only after we have created a situation in which Community pressures (hopefully with the FRG in the lead) can be brought to bear on them. The next Franco-German summit is September 14–15 and we hope that Schmidt will reiterate his support for a successful MTN. End summary.

2. François de Lauboulaye has made the rounds prior to his return to Washington, D.C. He told me he had discussed the MTN at the Elysée and had had a long talk with Barre as well. He found both men personally very tough on this subject. His conclusion is that, as far as France is concerned, there is little chance of meeting the mid-December target for conclusion of the negotiations.<sup>5</sup> The French are acutely sensitive to any suggestion that the Geneva memorandum of understanding represents even an implicit agreement or series of potential commitments that point to probable outcomes on the various subjects.

3. Lauboulaye's judgment is that the French will only let the Community conclude the negotiations once the French have obtained the various specific concessions they want. All of this will require time and much detailed haggling as they see it. They are aware of the problem with Congress about expiration of our waiver authority on countervailing duties. But this does not give them any real sense of urgency.

4. In a frank talk with us, Paye said that while Barre favors a vigorous defense of French interests in the MTN, the most important factor remains Giscard's "extreme coolness" on the whole subject. Paye hinted that he himself has wondered about just why Giscard is so negative. He believes that Giscard reasons along the following lines: There will be little positive benefit for French trade interests from the MTN—especially in a world characterized by rapid and substantial fluctuations in exchange rate relationships. On the other hand Giscard is likely to have a lot of domestic difficulty, including but not limited to the agricultural lobby, if he agrees to the kinds of things we are asking. (Comment: From a recent talk I had with Chirac<sup>6</sup> it is clear that the Gaullists are watching the government like a hawk on everything that looks like giving in to US pressure.) Paye thinks that an additional concern for Giscard is doubt about whether the administration can deliver the Congress on a final package.

5. We gave Paye the counter-arguments which he already knew and appeared at least partly to accept. We stressed the urgency of get-

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<sup>5</sup> December 15, 1978, was the agreed upon deadline for completion of the MTN; see Document 153.

<sup>6</sup> Jacques Chirac was the Mayor of Paris from 1977 until 1995.

ting on with the negotiations. In response to a direct question he denied that France will adopt a spoiling posture aimed at killing the MTN by pressing the Commission negotiators to drag the thing out. Like Laboulaye, however, he said that the French intend to fight over every point of interest to them and will not feel pressured by the December deadline.

6. Comment: While none of the foregoing is especially new or surprising, it does provide further confirmation that Giscard is personally controlling the French MTN negotiators. At the appropriate time, Barre and Deniau might be helpful in working matters out. But I believe that judgments about this can be made only as specific situations develop during the fall. Meanwhile I suggest the best course will be to proceed with business as usual in Geneva; to keep in touch with the French and maintain good personal relations on MTN matters; and to try to create a situation in which pressure from within the Community—especially Schmidt—can be brought into play before we have to lock horns with them directly. Schmidt and Giscard are to meet bilaterally on September 14–15 and we hope that the FRG can again make clear its commitment to a successful MTN. End Comment.

Hartman

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## 160. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, September 12, 1978

### SUBJECT

Letter to Fukuda

Attached at Tab A is a draft reply to the letter from Prime Minister Fukuda (Tab B)<sup>2</sup> that you saw. The reply has been cleared with State, Treasury, CEA, and Jim Fallows' office.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 1–12/78. No classification marking. Sent for action.

<sup>2</sup> Tab B, attached but not printed, is a September 2 letter from Togo to Carter transmitting a September 2 message from Fukuda on Japan's economic stimulus package. Carter initialed at the top of Togo's letter.

<sup>3</sup> In a September 22 note to Carter, Brzezinski noted that he had held back the draft letter "until the conclusion of the Camp David Summit and in the belief that it would be

The judgment of our experts is that Fukuda's 2.5 trillion yen stimulus is a good start but is not sufficient to achieve the 1½% growth increase that Fukuda pledged at the Summit for the Japanese fiscal year 1978 (ending March 31, 1979). Ushiba said, when he was here last week,<sup>4</sup> that Fukuda will decide in November to send a second supplemental budget to the Diet in January 1979, if it appears that the 7% growth target is not going to be achieved. This would be more likely to affect growth in the Japanese fiscal year 1979 and 1978.

The Japanese are also taking some trade actions to reduce their external surplus; these, too, appear too limited.

We need to persuade the Japanese to take, before you go to Japan next year for the Summit, the additional growth and trade measures required to achieve a substantial reduction in their external surplus. Otherwise your visit will take place under the shadow of growing U.S.-Japanese recrimination. The attached reply was drafted with this in mind.

#### Tab A

#### Letter From President Carter to Japanese Prime Minister Fukuda<sup>5</sup>

Washington, September 25, 1978

Dear Mr. Prime Minister:

Thank you for your letter of September 2.

The actions that you have taken reflect the spirit of international cooperation which was evident at Bonn. Your decision to expand domestic demand through additional public investments is a welcome step toward achieving the 1½% increase in Japan's growth rate that you pledged at Bonn. I know that you are also taking additional measures to foster a more rapid reduction in Japan's current account surplus. I am confident that if it appears in the next few months that your growth

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strengthened if you could refer to passage of the natural gas legislation. I think it best not to delay any longer." (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 11, Japan: Prime Minister Takeo Fukuda, 1-12/78) The Camp David Summit took place September 5-17.

<sup>4</sup> Ushiba and Minister of Agriculture Ichiro Nakagawa visited Washington for talks with Strauss and U.S. officials September 5-7. Telegram 228538 to Tokyo, September 8, transmitted the text of the STR press release issued at the end of the visit. (National Archives, RG 59, Central Foreign Policy File, D780367-0177) Telegram 231273 to Tokyo and the Mission in Geneva, September 12, provided a summary of the talks. (National Archives, RG 59, Central Foreign Policy File, D780371-0683)

<sup>5</sup> No classification marking.



and current account targets are not being fulfilled, your government will take the additional measures needed to this end.

The fulfillment of our mutual Summit commitments will be vital to the success of the May 1979 Tokyo Summit. I have this very much in mind as I review the steps needed to fulfill the commitments that I made at Bonn.

My primary goal is to reduce the rate of U.S. inflation, both for domestic reasons and because this is a major cause of the foreign exchange disorders that concern us both. We are beginning to see some progress, as reflected in the decline of U.S. wholesale prices last month. But further measures are needed. I have a three-point program in mind:

*First:* I intend to carry out the tight fiscal policy that I described at Bonn. I am now looking for opportunities to reduce expenditures, in order to curtail the FY 1977 budget deficit. In January I will present to the new Congress an FY 1980 budget which should bring the deficit down still lower, to somewhere in the thirties of billions of dollars. This is causing a good deal of pain in the government departments concerned, but I will hold to this policy. In so doing, I expect to work closely with the Congress, which is sensitive to growing pressure by the voters for a reduction in government spending.

*Second:* We are considering how to strengthen U.S. Government efforts to restrain wage and price increases. Intensive staff work is now going on about possible new steps. I hope that we will soon be able to announce them.

*Third:* We will seek to ensure that U.S. Governmental actions do not contribute to inflation.

On the energy front, I have been working hard to persuade the Congress to pass key parts of the energy bill, especially the provision for phased de-regulation of natural gas, which would account for the largest part of the energy savings I pledged at Bonn. I cut short my vacation to resume this effort.<sup>6</sup> By the time the Congress adjourns in October, we will see how successful the effort has been and what the implications are for future policy. I take the energy pledges that I made at the Summit seriously, and mean to fulfill them.

Progress on both the inflation and energy fronts should strengthen the dollar and thus help to meet the concerns that you have expressed to Ambassador Mansfield.<sup>7</sup>

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<sup>6</sup> Carter vacationed in Georgia, Idaho, and Wyoming August 18–30. (Carter Library, Presidential Materials, President's Daily Diary)

<sup>7</sup> Possibly a reference to an August 16 discussion in which Fukuda told Mansfield that "he was particularly worried about the declining value of the dollar. As a key currency, if the dollar's credibility were to be lost, it would become virtually impossible for other economies to maintain orderly and stable management." Fukuda asked Mansfield

I am confident that the post-Summit actions which have been taken, and which will be taken, by the Japanese, German, and American governments will lead to improved world economic prospects. This will be a difficult and prolonged process, but we have made a good start. I welcome your letter as evidence of our continuing cooperation in this process.

Sincerely,

Jimmy Carter

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to report his concern. (Telegram 14808 from Tokyo, August 17; National Archives, RG 59, Central Foreign Policy File, D780335-1005) See also footnote 4, Document 154.

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### 161. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, September 15, 1978

SUBJECT

IMF-IBRD Meeting

I agree with Mike Blumenthal's recommendation that you speak for 5-10 minutes to the annual IMF-IBRD meeting.<sup>2</sup>

If you spoke about your efforts to fight inflation, reduce oil imports, and expand exports, I believe you could make the same favorable impression on this audience that you did on your Summit colleagues. Since this audience is made up largely of bankers, who have a lot more to do with the buying and selling of dollars than your Summit colleagues, this should help to strengthen the dollar.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/Dollar: 1978. Confidential. Sent for information.

<sup>2</sup> In a September 15 memorandum to Carter, Blumenthal urged him to reconsider his decision that Blumenthal deliver a statement on his behalf to the opening session of the annual joint IMF and World Bank meeting, which was scheduled to be held in Washington September 25-28. Blumenthal asserted: "Recent developments in the exchange markets have placed the state of the dollar and the conduct of U.S. economic policy squarely at the center of world attention. Under these circumstances, your failure to appear at the meeting may be taken as an indication that you do not place the dollar problem high on your list of concerns. Your mere absence could, therefore, adversely affect the dollar in the market." (Ibid.)

Conversely, if you do not appear, this might be taken as a sign of benign neglect, which would adversely affect the attitudes of the audience and might affect the strength of the dollar.<sup>3</sup>

Denis Healey has indicated to our London Embassy that he is troubled by the possibility you will not appear. When Mike Blumenthal met today with his small advisory committee of top bankers and ex-Secretaries of the Treasury, they expressed a strong hope you would appear.<sup>4</sup>

I have written a three-page speech which (if I do say so myself) should get a good reaction—from the audience and the US media. If you decide to appear, I will submit it to you, after it has been reviewed by Treasury and Jim Fallows.<sup>5</sup>

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<sup>3</sup> In his September 15 memorandum to Carter, Blumenthal suggested that he “indicate at a minimum that you will announce in the near future a significant strengthening of our anti-inflation program, and reaffirm your determination to achieve an effective energy program.” He also recommended that Carter “reaffirm your August statement of serious personal concern about the dollar situation,” as well as “demonstrate to this audience that you are determined to deal with our fundamental economic problems.” (Ibid.)

<sup>4</sup> No record of this meeting was found.

<sup>5</sup> Hutcheson reported in a September 21 memorandum to Owen that “the President’s schedule does not permit his speaking at the annual IMF–IBRD meeting this year.” (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/Dollar: 1978) In the end, Carter did address the opening session of the IMF-World Bank meeting; for the text of his September 25 remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1627–1629.

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## 162. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, September 21, 1978

### SUBJECT

Probable Decisions at Forthcoming Meetings of IMF and IBRD

As you know, the IMF membership has been engaged for the last year or so in negotiations on an increase in quotas and an allocation of

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 102, 9/22/78 [2]. Confidential. Sent to Carter under cover of a September 22 memorandum from Owen, who noted that State, CEA, and OMB concurred in Blumen-

special drawing rights (SDR). We have indicated our agreement in principle to a quota increase and have taken a sympathetic view toward a modest SDR allocation, but have refrained from indicating figures we could accept, largely out of concern that a premature agreement on these questions might jeopardize Congressional action on the Witteveen Facility.<sup>2</sup>

Apart from the U.S., the Fund membership is now ready to settle these issues during the upcoming meetings.<sup>3</sup> There is a need to reach agreement and assure that the IMF will be capable of playing its central role in managing the international monetary system. We are under considerable international pressure to conclude the agreement—and I think it would be highly desirable, and important for the dollar, for us to take a positive, constructive attitude. On the basis of intensive consultations with the Congress, I am persuaded that there is broad understanding and support for U.S. agreement to go ahead, and that an announcement of an agreement at the meetings will not cause serious problems for the Witteveen Facility.

In the absence of strong advice to the contrary from key Congressmen that remain to be contacted in the next couple of days, I intend to announce our agreement (probably on Sunday<sup>4</sup> in the Interim Committee meeting where this is being negotiated) to an increase in quotas and an SDR allocation.

The quota increase will be in the range of 40–50 percent, with agreement most likely on 50 percent, implying an increase in the U.S. quota of about \$5 billion. The authorization would probably be submitted to Congress sometime next year. However, assuming appropriations will be required as a result of the compromises we have had to accept on the Witteveen Facility, an appropriation would not be needed until FY 1981. The SDR allocation will probably total SDR 3–4 billion per year for a three-year period.<sup>5</sup> No Congressional action on the SDR allocation is required.

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thal's recommendations; both Carter and Brzezinski initialed Owen's memorandum. (Ibid.)

<sup>2</sup> Schultze argued strongly in favor of supporting IMF quota increases and new SDR allocations in a September 14 memorandum to Blumenthal. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 20, Department of Treasury: Blumenthal)

<sup>3</sup> Blumenthal is referring to the joint IMF–World Bank meeting held in Washington September 25–28.

<sup>4</sup> September 24.

<sup>5</sup> In his September 22 cover memorandum (see footnote 1 above), Owen suggested that the new 3-year annual SDR allocation would be "most likely 4 billion."

Our agreement to these actions should be received quite positively by the press, the exchange markets, and our colleagues abroad.<sup>6</sup>

W. Michael Blumenthal<sup>7</sup>

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<sup>6</sup> In his September 22 cover memorandum (see footnote 1 above), Owen commented: "The amounts that Mike has in mind are reasonable in terms of world liquidity requirements: 50% quota increases were recommended by the IMF management; a 4 billion SDR allocation is a good compromise between the management's proposal for 4–6 billion and the German desire to settle on lower amounts." On September 24, the Interim Committee agreed to a 50 percent IMF quota increase and a 3-year annual issue of 4 billion SDR. (Hobart Rowen, "Finance Chiefs Agree to Boost IMF, World Bank Resources," *The Washington Post*, September 25, 1978, p. D14)

<sup>7</sup> Blumenthal signed "Mike" above this typed signature.

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### 163. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, September 22, 1978

#### SUBJECT

A Political Assessment Of The Tokyo Round

This memorandum will enlarge upon the brief reference to the Tokyo Round and its negative aspects in last week's summary.<sup>2</sup> For sometime now, I have wanted to give you a personal report on the negotiations. I have been reluctant to add to your concerns, which I know are many, but I sense that the time has arrived to give you my judgment of where we are and where we are heading.

#### *Background.*

Twenty months ago, as you know, the Tokyo Round was in danger of foundering. The political will of key participants—an indispensable ingredient for such an ambitious undertaking—had been sapped by the oil crisis and the ensuing global recession. Repeated efforts by the previous Administration to revitalize the negotiations had failed. Many

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 103, 9/25/78 [1]. Secret. Carter wrote at the top of the page: "Bob—The harder & better we bargain now, (obviously) the better in Congress next year. J."

<sup>2</sup> The summary was not found.

governments, faced with growing protectionist pressures, wished the negotiations would go away.

At the Downing Street Summit, under your leadership, we began the task of moving the negotiations from a state of inertia to one of action. In the past sixteen months, I can report, we have continued to make slow but steady progress. The status of each phase of the negotiations was described in detail in the "Framework of Understanding"<sup>3</sup> which was reported to the recent Bonn Summit.

Our work has been painstaking, because of the recalcitrance of many of our trading partners. Concessions have been difficult for everyone concerned. Trade liberalization is never easy, but never so difficult than in the face of domestic economic problems and the resulting mounting protectionist pressures. Many serious issues remain, including several which could jeopardize the entire negotiations. I am far from certain, but nevertheless, I am hopeful that with luck it will be possible to conclude the international negotiations by December 15—or 60 days thereafter—and then turn our full attention to the task of domestic implementation.

#### *Domestic Implementation.*

Our present plan is to submit the domestic implementing legislation to Congress by mid-March of next year, for consideration and decision under the up-or-down-vote-no-amendments procedures set forth in the Trade Act. If such a schedule is adhered to, the legislation will likely be voted on by the House and Senate next summer.

The package of implementing legislation which we would send to the Hill next spring would, under the most favorable circumstances, be as complex and controversial piece of legislation as any to be considered by the next Congress. Because of the nature of the negotiations, it is not yet possible to describe with precision what the final package will contain. There still exists the risk that in some critical areas, most notably agriculture and subsidies, we will fall unacceptably short of what we must have to sell the deal at home. The reason would be simply that our trading partners, despite their sincere efforts, have been unable to deliver the necessary concessions to satisfy our agricultural constituents even though it will exceed what has been done before or what they expected this time.

If there is to be a deal, there is no question that it will contain both pluses and minuses. It will address subjects which are both politically sensitive and disparate, ranging from tariffs to government procurement policies, from customs valuation to the difficult problem of subsidies and countervailing duties.

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<sup>3</sup> See Document 144.

Throughout these negotiations I have consulted closely with the Congress, and sought to respond to the needs of individual Members. Wherever possible, we have attempted to include in the package features to add political buoyance to offset those negative aspects we could not avoid. At the present time, because we do not yet know fully what concessions our trading partners will be able to deliver, it is not possible to say whether the package is a net plus or net minus in terms of domestic political acceptability. It is probably one of those issues that will hurt in the short run and be praised in later years.

As our consultations with Congress have progressed, I have noted a steady chilling in the atmosphere on Capitol Hill, exemplified most recently in the soundings we have taken regarding obtaining an extension of the waiver on countervailing duties. Congressional concerns over import penetration in sensitive sectors, such as steel and textiles, combined with large trade deficits, have created an atmosphere which is the worst imaginable in which to seek approval of the results of the Tokyo Round. I cannot overemphasize this negative attitude that prevails, even among some of the most ardent supporters of a liberal trade policy.

It is my present view that the final package will be adopted, but only after a bruising and costly fight. It will pit the relatively small and disorganized, although highly respected, constituency which supports liberal trade against a formidable coalition of labor and management from numerous industries, most notably textiles, steel, dairies, and chemicals. It will require an effort on the part of the Administration not a great deal less than was mounted in the case of the Panama Canal Treaties<sup>4</sup> and the natural gas compromise,<sup>5</sup> and the chance of success is little, if any better. Needless to say a failure would be a major setback for the Administration and for the credibility of the United States in its international economic relations. It could also trigger a world-wide protectionist retrenchment that would endanger the western world's economic prosperity as well as political stability. Obviously, we must go forward. While the agreements themselves certainly will not dra-

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<sup>4</sup> Reference is to the Carter administration's effort to secure ratification of the Panama Canal Treaties concerning Panamanian control and operation of the Panama Canal. The United States and Panama signed the two treaties in September 1977, but the Senate did not vote to ratify them until March and April 1978.

<sup>5</sup> Reference is to the agreement on the pricing of natural gas reached in April 1978 by members of Congress with help from Carter administration officials. (Steven Rattner, "Conferees on Energy Agree on Gas Pricing, Ending Long Impasse," *The New York Times*, April 22, 1978, p. 1) On September 19, the Senate rejected an attempt by opponents of the bill to send it back to a House-Senate conference committee for changes. (Richard L. Lyons, "Senators Reject Attempt To Scuttle Gas Compromise," *The Washington Post*, September 20, 1978, p. A1)

matically change the patterns of world trade they will help move in the right direction.

I assure you we are going forward aggressively and will continue to press for the best result possible but you should be aware of the probable domestic political costs that Congressional consideration will entail.

All of this, of course, must be evaluated by you in the broader context of Administration policy, and from a longer, historical perspective. In the coming weeks and months as we proceed we must evaluate, and re-evaluate, the results of the Tokyo Round and reach our decision as to how best to proceed. It was to alert you to the problems I foresee and to encourage such an evaluation by the appropriate advisors that I have written this memorandum. Accordingly, I am sharing copies of this memorandum with Blumenthal, Brzezinski, Owen, Cooper and Eizenstat.

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#### **164. Memorandum From the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, September 27, 1978

##### MEMORANDUM FOR

The Secretary of State  
The Secretary of the Treasury  
The Secretary of Defense  
The Attorney General  
The Secretary of Commerce  
The Secretary of Labor  
The Director, Office of Management and Budget  
Chairman, Council of Economic Advisers  
Special Representative for Trade Negotiations  
Assistant to the President for Domestic Affairs and Policy

##### SUBJECT

Study on Export Disincentives

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 91, Export Controls: (National Export Policy): 8-12/78. Confidential. Sent to Brzezinski for his signature under cover of a September 18 memorandum from Owen, who noted that Schultze, Blumenthal, Solomon, Cooper, and Weil all supported studying U.S. export constraints. Owen also noted that Blumenthal, Solomon, and Cooper believed "that review of these constraints was probably the single most important action that could be taken to promote US exports." (Ibid.)



The President has approved the recommendations set forth in Secretary Kreps' memo on "National Export Policy" that the economic consequences of governmental constraints on U.S. exports should be taken fully into account in actions by relevant agencies.<sup>2</sup>

A thorough study of existing constraints on exports would help in carrying out this decision. The PRC will now conduct such a study. To avoid overlap with ongoing interagency consideration of strategic export controls and other East-West trade matters, the group will focus on measures that affect our ability to compete for markets in the non-Communist world.

Henry Owen will chair an interagency policy group consisting of Assistant Secretary level representatives from your agencies. The task of the group will be to study potential constraints on exports, evaluate their overall effect on U.S. policies and export sales, and recommend any needed changes in existing policies and legislation. The group will prepare a report for consideration by the Policy Review Committee that will include:

- a detailed description of the export constraint and its policy rationale;
- an assessment of whether the measure in question achieves its primary objective;
- an evaluation of the trade and employment impact;
- a review of the foreign policy consequences;
- an assessment of the likely effect on exports and other policy objectives of retaining, terminating, or moderating the constraint.

The report should be ready for PRC review by December 1, 1978.

Please let the NSC Staff Secretary know the name of your representative on the interagency group as soon as possible.

**Zbigniew Brzezinski**<sup>3</sup>

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<sup>2</sup> Kreps' memorandum was not found, but see Documents 151 and 152. On September 26, Carter announced his administration's export promotion program, which included measures both to assist exporters and to reduce domestic and foreign export impediments. For Carter's remarks announcing the program, as well as a more detailed statement about it, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1630–1635.

<sup>3</sup> Aaron signed the memorandum for Brzezinski above this typed signature.

165. Memorandum of Conversation<sup>1</sup>

Washington, September 27, 1978, 11:30 a.m.

PARTICIPANTS

Ambassador Olivier Long, Director General, GATT  
Dr. Gardner Patterson, Deputy Director General, GATT  
Under Secretary Richard Cooper, E  
Mr. Ernest Johnston, E  
David R. Moran, EB/OT/GCP—Notetaker

SUBJECT

MTN

The following is a non-verbatim summary of the discussion. Following pleasantries, Mr. Patterson noted that the issue of the CVD waiver extension<sup>2</sup> may be just what is needed in terms of establishing a credible date for the conclusion of the MTN but that the EC was most upset at developments.

Cooper: Of course, there is no way of getting an extension of the waiver without agreement on the codes. I would be interested in your interpretation of why the EC considers this such an intense issue. It certainly is not a new problem and they are not being taken by surprise. That is why we pushed for agreement by July 15th, to give the Congress time to consider the matter.

Long: As I see it, there are three factors. First, the EC has always considered it a purely US issue. Second, the US did not make clear to the EC the link between the July 15 deadline and this issue. Third, the community has taken the position that it will not negotiate under threat.

Cooper: At least on the second point the EC was well informed. I told Haverkamp myself and I know Strauss has made it clear.

Long: Perhaps, but it didn't register. Never once did I hear anyone from the EC make the connection.

Cooper: Well, you have talked to Ambassador Strauss so you know our plans about going to the Congress. I admit they are risky.

Long: If you want to reach agreement by December, you need movement from the UK and France. I would be interested to know if

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980, Lot 81D134, Box 3, Memorandum of Conversation, July-December 1978. No classification marking. Drafted by David Moran on September 28 and cleared by Ernest Johnston, Cooper's Executive Assistant. The meeting took place in Cooper's office.

<sup>2</sup> See Documents 150 and 152.

you see any way something can be done. It is obvious in France that the Prime Minister is interested, but Deniau is not being helpful. He has political ambitions. The way to become popular is to take protectionist positions. France wants selective safeguards without fail. We must have more flexibility in the French position and the only way to get that is to go directly to Barre. You can't rely on the Germans. They are interested in preserving EC unity on these issues and may hide behind the fact that they are in the chair to avoid taking a position. Their silence makes it difficult for the Commission, which is the least protectionist of all, in the EC's international deliberations.

Cooper: It is your impression that the UK has maintained its sticky position since July?

Patterson: Yes. There has been no movement.

Long: The British are very interested in the subsidy question. With their nationalized industries, they are very suspicious of anything dealing with industrial subsidies. They also feel they must have selective safeguards.

Patterson: With loose selectivity and sloppy dispute settlement, they would have a free hand.

Long: The position of the EC is just that—loose selectivity and weak dispute settlement management means the big powers have a free hand.

Cooper: What position do the Nordics take?

Long: On selectivity, they are afraid their markets will be flooded so they side with the EC. On dispute management, they are small countries so they do not.

Patterson: Other small countries may go along with the EC on selectivity, such as New Zealand. They may see others, Singapore, Brazil, etc. as the trouble makers and believe they won't be affected.

Long: Safeguards and dispute settlement are important. If we provide for a highly permissive atmosphere, we will have hurt trade for the next 20 years, even with a good package otherwise.

Cooper: I agree entirely. We have already said that we may be able to accept tightly circumscribed selectivity. That has been and remains our position. To yield now could undermine the whole trading system. State and some other agencies would oppose any compromise on this. Ambassador Strauss knows this position.

Patterson: Lining up on selectivity, the Nordics are out front of the EC, the LDCs are dead against it. New Zealand may be with the EC, but not Australia.

Cooper: What about dispute settlement. I was not aware the EC would attempt to undermine a tight procedure.

Patterson: Perhaps some of the background. The EC advanced a draft proposal. The US negotiators didn't know what they were doing and gave the EC reason to believe the US would accept the EC proposal. In the Secretariat, we saw the danger in the EC position and put forward an alternate draft of our own. We talked to the US negotiators and got them to support the Secretariat draft. The EC, of course, then thought they had been cheated.

Long: Even worse. The EC felt they had been cheated and that the US had used the Secretariat to do it, which was not true. It was our own draft based on our dissatisfaction with the EC position, but the EC is sure the Secretariat was a US tool.

Patterson: Time is getting short. The EC still has not agreed to negotiate on the basis of the Secretariat draft on dispute settlement. If we wait too long we will run into problems, for the fundamentals of the dispute settlement mechanism will need to be worked into the various codes. It is difficult to focus the attention of the top negotiators on this.

Long: There are increasing problems with the LDCs. They are increasingly taking a unified position and their positions are stiffening. They are coming under the influence of UNCTAD. We must disabuse them of the notion that they have anything to gain by seeking to delay the final MTN results until UNCTAD V,<sup>3</sup> when they would hope to get more. The time has come to try and speak in leading LDC capitals—India, Brazil, Yugoslavia, which are key. They also do not recognize that the trade system for the next ten years will have to provide some differentiation between say Brazil and Upper Volta.

Cooper: What is your impression of the role the LDCs have played in the Codes?

Long: In so far as they are given a chance to participate and get what they want, they are prepared to take part in at least some of the codes, government procurement and subsidies. If we are honest, up to now the LDCs have been kept out. The subsidies draft was drafted by 5 DCs. Now we need to take the LDCs in to anything being done on the codes. This is our only chance to bring them along.

Patterson: Another problem is to work out something in the codes to accommodate some of the LDC concerns. What they would really like is no countervailing duties on subsidies for LDCs, but that is not practical.

Long: It is important to get Argentina, Nigeria, Yugoslavia, Brazil, and Mexico to go along. The others will then follow along out of the

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<sup>3</sup> See footnote 2, Document 148.

herd instinct. The Yugoslav delegate is very important, Tomic<sup>4</sup> is very good. He is a reasonable man.

Long: Have you given any thought to the post Tokyo Round yet? We need to initiate formal discussions as soon as the MTN is finished. What kind of GATT do we want after the Tokyo Round for example.

Cooper: Yes, that is important and we have been giving it some thought.

Patterson: There is a danger of delay. We cannot leave things dangling. We need to decide how to implement the codes. We can expect trouble right away given the general mood of protectionism.

Long: Let's assume we have a package by December 15. Then we have six months to prepare. By July 1, we must know what we want to do and how to do it.

Cooper: I agree completely. I would also like to note that we feel completely stymied by agriculture. We have offers on the table but have nothing from the Community. What is the situation?

Long: Gundelach still has to deliver. You know, now they have nobody of stature after Rabot's death. The only thing to do now is to press Gundelach to deliver. The new EC Director General for Agriculture Villain will not become involved.<sup>5</sup> He is an internal man and won't get involved in the MTN. He knows he can only bloody his fingers.

Cooper: We could use some help from the GATT on this. It is a very serious issue. Grains are very important.

Patterson: The EC view is that the US doesn't want to do anything on wheat. There is a wide impression that the US is dragging its feet. There is no real negotiation on prices, stockpile levels and financing even though some of these points have been tabled. The issue is tied up with the subsidy question. We need to quantify things. There are large differences and time is short.

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<sup>4</sup> Petar Tomic was a Yugoslav representative in the MTN negotiations.

<sup>5</sup> After the death of Louis-Georges Rabot in June 1978, Claude Villain became EC Director General for Agriculture in July.

**166. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>**

Washington, undated

## SUBJECT

Extension of the Countervailing Duty Waiver

As I have previously informed you, the expiration on January 2, 1979 of the authority to waive the imposition of countervailing duties poses a serious threat to the MTN. Once the waiver authority expires, countervailing duties will have to be assessed on a range of products from various countries. The European Community has indicated that it would be politically intolerable for them to conclude an MTN package, including a subsidy countervailing duty code, in December only to have countervailing duties imposed in a manner inconsistent with the code after January 2, 1979.

We need a waiver extension to cover the period from conclusion of the MTN until it is voted upon by the Congress. Because the waiver authority includes provisions protecting U.S. industries from subsidized competition (i.e., no waiver may be granted unless adequate steps are taken to "reduce or substantially eliminate" the adverse effect of the subsidy), extension of the waiver authority for some seven months should impose no burden on U.S. industries and workers.

The attached draft legislative proposal<sup>2</sup> would provide for an extension of the waiver authority, provided that the President on or before January 3, 1979, determines that an agreement on subsidies and countervailing duties has been reached and that agreement on the MTN as a whole has been substantially concluded.

I have discussed this issue with the House and Senate leaders and key members of the Ways and Means and Finance Committees. The legislation we need will not be easy to obtain, but they have agreed to go forward. They have requested from us a Presidential Message to the Congress proposing the necessary legislative initiative. I have attached

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<sup>1</sup> Source: National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 2, Countervailing Duties 1977. No classification marking. A typed notation reads: "IMMEDIATE ACTION REQUESTED." Carter wrote at the top of the page: "Bob—Don't embarrass us with Congress' rejection. J." Attached is a September 28 note from Hutcheson to Strauss, in which Hutcheson notes: "The attached was returned in the President's outbox today and is forwarded to you for appropriate handling. The President signed the statement to the Congress today."

<sup>2</sup> Not attached.

a draft statement from you to the Congress<sup>3</sup> and a draft legislative proposal.

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<sup>3</sup> Not attached. Carter sent a message to Congress requesting an extension of the countervailing duty waiver on September 28. For the text of the message, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1663–1664.

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## 167. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, October 3, 1978

You may be interested in my impression of prevailing attitudes toward developments in the U.S. economy, based on last week's Bank/Fund meetings with two dozen finance ministers and the world's leading private bankers. Their views are fairly homogeneous, along the following lines:

—In general, they are strongly supportive of our efforts to reduce oil imports, increase exports, reduce the budget deficit and strengthen our efforts to contain inflationary impulses. Progress on all these fronts is viewed as critical to restoring a stable dollar *and* insuring the long term viability of the U.S. economy.<sup>2</sup>

—They are guardedly optimistic about our balance of payments prospects. In my plenary speech,<sup>3</sup> I projected a 30–40% reduction in our current account deficit next year, whereas Morgan Guaranty projects a 40% reduction and the IMF staff, 50%. The envisioned reductions stem

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 31, International Monetary Fund: 9/77–7/80. No classification marking. Carter initialed "C" at the top of the page. The memorandum was sent to Carter under cover of an October 4 memorandum from Owen, who noted that based on his impression of the recent joint IMF-World Bank meeting, Blumenthal's memorandum represented "a balanced and accurate report. It is worth reading, since it indicates what kinds of US policies would persuade these people to buy, rather than sell, dollars." (Ibid.)

<sup>2</sup> Carter made a checkmark in the margin adjacent to this paragraph.

<sup>3</sup> On September 27, *The Washington Post* and *The Wall Street Journal* published reports of Blumenthal's September 26 speech before the joint IMF-World Bank meeting. (Hobart Rowen, "Current Account Deficit to Drop Sharply in 1979," *The Washington Post*, September 27, 1978, p. D8; "Blumenthal Sees 30% to 40% Narrowing Of Deficit in U.S. Payments Next Year," *The Wall Street Journal*, September 27, 1978, p. 3)

primarily from forecasts of more rapid growth abroad and moderately slower growth here.<sup>4</sup>

—It is assumed, however, that reduction of these orders of magnitude will not solve our problems with the dollar unless it is combined with an effective anti-inflation program. Here there are still serious doubts among foreign officials and private bankers about our willpower and ability to succeed.

—On the fiscal side, they view the budget deficit as the litmus test of our willpower. The considerable reductions that have been made from the \$66 billion deficit we inherited are attributed to shortfalls and “Congressionally imposed” reductions in our tax cut proposal, rather than to Administration initiatives. Your willingness to trim all the fat from our budget will be watched closely. (In this important regard, I wish some of my foreign colleagues could have heard your excellent DNC speech).<sup>5</sup>

—On the monetary side, official and private money managers are wary of Administration attempts to exhort the Fed not to tighten monetary policy. They view inflation as being both monetarily and fiscally induced, with further discipline needed on both fronts. There is concern that the Fed will prematurely begin easing monetary policy once we have settled on a tight budgetary and wage/price policy. To be sure, there is some concern about overkill if we tighten up too severely on both fronts. But many remember the damage done in 1968 when the Fed too abruptly eased monetary policy in the aftermath of that year’s tax increase.<sup>6</sup>

—This prevailing sentiment has important implications for the dollar. Adjusted for current rates of inflation, interest rates in the U.S. are essentially zero, whereas investors can earn a positive real return on German and Swiss money market instruments. As long as this relationship prevails money managers will continue to seek out German and Swiss investments. Until our anti-inflation efforts yield tangible results, this tendency will likely be exacerbated if it appears that the Fed is too quickly letting down its guard.

—This predicament is complicated by the uncertainty frequently voiced about Chairman Miller. He is still viewed as an unknown quantity. His actions are being closely watched to see whether he will main-

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<sup>4</sup> Carter made a checkmark in the margin adjacent to this paragraph.

<sup>5</sup> Carter made a checkmark in the margin adjacent to this paragraph. For the text of his remarks before a September 27 fundraising dinner for the Democratic National Committee at the Washington Hilton Hotel in Washington, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1645–1650.

<sup>6</sup> Carter made checkmarks in the margin adjacent to this and the next two paragraphs.



tain what they regard as tight and responsible monetary policy in the period ahead. Any indications otherwise will likely have a negative impact on the dollar.

In summary, the world's official financial leaders (unlike the private people who are moving money around in huge quantities) are beginning to appreciate and even applaud our economic initiatives. They are anxiously awaiting your anti-inflation proposal and will judge its success by the discipline it imposes on the government itself. And they are hopeful that the Federal Reserve will refrain from prematurely easing monetary policy.

**W. Michael Blumenthal<sup>7</sup>**

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<sup>7</sup> Blumenthal signed "Mike" above this typed signature.

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**168. Letter From President Carter to French President Giscard d'Estaing<sup>1</sup>**

Washington, October 6, 1978

Dear Valery:

Thank you for your letter informing me of the policies that France has adopted in fulfillment of its Summit pledges.<sup>2</sup> I am glad to learn of your contribution to the common effort—in stimulating growth, fighting inflation, and freeing up the French economy.

Meanwhile, I am moving actively on the other fronts that we discussed at Bonn: The Congress will soon pass our energy bill; I will shortly announce a new anti-inflation program; and we have tried re-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, France: President Valery Giscard d'Estaing, 2/77–11/78. No classification marking. Owen sent the letter to Carter for his signature under cover of an October 4 memorandum, in which he noted that the letter "tactfully" encouraged Giscard to meet his Bonn G-7 Summit commitments on trade. Owen commented: "While the Germans and Japanese have adopted measures to stimulate growth, and the U.S. will soon be acting on inflation and energy, the British and French are not fulfilling their part of the Bonn agreement. Bob Strauss (who cleared this letter, along with State, Treasury, and Jim Fallows) tells me that their trade negotiating positions haven't changed since the Summit." (Ibid.)

<sup>2</sup> Owen forwarded Giscard's undated letter to Carter under cover of his October 4 memorandum (see footnote 1 above).

cently to make clear the constructive U.S. attitude toward European monetary arrangements.

Among the Summit pledges, however, it is trade that is most on my mind at the present time. Failing an MTN agreement, there will be a great upsurge of protectionist sentiment in this country, which would be as politically divisive in the free world as it would be economically damaging. This protectionist sentiment is now being held back, in good part, by the promise of MTN progress. To fulfill this promise, I need your help.

It is crucial that the MTN negotiations be concluded by December 15, as agreed at the Summit, if there is to be any prospect of Congressional approval of an MTN package in 1979. Securing that approval will require a massive Administration effort, which I will gladly make. The chances of success will depend critically on whether the agreement that emerges from negotiations achieves the main goals that we and our aides discussed at Bonn—including substantial tariff cuts, movement on agriculture, progress on subsidies and other non-tariff measures, and an effective procedure for resolving disputes.

I hope that you and I can continue to stay in close touch about steps to fulfill our Bonn pledges. In cooperation, I'm sure that we can move the Summit package toward fruition.

I also want to thank you for seeing Zbigniew Brzezinski on Monday.<sup>3</sup> I found his report of his conversation with you extremely useful, and I welcome opportunities like his trip to keep in direct touch with you on critical issues facing our two countries.

With best regards,

Sincerely,

**Jimmy Carter**

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<sup>3</sup> October 2. A memorandum of conversation of Brzezinski's meeting with Giscard is scheduled for publication in *Foreign Relations, 1977–1980*, vol. XXVII, Western Europe.

**169. Message From the President's Assistant for National Security Affairs (Brzezinski) to West German Chancellor Schmidt<sup>1</sup>**

Washington, October 13, 1978, 0434Z

WH81325. Dear Mr. Chancellor, You may remember that when in Bonn I mentioned the President's hope that you would be able to encourage the French and British to adopt more forthcoming positions in MTN, in fulfillment of their Summit commitments—even as the US and Germany strive to fulfill their Summit commitments.<sup>2</sup> You asked for information about the items on which we were having most trouble with the French and British. Here is this information, which has been provided me by Bob Strauss. It is a candid statement and should be held closely.

I am sending this off immediately since I gather from your staff that it would be helpful for you to have this information before you meet with Prime Minister Callaghan.

Begin text

October 12, 1978

## MTN—UK and France

1. Agriculture. The most serious problems with respect to France arise in the field of agriculture:

—In order to conclude MTN negotiations, we must reach agreement on an effective discipline regarding the use of agricultural export subsidies. If we do not have agreed rules about the extent to which the use of subsidies is appropriate, there will be frequent sharp conflicts between the Community and the US in the future.

—Successful conclusion of negotiations also requires improved market access for a number of US agricultural export items including such Mediterranean products as citrus and tobacco. France is reluctant to see the Community give concessions in this area, even though the products are not competitive with French products.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 13, Germany F R: 7–10/78. Confidential; Via Annex Charlie Channels. Sent with the instruction to deliver at opening of business.

<sup>2</sup> During their October 3 meeting in Bonn, Schmidt promised Brzezinski that he would “be helpful in seeking French and British cooperation but stated he needs more detail and that Strauss tends to ‘cry wolf’ too often.” (Memorandum of conversation, October 4; Carter Library, National Security Affairs, Staff Material, Office, Outside the System File, Box 51, Chron: 10/1–7/78)

2. Industrial negotiations. Both the United Kingdom and France are resisting liberalization of industrial trade:

—Both countries are wary of adopting even nonbinding guidelines which might inhibit direct subsidies for domestic industries.

—The British seek to dilute the government procurement rules by limiting the amount of transparency in their procurement process, thus frustrating the opening of their market to foreign goods. They also want to limit the coverage of any government procurement code.

—The British are also strongly opposed to lower tariffs on plastics, fertilizers and electrical machinery.

3. General. Both the French and British want to weaken the dispute settlement mechanism in the proposed codes so that the enforcement of the rules becomes more difficult, seeking a free hand to take unilateral and selective action without adequate international controls.

4. US concessions. The British and French have sought some things from us in these talks. They seek the removal of American Selling Price on chemicals, repeal of our restrictions on imported scotch and cognac, application of an injury test before we would impose countervailing duties on their subsidized goods, and some improvement in the safeguards rules. We can only be responsive to these requests in the context of a major settlement.

5. Timing. We need to complete the negotiations by December 15 if an MTN agreement is to be ratified by the US Congress in 1979. Failing such an MTN agreement, there will be a revival of protectionism, in the US as elsewhere, that will do great economic and political damage.

End text.

**170. Letter From the Chairman of the Subcommittee on Trade of the House Ways and Means Committee (Vanik) and the Ranking Minority Member of the Subcommittee (Steiger) to the Special Representative for Trade Negotiations (Strauss)<sup>1</sup>**

Washington, October 17, 1978

Dear Bob:

All of our efforts to legislate an extension of the authority to waive the imposition of countervailing duties, as well as to enact other sorely needed trade legislation, the adjustment assistance bill, came to naught, as you know by now, in the waning hours of the 95th Congress.

Since a number of us on the House Trade Subcommittee worked very hard to respond to the request of the President and to your own plea to extend the waiver,<sup>2</sup> we want to share with you some thoughts on this problem in terms of the future legislative posture.

All of us involved in this issue knew the extension of the waiver would be difficult. It proved impossible. Further, many of us feared that the textile question would be finally joined with the issue of extending the countervailing duty waiver. That prediction proved to be 100 percent correct.<sup>3</sup> We mention this only because we believe there is a lesson in the last few weeks for all of us.

We believe this lesson is that we should not attempt to extend the waiver unless it is done in the context of obtaining international agreement on a code of discipline over subsidies and countervailing duties which meets U.S. objectives, and, more importantly, in the context of domestic implementation of such an agreement. To attempt to extend the waiver in any other context will once again bring forth the individual commodity concerns that we were faced with in our attempts to enact the waiver extension in the last Congress.

As you know, the votes in both Houses to withdraw textiles from the MTN were overwhelming. We believe that strength will be sufficient post elections in the new Congress to produce the same outcome for any new attempt to legislate a waiver extension. The only possible qualification on this assessment would be if our important textile offers were withdrawn administratively or if there were clarification of a "snapback" provision.

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 2, Countervailing Duties 1977. No classification marking.

<sup>2</sup> See Document 166.

<sup>3</sup> Before it adjourned on October 15, Congress passed legislation (H.R. 9937) rescinding the U.S. authority to negotiate on textiles in the MTN. (Dennis Farney,

In this connection, we believe the lesson we have learned should be communicated to our trading partners, particularly those in the European Communities. We strongly urge you to tell them that in this effort on this very important issue, both Houses of Congress approved the extension of the countervailing duty waiver on two separate occasions.<sup>4</sup> Being familiar with the many issues involved in those votes, we believe the proper interpretation of them is that the Congress wants above all else an international discipline over subsidies which distort international trade.

On that note, we would hope that you would indicate to your colleagues in the negotiations our belief that our Members are prepared to be understanding of the concern over the termination of the waiver authority. Particularly, we believe that the Congress would be willing to extend retroactively the treatment provided in the new code to those cases involving the assessment of countervailing duties which under a new international code of discipline would not be subject to countervailing duties.

Bob, we do not believe those doomsayers on the failure of the extension of the waiver on countervailing duties. We all worked very hard (including my staff and your own staff—Alan Wolff, Dick Rivers, John Greenwald and John Donaldson). We believe we were unsuccessful because of forces beyond our immediate control. We just feel strongly that we should focus on concluding the negotiations and leave any legislation on countervailing duties to the implementing phase.

Sincerely yours,

**Charles A. Vanik**

**William A. Steiger**

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*"Congress Lacked a Unifying Philosophy Amid Concern Over Inflation, Spending," The Wall Street Journal, October 16, 1978, p. 18)*

<sup>4</sup> Both the House of Representatives and the Senate passed legislation that included provisions extending the countervailing duty waiver, but the provisions were in different bills. ("Treasury Is Seeking Way to Blunt Impact Of Countervailing Duties on Trade Talks," *The Wall Street Journal*, October 17, 1978, p. 3)

## 171. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, October 18, 1978

### SUBJECT

Summit Follow Up and Preparations

1. *Bonn Follow-Up*. In one sense, the Bonn strategy seems to be working: The Germans and Japanese have both taken stimulus action;<sup>2</sup> the US emphasis is shifting to fighting inflation; and Japan and the US are taking actions to promote exports and imports, respectively. If continued, as the IMF Managing Director's annual report makes clear,<sup>3</sup> these trends point the way to a gradual reduction of external imbalances and strengthening of the dollar. There are two flaws in this prospect, however:

1) The foreign exchange markets don't believe that the US will accept the tight fiscal and monetary discipline that Germany, Japan, and others have found necessary to bring inflation under control. So long as this view prevails abroad, the dollar will continue to decline.

2) Japan, the UK, and France lag in fulfillment of their Bonn trade commitments. This blunts the effect of domestic policies in the main industrial countries in reducing the US external deficit and the Japanese external surplus.

We can do something about both these problems:

—The Europeans and Japanese can be convinced that the US is serious in tackling inflation if we make clear that the FY 1980 budget expenditure and deficit levels will be substantially below those now generally assumed. Hard budget target figures may persuade them (where

<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 64, Summits: 1/78–8/79. Confidential. Sent for information. Carter and Brzezinski both initialed at the top of the page. An attached October 18 note from Owen to Brzezinski reads: "You asked me to postpone putting in this memo until after Camp David. I've brought it up to date. I'd like to get it in tonight, since part of it bears on the decisions he will be making tomorrow about his anti-inflation program." Two previous memoranda from Owen to Carter on Summit follow-up and preparation, August 11 and August 16, are *ibid*.

<sup>2</sup> The West German 12.25 billion mark economic stimulus package was announced on July 28. (John Vinocur, "Stimulus, Tax Cuts Announced in Bonn," *The New York Times*, July 29, 1978, p. 25) The Japanese 2.5 trillion yen economic stimulus package was adopted on September 2; see Document 160.

<sup>3</sup> Apparently a reference to the IMF *Annual Report of the Executive Board*, published immediately before the IMF annual meeting. A story on the 1978 report was published in the September 18 edition of *The Wall Street Journal*. (Richard J. Levine, "Dollar's Weakness on Currency Markets Seen to Be Beyond Quick or Easy Remedy," *The Wall Street Journal*, September 18, 1978, p. 5)

rhetoric has not) that we are ready to accept the same temporary slow-down of growth that they did to reduce inflation. If so, the dollar should begin to rise.

—*The Japanese* will be more likely to follow sensible trade policies if we can make clear to them that this will have an important bearing on whether your pre-Summit trip to Japan next year is a success. (This may mean delaying your answer to the Japanese invitation for a while.) *The French and British* are more likely to be forthcoming on MTN if they feel pressure from the Germans, as well as us. Schmidt will be hitting Callaghan on this point when they meet this week, and we've asked him to hit Giscard too.<sup>4</sup>

2. *Preparations for Tokyo.* The Japanese are proposing a Summit, with a preceding bilateral visit by you, in the last week of June.

The two most promising items for this Summit will be energy, in which Fukuda has a special interest, and North-South relations, which the Japanese think is especially appropriate for the first Summit to be held in Asia.

On *energy*, the most actionable items seem to be (i) a fund for aiding LDCs to produce and conserve energy, which may be proposed by the World Bank as a result of the study they were asked to undertake by the Bonn Summit, and (ii) multilateralizing the arrangement for joint energy research and development that is now being negotiated by the US and Japan. The Summit will also presumably commend the US for fulfilling its energy commitment—assuming that we follow the 1978 legislation<sup>5</sup> by 1979 legislation or administrative action to raise US prices to world levels, as pledged at Bonn.

On *North-South relations*, I have asked people in the executive branch, the World Bank, and Sol Linowitz's Hunger Commission<sup>6</sup> to

<sup>4</sup> During an October 5 telephone conversation, Carter urged Schmidt "to work with Prime Minister Callaghan and President Giscard to ensure a constructive outcome of the MTN." Citing the "strong protectionist pressures" under which he labored, Carter said that should the MTN fail, "it would be very difficult for him to resist these pressures." Schmidt replied that he had asked Brzezinski "to send him a paper on the real facts of this matter and how he (the Chancellor) could be of help." Carter offered "that Giscard and Callaghan would listen to" Schmidt. (Memorandum of conversation, October 5; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 10/78) For the paper that Brzezinski sent, see Document 169.

<sup>5</sup> On October 15, Congress passed five bills that together established the nation's energy policy; Carter signed the bills into law on November 9. See *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 164. For Carter's remarks on signing the bills, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1978–1985.

<sup>6</sup> On September 5, Carter established a Presidential Commission on World Hunger; a week later, on September 12, he named the 14 members of the commission, including Sol Linowitz as chairman. For Carter's approval of the creation of the commission, see Document 298. Documentation on the commission's work and final report is in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs.



start thinking of what new initiatives could be surfaced, besides the energy fund for LDCs mentioned above. I am attracted by the possibility of an international effort to increase research in LDCs regarding agriculture. The Foundation for International Technical Cooperation<sup>7</sup> that we expect to propose to the Congress next year could play a substantial part in such an effort.

As work progresses, I will submit specific proposals for your review.

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<sup>7</sup> See Document 311.

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## 172. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, October 24, 1978

### SUBJECT

Tokyo Summit

My Japanese opposite number has inquired informally my view about a two-day Summit in the period June 24–26. I told him, after checking with Phil Wise,<sup>2</sup> that you were free during this period. He now wants to know whether you would accept an invitation, if one is forthcoming, to attend a Summit during those dates. The Japanese would like an affirmative answer, so that logistic preparations for the Summit and your bilateral visit can begin now (even though the FRG did not begin these preparations until three months before the Summit).

I believe that we should respond as we did in preparing for Bonn: that we agree in principle to the Summit, will keep open your schedule for the time that the host country has in mind, and suggest deferring a final commitment to a specific date until preparatory work has progressed sufficiently to provide a clearer view of what is likely to be accomplished. You will recall that Schmidt suggested this approach in his

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 8–12/78. Confidential. Sent for action. Both Carter and Brzezinski initialed at the top of the page.

<sup>2</sup> Phillip J. Wise Jr., was named the President's Appointments Secretary in May 1978.

initial Summit invitation to you, and you responded in terms that emphasized the undesirability of agreeing on a specific date before preparations had progressed further. That emphasis gave us bargaining leverage: You did not agree to a specific date until Schmidt privately indicated to us that he would take further economic stimulus action, if it proved necessary.

Now, as before the Bonn Summit, there are important actions we want the Summit host country to take. Now, as before Bonn, there is considerable uncertainty as to whether these actions will be taken: Japan is not doing as much as it should to reduce its external surplus. If the Japanese believe that we are unlikely to fix a Summit date until there is some evidence of further progress, they may react as Schmidt did—by trying to produce that progress.

State (Dick Cooper) and Treasury (Tony Solomon) concur.

#### *RECOMMENDATION*

1. That you authorize me to advise my Japanese opposite number (and my opposite numbers in other countries) that you agree in principle to a Tokyo Summit, that you are free in late June, and that you believe that now—as in preparing for Bonn—it would be well to avoid a commitment to a specific date until preparations for the Summit are more advanced.<sup>3</sup>

2. That you take the same line with Ambassador Mansfield, when you see him Friday.<sup>4</sup>

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<sup>3</sup> Carter indicated his approval of this recommendation.

<sup>4</sup> Carter indicated his approval of this recommendation and initialed "J." A memorandum of conversation of Carter's meeting with Mansfield on Friday, October 27, is in the Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 8-12/78.

**173. Letter From the Head of the Delegation to the Multilateral Trade Negotiations (McDonald) to the Special Representative for Trade Negotiations (Strauss)<sup>1</sup>**

Geneva, October 27, 1978

Dear Bob:

As a result of my conversations with Denman over the last few days, it now appears to me that we have two broad options for handling the expiration of the waiver and the completion of the MTN. Neither of these options is very appealing; both entail serious political difficulties and risks.

Under the first option, we would take the administrative steps necessary to mitigate the effects of the expiration of the CVD waiver. I know this is likely to involve political and legal risks, but I believe that we can find lawyers who can find a way to do it, in appropriate consultations with Congressional leaders. If not, this would be the first time that our system would have proved so rigid as to force us into a completely irrational situation that makes us the unwilling victims of future events.

Provided we can find a reasonable administrative solution, I am sure that we can successfully close out the MTN according to schedule by December 15. We still have a few difficult hurdles to jump over, but each day a larger and larger proportion of the details of a package are falling into place. I repeat, we can do it, and the package is a very worthy one that our country and the world desperately need.

The other option involves riding out the storm until the Congress can pass an extension of the waiver. Under this option we could still resolve many of the technical issues in the MTN before the end of the year, but we could not put the overall political package together until Congress passes an extension of the waiver. I think there is a good chance that we could persuade the EC to react relatively mildly to the implementation of countervailing duties on January 3, as long as they remain convinced of the prospects of early Congressional action on a waiver. We would not, however, be able to go to the Congress with a completed subsidy agreement.

I am convinced that under any circumstances it would be extremely difficult to persuade the Congress to pass a clean waiver extension bill; delay in the subsidy negotiations would make it that less likely, further postponing final Congressional action until the end of

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 5, MTN Geneva 1977. No classification marking.

next year or later. Moreover, every delay jeopardizes everyone's position. We cannot hold our offers much longer, the EC is worrying about this, and even the Japanese think it will be very difficult to keep their support base together past January. This extended agony gains us nothing but opponents, creates new political problems with every new Congressional suggestion, provides a field day for the protectionists and jeopardizes the final approval of the package if it is ever completed. Frankly, this is far less attractive than the first option.

I have not mentioned a third option of getting them to change their minds since this is such a longshot that it seductively leads us into number two.

In sum, we need the highest degree of urgency possible given in Washington to finding a solution. As we discussed by telephone, I talked with Henry Owen about this and he was not fully aware of what Washington needs to do to preserve our Bonn agreement on a December 15 finish. He has promised to get onto it immediately with a new appreciation of the seriousness of the situation. I will continue a few calls a day to keep up awareness from here to supplement your primary efforts.

Look forward to seeing you on November 9. In the meantime, you can count on me to keep pushing flat out across the board.

Best personal regards,

**Alonzo L. McDonald<sup>2</sup>**  
*Ambassador*

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<sup>2</sup> McDonald signed "Al" above this typed signature.

**174. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, October 31, 1978

## SUBJECT

Reactions in Summit Countries to Your Anti-Inflation Program

We asked US posts abroad to report reactions to your new anti-inflation program.<sup>2</sup>

Official statements in Summit countries are favorable: The German Cabinet spokesman, the Japanese Chief Cabinet Secretary, and the French Economic Minister all issued supporting statements. Callaghan indicated a willingness to do so.

The exchange markets are, as you know, more sceptical: A Bank of *Canada* official expresses concern as to whether the US will “be willing to bite the bullet (and to keep biting) on macro-economic policy management.” *German* bankers and press cite budgetary deficits as the real cause of inflation, and predict that “with real US interest rates still low by German standards . . . pressures on the dollar would be continuing”. *French* exchange dealers mention the need for the Fed to raise interest rates. Bob Roosa believes that the basic reason the exchange markets are reacting so adversely is that your speech was over-billed: They expected tighter budget controls, higher interest rates, and new measures to stimulate capital formation.

Nowhere among these reported reactions is there a demand for stronger US intervention. Perhaps the demand is there but unexpressed; or perhaps they feel that the pressures are now too great to be overcome by intervention—that only domestic US policies can do the trick.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/International: 7/78–1980. Confidential. Sent for information.

<sup>2</sup> Telegram 272339 to all OECD capitals, October 26, requested reports on the response to Carter’s new anti-inflation program. (National Archives, RG 59, Central Foreign Policy File, D780440–1238) On October 24, Carter announced the program, which included reductions in government spending, Federal employment cutbacks and Federal pay limits, regulatory reform and deregulation, opposition to Federal income tax cuts, voluntary price and wage controls, and the submission of anti-inflation legislation to Congress in January 1979. For the text of Carter’s announcement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1839–1845. Undated letters from Carter to Andreotti, Callaghan, Fukuda, Giscard, Jenkins, Schmidt, and Trudeau describing the program are in the Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/International: 7/78–1980.

*British* officials are an exception to some of the reactions described above: They seem to set more store on guidelines than the Continental countries; they fear overly restrictive US monetary and fiscal policies; and some of them doubt that domestic US policies, alone, will meet the need—international monetary action is required, as well, in their view. But they are a minority in the overall reported European reaction.

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**175. Briefing Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Hormats) to the Deputy Secretary of State (Christopher)<sup>1</sup>**

Washington, undated

SUBJECT

Market Reacts to Measures to Support the Dollar

Market reaction to the forceful measures announced this morning (Tab 1) was immediate.<sup>2</sup> The dollar experienced a strong recovery in hectic trading. Within an hour after the announcement, the dollar moved by as much as 5 percent against major currencies. The deutschemark/dollar rate moved by mid-morning from yesterday's fixing of

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<sup>1</sup> Source: National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 1, Exchange Rates. Limited Official Use. Drafted on November 1 by John Lefgren (EB/IFD/OMA) and cleared by Acting Deputy Assistant Secretary of State for International Finance and Development Michael Ely. Printed from a copy that does not bear Hormats' initials. A handwritten notation at the top of the page reads: "Tab 2, Nov. 1, 1978." The memorandum was Tab 2 of a November 1 memorandum from Thomas Forbord of the Office of Monetary Affairs to Cooper; Forbord's memorandum notes that Hormats' memorandum had been prepared at Christopher's request. (Ibid.)

<sup>2</sup> Tab 1, attached but not printed, is an undated paper describing the administration's dollar support program. On November 1, Blumenthal announced a series of measures designed to shore up the value of the dollar. The program included an increase in the Federal Reserve discount rate from 8.5 percent to 9.5 percent; imposition by the Federal Reserve of a 2 percent supplementary reserve requirement on time deposits exceeding \$100,000; increases in monthly Treasury gold sales; and coordinated foreign exchange market intervention by the United States, West Germany, Japan, and Switzerland. Backing this market intervention were facilities in the amount of \$30 billion, secured through a U.S. drawing on the IMF; SDR sales to West Germany, Japan, and Switzerland; increases in U.S. swap arrangements with West Germany, Japan, and Switzerland; and issuance of U.S. securities denominated in foreign currencies. For the text of Blumenthal's announcement of the program, as well as Carter's introductory remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1908–1910.

1.74 to 1.85, and during the same time the yen/dollar rate moved from 178 to 187. The pound sterling on the London Exchange plummeted from \$2.11 to \$1.97. Wall Street welcomed the new measures and within two hours after the announcement the Dow Jones Industrial Average was up 20 points. The price of U.S. Treasury Bills increased noticeably as investors attempted to shift their portfolios into dollar denominated assets.

The price of gold immediately fell after the announcement of the Administration's intention to intervene in exchange markets in order to support the dollar. The London gold fixing closed today at \$225.00 per ounce compared to a price of \$242.60 yesterday afternoon.

Most traders agree that the new measures were announced at the right psychological moment. The sudden move caught many traders off guard and as a result they have realized exchange losses from going short on dollars. The announcement has also caused severe foreign exchange fluctuations in forward markets.

The Deutsche Bundesbank has publicly endorsed the Administration's new measures and announced that it stands ready to cooperate with the Federal Reserve in market interventions. The Japanese Government welcomed the actions to support the dollar and the Finance Minister expects that they will help stabilize the international monetary system. The Swiss National Bank has expressed its great satisfaction of the measures to strengthen the dollar and feels that the U.S. program will have the intended effect.

The U.K. will have no direct involvement in the support of the dollar, but the Prime Minister has expressed his approval of the program and his belief that it will dampen speculative capital movements.

The Administration's complete package and its effects on exchange markets will take time to evaluate. The use of foreign currency denominated securities is a major innovation and a sure signal that we are dead serious. The Administration's strong and decisive action has caused exchange losses for people who thought that the dollar could only continue its decline. Speculators will likely be more cautious in the future, which may help moderate exchange rate movements.

The Department of State played virtually no role in the developing and assembling of the Administration package.<sup>3</sup> Treasury informed us that the Secretary was informed at some point, but Under Secretary

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<sup>3</sup> In his November 1 memorandum to Cooper (see footnote 1 above), Forbord noted that developments in the foreign exchange market just before the announcement of the dollar support program, "largely reflecting disappointment over the Administration's anti-inflation program, precipitated the forceful U.S. response. Advance notice (about a half hour) of the U.S. announcement was given to the French and British Governments."

Cooper was not involved. It appears that the program was put together in the October 28–31 period, when Cooper was out of the country.<sup>4</sup>

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<sup>4</sup> Cooper visited Iran October 26–31 and Kuwait October 31–November 1 to discuss oil prices before the upcoming OPEC meeting. At the end of the memorandum, Forbord added a handwritten note: "Exchange rate changes at 4 p.m. from yesterday's close: DM -6.5%, FF -5.6%, SF -6.4%, ¥ -4.9%, £ -4.1. During the day, the Federal Reserve did some intervention to *support* the dollar; trading was hectic and confused. Tom F."

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## 176. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>

Washington, November 3, 1978

SUBJECT

NSC Weekly Report #78

### 1. *Opinion*

#### *The Dollar and the Administration*

Your decisive actions this week have demonstrated the leadership required abroad to indicate the seriousness of purpose of the U.S. Government on economic matters. One lesson to be drawn, however, concerns the organization of the Government to handle questions like this one. It took many months for the economic decision-making process to apprehend and adequately respond to the political impact of the dollar's decline. It is also not clear that we have a comprehensive strategy to solve the fundamental problem—the failure of the US to export enough goods and services and the non-competitiveness of major industrial sectors (auto, steel, textile).

Both illustrate the need for more centralization of the process—within the White House—and clearer lines of authority. Increasing the White House role would also facilitate the relating of economic to political issues, so that we will be in a better position to decide these two halves of policy in tandem. We succeeded this time—finally; but we cannot be sure that the system will respond effectively the next time.

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<sup>1</sup> Source: Carter Library, Brzezinski Donated Material, Subject File, Box 42, Weekly Reports (to the President, 71–81) (9/78–12/78). Secret. Carter initialed "C" at the top of the page.



At my request, Henry Owen has set up an informal mechanism of regular consultations with Tony Solomon, Dick Cooper and other officials as appropriate.

[Omitted here is discussion unrelated to the U.S. dollar.]

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**177. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, November 4, 1978

SUBJECT

MTN Crisis

1. *Problem.* Bob Strauss has written you (Tab A)<sup>2</sup> about the MTN crisis: The EC refuses to make any major MTN negotiating decisions until your authority to waive imposition of countervailing duties has been extended by the Congress. If progress in MTN negotiations must thus be postponed until early 1979, these negotiations may not be concluded in time for the Congress to approve any MTN agreement in 1979. This delay could doom the negotiations.

2. *Strauss Proposal.*

*Option #1:* Bob will try to persuade Schmidt, Barre, Jenkins, and others next week to complete the MTN by December 15, with the European Council of Ministers not formally approving the resulting MTN agreement until waiver authority has been extended by the new Congress in 1979. He would like also to tell them that the Secretary of the Treasury will “suspend liquidation” of the countervailing duties, i.e., postpone collection of these duties, with importers posting bond to cover any potential liability, until the Congress has enacted MTN implementing legislation that would include retroactive forgiveness of any duty liability. He stresses that this action may not satisfy the Europeans.

*Option #2:* If his visit to Europe does not produce a favorable outcome, Bob indicates that the International Emergency Economic

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<sup>1</sup> Source: Carter Library, Donated Material, Papers of Walter F. Mondale, National Security Issues, Box 83, National Security Issues—International Trade, [10/18/1977–12/14/1979]. Confidential. Sent for action.

<sup>2</sup> Tab A, attached but not printed, is a November 1 memorandum from Strauss to Carter.

Powers Act could be invoked to postpone any collection of countervailing duties for 60 days, thus allowing the Congress time to act. He points out that this course would engender a strongly negative reaction on Capitol Hill.<sup>3</sup> He is *not* recommending this course, only pointing out that it will then be the only alternative to serious MTN delay, since he believes that calling a special session of the Congress to extend the countervailing duty waiver would be undesirable.

Bob says that he will seek your guidance early next week.

3. *State, Treasury, and CEA* favor Option #1.<sup>4</sup> They have various ideas about how to make it more attractive.

—*State* suggests assuring the Europeans that we will strongly resist any Congressional pressures for renegotiation of the MTN agreement that we would submit to the Congress in January.

—*Treasury* believes that Bob should assure the Europeans we will submit a waiver extension bill to the Congress January 2. (The bill could then be dropped if it attracted undesirable amendments.)

—*CEA* recommends that whatever subsidy code is included in MTN be made retroactive to January 2, 1979, so as to protect our trading partners against economic damage from countervailing duties.

All of these agencies have strong reservations about Option #2—on legal, political and foreign policy grounds. *CEA* would preclude it altogether; *Treasury* would only consider it in case of dire necessity.

The State and Treasury memoranda are attached at Tabs B and C.<sup>5</sup>

4. *RECOMMENDATION*: That you tell Bob Strauss if you talk with him—or authorize me to tell him if you do not—that:

a. You give him authority to speak on your behalf in assuring the Europeans that we will follow the course that he describes in Option #1—with such of the improvements suggested by State, Treasury, and CEA as he believes have merit.

b. If this trip fails to persuade the Europeans, he should then submit to you his considered view regarding invocation of the Interna-

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<sup>3</sup> In his November 1 memorandum to Carter (see footnote 2 above), Strauss noted that the International Emergency Economic Powers Act “was enacted by Congress in 1977 to revise and delimit Presidential authority to regulate international economic transactions during wars or national emergencies.”

<sup>4</sup> Cooper commented on Strauss’ November 1 memorandum in a November 3 memorandum to Owen; Solomon discussed it in a November 3 memorandum to Owen; and Nordhaus in a November 2 memorandum to Schultze. Cooper’s and Solomon’s memoranda are in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 65, Trade: 11/77-4/79; Nordhaus’ is in the Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files.

<sup>5</sup> Tabs B and C are not attached.

tional Emergency Economic Powers Act. Analysis of this course should proceed, but there is no need to decide the issue now.<sup>6</sup>

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<sup>6</sup> Carter indicated his approval of both recommendations and wrote below: "I talked to Bob. J."

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**178. Memorandum From the President's Assistant for Domestic Affairs and Policy (Eizenstat) to President Carter<sup>1</sup>**

Washington, undated

SUBJECT

Enrolled Bill H.R. 9937—Bank Holding Company Act Amendments of 1970

*THE BILL*

H.R. 9937 terminates the President's authority to negotiate cuts in U.S. tariffs on textiles and textile products in the Multilateral Trade Negotiations (MTN). The enrolled bill also authorizes the General Services Administration to sell 978,000 rare silver dollars it now has in storage to raise revenue.

*ARGUMENTS FOR SIGNATURE*

1. The textile and apparel industry has lobbied intensively for the MTN exemption provision of H.R. 9937. This industry which employs over 2 million people, including many low-skilled and minority workers, would strongly support a decision to sign this enrolled bill.

2. The sale of rare silver dollars by GSA would net an estimated \$24 million in revenue for the Treasury.

*ARGUMENTS FOR VETO*

1. Withdrawal of our MTN tariff offer on textiles and textile products would seriously hamper our efforts to conclude a MTN package.

—At best, this action would trigger a series of retaliatory withdrawals by our trading partners. These retaliatory withdrawals would

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<sup>1</sup> Source: Carter Library, White House Central Files, Subject File, Box TA-29, TA 4-14 1/1/78-12/31/78. No classification marking. Sent for action. A typed notation at the top of the memorandum reads: "Last day—Saturday, November 11." Eizenstat did not initial the memorandum.

be made on those agricultural and industrial products that have the greatest potential for increased U.S. exports if present offers are maintained.

—At worst, the withdrawal of our textile offer would result in a complete collapse of the negotiations. Failure of the MTN would mean the loss of new agreements on export subsidies, trade safeguards, customs valuation and government procurement, as well as the loss of foreign tariff cuts. Failure of the MTN would also damage the overall climate for international economic cooperation.

2. Acceptance of the MTN exemption provision in the enrolled bill would undoubtedly lead to requests for similar treatment by other industries. Congressmen would be under intense pressure from important industries in their districts to extract similar concessions in their behalf.

### *DISCUSSION*

Although the industry would clearly prefer that you sign the enrolled bill, the negative reaction to a veto would not be as strong as we had originally anticipated. The recommended veto message emphasizes our interest in the prosperity of the industry and pledges us to take further action on its behalf.<sup>2</sup> In view of these commitments, key union leaders have agreed to downplay their disapproval of a veto and stress the positive elements of our policy toward the industry.

We have already responded to the legitimate concerns of the textile and apparel industry by limiting our tariff cut offers in these products to less than one-half of the level consistent with the general tariff-cutting formula. Although this industry accounts for only 10 percent of dutiable trade in the industrial sector, more than 50 percent of our industrial sector exceptions have been taken on textile goods. These exceptions have been designed to give the greatest protection to the most import sensitive segments of the industry. Overall, we are proposing to reduce textile tariffs from their present average level of 24 percent to approximately 18 percent over an 8 to 10 year period beginning in 1980. This gradual phase-in will help to ease adjustment problems in the industry.

A successful conclusion to the MTN is already in jeopardy over the issue of the countervailing duty waiver extension. To completely exempt textiles from our tariff cut offer, as required by H.R. 9937, would only throw more fuel on the fire. The authorization for GSA to sell silver dollars can be resubmitted at any time with good prospects for passage. We will not have another opportunity to negotiate a comprehensive trade package in the foreseeable future.

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<sup>2</sup> The recommended veto message is not attached.

## VOTES IN CONGRESS

H.R. 9937 passed the House by a vote of 198–29 and the Senate by a vote of 48–13.

## RECOMMENDATION

OMB, STR, CEA, State, Treasury, Commerce, Labor and Agriculture recommend that you veto H.R. 9937. The General Services Administration recommends that you sign the enrolled bill. Anne, Frank, Bob and I recommend that you veto the bill and issue the attached veto message to limit adverse reaction to this decision. It has been cleared by Jim Fallows.

## DECISION

\_\_\_\_\_ Sign H.R. 9937

\_\_\_\_\_ Veto H.R. 9937 (Recommended)<sup>3</sup>

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<sup>3</sup> Carter did not indicate his preference with respect to this recommendation; however, on November 11, Carter vetoed H.R. 9937. For the text of Carter's veto announcement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 2010–2011.

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## 179. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, November 13, 1978

Pursuant to my telephone conversation with you,<sup>2</sup> this will advise that everywhere I went this past week, I found encouragement to complete the trade negotiations by the end of the year except for France.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 63, Special Representative for Trade Negotiations (STR): 3/77–3/80. No classification marking. Carter initialed "C" at the top of the page.

<sup>2</sup> Carter spoke with Strauss by telephone on November 11 from 6:08 until 6:13 p.m. (Carter Library, Presidential Materials, President's Daily Diary)

<sup>3</sup> Strauss met with European officials on November 9 and 10. Attached to this memorandum, but not printed, is an undated paper entitled "SUMMARY: Strauss Meeting with Barre." Telegram 20886 from Bonn, November 10, reported on Strauss' discussion with Lambsdorff, and telegram 20887 from Bonn, November 10, recounted Strauss' meeting with Schmidt. (National Archives, RG 59, Central Foreign Policy File, D780465–0481 and D780465–0462, respectively) Telegram 37158 from Paris, November 10, reported on Strauss' discussion with Barre. (National Archives, RG 59, Central Foreign Policy File, D780464–1198) Telegram 21460 from Brussels, November 10, reported

The French are negative and Giscard is specifically upset over our failure to extend the waiver of countervailing duties. In addition to the issue, he probably is using this as an excuse to delay the successful conclusion of the Tokyo Round which has been the goal of the French throughout the negotiations.

Schmidt had been with Giscard the week before and had talked with him by phone since that time. He confirmed the hard negative attitude of the French and specifically suggested that a call from you to Giscard would be particularly effective.<sup>4</sup> He further suggested that if, in connection with the call, you were inclined to accept the invitation to join them in the meeting they are having shortly after the first of the year,<sup>5</sup> it would be particularly flattering. If you do talk with him, please keep in mind that we have a December 15 closing deadline which we badly need for Congress. It will still take at least 7–8 months for a vote.

Chancellor Schmidt also specifically requested that I advise you directly that he personally would be appreciative if the percentage of German marketing of U.S. bonds abroad be kept cloudy.<sup>6</sup> He advised that he was under considerable criticism directed toward his permitting German investment capital leave the country at a time when they are having their own problems.

I am leaving today for Geneva where we will spend the week with all nations represented. If the French don't veto action, we can complete these negotiations on schedule.

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on Strauss' conversation with Jenkins, and telegram 7336 from Copenhagen, November 13, recounted Strauss' meeting with Danish Prime Minister Anker Jorgensen. (National Archives, RG 59, Central Foreign Policy File, D780465–0709 and D780467–0256, respectively)

<sup>4</sup> In a November 13 memorandum to Carter, Owen recommended that Carter telephone Giscard as "Schmidt is anxious for us to convince Giscard 'that the failure to pass the waiver was an accident due to last-minute maneuvering in the Congress and was not a deliberate plan to pressure the EC.'" According to Owen, Carter's call to Giscard "could be decisive." Carter indicated his approval of Owen's recommendation. (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 12, France: 1978) Carter and Schmidt discussed Giscard and the MTN during a telephone conversation on November 20. (Carter Library, Plains File, President's Personal Foreign Affairs File, Box 1, Germany, Federal Republic of, 9/77–1/80)

<sup>5</sup> Carter, Giscard, Schmidt, and Callaghan met for informal discussions at Guadeloupe January 4–9, 1979.

<sup>6</sup> Carter highlighted the section of this paragraph containing this sentence and wrote in the adjacent margin "Schultze." In his November 13 memorandum to Carter (see footnote 4 above), Owen wrote that he would advise "Treasury of Schmidt's point about bond sales."

## 180. Memorandum of Conversation<sup>1</sup>

Washington, November 21, 1978, 12:03–12:20 p.m.

### SUBJECT

Summary of the President's Telephone Conversation with French President Giscard d'Estaing

### PARTICIPANTS

President Jimmy Carter  
President Valery Giscard d'Estaing

[Omitted here is discussion unrelated to the multilateral trade negotiations.]

*The President* asked President Giscard for his very rapid and enthusiastic help to conclude the MTN successfully. We really need his assistance in this. The President understood that the meeting is going on today,<sup>2</sup> and what we would like to do is meet the December 15th date that they set as a goal in Bonn. What are President Giscard's thoughts about this?

*President Giscard* said he would be very frank with the President. Since 1974, France has been rather reluctant about these negotiations, because they think that it is difficult to understand why in the world of today—with the new competitors that will come, like the Japanese and the Far East countries—we engage ourselves in a difficult negotiation for reducing tariffs which are already very low, and open to all the competition of the world. So basically, he doesn't realize why they give so much effort which is not obviously needed. When it was suggested in 1972 by President Nixon, then the world was different: a world in which trade was growing, oil was very cheap—a different world. So basically, France is not enthusiastic about MTN. And so they "contribute not to oppose to a rule" that seems to be desired by the United States and some others. But France is not very eager, he must confess. On the other hand, the vote by Congress on the waivers is not politically ... the vote on special protection for special sectors that the

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memcons: President: 11/78. Secret; Sensitive. Carter spoke to Giscard from the Oval Office. Carter wrote at the top of the page: "ok—cc: Susan. J." Carter's handwritten notes on the conversation are in the Carter Library, Plains File, President's Personal Foreign Affairs File, Box 1, France, 9/77–5/81.

<sup>2</sup> The EC Council of Ministers met in Brussels November 20–21. Telegram 22334 from USEC Brussels, November 24, provided a summary of the Council's discussions, and telegram 22146 from USEC Brussels, November 22, reported on the discussion of the MTN. (National Archives, RG 59, Central Foreign Policy File, D780485–0243 and D780481–0124, respectively)

Senate voted three weeks ago. The President vetoed a part of the Bill, on textiles,<sup>3</sup> and there is another part that has been adopted by the Senate and which is absolutely against MTN negotiations.

*The President* said that the Congress did not act in time, but he has no doubt that they will act very early in 1979.

*President Giscard* said that what he would suggest is that France is, really and for national and for objective reasons, rather reluctant about this, and it is not a mystery. He can send someone. The President's envoy—Mr. Strauss—is very energetic, but perhaps too much, because he took for granted that he could obtain what he asked for—but he probably didn't. Would it be useful to have a frank and exhaustive exploration between the President's people and his?

*The President* said "yes." He asked whether President Giscard agreed that they will try to meet the December 15th deadline which they established in Bonn.

*President Giscard* said that he doesn't know, because this deadline was upset by this vote of the Senate. The President thinks this vote will be reversed—but only at the beginning of January, not before.

*The President* said that the problem is that the Congress did *not* vote. The legislation that we need and expect was inadvertently killed in the last few hours of the Session because Congress didn't get around to it; they did not take affirmative action, they just failed to take affirmative action. He has no doubts that we can repair that very early in the next Session, if we can have the implementation of the agreement even contingent upon action by the Congress: this would suit him o.k.

*President Giscard* asked what the importance is for the President of the December 15 deadline.

*The President* said that it is just that all of them agreed—including President Giscard—at Bonn to have December 15 as a deadline, and if we go back on that plan then it leaves the entire matter extremely uncertain. He has, as he is sure does President Giscard, substantial protectionist sentiment in the U.S., and we are trying to do everything we can to prevent tariffs from being too high.

*President Giscard* said that, frankly, they could not commit themselves to this deadline, whatever the content is, because they have a basic "place" on the substance. So he does not know if there is a chance before December 15th to have agreement on the substance. He doesn't know. This discussion today is a discussion between the Nine, and he thinks that they will keep their formal position. But then they will have

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<sup>3</sup> Regarding the legislation forbidding the granting of tariff concessions on textiles, see Document 170 and footnote 3 thereto. On November 11, Carter vetoed the bill, H.R. 9937. See Document 178 and footnote 3 thereto.



to review the problem with the U.S. negotiators. There is also the case of Japan, because Japan is not bringing to that negotiation the part that it must bring.

*The President* said that he sees. He has not been involved, and is not familiar with the details of the negotiations, and that is not something he is looking for (laughs). But he wanted to let President Giscard know how important it is to us to have the schedule maintained and, obviously, if they cannot agree, that would be an additional problem that they would have to face, frankly. Also the need for the Congress to give him authority for the countervailing duties is also important. And if we fail to keep our part of the agreement, including the countervailing duty legislation, then obviously we could not conclude the agreements. He would guess that each one of the nations, after the agreements are reached on the MTN, would have to refer the agreement back to parliaments for ratification.

*President Giscard* said that for France, there is no need for ratification, because it is covered by the Rome Treaty, but for the others, they have to. He will give proper attention to this matter because the President had mentioned it to him. He cannot commit himself to a final agreement before December 15th, because he does not know if substance will be satisfactorily settled for that moment. But they will try to see if that is indeed (possible?).

*The President* said that that is very encouraging. Are there any other items President Giscard would like to discuss with him now?

*President Giscard* said that there is no other item he wants to discuss for the moment. If there is one, he will send a message to the President.

[Omitted here is discussion unrelated to the multilateral trade negotiations.]

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## 181. Editorial Note

In a November 18, 1978, memorandum to President Jimmy Carter, Zbigniew Brzezinski, the President's Assistant for National Security Affairs, discussed a forthcoming telephone conversation that Carter was to have with French President Valéry Giscard d'Estaing (see Document 180). Brzezinski noted that there were two issues to be discussed: the U.S. approval of France's desire to sell Framatone nuclear reactors to the People's Republic of China and France's position on the multilateral trade negotiations (MTN). Brzezinski advised Carter to link the two issues, "coupling the good news to Giscard about the nuclear re-

actor issue with a request that he play as helpful a role as possible in moving us toward the MTN outcome we desire by the December 15 deadline." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memcons: President: 11/78) Special Representative for Economic Summits Henry Owen also urged this course on Carter in a separate memorandum, also dated November 18. (Ibid.)

In a November 21 memorandum to Brzezinski, National Security Council Staff member Robert Hunter discussed Carter's telephone conversation with Giscard, which had taken place that morning. Hunter reported that Carter "did *not* follow the suggested scenario" of linking the nuclear reactor sale and the trade negotiations, noting that Carter "went straight to MTN, and got an essentially negative response from Giscard." (Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 23, France: 1-12/78)

Owen reported to Carter on November 22 that the EC Council of Ministers had decided on November 21 "by a vote of eight to one that the European Commission would try to complete negotiations with the US and others by December 15, which is just what we wanted. The French objected but did not block action. The issue will come up again at the EC Summit December 4-5. Giscard could try to block action there if he wished, depending on how much he was moved by your call. We will be trying to figure out what additional actions we can take to influence the outcome of this December meeting." Carter initialed Owen's memorandum. (Memorandum from Owen to Carter, November 22; Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 23, France: 1-12/78)

In a November 28 memorandum to Carter, Owen urged Carter to telephone West German Chancellor Helmut Schmidt before the December 4-5 meeting of the EC Council in order to discuss France's position on the multilateral trade negotiations. Owen wrote: "Up to this point Schmidt has not wanted to use his capital with Giscard on MTN, since he thought that the US could bring Giscard around. It is important that he realize this hasn't worked, and that it's now up to him to persuade the French. Our ambassadors in Europe believe that he has the influence to do so, if he wants to. He will likely want to if he believes there is no other way to save MTN—and if he realizes that collapse of MTN could affect wider US-European relations." Owen noted that the Special Representative for Trade Negotiations, the Department of State, and the Department of the Treasury all concurred in his recommendation. Carter disapproved Owen's recommendation, writing on the memorandum: "Draft message instead." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 28, Hotline: Germany: 4/77-11/80) On December 2, Carter sent a message to Schmidt, urging him to speak to Giscard about the MTN. (Message WH81566

from Carter to Schmidt, December 2; Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 14, Germany F R: 11/78–2/79)

The EC Council did not take up the issue of the multilateral trade negotiations during its meetings on December 4 and 5, but postponed discussion to a special Council meeting “in the near future.” (Telegram 23036 from USEC Brussels, December 6; National Archives, RG 59, Central Foreign Policy File, D780502–0924)

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**182. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, November 29, 1978

SUBJECT

Japan

At lunch last week, Jacques deLarosiere, head of the IMF, praised the US and Germany for effectively carrying out the agreed Summit strategy, and said that his main worry about the world economy now was Japan’s failure to fulfill its Bonn growth commitment. His IMF staff calculates that Japan will only achieve 5% growth; this means a large continuing Japanese surplus which will disrupt world trade and growth. To persuade Japan to adopt a more stimulative Japanese domestic policy:

—He is now sending an IMF mission to review the Japanese economy; on the basis of its report, the IMF will publicly press Japan to improve its performance.

—He hopes that the US and other Summit countries will make clear to Japan that its failure to adopt more stimulative policies would result in its being isolated and blamed at the Tokyo Summit for the consequent threat to world recovery.

He was glad when I told him that we were maintaining steady pressure on Japan to change its ways; he saw your decision not to fix a Summit date until we could see how Summit preparations were progressing as a useful element of this pressure.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 40, Japan: 6–12/78. Confidential. Sent for information.

*Comment:* The Tokyo Summit's success will turn on a change in Japanese policy, as the Bonn Summit's success turned on a change in German policy. We will have to apply the same combination of carrot and stick that turned the FRG around. At the international Summit review December 11, I hope that the other countries' representatives will join me in pressing our Japanese colleague for new Japanese policy decisions. As at Bonn, we have one thing going for us: the Japanese are anxious that the Summit in their capital be a success.

We will submit proposals to you as to how Ohira could be approached on this issue early in his term. A pre-election telegram says that he told the Embassy he "saw it as essential to move immediately to cope with Japan's trade imbalance,"<sup>2</sup> and he generally has the reputation of being more expansionist than Fukuda. On the other hand, press reports quote him as saying that he is less firmly committed than Fukuda to the Bonn 7% growth target.<sup>3</sup>

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<sup>2</sup> Reference is to telegram 20877 from Tokyo, November 27, on Ohira's foreign policy views. (National Archives, RG 59, Central Foreign Policy File, D780488-0053)

<sup>3</sup> An article published in the November 29 edition of *The Washington Post*, for example, noted that while "Fukuda had promised repeatedly during the past year that Japan would reach a growth level of 7 percent in the current fiscal year," Ohira, while not "expressly abandoning that goal," had "suggested during the campaign that strict adherence to that goal could cause a new bout with inflation. That could be taken to mean he may retract or slack down some of the public-service spending that Fukuda had initiated in supplementary budgets." (William Chapman, "Japan's Ohira: Keeping Tradition," *The Washington Post*, November 29, 1978, p. A19)

**183. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, December 1, 1978

SUBJECT

MTN (U)

You asked why failure of the MTN would hurt the US more than France or others.<sup>2</sup> (C)

1. *In the long run*, I don't believe it would: A failure of the MTN would hurt all nations by triggering a spiral of protectionism that would lower living standards, reduce employment, and weaken the international cooperation on which everyone's security depends. (U)

2. *In the short run*, the US national interest might be more adversely affected than that of the European Community. The US, as a strong economy, would lose opportunities for expanding its exports. And the influence that it exerts through a worldwide trading system, of which it is the leading member, would be reduced. By contrast, the weaker members of the European Community (France, Britain, and Italy) would lose fewer opportunities for increasing exports, since they are less competitive. And the protected market open only to EC members and associated states that the Community has built would help shield these weaker members from the effects of an MTN failure. (C)

3. I doubt, however, that France wants a failure of the MTN. Giscard is trying, rather, to get the best deal he can—one that will protect French agriculture and industry from the effects of trade liberalization. MTN delay is one way of trying to achieve this objective; the more MTN is delayed, the more watered down the final agreement is likely to be. Bob Strauss is resisting both the delay and the watering down—because they would reduce the usefulness of MTN and because they would make it harder to secure Congressional approval. (C)

4. Our main ally in all this is Germany. With a strong and open economy, Germany's interest in concluding an early and far-reaching MTN is similar to ours. Giscard will not push his MTN views too hard if he believes that this would cause a Franco-German rupture. He is bluffing and under-estimates the risks that his tactics entail for the MTN; Schmidt is well positioned to call his bluff. (C)

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Finance/International: 7/78–1980. Confidential. Sent for information. Carter initialed "C" at the top of the page.

<sup>2</sup> In a November 29 handwritten note to Owen, Carter asked: "Why does a failure of MTN hurt the U.S. more than France or other countries involved?" (Ibid.)

**184. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, December 8, 1978

## SUBJECT

Two Years Down; Two to Go (U)

After each half year in 1977, I sent you an appraisal of the Administration's foreign policy record.<sup>2</sup> Two years since you took office may be an even better time to review both the record and the tasks ahead. I haven't tried to examine the whole field—focusing only on a few salient areas. (U)

1. *War and Peace*. The main accomplishment of the last two years was in reducing the chances of war in the two most dangerous areas of possible US-Soviet conflict: (C)

a. In the *Middle East*, there is a greater chance of setting in motion a process that could lead to peace than at any time since the creation of Israel. (C)

b. In *Central Europe*, a NATO buildup has been launched, which seems likely to restore the military stability that had been called into question by Soviet military programs in the mid-1970s. (C)

These are big improvements. There are still a lot of risks ahead, particularly in unstable countries on the periphery of the USSR, but we're clearly better off than in December 1976. This improvement was made possible because we had our priorities right: During the campaign you said that the main focus of US foreign policy should be on constructive cooperation with our friends. What we have done to this end in Europe and the Middle East has been more important in reducing risk of war than anything that has been, or could have been, accomplished in direct dealings with the USSR. (C)

Substantial progress has also been made in those dealings, however; the main advantage of SALT-II<sup>3</sup> may be in paving the way for a more ambitious SALT-III agreement, in which we can get at the principal cause of nuclear instability: technological change. This argues for seeking a SALT-II whose ratification will not provoke such intense op-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 59, Administration's Policy: General: 1978. Confidential. Sent for information. Carter wrote at the top of the page: "Generous. J." Brzezinski also initialed the memorandum.

<sup>2</sup> See Document 91.

<sup>3</sup> Reference is to the ongoing second round of U.S.-Soviet Strategic Arms Limitation Talks.

position or leave such a residue of bitterness in this country as to prejudice our ability to move quickly to far-reaching follow-on negotiations. (C)

2. *Prosperity*. The second test of a successful foreign policy is whether it helps or hurts our economic well-being. (U)

You worked out a strategy with our partners at Bonn that is bearing fruit: Germany and Japan have taken stimulus measures; the US is giving fighting inflation top priority; and these policies are creating a convergence of economic policies that Jacques de Larosiere, head of the IMF, believes portends a steadily improving world economic situation. (U)

We have also taken a stagnant *Multinational Trade Negotiation* and brought it to the verge of success. (U)

*Energy* remains a problem, but we're moving in the right direction—toward deregulation, which will allow market forces to reduce oil imports and spur oil production. Your recent anti-inflation decisions have strengthened OPEC confidence in the dollar and thus moderated pressures for price increases.<sup>4</sup> (C)

These achievements create a good prospect for a strong dollar and a continuing reduction in the US external deficit. To fulfill this prospect, we will need in the next two years to: (U)

—press Japan to adopt a more stimulative domestic policy (de Larosiere considers Japan's failure to fulfill its 7% growth target world economic problem #1);<sup>5</sup> (C)

—ratify and implement an MTN agreement (an effort that Bob Strauss says will make the Panama Canal look like a picnic);<sup>6</sup> (C)

—allow the US oil price gradually to rise to world levels, as pledged at Bonn; (U)

—press your export promotion program, even when this conflicts with other US objectives; (C)

—make our exports more competitive, by increasing US investment and productivity—even if this means tax changes and cutting back on otherwise desirable government regulations. (C)

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<sup>4</sup> Blumenthal reported on his November 16–22 trip to Saudi Arabia, the United Arab Emirates, Iran, and Kuwait in a November 24 memorandum to Carter. He noted that “for virtually all Government leaders I saw, the *single most important economic event* of the recent past has been the dramatic reversal of the fortunes of the dollar. This action has made a deep impression. It is seen as a major event, a specific Carter initiative, greatly benefiting each of the countries involved. Without it, a major (15% or more) price increase might well have been inevitable.” (Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 22, Treasury Department: 4/78–2/79)

<sup>5</sup> See Document 182.

<sup>6</sup> Carter underlined the phrase “make the Panama Canal look like a picnic” and wrote in the adjacent margin: “nothing could do this.” See footnote 4, Document 163.

More important than any of these will be how we prosecute the fight on inflation, which is treated under (4) below. (U)

3. *North-South*. You said in the campaign that you would restore morality to US foreign policy. This means different things to different people. To me, it means helping the one billion people in the world who live in desperate poverty. (U)

Most of these people are not in the middle-income developing countries; these countries, moreover, do not need concessional aid. What they need is a good MTN agreement, and strong multilateral financial institutions from which they can borrow on hard terms. We have moved actively to achieve both. This Administration's lead in creating the new IMF facility and our progress in making up our World Bank arrearages is in refreshing contrast to past US neglect of these two institutions. The case for thus helping middle-income countries is clear in terms of US self interest: They are increasingly important economic partners. (U)

The case for helping poor developed countries rests on a longer term consideration, our interest in meeting global problems, and on moral grounds: When Bob Lipshutz swore in members of the Hunger Commission,<sup>7</sup> he referred to a quotation from Matthew; when I had looked it up, it seemed to me the best justification of aid to poor countries that I had read: "In as much as ye have done it unto one of the least of these my brethren, ye have done it unto me." We're not ashamed to take moral considerations into account in our private lives; there's no reason we shouldn't do so as a nation, as well. (U)

Your Administration has significantly increased foreign aid. The biggest increase has been in multilateral aid; this makes sense because one US dollar here mobilizes three dollars from other donors. You have also improved the quality of aid by directing concessional development loans and PL 480 more clearly to the needs of poor people in poor countries—leaving hard loans to meet the needs of middle-income countries and SSA to meet political needs. This maximizes the amount of concessional aid available for the poor. (U)

We have moved toward the developing countries' views about the Common Fund, although it's not yet clear whether this will result in agreement. (U)

North-South oratorical tensions persist, and this will continue for some time. But US *substantive* policies toward LDC's have improved and this should be reflected in these countries' attitudes, as well as prospects. (U)

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<sup>7</sup> See footnote 6, Document 171. Robert Lipshutz was Counsel to the President from January 1977 until October 1979.



Our main North-South task in the next two years will be to continue these policies. The most important innovation may be creation of the Foundation for International Technical Cooperation with developing countries announced in your Caracas speech.<sup>8</sup> The Ford and Rockefeller Foundations are so impressed that they have said they might contribute \$10 million. (U)

All this may have only a limited political pay-off, at least in the short run; aid recipients are not noted for their gratitude. But it will have a lot to do with what happens to a good many human beings—and thus with whether your effort to restore moral purpose to US foreign policy succeeds. (U)

4. *Conclusion.* A common thread runs through this memo: Your foreign policy achievements to date have been considerable—more than most Presidents can count in their first two years; ultimate success rests on continuing these policies in the next two years. (U)

But here is the dilemma: Success of your foreign policy also rests on your anti-inflation program achieving its goals. This will probably, as I suggested after the London Summit, have to be our central task for the next several years: Like European countries and Japan in the early 1970's, we will have to stick to tight fiscal and monetary policies, despite the pressures that slowing growth and rising unemployment may create for premature reflation. (U)

This anti-inflation campaign will, by its nature, call into question some of the other policies described above—e.g., the NATO defense build-up, allowing US oil prices to rise to world levels in 1980, and increasing our aid for developing countries. Posing this dilemma doesn't tell us *what* decisions we should make about these problems. But it does suggest *how* we should make them. When other industrial countries faced similar choices, we were quick to remind them that their decisions affected us and that we wanted to be consulted. The reverse is even more true, given our central position in the alliance. (C)

This won't be easy: It's hard enough to make choices within the pluralistic US government, let alone involve other countries. Yet it will be the price of holding together the alliance among industrial democracies on which our security and prosperity depends. A defense program that involves less than a 3% increase, an aid program that doesn't rise as rapidly as we had hoped, oil prices that reach world levels in 1981 rather than 1980—these changes may be manageable. But only if our allies feel that their views and interests have been taken into account, as we make these hard choices in the next two years. (C)

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<sup>8</sup> See Document 311. Carter proposed the initiative in his address to the Venezuelan Congress in Caracas on March 29. For the text of his remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 619–623.

**185. Memorandum From the Head of the Delegation to the Multilateral Trade Negotiations (McDonald) to the Special Representative for Trade Negotiations (Strauss)<sup>1</sup>**

Geneva, December 11, 1978

## SUBJECT

Suggested Approach for Gaining Public and Congressional Approval for Tokyo Round Results

Lord Macaulay of England said more than a century ago that moves toward freer trade are among the greatest benefits that a government can bestow on its people, but are almost always unappreciated at the time. During the ensuing century, that view has been repeatedly confirmed. Moreover, the complexities of modern economic society, the broad scope of the Tokyo Round negotiations, and the present uncertainties in the world economic environment all add to the normal difficulties of gaining public understanding and support for trade legislation in 1979.

To build a solid, favorable constituency for the upcoming trade bill, we must expand our sights beyond the Tokyo Round results and put forward a comprehensive U.S. trade program. Such a program is not only timely, it is essential to capitalize on the benefits negotiated in the Tokyo Round.

To illustrate the overall approach schematically, tariff reductions should account for only about 10% of the total program; the complete Tokyo results about 40–50%, and the domestic and implementation parts about 50–60% of the completed package. With a comprehensive domestic program, a broad-based support group can be developed, including interest groups that might otherwise oppose tariff reductions or at best stay neutral.

While broadening the scope of appeal by means of domestic program elements, building a positive constituency also calls for exploiting fully the favorable nontariff measures that comprise the major component of the Tokyo Round, the substantial and unprecedented agricultural results and the reforms of the international trading system that clearly open the way toward fairer trade.

When presenting the Tokyo Round results, the enormous strides represented by the establishment of monitoring groups under the new

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 5, MTN Geneva 1977. No classification marking. A handwritten notation top of the page reads: “Vera—make copies for appropriate people Wolff, Vine, Rivers, Donaldson, Geza, Kelly etc.”

series of codes should be emphasized along with the added disciplines and increased transparency obtained throughout the trading system. These key elements can serve to clearly identify the Tokyo Round as “the fair trade round” since they outweigh the substantial but relatively less important movements toward trade liberalization which are less popular short term.

Furthermore, since tariff reductions as usual represent the most distasteful element for those directly concerned, this aspect should be downplayed to reflect its much diminished importance. Although the exclusive aim in the first five rounds and clearly the predominant result in the Kennedy Round, tariff actions account for no more than one quarter of the scope of the Tokyo Round. To reflect properly their reduced standing, we should differentiate our reports and commentaries (including those from advisory groups) between (1) authority already delegated to the Executive Branch by the Trade Act of 1974 (e.g., tariffs), and (2) the rest of the Tokyo Round results that require Congressional approval. To do otherwise might encourage opinions to follow traditional thinking on relative importance, thus focusing excessive negative attention on this limited subject on which no further Congressional approvals are required.

#### *INITIAL IDEAS ON TRADE PROGRAM CONTENTS*

The program should cover all three of the above subjects—in order of importance: (1) the elements of a comprehensive trade program, (2) benefits from the Tokyo Round, and (3) balanced tariff adjustments by all major trading nations. Priority efforts should be aimed soon at filling in the contents of the overall program since, with their domestic focus, they will influence predominately the attitudes of the general public and members of Congress.

#### *ELEMENTS OF A COMPREHENSIVE U.S. TRADE PROGRAM*

Elements making up the comprehensive trade program should be fundamental in nature and devoid of superficial gimmicks. They should be sound and necessary policies for a successful, long-term U.S. position in international trade. To the extent that items with less economic impact are considered, they should be only those with wide popular appeal that would help significantly to expand the positive constituencies for the program. An initial list of program elements would include the following:

##### *A. Investment Incentives*

The greatest trade threat that the United States faces is the possibility of its vast productive base becoming obsolete and uncompetitive. For this reason, a foundation stone for any effective trade program over time must be an incentive program to encourage new investments and

capital formation sufficiently to keep competition keen and provide for a continual renewal and restructuration of our industrial base.

To maintain a healthy international position, we must invest at levels comparable to our major trading partners and those rapidly advancing among the ranks of nations. We are not doing so today. For example, the Japanese are currently making capital investments at a percentage rate of GNP approximately double that of the United States. Instead of improving our relative situation, this discrepancy can only contribute to a deterioration of our worldwide competitiveness. Moreover, the resulting competitive gap cannot be indefinitely bridged by currency devaluations and import constraints without leading us into a spiral of decline as an economy and ultimately loss of position as the key world power.

The sentiments against capital investment incentives are evident, particularly among those who strive for greater income and wealth redistribution. But it can be argued that our country has acted to redistribute income far more than any society to date. Almost half of our federal budget is allocated to transfer payments, rather than to the provision of public services. This represents a massive redistribution of income. To support a reasonable redistribution effort, our economic base must flourish. To do this, as a capitalist society intending to remain one, we must keep attractive the desire to seek out and to take entrepreneurial risks for commensurate gains for those persons and entities with access to capital.

Our capital investment pattern has been lagging in recent years, slowing our growth prospects, discouraging job formation possibilities, limiting productivity improvements and weakening our innovative thrust. The commercial risks today appear too frequently to outweigh the prospective gains, thus making conservation of capital a higher motive than placing that capital at entrepreneurial risk to search out new thresholds of opportunity.

Investment incentives are particularly important to our heavy industries requiring continuing streams of high capital investments. Since more of these industries now feel threatened than in earlier years, they are in the forefront of those concerned currently with tariff reductions. Consequently, an investment incentive program, in addition to its fundamental long-term benefits, would be immediately helpful to swing a majority of the business community positively behind the overall effort, reducing to a strictly secondary position their concerns over trade liberalization measures. Such an incentive program would have to be tailored to be consistent with the new subsidies code obligations.

#### *B. A Sensitive and Effective Adjustment Assistance Program*

The United States does not have an effective adjustment assistance plan that aids in the restructuration of our industrial base. We need one

to facilitate the mobility of employment from declining or obsolete activities into growth sectors that are economically promising. This is one of the major concerns of organized labor, and in some of our heavily populated geographical sections, a totally legitimate one. Furthermore, this is one of the early expressed concerns of the Administration that clearly merits attention without further delay as a natural complement to any international trade liberalization plan.

#### *C. Major Program for Retraining and Reformation of Personnel*

We must anticipate that due to continuing technological advances and shifts in market demand, we need a reasonably mobile work force. With today's accelerated pace of change, this probably means retraining and preparing many employees for shifts in skills once or twice during the course of their working lives. Although the above factors dwarf the importance of imports in establishing this need, the idea is superficially popular to blame imports—partly because this falsely implies there is a ready solution.

Again, a substantial retraining program is not only needed for domestic reasons but would gain labor support and represent a positive appeal to the general public as a fairer redistribution restructuring.

#### *D. Accelerated Domestic Procedures*

Many complaints have been registered by all of our advisory groups—industrial, labor and agriculture—on the complexity and slowness of our domestic procedures in dealing with trade problems. A plan for accelerating and simplifying these procedures to deal more forthrightly and promptly with complaints is clearly called for and would be very popular. These improvements could be linked with the implementation moves for the Tokyo Round codes, facilitating domestically the handling of escape clause actions, anti-dumping cases and subsidy/countervail claims, among the more important.

#### *E. Procedural Customs Improvements*

There are a number of these that could stand attention and simplification. Some of these ideas are already assembled by Senator Danforth's staff and framed into a bill. By combining these ideas with the implementation steps for the new customs valuation code, another center of support might be added.

#### *F. Adapted Buy America Program*

Complementing the government procurement code will be the domestic need to adapt and reinforce our Buy America procedures. Already there is a group in the Senate, headed by Senator Heinz, strongly advocating further Buy America measures. There is wide popular support for this activity. If their concern could be refocused on non-

signatory countries and non-covered market sectors, this merged aim might shift around another interested group who will be working actively with or against us.

#### G. *Specialized Programs for Sensitive Industrialized Sectors*

A number of sectors would respond favorably to across-the-board programs that would reflect genuine government concern about their needs and an appreciation of some of their international difficulties. Such sectors are steel, chemicals, textiles, and perhaps non-ferrous metals. The individual elements of these programs have already been developed within STR and other departments or are anticipated, but they need to be packaged and communicated as a cohesive series of action steps to obtain positive public impact.

#### H. *Continued Export Effort*

The recent program of the President to expand the U.S. export efforts could be reinforced as a part of the overall trade package. This is of keen interest to Congress where there is considerable sentiment that more needs to be done. This interest was emphasized during MTN briefing sessions recently in Geneva with Representatives Ullman and Gradison and Senator Moynihan.

#### I. *Automatic Import Licensing*

In the current international economic environment, we face problems of rapid import buildups in sensitive industries in unpredictable amounts from communist countries. Unfortunately, our ability to monitor these rapid shifts has not increased appreciably over the years. In fact, many in Congress and in industry complain that trade information in sensitive products is neither good enough nor up to date.

Therefore, we should take advantage of the trade agreement's uniform rules on automatic import licensing to establish an import licensing system of our own. Through this system, we could require an import license, which would be nondiscriminatorily and automatically granted, for shipments from communist countries and for sensitive products. In the case of sensitive products, this would allow the government some early warning on potential escape clause cases. In a situation such as this year's textile import surge, this system would have allowed us to get a handle on where the explosive growth was coming from.

As we have experienced over the past few years, our economy is vulnerable to exports from communist countries. Their labor situation and lack of relevant cost structure, combined with their hunger for hard currencies, causes apprehension of potential trade disruption and unemployment among domestic industry and labor. An automatic import licensing system would enable us to monitor all key movements,

giving us the ability to stop trade disruption before it reaches a crisis level.

*J. Permanent Private Sector Advisory Group on Trade*

During the Tokyo Round, discussions on a continuing basis have been carried out in Washington and Geneva with advisory groups from agriculture, industry and labor. As a part of a comprehensive trade program, a permanent advisory system could be designed that would contribute invaluable knowledge, experience and insight into practical trade problems. This system could provide a continuing dialogue on trade issues that would improve communications and understanding between the private sector and the Administration.

*K. Reorganization and Reinforcement of Trade Policy Apparatus*

The U.S. has given much less attention to trade policy than its major trading partners. It is now timely for this passive posture to change. The results of the Tokyo Round call for a new measure of continuing international involvement on trade questions. Our trade deficits call for reinforced handling of trade relations on an aggressive business like basis.

Congress is well aware of this need and would be receptive to administrative initiatives. Senators Long, Ribicoff and Roth, and Chairmen Ullman and Vanik in the House have advocated clarifying the decision-making process on trade issues and centralizing the administration of U.S. trade policy. This move, which could in fact determine how effectively the U.S. exploits the Tokyo Round benefits, could help to coalesce the support of similar thinking groups as a part of the overall program. A White House reorganization study group already has been studying this issue, and their report could be ready by March.

Undoubtedly other elements and suggestions should also be incorporated in a final program. Even so, if realistic results were put forward on the above items only, such a program could serve to build a broad based and solid constituency, while putting in place the foundation blocks for a vastly improved and more effective U.S. trade policy for the years to come. This would represent a fundamental Administration accomplishment.

*ORGANIZATION AND COORDINATION OF THE EFFORT*

This approach lends itself to a special project organization to carry out this one-time effort. The project unit would need to be clearly recognized as in charge of the effort with clear-cut responsibilities for producing the kinds of results needed within a very short time period.

Group requiring collaboration and close cooperation include the following:

1. *The Executive Departments directly concerned with trade policy:* These include the Departments represented on the TPC and the EPG. Since a combination of initiatives across Executive departments would be necessary, the project group should be comprised of members from each of these entities to facilitate pulling together the package.

2. *The advisory groups in labor, agriculture and industry:* An expanded contact program with these groups could review elements of the program as they are being developed.

3. *Members of Congress:* An intensive series of consultations to acquaint members of Congress with the key elements of the program to build in the ideas of domestic program elements is essential in building a trade constituency. This is anticipated by the notice period called for in the Trade Act and is already well underway with the frequent meetings and briefings regularly arranged between key Committee leaders and their staff and MTN negotiators.

4. *Liberal Trading Groups:* These groups, including special trade promotion associations and consumer groups, are ready to be mobilized.

5. *The General Public:* An extensive program of communications, including speeches, articles and explanatory materials, is needed before and throughout the period of Congressional consideration.

This memorandum is only a thought starter for upcoming discussions with leaders in the Administration concerned with trade policy. From the Geneva perspective, we should have the major elements of the international negotiation completed or sufficiently in view before Christmas so that this effort could be organized and launched in early January. The work should parallel the period of Congressional review. It should build up as an intensive effort during the time of consultations with Congress and the drafting of the trade legislation (January through March) and continue through the period of Congressional deliberations (April through August).



**186. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, December 13, 1978

## SUBJECT

Your Meeting with Jenkins<sup>2</sup> (U)

Since I sent you a briefing memo on this subject before leaving Friday<sup>3</sup> to attend a Bonn meeting of the Summit follow-up group, three things have happened:

1. *EMS*: The Italians have now decided to join. You might indicate to Jenkins your pleasure with this development. (C)

2. *MTN*:

a. *The European Council of Ministers* met yesterday to review *MTN*; all countries except France argued strongly for completing the negotiations this week.<sup>4</sup> Strauss feels that we can get such an agreement *if* the Commission and the other eight members don't lose their nerve in the face of French opposition. You may want to mention our satisfaction with this meeting and with the helpful role that the EC negotiators<sup>5</sup> (Haferkamp and Denham) played in it, stress that we rely on the continued support of the Commission and other members of the European Community, and ask if Jenkins has any suggestions as to what we could do to help him get EC support for completing *MTN* in December. You might add that he can count on your strong personal commitment in obtaining Congressional extension of the countervailing duty

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, VIP Visit File, Box 4, European Community: President Roy Jenkins, 12/14–15/78: Cables and Memos. Confidential. Sent for information. Both Carter and Brzezinski initialed at the top of the page.

<sup>2</sup> Carter met with Jenkins, as well as U.S. and EC officials, on December 14 from 11:14 until 11:55 a.m. in the Cabinet Room. (Carter Library, Presidential Materials, President's Daily Diary) A memorandum of conversation is in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memcons: President: 12/78–1/79.

<sup>3</sup> On Friday, December 8, Owen forwarded to Hunter a memorandum for Carter on the Jenkins visit; Owen's memorandum to Carter is dated December 12. (Note from Owen to Hunter, December 8; Carter Library, National Security Affairs, Brzezinski Material, VIP Visit File, Box 4, European Community: President Roy Jenkins, 12/14–15/78: Briefing Book)

<sup>4</sup> The EC Council of Ministers held a special meeting on the multilateral trade negotiations in Brussels on December 12. Telegram 23519 from USEC Brussels, December 13, reported on the meeting, and telegram 23480 from Brussels, December 12, transmitted a translation of the oral declaration made at the end of the meeting. (National Archives, RG 59, Central Foreign Policy File, D780514–1033 and D780513–0091, respectively)

<sup>5</sup> Carter underlined the phrases "helpful role" and "EC negotiators."

waiver<sup>6</sup> and approval of the final package—stressing that any significant MTN delay beyond December would involve serious risk of the Congress not being able to pass on MTN in 1979. (C)

b. *Giscard's economic assistant* called me today to say that Giscard would like *either* to send a special envoy (Trade Minister Deniau) to Washington to see you and Strauss Monday *or* to receive a US envoy (he mentioned me) in Paris Friday or Monday<sup>7</sup>—so that Giscard could convey his view to the US, as well as get some clarification of the US view. (You will recall that Giscard raised the possibility of a special envoy with you on the phone a few weeks ago.)<sup>8</sup> After checking with Strauss, Blumenthal, Brzezinski, and Cooper, I am calling back to say that you would not be available, but that Deniau could come here Monday to see Strauss and others (including perhaps the Vice President); failing that, McDonald (our Geneva trade negotiator) and I could come to Paris Monday.<sup>9</sup> (C)

You may want to mention this to Jenkins, and assure him that we are not trying to make an end run around the Commission; we have made clear to the French that there can be no question of our *negotiating* with them, since our negotiations are with the Commission. You might mention that we've heard from the British and others that Giscard is *not* well informed on MTN, and we think it might be useful to make sure he gets a full and accurate picture of what's going on. If Jenkins has any advice on what to say to the French, we'd welcome it. My guess is the French will say they don't like the substance of the intended MTN agreement. (C)

Given the sensitivity of the issue of France's role on MTN, I believe that Jenkins might talk about it more freely if he saw you alone. I will bring him to the Oval Office for this purpose when he arrives. He said a while back that he would be glad to meet with you alone for a few minutes before the larger meeting, if you thought this would be useful.<sup>10</sup> (C)

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<sup>6</sup> Carter underlined the phrase "countervailing duty waiver."

<sup>7</sup> Friday, December 15, or Monday, December 18.

<sup>8</sup> See Document 180.

<sup>9</sup> Carter wrote "ok" in the margin adjacent to this paragraph.

<sup>10</sup> Carter and Jenkins met privately in the Oval Office, accompanied by Owen and EC Commission Chef de Cabinet Crispin Tickell, from 11 until 11:14 a.m. prior to the larger meeting. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation was found. In a December 14 memorandum to Brzezinski, Erb reported: "In his private talks with the President and Strauss, Jenkins seemed relatively optimistic about the intentions of the French, apparently feeling that the request for the Owen/McDonald mission to Paris is a tactical move rather than a signal that the French have decided to block an MTN agreement." Erb cautioned, however, that "the emphasis that Jenkins placed on the need for balance in the MTN package foreshadows some very difficult negotiations in the days ahead." (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 12, Europe: 1978)

**187. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>**

Washington, December 20, 1978

SUBJECT

Fastener Import Relief

I have sent you a separate memorandum through regular channels reporting the results of our interagency deliberations on the fastener escape clause case.<sup>2</sup>

I believe this is a critical case for our trade policy. We intend to submit to Congress for approval early next year the most ambitious package of trade agreements ever negotiated. Before that package can be considered, we will need Congressional approval of an extension of our countervailing duty waiver authority (otherwise the EC cannot finalize the agreements). In my judgment, a recurrence of the kind of override fight we had earlier this year<sup>3</sup> would seriously undermine our chances of getting an extension and thus of concluding our trade negotiations.

Moreover, there is a growing feeling in the Congress that we are rejecting relief in so many cases that the Trade Act is not working as originally contemplated. Frankly, this feeling has little foundation—but it is certainly prevalent.

I have talked to a number of your strongest free trade supporters and they think relief in this case, at this time, is absolutely necessary to manage our trade program in Congress in 1979.

All of the agencies which have worked on the case appreciate these broader considerations, and reflect them in taking positions favoring relief of some kind.

Of the two options we have presented to you in my other memo, Option 2 represents the minimum we need to satisfy the domestic industry and the Congress. I have sounded out representatives of the

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 4, Fasteners. Limited Official Use.

<sup>2</sup> The memorandum was not found. In October, the ITC again ruled that imports were harming the U.S. fastener industry. (“ITC Says Imports Aren’t Hurting AMF Subsidiary,” *The Wall Street Journal*, October 27, 1978, p. 5)

<sup>3</sup> In April, the Carter administration successfully convinced a majority of the members of the House Ways and Means Committee not to vote to override Carter’s decision against providing import relief to the U.S. fastener industry. (Clyde H. Farnsworth, “House Group Backs Carter Trade Move,” *The New York Times*, April 28, 1978, p. D1) For Carter’s decision not to provide import relief, see Document 102.

domestic industry and know they would react favorably to this approach.<sup>4</sup>

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<sup>4</sup> Carter announced his decision to provide import relief to the U.S. fastener industry on December 22. Noting that his relief measures differed from those recommended by the ITC, Carter granted a 15 percent tariff increase for 3 years. For the text of Carter's letter to Congress and memorandum to Strauss conveying his decision, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 2283–2285. Strauss forwarded a proclamation giving effect to this decision for Carter's signature under cover of a January 3, 1979, memorandum. Carter initialed at the top of Strauss' memorandum and wrote "done reluctantly." (National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 4, Fasteners) Presidential Proclamation 4632, "Temporary Duty Increase on the Importation Into the United States of Certain Bolts, Nuts, and Screws of Iron or Steel," was issued on January 4, 1979. For the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 3–5.

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## 188. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, December 30, 1978

### SUBJECT

Report on post-Summit and MTN meetings in Europe

This memorandum summarizes two meetings I attended on your behalf recently in Europe, about which other heads of government at Guadeloupe will have received reports from their representatives, and which revealed Allied attitudes on problems that may surface at Guadeloupe: (U)

### I. December 11 Summit Follow-Up Meeting in Bonn<sup>2</sup>

#### 1. *Macro-Economic Policy*

(a) *Japan*: Most members of the seven-nation Summit review group voiced deep concern over Japan's failure to achieve its growth target or increase access to its import market. Most agreed that these changes in

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 15, President, Guadeloupe, 1 /4–6/79: Briefing Book for the President [II]. Confidential. Sent for information. Carter initialed "C" at the top of the page.

<sup>2</sup> Owen reported on the December 11 follow-up meeting in greater detail in a December 13 memorandum to Carter. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 64, Summits: 1/78–8/79)

Japanese policy are necessary to achieve the dramatic reduction in Japan's external surplus which is the key to a successful Summit in 1979, as change in German policy was to a successful Summit in 1978. Japanese responses made clear that they believe their existing policies are adequate to reduce their external surplus. My Japanese colleague and I arranged further US-Japanese talks to try to resolve these differences. (C)

(b) *US Inflation*: There was strong approval of your November 1 decisions.<sup>3</sup> The only concern was whether the US will stick to tough fiscal and monetary policies during the several years that other countries, notably Germany and Japan, believe on the basis of their own experience will be required for success.

2. *Energy*: Passage of the energy bill was welcomed. The Germans would like us to meet our Summit commitment to raise US oil prices to world levels by December 1980, but will understand if we let the target date slip to October 1, 1981, when control legislation expires. They say that letting decontrol slip beyond that date would raise doubts as to whether the US commitment would ever be fulfilled. (C)

3. *North-South*: There was general support for the proposal that the World Bank has developed, in response to the Bonn Summit's directive, for large-scale IBRD lending to help LDCs explore for oil—and also for the World Bank proposal to convene a spring meeting of donor nations to coordinate their bilateral aid to LDC energy programs. It was agreed that these World Bank proposals had been among the more useful Bonn results. (U)

4. *Tokyo Summit*: We agreed that no commitment to a specific date (June 28 and 29 were preferred) should be sought until the next meeting of our Preparatory Group in March, when it could be determined how much progress was being made. (C)

II. December 18 Meeting with French Trade Minister Deniau (who had wanted to come to Washington to meet with you)<sup>4</sup>

1. *Agriculture*: The French say that the language that the US and the EC have agreed on to prohibit agricultural export subsidies that displace other countries' exports in third markets will be seen by French farmers as a threat to the EC's Common Agricultural Policy. Al McDonald, our Geneva trade negotiator, and I pointed out that this was a problem of perception, rather than substance, since this language did not pose such a threat; we suggested that the perception should be cor-

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<sup>3</sup> See footnote 2, Document 175.

<sup>4</sup> A memorandum of conversation of the meeting on December 18 among Owen, Deniau, and other U.S. and French officials is in the Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 23, France: 1-12/79.

rected by clarifying statements. (We could not go further in conceding to the French on this point without forfeiting the support of US farm groups, which want to be protected against subsidized export competition.) (C)

2. *Tariffs*. The French say that they would find it difficult to secure public acceptance of eight-year tariff cuts of about 30 percent, as now planned, against the background of present high French unemployment. They propose that the MTN commit its signatories to cuts of only half this size, with further cuts to be decided after four years. We said that it would be difficult to secure enough US Congressional and public support to overcome protectionist opposition to MTN, unless it opens up new markets for US exporters, which requires substantial (i.e., around 30 percent) tariff cuts. We thought that it might be possible to organize these cuts into two four-year phases with timing of the second phase being somewhat flexible, but we could not agree that a new decision would be needed to proceed to the second phase. (C)

3. *Conclusion*: The discussion was more friendly than I had expected. Deniau said that the *countervailing duty* issue was no longer a problem, since it was understood that the EC would only formally approve an MTN agreement when the CVD issue was resolved by the Congress. (In the meantime, Treasury will require affected importers to post bonds, rather than pay the duties.) He stressed political difficulties in France: The Gaullists and Communists were both attacking the government for yielding to external pressure. I described our political problems and the need to *conclude Geneva negotiations by the end of January*; McDonald did a superb job of outlining the concessions the US had made to date in MTN, which would benefit France. (C)

We won't know till negotiations resume in Geneva whether the compromises that Al and I described will be acceptable to Giscard. At the EC meeting later that day Deniau outlined the French position on agriculture and tariffs but did not object when the chairman said that there seemed to be a good basis for proceeding to a conclusion of the negotiations, so our meeting with him may have done some good. (C)

**189. Paper Prepared by the National Security Council Staff<sup>1</sup>**

Washington, undated

## MULTILATERAL TRADE NEGOTIATIONS

Major progress was made in the Multilateral Trade Negotiations (MTN) during the month of December. Few issues remain outstanding. The United States has reached close-out understanding with a large number of developed and developing countries covering agricultural and industrial tariffs as well as non-tariff measure codes of conduct. (U)

*European Community (EC)*

The United States and the European Community have not resolved all bilateral issues. We are both seeking a more “balanced” package. However, a U.S./EC joint statement was issued on December 22 reflecting our present level of agreement.<sup>2</sup> We and the EC have essentially resolved our differences on non-tariff measures, agriculture, and reforms of the General Agreement. We have reached bilateral agreement on the safeguards code, but the EC must bring the LDCs on board before negotiating positions can be finalized. Tariff negotiations with the EC will recommence on January 7th. (C)

*The French Position.* The French continue to voice dissatisfaction on several points and remain among the only holdouts in the negotiations. First, the French oppose agricultural agreements that they perceive might undermine the EC Common Agricultural Policy (CAP). This has led to French opposition to an agreement on agricultural subsidies as well as to the establishment of an agricultural council in the GATT. Second, the French maintain that the U.S./EC tariff package is not sufficiently balanced. Third, the French have stated that a significant tariff cut staged over an eight year period is politically unacceptable. They have proposed implementing tariff reductions in two stages. The second stage would not be implemented automatically but only after a review of the economic situation and a positive decision by participants to continue. (U)

French opposition on these issues is clearly linked to the French domestic political situation. The Gaullists and the French Communists together are attacking the MTN and exerting considerable pressure on

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 26, Summit: Guadeloupe (Briefing Book): 1/79 [I] Confidential. Sent to Carter under cover of an undated memorandum from Owen, who noted that the paper was being forwarded at the President’s request. (Ibid.)

<sup>2</sup> Telegram 19785 from Geneva, December 22, transmitted a copy of the U.S.–EC joint statement. (National Archives, RG 59, Central Foreign Policy File, D780529–0576)

Giscard d'Estaing. This pressure is particularly important to Giscard as this is the run-up period before European Parliamentary elections.<sup>3</sup> Giscard has been reported to be seeking time to make structural adjustments in the French economy. In European meetings Giscard has recently expressed concern about foreign competition but has been rebuffed by Schmidt who strongly supports an open world economy. (C)

*U.S. Response to the French.* The United States has indicated a willingness to seek presentational devices which would help the French deal with their political problems. However, we do not see the need to concede on substantive points. The negotiated language on export subsidies will not undermine the CAP. It enables signatories to maintain but not to increase existing market shares through subsidization of agricultural products. A GATT agricultural council, also opposed by the French, is intended only to be a consultative forum whereby nations could discuss their agricultural policies—not to pose a threat to the CAP. On balancing of tariff offers, we will continue negotiations in January until a mutually satisfactory balance is achieved. Furthermore, we can agree to adjust the presentation of arrangements that are made for implementing tariff reductions. We can agree to implement tariff reductions in two stages with an evaluation of the international economic situation at the end of the first stage. However, we could not agree to a situation whereby a positive decision would be required to activate the second stage of tariff cuts. (C)

#### *Developing Countries in the MTN*

A number of developing countries have joined the negotiations. A final effort with LDCs is now needed to close out as many tariff agreements as possible and to lay a basis for their participation in the non-tariff codes. (U)

Attempts to block imports from these countries may be popular but they increase inflation, reduce productivity, and waste the opportunities which appropriate adjustment and trade expansion create. The steady direction of our policies must be to encourage the movement of capital and labor to their most productive uses and to bring the advanced developing countries into the world economic system. (U)

#### *Schedule for 1979*

Tariff negotiations are scheduled to resume in Geneva on January 7. Our objective will be to finalize tariff offers and the entire MTN package within a few weeks. The EC has expressed its intention to submit the results of January negotiations to the EC Council for approval on February 6, 1979. The U.S. Congress will have been notified

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<sup>3</sup> European parliamentary elections were held June 7–10, 1979.



by January 4, 1979 of our intention to enter into a final agreement. This will initiate the required 90-day period for congressional comment and thereby enable the United States to sign formally an MTN agreement in early April 1979. (U)

#### *Countervailing Duties*

The EC will meet February 6 to review what should then be a completed MTN agreement. The EC will not give formal approval to an agreement until the Congress has resolved the countervailing duty issue. We have told the Europeans that we would ask the Congress to extend our authority to waive countervailing duties early in the new session. In the meantime, Treasury will ask affected importers to post bonds, instead of collecting countervailing duties. (C)

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### **190. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, January 3, 1979

#### SUBJECT

Tokyo Summit

1. *Japanese Communications.* We have had two letters from Prime Minister Ohira regarding the Summit: (U)

a. A December 22 letter inviting you to a Summit in Tokyo. It suggests the last week in June, but indicates that a final decision on timing should be deferred until preparations are further advanced, as you have proposed (Tab B).<sup>2</sup> (C)

b. A December 26 seven-page letter about his economic plans for the new year, full of optimism about prospects for reducing Japan's external surplus, even though he implies that he is not planning a high growth target for next year. He indicates that he will send an emissary in January to describe his plans in more detail; and he agrees to our proposal for a January meeting of U.S. and Japanese technicians to resolve

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 1-3/79. Confidential. Sent for action. Brzezinski initialed the memorandum on Owen's behalf. Carter initialed "C" at the top of the page.

<sup>2</sup> Attached but not printed.

differences between the two countries about future economic projections (Tab C).<sup>3</sup> (C)

2. At the moment we are generating more friction than progress in our efforts to convince the Japanese—just as we were in our efforts vis-a-vis the FRG at the same stage before Bonn. The main need is persistence. The Japanese have a considerable capacity for adjusting to facts; if they become convinced that we mean business, there is a fair chance that they will take some of the additional fiscal, monetary, and trade actions we want—particularly if the January and February trade figures do not confirm their hopes for a large decline in their surplus. In line with this strategy, I enclose a proposed reply from you to Prime Minister Ohira, which has been cleared with State, Treasury, and Bernie Aronson (Tab A).<sup>4</sup> (C)

*RECOMMENDATION*

That you sign the letter to Prime Minister Ohira at Tab A.

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<sup>3</sup> Attached but not printed.

<sup>4</sup> Attached but not printed is a copy of the signed January 3 letter from Carter to Ohira.

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**191. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>**

Washington, January 5, 1979

SUBJECT

Extension of the Countervailing Duty Waiver Authority

The expiration on January 2, 1979, of the authority to waive the imposition of countervailing duties has seriously hampered our efforts to conclude successfully the Tokyo Round of Multilateral Trade Negotiations. This issue arose in the closing days of the 95th Congress and, although legislation to extend the waiver was passed twice by the Senate and once by the House, in varying forms, it proved impossible to enact this necessary legislation.

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<sup>1</sup> Source: National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 2, Countervailing Duties 1977. Confidential. A stamped notation indicates that Strauss signed the original.

In a series of consultations with the Commission of the European Community (EC) and with officials of various EC Member States, we have given assurances that we will do everything that can be done under the law to avoid any disruption of trade. In particular, we have given assurances that, in lieu of collecting duties, Treasury will suspend liquidation of duties on the affected products beginning January 3rd, and that bonds or other security will be utilized to protect the revenues of the United States. We have also given the EC our commitment to go forward with legislation early in the 96th Congress seeking an extension of the waiver authority. On the basis of this commitment, the EC is concluding the MTN negotiations with us.

In going forward, we recognize that there are risks that either the waiver legislation will be blocked or become the target of unacceptable amendments (e.g., from the textile industry). If events warrant, we may have to fall back to making the waiver extension retroactive as a part of the unamendable package of legislation implementing the results of the Tokyo Round. However, there is something of a chicken and egg problem—we cannot submit the MTN package to Congress for implementation until it is signed and the EC has reiterated that it is not possible to sign final agreements until the waiver issue is resolved.

We need and we should seek to obtain a waiver extension for a limited period (i.e. from the date of its expiration until such time as the MTN implementing legislation is voted upon by the Congress). Because the waiver authority includes provisions protecting U.S. industries from subsidized competition—no waiver may be granted unless adequate steps have been taken to “reduce or substantially eliminate” the adverse effect of the subsidy on U.S. producers—extension of the waiver authority for this limited period will not impose added burdens on U.S. industries and workers.

We have the support of key Congressional leaders, including Speaker O’Neill and Chairmen Long, Ullman, Ribicoff, and Vanik. In addition, we are working with representatives of industry, agriculture and labor to avoid potential opposition. Although I have no illusions about the difficulty of this enterprise, I am reasonably hopeful of success. Accordingly, I am attaching a draft message to the Congress as well as a draft legislative proposal providing for an extension of the waiver authority from January 3, 1979 until September 30, 1979.<sup>2</sup>

I recommend that the attached message and draft legislative proposal be transmitted to the Congress on January 15, 1979. All interested

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<sup>2</sup> Attached but not printed.

agencies, and in particular Treasury which administers this law, join in this request.<sup>3</sup>

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<sup>3</sup> In a January 15 message to Congress, Carter requested an extension of the countervailing duty waiver until September 30, 1979. For the text of Carter's message, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 46–47. Congress approved the extension in March. ("Senate Passes Duty Waiver," *The New York Times*, March 29, 1979, p. D12)

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**192. Memorandum From the General Counsel, Office of the Special Representative For Trade Negotiations (Rivers) to the Special Representative for Trade Negotiations (Strauss) and the Deputy Special Representative for Trade Negotiations (Wolff)<sup>1</sup>**

Washington, January 16, 1979

SUBJECT

DISC in the Subsidies Code

As this issue may boil up during my absence from the office this week, I have prepared the following memo explaining how DISC has been handled in the negotiation of a code on subsidies and countervailing duties:

*Trade Act Mandate:* Congress in the Trade Act of 1974 and its legislative history mandated the President to negotiate new rules on the use of subsidies affecting international trade, particularly export subsidies.

*DISC and the European Tax Practices:* Meanwhile, the EC brought a GATT complaint against the U.S. alleging DISC to be an export subsidy in violation of the *present* GATT Article XVI.<sup>2</sup> The U.S. "counter-claimed" against Belgium, France, and the Netherlands alleging that their income tax practices (failure to tax income from exports that were run through paper tax-haven subsidiaries; non-arm's length pricing between such subsidiaries and their parent companies) were likewise violations of the present GATT Article XVI.

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 3, DISC 1977. No classification marking.

<sup>2</sup> Article XVI of the General Agreement on Tariffs and Trade deals with "Subsidies."

*Panel Discussions:* The GATT panels found the DISC to be an export subsidy and a violation of present obligations. The panels also found against the European tax practices. In the latter cases, however, the panels may have gone further than was necessary and wrote opinions directly calling into question a keystone of European tax systems (the “principle of territoriality”, i.e., European tax systems do not purport to tax income generated abroad).

*Congress and DISC:* Meanwhile Congress in the tax legislation of 1977–78, expressly declined to repeal DISC, despite Administration recommendations.

*Problem:* In the light of these developments, how does one negotiate a code on subsidies and countervailing duties, especially one which prohibits export subsidies and asks developing countries to accept an obligation to eliminate their export subsidies? Keep in mind that the DISC has been found to be a violation of the *present* rules. Keep in mind also that Congress is not about to repeal the DISC under the present circumstances. Predictably, our trading partners made the repeal of DISC a pre-condition for the negotiation of a code on subsidies and countervailing duties.

*Tactical Solution:* A year ago, we told our negotiating counterparts that we would repeal DISC when they agreed to adopt the panel reports on the European tax practices *in toto*, (something we knew they could not agree to) thereby creating a deadlock on the issue. A year passed, during which we negotiated a subsidies code containing, among other things, a flat ban on export subsidies on industrial products. Export subsidies are identified in the code both by means of a general definition, and by an “illustrative list”. Two months ago, we told our negotiating counterparts, ‘Wouldn’t it be a pity if our work of the past year were to be lost because of our inability to resolve this DISC/direct tax practice issue? What we need is some language in the illustrative list saying, in effect, signatories are concerned about the relation between direct tax practices and trade and agree that there should be a post-MTN conference on direct tax practices with a view to supplementing this illustrative list.’ This has resulted in two alternative formulations in the attachment.<sup>3</sup> Both versions: (1) freeze the present situation and put the DISC issue in abeyance; (2) set the stage for an international tax conference that Conable and others have sought for so long, and (3) sets the precedent of amending and supplementing the subsidies code.

*DISC Lobby:* The DISC lobby is angry because:

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<sup>3</sup> Attached but not printed is an undated paper entitled “Annex A—Illustrative List of Export Subsidies.”

(1) Some of them think the subsidies code repeals DISC. (It does not; this is *not* a self-executing agreement. Even after the subsidies code is accepted by the Congress, the DISC will remain in place until it is specifically repealed by the Congress.)

(2) They say the Code “puts another nail in the coffin of DISC”;

(3) They fear it changes the politics of DISC (e.g., Kennedy can make another GATT argument as to why DISC should be repealed); and

(4) Probably, because they view the subsidies code as effectively deterring any additional export tax incentives.

*Counter-arguments:*

(1) The subsidies code does not materially affect the legal standing of the DISC, either as a matter of domestic law (it will not be repealed) or under the GATT (the panel report on the DISC is a fact of life and we go no further toward incriminating the DISC).<sup>4</sup>

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<sup>4</sup> DISC lawyers make an argument that if Version 1 is adopted in approving the subsidies code, Congress will be implicitly accepting the panel report on DISC. I believe any such objection can be met by a disclaimer in the legislative history of the implementing legislation. [Footnote in the original.]

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**193. Briefing Memorandum From the Assistant Secretary of State for Economic and Business Affairs (Katz) to Secretary of State Vance<sup>1</sup>**

Washington, undated

SUBJECT

Strauss' Talk with the Textile Industry

Bob Strauss has held a series of talks with representatives of the textile industry seeking their support (or at least neutrality) for the MTN package when it is before Congress. In return he is offering a textile “program” responsive to many of the industry’s long-standing complaints over our administration of import restraints on textiles. This program was presented to and reportedly accepted by textile in-

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 4, Trade—Imports, '79. Confidential. Katz did not initial the memorandum. Drafted on January 19 by Deputy Assistant Secretary of State for International Trade Policy William Barraclough.

dustry and union representatives at a meeting with Strauss in New York January 19.<sup>2</sup>

We had a last minute opportunity January 18 to comment on Strauss' proposal. We were able to change some of the more objectionable elements to where the proposal is at the margin of acceptability. Our changes were, STR tells us, accepted by the industry. Although I am sympathetic to Strauss' objective of counteracting the severe damage the textile industry can do us on the Hill, the concessions he is making will haunt us in the future and aggravate the foreign policy problems, particularly with LDCs, arising from the textile restraint program. For example:

—we will negotiate with Korea, Hong Kong and Taiwan cutbacks in the levels of exports to us which they are otherwise permitted under our bilateral agreements which still have three years to run. Discussions with Hong Kong are already underway. Those with Korea will be the most difficult.

—we are accepting a relationship (even if ill-defined) between growth in textile imports to growth in our domestic market, a concept we have consistently avoided in the past and which could put us in violation of our obligations under the multi-fibre agreement.<sup>3</sup> This was the key demand of the industry.

—by promising to deal with disruptive imports from any source, we are opening ourselves to pressures to restrain imports from small or single-product suppliers whom we have so far left uncontrolled (e.g., Chile, Costa Rica, Sri Lanka, Indonesia).

In general, the Strauss proposal will lead to industry expectations which we will be under immense pressure to fulfill, even if doing so entails higher foreign policy costs than we have been willing to accept up to now.

Mike Blumenthal and Charlie Schultze have expressed concern over Strauss' proposal. They find its inflationary implications most disturbing, particularly if a direct link between imports and domestic market growth is in the event established.<sup>4</sup> They have considered

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<sup>2</sup> No record of this meeting was found.

<sup>3</sup> See Document 8.

<sup>4</sup> In a January 22 memorandum to Strauss, Schultze expressed concern that the draft textile plan was structurally biased toward increasing restrictions on imports over time and that "such a program of restrictions for textiles may invite other groups to escalate their demands." Schultze asserted that "the consequences of the draft as it now stands for our anti-inflation efforts and the precedent it may create for generating demands by other groups, lead me to question seriously whether the advantages of concluding such an agreement at this early stage are worth the costs." In a January 23 memorandum to Strauss, Blumenthal echoed Schultze's concerns and criticized the program's ambiguous language. Blumenthal suggested three options: "meet the textile industry head on;" "withdraw all non-woolen textiles from the MTN deal; or establish "a looser textile program." Both memoranda are in the National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 8, Textiles Two.

taking their concerns to the President but I do not know if they have decided to do so.

Strauss intends to submit his proposal to the President and ask him to meet with the industry and its Congressional supporters. However, the President would not be asked to endorse personally the specifics of the understanding Strauss has reached with the industry. Thus, no paper detailing the specifics would be officially issued and the status of the understanding beyond the personal commitment of Strauss will be left somewhat vague.

Strauss is doing what he believes he must do to remove one of the major obstacles to Congressional approval of extension of the countervailing duty waiver and eventual approval of the MTN results.<sup>5</sup> The price he is paying to achieve this, in my judgment, may mortgage our future ability to administer a tolerably acceptable textile restraint program. It is a close call as to whether you should personally interfere at this point but, on balance, I suggest you not do so. You may, however, wish to discuss this with Mike Blumenthal and Charlie Schultze.

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<sup>5</sup> In a January 24 memorandum to Blumenthal, written in response to Blumenthal's January 23 memorandum to him (see footnote 4 above), Strauss asserted that "a positive program" for the textile industry was "essential to passage of the CVD waiver bill and to passage of the MTN legislation. That is not all that is at stake, we are really putting on the line our future relationships with our major trading partners, which would deteriorate sharply in the absence of adoption of the MTN package." Asserting that the draft plan "involves little more than what we do now," Strauss addressed each of Blumenthal's criticisms in turn and suggested that the program was "'tilting the emphasis' instead of 'changing policy.'" (National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 8, Textiles Two)



**194. Memorandum From the U.S. Executive Director,  
International Monetary Fund (Cross) to the Under Secretary  
of the Treasury for Monetary Affairs (Solomon) and  
Members of the International Monetary Group<sup>1</sup>**

Washington, February 5, 1979

SUBJECT

IMF Consideration of Substitution Account

*Background*

In recent months there has been a renewal of interest in the possibility of establishing a substitution account for shifting official dollar claims to official SDR claims.<sup>2</sup> In the IMF, the Interim Committee communique last fall stated that this matter would be “kept under review,”<sup>3</sup> and some Executive Directors have recently proposed that the Board consider it promptly. In the Congress, Reuss and Javits have urged that such an account be established.

The U.S. has made clear that we have an open mind about ideas for evolution of the system; that we have no interest in preserving an artificial role for the dollar and are prepared to contemplate a reduction in its relative role; and that in considering substitution proposals our objective will be not to resist change but to ensure that any change will be an improvement from our own point of view and that of an open and stable system.

The substitution issue is on the agenda of the next Interim Committee meeting (March 7), and the IMF staff has prepared the attached paper for Board discussion February 12.<sup>4</sup> It argues the case for substitution on grounds that:

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<sup>1</sup> Source: National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group. Confidential.

<sup>2</sup> According to the official IMF history for the years 1979–1989, dollar depreciation in both late 1977 and late 1978 stimulated interest in the creation of a substitution account. (Boughton, *Silent Revolution*, pp. 937 and 939)

<sup>3</sup> The text of the Interim Committee communiqué, dated September 24, 1978, is printed in de Vries, *The International Monetary Fund, 1972–1978: Cooperation on Trial*, vol. III, Documents, pp. 239–242.

<sup>4</sup> Not attached. The IMF staff paper SM/79/30, January 29, from the Acting Secretary to Members of the Executive Board on “Review of the Question of a Substitution Account, and Related Issues” is in the National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group.

- it would represent an evolutionary move to strengthen the system and enhance the position of the SDR;
- without it there is a risk of continuing instability as governments seek to diversify reserves;
- the time to act is now, since the November 1 measures have stabilized markets and fundamentals are improving.

Three types of substitution are mentioned in the IMF staff paper. Some comments on each type follow.

*Type A—SDR-Denominated Claims Issued by the United States*

1. This is basically a guarantee scheme, not necessarily involving any *permanent substitution* of SDRs for dollars, increasing the use of SDR more as a unit of account than as an asset. (The claims issued by the U.S. would be very *similar* to SDRs, without the Fund-related provisions for designation, acceptance limits, guaranteed usability at “equal value” exchange rate, etc. However, if and when the account were liquidated, the U.S. obligation would presumably be to pay not SDRs but whatever number of dollars is called for under the SDR guarantee.

2. The exchange risk, and attendant possible gains or losses, is borne entirely by the United States. The IMF paper rather passes this off, saying the risk is less than what U.S. has taken on by DM and Swiss franc borrowing, which ignores the fact that we borrowed to accumulate resources for market operations rather than to mop up dollars.

3. U.S. legal and financial considerations need to be explored to determine possibilities for carrying exchange risk. We think it is probably legal for ESF to carry risk, but its resources are woefully inadequate. The General Account can borrow in foreign currencies, but there may be problems in its borrowing (and repaying) in dollars with foreign currency or SDR guarantee. We are researching this question.

4. Characteristics of the Type A “guarantee” proposal make it look more like a *dollar support* exercise, and less like a long-term evolution of the system toward the SDR.

5. There could be an incentive for *long-term* deposits (beyond 10 years), raising questions about our debt management policies and the ceiling on long-term issues by the Treasury. Similar questions would arise under Types B and C.

*Type B—Allocation of SDRs by the Fund*

1. Similar to Witteveen’s proposal last year for an SDR allocation tied to equivalent deposit of dollars by each participant. This time IMF staff says “U.S. could use its SDR allocation to buy dollars from those countries prepared to absorb additional dollars,” presumably in response to earlier criticisms that the U.S. was not paying out any “assets” under the Witteveen scheme. The staff paper also says that since SDR allocations must be proportional to quotas, this approach

“would involve heavy reliance on a mechanism through which many countries would sell their newly allocated SDRs for dollars to a few countries.”

2. Proposal was discussed in IMF Board last year, before allocations for 1979–81 were agreed. Several (especially U.K. and Belgium) were in favor, some with comment that U.S. should participate by paying gold or other assets. Some were opposed such as Germans who feared vicious cycle of substitution leading to more dollars leading to more substitution; and Italians, who wanted straight SDR allocation and felt that proposal would provide no future control over international liquidity. Many took no definite position but saw both pros and cons in the idea.

3. Type *B* provides the clearest and most immediate substitution of the three varieties.

*Type C—SDR-Denominated Claims Issued Through an Account Administered by the Fund*

1. This is the most novel approach. While no details are provided, one can envisage an account in which—at least at present interest rates—dollars deposited long term and earning say, 9 percent, could be used to pay SDR interest of, say, 6 percent and accumulate the difference for meeting the exchange risk.

2. If the U.S. were to pay interest to the account on the dollar deposits *in the form of SDR*, at least when it had SDRs, and the account were to pay out interest *in the form of dollars*, the account would gradually be transformed from dollars to SDRs.

3. Thus a form of Type *C* could be envisaged under which there would be a partial SDR guarantee, to the extent funds were available from the interest rate differential. The only U.S. obligation would be a claim against our future SDR earnings and allocations.

*Questions for IMG*

1. Would a move toward official substitution benefit the dollar in terms of short-term market psychology? If so, is one of the three approaches (or some alternative approach) preferable to the others?

2. Does it make sense to introduce schemes for official substitution without action on private international use of the dollar, or future official accumulations?

3. From the point of view of the U.S. long-term interest in a smoothly functioning international monetary system, and assuming substitution can be introduced *without* other major changes in the system, is substitution in the U.S. interest and worth the financial costs? I.e., is it the best use of U.S. resources in terms of exchange rate guarantees or giving up claims to future SDR allocations or earnings?

4. What are the prospects of negotiating substitution without other major changes in the international monetary system (most importantly, toward asset settlement and central control of international liquidity)? Would such changes be in the U.S. interest? In assessing this question is there a distinction to be made between movement toward such a system in the long run vs. the short run?

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#### 195. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>

Washington, undated

##### SUBJECT

Proposed Trade Arrangement with Textile Industry

I sympathize greatly with Bob Strauss' effort to work out an arrangement with the textile industry which would help assure passage of the MTN legislation and countervailing duty waiver extension bill. The industry could clearly cause us major problems and the stakes for the Administration are extremely high.

However, *it is my judgment that the program which has been negotiated would be extremely costly to a number of key Administration interests:*

—It would *add to inflation* by cutting back import levels, and would be widely perceived and publicly described as *inconsistent with the basic policy thrust of the Administration.*

—It would be an *extremely dangerous precedent, inducing numerous other industries to seek protectionist commitments* from the Administration as the price of their support for the trade legislation over the next six months.

—By providing for sharp rollbacks in import quotas, it would *reverse the whole history of United States trade (including textile) policy* which has always permitted at least minimum growth for foreign suppliers.

*Despite these severe problems, I would regard the package as barely acceptable if it were adopted in the context of successful conclusion of the MTN*

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 3, Foreign Trade (FT). No classification marking. Sent to Blumenthal for his signature under cover of a February 5 memorandum from Bergsten, who wrote: "Attached is the textile memo for the President, per your directions. I have informed Wolff of your view. His only response was to reiterate that they will be doing all these things anyway, so explicit announcement of the program adds nothing. This is of course fraudulent." (Ibid.)

legislation (and the earlier CVD waiver extension). In the absence of such an outcome we would get the worst of both worlds—no MTN and a highly restrictive textile program. In fact, the textile program should go into effect only upon successful completion of the MTN legislation.

I therefore recommend:

—That no textile program be accepted until absolutely essential to assure industry support for the MTN legislation.

—That its implementation be conditioned on successful conclusion of the MTN package including our implementing legislation.

—In the interim, that further efforts be made to improve the specifics of the program; most notably, its rollbacks of import levels and perhaps the “global import evaluation” which implies a USG commitment to global rather than country quotas.

W. Michael Blumenthal<sup>2</sup>

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<sup>2</sup> Printed from a copy with the signature “Mike (per copy)” above this typed signature.

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## 196. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>

Washington, February 6, 1979

### SUBJECT

Proposed Administration Textile Program

This proposal is a significantly restrictive international trade measure.<sup>2</sup> I recommend that you agree to it *only* on the condition that it goes into effect after the MTN is signed and in hand.

The industry is finally getting in this program what they have been seeking from the U.S. Government for years. It includes a very restrictive mechanistic “ratchet” effect (Import Control #4) that prevents im-

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 86, Textiles. No classification marking.

<sup>2</sup> Attached but not printed is a February 6 paper entitled “Administration Textile Program—Pursuant to the President’s Statement of November 11, 1978.” On November 11, 1978, Carter vetoed H.R. 9937, which contained a provision that rescinded U.S. authority to participate in textile negotiations in the MTN. For the text of Carter’s veto statement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 2010–2011.

porters from getting back to agreed upon import quotas on any category of imports if they should fall short in a given year. This sets a very bad precedent. This provision virtually guarantees substantial import restraint for many of the textile and apparel categories, because they are subject to large annual fluctuations. It will therefore have a net depressive effect on international trade and increase our inflation rate.

Given the very restrictive nature of this program, we should make it absolutely clear to the industry, as well as in public presentations, that this is a balancing item to the liberalizing effects of the MTN. Our position should be that this program is acceptable only in the context of balancing MTN costs and benefits. If the MTN should fail, we do not want to be saddled with this program. Moreover, we would not want to be on record with this program as the first in a series of very restrictive worldwide trade actions that might be taken if the MTN should collapse.

In short, this program should only be implemented in the context of a signed, sealed, and delivered MTN. If it is presented to the industry in this light, it might also have a chance of making them real allies in the CVD and MTN ratification fights.

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### 197. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, February 6, 1979

SUBJECT

MTN (U)

*Introduction.* You asked about the importance of the MTN to the U.S., France and others. This is a key question in the wake of the message that I brought back from my last meeting with French Trade Minister Deniau: that Giscard would veto the MTN argument if it were not altered in ways more favorable to France.<sup>2</sup> (C)

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 90, Economics/International: 1979. Confidential. Sent for action. Both Carter and Brzezinski initialed at the top of the page.

<sup>2</sup> Owen met with Deniau, as well as other U.S. and French officials, in Paris on January 23. A memorandum of conversation of the meeting is in the Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 22, Memcons: 1-4/79.

*Positive Effect.* The MTN reduction in trade barriers will help over the longer term to create jobs and reduce inflation in the industrial countries, and to hasten economic growth in the developing world. This effect will be blunted, at least in the short term, by the fact that (1) the MTN trade in barrier reductions will be smaller than some had hoped; (2) these reductions will be offset, to some extent, by concessions that we will probably have to make to certain U.S. industries (e.g., textiles), to get their support. (C)

*Negative Effect.* But there is more to it than this. British World War II infantry manuals advised troops that the best way to avoid mortar fire was by going forward, and somewhat the same principle applies in trade. It is difficult to mobilize anti-protectionist forces to resist the myriad of protectionist proposals that pop up every year in major trading nations. (C)

These forces can be mobilized, however, in support of efforts to achieve a wide-ranging trade agreement. Which is why major new trade negotiations are periodically undertaken to push back the frontiers of protectionism, or at least arrest their advance. These negotiations thus acquire a symbolic importance out of all proportion to their immediate economic effect. Their outcome shapes the climate for trade policy decisions across the board. (C)

If MTN negotiations fail, a large number of protectionist bills will almost certainly be introduced in the Congress; we are told that about twenty five are waiting to be thrown into the hopper within days, if MTN collapses. In the ensuing environment such bills would be hard to defeat. European and Japanese retaliation would surely follow. (C)

A few countries, including the United States and France, might gain for a short time by imposing trade barriers. But the spread of protectionism would quickly convert this modest gain into a major loss—by fueling inflation and curtailing economic activity. The statisticians say that a 10% increase in import prices could cause nearly a 5% decrease in world trade in two years, and that this would cause real economic growth in the OECD countries to fall by 0.6 percent. (C)

This slow growth would lower the profitability of US firms, and hence reduce their ability to make the innovative investments needed to increase productivity. This reduction would make the United States less competitive and less able to adapt to the changes taking place in the world economy, much as the UK is now. (C)

We would be particularly hard hit by the developing countries' diminished capacity to buy our goods in the face of rising trade barriers. With less export earnings, these countries' ability to buy US farm and industrial products would decline; they now absorb about 40 percent of our exports (25% if you don't count the OPEC countries). (C)

It is hard to see how an economic setback of this magnitude could occur without political repercussions. Resentment and recrimination would drive the US, Europe, and Japan apart. Antagonism between the West and the Third World would sharpen. The Soviet Union would be tempted to exploit resulting disarray, and East/West relations might worsen as a result. (C)

*France.* The French probably see some of the more immediate MTN implications described above. That is why they want an MTN agreement. But they also want to be sure that this agreement does not cause them too much domestic political pain, and they threaten to veto the negotiations in bargaining to this end.<sup>3</sup> (C)

We don't know how much this threat is a bluff, because we don't know how clearly they see the wider consequences of failure. To make sure that they do, we need to make evident, without threat or pressure, our view as to the heavy costs that they would have to bear if they were to cause the negotiations to fail. (C)

To this end, if you approve, I will send the attached letter (which has been cleared by State, STR, and Treasury) to French Trade Minister Deniau.<sup>4</sup> For us to remain silent in the face of the threatening message that the French have sent would, I believe, be taken as a sign of weakness—thus compounding the risk that the MTN will fail, more by French miscalculation than deliberate intent. Since the French message comes from Giscard, the answer should explicitly reflect your views. But since the message was delivered by Deniau, we should not escalate this exchange above the Ministerial level.<sup>5</sup> (C)

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<sup>3</sup> In the margin beneath this paragraph, Carter wrote: "It still seems to me that other nations who are more heavily dependent on exports would be hurt worse than U.S.—but we appear to be the supplicant. J."

<sup>4</sup> Not attached.

<sup>5</sup> Carter checked the option to approve sending the letter and initialed "J." Telegram 37790 to Paris, February 13, transmitted Owen's letter for delivery to Deniau. In the letter, which is dated February 9, Owen related Carter's views on the economic and political implications of a failure of the MTN and his desire for a quick conclusion of the U.S.–EC MTN negotiations. (National Archives, RG 59, Central Foreign Policy File, D790069–0310)



**198. Briefing Memorandum From the Acting Assistant Secretary of State for Economic and Business Affairs (Hormats) to the Under Secretary of State for Economic Affairs (Cooper)<sup>1</sup>**

Washington, February 8, 1979

## SUBJECT

Dollar Substitution and SDRs; IMG Meeting on February 9

The February 9 IMG meeting will discuss an IMF staff paper which put forward three ideas on how a substitution account could be structured.<sup>2</sup> The Fund's Executive Board is scheduled to discuss the paper on February 12, and the USED will look to the IMG discussion to frame his reaction. A copy of the Fund staff paper and a memo from USED Sam Cross are attached.<sup>3</sup> This memo reviews some of the general issues involved in a dollar substitution account and comments on the three specific ideas presented in the IMF staff paper.

*Background*

Arguments for a substitution account are generally based on two premises: (1) the substitution of dollars for SDRs would give greater stability to the monetary system by permitting diversification of reserves and thus reducing the vulnerability of major currencies to sudden demand shifts; and (2) a substitution account would advance the role of the SDR as the primary international reserve, a goal endorsed in the amended IMF Articles of Agreement.<sup>4</sup>

The first premise relates to claims that dollar weakness and systemic instability are directly connected to "excessive" dollars held overseas. One way to soak up "excess" dollars, the IMF staff concludes, would be a new account which would allow the substitution of the SDR for dollar holdings.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group. Limited Official Use. Drafted by John Lefgren (EB/IFD/OMA) and cleared by Michael Ely and William Milam, Director and Deputy Director of the Office of Monetary Affairs (EB/IFD/OMA).

<sup>2</sup> No record of the meeting was found.

<sup>3</sup> For Cross' memorandum, see Document 194. Regarding IMF staff paper SM/79/30, January 29, see footnote 4 thereto.

<sup>4</sup> The program of international monetary reform adopted by the IMF Interim Committee in January 1976 resulted in amendments being made to the IMF Articles of Agreement; see *Foreign Relations*, 1969–1976, vol. XXXI, Foreign Economic Policy, 1973–1976, Documents 128 and 129.

The second is the envisioned role of the SDR as the primary international reserve. Marginal allocations of SDRs to existing international liquidity will not move the SDR to the center of the international monetary system. In addition, increases in international liquidity should not be dependent on the deficits of reserve currency countries. It is argued that the creation of international liquidity should be delegated to an international body, the IMF, which would have power to regulate the creation of reserve assets. One goal of the substitution account would be the transformation of the current dollar-centered system.

The issues underlying USG discussion of a substitution account are, of course, our fundamental objective in the international monetary system and how it should be strengthened over the long run. Positions on the concept of the dollar substitution will reflect views on those basic questions.

#### *Problems of a Substitution Account*

The idea of a substitution account merits considerably more examination. However, current proposals for a substitution account, including the ideas discussed in the IMF paper, have failed to deal with three fundamental problems:

—*Active dollar balances are in the private sector.* Most overseas dollar assets are held by international banks and multi-national corporations, and these institutions are more prone to move out of dollars during a period of dollar weakness than are foreign central banks. Indeed, the central banks have become the depository of unwanted dollars from the private sector. A substitution account for official dollar holdings would not necessarily lessen the volatility of dollar assets in private capital markets. Even with a significant substitution of official dollar holdings, there is no assurance that exchange rates will tend to be more stable.<sup>5</sup>

—*Despite the recent improvement, there remains some doubt as to whether the SDR is a preferred reserve asset.* The IMF has allocated 9.3 billion SDRs to member countries. A quick review of the distribution of these SDRs as of November 1978 suggests that many countries do not wish to hold SDRs. About three-fourths of the IMF members have reduced their SDR holdings. This implies that the SDR has been used as a

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<sup>5</sup> In a February 8 memorandum to Cooper, his Special Assistant, Peter Clark, suggested that “if one supports a SA” on the basis of its potential contribution to stability in the foreign exchange market, “then one should have evidence that central bank (as opposed to private sector) shifts from dollars to other currencies have contributed to exchange market instability. If this could be established, it would then be necessary to show that a SA would in fact reduce destabilizing portfolio shifts by central banks and monetary authorities.” (National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group)

means of settlement before most alternative reserve assets. In most cases, it appears that central banks have used SDRs before dollar reserves. Given this lack of enthusiasm for SDR holdings, there is a legitimate question of how anxious central banks are to substitute their dollar reserves for SDRs. They already have the option at time of settlement, and few central banks have exercised it.<sup>6</sup>

—*Dollar substitution will likely mean increased Federal interest costs.* The U.S. Government is a net debtor and foreign central banks hold a third of the total Federal debt as foreign exchange reserves. Any substitution scheme which attempts to replace dollar reserves with SDRs will probably mean that the U.S. will have to assume the cost of bearing exchange risk and possibly higher dollar interest payments.<sup>7</sup>

#### *Specific IMF Proposals*

The ideas presented by the IMF staff appear, on first glance, to promise only marginal benefits to the international monetary system and could be costly for the U.S.<sup>8</sup>

The IMF staff outlined three possible forms of substitution accounts:

##### *A. SDR denominated claims issued by the United States.*

Under this proposal, foreign dollar holders (presumably official, but this might, in certain circumstances, be broadened to include private) could deposit their dollars in an IMF account in exchange for SDR obligations issued by the U.S.

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<sup>6</sup> In his February 8 memorandum to Cooper (see footnote 5 above), Clark commented on the notion that a substitution account would bolster the SDR's role in the international monetary system: "Assuming that this is a desirable, it is not clear that a SA by itself will achieve this objective. As Hormats' memo points out, it appears that the SDR is not the preferred asset in central bank portfolios. Mandating substitution or allowing SDR-dollar conversion is unlikely to raise the status of the SDR if its main features, e.g. rate of return, make it unattractive."

<sup>7</sup> In his February 8 memorandum to Cooper (see footnote 5 above), Clark noted regarding the idea that a substitution account "should (probably) not involve increased costs for the U.S.": "If the U.S. provides some kind of exchange rate guarantee by taking on an SDR-denominated liability, then clearly the interest rate we pay on this liability should reflect this. The Hormats memo (top of p. 3) is not clear on this point, since it implies that the U.S. might have to bear exchange risk *and* pay a higher *dollar* interest rate. Such a combination would clearly be unacceptable."

<sup>8</sup> In his February 8 memorandum to Cooper (see footnote 5 above), Clark suggested that a substitution account "must be considered in a wider context of the future evolution of the international monetary system," involving consideration of issues including "a) the role of reserve currencies as such, b) the natural tendency for central banks to diversify their portfolio of reserve assets out of dollars into appreciating currencies over the long run and c) the extent to which central banks should be permitted to behave as private portfolio managers and the extent to which their behavior should be constrained in order to achieve benefits for the entire system."

It appears that new SDR-denominated obligations (bonds) would be nothing other than illiquid assets which would have to be liquidated for other assets at the time of settlement—hardly an international asset used as a medium of exchange between central banks. Such a procedure would not necessarily enhance the reserve role of the SDR. It would only enhance the SDR as a unit of account in determining the obligations a debtor (the U.S.) has to its creditors (former holders of dollars).

If private dollar holders were allowed to use the IMF account to obtain SDR-denominated securities, there might be a reduction in the size of the dollar overhang and possibly more exchange rate stability.

In 1974–75, Chase Manhattan Bank offered SDR denominated certificates of deposits (CDs) to provide international creditors with protection from further dollar decline. The SDR denominated CDs did not prove popular because of the low rate of return on the SDR CDs which Chase felt necessary to offer in order to cover its exchange risk. This experience suggests that the USG may have to pay an interest premium to induce foreign dollar holders to exchange their dollar assets for SDR obligations.

*B. Allocation of SDRs by the IMF.*

This proposal is to establish an account which would receive dollar deposits from member countries in proportion to their quotas and in exchange for a new SDR allocation. The new SDR allocation would be equal to the “desired” amount of dollars to be absorbed. Furthermore, the U.S. could sell its SDR allocation for unwanted dollars. The dollars exchanged for the newly created SDRs would be kept by the IMF in non-transferable long-term claims against the United States.

This proposal is essentially the mechanism presented last year by the IMF. The approach presupposes that most IMF countries are anxious to exchange their dollar holdings for new SDRs. This may not be the case unless SDRs are no longer regarded as inferior assets.

*C. SDR Denominated Claims Issued Through an Account Administered by the IMF.*

This proposal would establish an account which would accept an unspecified amount of dollars in exchange for SDR denominated claims on a voluntary basis. The Fund-held dollar assets would, over the long-run, have to equal or exceed the value of SDR claims to cover the Fund’s exchange risk. This implies that the interest earned on USG securities purchased with the dollars deposited in the account would be higher over time than the interest paid to the holders of SDR denominated claims. This approach would provide a safe haven for “ex-

cessive” dollar reserves, but it, too, raises the question of whether central bank officials will consider these SDR claims as preferred assets.<sup>9</sup>

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<sup>9</sup> In March 1979, de Larosière submitted a more detailed version of this proposal to the Interim Committee, one in which the “account would convert its assets into longer-term dollar-denominated claims on the U.S. Treasury, which would pay a suitably long-term interest rate on them. Interest would be paid to depositors at the official SDR interest rate (which at the time was maintained below the market rate). The intention was that the account’s exchange risk would be covered by the difference between the long-term U.S. bond rate and the official SDR interest rate.” The Interim Committee, in turn, indicated its “broad support” for active consideration of such an account. (Boughton, *Silent Revolution*, p. 939)

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### 199. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, February 8, 1979

#### SUBJECT

The Textile Program in the MTN

Enclosed is the final text of the Administration Textile Program which we will discuss again this morning.<sup>2</sup> Its acceptance on our part will give us no less than the support of the textile industry and qualified support of the key unions as we seek first the extension of the authority to waive countervailing duties, and second, approval of the MTN agreements. Support of this bloc will make both tasks significantly easier; their opposition would be fatal. The benefits of having them in a position of support and cooperation will extend beyond these immediate legislative objectives, I am certain.

This industry, employing almost two and a half million people, more than half of them women, and a large portion minorities, has been provided with special programs of various kinds going back to the

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 8, Textiles Two. No classification marking. An unknown person wrote at the top of the page: “1) 1st cost—slightly infl; Presentational. 2) Ambiguities; deliberate = Hagglng.”

<sup>2</sup> Attached but not printed is a February 7 paper entitled “Administration Textile Program—Pursuant to the President’s Statement of November 11, 1978.” Carter met with Strauss and Eizenstat in the Oval Office on February 8 from 9:45 until 10:30 a.m. (Carter Library, Presidential Materials, President’s Daily Diary) No memorandum of conversation was found.

Roosevelt Administration, and the present type of import-control program has existed for almost twenty years.

Currently the industry is most concerned about rapid surges in specific products from other nations which can cause rapid loss of jobs and production. Their proposal is to allow trade to grow, but not in such disruptive ways—and that is the principal thrust of this paper.

As I explain in an attached outline of how this paper developed,<sup>3</sup> it began after the industry had secured an overwhelming vote in the Congress to take textiles out of our MTN tariff negotiations, which legislation you vetoed on November 11, 1978. Your veto message (which I also enclose)<sup>4</sup> was the starting point for this program.

Several agencies have expressed a distrust of this industry and its associated unions, fearing that once a program such as this has your approval they will renege on their promises to help us in the Congress. They recommend that failure of the MTN for any reason should immediately terminate the program we have set out upon. I do not believe this is realistic, but I do agree that we should think about how to handle certain elements of the textile trade should the MTN not be approved. I feel certain that a number of agencies would want to review where we stand in that event.

As a whole, the document we have drafted addresses a number of the industry's problems in a coherent way, giving them a degree of certainty for annual planning purposes. This, as you know, is crucial to good business operations. Most of what is in here is already in place or is on the way even without this paper. There are, however, several concepts enunciated which represent the first statement of these policy directions:

(1) *A global evaluation of imports.* This is a promise that when we look at potential quantitative restrictions for a supplier we will consider the total volume of imports of the category of goods in question from all sources. This recognizes that a sharp increase from one source which would not cause us to respond if it were the only such increase, would in fact cause action to be taken if it occurred on top of substantial and disruptive levels of imports from multiple sources.

(2) *An evaluation of the growth of imports from our three principal suppliers (Hong Kong, Korea and Taiwan) in the context of the growth of the domestic market.* Currently growth accorded these major suppliers is determined without explicitly requiring a review of the condition of the U.S. market, often giving imports a disproportionate share of the

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<sup>3</sup> Attached but not printed is an undated paper entitled "Chronology of the Administration's Textile Program."

<sup>4</sup> Attached but not printed is the November 11, 1978, press release announcing Carter's veto of H.R. 9937. See footnote 2, Document 196.

market growth. In the next three years we would have an annual review of this relationship and take it into account in our negotiations.

(3) *Avoidance of surges which now can occur when a country substantially underships its quota and then moves to full quota the next year.* To avoid some very significant surges, we would under normal circumstances, limit a country to an increase of half of its unfilled portion in that product, but recovering fully in a relatively short period. This is one of the key points of providing some certainty for business planning.

The remainder of the significant elements of program fall within policies already in effect, and in some instances includes promises which have already been fulfilled.

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## 200. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, February 12, 1979

RE

Administration Textile Program

Pursuant to the instructions you gave Cooper, Eizenstat and me with respect to textiles,<sup>2</sup> this will advise as follows:

1. We have clearly established that Finley and Chaikin will not only support the MTN as being good for their people and lobby for it, but Chaikin advises he will, if necessary, not only contradict Meany but so testify.

2. Detailed discussions with respect to ambiguities are in the process of being completed. Notes in the respective files clearly reflect the intentions of the parties. There are certain areas where specificity is impossible and in these instances, we are making a record that clearly indicates that where differences of opinion exist they will not be charged to bad faith or failure to live up to commitments.

3. Any necessary language changes will be made.

4. Congressional support is assured.

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 8, Textiles Two. No classification marking. Carter initialed “C” at the top of the page.

<sup>2</sup> Not further identified.

Is it your desire that when Eizenstat, Cooper and I are satisfied that your concerns have been met, that I should conclude the negotiations or do you desire I bring it back to your desk for a final sign-off?

*Option 1.* When Cooper, Eizenstat and Strauss are satisfied, conclude the negotiations (Eizenstat recommends)<sup>3</sup>

*Option 2.* When Cooper, Eizenstat and Strauss are satisfied, return to my desk for final acceptance or rejection

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<sup>3</sup> Carter indicated his approval of this option and initialed "J." On February 15, Carter administration officials reached an agreement with textile industry representatives on a new textile import program. ("U.S. in Pact On Textile Protection," *The New York Times*, February 16, 1979, p. D1)

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## 201. Memorandum From Guy F. Erb of the National Security Council Staff to the Special Representative for Economic Summits (Owen)<sup>1</sup>

Washington, February 24, 1979

### SUBJECT

Selective Safeguards and Conditional Most-Favored-Nation Treatment: TPC Meeting, Tuesday, February 27, 1979, 2:00 p.m.

Tuesday's TPC meeting will take up two very important trade policy issues: conditional application of most-favored-nation (MFN) treatment and selective import safeguards.<sup>2</sup> TPC decisions on these issues could affect the direction of U.S. trade policy for a generation.

### *Conditional MFN*

For the last several decades the United States and other non-Communist countries have generally applied both trade benefits and trade restrictions on a non-discriminatory basis, an exception being voluntary export restraint agreements. The heart of the General Agree-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 108, North-South Policy: 1979. Confidential. On February 24, Erb sent a copy of the memorandum to Brzezinski; in his cover memorandum, he noted his recommendation that Owen "and the NSC staff oppose a 'conditional' most-favored-nation policy as well as selective safeguards. In my view, a US decision to adopt either of these policies would require Presidential approval." Brzezinski underlined the phrase "either of these policies" and wrote "I agree" below it. (Ibid.)

<sup>2</sup> No memorandum of conversation of this meeting was found.



ment on Tariffs and Trade (GATT) is its first Article, which establishes the most-favored-nation principle (unconditional MFN in today's jargon). Unconditional MFN is also embodied in numerous treaties of Friendship, Commerce, and Navigation that the United States has signed.

Despite the weight of tradition and GATT practice, as a *negotiating tactic* in the MTN the United States and other developed countries have suggested that the rights and benefits agreed to in the trade codes, e.g., on subsidies and countervailing duties, will be extended only to countries that become parties to the codes. This tactic was intended to encourage LDC participation in the codes; there is also a feeling in the Government and in some trade policy circles that only those countries that accept a code's obligations should benefit from it.

Trade policy officials in the U.S. Government have postponed as long as possible the day when a choice will have to be made between maintaining the tactical position and reaffirming or rejecting unconditional MFN. That day may now be upon us.

The problem arises most clearly in the case of the subsidy code and to a somewhat lesser extent in the Government procurement code. Among LDCs, only Brazil has indicated its willingness to sign the subsidies code and may even decide to put off its adherence until after UNCTAD V.<sup>3</sup> We may well have to present the code to the Congress without assurances of LDC support.

Those *in favor of conditional MFN*<sup>4</sup> argue that:

—U.S. acceptance of an injury test in the subsidy code depends on other countries' acceptance of greater discipline on subsidies. Giving LDCs a free ride on the injury test upsets this balance. It would be difficult to defend to Congress and could undermine chances for approval of the subsidy code and the MTN package.

—The principle that trade negotiations must result in "reciprocal and mutually advantageous arrangements" is as important to the GATT as the MFN principle.

—Without the leverage of conditional application of the injury test, LDCs will have no incentive to accept the rules on subsidies or to participate in the administration of evolution of the subsidy code.

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<sup>3</sup> See footnote 2, Document 148.

<sup>4</sup> On February 26, Bergsten sent Cooper a Treasury Department memorandum entitled "Unconditional MFN and the Codes." According to Bergsten, both Blumenthal and Solomon felt "very strongly that we must go conditional on the subsidy code, and we would want to discuss it at very high levels if you were to support any other course of action." (Memorandum from Bergsten to Cooper, February 26; National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 4, Trade—MTN—Jan—Mar, 1979)

Those *against conditional MFN* argue that:

—MTN results that are not applied on a most-favored-nation basis will increase, not reduce, the contentiousness in our bilateral trade relations. Discrimination in U.S. law and actions against countries such as Mexico or Korea will be a serious and continuing foreign-policy problem for us.

—Conditional MFN weakens the GATT. It is a clear violation of GATT Article I. Imposition of countervailing duties without an injury test could give rise to claims against us under GATT Article XXIII.<sup>5</sup>

—Countries cannot avoid GATT commitments simply by deciding that the provisions of a code shall apply only between the parties to it.

—If adopted, conditional MFN would become a difficult issue at UNCTAD V and a long-term problem for North/South relations. It would reinforce the LDCs that lean away from the GATT toward UNCTAD.

I *recommend* that you argue against conditional MFN at the TPC meeting. If it proves impossible to avoid some compromise with proponents of conditional MFN, two options may be considered by the TPC:

*Option 1.* Apply the injury test on an MFN basis for three years or another limited period. This would permit major LDCs to negotiate their terms of accession as provided for in the codes on subsidies and, perhaps, Government procurement. If key LDCs had acceded to the code by the end of three years, unconditional MFN would be applied to all other LDCs. If key LDCs had still not joined the code at the end of the three years, the U.S. approach should be reexamined.

This option would be easier to present to Congress if some key LDCs such as Brazil, Mexico, Korea, or India would join from the outset. The need for a transition period may be accepted by Congress. Most LDCs have not been involved in the negotiations on the subsidies code and the U.S. itself needs time to phase in the injury test on outstanding countervailing duty cases.

*Option 2.* Apply the injury test only to code signatories until such time as all of a selected group of key countries had signed the code, after which the MFN rule would apply.

*I strongly recommend Option 1 if it proves necessary to compromise.*

### *Selective Import Safeguards*

The European Community advocates a safeguards code that would allow a country to apply import restrictions *selectively* to those countries whose exports were causing severe problems. The United

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<sup>5</sup> Article I of the General Agreement on Tariffs and Trade deals with "General Most-Favored-Nation Treatment." Article XXIII deals with "Nullification or Impairment."

States has resisted this approach, although Bob Strauss has told the Europeans that, at the end of the day, we could accept some carefully defined selectivity, provided that the LDCs accepted it as well.

There are now indications that the United Kingdom—hitherto one of the strongest proponents of selectivity—could accept an MTN agreement that left the selectivity issue open. France has also proved susceptible to LDC pressure against selectivity and French officials have not lately pressed U.S. negotiators to accept the EC approach. In short, our decision to let the EC take the heat from the developing countries seems to be working. A standoff between the EC and the developing countries and a postponement of this issue would meet our objectives and probably temper LDC criticism of the MTN at UNCTAD V. We therefore should not now take any action that would diminish the prospects for an EC decision to temporize on selectivity.

Al McDonald has long been willing to strike a deal with the Europeans on selectivity, which he and Howard Samuel<sup>6</sup> regard as a selling point for the MTN on Capitol Hill. Moreover, GATT Director-General Long has just released a draft text on selectivity.<sup>7</sup> Long's encouragement of negotiations on selectivity might lead Al McDonald to argue that we should now line up with the developing countries.

*I recommend* that we continue to stand back from the EC–LDC negotiations. Furthermore, we should not agree to Long's suggestion to broaden the negotiations on selectivity since his approach could well lead to confrontation between the United States and the developing countries.

### *Final Considerations*

A TPC decision to accept conditional MFN or selective safeguards would make it considerably more difficult than it already is for the President to inform Lopez Portillo that we have taken adequate account of LDC interests in the MTN. The TPC's decision could well influence Mexico's approach to the GATT, an issue of overriding importance for our relations with that country.

Acceptance of conditional MFN or selective safeguards would amount to a reversal of long-standing U.S. trade policies. In a system that requires the President to decide whether or not to restrict imports of clothespins, we can legitimately argue that decisions of this magnitude also require Presidential review. If the TPC seems likely to en-

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<sup>6</sup> Howard Samuel was Deputy Under Secretary of Labor for International Affairs from 1977 until 1979.

<sup>7</sup> Telegram 2946 from Geneva, February 21, discussed Long's effort to effect a compromise on the selectivity issue; telegram 2951 from Geneva, February 21, transmitted his proposed text. (National Archives, RG 59, Central Foreign Policy File, D790081–0095 and D790081–0400, respectively)

dorse *either* conditional MFN *or* selective safeguards, I strongly recommend that you request that a decision memo go to the President.

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## 202. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, February 27, 1979

### SUBJECT

Summit Themes for 1979 and 1980 (U)

1. 1979. Charlie Schultze and I believe that the main theme of the Tokyo Summit should be structural change. Bonn focused on the short-term macro-economic policy, partly because that was the best framework in which to press for the German stimulus we wanted. What we need from Japan is not a specific short-term action but measures—opening the Japanese market more to imports, and shifting to reliance on domestic demand rather than exports for Japanese growth—which will take several years to accomplish. A Summit that focused on long-term structural change would provide a framework for seeking these Japanese measures. It would also provide a framework for examining energy and North-South problems which, by their nature, require long-term solutions. I will propose this theme to the March meeting of the Summit Preparatory Group in Tokyo, and report back to you.<sup>2</sup> (C)

2. 1980. Gerard Smith and I believe that a major goal at the 1980 Summit should be to conclude an agreement regarding international ownership and management of certain key elements of the nuclear fuel cycle: reprocessing, enrichment, spent fuel shortage, and plutonium storage. Gerry believes that negotiations, in and out of INFCE, may have progressed far enough to make this feasible. Such an international approach to nuclear energy would both advance non-proliferation and meet nuclear energy legitimate needs; it would be a historic move, comparable to the 1950 agreement between France and Germany to

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 64, Summits: 1/78–8/79. Confidential. Sent for information. Both Carter and Brzezinski initialed at the top of the page.

<sup>2</sup> In the margin adjacent to this paragraph, Carter wrote: “Not a very attractive theme. Is it too obviously pointed at Japan?”

create a European Coal and Steel community. Pat Caddell tells me that there is enough domestic interest in proliferation to make such an agreement politically rewarding, as well as substantively useful. Very serious obstacles exist, which may prevent us from getting the agreement, but we will try to gear our actions between now and then to this goal.<sup>3</sup> (C)

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<sup>3</sup> Carter wrote “ok” in the margin adjacent to this paragraph.

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### 203. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, March 1, 1979

#### SUBJECT

US Economic Policy Toward Japan (U)

You asked that I work out with interested US officials an economic strategy regarding Japan. This memo reports the results. Mike Blumenthal, Bob Strauss, Tony Solomon, Dick Cooper, Jules Katz, Dick Holbrooke’s staff, Fred Bergsten, and others have been involved in these discussions. I have tried to take account of helpful views that we have received from Mike Mansfield<sup>2</sup>—and also from Pat Caddell, who has recently returned from Japan. (U)

1. *The Problem.* Because of Japan’s moderate growth policy and, more importantly, because of the various Japanese domestic practices that inhibit access to the Japanese market, Japan’s current account surplus is substantial. Recent CIA estimates suggest that the surplus may be declining more rapidly than we had expected, partly because of the effects of yen appreciation—which have not yet been fully felt. Our economic experts who recently visited Japan estimate that the surplus

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 1–3/79. Confidential. Sent for information. Carter wrote at the top of the page: “Good memo. J.” The memorandum was sent to Brzezinski for forwarding to Carter under cover of a February 27 note from Owen, who noted that he had checked the memorandum with Platt. (Ibid.)

<sup>2</sup> Between November 1978 and March 1979, Owen and Mansfield exchanged a series of letters on U.S.-Japanese economic relations; the letters are in the Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 22, Japan Bilateral 3/79 in Tokyo: 3/79 [III].

will be significantly smaller this year than in the past two years. They also estimate, however, that it may increase after 1979 and remain large for several years. (C)

This large Japanese surplus has adverse effects on the world economy. Together with restrictions on US business entry into Japan, it has generated demands on the Hill for anti-Japanese protectionist legislation, which only intense personal efforts by Bob Strauss have held in check and which will prevail later this year in the absence of changes in Japanese policy. Majority Leader Byrd, Senator Bentsen, Congressman Rhodes, and other influential Congressional leaders are deeply, bitterly, and increasingly concerned with this issue. These US pressures for change in Japanese policy have generated deep resentment in Japan; passage of anti-Japanese legislation would dramatically compound the damage. If we cannot soon devise a cooperative US-Japanese approach to this problem, it could severely damage the wider US-Japanese political and security relationship. (C)

2. *Japanese Attitudes.* The Japanese feel that they are doing everything possible to reduce their surplus—both in shifting from an export-led to a domestic-led economic expansion and in reducing import barriers. Some progress has been achieved: Administrative steps have been taken by Japan to increase imports, and MTN and textiles agreements have been negotiated. (C)

The Japanese are reluctant to accelerate these remedial policies: Their budget deficit is already large and they feel that there would be political difficulties in increasing it further; their business community resists larger imports of manufacturers; and they are chary of trade policies that might lead to later balance of payments deficits. (C)

But the Japanese are also anxious to avoid a confrontation with the US. They now understand that Congressional reactions to Japanese policies could place MTN in jeopardy and cause anti-Japanese-protectionist legislation to pass. And they are anxious to avoid further yen appreciation, which might result from a continuing large current accounts surplus. (C)

3. *Short-Term.* The task now is to translate the resulting Japanese desire for compromise into specific understandings. Our immediate need is to persuade Japan to take certain MTN-related actions—notably opening government monopolies to outside bidding, and phasing tariff cuts so as to “front load” these cuts in the early years. (C)

If these decisions are taken quickly, they will have a beneficial effect on the U.S. private industry advisory reports that must be completed and made public when we submit MTN implementing legislation to the Congress in April. The Japanese understand this, and relevant negotiations between them and us are underway. (C)

4. *Medium-Term*. Reducing the Japanese surplus will require not only specific early decisions, such as noted above, but longer term changes in Japanese policies regarding domestic demand and access to the Japanese market. If persuasive assurances that these changes are going to be made can be secured at the Summit, this will enhance our chances of passing MTN and defeating anti-Japanese protectionist legislation, both of which may be coming up for a vote in late summer. (C)

In part, these assurances require specific Japanese actions, e.g., commitments to submit a supplemental expansionist budget to the Diet in September, and revision in present Japanese import procedures. In part, they may require a long-range agreement between the US and Japan about the trade and economic goals that both countries will seek to achieve in the next five years. The specific actions would be an earnest of good intent; the long term agreement would make clear both that basic changes are needed and that these changes will take several years to complete. (C)

If the Japanese decide to move in these directions, corresponding US commitments (e.g., to promote exports, improve productivity, and reduce oil consumption) could be used by the Japanese Government in presenting its decisions to the Japanese public as part of a balanced package. US actions in other fields might also help to create an environment in which we would be more likely to get the concessions we want from Japan:

—Japan is interested in an Alaskan oil swap, and this is being studied by DOE. (C)

—Gerard Smith believes that we might be able to meet Japanese nuclear concerns by cooperating with Japan and Australia to build a jointly owned and operated enrichment plant in Australia; he will examine this possibility. (C)

—A US-Japanese program of technical aid to Asian countries is a favorite idea of Ohira; we are considering whether our proposed new Institute for Technological Cooperation<sup>3</sup> could be used to this end. (C)

—A US-Japanese grains agreement might be popular in both countries, and Agriculture proposes to discuss this at a technical level with the Japanese.<sup>4</sup> (C)

4. *Timing*. Needed Japanese actions were discussed with Ambassador-at-Large Yasukawa, when he visited Washington recently.<sup>5</sup> Further discussions will take place during Mike Blumenthal's

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<sup>3</sup> See Document 311.

<sup>4</sup> Carter wrote "good" in the margin adjacent to this paragraph.

<sup>5</sup> Memoranda of conversation of the February 1979 meetings between U.S. officials and Takeshi Yasukawa, Ohira's personal representative, are in the Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 22, Japan Bilateral 3/79 in Tokyo: 3/79 [II]; Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 22, Memcons: 1-4/79; and Carter Library, Na-

visit to Japan.<sup>6</sup> When Dick Cooper and I go to Tokyo for the meeting of the Summit Preparatory Group in March, we will try to agree with the Japanese on how different economic issues might be distributed among your upcoming bilateral and Summit meetings with Ohira, so that something of use to us emerges from each of these meetings. (C)

In the present state of Congressional opinion, high-level meetings that only resulted in an exchange of views would be a setback. Meetings that achieved or clearly foreshadowed concrete economic agreements would be helpful in both countries, and could also be the occasion for reaffirming the central political and security importance of the US Japanese relations.<sup>7</sup> (C)

I will submit a further progress report to you when I return from Tokyo. (U)

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tional Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 24, Japan: 1-3/79.

<sup>6</sup> Blumenthal visited Tokyo March 4-5 at the end of a trip to China that began on February 24. A memorandum of conversation of Blumenthal's March 5 meeting with Ohira is in the Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 22, Japan Bilateral 3/79 in Tokyo: 3/79 [II]. Blumenthal reported on his trip to Carter in a March 5 memorandum. (Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 122, 3/7/79 [2]) He also met with Carter on March 6 to discuss the trip. The portion of the March 5 memorandum on Blumenthal's stay in China and the March 6 memorandum of conversation are printed in *Foreign Relations, 1977-1980*, vol. XIII, China, Documents 224 and 225.

<sup>7</sup> Carter wrote "True" in the margin adjacent to this paragraph.



**204. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, March 6, 1979

## SUBJECT

Your Telephone Conversation with Schmidt: The MTN and Turkey<sup>2</sup> (U)

1. *MTN*. Ministers of the European Community nations considered the MTN yesterday in a meeting of the European Council in Brussels.<sup>3</sup> The Commission indicated that it intended to initial an agreement with the US in early April; formal European Council approval would come in late summer after the US Congress has acted (and after the French have gotten through their June elections).<sup>4</sup> Early April would be the latest that initialing could take place, if MTN implementing legislation is to be approved by our Congress this year. Germany, Denmark, and Belgium were strongly supportive; Britain, the Netherlands, and Luxembourg agreed, subject to resolution of some specific questions; but France—with some support from Italy and Ireland—did not give a green light to the Community's negotiators to initial the MTN. The French indicated that they still have difficulties on the balance of tariff cuts and agriculture; the issue of tariff cut phasing has been resolved. Jenkins said that the Commission would try to get a better deal from the US, but that there would not be major changes, and they would ask the April Council of Ministers meeting to approve their initialing. (C)

Next week the Community's Heads of State will consider the MTN at the request of the French. Ambassador Hartman suggests that you now write Giscard to stress the importance of concluding the MTN accord now. We will submit a letter to you later this afternoon. During your phone conversation with Schmidt, you might ask Schmidt to weigh in with Giscard at the European Heads of Government meeting

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 24, German Federal Republic: 2–4/79. Confidential. Sent for action. Carter wrote at the top of the page: "Henry. J."

<sup>2</sup> Carter spoke to Schmidt by telephone on March 6 from 3:20 until 3:29 p.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation was found.

<sup>3</sup> Telegram 4257 from USEC Brussels, March 6, which transmitted a report on this meeting, noted that "EC Foreign Ministers took no decisions on MTN package at their March 5 Council in Brussels, but Council President, François-Poncet, concluded from the discussions that the Nine would have to take a 'definitive position' at the April 3 Foreign Ministers Council." (National Archives, RG 59, Central Foreign Policy File, D790103–0162)

<sup>4</sup> Apparently a reference to the European parliamentary elections held June 7–10, 1979.

(as his staff are recommending to him), and also ask if he believes a letter from you to Giscard would now be useful.<sup>5</sup> (C)

We also believe that a message from you to the leaders of Italy, Ireland, the UK, and the Netherlands would help move those countries toward acceptance of the MTN package.<sup>6</sup> If you approve, we will ask our Ambassadors in these countries to make clear your commitment to the MTN and your hope that they will support the results of these negotiations, in terms similar to those that you approved for Henry Owen's message to French Trade Minister Deniau.<sup>7</sup> We will also ask our Ambassador to the European Community to congratulate Roy Jenkins on the results achieved so far, and to encourage him to exert his leadership to gain member states' approval of the MTN.<sup>8</sup> (C)

[Omitted here is discussion of aid to Turkey.]

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<sup>5</sup> Carter wrote "No—I'm not writing him again" in the margin adjacent to this paragraph. On January 6, Carter handwrote a note to Giscard that reads: "I want to reemphasize to you the importance we attach to an early & successful conclusion of the Tokyo round of trade talks. Further delay will make it even more difficult for me to obtain Congressional approval this year. Please do what you can to help." (Carter Library, Plains File, President's Personal Foreign Affairs File, Box 1, France, 9/77-5/81)

<sup>6</sup> Carter wrote "ok" in the margin adjacent to this sentence. No such messages were found.

<sup>7</sup> Apparently a reference to the letter in telegram 37790 to Paris, February 13; see footnote 5, Document 197.

<sup>8</sup> Carter did not indicate his approval or disapproval of these recommendations, and no such instructions were found.

**205. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, March 27, 1979

## SUBJECT

Summit Preparatory Group Meeting in Tokyo<sup>2</sup> (U)

There was a general consensus that the three main Summit topics should be energy, macro-economic policy, and North-South relations. Papers on these and other issues will now be prepared. Under each heading, we will be looking for concrete decisions that the heads of government could take in addressing both immediate and longer-term problems. (C)

1. *Energy*. An international working group under Japanese leadership will consider: measures to restrain consumption (the British and others said that under this heading they will want the US to report what it is doing to fulfill our Bonn commitment); a large-scale and coordinated increase in investment to produce alternative forms of energy, e.g., coal liquidation and gasification; a major international research and development effort concerning renewable energy sources; and a program of increased and more effective aid to help LDCs increase their energy output.<sup>3</sup> (C)

2. *Macro-Economic*. An international working group under Charlie Schultze's leadership will examine both short-term and medium economic prospects for the Summit countries. Discussions in Tokyo focused on:

—Asking Germany and Japan to maintain presently projected rates of growth (4% for Germany and 6% for Japan). The representatives of other European countries (particularly France) believe that their countries have benefited substantially from the 1% additional

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 30, Summit: Preparatory Group Meeting: 5/18–19/79 in Washington: 5/79 [I]. Confidential. Sent for action. Carter and Brzezinski both initialed at the top of the page.

<sup>2</sup> The G-7 Summit Preparatory Group met in Tokyo March 22–23. On March 28, Owen and Hormats provided a more detailed report on the meeting to Cooper, Solomon, Gramley, CEA senior staff economist Val Koromzay, and NSC Staff member James Cochrane. (Memorandum of conversation, March 28; *ibid.*) Owen, Schultze, Cooper, Solomon, Hormats, Koromzay, and Cochrane held a meeting on March 15 to discuss the U.S. approach to the Summit Preparatory Group meeting. (Memorandum for the record, March 15; *ibid.*)

<sup>3</sup> Carter wrote “& solar” at the end of this paragraph. He also wrote “good” in the margin adjacent to the paragraph.

expansion of the German economy agreed at Bonn; they want that growth to continue.

—Asking the US and other countries with large external deficits to increase investment in order to improve productivity.

—Asking Japan, and to a lesser extent Germany, to undertake structural changes in their economies that would reduce their structural surpluses. (European representatives warned that if Japan has not made marked progress in improving its economic policies by Summit time, their heads of government will focus heavily on the need for such improvement.) (C)

3. *North-South*. The British will lead this working group, which will examine such questions as how to:

a. encourage greater capital transfers to developing countries—particularly by international institutions (World Bank and IMF) and private investors;

b. mount an expanded international effort, led by the World Bank, to help LDCs increase food output;

c. launch an international effort by our new Institute for Technological Cooperation and like institutions and programs in other Summit countries to carry out effective research and development on programs of particular concern to LDCs. (C)

Besides these three major issues, we talked about Summit consideration of international efforts to meet such threats to the quality of life as trade in toxic substances and the rapid depletion of natural resources (desertification, deforestation, etc.). The US will do papers on these issues. (C)

It was agreed the heads of government would probably want to discuss East-West economic issues and such problem countries as Turkey at their pre-Summit dinner. (C)

The group agreed to recommend to the heads of government that they issue on Thursday,<sup>4</sup> 6:00 p.m., Tokyo time (Thursday morning our time) the announcement (Tab A)<sup>5</sup> that the Summit will be held June 28 and 29. You will recall that it was previously agreed to defer the decision on Summit timing until this first preparatory group meeting. (C)

#### RECOMMENDATION

That you approve our issuing the attached announcement (Tab A) through the White House Press Office.<sup>6</sup> (U)

<sup>4</sup> March 29.

<sup>5</sup> Attached but not printed.

<sup>6</sup> Carter indicated his approval of the recommendation. For the text of the announcement of the Tokyo G-7 Summit, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, p. 550.

**206. Memorandum From Nicholas Platt of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and the President's Deputy Assistant for National Security Affairs (Aaron)<sup>1</sup>**

Washington, April 3, 1979

SUBJECT

The Japanese—What Have They Done for Us Lately?

At the staff meeting March 29 you asked whether the apparently endless series of high-level consultations with the Japanese have produced any tangible results. The answer is that they have, although the Japanese response has at each stage been too late and too little to make much political impact. When you mark where we were when we began intensive efforts to solve the trade problem 18 months ago and where we are now, the substantive progress becomes more measurable.

*What Have the Japanese Done?*

American pressure during the series of meetings since September 1977 has been focused on encouraging the Japanese to reduce their massive current account surplus and open their markets wider to imports of foreign manufactures. In response, the Japanese have:

—Adopted stimulative budgets resulting in a growth rate of about 5.5 percent—less than the 7 percent targeted, but higher than any other major industrialized democracy.

—Allowed the yen to appreciate 25 percent during 1978.

—Voluntarily limited exports to the U.S. of cars, ships, TV's, textiles, and steel.

—Allowed imported cars easier pollution standards than applied to their own.

—Reduced industrial tariffs on items of particular importance to us like computers and color film.

—Made major long-term concessions on the MTN, including industrial tariff cuts averaging 44 percent.

—Made major increases in key agricultural quotas like beef, citrus, and leather.

—Purchased emergency imports of uranium enrichment services and other commodities worth an estimated \$3 billion.

—Increased the volume of manufactured imports at a rate of 10 percent a year.

—Reversed the trend in the current account surplus. If current projections prove out, the current account surplus for fiscal 1979 (April 1–

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 25, Japan: 4-5/79. Confidential. Sent for information. A stamped notation reads: "ZB has seen."

March 31) will be \$7.5 billion, still huge, but roughly half of what it was last year.

The frictions and pressures attending the embarrassing size of the Japanese surplus have encouraged the Japanese to be more cooperative on a wide variety of other issues. During the 18 months in question, for example, the Japanese have:

- Taken the initiative to increase their contribution to United States military base costs in Japan from roughly \$500 million to \$700 million a year. Some of this reflects yen appreciation, but most is in the form of increased payments for military housing, labor, and administrative costs.

- Placed orders to purchase and coproduce over the next several years \$6.5 billion worth of U.S. aircraft, including F-15's and P3C's, strengthening air defenses and anti-submarine warfare capability and improving interoperability with U.S. forces.

- Responded to our requests for contributions to politically related aid programs, such as those for Egypt.

- Become, after us, the second largest donor to the UN High Commissioner for Refugees.

- Cooperated in working out joint energy R&D projects.

- Undertaken half the costs of the Fulbright program.

#### *What More Do We Want?*

A lot. We are still pressing the Japanese for measures to open their markets wider and further reduce their general account surplus. We want them to:

- Abolish agricultural quotas altogether.

- Import more manufactures from us.

- Simplify import procedures.

- Permit government procurement of American equipment, particularly computers and telecommunications gear.

- Provide improved reciprocal access for American banks and insurance companies.

- Speed up tariff cuts.

- Encourage direct investment in the United States.

- Contribute more to U.S. base costs in Japan and to refugee programs.

- Increase aid to Egypt and Turkey.

- Effect structural changes in their economy to ensure that the trends begun through current policies will last.

We will continue to push for these actions as long as our economies are out of balance, and some beyond that.

#### *What Do They Want?*

The Japanese want us to:

- Keep our markets open to their products.

- Maintain the strength of the dollar.

- Curb our voracious oil appetite.

- Control inflation.

- Above all, leave them alone on economic issues.

*Why Are We Doing It This Way?*

The current approach features steady, coordinated pressure through constant consultation involving blunt talk in private and a minimum of public bluster. This approach reflects the growth of the relationship, and Japan's increase of relative power within the relationship; the proven long-term nature of the problem; and our heightened understanding of the way decisions are made in Japan.

Even this steady pressure method has its political costs. Our constant coordinated stress on the economic imbalance has the Japanese wondering whether we care about anything else, particularly the Mutual Security Treaty, upon which our strategic position in Asia is based. It has caused *some* Japanese to question the value of the relationship, and the fitness of the U.S. as an ally, and to call for a search for alternatives, not only in the economic but the security field as well. Most Japanese officials feel otherwise; they recognize that the economic issues have to be resolved in order to protect the strategic and political benefits of the connection with the U.S.

On balance, therefore, the steady approach seems the best middle course between apathy and excessive pressure. We believe it will work.

*What Is Next?*

The series of consultations beginning with Foreign Minister Sonoda's visit this week and including Prime Minister Ohira's visit in May and President Carter's visit to Japan in June represent a critical juncture in our relationship. The way both sides handle the meetings will determine whether we can cooperate to achieve progress or face a sour, deteriorating relation. Our best chance of success lies in continuing the steady pressure approach stressing in private the things we care about, but keeping public rhetoric cool. We want to prove that the economic issues are vital, that progress is being made, and that several years will be required to achieve success—while demonstrating the benefits of the political and strategic relationship. We must give the Japanese the time of day, spending adequate time to discuss the issues and avoiding comparisons with the number and length of meetings with the Chinese, the Soviets, or the Europeans. By the time we are finished with this round, we will not have accomplished everything we want, but, as in the past, we will be measurably ahead of where we are today.

Henry Owen concurs.<sup>2</sup>

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<sup>2</sup> Owen initialed his concurrence. At the bottom of the page, Inderfurth wrote: "ZB, I think the President should see this memo (updated) prior to his May 2 meeting with Ohira. Rick."

207. **Memorandum From the Special Representative for Economic Summits (Owen) to the President's Assistant for National Security Affairs (Brzezinski)**<sup>1</sup>

Washington, April 9, 1979

SUBJECT

Foreign Economic Policy Goals

Our object for the next 18 months in foreign economic policy should be to finish what we have begun:

1. *Coordination of economic policy:*
  - a. Keeping German and Japanese economic growth at present 4% and 6% goals, respectively, so as to help avert a world recession.
  - b. Pressing Japan to base its economic growth more on domestic demand, so as to reduce its current accounts surplus.
2. *Trade:*
  - a. Completing MTN.
  - b. Reducing Japanese barriers to imports of manufactured goods.
3. *North-South:*
  - a. Helping LDCs produce more energy (continuing IBRD program, improving bilateral aid programs, and agreeing at Summit on how to concert these bilateral programs).
  - b. Getting the aid bill through Congress.
  - c. Completing Common Fund negotiations.
  - d. Setting up Institute for Scientific and Technological Cooperation, as proposed by President, and making it the centerpiece for increased international cooperation in technological aid to LDCs.
4. *Energy:* International agreements on:
  - a. Reduction of dependence on OPEC.<sup>2</sup>
  - b. Increased production and use of coal.
  - c. Increased efforts to develop new technologies.
5. *Nuclear Energy:* 1980 Summit agreement on multilateral ownership and management of reprocessing, enrichment, waste management, and plutonium storage.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Assistance Strategy: 6/78-9/79. Confidential. Sent for information. Brzezinski wrote at the top of the page: "great! ZB."

<sup>2</sup> Brzezinski wrote "how?" in the margin adjacent to this sentence.



6. *International Monetary Policy*: Continuing negotiations on substitution account (i.e., giving SDRs a larger role to play, thus reducing somewhat the role of the dollar as a reserve currency).

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**208. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, April 11, 1979

SUBJECT

US-Japanese Economic Relations (U)

This memorandum reports meetings I had in Tokyo with the Prime Minister and cabinet ministers, and subsequent discussions with the Japanese Foreign Minister and others in Washington,<sup>2</sup> to prepare for your May meeting with Ohira. Here is the scenario we talked about:

1. *Trade*. Bob Strauss would go to Tokyo before<sup>3</sup> the Ohira visit to:

- a. conclude negotiations with Japan about government procurement and tariff staging (the two outstanding MTN issues);
- b. get Japanese agreement to other specific actions in the trade field (e.g., improving import procedures), which would be an earnest of good intent. (C)

Bob's visit will be contingent on a clear indication that the Japanese are prepared to make serious concessions. (C)

2. *Longer-Term Agreement*. Against this background of progress, you and Ohira would, if you approve, conclude an agreement with these elements during his visit:

- a. Ohira would state Japan's intent to reduce its external surplus by increasing its imports of manufactures and by shifting to greater reliance on domestic demand in sustaining its growth. Ohira's statement

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 41, Japan: 1–4/79. Confidential. Sent for information. Carter wrote at the top of the page: "ok. J." Brzezinski also initialed at the top of the page. The memorandum was sent to Brzezinski for forwarding to Carter under cover of an April 11 note from Owen, who reported that Platt had seen the memorandum. (Ibid.)

<sup>2</sup> A memorandum of conversation of Owen's March 19 meeting with Japanese Ministry of Finance officials is in the Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 22, Memcons: 1–4/79. Sonoda visited Washington April 6–10 for meetings preparatory to Ohira's visit in May.

<sup>3</sup> Carter underlined the word "before."

would be balanced by a statement of the US intent to reduce its account deficit by following appropriate economic policies. Both statements would be included in the communique to be issued after Ohira's visit.

b. The two countries would agree on regular economic follow-up discussions. These discussions would focus on quantitative trends in Japan's current accounts and imports of manufactures. We have made clear to the Japanese that they will face damaging US counter-action if these trends do not march in the right direction, i.e., if the trend goals foreshadowed by the declaration are not fulfilled. (C)

c. A US-Japanese Wise Men's Group, made up of distinguished private citizens on each side, would be set up to advise you and the Prime Minister about long-term economic trends and problems in the US-Japanese relation. Mike Mansfield believes that advice from such a group would make it easier for the Japanese to accept the kinds of structural changes we want. (C)

3. *Other Agreements* would also be concluded during the Ohira visit, in order to meet Japanese concerns—regarding US-Japanese agricultural trade, energy research and development, and cooperation in providing technical aid to Asian LDCs. (C)

State, Treasury, and STR have participated in developing this scenario, which tracks the memo on US economic strategy toward Japan that I sent you, after discussion with these agencies, some time back.<sup>4</sup> The agreement with Japan described in paragraph 2 follows the proposal that Mike Blumenthal made to you when he returned recently from Japan.<sup>5</sup> (C)

Underlying this scenario is a belief that the Japanese want to get their current surplus down to manageable proportions, and are prepared gradually to open up their market to foreign manufacturers. But powerful domestic obstacles are involved; and it will be a matter of years, at best, before the process is completed. So we need to create a framework within which this process can work itself out, and to show continuing progress in the meantime. That is the purpose of the proposals described above. (C)

On the basis of talks on the Hill, I believe that these actions would defuse Congressional protectionist pressures. Senator Bentsen and Congressman Jones,<sup>6</sup> two members of Congress much interested in

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<sup>4</sup> Apparently a reference to Document 203.

<sup>5</sup> Blumenthal met with Carter on March 6; see footnote 6, Document 203. Blumenthal's proposal is contained in the March 5 memorandum to Carter in which he reported on his recent trip to China and Japan. Carter approved the further exploration of the proposal on the copy of Blumenthal's memorandum in the Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 122, 3/7/79 [2].

<sup>6</sup> Representative James R. Jones (D-Oklahoma) was Chairman of the House Ways and Means Committee task force on Japanese commercial practices.

Japan, have both indicated they would view this outcome as substantial progress. (C)

Success hinges on the Japanese making sufficiently forthcoming proposals to warrant Bob Strauss going to Tokyo on trade and to warrant our submitting a draft US-Japanese economic communique to you for approval. The Foreign Minister and his party have gone back to Tokyo to consider these matters further. Although they made optimistic noises as they left, significant differences between us and them remain. We will hear from them shortly; I will let you know as soon as we do. (C)

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## 209. Editorial Note

On April 4, 1979, the European Communities (EC) Council of Ministers agreed that EC representatives at the Geneva multilateral trade negotiations could participate in the initialing of the final agreements, scheduled for April 11, pending the resolution of certain Italian reservations. (Telegram 6391 from USEC Brussels, April 4; National Archives, RG 59, Central Foreign Policy File, D790154–0344) (Ultimately, Italy did not prevent the EC from initialing the agreements.) On April 12, the Trade Negotiations Committee, established in September 1973 to oversee the Tokyo Round of trade talks, declared an end to the negotiations (except those on safeguards, which were to continue) and opened the agreements for signing. (Telegram 6424 from Geneva, April 13; National Archives, RG 59, Central Foreign Policy File, D790170–0893) The Head of the U.S. Delegation to the Multilateral Trade Negotiations, Alonzo McDonald, reported that the United States initialed the agreements on April 12 and “within the first two hours we were joined by some 20 additional countries, covering most of the developed world.” McDonald noted that the United States had concluded bilateral trade deals “with 41 different countries including 19 LDCs. This group represents the overwhelming majority of world trade and therefore assures solid support for full implementation of the agreements.” (Telegram 6380 from Geneva, April 12; National Archives, RG 59, Central Foreign Policy File, D790168–1023)

The agreements that emerged from the Tokyo Round covered both tariff reductions and efforts to curb the use of non-tariff barriers. In the realm of tariffs, the United States concluded agreements with the EC, Japan, Canada, and a number of other developed and less developed countries. In the realm of non-tariff barriers, an increasingly widely

used means of protectionism after three decades of tariff cuts negotiated under the aegis of the 1947 General Agreement on Tariffs and Trade, the Tokyo Round resulted in a series of “codes.” These codes, adherence to which was voluntary, governed the use of subsidies and countervailing duties, standards and regulations, customs valuation techniques, government procurement, and the licensing of imports. Agreements were also reached on trade in civil aircraft, meat, and dairy products. (“Multilateral Trade Negotiations,” Department of State *Bulletin*, June 1979, pages 30–31) See also Document 216.

President Jimmy Carter welcomed the Tokyo Round agreements, asserting that they would “increase the opportunities of all nations, rich and poor, to exchange their goods under equitable conditions. Through such fair and open trade, we strengthen peace and trust in the world and make more efficient use of the world’s human and material resources.” Carter continued: “The agreements steer us away from destructive protectionism and into a path of greater export opportunities, with the prospects of new jobs, improved productivity, and increased industrial and agricultural production. The new opportunities that are thus developed will be realized through vigorous efforts by government, industry, and agriculture to promote exports.” For the text of Carter’s remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pages 662–663.

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## 210. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, April 23, 1979

### SUBJECT

US Economic Policy—The View from Abroad (U)

1. I’m struck by the difference between the way US anti-inflation policy is seen abroad and at home. This difference suggests how the Administration could posture itself to greater advantage domestically on the issue. (C)

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 129, 5/2/79. Confidential. Sent for information. Carter wrote at the top of the page: “cc Jody. C.” Brzezinski also initialed the memorandum. Hutcheson forwarded a copy of the memorandum to Powell under cover of a May 2 note. (Ibid.)

2. Most officials of industrial countries I met at the recent Tokyo Summit Preparatory conference seem to believe that if we stick with our tight fiscal and monetary policies, this will eventually bring US inflation under control, as comparable policies did in Germany and Japan in the 1970s. Since tight fiscal and monetary policies take time to bite, the officials I talked to were not all that excited about how effective our guidelines are in the next few months. (C)

3. Coming back to the States, I find the US media by contrast, focusing largely on day-to-day developments regarding the guidelines, as though these—rather than underlying fiscal and monetary policies—were the heart of our anti-inflation policy. Since the guidelines aren't yet producing results, this leads to charges in the media that our anti-inflation effort has "failed". (C)

4. Of these two views, that of the foreign observers is a good deal closer to the truth. It would be to our advantage to get that view into the US public domain: You and senior officials should find occasion to point to the strength of the dollar on foreign exchange markets as evidence that other countries believe present US fiscal and monetary policies will eventually bring inflation under control. If we can get the US media and public to take this view seriously, short-term zigs and zags in prices and wage settlements will be less likely to obscure the basic fact that we are on the right track. People will see that our fiscal and monetary policies are well on the way to producing the demand restraint which, to judge from the experience of income policies in other countries, will produce an economic environment in which the guidelines are likely to be observed. (C)

## 211. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, April 25, 1979

### SUBJECT

Attitudes of US Businessmen Toward Tokyo Summit (U)

Last Friday<sup>2</sup> I had a session with six top business leaders assembled by the Chamber of Commerce to provide suggestions about the upcoming Summit. You might be interested in their main concerns:

1. *Japan.* They argued strongly for action to reduce Japan's current account surplus and to open Japan's market more widely to our exports. Don Kendall<sup>3</sup> suggested that the US, as Japan's biggest trading partner, should tell Japan that its current account surplus had to be down to zero by a date certain, and that the US would apply import restrictions if this goal was not achieved. I told them of our plans for using the Ohira visit<sup>4</sup> to reach an agreement about Japanese medium-term economic policy, and this seemed to mollify them somewhat. (C)

2. *Energy.* Several spoke of the need for Summit agreement on energy—to reduce consumption and increase production, to try to work out a common pricing strategy among Summit countries, and to spur energy R&D. They commended your decontrol decision as “gutsy.”<sup>5</sup> (C)

3. *Macro-Economic Policy.* Several wanted a Summit call for adoption of tax and other policies by the Summit countries to encourage private investment. (C)

4. *Follow-Up.* James Wolfensohn (Salomon Brothers) observed that “the President should bring home the Tokyo Economic Summit message about energy and macro-economic policy, explain this message to the American people, and show that he is keying his domestic economic policies to these decisions.” Lee Morgan (Caterpillar Tractor) said that this kind of Tokyo Summit follow-up would produce a favorable impact on world currency markets and on business confidence. (C)

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 24, President, Far East, 6/23/79–7/1/79: Cables and Memos, 3–5/79. Confidential. Sent for information.

<sup>2</sup> April 20.

<sup>3</sup> Donald Kendall was President and Chief Executive Officer of PepsiCo, Inc.

<sup>4</sup> Ohira made an official visit to Washington April 30–May 4. See Document 212.

<sup>5</sup> On April 5, Carter announced his decision to begin the phased decontrol of oil prices in June. For the text of his announcement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 609–614.

## 212. Memorandum of Conversation<sup>1</sup>

Washington, May 3, 1979, 8 a.m.

### Breakfast with Prime Minister Ohira

#### PARTICIPANTS

##### GOJ:

Prime Minister Masayoshi Ohira  
Foreign Minister Sunao Sunoda  
Ambassador Fumihiko Togo  
Deputy Chief Cabinet Secretary Koichi Kato  
Government Representative for External Economic Affairs Takeshi Yasukawa  
Deputy Vice Minister for Foreign Affairs Masuo Takashima  
Deputy Vice Minister (MITI) Toshikazu Hashimoto  
Deputy Vice Minister for Finance Takehiro Sagami  
Director General, Economic Affairs Bureau, Agriculture Ministry Yoshio  
Imamura  
Director General, Economic Affairs Bureau, Foreign Affairs Reishi Teshima  
Deputy Director General, Coordination Bureau, Economic Planning Agency  
Seichiro Tanaka  
Executive Assistant to the Prime Minister, Yasuyoshi Sato  
Executive Assistant to the Foreign Minister, Yukio Sato

##### USG:

Secretary Blumenthal  
Chairman, Board of Governors, Federal Reserve System, G. William Miller  
Secretary of Agriculture Bob Bergland  
Secretary of Commerce Juanita Kreps  
Secretary of Energy James Schlesinger  
Special Representative for Trade Negotiations Robert Strauss  
Ambassador Mansfield  
Under Secretary of State Richard Cooper  
Under Secretary Solomon  
Ambassador Owen

##### Notetakers:

Richard W. Fisher  
Deputy Assistant Secretary of State Erland Heginbotham  
NSC Staff Member Jim Cochrane

#### *Prime Minister Ohira*

Good morning. Let me say just a few words to start. I feel indeed honored that all of you could attend this breakfast. First, I am very

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects File, Henry Owen, Box 23, Memcons: 5–11/79. Confidential. Prepared by Blumenthal's Assistant Richard W. Fisher who signed on the last page. The meeting took place at Blair House. Ohira made an official visit to Washington April 30–May 4. On April 30, Strauss, Owen, Kreps, Solomon, Platt, Cooper, Weil, Mansfield, and other STR, Department of State, and NSC Staff officials met to discuss strategy for Ohira's visit; a memorandum of

happy to be able to report to you that I had a truly friendly, informal meeting with President Carter.<sup>2</sup> Thanks to the truly personal effort of the President it was a success.

Through the meeting with President Carter, we were able to reach a meeting of minds as to how best to manage U.S.–Japan relations. This I find personally gratifying, and gratifying to the Japanese people. It is my firm determination to do my utmost to work toward improved relations. I ask for your understanding of this effort. We have some pending issues remaining. But a direction and framework has been achieved for solving these; we would like to solidify this direction and framework so that we can pave the way for improved relations.

I look forward to taking advantage of so many influential economic leaders, to hear very candid and frank advice as to what Japan should do, etc. We have with us some representatives of our more colorful Ministries—you may have heard of the conservative nature of the Finance Ministry, the notoriety of the MITI, the obstinacy of the Foreign Ministry. (laughter and applause)

*Secretary Blumenthal*

We all appreciate the opportunity to exchange with you views on the economic side of the relationship, now and in the future. With your permission, I would like to provide a brief overview and then call on my colleagues, particularly Ambassador Strauss, Ambassador Owen and Mr. Cooper.

We tend to think of the economic relations and problems between us in terms of immediate short-term problems and longer-term problems. The shorter-term problems must, of course, be solved between us in order to assure a stable relationship. We are encouraged that your discussions with President Carter will help set in motion a framework for agreement.

On the immediate problems, we have the issue of the MTN. Ambassador Strauss will no doubt deal with this issue in his remarks. Secondly, there is the problem of the need for continued progress toward Japan's eliminating its large current account surplus, not only to assist international monetary stability but also to demonstrate to the E.C. as

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conversation is in the Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 22, Memcons: 1–4/79.

<sup>2</sup> Memoranda of conversation of Carter's May 2 morning and afternoon meetings with Ohira are in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memcons: President: 4–5/79. During their morning meeting, from 10:43 a.m. until 12:25 p.m., Carter and Ohira discussed U.S.–Japanese bilateral economic relations, among other topics; during their afternoon meeting, from 2:30 until 3:15 p.m., they discussed Carter's forthcoming visit to Japan and the Tokyo G–7 Summit, among other issues. For the joint communiqué issued on May 2, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 763–768.



well as to us, the progress made by Japan toward playing a full role in the world economy and world markets.

On the current account, we are gratified by the progress that has been made. But we note:

1) that the progress has been assisted by emergency imports. We look for a further reduction of the current account without this kind of short-term measure;

2) the rapid decline in the value of the yen relative to the dollar. The progress we have made to improve the international financial situation might be threatened by too rapid a depreciation of the yen. And the progress made on the current account might be put at risk.

While we, of course, do not wish to peg or manage the yen/dollar rate, we do collaborate with the Japanese authorities and we do hope that with your encouragement, the current situation will not place us in a difficult posture next year.

The other remaining issues are:

a) the Summit, and in that context, energy matters. Mr. Owen will comment on this.

b) providing assistance to the developing countries. Mr. Cooper will elaborate.

In this area, I was interested to listen to your remarks to the President yesterday that Japan is assuming a heightened role in the world.<sup>3</sup> We hope that you will take an increasing share of the World Bank effort, and of other programs such as IDA. We hope that Japan will be able to take at least 15% of the IDA VI replenishment.

These matters are the bridges to the longer term; if we succeed here, we can better assume longer term success. The opportunity to review progress for structural changes in your country and longer run changes in the U.S. at the Sub-Cabinet level, as well as in the "Wise Men's Group",<sup>4</sup> is a welcome one.

We think that the longer term problems include:

1) providing for continued stability in the current account situation;

2) the longer term restructuring of the Japanese economy;

3) playing a greater role in the providing of assistance to the developing countries.

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<sup>3</sup> Apparently a reference to Ohira's remarks to Carter during their meeting on the morning of May 2. See footnote 2 above.

<sup>4</sup> In the May 2 joint communiqué, Carter and Ohira announced their decision to establish a Wise Men's Group, composed of "distinguished persons drawn from private life" who would offer their "recommendations concerning actions that the group considers would help to maintain a healthy bilateral economic relationship between the United States and Japan." See *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, p. 766.

That is the best way to counter protectionist tendencies in our two countries as well as elsewhere. We feel that progress on these fronts is necessary to counter rising protectionism and prevent the undoing of the progress that has been made between us and all nations.

*Ambassador Strauss*

I will be brief and candid. In this protectionist climate there has been one strong, clear force that has enabled us to resist strong protectionist action. And that force has been President Carter.

His dedication and determination that U.S.–Japan economic relations will continue to succeed has caused President Carter many political scars, because the American people feel that the Administration has not been responsive enough. This is the climate we face today.

In your distinguished career you have been many things, including a politician. So you understand what I mean. The President has come under attack because of his insistence to counter protectionism in the Congress and across the country.

This is why I have told Ambassador Togo and Minister Ushiba that the time for negotiation has passed. We have now a common problem which we must solve together.

We have jointly made tremendous progress in working together in the MTN. We have a few items remaining.<sup>5</sup> But the greatest disservice I could do to President Carter and to you and to the people of Japan is to let you leave here without conveying the importance of solving these remaining items. If we can deal with the procurement issue and the issue of reciprocity, we will succeed in moving forward dramatically.

It is my personal judgment that we can conclude these items by the Summit. If we fail, the press will escalate the issue in the following few weeks, and I feel that we will be faced with protectionist legislation shortly after the Summit on a broad as well as a product-by-product basis.

Within the past twenty-four hours, Ambassador Owen and I have reviewed this with the President and he is in accord with our views. We have so much to gain. And so much to lose.

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<sup>5</sup> In a May 2 memorandum to Blumenthal, Solomon noted that on May 1, the Japanese “rejected a U.S. proposal to reopen the stalled trade negotiations between Japan and the United States on the outstanding bilateral trade issues, especially government procurement,” describing the proposal as “essentially a ‘framework for agreement’, i.e. an agreement to principles to guide negotiation of the actual agreement.” Talks would continue, but the details of the U.S.–Japanese agreement would not be negotiated until after the Tokyo G–7 Summit. (Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 6, 5/79)

*Ambassador Owen*

Mr. Prime Minister, I would like to say a word of appreciation for Mr. Miyazaki<sup>6</sup> who helped us draft the communique, as well as Mr. Owada who has been of great assistance in our progress on the procurement issue.

I turn now to the Summit. First, I'll deal with energy. The recent energy pre-Summit group dealt with two issues:

1) whether the Summit countries could go beyond the IEA pledges and seek further restraint beyond 1980;

2) increase production of alternative forms of energy. We discussed increased cooperation in research and development. Second, we discussed a proposal of Mr. Solomon's to create an international corporation to finance efforts beyond research;

3) to create a Coal Advisory Board which would advise governments in efforts to develop a world coal system.

On macro-economic policy. While you were meeting with the President, a group chaired by Charlie Schultze was meeting in London.<sup>7</sup> They are focusing their efforts on:

1) short term policies, particularly growth and inflation. There the focus is on inflation in the U.S. and growth in Germany and Japan.

2) deepseated structural problems such as investment problems in the U.S. and productivity in all developed countries.

The third and final subject is North/South relations.

1) increased cooperation among Summit nations and developing nations in research and development for economic progress;

2) to help LDC's develop alternative energy sources

3) in regard to food, we will seek:

a) to conclude successful negotiations for an international wheat reserve agreement supported by a concurrent buildup of national stocks;

b) emphasis on fulfilling obligations under the food aid convention;

c) use of IBRD consortium to expand R&D in world production;

d) attention to how we can expand the flow of development-financing resources to offset the increased reflow of repayments from earlier assistance.

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<sup>6</sup> Japanese Deputy Foreign Minister for Economic Affairs Hiromichi Miyazaki.

<sup>7</sup> Telegram 116432 to Tokyo, Bonn, London, Ottawa, Rome, Paris, and Brussels, May 8, summarized the May 2–3 meeting in London, called "to prepare an economic overview paper for the Tokyo Summit." (National Archives, RG 59, Central Foreign Policy File, D790169–1907)

In all three of these areas, energy, macro-economics and food, I think we will be able to come up with specific details of the kind you spoke with the President about yesterday.<sup>8</sup>

*Under Secretary Cooper*

I would like to start out by discussing the developing countries.

Two things:

- 1) we must keep our markets open;
- 2) we must keep up our flows of foreign aid.

Japanese foreign aid has increased dramatically in the past few years. Last year the GOJ made a commitment to double its foreign aid and is well on its way to doing that. America has also increased its aid, but not as dramatically. We all know the problems of increasing aid in a democratic society. This makes the Japanese effort all the more important.

The GOJ also made a commitment to untied aid. But we have yet to see the orders flowing to foreign countries from such action. We look forward to seeing indications that more GOJ aid money is being spent in Europe, the U.S. and other countries.

Secretary Blumenthal invited me to speak on other economic issues. Let me draw your attention to the issue of civil aviation. Fares across the Pacific are about the highest in the world. That works to the disadvantage of your citizens and ours. We recognize the problems you've had in opening Narita airport and in keeping it open.<sup>9</sup> We can make a small step, however, if the GOJ will agree to fare decreases across the Pacific. In return we're ready to improve routing of Japanese airlines coming into the U.S.

*Prime Minister Ohira*

I wish to thank the four speakers for the concise and constructive summary of the cross section of U.S.–Japan relations. We would like to study the record on how to best deal with these problems. There are two points to note:

- 1) The question of the issue Mr. Strauss has referred to. I agree that we have passed the point of negotiation. We must solve these problems. I will be going to the Congress today and I feel like a novice

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<sup>8</sup> Apparently a reference to Ohira's remarks to Carter during their meeting on the afternoon of May 2. See footnote 2 above.

<sup>9</sup> In May 1978, New Tokyo International Airport opened in Narita, Japan, some 37 miles outside of Tokyo. The airport was vigorously opposed by local and leftist groups. (Henry Scott-Stokes, "New Tokyo Airport Finally Opens With 13,000 Policemen on Hand," *The New York Times*, May 20, 1978, p. 1)

in yoga who has to sit on a mat of pointed needles! But, this will be a good chance for me and my party to experience this firsthand.

2) The question of the value of the yen as referred to by Secretary Blumenthal. Last year we lived through seemingly interminable uncertainty. We then achieved a period of relative calm. Now we are faced with a record weakening of the value of the yen. I feel that we are required to spend great effort in resolving this problem in coming months. This cannot be achieved without instilling confidence in the world economy. This should be addressed at the upcoming Summit. And again it is important for the monetary authorities to continue to cooperate. I am asking Secretary Blumenthal and the others here to help us cooperate.

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## 213. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>

Washington, May 3, 1979

### SUBJECT

NSC Weekly Report #95

#### 1. *Opinion: Dollar Pricing of Oil*

Several months ago in the midst of the dollar crisis, Michael Blumenthal observed at an SCC Meeting that the United States was bearing a large and unfair burden as a consequence of the fact that oil is priced in dollars. This severely depresses the exchange rate for dollars, and the result is that *Germany and Japan are paying less for oil today in real terms than they were before the 1973 price increases*. They are becoming "cheap energy" countries which gives them a strong competitive edge in other areas of industry and international trade, aggravating the problem of trade balances and putting further pressure on the dollar.

Nonetheless, at the time, Mike was against even studying proposals to convert oil pricing to a "basket of currencies," for fear that this would show lack of confidence in the dollar and lead to an even heavier speculation. Now that we are past the crisis, I think we should face this issue squarely.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 126, Weekly National Security Report: 3–5/79. Secret; Sensitive. Carter initialed "C" at the top of the page.

I believe it is very unwise to continue to accept a substantive economic disadvantage just to keep up appearances. Great Britain drove its economy into the ground in a futile effort to maintain the prestige of sterling as a reserve currency. Now that the dollar has stabilized, I plan to direct (unless you object) an analysis, on a close-hold basis, of the possibility of the United States taking the initiative to propose the "basket of currencies" approach to pricing oil. If this approach proves to have merit, you may want to explore it at the Economic Summit.<sup>2</sup>

[Omitted here is discussion unrelated to the dollar pricing of oil.]

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<sup>2</sup> Carter wrote "ok" in the margin adjacent to this paragraph.

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## 214. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, May 22, 1979

### SUBJECT

Economic Summit

A two-day meeting of the Summit Preparatory Group on Friday and Saturday<sup>2</sup> produced the following, which is being reported to each of the heads of government:

#### *I. Procedure*

1. The first day of the Summit will be devoted to energy and macro-economic policy. The second day will be spent on North-South relations and reviewing the communique, which will be shorter than usual (about two pages). (C)

2. The morning meetings will begin at 9:30 and end at 12:15. After each morning and afternoon meeting, each head of government will meet briefly with his representatives to instruct them as to how he wants the issues discussed in that meeting treated in the communique. The heads of governments' press conference on the second day will be

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 24, President, Far East, 6/23/79-7/1/79: Cables and Memos, 3-5/79. Confidential. Sent for information. Carter wrote at the top of the page: "Henry. J." Brzezinski also initialed at the top of the page.

<sup>2</sup> May 18 and 19.

at 5 p.m., to ensure that you get off to Korea at 7 p.m.<sup>3</sup> This means that the Saturday afternoon meeting will end no later than 3:30 p.m. to allow time for reproducing the communique.<sup>4</sup> Given the amount of time usually required for the heads of government to review the communique, this means that the Summit will be virtually a one-day meeting. (C)

3. The other heads of government want very much to meet informally before the first meeting, since two or three of them (Ohira, Thatcher, and perhaps Clark of Canada) will be new. They wanted a dinner the night before, but I think we have persuaded them to go for an 8 a.m. breakfast just before the Summit instead. (C)

4. We agreed that the following might be discussed at the two lunches, rather than at the regular meetings: political and economic relations with China, aid for Egypt (as per Schmidt's request to you),<sup>5</sup> and aid for Turkey, if it hasn't been cleared up by then. Frank Press tells me you would like internationalization of automobile research discussed at a lunch; I think it would fit better under the regular agenda heading of energy.<sup>6</sup> (C)

## II. Substance

1. *Energy.* All agreed that the Summit's success will hinge on whether the heads of government come up with specific actions to address the energy problem. This means:

a. *Demand Restraint:* We discussed whether the heads of government should extend the 1979 International Energy Agency 5% reduction<sup>7</sup> into 1980, with each country specifying the means that it would employ to this end. There was general agreement that most countries would need to do more than they are now doing, if the 5% goal is to be achieved.<sup>8</sup> (C)

b. *Increased Production:* We agreed the Summit should call for increased use and production of coal, and should ask IEA to establish an international coal advisory board that would recommend to governments the specific steps that they should take to achieve this increase. Schmidt wants the Summit to underline the usefulness of nu-

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<sup>3</sup> Carter made a State visit to Korea June 29–July 1 after the Tokyo G–7 Summit.

<sup>4</sup> Owen's reference to a "Saturday afternoon meeting" appears to be an error. Given that the Tokyo G–7 Summit took place on Thursday, June 28 and Friday, June 29, Owen apparently intended to refer to the Friday afternoon meeting.

<sup>5</sup> Not further identified.

<sup>6</sup> Carter drew an arrow pointing toward the phrase "would fit better under the regular agenda heading of energy" and wrote "ok" in the adjacent margin.

<sup>7</sup> On March 2, IEA members agreed to cut their oil imports by 5 percent. (John Geddes, "West Sets 5% Cut in Oil Demand," *The New York Times*, March 3, 1979, p. 29)

<sup>8</sup> Carter wrote "I agree" in the margin adjacent to this paragraph.

clear power and to support his call for an International Atomic Energy Agency study<sup>9</sup> of nuclear safety. We talked of the need for increased investment in the development of alternative energy resources; all felt that agreement on specific actions to this end is crucial to success of the Summit. This hinges on our being able to submit specific US ideas so that the Summit Preparatory Group can prepare a range of options for the heads of government to review.<sup>10</sup> It's sad others don't have ideas, but it's a fact. (C)

2. *Macro-Economic.* Having gone as far as they can in containing inflation through restraining demand, it was agreed that the Summit countries should emphasize longer-term structural policies to increase production at Tokyo—e.g., tax incentives, deregulation, and reducing the size of the public sector. Charlie Schultze argued persuasively that this should be the new front in our battle on inflation. Thatcher, Barre, and Schmidt will like this.<sup>11</sup> (C)

3. *North-South.* We discussed, as you and Ohira did, the need for Summit agreement on steps to help LDCs increase their food and energy output. To this end, we focussed on increased cooperation with LDCs in research and development, which has the advantage of being both useful and cheap.<sup>12</sup> (C)

4. *Conclusion.* This Summit will differ from its two predecessors, in that it will focus largely on a single set of issues: energy and macro-economics. If we can give substantive content to this approach, the Tokyo Summit could be helpful in dramatizing the fact that we have clear programs for dealing with these problems. But this requires Summit agreement on new and common initiatives, rather than bargaining about commitment to familiar and contrasting national actions, as at Bonn. This kind of Summit is harder to prepare and more uncertain of success. But it is inherent in the situation: We face a new challenge, as a result of interacting energy and inflation threats, and this type of Summit is needed to deal with them.<sup>13</sup> (C)

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<sup>9</sup> Carter underlined the phrase "International Atomic Energy Agency study" and wrote "We have the INFCE ongoing" in the adjacent margin.

<sup>10</sup> Carter drew an arrow pointing toward this sentence and the previous one and wrote "ok" in the adjacent margin. Owen subsequently gained Carter's approval of a U.S. proposal for an International Energy Technology Group; see *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 211.

<sup>11</sup> Carter wrote "Important" in the margin adjacent to this paragraph.

<sup>12</sup> Carter drew an arrow pointing toward the final sentence of this paragraph and wrote "Maximum staff work. Try to minimize Summit time" in the adjacent margin.

<sup>13</sup> Carter wrote "How to deal with OPEC abuse in the most concerted and effective manner is a vital issue" below this paragraph.



**215. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, May 30, 1979

## SUBJECT

Japan (U)

1. Prime Minister Ohira sent an aide to Washington last week to negotiate with Bob Strauss about the items on which you asked Ohira for agreement before your trip to Japan. In a week of hard bargaining, agreement was reached as follows:

a. Japan agreed to conclude a telephone and telecommunications government procurement agreement based on “mutual reciprocity” by December 30, 1980. Japan also agreed to make some concessions on tariff staging, to work out new import standards and testing procedures based on reciprocity, and to try to increase coal purchases. All this will be announced when Bob visits Tokyo next week, if Ohira is able between now and then to form a Japanese consensus around the concessions that his emissary made here on his behalf.<sup>2</sup> (Otherwise, it will be announced later, but still before you arrive in Japan.) To avoid complicating Ohira’s task, we agreed to say nothing about all this in the meantime. (C)

b. Japan also agreed to negotiate a more generous arrangement on cigars and cigarettes, and this intention will be announced just before you leave for Tokyo. (C)

2. This outcome confirms my view that Ohira intends to fulfill the pledges that he made during his visit. I believe we will find that this also extends to the pledges he made on medium-term economic policy,

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 41, Japan: 5–9/79. Confidential. Sent for information. Sent to Brzezinski for forwarding to Carter under cover of a May 30 note from Owen. Brzezinski wrote “DR tomorrow” on Owen’s note. (Ibid.) An attached note, dated May 31, indicates that Owen’s memorandum to Carter was included in Carter’s Daily Report. (Ibid.)

<sup>2</sup> On June 2, Strauss and Ushiba initialed a joint statement on U.S.-Japanese economic relations; a copy of the initialed statement is in the National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 4, Japan (III). In a June 6 memorandum to Carter, Strauss asserted that “the important underlying theme for these understandings is *reciprocity*—the insistence on a real two-way street with Japan. The Japanese recognize that this is the key principle necessary for a positive and lasting trading relationship between our two nations. We agreed with the Japanese to work toward reciprocity in government procurement and standards, to accelerate Japanese tariff reductions, and to encourage Japanese imports of tobacco products and U.S. coal.” (Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 135, 6/12/79 [2])

although this will take a good deal longer. His visit looks more and more like a turning point in US-Japanese economic relations.<sup>3</sup> (C)

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<sup>3</sup> In his June 6 memorandum to Carter (see footnote 2 above), Strauss expressed his hope that the U.S.-Japanese agreement would “relieve much of the short-term trade tension between our two countries, thus allowing you to concentrate more fully on other and more fundamental issues during the upcoming Summit Conference.”

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## 216. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>

Washington, June 5, 1979

### SUBJECT

Implementation of the Tokyo Round of Multilateral Trade Negotiations

Within two weeks we expect to submit for your approval and transmittal to Congress the international agreements and domestic implementing legislation which together comprise the final results of the Tokyo Round. Barring unforeseen difficulties, in keeping with my previous advice to you, I believe the package—the most comprehensive trade legislation any President has submitted to any Congress—will be approved by the House and Senate, under the procedures set forth in the Trade Act of 1974, before the August recess. However, we still cannot be certain. The legislation has completed mark-up in both Houses and a unique “pre-conference” by House Ways and Means and Senate Finance Committees which concluded without any major loss on issues.

This package is the culmination of almost five years of negotiations with our trading partners by this Office in cooperation with other agencies of the Executive Branch and in close consultation with our private sector advisors and with the Congress. The major elements of the package are as follows:

—international codes of conduct on nontariff barriers including subsidies and countervailing measures; anti-dumping; product stand-

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<sup>1</sup> Source: Carter Library, Donated Material, Papers of Walter F. Mondale, National Security Issues, Box 85, National Security Issues—Trade, [11/1977–12/1979]. No classification marking.

ards; customs valuation; licensing; trade in civil aircraft; and government procurement;

—renovation of the international trading framework to improve the rules for resolving international trade disputes and to make the trading system more responsive to the needs of developing countries;

—a series of agreements designed to improve the international rules for trade in agricultural products;

—a revamping of our domestic laws and procedures governing unfair foreign trade practices, particularly subsidies and antidumping, and new procedures for handling complaints by private parties against foreign practices which violate code obligations.

In addition, we have agreed with our major trading partners to reduce tariffs on industrial products by an average of about 30 percent, to be phased in over the next eight years, beginning in January, 1980.

As this process has evolved, several important issues have arisen which deserve your attention:

*Material Injury:* In the negotiation of the Code on Subsidies and Countervailing Measures, our trading partners sought, and we agreed to recommend to the Congress, the inclusion of a “material” injury test in the U.S. countervailing duty statute. In recent weeks, concern has been expressed in some foreign capitals that the requirement that “material” injury be demonstrated before countervailing duties are imposed would not be included in our implementing legislation.<sup>2</sup> I am pleased to report that a “material” injury test which implements our international obligations will be included in the legislation.

*Limiting Benefits of the Subsidies Code to Countries Accepting Its Obligations:* A related issue of far-reaching significance is the conditional application of the Code on Subsidies and Countervailing Measures. Under the subsidy code, signatory governments will assume new obligations with respect to the use of subsidies. At the same time, the United States will commit itself not to apply countervailing duties against foreign subsidies, unless it can be shown that a U.S. industry has been injured or threatened with material injury. Under Trade Policy Committee guidance, we have recommended to the Congress that the benefit of an injury test in our countervailing duty law should be accorded only to countries that accept the obligations of the subsidies code, not to all countries.

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<sup>2</sup>For example, in the April 17 Evening Report to Carter, Christopher wrote: “Speaking for the EC President, French Ambassador de Laboulaye, accompanied by EC Ambassador Spaak, called on me today to stress the importance the EC places on the US adopting legislation which will faithfully translate the MTN agreements in US domestic law. He dwelt especially on the standard the US will adopt for determining injury in countervailing duty and dumping cases. The EC feels strongly that US law should use precisely the same formulation—‘material injury’—as appears in the MTN agreements negotiated in Geneva.” (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 21, Evening Reports (State): 3/79)

The threat of a stringent application of the current U.S. countervailing duty statute (without an injury test) is our only means of persuading a number of countries, particularly advanced developing countries, to accept the obligations of the code. It is difficult to maintain a consensus for open trade if such countries continue to refuse to accept international discipline over their export subsidy practices. Also, in my judgment, we could not obtain congressional approval of the new subsidy code if a large number of countries were excluded from the discipline of the code (giving them a "free ride").

Although there are persuasive reasons for discriminating among countries with regard to the use of the injury standard in the U.S. countervailing duty law, this step represents a departure from traditional U.S. trade policy. The U.S. has in the past extended the benefits of trade concessions on an unconditional "most-favored-nation" basis (i.e. without regard to reciprocity). This may involve controversy, especially from developing countries.

Your advisors have carefully reviewed the pros and cons of this issue, and they see no alternative but to deny the benefit of the injury standard to countries not assuming code obligations. At the same time, we expect to be flexible in working out transitional arrangements for developing countries who need time to phase out their current export subsidy practices.

The policy argument for this approach is compelling, and your advisors believe that in most cases this decision is legally defensible in the GATT. In those instances in which this decision would violate the provisions of bilateral agreements, specific legislative exceptions to this rule will be provided.

*Reorganization of the Executive Branch for the Conduct of Trade Policy:* As we have discussed before, there is a strong consensus on Capitol Hill that the trade policy functions of the Executive Branch are in need of reorganization. The agreement we have reached with the Hill is that the Administration will submit its recommendations to Congress by July 10, 1979, without prejudging what form those recommendations will take. We are working with OMB and other agencies to prepare the Administration's recommendations.<sup>3</sup>

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<sup>3</sup> The Carter administration announced a plan to reorganize the making of trade policy on July 19. (Clyde H. Farnsworth, "Carter Asks For Trade Revamping," *The New York Times*, July 20, 1979, p. D1) On September 25, Carter sent a trade reorganization plan to Congress. For Carter's message to Congress, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, pp. 1729-1738.

**217. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, June 8, 1979

SUBJECT

NSC Weekly Report #100

[Omitted here is discussion unrelated to a shift from dollar to SDR oil pricing.]

*A Shift from Dollar to SDR Oil Pricing*

In response to your request, we have considered, and discussed with other agencies, whether the U.S. should favor use of SDRs, instead of dollars, to pay for crude oil.<sup>2</sup> The argument for making the change is twofold: that Germany and Japan have come out ahead since 1973 as buyers of oil at prices denominated in depreciated dollars, making them "cheap energy" countries; and that use of dollars places an undue burden on the U.S.

State, Treasury, CEA and Henry Owen believe that dollar pricing should be maintained for two reasons:

1. An announcement that dollars were no longer being used as the unit of account in paying for oil would trigger selling of dollars on the foreign exchange markets. So we would suffer.
2. It is hard to see any offsetting gain, since OPEC would probably raise prices in SDR terms, as necessary to recover revenue losses, if the SDR appreciated relative to the dollar.

Thus, while conversion from dollar to SDR oil pricing probably would not have much effect on the course of oil prices, it could have serious dangers for the dollar's position in exchange markets.

As to the burden on the U.S.: Whatever the pros and cons of getting the U.S. dollar out of its role as a global reserve currency, using SDRs, instead of dollars, to buy oil would not accomplish this change: The total amounts paid for oil each year pale into insignificance compared to the amounts of dollars sloshing around the world as a reserve currency.

In any event, the question is probably moot, since U.S. encouragement of a shift would not persuade OPEC countries to make the shift while the dollar is as strong as it now is.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 126, Weekly National Security Report: 6–9/79. Secret. Carter wrote at the top of the page: "Zbig. C."

<sup>2</sup> See Document 213.

[Omitted here is discussion unrelated to a shift from dollar to SDR oil pricing.]

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**218. Memorandum From the Special Representative for Trade Negotiations (Strauss) to President Carter<sup>1</sup>**

Washington, June 8, 1979

SUBJECT

Decision on Extension of Specialty Steel Import Relief

This memorandum discusses options regarding the duration of an extension of specialty steel import relief. As I noted in my May 18 memorandum on specialty steel,<sup>2</sup> all agencies had agreed to recommend that you extend import relief for six months in the form of progressively larger bimonthly quotas.

During the past several weeks, Congressional interest in this case has intensified. To date, 34 Senators and 54 members of the House have written either you or me; they almost unanimously favor a substantial extension of import relief. If we were to respond to these strong Congressional concerns, which were evident in your meeting with the Congressional Steel Caucus on June 7,<sup>3</sup> relief would have to be extended at least 1½–2 years.

There is not a good economic case for extending relief that long and I would not recommend that you do so. However, you may want to consider an eight month extension of relief as well as a six-month extension. Attachment 1 outlines my recommendations on quota levels for an eight month extension of relief.<sup>4</sup>

I personally recommend that you extend import relief for eight months rather than six months. This longer relief period is more responsive to Congressional concerns but because of the phase down of

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 7, Steel File #2. No classification marking. A stamped notation indicates that Strauss signed the original.

<sup>2</sup> Not found.

<sup>3</sup> On June 7, Carter met with the Congressional steel caucus in the Cabinet Room from 9:04 until 9:34 a.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation was found.

<sup>4</sup> Attachment 1, attached but not printed, is an undated paper entitled "Bimonthly Quota Levels, By Product Category, for Eight-Month Extension of Relief."

the restrictiveness of the quotas in each successive two-month period, would have little real effect. It would also allow a greater proportion of the build-up in foreign specialty steel inventories now in bonded U.S. warehouses to be imported while the quotas were still in effect thus reducing the likelihood of large surges in imports upon expiration of relief.

There are also several options with regard to the country structure of the quotas. Currently, Japan, the EC countries collectively, Sweden, and Canada generally have separate country quotas in each of five specialty steel product categories. Imports from other countries are generally subject to first-come, first-serve “basket” quotas. The existence of these basket quotas and of quotas for the EC countries collectively instead of individually has created a substantial build-up of imported steel from these countries in bonded U.S. warehouses.

In two categories (stainless steel bar and alloy tool steel), the stocks in warehouses are so large in relation to the EC and other country basket quotas that even very substantial increases in these quotas would not be sufficient to clear the warehouses. In order to ensure that these stocks are entered during, not after, the relief period, I recommend that you proclaim global quotas for the bar and alloy tool steel categories. For the remaining three product categories, I recommend that we maintain the current country breakdowns since the inventory problems are not as severe in these categories.

Attached to this memorandum are two alternative draft proclamations—one for a six-month extension and the other for an eight-month extension—for your signature if you decide to extend relief.<sup>5</sup> Since the current relief program expires on Wednesday,<sup>6</sup> it is critical that you decide no later than next Tuesday morning so that importers and exporters will have at least one day’s notice.<sup>7</sup>

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<sup>5</sup> Not attached.

<sup>6</sup> June 13.

<sup>7</sup> Presidential Proclamation 4665, issued on June 12, extended specialty steel import quotas for an additional 8 months. For the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 1032–1034.

**219. Memorandum From the Deputy Special Representative for Trade Negotiations (McDonald) to the Special Representative for Trade Negotiations (Strauss)<sup>1</sup>**

Washington, June 18, 1979

## SUBJECT

Congressional Tally on MTN

Our Congressional Liaison Group successfully completed its second full tour of House Members and the first tour of Senate Members at the end of last week. These contacts have been aimed at informing every Member of Congress of the implementing bill and its unique procedures for Congressional consideration, while at the same time trying to record what each Member's attitude was toward the MTN.

At the time of the introduction of the MTN legislation this week,<sup>2</sup> we have a solid majority with us in both Houses, and we seem to be gaining ground steadily with each new series of contacts. Definitive opposition is still light and seemingly unorganized, and our efforts are aimed to keep it that way. As you know, we have enjoyed full support of Frank Moore's unit for this effort and excellent cooperation from the interagency CL team organized as part of the White House Task Force and led by Michael Rowny.

*HOUSE SUMMARY*

(A) *Numerical Tally:* In the House we have now 105 positively with us and 154 leaning for the MTN, giving us a total favorable tally of 259 Members, or approximately 60 percent of the House. This is up from 218 at the completion of our first round of contacts some two weeks ago. The total gain came in the positive support column.

At the same time, we still have 145 in the middle ground categories of "No Information" or "Neutral." As for opposition, only five House Members are listed as definitively opposed to the MTN, and 17 currently are leaning against us.

A third tour of contacts by the Congressional Liaison Group will start later this week immediately following the introduction of the leg-

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<sup>1</sup> Source: National Archives, RG 364, 364-80-4, Special Trade Representative Subject Files, 1977-1979, Box 2, Congressional Correspondence 1977. No classification marking. Copies were sent to Moore, Wexler, Wolff, and the Assistant STRs.

<sup>2</sup> On June 19, Carter sent the MTN agreements, as well as legislation implementing the agreements, to Congress for approval. For Carter's transmittal message, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 1092-1094.



isolation. We will make sure the Members have copies of the legislation, an editorial support list of periodicals that is overwhelmingly favorable, and an endorsement list of organizations that should provide the uncommitted with considerable political cover. We intend to follow up the third tour with a final, fourth round crammed into the three or four days just before the House vote is scheduled.

(B) *Tally by Committee*: At the completion of the first tour, we had two very weak committees in terms of response (Aging, and Interstate and Foreign Commerce) and one leaning negative (the Small Business Committee). In our second tour, the Interstate and Foreign Commerce Committee came over solidly to us, but we still have to do more work with the Small Business group. To remove some of their questions, we are preparing draft letters from you to each of these committee members reiterating the special steps we have taken to eliminate small business from the government procurement code provisions.<sup>3</sup> This should give us a further boost with that group who may not be thoroughly informed yet or who have lingering doubts from the earlier discussions and exaggerated newspaper reports.

(C) *Tally by Geographical Area*: Both the southeast and the northeast seem to have improved somewhat in the latest tally. The midwest lingers somewhat behind now and requires our closest attention. By state, Pennsylvania is our most difficult one, followed by Illinois, Indiana and Michigan. Special efforts by Administration CL officers and our outreach groups are being made particularly aimed at these four states. Pennsylvania may remain a problem to the end, but we should clearly have the other three thoroughly with us.

(D) *Tally by Issues*: Steel and textiles are still the only two issues that repeatedly come up. Now that the specialty steel decision has been handed down and the unilateral action taken on textiles with China,<sup>4</sup> we should be in position to swing over a number of House Members from these caucuses to the positive side. On the second tour, we had 37 House Members still expressing MTN reservations because of steel concerns and 14 on textiles. Letters indicating industry endorsements will be circulated to each of these individuals.<sup>5</sup>

#### SENATE SITUATION

The first tour of contacts on the Senate side produced a better result than we had expected. Based strictly on the hearings and personal

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<sup>3</sup> The draft letters were not found.

<sup>4</sup> On May 31, the United States introduced quotas on Chinese textile imports. (Clyde H. Farnsworth, "U.S. Imposes Quotas on Chinese Textiles," *The New York Times*, June 1, 1979, p. A1)

<sup>5</sup> The letters were not found.

contacts that have taken place so far, the Senatorial group definitely supporting the MTN numbers 18, with 39 other Senators leaning favorably. This gives us a total of 57 out of initial count of only 81 that were directly contacted. This means more than a two-thirds majority, while some 14 Senators are neutral among the 81 we have already seen.

Opposition is extremely slim, with only one opposed (Melcher from Montana, largely complaining about not getting a better deal still on beef and the EC not renouncing the CAP). Two Senators are leaning against (Cohen of Maine because of the general economic malaise and poor economic outlook for his state, and DeConcini of Arizona, for no stated reason). On the next Senate tour, we will be seeing each of these three individuals plus the 14 neutrals as well as those not yet recorded on the first round.

#### *SUPPLEMENTARY CONTACT EFFORTS*

In addition to the Administration task force team of Congressional liaison officers, we are supplementing our effort on a systematic basis with a combined private sector team. Representatives from ECAT, NAM, the Chamber of Commerce and the League of Women Voters are all pursuing detailed plans to recruit Congressional support for the agreements. They are being further supplemented on a more specialized basis by a variety of supporting organizations both from business and agriculture.

Finally, all Members of Congress should be hearing regularly from positive-minded constituents from the time the legislation is introduced this week until the actual votes are taken. The outreach activities (covered in a brief separate memorandum)<sup>6</sup> are moving ahead well and should directly contribute to our last minute support.

In sum, I believe that the Administration's present position on the MTN is more favorable at the moment the President sends the legislation forward than for any piece of general trade legislation in U.S. history. Even so, we are not relaxing our efforts. We will continue to press the issue home both to maintain the support base we have, and to gain more momentum by voting time.

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<sup>6</sup> Not found.

**220. Memorandum From the Under Secretary of the Treasury for Monetary Affairs (Solomon) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, undated

## SUBJECT

The Cost of the MTN: A Short List of "Sweeteners"

In order to liberalize trade in the MTN, we have had to restrict trade in certain sectors. These "sweeteners" were the political price paid by STR and the Administration to gain the support, or at least the non-opposition, of certain industries when the MTN package goes to a vote in Congress.

We break these down into two groups. The first are those paid directly in order to secure agreement to specific elements of the MTN package. An example would be the tax deferral given the spirits industry as part of the negotiation over wine gallon. The second group are those actions which, although not directly related to the MTN, were required to appease protectionist pressures which might have had a spillover effect. An example would be the shoe OMA's. The second are designated (\*) below.

We have attached a table prepared by the Office of Trade Research in March, which estimates the costs to the United States of import restrictions by sector.<sup>2</sup> It finds that the expense to consumers of import protection was about \$80 billion in 1978. A large part of this total represented transfers to U.S. producers, leaving an efficiency loss to the U.S. economy of about \$8 billion.

\*1) Summer 1977: OMA's were imposed on shoes imported from Korea and Taiwan, and on color TVs from Japan. The latter was extended also to Korea and Taiwan in 1979. The principal cost to U.S. consumers is the long-run dynamic cost of discouraging investment abroad in low-cost production destined for the U.S. market.

2) February, 1978: The Trigger Price Mechanism took effect. Treasury estimates of the price effects of the TPM range from 3.1 to 14 percent. Without the TPM, we would have been under intense pressure to

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<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 6, 6/1/79–6/19/79. No classification marking. Printed from an uninitialed copy. Drafted on June 19 by E. Barber (ITT) and reviewed by Ray (ITT), Hufbauer (IT), and Bergsten. The memorandum was forwarded to Blumenthal under cover of a June 19 memorandum from Solomon. (Ibid.)

<sup>2</sup> Attached but not printed is an undated table entitled "Costs to the United States in 1978 of Import Restrictions on US Imports."

exempt steel altogether from the MTN. In addition, the quotas on specialty steel originally imposed in 1976 will run for another eight months.

3) January 1979: The textile white paper announced that bilateral agreements reached under the MFA will be tightened to eliminate surges, and that future textile trade will be more closely monitored. The cost estimates in the attachment are based on existing quota and tariff restrictions, assuming estimated price differentials of 27% in textiles and 36% in apparel. If monitoring results in further restrictions, costs will of course increase.

4) ASP: On rubber footwear, we converted American Selling Price to AVE levels of protection, but offered no cuts in the resulting tariffs (which run as high as 48%). In chemicals, we excepted a number of basic chemical products from tariff cuts in order to satisfy industry fears of potential import competition.

5) Agriculture: No across-the-board tariff formula was applied. Liberalization was applied only on items specifically requested, and paid for, by our trading partners.

6) Meat: Indications are that Congress will defeat the Administration's efforts to raise our minimum annual beef import quota from 1.2 billion pounds to 1.3 billion. As a result, beef imports probably will vary from about 5.6% to about 11% of total U.S. consumption over the next ten years.

\*7) Sugar quotas: A bill pending in the House would raise the U.S. sugar support price from 15 cents to 15.8 cents per pound. Conventional wisdom has it that every 1 cent increase results in an additional \$500 million cost to consumers. The Administration is supporting the growers because Senator Church is holding ISA ratification hostage, but consumer groups are resisting.

8) Wine Gallon: The 15-day deferral of tax payments by the domestic industry will result in lost revenue to the Treasury, but probably not in a cost to consumers.

9) Tariff Exceptions: Textiles, leather goods, consumer electronics, and other sectors benefitted from numerous tariff exceptions which will result in higher prices to consumers, though these are not now quantifiable.

\*10) Escape Clause cases: Recent 201 actions<sup>3</sup> on nuts, bolts and screws, CB radios, high-carbon ferrochrome, etc. received additional impetus from the need to head off pressures on the MTN agreements.

11) Extended Tariff Authority: Political pressure to exclude entire industries by name (textiles, steel mill products, chemicals, footwear)

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<sup>3</sup> Section 201 of the Trade Act of 1974 deals with escape clause actions.

from this authority led to a decision to drop the whole proposal. We now have less flexibility to negotiate future trade liberalization.

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## 221. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, June 22, 1979

### SUBJECT

Tokyo Summit (U)

This memorandum reviews the US position on Summit issues, in light of recent events—including discussions with the Summit Preparatory Group,<sup>2</sup> German Economics Minister Lambsdorff, and French leaders (Giscard, Barre, and Francois-Poncet) in Paris last week,<sup>3</sup> as well as the EC heads of government meeting, which ended today.<sup>4</sup> (U)

[Omitted here is discussion of energy.]

### II. *Macro-Economic Policy*

1. *Short-Term.* Giscard wants the communique to register the Summit governments' intent to offset the contractionary effects of higher oil prices through their domestic macroeconomic policies. There are differences of view as to how work can be done to this end. All agree that the effects of oil price increases cannot be passed through in the form of wage increases without disastrous effects, and that this should be made clear in the communique. The unresolved question is whether Germany and Japan will continue to maintain high growth rates, or cut back to fight inflation. Both are clearly leaning in the latter direction. We should join the other Summit countries in urging these two countries to continue to maintain the rates of growth in domestic demand to which they committed themselves at Bonn. This is in our in-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 24, President, Far East, 6/23/79–7/1/79: Cables and Memos, 6/22/79–7/3/79. Confidential. Sent for information.

<sup>2</sup> The Summit Preparatory Group met in Paris June 15–16.

<sup>3</sup> The discussions with Lambsdorff, Giscard, Barre, and François-Poncet were not further identified and no other record of them was found.

<sup>4</sup> The EC Heads of Government met in Strasbourg June 21–22.

terest from the standpoint of increasing US exports and strengthening the dollar. If the opportunity arises, you may want to make this point in bilateral talks with Schmidt and Ohira. German and Japanese policies will be reviewed bilaterally in the OECD assessment of member countries' macro-economic responses to higher oil prices this fall. (C)

2. *Medium-Term.* All agree this Summit should place more emphasis on medium-term policies to increase investment and productivity. This means such steps as deregulation, tax incentives for new investment, less protection and subsidy, and reducing the size of the public sector. The only question is how clearly this view should be stated, and how specifically these policies should be described. It would be helpful to the US—since we will want to move in this direction anyway—to have the Summit speak forcefully to this issue. Thatcher and Clark will likely take the same view. As on most issues, the Japanese will favor generalities.

### III. North-South

All agree that the Summit should emphasize aid to developing countries for production of energy and food, and should stress technical assistance. Again, the need is for specificity: otherwise, the whole thing will be dismissed by the developing countries as a farce. Furthermore, only a clear call for specific action will produce that action. We do not want the Summit, in its preoccupation with energy, to become—or to be seen to have become—an ingrown rich man's club. The other countries agree but would, for the most part, be content with bland generalities. (C)

1. *Energy.* The key points to make here are:<sup>5</sup>

a. The Summit should call on the World Bank and other multilateral banks to expand their programs to aid hydrocarbon exploration in LDCs, and on the Summit countries to improve their national programs to the same end. The French have proposed a joint mechanism (presumably managed by the World Bank) to guarantee developing countries and oil companies against the risks of fruitless exploration; the Summit could ask the World Bank to study this idea, which is too vague to be acted on. (C)

b. The Summit countries should agree to give high priority, in their aid budgets, to renewable energy development in LDCs and should call on the World Bank to coordinate increased bilateral aid for this purpose. (C)

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<sup>5</sup> Documentation on the Tokyo G-7 Summit preparations on the issue of energy and oil pricing is printed in *Foreign Relations, 1969-1976*, vol. XXXVII, Energy Crisis, 1974-1980.

c. The French want the Summit to call on the OPEC countries to participate vigorously in these programs of energy aid to LDCs. This makes sense. (C)

2. *Food*. In line with Sol Linowitz' Hunger Commission report to you:<sup>6</sup>

a. *Reserves*. The Summit should call on LDCs to strengthen their food storage capacity, so that they can maintain larger food reserves, and should urge increased bilateral and multilateral aid to them for this purpose. You might urge governments expeditiously to establish the basis for a successful resumption of the negotiations for an international wheat reserve. (This means European willingness to agree to larger stocks.) (C)

b. *Production*. The Summit should call on LDCs to develop national food production strategies, and pledge increased bilateral and multilateral aid to help LDCs carry out these strategies. (C)

c. *Research*. The Summit should call for increased bilateral and multilateral aid for agricultural research in LDCs. This is one of the main prerequisites to increased food output; it is underfunded. The most effective instrument for supporting this research is the World Bank's Consultative Group for International Agricultural Research; its resources should be doubled. (C)

d. *Food Aid*. The Summit should call for more food aid to LDCs. To this end, it should suggest negotiating a new Food Aid Convention, and fulfilling the aid targets in the present one.<sup>7</sup> (C)

3. *Technical Assistance*. The Summit should call for increased effort in this field and for coordination between national programs—such as our proposed new Institute for Scientific and Technological Cooperation and the comparable Canadian institution. (C)

The heads of government don't need to spend a great deal of time on these North-South issues. If they will agree that the communique should be *specific*, the Summit Preparatory Group can do the rest. The Bonn communique called for a new World Bank program of lending for oil exploration in LDCs, which has proved exceedingly useful. This is

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<sup>6</sup> Sol Linowitz, Chairman of the Presidential Commission on World Hunger, sent Carter a report entitled "Recommendations Concerning Hunger for the President's Use at the Tokyo Summit" under cover of a June 8 letter. (Letter from Linowitz to Mondale, June 15; Carter Library, Donated Material, Papers of Walter F. Mondale, National Security Issues, Box 87, National Security Issues—World Food (6/30/1977–12/17/1979)) Documentation on the report is in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs.

<sup>7</sup> Under the Food Aid Convention, first negotiated in 1967, donor nations promised to provide LDCs with specified amounts of food assistance.

the sort of thing Summits can accomplish in the North-South field if they resist the temptation to settle for soothing generalities. The steps proposed above cost little. (C)

#### IV. *Other*

1. *Trade*. Nothing new here. All agree on the need to say something forceful about implementing MTN. (C)

2. *Monetary*. No need to spend much time on this issue unless the fall in the dollar continues, in which case Mike Blumenthal will have specific recommendations as to what you might say about this at Tokyo. (C)

[Omitted here is discussion of Central America, Indochina, aid to Egypt, aid to Turkey, hijacking, Iran, Cuba, Pakistan, and China.]

#### VII. *Next Year*

The question of the next Summit may come up. Italy, which will have the EC Presidency in the first half of next year, proposes to hold it in Venice (on an island for security's sake). I told my Italian colleague that May might be better than June, given the approach of our Presidential election. He intimated that they will invite you to a state visit to Italy just before or after the Summit. Dick Gardner says that the security problem is manageable, and cites two papal funerals and one papal coronation to prove his point.

There are rumors that Giscard may ask: Why have an annual Summit? I doubt he will, unless the Tokyo Summit is a bust. But in case he does: the Japanese would be mortified by the implication of failure inherent in the Tokyo Summit's being the last such meeting for a while; and the Italians would be even more mortified—particularly after Gaudeloupe<sup>8</sup>—if there were no 1980 Summit.

You might mention that peaceful uses of nuclear energy should be discussed at the Summit next year, in the wake of INFCE (which ends in February). You might stress the need for an international approach to this issue, and say that Gerard Smith will be visiting their governments to talk about this approach shortly. (You may recall that you wrote "OK" on a memo I sent you a while back, proposing that this be a main theme of the 1980 Summit.<sup>9</sup> Gerry and I are working on specific proposals for early submission to you.)

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<sup>8</sup> See footnote 5, Document 179.

<sup>9</sup> Apparently a reference to Document 202, in which Owen sought Carter's approval for themes for the Tokyo G-7 Summit.



VIII. *Bilateral Talks Regarding the Summit*A. *Ohira*

Your Monday<sup>10</sup> meeting with Ohira is an opportunity to impress strongly on him the need for the Tokyo Summit to agree on bold and specific steps regarding energy. (C)

Japanese officials below Ohira are reluctant to accept specific oil-import targets—and count on the known reluctance of Schmidt and the UK to accept such targets to ensure that their views prevail. The Trade Ministry, which is responsible for energy, wants Summit energy agreements that will look good, but that will not limit Japan's freedom of action. (C)

You need to make clear to Ohira that your definition of a successful Summit is one that involves specific commitments on both the supply and demand side. These will be painful, but essential. You count on him to exert his influence, as he did so successfully in helping to resolve US-Japan economic issues earlier this year, to ensure a successful outcome. (C)

You might also stress your desire to see the Summit come up with specific commitments in the North-South field—particularly regarding aid to LDCs to help them increase their food and energy production. (C)

B. *Thatcher*

Mrs. Thatcher said to the media, after the recent EC heads of government meeting, that “the current supply crisis is not as bad as it is sometimes made out to be . . . It is a marginal problem, which is reflected in the spot market.” (C)

You may want to share with her our view that the imbalance between oil supply and demand, even though it is only 1.5 million barrels a day, has extremely serious implications for the US and other OECD economies. If the Tokyo Summit does not agree on effective joint action, the pressures for competitive national responses will mount. We should not let the fact that small amounts of oil are involved blind us to the very high political and economic stakes, or to the fact that this Summit presents an opportunity for a common response which, if missed, may be hard to recapture. Half-measures will not meet the need. (C)

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<sup>10</sup> June 25. Carter arrived in Japan on June 24, before the start of the Summit on June 28.

IX. *Communique*

I attach a draft communique circulated by the Japanese after the last meeting of the Preparatory Group. It is not agreed, and I want to make it more specific. But since other heads of government may have seen it, you may wish to glance at it. (Tab A)<sup>11</sup> (C)

X. *Other Briefing Materials*

Summit issues are described more fully in Book I; luncheon discussion issues are treated in Book II. This memo covers the ground sufficiently so that I believe you need only review these other briefing materials for background reading, as time permits. (U)

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<sup>11</sup> Attached but not printed is the June 18 "Draft Communiqué for Tokyo Summit."

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**222. Minutes of the Tokyo Economic Summit Meeting<sup>1</sup>**

Tokyo, June 28, 1979

## Tokyo Summit

First Session<sup>2</sup>

OHIRA: Now that the press has left let's get to business. I extend greetings to all of you. I know many of you have come from afar. I am happy to welcome the new members of our group—Mrs. Thatcher and Prime Minister Clark. I am also a new member, and I hope I am welcome too.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 31, Summit: Tokyo: 6/28–30/79. Secret; Nodis. Attached but not printed are a cover page and a list of participants. According to the list, the following people participated in the Summit: Clark, MacDonald, and Crosbie; Giscard, François-Poncet, Monory, Giraud; Schmidt, Genscher, Matthoefler, and Lambsdorff; Andreotti, Forlani, and Pandolifi; Ohira, Sonoda, Kaneko, and Esaki; Thatcher, Lord Carrington, and Howe; Carter, Vance, Blumenthal, and Schlesinger; and Jenkins. The list notes that Hormats drafted the minutes. The list of participants and the sections of the minutes of all four sessions concerning energy are printed in *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 221. Carter's handwritten notes on the Summit are in the Carter Library, Plains File, President's Personal Foreign Affairs File, Box 4, Summit Meetings, 7/78–6/80.

<sup>2</sup> The first session of the Summit took place in the Conference Room at the Akasaka Palace and lasted from 9:40 a.m. until 12:18 p.m. (Carter Library, Presidential Materials, President's Daily Diary)

Here in Japan we are in the process of conserving energy; we often open our shirt necks because of the heat. In this room, we may permit ourselves to take our jackets off and work in shirt sleeves, with your concurrence.

As Chancellor Schmidt said in the Bonn Summit, we are members of a mountain climbing party; we were just getting out of difficult economic troughs. But just as we were getting to the peaks, we encountered difficulties—a landslide in the form of the oil crisis. The circumstances today are reminiscent of Rambouillet, or in fact more serious than at Rambouillet. But I believe we are wiser today, because we have gained wisdom from past experience. We should be fully utilizing it, and must cooperate, to get out of our predicament.

We face an immediate problem. We need to take fundamental long-range policy decisions, and we need to carry them out.

Before the agenda begins officially, I should note one thing. There was in Tokyo on 26 June a meeting of Trade Union leaders. Their representatives sent a statement to me; that is now before each of you. The Trade Union representatives asked that the statement be included in next year's agenda, if we meet next year.

A few household points: First, the meeting, as in the past will be formed of the following: A President or Prime Minister plus a Foreign Minister and a Finance Minister. I hope that the Foreign Ministers can stay for continuity's sake, although the Finance Ministers can be substituted for by another Economic Minister. Second, there will be simultaneous translation into English, French, German, Italian and Japanese. For technical reasons Japanese is translated into the other languages via English. Third, before you there is a button which you should push to be recognized. And there is a button for your personal representatives, who are in the other room.

As to the Agenda, I would ask that each head of state or government make five minutes of comments to form the guidelines for the Summit discussion. Then we would take up the specific Agenda. Subjects will be macroeconomic issues, energy, LDCs, trade, monetary issues, and finally the Communique. While we are talking, the personal representatives may be expected to start work on energy. Who would like to lead off?

CARTER: The eyes of the world are on this Summit for a number of major reasons—the first and most important being energy. On this subject I hope that we can be bold, substantive, specific and hopefully united when we come to the final Communique. I prefer that we indicate targets based on specific figures. We should commit ourselves to meet these targets on a short-range basis and commit to attempt to reach long-term targets, even though there may be somewhat more uncertainty. In addition, we have to address the spot market, measures to

limit stocking of oil in times of tight supply, and cooperation in a multi-lateral approach to new sources of coal, shale, tar sands, synthetics and solar. We should pledge to meet our goals and to be sure that we do so cooperatively and collectively. We should have the maximum consultation and dialogue with OPEC. This has been lacking so far and has caused grievous consequences. We should pledge to keep our oil imports down and follow with strict conservation of total oil consumption and increased efforts to come up with alternate supplies of energy.

On North/South issues we should address problems of food research, storage, supplies and stable reserves. Individually and through the World Bank we should help LDCs increase energy production, and share energy technology with the LDCs.

I hope that the monetary system will be stabilized, and the IMF should maintain its basic purposes. I understand the problems of each nation in reaching a consensus on these issues. I am pleased with the results of the MTN and hope that Congress will approve them by August. We should express our commitment to conclusion of agreements.

The refugee issue is being addressed by our Foreign Ministers and there should be a report submitted for final inclusion in the Communique.<sup>3</sup> We need a strong statement on refugees and strong support for LDCs.

ANDREOTTI: This meeting should be mainly on energy. It should provide an external image which conveys the political character of the meeting. It should clarify what happened in Bonn and what was decided there. It should note the difficulties arising from events since Bonn. It should play a guiding role in shaping future events, bearing in mind certain differences among our countries. For instance, on energy, Canada is self sufficient, and Italy and Japan are in very large debtor positions. It should stress the interdependence among the problems of all countries. Our position vis-a-vis OPEC will be all the stronger if we take into account our requirements as well as those of the LDCs, which will be most harmed by OPEC prices if they are constantly raised.

On alternate energy sources, and nuclear energy, we are all faced by serious psychological problems exploited by those who oppose it. If we put in the Communique something on nuclear energy that is positive it will help our individual national programs. Perhaps from Japan can come words to inspire us on the peaceful use of nuclear energy.

OHIRA: Regarding the point on peaceful nuclear energy, I feel that the most reliable, realistic alternative to oil is nuclear energy. We have

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<sup>3</sup> On June 28, the seven nations at the Summit issued a special statement on the tens of thousands of refugees then fleeing Indochina. For the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, p. 1188.

adopted a course leading to more nuclear energy, and we expect the most of nuclear energy as an oil alternative. With the U.S., Canada and France we have developed and are moving forward on technical cooperation arrangements. Safety is of cardinal importance. We should be thorough in insuring safety. We should especially emphasize the positive need to go ahead with peaceful nuclear energy. Our efforts are behind schedule. We have much catching-up to do on the peaceful pursuit of nuclear energy. On nuclear energy, I hope for the further understanding and support of the other countries here.

GISCARD: The Summit is an Economic Summit. Countries are invited here because of the role they play in solving the economic problems of the globe. In the past the press has speculated on the utility of these sorts of meetings and it has become somewhat critical. The Bonn Summit was useful and the follow-up to Bonn was positive. I am sure it is the hope of all that the Tokyo Summit will also be useful.

The main economic problem is the energy problem: oil supplies, and the securing of these supplies in the short, medium and long term. We must show that we have proposals on these time scales. Europe has prepared for the Tokyo Summit in the European Community. We have taken decisions and published a text.<sup>4</sup> But our Declaration only makes sense if it goes hand in hand with decisions of our major partners. We hope these decisions will emerge in Tokyo. Our meeting will only be successful if we agree on quantified, specific targets to reduce imports immediately and lastingly. If not this will be a disappointing meeting.

Also we must address prices on the spot market. Our experts should draw up recommendations and we should take concrete actions on the basis of these recommendations.

Regarding alternate sources, the main ones are nuclear energy and coal. Other alternatives are not yet available. On coal and nuclear energy, we should express a determination to speed up production. We are all clearly concerned about safety, but this should not be a *a priori* condition to further new energy development, because if it is it will delay energy development.

We should be factual and credible in our statements on LDCs. Energy has hit hard the non-oil LDCs. This is not our responsibility and was not caused by us. The cost to our economies of the oil problem means it is more difficult for us to give more aid. We should have no fine statements but simply say we are prepared to do what is in our power to do, but that we cannot compensate for the effects of steep prices.

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<sup>4</sup> Reference is to the published conclusions of the EC Council meeting in Strasbourg June 21–22.

It is important for the world economy, and for financial stability to arrive at agreement here. France will play an active part in seeking solutions. We will defend our national interest, but will take an overall view of the problem. If we cannot take an overall view of the problem, we cannot avoid the effect of our situation on national economies.

SCHMIDT: This is one of a sequence of economic summits. Like Valery, I stress their economic nature. They have on the whole been benevolent for the development of the world economic structure and process. This is so not because we accomplished great changes, or reforms or improvements but because we avoided great catastrophe which might have occurred as a result of the events in 1973–74. We were successful in avoiding a lapse into beggar-thy-neighbor policies of the 1930's. We should not belittle the success of our meetings. It is not necessary to have new dramatic schemes every year. They do help us to avoid temptations for bad policy due to bad domestic pressure, including from Parliament.

The Summits also give advice which is useful in particular fields. The last Summit gave advice, for example, in the area of trade policy. We lived up to the goal set in that field. We can be satisfied if Parliaments ratify, or agree to, what governments have done. In the field of nuclear fuel supply, there is no reason for disappointment since Bonn. And there is no reason for complaints with respect to the growth targets and follow-up to the advice to Japan and Germany at Bonn to get economies going faster than before. I can report that we have lived up to our obligation.

In two fields we have not completely lived up to the Bonn Summit. First on the international fight against inflation and for monetary stability. Only initial success has been achieved. Second is the energy crunch.

Let me be more specific, in Bonn we took action under pressure. You asked Germany to increase deficit spending to get quicker growth. We said we would take measures of up to 1% of GNP. We took these within 8 weeks of the Summit. This produced results which we and you, reluctantly on our side, sought. We will achieve 4% growth in 1979. At the same time these heated up the money supply. Public borrowing was up to 3.7% of GNP. This is large compared to the U.S. or France. It will create price difficulties for the FRG. These are the undesirable consequences of the measures we took under your pressure. We have not overcome these difficulties and will see them in the next wage round. We will also see difficulties in the capital and credit market because of the large public borrowing. The long-term rate has gone up 2½% in the last 12 months. I mention this because we should consider how we have lived up to the pledges made 12 months ago.

On energy, we should identify how much we have done following up Bonn and determine whether we can do more. I don't like understandings that are not fulfilled, so we should avoid these here. I favor, as Valery and Jimmy said, necessary decisions to be taken in the energy field. I hope they will be taken. The FRG will be as cooperative as we can. We should not take decisions which only pretend to be decisions. We should not have gimmicks which are dismantled by public opinion or by OPEC. The OPEC meeting adjourned to see if we are seriously going to do something, or just engage in rhetoric.<sup>5</sup> Also, they find it difficult to agree among themselves. There are OPEC governments who want to be moderate, who understand the impact of oil prices on the world and see them doing more harm to the LDCs than to us. They see that they have the possibility of destroying the international division of labor, monetary markets and so on. But it is not only selfishness that leads some OPEC countries to ask for higher oil prices. There is reason to believe that only a great rise in oil prices will enforce conservation and alternative production.

All of us want to reduce demand for imported oil. All of us want to do so by conservation of energy and by substituting for oil in specific ways—different ways being open to different countries. The FRG has reduced oil imports consistently since 1973. We have let the price mechanism work, and have no subsidies on petroleum or distillates. From 1973–1978, we have less energy demand as a percentage of economic growth than in 1973 or before. In 1979, we will import only a little more than in 1973 or in 1972. There have been major pressures to reduce oil imports over the last five years. There has been a mixture of letting the price mechanism work, and incentives to conserve, such as using government money for conservation. We have also subsidized the use of coal. Our coal is 700–800 feet deep. It takes eight to ten years to build a new pit and start production. The subsidy for one ton of coal is double the pay to a mine worker to mine it. But this leads to a reduction in imports of oil. We have reduced oil use in the generation of electricity. Only 9 percent of our electricity is generated by oil.

The situation of our countries differs. Some of us by artificial means have kept domestic prices of oil and distillate lower than they might be. Some are fighting environmentalists who are fighting the use of coal. Some are fighting the environmentalists who object to pipelines and new refineries, including crackers. The FRG is fighting the environ-

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<sup>5</sup> OPEC met at the Ministerial level in Geneva June 26–28. The communiqué issued at the end of the meeting announced an increase in the price of crude oil. ("Text of Communiqué on Oil at End of Ministerial Meeting in Geneva," *The New York Times*, June 29, 1979, p. D4)

mentalists on coal and the expansion of nuclear plants. We should tell our personal representatives to provide a paper which includes all those devices needed for overcoming opposition and a thoughtful, clear message on the enlargement of nuclear production. It would also be helpful to have something on coal. This would help Jimmy Carter as well as us in the FRG. It would help to include in the communique language needed at home to deal with the opposition to the substitutes for oil and with the environmentalists.

I agree with Valéry Giscard that it is important to show to the suppliers in OPEC that we are taking this matter seriously and have a sincere approach to reducing oil demand. Then, when OPEC meets, we can build on this impression and strengthen the hands of the moderates. We should not leave the OPEC moderates out in the cold. We will have credibility only if we have medium range and long-term policies. For the rest of the century oil prices will have to go up because oil reserves are gradually being used up. Also, there can be political events like Iran,<sup>6</sup> and these can increasingly lead to crunches. Coal and nuclear energy must be expanded. Also, we should use shale, tar sands and North Sea oil. Lots of money will be needed for pure and applied research for renewable energy, which should come on stream by the middle 90's and by the end of the century enable us to use solar, geothermal and nuclear energy more.

I foresee a situation in the next century when we may not wish to use hydrocarbons any more. I can envisage that in one or two decades scientists will say we are heating up the outer atmosphere of the globe, when it will not be tolerable for nations to do this—when there will be too much heat and too little water, as in the Sahel. There may be a time when we have enough bio-mass, coal and petroleum but will be told that we should not use it. We should back up our studies by looking ahead one or two decades into the next century.

If we cannot avoid egotistic national policies, there could be a monetary crisis, high unemployment, and starvation and hunger in the LDCs.

With respect to short term energy goals and measures, I dislike what we were given in the draft communique—with the energy section blank. We should stress that our aides should give us a draft communique especially on energy, and especially on targets which we can

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<sup>6</sup> The Iranian Revolution, which began in 1978 and culminated in the January 1979 flight of the Shah from Iran and the establishment in April of an Islamic Republic under the Ayatollah Khomeini, precipitated a second energy crisis due to decreased oil production.



measure in terms of time, goals, periods of reference and how to group nations, individually or together. Our aides should list the different attitudes and attempt to get agreement in these fields. These should not be issues of national or individual prestige. Obviously, we will have to express the interests of our countries and should not hide the interests behind verbal compromise. National interests are often hidden by economic or academic reasoning.

THATCHER: It is impossible to discuss economic prospects without discussing energy prospects. We are one-half of the way through 1979, but the prospects for the world economy deteriorate month to month. We started the year with less exaggerated payments imbalances, and the prospect of currency stability. The oil situation seemed to be under control. Now the difference is oil, and this has also affected inflation. This sharp oil price increase has happened for the second time within a decade. It is a long and short term problem. All our ideas of growth must be revised. We cannot grow as much in the future as we had hoped. Also, the situation is worse for the LDCs—high prices, slow exports and we are less able to help them because of oil. This also means more instability.

The fact of our meeting means we can get guidelines and leadership to surmount difficulties. We must face these matters realistically, making clear what can and cannot be done. If we only have a communique with pious platitudes, the world will see that we have failed. We need positive declarations in the energy area in three spheres. We must deal with the immediate situation, but also come up with solutions which continue year after year, not just talk about long term. Nuclear power takes a long time to develop. We will not have power from the sun or tides before the end of the century.

On energy, we must let the price mechanism work in full. But we should not rely on this totally. We should also have tax incentives for insulation and for shifting to other sources. The UK gets 70 percent of its electricity from coal production and 15 percent from oil. We need more nuclear and must convince countries that nuclear is safe.

On inflation, we have had a reduction since 1974, but we will have more if we should accelerate inflation as a result of oil price increases. We should fight inflation or we will have increased unemployment. We should also not accelerate the impact of oil price increases with inflationary policies. The oil price increase means loss of incomes for the moment. We can't get around this in the short term. On growth, we should not be too pessimistic. We need increased efficiency in industry, the consumer sector and agriculture. We should see the need for adjustment and respond to change. The UK has not always responded adequately to change but unless we do we can't get growth.

If we are to achieve a balance of supply and demand in oil we must make OPEC understand that oil price increases jeopardize the Western world. We should look to increased nuclear production for the future. We produce oil but have the same interest in saving energy as others because we depend on the world economy. We should be realistic and not cloak measures in soft phrases. This would give the world greater confidence than by hiding what we mean.

JENKINS: We had a successful conclusion of the MTN in April and now we need full implementation. Our concerted growth strategy was fulfilled, and as a result there has been more rapid growth in countries other than the U.S. On the monetary side, the stabilization measures of the United States on November 1 and the EMS have been helpful.

The least progress has been on North/South relations, but in the EC we have renewed the Lome Agreement<sup>7</sup> with 57 LDCs (Schmidt: ½ of all LDCs).

But all this has been overshadowed by what has happened in energy. Energy should be the Summit theme. In the short term, immediate prospects will be damaged by developments over the past six months in the oil field. It will increase inflation, which is already going up in our countries. The balance of payments costs will be \$20 billion per year in the OECD as a whole, and it will lead to a cut in our growth prospects. One question is how far we add to these unpleasant but survivable problems. The oil market will balance itself over a period. But if we do not have effective restraints and substitutes, this will be an expensive way of doing it.

The long-term trends in oil prices are going up, and we can't avoid oil price increases. But we should address the speed with which oil price increases take place. If they take place suddenly there will be a rapid transfer of resources away from us without an increase in demand by OPEC. Although we save energy through a high level of recession, the Schultze paper<sup>8</sup> indicates that the cost of saving a barrel of oil through recession is \$300 per barrel. The danger is that the market will stabilize only at very high prices, and there may in fact be an apparent glut on the oil market as a result. We need to change our lifestyles and produce alternative supplies. Effective voluntary restraints are an investment in our prosperity.

CLARK: It is important that the understandings we reach be serious. They will help only if we are clear on the impact of our commitments to individual countries. We should set goals that can be achieved. If not, there will be skepticism about the process.

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<sup>7</sup> See footnote 6, Document 24.

<sup>8</sup> Not further identified.

We must also be cognizant about the impact on international and domestic opinion. We should try to insure that our people will support us on unpopular policies by indicating the importance of such policies to our futures. We need to change attitudes toward conservation. We are a high energy using country. We need to look at the alternatives very carefully. For instance, acidic rain results from the burning of coal. A number of alternatives have environmental consequences.

The Summit should take account of different circumstances in our countries. We anticipate a shortfall in domestic production of crude and conventional sources of energy because of our declining well production over the next five years. But we will have significant production of non-traditional fuels after 1985. Also, there are major regional differences in Canada. There is wealth where there is energy but there is less wealth in energy importing areas. This limits the use of price in influencing demand. Our priority national goal in energy is self-sufficiency by 1990 through substituting for oil, natural gas and other sources. This effort can be helped by the Tokyo Summit communique.

OHIRA: We coped with the oil situation last year, but we were naive on the Middle East. On long-term energy development, our emphasis was inadequate. We should be firm in coping with OPEC price increases and should seriously pursue long-term research in energy.

The impact of energy on our economic structure should be pointed out. But the big question is have we achieved results. Since the first oil price increase we have diminished the impact on payments imbalances and cooled off inflation, but unemployment and inflation are still with us. In improving productivity, we must make a major effort at positive adjustment—structural adjustment.

With respect to Japan we are undertaking fundamental changes in our lifestyle. Our trends are toward qualitative improvements with affluence. Since I took office I have tried to produce qualitative improvements in daily life bringing the country to the city and the benefits of the city to the country. I am also interested in discussing the circumstances of city life. We must take a look at our lifestyles in responding to the energy problem. We must also pay attention to relations with the developing countries and look at the global community.

[This section of the discussion concluded at 11:10, and a coffee break took place. The discussion resumed at 11:35.]<sup>9</sup>

OHIRA: Let us now turn to macro-economic issues. In our comments this morning we touched on the relationship between macro-economic issues and energy. Who would like to begin?

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<sup>9</sup> Brackets in the original.

THATCHER: In my judgment not enough attention has been given to the need to fight inflation. Even before the oil situation inflation was up in our countries. The oil price increase made inflation all the more important. In the past people have expected the standard of living to go up, and equated this with higher wages. The politicians took the words of Keynes<sup>10</sup> on deficit financing, but did not recognize the point about the need for surpluses in good times. Strict control of money supply is needed to control inflation. Inflation is cheating the savings of older people. It transfers the savings of the elderly to working people. The problem has been underway for 30 years and it won't go away.

OHIRA: The problem of inflation is important. Inflation and slow growth are two sides of the same coin. Unemployment is also urgent. The problem is acute. I share Mrs. Thatcher's views.

SCHMIDT: I concur with Mrs. Thatcher. There are temptations in society to make up for oil price increases and the rise in the cost of living by increases in nominal incomes. This does not work. I would like to see this idea in the text of the Communique. I think we should stress the last section on page 5 in the Communique "attempt to cooperate . . .". We are not in a Keynesian situation today. He is not applicable today.

GISCARD: Keynes addressed the situation of the 30's with genius. If he were here he would update his analysis. He might suggest valuable amendments to the Communique. With respect to the Communique we should not aim at pursuing deflationary policies in our countries in order to combat inflation. We should restructure our policy to contain inflation. In France investment has not been a growth factor in the last three years; consumers and trade have led. In the present situation you need increased investment to increase growth. This encourages savings in industry and encourages production. High inflation and high unemployment are not satisfactory.

Our economic growth rate is not tied to rates of oil consumption. There was a fixed relationship between growth and oil consumption. We have broken that tie. We now attain growth with alternate energy sources. We must invest in alternate energy resources. This will help on growth as well.

ANDREOTTI: We need positive results from the Summit. Last year we succeeded in part. Countries with greater economic possibilities increased their growth rates and this helped other countries to grow. Italy will maintain its undertaking of 4% growth.

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<sup>10</sup> John Maynard Keynes (1883–1946) was an influential British economist and adviser to the U.K. Government. Among his many accomplishments, he conceptualized a new approach to macroeconomics that focused on the role of government in increasing aggregate demand.

Today the oil problem and fear of inflation may lead to slower rates of growth in some countries. As a result we could find countries with high rates of unemployment in difficult positions. It is important to fight inflation but we should lay down a coordinated policy, as noted by Giscard. We should not have a deflationary policy, but a coordinated system directed to the struggle against unemployment, and this should be set out with more emphasis in the Communiqué. If we do not it will have political repercussions on public opinion in different countries. We should not extinguish the hopes of the Bonn Summit.

JENKINS: The oil price increase had two countervailing effects. It increased the cost/pull impact on inflation, and it led to a decline in demand. These are difficult to reconcile. We need to come up with a balance between the two to avoid both inflationary and deflationary effects. We might for instance consider separate price indices, with one in which the effect of energy price increases are not included. We could isolate energy costs in dealing with wage indexation in certain countries.

CARTER: As a result of Bonn I directed oil price decontrol. It started on the first of June.<sup>11</sup> Domestic oil prices as a result have been increased more rapidly than in other countries because of the price increase in our oil, and OPEC increases. I agree that statistics would look better if we took Roy Jenkins' idea, but our people won't permit our trying to prevent energy costs from being incorporated in wage demands. We have focussed on energy with some degree of success. We have made much progress in 2½ years. Before 1973 for every 1% increase in GNP we had a 1.05 increase in energy use. Since 1973 that figure has been .37%. We have had a less than 50% increase in oil use as compared to GNP.

We also need to get at the roots of inflation. We have deregulated the airline industry<sup>12</sup> and we are moving on transportation. We have modified our tax structure to encourage new investment and improve depreciation allowances. I am concerned about productivity improvement. More effort here is needed.

As a result of the MTN we reduced protection at home and have encouraged increased R&D in the government and have called for private industry to do the same.

Close cooperation among us is important. The issue is how to deal with energy. Premature media exposure of our views might reduce our

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<sup>11</sup> For Carter's June 1 statement on the decontrol of domestic oil prices, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 981–982.

<sup>12</sup> Carter signed the Airline Deregulation Act of 1978 into law on October 24, 1978. For his signing remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1837–1839.

flexibility and our ability to accommodate one another at this Summit. I still think we should emphasize specificity even if it means that each country spells out specifically what it can do and we are but all locked into the same formula.

U.S. oil production is declining. Our oil wells are old and we have to use a great deal of tertiary recovery. Over the last 15 years we have had a 6% annual reduction in domestic oil production.

In our Communique we should be specific and substantive, because the world is looking to us to do something specific on energy. There is no substitute for this. I look forward to getting drafts from our personal representatives. I'll go the second mile to accommodate my needs to yours. I must go home with the proof that others are sacrificing in order to get the American people to do the same. We should not have recriminations about performance based on lack of information on the circumstances in each country. It is easier politically to deal with energy if a country is almost entirely a consumer. It is more difficult if the country is sharply divided among producer and consumer regions. I was struck here by Joe Clark's point. Canada, like the US, is not a homogeneous region. Some regions depend on imports and others on exports. We should understand the circumstances of one another. This meeting will be an abject failure if we do not accommodate present divergencies of views about energy.

OHIRA: Two or three countries alone can't do the job. We expect the United States to curb inflation, but inflation is serious in other countries as well. Therefore we must minimize inflation in all of our countries. All of us need a maximum effort to curb inflation. In FY '78 Japan's domestic demand will grow at 8.5%. Our current account surplus will be \$12 to \$14 billion, although since March we have had a current account deficit. In the last three months we have had a \$700 million deficit. Therefore in terms of GNP growth we could not reach the Bonn target although our growth served the purpose of the Bonn target.

The second oil crisis is tragic. In April and May we have had a 20% increase in the wholesale price index in annual terms. Clearly inflation is an important agenda item. It is important to remedy the supply side. Each should take major steps. We are now out of the period of post-war technology and we are at the end of a certain pool of technological resources. We need more R&D and greater technical efforts.

OHIRA: Our session is about over. Each country can now brief the press as it sees fit.

SCHMIDT: Why don't we do as we did last time and let you brief the press, Mr. Prime Minister.

First session ended 12:40 pm.<sup>13</sup>

[Omitted here are the minutes of the second, third, and fourth sessions of the Tokyo Summit.]

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<sup>13</sup> The second session of the Summit began at 3:05 p.m. and ended at 6 p.m. on June 28; the third and fourth sessions took place on June 29 from 9:50 a.m. until 12:10 p.m. and from 2:30 p.m. until 4:17 p.m., respectively. (Carter Library, Presidential Materials, President's Daily Diary) For the remarks to reporters by the Summit participants on June 29 at the conclusion of the sessions and the Declaration issued at the end of the Summit, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, pp. 1187–1201.

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**223. Memorandum From the Deputy Special Representative for Trade Negotiations (McDonald) to the Special Representative for Trade Negotiations (Strauss)<sup>1</sup>**

Washington, July 6, 1979

SUBJECT

MTN Outreach

This memorandum gives you a brief status report on our MTN outreach activities as we approach the vote by the House next week. As I mentioned earlier, we have encountered more apathy than aggressive activity over the last three weeks as many of our supporters became convinced that the agreements will now pass with little difficulty. To partially counter this attitude, we have made a last push over the past 10 days and have pledges from a solid core of organizations to communicate their support to Members of Congress next Monday and Tuesday.<sup>2</sup>

Below are the three main aspects of our outreach activities which have been handled in close collaboration with Anne Wexler's office and supported fully by the White House Task Force all along. These summarize the group of organizations supporting the MTN, MTN speech activities and MTN editorial support from the media.

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<sup>1</sup> Source: National Archives, RG 364, 364–80–4, Special Trade Representative Subject Files, 1977–1979, Box 5, MTN (Part II). No classification marking. Copies were sent to Wexler and Moore.

<sup>2</sup> July 9 and 10.

### *ORGANIZATION SUPPORT*

We have obtained written, published endorsements from at least 38 different trade and business associations, 25 major U.S. corporations and 16 agricultural organizations (lists attached).<sup>3</sup>

A large number of others have also indicated support to us in more general terms. With the listed group we have seen specific announcements or communications directly to their membership or to Members of Congress concerning the agreements. Special follow-up activities on the Hill have also been scheduled prior to the vote by a number of these groups including the U.S. Council of the ICC, the Farm Bureau, the aircraft manufacturers and the Business Roundtable.

Our staff is in regular discussion with the supporting groups who also stand ready to be of any assistance to us as needed if unexpected trouble looms in the days ahead. It is a superb group of organizations, exactly the ones we hope will not only be useful in this particular effort but provide a good support base for the effective implementation of the Tokyo Round results and the pursuit of an aggressive trade policy by the Administration.

We have 12 other organizations that have indicated that they plan to issue endorsements during the coming days, but we have not received them yet. That list is also attached for your information.<sup>4</sup>

### *SPEAKING ACTIVITIES*

Although we followed a very selective outreach program as part of our MTN approval strategy, the task force has maintained a roster of some 80 Administration speakers on the MTN and provided them with relevant materials either for complete speeches or for appropriate inserts. Special efforts were particularly made to focus on geographic areas of initial concern, such as New England and the Middle West.

Our Speakers Bureau estimates that we have now had more than 400 speaking engagements on the MTN since February 1, with more than 200 of these being handled directly by the Office of the Special Trade Representative, the majority of these by you, Alan and myself.

### *EDITORIAL SUPPORT*

We have also carried out an extensive series of personal briefings for editorial boards around the country in connection with speaking trips. As an illustration, I have met personally with some 20 editorial boards of major newspapers covering every region except your South-west. These visits were usually followed by favorable editorials.

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<sup>3</sup> Attached but not printed is an undated list entitled "MTN Supporters."

<sup>4</sup> Attached but not printed is an undated list entitled "Anticipated Endorsements."



We enjoy at the moment major press support from about 70 of the top 100 newspapers in the country that have taken positive editorial positions recently. Only three newspapers have been identified with negative editorials and those were somewhat marginal pieces with a mixture of both positive and negative comments (the Boston Globe, the Little Rock Gazette and the Pensacola Journal).

As we move toward the MTN vote, we have already in print the overwhelming support of the nation's press. Summaries of these favorable editorials have been distributed by our Congressional Liaison Group to Members of Congress on this last round of calls.

We are ready for the vote.<sup>5</sup>

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<sup>5</sup> The House of Representatives passed the trade bill on July 11, while the Senate approved it on July 23. (Clyde H. Farnsworth, "Bill to Liberalize Trade Clears House, 395 to 7," *The New York Times*, July 12, 1979, p. D1; Clyde H. Farnsworth, "Trade Liberalization Clears Senate, 90 to 4; Bill Goes to President," *The New York Times*, July 24, 1979, p. A1) Carter signed the legislation, entitled the Trade Agreements Act of 1979 (P.L. 96–39), into law on July 26. For his remarks on signing the bill, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, pp. 1311–1314.

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## 224. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Vance<sup>1</sup>

Washington, July 19, 1979

### Foreign Economic Policy Implications of the Cabinet Changes

The foreign exchange markets have been under very great pressure since Monday.<sup>2</sup> Despite large-scale intervention, coordinated mainly with Germany, the dollar has depreciated against all major currencies. This reaction is attributed to the President's speeches not being sufficiently dramatic on energy.<sup>3</sup> Then on Tuesday "the Cabinet fell".<sup>4</sup>

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 6, Memorandums, 1979. Eyes Only. Drafted by Cooper.

<sup>2</sup> July 16.

<sup>3</sup> On July 10, Carter declared the existence of a nationwide energy shortage and imposed emergency restrictions on building temperatures; five days later, he addressed the nation on the energy crisis and laid out his administration's new energy policy. The following day, July 16, he discussed the energy crisis in a speech before the National Association of Counties in Kansas City, Missouri. For the text of Carter's July 10 proclamation, his July 10 message to Congress on the building temperature restrictions, his July 15 na-

There is a widespread misinterpretation of the oral resignations in other countries, where the public wrongly associates it with the fall of a government under a parliamentary system. But there is a general impression of disarray even among those who understand our system of government.

On specific individuals: apart from you and Harold Brown, the only Cabinet member of great importance to foreign policy is Mike. As you know he had a rocky start (he was charged in 1977 with trying to "talk down the dollar"), but since then he has built a very strong and deserved reputation abroad as being solid, substantive and a useful check on some of the more radical ideas that arise in various parts of the Administration. I do not doubt that his resignation will be taken badly (except perhaps by the Russians, who were not highly enamored of him). Tony Solomon's reputation is limited largely to official and financial circles, but his departure would also be lamented. He is strongly attached to Mike, but he is willing to stay on under a new boss if that is necessary to smooth the transition.<sup>5</sup>

Juanita Kreps and Jim Schlesinger are both widely known and respected abroad but I do not believe that there would be strong foreign reactions either to their retention or to their departure. Abroad, as at home, Schlesinger gets blamed for an inadequate energy policy, so his departure might be a visual plus for the Carter Administration in foreign eyes; but that of course is merely cosmetics.<sup>6</sup>

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tional address, and his July 16 remarks in Kansas City, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, pp. 1226–1228, 1235–1247.

<sup>4</sup> On July 17, Powell gave the following statement to the press: "The President had a serious and lengthy discussion with his Cabinet and senior White House staff today about the priorities of his Administration. He reviewed with them the progress of the past few years and the problems which remain. All members of the senior staff and Cabinet have offered their resignations during this period of evaluation. The President will review these offers of resignation carefully and expeditiously." (Terence Smith, "Carter Offered Resignations by Cabinet and Senior Staff; Some Going in Days, Aides Say," *The New York Times*, July 18, 1979, p. A1)

<sup>5</sup> On July 19, Powell announced Blumenthal's resignation and Carter's nomination of G. William Miller as his replacement; see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, pp. 1273–1275. On July 24, Brzezinski assured Schmidt that the Cabinet shuffle "did not imply any foreign policy shift. This was particularly true in the financial field where Bill Miller would continue implementing the policies which Mike Blumenthal had tried to carry out." He also noted Carter's "firm commitment toward meaningful long-range energy program." Schmidt replied "that he did not expect any major changes in U.S. policy" and asserted his "full faith in Bill Miller," stressing that "Miller's rapid confirmation was particularly important for the international monetary situation." (Memorandum of conversation, July 24; Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Country Chron File, Box 14, Germany F R: 6-7/79)

<sup>6</sup> Carter accepted Schlesinger's resignation on July 20 and Kreps' on October 4; see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, pp. 1290–1291 and 1818.

**225. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Vance<sup>1</sup>**

Washington, August 7, 1979

## World Economic Outlook

Economic events threaten a repetition of the high inflation rates and declines in output the industrial countries experienced in 1974–75. Largely because of higher-than-expected oil price rises this year (so far nearly 60 percent from the end of 1978), forecasts both by the USG and international organizations have been considerably revised in the last month. They indicate substantially greater inflation and unemployment, lower growth rates in real output, and a significant worsening in the balance-of-payments positions of both developed and less-developed countries. Faced with this bleaker picture of the world economy over the next eighteen months, we and other major industrial countries should adopt policies that attenuate, rather than exacerbate, our economic difficulties. While current projections do not indicate a world-wide recession next year, strong defensive policies in each major country could generate such an outcome. We can expect both increased protectionist pressures and increased calls by developing countries for financial help.

*The Outlook in Figures*

In the past week the Administration has revised the economic forecast it issued only July 12.<sup>2</sup> Real GNP in 1979 is now expected to decline by 1.4 percent, rather than by 0.5 percent previously estimated, and will increase by only 1.1 percent, rather than 2 percent, in 1980 (fourth quarter over fourth quarter). (Growth in 1978 was 4.4 percent.) Inflation (GNP deflator) over the same periods is now expected to be about one percentage point higher than originally forecast: 11 percent in 1979 and 9 percent in 1980. By comparison, the inflation rate was 8.3 percent in 1978. The unemployment rate, currently 5.6 percent, is expected to rise to 8.2 percent by the end of 1980.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 4, Macroeconomic Policy Coordination E-1 (Econ), 79. Confidential. Drafted by Cooper and Peter Clark.

<sup>2</sup> On July 12, the White House announced that the economy was on the brink of recession. (Edward Cowan, "Recession Starting, White House Says, Revising Forecasts," *The New York Times*, July 13, 1979, p. A1) *The New York Times* reported on August 2 that administration officials had amended this forecast and were now predicting a more severe economic downturn. (Edward Cowan, "Economic Forecast Made Bleaker In a Confidential Revision by U.S.," *The New York Times*, August 2, 1979, p. A1)

Except for the United Kingdom, other developed countries are not currently expected to be in recession next year. (The projected decline in U.K. GNP, roughly 1–2 percent over the next 12 months, is due primarily to the Thatcher administration's policy of cutting government spending.) Nevertheless, the OECD now forecasts that its members will grow by only 2 percent in the next 12 months, down from 2¾ percent previously projected. Over the same period, consumer prices in OECD countries are expected to rise by 10 percent, 1 percentage point more than anticipated. The IMF paints a similar picture; it now forecasts a growth rate of 2 percent for industrial countries in 1980 (unpublished figure and confidential, not for attribution), which is one percentage point below their previous estimate. Private forecasts for Europe are considerably more pessimistic even than these figures imply.

The prospects for LDCs are more difficult to quantify, but the sketchy evidence we have suggests that the growth rate of non-oil exporting LDCs may be cut from roughly 5 percent in 1978 to perhaps 4 percent this year, most of the reduction being attributable to the oil price rise. The growth rate will be even lower next year if as a result of the slowdown in the OECD countries both the volumes and the prices of their raw materials exports fall.

The current account impact of the oil price rise, both directly and indirectly through its domestic contractionary and inflationary effects, will also be severe. Assuming no further rise in oil prices beyond July 1, the Treasury estimates that the combined current account of OECD members will shift from a surplus of \$8 billion in 1978 to a deficit of roughly \$20 billion this year, with a reduction in the deficit to \$13 billion in 1980 as OPEC countries spend more of their oil revenues. Non-OPEC LDCs are also hard hit, with their current account deficit rising from \$21 billion in 1978 to \$29 billion this year. Treasury projects a further increase in their deficit to \$36 billion in 1980. On the other side, the OPEC surplus, which was close to zero last year, is forecast to balloon to \$42 billion this year and a slightly smaller figure, \$38 billion, in 1980. Further oil price increases will raise these surpluses.

### *Policy Implications*

This deterioration in the global economic outlook will create a number of policy problems:

First, the "re-cycling" problem, i.e., the question of financing the enlarged payments deficits of OECD and less-developed countries. In the aggregate, the outlook is fairly bright. Although private banks have increased the proportion of their loans going to countries with payments deficits, their capital has increased and they have gained considerable experience since 1974 in how to re-cycle funds from OPEC countries to those in need of balance-of-payments financing. Moreover,

official financing facilities have also been enlarged; the Witteveen Facility, for example, has increased the IMF's ability to cope with the additional financing needs of its members, and the recently agreed liberalization of the Compensatory Financing Facility will make such financing more readily available. In addition, the foreign exchange reserves of less-developed countries have risen to such an extent that many of them can dip into these assets to finance larger deficits.

Nevertheless, while the aggregate financing problem appears manageable, there are bound to be specific cases of countries with severe balance-of-payments and financing problems. We can expect many more appeals for debt rescheduling and emergency financial support in the next 18 months than we have had in the last year and a half.

Second, the higher unemployment in both the U.S. and other major countries is likely to lead to increased calls for protection. In 1980 various groups will also undoubtedly introduce electoral considerations in pressing for protectionist actions. It will of course be vitally important that such pressures be resisted, not only in terms of our own well being, but also in terms of the severely adverse international repercussions. It will be necessary to watch carefully the evolution of the trade reorganization and the implementation of the MTN with a view to restraining these protectionist pressures.

Third, while it appears that the distribution of payments imbalances among the main industrial countries will be improved next year, there is the distinct possibility that increased uncertainty about economic prospects and policies may generate renewed exchange market instability. The Treasury is forecasting a small U.S. surplus next year, and Germany and Japan are likely to have drastically reduced surpluses, possibly even deficits. Such a situation should be favorable for the dollar. Nevertheless, the uncertain outlook and uncertainty as to what policies governments may adopt can well lead to increased exchange rate volatility.

The President will soon be considering action to deal with this deteriorating economic situation. To mitigate the adverse effects of this situation, both for the U.S. and for the world economy, it would be helpful if our economic policy could be directed toward moderating the decline in output. A moderately expansionist policy would attenuate our unemployment-protectionist problems, and would help maintain growth rates in other countries. Perhaps even more important is the need for increased oil conservation. Oil conservation is necessary to permit a desirable rate of growth of output without putting upward pressure on the price of oil.

These policy recommendations also apply to other major countries. It is especially important that Germany and Japan should be

urged not to overreact to the inflationary impact of the oil price increase. They have already significantly increased their interest rates this year, forcing other countries (including us) to do likewise. Further restrictive policies in both countries could severely curb their growth rates. If this should occur, we could well end up in the situation we all want to avoid, a repeat of 1974–75.

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**226. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Miller<sup>1</sup>**

Washington, August 29, 1979

SUBJECT

Supplemental Points for EPG—Solomon Speech on International Monetary System, Substitution Account

1. Speech elaborates view on long-term evolution of monetary system in context of increasingly interdependent world.<sup>2</sup> Two basic elements:

—*Adjustment*. We support a strong IMF surveillance role in promoting smoothly-functioning balance of payments adjustment process, involving stronger policy coordination.

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<sup>1</sup> Source: National Archives, RG 56, Office of the Under Secretary of the Treasury for Monetary Affairs, Subject Files of Anthony Solomon, 1977–1980, Box 1, EPG. Confidential. Drafted by Widman. Printed from a copy bearing Bergsten's stamped initials. The memorandum was forwarded to Solomon under cover of a September 5 note from an unidentified Treasury official, who wrote: "After the press coverage of your Alpbach speech, some of which indicated that this represented a shift in U.S. policy, Stu Eizenstat apparently raised questions about the speech at an EPG meeting last week. Miler apparently indicated that this did not represent a shift in U.S. policy, but he subsequently asked for supplemental briefing on the issue in case it came up again." (Ibid.)

<sup>2</sup> According to IMF historian Boughton, Solomon's August 27 speech in Alpbach, Austria, constituted the "definitive statement of U.S. support for establishing a substitution account." (Boughton, *Silent Revolution*, p. 940) Boughton indicates that a copy of the speech is in the Carter Library, Anthony Solomon Collection, 1977–1980, Box 12, Alpbach Monetary Conference, 8/27/79. A copy was reportedly released in Washington. ("U.S., in Shift, to Weigh Dollar Substitution Plan," *The New York Times*, August 28, 1979, p. D1) Solomon sent Miller a more detailed paper on the substitution account under cover of a September 5 memorandum. (Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 6, 9/79)

—*Liquidity*. We should work toward enhancing the role of SDR in system, reducing system's reliance on dollar and averting a move to an unstable multiple currency system.

2. Substitution account represents one possible step in liquidity area. Could, over time, contribute to several improvements:

—Provide off-market, non-disruptive means of diversification out of dollars.

—Reduce system's overwhelming reliance on dollars, and thus our exposure to exchange market pressures from shifts in foreign dollar balances.

—Ultimately, development of SDR as main reserve asset, whose creation would be subject to conscious international decision.

3. Reports of "shift" in U.S. position on substitution account overstated. Current discussions have been going on for nearly a year, with consistent U.S. support.

4. Speech does, however, for first time, a) elaborate broad *systemic* framework in which we view the substitution account possibility, and b) set out certain basic *principles* that would have to be incorporated to make such an account acceptable to the U.S. (permanence, wide participation, mutually acceptable financial characteristics, support development of SDR, sharing of any costs).

5. U.S. has an interest in seeing such an account established—on certain conditions—but must not appear as demandeur, or we will not be able to negotiate acceptable conditions. The principles we have set out will ultimately determine the detailed financial conditions.

6. This general approach, and basic principles, have been discussed extensively and agreed in the IMG.<sup>3</sup>

7. Key decisions to be taken at Belgrade on whether this approach and these principles will be broadly acceptable.<sup>4</sup> If so, subsequent detailed work by IMF Executive Board. If not, U.S. will at least have shown positive, constructive attitude, leadership role in monetary negotiations.

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<sup>3</sup> In a May 17 memorandum to Cooper, Clark reported on a May 10 IMG meeting on the substitution account, during which Solomon explained his support for the initiative. (National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group)

<sup>4</sup> The Interim Committee met in Belgrade on October 1. At the conclusion of the meeting, the Committee announced its agreement that the creation of a substitution account should be given "priority attention." ("Substitution Fund Set By I.M.F.," *The New York Times*, October 2, 1979, p. D15)

## 227. Memorandum From Secretary of the Treasury Miller to President Carter<sup>1</sup>

Washington, September 26, 1979

The dollar came under very great pressure today and we had to spend almost half a billion dollars. In my view, only much more effective cooperation from the German monetary authorities will enable us to stabilize the market.<sup>2</sup>

I would like to have my discussions in Hamburg with the Germans this Saturday<sup>3</sup> reinforced by a telephone call from you to Chancellor Schmidt along the lines of the attached talking points.<sup>4</sup>

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 22, Treasury Department: 3/79-3/80. No classification marking. Carter wrote at the top of the page: "done. J." At the bottom of the page, Miller wrote: "I'll do my best to gain agreement at the Hamburg session. Bill."

<sup>2</sup> During a September 21 telephone conversation, Schmidt told Carter "that the current unrest in the currency markets gives a great deal of pain to financial managers." Noting the "good cooperation" enjoyed by West German and American officials, Schmidt said that "the Federal Republic stands ready to continue to loan Deutsche Marks so the U.S. can buy dollars and maintain a steadier exchange relationship in the market." (Memorandum of conversation, September 21; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 37, Memcons: President: 7-9/79)

<sup>3</sup> On Saturday, September 29, Miller and Volcker met with Schmidt, Emminger, and Matthoefler in Hamburg for a discussion of international economic issues. According to the joint communiqué issued at the end of the meeting, they discussed recent oil price hikes, U.S. and West German domestic economic policies, and international monetary relations. They also reaffirmed "their resolve to combat unwarranted as well as erratic movements in the foreign exchange markets," both "promptly and in close cooperation." (Telegram 7341 from Belgrade, October 1; National Archives, RG 59, Central Foreign Policy File, [no film number]) *The New York Times* published a report on the meeting on September 30. (John Vinocur, "2 Countries Agree to Bolster Dollar," *The New York Times*, September 30, 1979, p. 1) No memorandum of conversation of the meeting was found.

<sup>4</sup> Attached but not printed is a set of talking points dated September 26. The first point noted the forthcoming meeting of U.S. and West German officials in Hamburg, while the second suggested concern that the foreign exchange market "situation appears to be deteriorating rapidly." The third point asserted the belief that "a very serious problem is developing" that would "require forceful cooperation between the U.S. and Germany." Carter spoke to Schmidt by telephone on September 27 from 12:34 until 12:38 p.m. Immediately thereafter, he placed a telephone call to Miller, with whom he spoke from 12:42 until 12:44 p.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation of either telephone conversation was found.



## 228. Memorandum of Conversation<sup>1</sup>

Washington, December 4, 1979, 9 a.m.

### SUBJECT

OECD–Summit Relations

### PARTICIPANTS

OECD Secretary General Emile van Lenep

Stephen Marris, Economic Adviser to Secretary General van Lenep

Tom Alexander, Special Assistant to Secretary General van Lenep

Ambassador Herbert Salzman, U.S. Representative to the OECD

Ambassador Henry Owen, Special Representative to the President for Economic Summits

Robert M. Beaudry, Director, EUR/RPE

Ambassador Owen said he was particularly sensitive to the concerns expressed by the smaller industrialized countries that they were excluded from the Summit process and that he wished to talk to Secretary General van Lenep to see if they cannot minimize the problem. Owen said he would arrange in the preparation for the Summit and at the Summit itself to take account of the interests and sensitivities of the smaller countries. He suggested that van Lenep could help by organizing an OECD meeting immediately after the June 21–22 Summit<sup>2</sup> at which he would be prepared to brief the other members and discuss the outcome of the Summit with them.

Van Lenep expressed his appreciation for Owen's attitude noting that the U.S. has always had an open approach to summitry unlike some of the other Summit countries. He suggested that Owen might wish to broaden the scope of his proposed scope and concentrate on the OECD as an institution rather than aiming to satisfy specific small countries. Van Lenep believes it would be helpful if the Summit communicate could refer to the OECD since he was anxious that the solidarity and cohesion of the OECD not be damaged by the impression that the organization had two classes of members. Owen indicated that he would let Ambassador Salzman know in advance of the substance of issues being prepared for the Summit. In this connection he noted that the IEA would make a major contribution to the Summit. The OECD is, thereby, directly involved in Summit preparations. Owen noted that the IETG would submit its report at the end of March. Van Lenep said

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 23, Memcons: 12/79–5/80. Confidential. Drafted by Beaudry and cleared by Owen. The meeting took place in Owen's office.

<sup>2</sup> The Venice G–7 Summit took place June 22–23, 1980.

that the OECD Ministerial has not yet been set but consideration was being given to the first days of June.<sup>3</sup>

Turning to the other traditional Summit topics, Owen suggested that trade matters would probably not take up too much time. Monetary reform would probably be limited to some discussion of the substitution account and North/South issues (food and energy) would receive minimum attention. The traditional section on macro-economic policy presents a problem. Owen said that once we attempt to go beyond generalities it becomes extremely difficult to know which way to go. He asked van Lennep and Marris if they had any ideas. Marris said he is not certain that any of the various OECD activities would be sufficiently ripe to be worthy of inclusion at this level. It was suggested that van Lennep might issue a progress report on Marris' efforts which could inform governments and thus contribute to the preparations of the Summit. Van Lennep said it was essential that such effort be kept within the OECD.

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<sup>3</sup> The OECD met at the Ministerial level June 3–4, 1980.

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## 229. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, December 18, 1979

### SUBJECT

Upcoming Decisions (U)

Decisions you make in your next few weeks will have a significant effect on the international economic scene between now and the Venice Summit. (C)

1. *Energy*. In the wake of the December 10 IEA Ministerial meeting we have a fair chance to bring the world oil price escalator under control—by continuously adjusting the industrial countries' oil import ceilings to changing oil availabilities.<sup>2</sup> Other IEA governments will

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 160. Confidential. Sent for information.

<sup>2</sup> The IEA Governing Board met in Paris on December 10. For more information on the meeting, see *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 251.

need a lot of convincing, however, before they agree to the import cuts needed to put this system into effect. They are unpersuaded that cuts are necessary; and they believe that it will be politically difficult to convince their people that they should use less oil, so long as US gasoline consumption continues to be relatively unrestrained by taxes comparable to those in most other industrial countries. (C)

A clear statement soon that you were prepared to impose a petroleum import fee if US imports and consumption do not decline by appropriate amounts would strengthen our influence in pressing for import cuts in the IEA negotiations. Making the scale and timing of the US fee dependent, in some degree, on the outcome of these negotiations would further enhance the likelihood of a favorable outcome. (C)

If we can make the system set up at the December 10 IEA meeting work, we will both reduce pressure on oil prices and encourage the moderate OPEC countries to follow sensible production policies. This would be a notable success for US policy in the first half of 1980. It might set the stage for a major effort at and after the Venice Summit to seek a long-term agreement with the more moderate OPEC countries. (C)

2. *The Dollar*. The dollar's strength between now and Venice will depend partly on how foreign countries see US energy and anti-inflation policies. Energy is treated above. Their view of our anti-inflation policies will hinge, in some measure, on your FY 1981 budget. In Paris last week, the question I was asked repeatedly was whether you would hold to tight fiscal policies in an election year. Skepticism on this point increases pressure on the dollar. (C)

Many Europeans believe that we have repeatedly under-estimated the strength of the US economy and that current US inflation is due partly to excessive US stimulus in 1976, 1977, and 1978. A tight budget (reserving a decision about stimulus until we can see whether it is actually needed later in the spring) would be a clear and welcome signal to them that you still consider inflation the main threat and mean to act accordingly. (C)

This would help the dollar in a crucial period: Our negotiating position at the Venice Summit, in giving a push to the substitution account and in debating the international monetary reform that Giscard intends to propose, will be stronger if the dollar is in good shape. If we can get agreement on the kind of substitution account we favor, this will be a major step toward a more effective international monetary system—one that will reduce the continuing pressure on the dollar that has been a major source of political tension and economic instability in the industrial world. (C)

3. *War on Hunger*. Your urging, at the Tokyo Summit, that countries increase aid for LDC food production has borne some fruit. Ger-

many and Japan are increasing their aid substantially, despite virtually static budgets. Italy has pledged to double its aid, and to give first priority to increasing food production. Member countries have recently agreed to double the resources of the World Bank's Consultative Group on International Agricultural Research (from \$100 million to \$200 million annually). (C)

Against this background, the Venice Summit could be the occasion for a major push to eliminate hunger by the year 2000, as proposed by your Hunger Commission.<sup>3</sup> Whether we can seize this occasion will depend partly on decisions you will soon make about FY 1981 Development Assistance and PL-480. If our program for next year does not provide for substantial food aid and a modest increase in aid for food production, we will not be taken seriously by our allies when we ask them to step up the war on hunger. (C)

If our allies do take the proposal seriously, it is possible that agreement might be reached on setting up an international consortium, perhaps under IBRD auspices, to mount a coordinated program of worldwide assistance for increased food output. This would not only help millions of poor people; it would also reduce the likelihood of higher global food prices, and hence future US inflation. (C)

4. *Conclusion.* We have some chance in the next few months of registering economic successes on the international economic front—in energy, monetary affairs, and the war on hunger. The decisions that you soon make—on an import fee, FY 1981 fiscal policy, and aid for food production in LDCs—will have some bearing on the outcome. (C)

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<sup>3</sup> The Presidential Commission on World Hunger released its preliminary report on December 10. (Seth S. King, "U.S. Panel Asks Doubling of Aid to Food-Short Lands," *The New York Times*, December 11, 1979, p. A11) See Document 337. Substantial portions of the Commission's preliminary report are printed in *Foreign Relations, 1977-1980*, vol. II, Human Rights and Humanitarian Affairs, Document 263.

## 230. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, January 18, 1980

### SUBJECT

Reduction of Disincentives to US Exports (U)

The study of export disincentives pursuant to your September 1978 export policy decision<sup>2</sup> has now been underway for a year. This memorandum summarizes findings and proposed phased decisions, beginning with interim measures that you might announce next week, along with good news about exports and the balance of payments. (U)

The study has focused on our trade with non-Communist countries; issues peculiar to East-West trade were not included in the study or in the decisions proposed below. (U)

Progress in carrying out this study has been slow, largely because of the difficulty of securing reliable data. The task force conducting the study has estimated that all the indentified disincentives may result in a combined annual export loss of \$5–10 billion, but these figures cannot be supported by firm evidence. (C)

The five major disincentives are:

- ambiguities in the Foreign Corrupt Practices Act<sup>3</sup>
- overlapping anti-boycott laws and regulations
- foreign policy export controls
- nuclear export controls
- arms export controls. (C)

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 92, Export Controls: (National Export Policy): 1–6/80. Confidential. Sent for action. Carter wrote at the top of the page: “Henry. J.” An attached February 26 memorandum for the record by Denend notes that Owen’s memorandum “was forwarded to the President for decision prematurely. Thus, the decisions taken were not implemented. Subsequently, a fully coordinated recommendation (NSC 1137) was forwarded to the President on this subject which he approved.” The subsequent memorandum to Carter was not found.

<sup>2</sup> See Document 164.

<sup>3</sup> On December 20, 1977, Carter signed the Foreign Corrupt Practices Act into law, noting that the act “makes corrupt payments to foreign officials illegal under United States law. It requires publicly held corporations to keep accurate books and records and establish accounting controls to prevent the use of ‘off-the-books’ devices, which have been used to disguise corporate bribes in the past. The law also requires more extensive disclosure of ownership of stocks registered with the Securities and Exchange Commission.” See *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book II, p. 2157.

The study has thus far covered only these five major disincentives. There are about a dozen other laws and policies that discourage or restrict exports, but they are much less significant than these five. We could go on to examine these other disincentives and produce a single report after they have all been examined but, given the duration of the study to date and the business community's impatience, I believe it would be better to divide the venture into two phases:

—The first phase, consisting of (i) a report and recommendations on the five major export disincentives listed above, which are summarized in this memorandum, and (ii) a Presidential decisions announcement similar in form to your export policy announcement in September 1978. A draft text of this statement is attached.<sup>4</sup>

—The second phase, culminating in the new report on export incentives and disincentives that the Congress has mandated for July, 1980,<sup>5</sup> could include any further action that then seemed politically feasible on the major disincentives, as well as recommendations on the secondary disincentives not considered in the first phase. The President's Export Council<sup>6</sup> would be involved in preparing this second phase. We would also inform Reginald Jones<sup>7</sup> of the first phase decisions, before they are announced publicly. (U)

In Phase I we have looked for recommendations that would reduce the negative effect of the five major export disincentives and demonstrate your appreciation of US business interests, without requiring controversial legislative proposals or abandonment of fundamental policies in other fields. This limits the scope and effectiveness of these recommendations: Strongly supported policies, in some cases recently affirmed by the Congress or the Executive Branch, would be compromised by any major dismantling of export disincentives. (C)

My recommendations regarding each of the five main disincentives are set forth below. (U)

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<sup>4</sup> Attached but not printed is a draft Presidential statement entitled "Reduction of Export Disincentives," dated January 19. Carter initialed at the top of the draft statement and wrote "ok." The draft differs from the statement that was ultimately issued on February 27; for the text of the latter, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book I, pp. 400–403. Regarding the 1978 announcement, see footnote 2, Document 164.

<sup>5</sup> The 1979 Trade Agreements Act directed the President to submit a report on exports to Congress by July 1980. See Document 248. Carter sent Congress a report on U.S. export promotion policies on September 9; see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1689–1695.

<sup>6</sup> Executive Order 12131, May 4, 1979, revived the President's Export Council; see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book I, pp. 784–786. On December 22, 1980, the President's Export Council submitted its final report, entitled "The Export Imperative," to Carter; for his remarks on receiving the report, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book III, pp. 2827–2829.

<sup>7</sup> Reginald Jones was Chairman of the President's Export Council.

1. *Foreign Corrupt Practices Act*. You would reiterate support for the purpose of the Act but note business complaints about its ambiguities and its provision for duplicate administration by the Justice Department and the S.E.C.; you would announce that the procedures for providing guidance to business on the Act that you called for in your earlier export policy statements have now been established, and that Justice now will begin providing guidance on the meaning of the Act and will publicize the substance of each decision under the procedure. You would suggest that after a year of operating experience under the new procedure, its effectiveness in eliminating uncertainty will be reviewed by the Executive Branch in consultation with representatives of the business community; and you would suggest that the Congress then might wish to review any remaining issues. (State, Commerce, Justice, Treasury, USTR, NSC, and DPS concur.)<sup>8</sup> (C)

2. *Anti-boycott Laws and Regulations*. You would propose no action on this matter, but would reiterate your support for the purposes of the legislation, express your satisfaction that several boycotting governments have moderated practices that conflict with US anti-boycott laws, and note that business uncertainty also has been alleviated by clarification of US Government regulations. No agency recommends action that might reopen debate on this subject in the Congress at this time. This argues against seeking more ambitious changes advocated by some agencies, i.e., congressional amendment of the Tax Reform Act of 1976 so as to tie its penalties to violations of Commerce Department regulations under the Export Administration Act, or repeal of the Tax Reform Act (Ribicoff act).<sup>9</sup> (C)

3. *Foreign Policy Export Controls*. You would declare your endorsement of the amended Export Administration Act, citing particularly its tighter guidelines for use of export controls in foreign policy sanctions, as distinguished from national security cases; you would note our recent publication of a clearly identified and shortened list of goods, technologies and countries subject to export control for foreign policy reasons; and you would reaffirm your policy of seeking broad international participation in such economic sanctions where feasible and of very selectively applying such export controls when the target country has ready access to alternative supply. (C)

All concerned agencies concur with this statement of existing policy, although some would prefer policy changes in favor of export

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<sup>8</sup> Carter indicated his approval of this recommendation and wrote "But do *not* insinuate future approval of bribery. J" below it.

<sup>9</sup> Carter indicated his approval of this recommendation and initialed "J." The Export Administration Act of 1979 (P.L. 96-72), signed by the President on September 29, 1979, aimed to control U.S. exports for reasons of national security, foreign policy, or short supply.

interests. The existing policy allows considerable flexibility in applying export controls for foreign policy purposes, such as disassociating the United States from abhorrent acts of foreign governments, e.g., apartheid in South Africa or support of terrorism in Libya or Chile. Cy Vance opposes reversal of recent decisions based on present policy, which you reaffirmed in a decision memorandum last December 29.<sup>10</sup> Consequently, we are not presenting other options examined in the study of export disincentives, such as limiting foreign policy export controls to cases where you find that the sanction is likely to cause a favorable change in the target country's policy, or limiting the essentially symbolic sanctions, i.e., where alternative supply is likely, to countries engaged in actions hostile to fundamental US interests. (C)

If you wish to consider changes in present policy before announcing your interim decisions, a delay of several weeks would be entailed while State prepared an analysis. (C)

Approve statement confined to present policy<sup>11</sup>

Submit additional options, without delaying statement

Submit additional options, delaying statement

4. *Nuclear Export Controls.* You would note that under your Administration there has already been major progress in liberalizing our own nuclear export practices, such as providing multiple reload licenses for most of our principal trading partners, providing general licenses for components for most reactors abroad, and eliminating licensing requirements for non-significant quantities of nuclear material; in streamlining Executive Branch procedures under the Nuclear Non-Proliferation Act; and in harmonizing with other suppliers our nuclear export policies in dealing with cases of proliferation concern. (C)

You would now direct the responsible executive agencies:<sup>12</sup>

(1) in considering exports of dual-use items of significance for nuclear explosives, to assure that primary emphasis is placed on countries of proliferation concern, and to minimize the impact on commerce with our major trading partners;

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<sup>10</sup> In a December 28, 1979, memorandum to Carter, Brzezinski sought his decisions on extending various export controls for foreign policy purposes. Carter communicated his decisions to the President of the Senate and the Speaker of the House of Representatives in two separate letters dated December 29, 1979. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 66, Trade: 12/79)

<sup>11</sup> Carter indicated his approval of this recommendation and initialed "J," writing "(hard for me to understand)" in the adjacent margin.

<sup>12</sup> Carter made a checkmark in the margin adjacent to all four numbered points below.



(2) to continue efforts to harmonize international conditions for approving or denying exports and re-exports of dual-use items which we continue to license;

(3) to eliminate the need for a separate retransfer authorization for those cases where the retransfer was foreseen and approved in the NRC license; and

(4) to continue to seek ways of rationalizing the export review process for countries with good non-proliferation credentials, and take other steps to enhance US reliability as a supplier of nuclear materials and equipment. (C)

All concerned agencies concur.<sup>13</sup>

5. *Arms Export Controls*. While foreswearing an intention to increase arms exports, you would direct (a) firm deadlines for action on cases, parallel to those mandated in the new Export Administration Act (EAA) for civil use items and (b) establishment of an appeals procedure within the Executive Branch to provide a court of last resort for the US exporter who is unable to secure action on an arms export request within a reasonable period of time. (This might head off a move to extend to arms the provision in the new EAA which would move delayed cases for civil items to the courts.) All concerned agencies concur.<sup>14</sup> (C)

*RECOMMENDATION*: That you indicate your preferences as to each of the five issues and authorize prompt issuance of the Presidential statement, which has been cleared by your speechwriters, Stu Eizenstat, Zbig and Al McDonald.<sup>15</sup>

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<sup>13</sup> Carter indicated his approval of this recommendation and initialed "J."

<sup>14</sup> Carter indicated his approval of this recommendation and initialed "J."

<sup>15</sup> Carter indicated his approval of this recommendation and initialed "J."

**231. Memorandum From the United States Trade Representative (Askew) to President Carter<sup>1</sup>**

Washington, February 8, 1980

## SUBJECT

Nonrubber Footwear Imports

## I. BACKGROUND

Following a U.S. International Trade Commission (USITC) finding of serious injury to the domestic nonrubber footwear industry in 1977, you ordered negotiation of orderly marketing agreements (OMAs) and domestic measures to enable the industry to adjust to import competition.<sup>2</sup> In so doing, you rejected the Commission's recommendation for an additional high duty on imports over 266 million pairs as not fairly balancing your concerns for domestic jobs and production, inflation, and expanded world trade. You stated that you were reluctant to include import restraints in your remedy but had done so in view of the serious situation in the domestic footwear industry.

OMAs were negotiated with Taiwan and Korea, effective through June 30, 1981.<sup>3</sup> However, you retain authority to impose restrictions on footwear imports from other countries if imports from them appear likely to disrupt the effectiveness of the OMAs.

The import relief program has come under criticism recently because of a surge in imports from countries not under restraint, primarily Italy. Imports, instead of declining as a result of the rollback of Korean and Taiwanese shipments, increased from 374 million pairs in 1978 to 405 million pairs in 1979. Imports from Italy alone rose from 63 million pairs to 97 million pairs in the same period. Domestic production and employment are on a downward trend.

The import surge has threatened the credibility of the relief program. The shoe industry and unions prefer imposition of global quotas—i.e., against all exporting countries. A statement of the industry's views is attached.<sup>4</sup> They would like a commitment from you

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 51, Memos from the President [2]. Limited Office Use. Sent for action. Hormats initialed the memorandum on Askew's behalf. Carter wrote at the top of the page: "Reubin—ck w/Schultze re statement. J." Executive Order 12188 of January 2 renamed the Office of the Special Representative for Trade Negotiations the Office of the United States Trade Representative.

<sup>2</sup> See Document 17.

<sup>3</sup> See Document 32.

<sup>4</sup> Not attached.

that import levels will be brought down to 370 million pairs and that a mechanism will be established to assure that this figure is met. They are also hopeful that this mechanism can be continued for three additional years after expiration of the current relief program. These objectives are opposed strongly by (a) consumer groups, who are concerned about the inflationary impact of quotas; (b) U.S. shoe retailers; (c) foreign suppliers who would be hurt and, in the case of Europe, might impose barriers of the same sort.

Fortunately, the upward trend of imports appears to have reversed, based on recent data and projections. Various forecasts and our contacts with the EC and other exporting countries lead us to conclude that imports in 1980 will drop significantly from 1979 surge levels, to roughly 380–385 million pairs.

I believe that imposition of a global quota is not warranted at this time and I have told this to the industry and unions. However, the industry does need to be given more certainty about our intention to moderate imports and limit future surges in order to restore the credibility of the relief program.

## II. OPTIONS

The *first option* would be to continue quiet efforts to reduce imports below 1979 surge levels. It would not, however, lock the Administration into a position where it will have decided in advance: (a) how much imports have to fall; and (b) how restrictive an action should be taken if action is later judged necessary. Treasury, State, Justice, National Security Council and International Development Cooperation Agency favor this option. (Fred Kahn)

These agencies believe that a commitment now to restrict imports if, in the future, those imports exceed a trigger level as called for in option two, would signal a significant retreat from the Administration's anti-inflation objectives—enumerated in a wide range of economic policies. Moreover, coming at the same time as possible price-increasing actions on steel imports, such a commitment could be read as a reversal of Administration trade policy.

The proponents of this option believe a commitment to restrict imports should not be made when imports are falling and will probably continue to fall. A decision to restrict shoe imports, in their view, should be made only when we see whether the level of imports in fact remains excessively high. A trigger could force us to take a major protectionist step affecting scores of countries if imports exceed 385 million pairs by a small margin. Many of these countries would be LDC oil importers. Moreover, they believe, a commitment now to bring imports "toward pre-surge levels" (370 million pairs), would guarantee the industry a ceiling on imports—even if the industry makes no effort to

meet import competition. This option has the disadvantage of failing to provide the certainty of relief that the industry and unions want.

The *second option* would be to assure the industry and unions that the Administration is committed to maintain the integrity of the footwear relief program by working to reduce imports in 1980 significantly below the 1979 levels and prevent new surges. We will more closely monitor imports to anticipate the sharp changes that can occur in a fashion-oriented industry. If we find that imports are not dropping significantly from 1979 levels toward pre-surge levels, we will take appropriate action<sup>5</sup> to achieve this objective. We would leave open all options, including voluntary restraint agreements, orderly marketing agreements, tariffs, tariff-rate quotas, and global quotas. A press release to this effect would be issued.<sup>6</sup>

Under this option, we would only consider the use of global quotas as a last resort, if absolutely necessary to control surges. However, it is essential that we keep this option open not only because it may ultimately be the only effective way to moderate imports but also to give credibility to our efforts to negotiate more acceptable solutions with the surging countries. If the import situation unexpectedly deteriorates and our other efforts to correct the problem are unsuccessful, I would, after consultations with the agencies, recommend appropriate unilateral action for your approval.

This option has the advantage of being more acceptable to the industry and unions than the first option because it is more specific in setting our objective for imports in 1980, i.e. a significant drop in imports and prevention of new surges. However, by indicating that action will be taken only if imports do not drop significantly, this option suggests a range of acceptable imports above the pre-surge level of 370 million pairs to perhaps 385 million pairs before unilateral U.S. action would be necessary. This leeway would give us flexibility in dealing with the situation and would avoid arbitrarily triggering import restraints if the target of the lower end of the range is exceeded. This option is favored by Commerce, Labor, Interior, Agriculture, CEA<sup>7</sup> and DPS. (OMB) (Landon Butler)

### III. RECOMMENDATION

That you approve option two which would commit the Administration to work to reduce imports in 1980 significantly below 1979 levels and prevent new surges from occurring. All means of achieving

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<sup>5</sup> Carter underlined the phrase "take appropriate action" and wrote "?" in the adjacent margin.

<sup>6</sup> Attached but not printed is a draft press release dated February 28.

<sup>7</sup> Carter underlined "CEA."

this option would be left open including the possibility of using global quotas if necessary. I have discussed this issue with the unions and, although they still prefer a commitment to limit imports to 370 million pairs, they can accept the approach in option two.

OPTION I (Treasury, State, DOJ, NSC, IDCA, Kahn)

OPTION II (Askew, OMB, DPS, CEA, DOC, DOL, DOI, USDA) Butler<sup>8</sup>

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<sup>8</sup> Carter indicated his approval of this option, writing "But: a) keep the statement as non-specific as possible; b) Include a strong [paragraph] near top re fighting inflation. J." Carter's decision was announced on February 29; for the text of the announcement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book I, pp. 420–421.

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### 232. Memorandum From the Chairman of the Economic Policy Group (Miller) to President Carter<sup>1</sup>

Washington, February 8, 1980

#### SUBJECT

Administration Steel Policy

As you know, United States Steel is threatening to file broad-based antidumping petitions against European and Japanese steel producers, unless the Government offers the industry relief from imports, environmental regulations and wage-price guidelines, and provides incentives to capital formation. Other steel companies would probably follow suit.<sup>2</sup>

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 81, [Steel] [8]. No classification marking. Carter wrote at the top of the page: "Bill—ok—Carefully orchestrate our PR effort—Here & in Europe/Japan. J." The memorandum was sent to Miller for his signature under cover of a February 7 memorandum from Solomon, who reported that Hormats, Cooper, Owen, and Commerce Department officials agreed to the memorandum; a handwritten note on Solomon's memorandum indicates that comments received from Schultze and Kahn had been incorporated into the memorandum for Carter. (Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 8, 2/1/80–2/14/80)

<sup>2</sup> In a February 12 memorandum to Eizenstat, McDonald characterized this memorandum as "quite disturbing. It places this extremely complex problem on the President's desk prematurely, offers no reasonable set of options for Presidential review, accepts as inevitable a major confrontation internationally and domestically, and inadequately describes the dire consequences of following this course." McDonald urged making "every effort to work out an amicable solution with the industry and the Europeans." (Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 283, Steel (CF, O/A 731) (2))

Declining economic activity, particularly in the automotive and construction sectors which are major steel consumers, and increases in costs are now putting pressure on U.S. steel companies. We are sensitive to this short term problem, to the industry's long run need to modernize, and to their difficulties with generating sufficient capital for modernization. We have indicated a willingness to work with the industry to improve government policies.<sup>3</sup>

It is important to emphasize, however, that this Administration already has a substantial program of measures in place to help the steel industry. Those measures include the Trigger Price Mechanism (TPM),<sup>4</sup> an EDA loan guarantee program, a reduction in the depreciation guideline life for steel plant and equipment, and a steel industry-EPA review of environmental regulations. This program has been operating since 1978, and significant progress has been made.

Imports for 1979 accounted for approximately 15.2 percent of domestic steel consumption as compared to an 18.1 percent share in 1978. However, in the last quarter of 1979 imports were running at a rate equal to 17.5–18.5 percent of domestic steel consumption.

After suffering losses in 1977, the industry recorded a \$1.3 billion profit in 1978. Industry profits continued to climb in the first nine months of 1979, but because of U.S. Steel's record losses in the fourth quarter, the industry's annual profits in 1979 will be close to the 1978 level. At this level industry profits as a percent of capital will remain at about half the average for all manufacturing industries. The average rate of utilization of steel industry plant and equipment in 1979 was 87 percent, as compared with rates of 78 percent for 1978 and 77 percent for 1977. In 1980 the utilization rate is expected to fall back into the 80–83 percent range. The industry's cash flow increased by 72 percent from 1977 to 1978. We expect the industry's cash flow to remain roughly constant in 1979, but it will drop in 1980, as profits decline.

In light of our existing program and current industry conditions, new initiatives of the kind the industry is requesting are not appropriate since they would require an unacceptable level of subsidization and would conflict with anti-inflation and trade policies.

1. Your principal advisors on this issue recommend the following policy:

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<sup>3</sup> In a February 15 memorandum to Carter, Miller reported on a meeting the previous day between EPG members and steel industry representatives. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, Steel [1])

<sup>4</sup> See footnote 3, Document 79.

a. The Administration is sensitive to the concerns and conditions of the steel industry, steel workers and affected communities, and will continue to try to improve government policies in this area.

b. This Administration is taking actions to assist the industry.

1. The Trigger Price Mechanism (TPM) appears to have eliminated the injurious effect of dumping and has reduced imports. The Administration consulted regularly with the industry on how the operation and methodology of the TPM could be improved.

2. A maximum reduction of depreciation guideline lives for steel plant and equipment, consistent with our statute, contributed in part to the substantial improvement in the industry's cash flow. We recognize, however, that the industry still has a cash flow deficiency. At some later time, if the overall economic situation permits a tax cut, we will propose actions designed to improve cash flow and stimulate investment. Such action would particularly benefit capital intensive industries such as steel.

3. There is an intensive steel industry-EPA review of environmental regulations affecting the industry to determine if our environmental goals can be achieved at a lower cost. This cooperative process, which is of substantial benefit to both the industry and the EPA, and resulted in the adoption of the bubble concept for air pollution control, will continue.

4. The Tripartite Committee, consisting of industry, labor and government officials, will continue to review issues of interest to the steel industry and steel workers.<sup>5</sup>

5. Given our trade and anti-inflationary policies and the situation under which the Trigger Price Mechanism (TPM) was initiated, the Administration will adhere to its policy, as stated repeatedly to the industry, labor, the Congress, and the public, and suspend the TPM if major steel antidumping cases are filed. We would be prepared, however, to reactivate the TPM if the dumping cases were withdrawn or resolved in an appropriate manner.

2. Should the U.S. Steel Company and other U.S. companies file their threatened antidumping petitions against European and Japanese producers (because the Government refused to grant their requests) we recommend the Administration suspend the Trigger Price Mechanism (TPM) for several reasons:

—If we don't suspend TPM now, we are contradicting our stated policy of not running a dual antidumping system, and the credibility of our trade and anti-inflationary policies could be seriously affected.

—The filing of the petitions suggests that the industry does not believe the TPM, which was instituted as a temporary measure, is now adequately addressing the problem of dumping.

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<sup>5</sup> Establishment of the Tripartite Advisory Committee was one of the recommendations of the Steel Task Force; see Document 79.

—This is particularly true if petitions are brought against Japanese producers, whose average costs are the basis of trigger prices.

—With the new antidumping statute,<sup>6</sup> the TPM fast track procedure offers no saving in time once an investigation is started.

—Petitions against EC producers would mean that roughly 43 percent of current U.S. steel imports (33 percent EC, 10 percent Canada) need not be monitored by the TPM. If the petitions also include Japanese producers, then 76 percent of current U.S. imports would not require TPM monitoring.

—With a petition against Japanese steel producers, the Japanese can be expected to refuse to supply cost of production data which is the basis of the TPM.

—We do not have sufficient staff to simultaneously administer the TPM and process major antidumping cases; nor do we believe the TPM should be applied selectively.

3. The filing of antidumping petitions may lead to a serious disruption of U.S.–EC trade relations. (The Japanese are less concerned, since they are not as vulnerable to dumping charges.)

In order to mitigate the damaging effects of these petitions on U.S.–EC relations, we should instruct Ambassador Enders to inform Commissioner Davignon immediately when the petitions are filed, and he and other Administration officials should—through intensive consultations—endeavor to explain to the EC that:

—We cannot deflect these cases in the absence of a more restrictive import regime which would be more detrimental to the EC, and/or unacceptable subsidization of our steel industry which conflicts with our MTN Subsidy/CVD Code obligations and our macroeconomic policies.

—The MTN provides increased discipline in our trading relationships. New rules were negotiated and it is natural that they should now be used.

—We should urge the Community not to overreact, and to recognize that the U.S. Government has no legal right to refuse to process these cases. They are private legal actions which should not trigger protectionist actions by governments.

—The dumping petitions will take time to complete (at least 160 days) and the outcome, both with regard to findings of sales at less than fair value and injury, is uncertain. European retaliation prior to any determination of these cases could trigger a U.S. counter-action, precipitating an unwarranted trade war.

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<sup>6</sup> The Trade Agreements Act of 1979 revised the way in which anti-dumping petitions were investigated and assessed.



—We urge the EC to cooperate with us as we seek information overseas. It is in all our interests to see these cases disposed of as quickly as possible. We will of course stay in close touch with the Commission.

—The TPM assured access to our market and was of particular benefit to EC steel producers. We have deliberately avoided abolishing the TPM. We have suspended it, and will be ready to reinstate it.

Heads of governments also should be involved, since broader U.S.-European relations are at stake. We want not only to avert European retaliation; we also want to prevent this issue from damaging these relations, at a time of grave external crisis. Henry Owen will submit to you draft letters to European leaders on this issue.<sup>7</sup>

G. William Miller<sup>8</sup>

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<sup>7</sup> No draft letters were found.

<sup>8</sup> Miller signed “Bill” above this typed signature.

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### 233. Memorandum From Secretary of the Treasury Miller<sup>1</sup>

Washington, February 28, 1980

MEMORANDUM FOR

The Honorable Walter Mondale  
The Honorable Cyrus Vance  
The Honorable Charles Schultze  
The Honorable Stuart Eizenstat  
The Honorable Richard Cooper  
The Honorable Henry Owen  
The Honorable Paul Volcker  
The Honorable Henry Wallich  
The Honorable Lyle Gramley

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects, Hazel Denton, Box 60, International Monetary Fund: 2-11/80. Confidential.

## SUBJECT

Our Meeting on the Proposed IMF “Substitution Account,” March 4, 1980<sup>2</sup>

I have requested this meeting because the Substitution Account proposal involves some potentially important obligations as well as benefits for the U.S., and negotiations on the Account are nearing a decision point.<sup>3</sup> It will be discussed by finance ministers at a meeting of the IMF’s Interim Committee in late April and, at the request of the French, will also be taken up at the Venice Summit.

*Outline of the Proposal*

In brief, the Account would accept dollar deposits by foreign central banks and issue, in exchange, claims denominated in Special Drawing Rights (SDRs), which are valued on the basis of a “basket” of 16 currencies. The Account would invest its dollar holdings in interest-earning U.S.G. securities and would pay interest to the holders of the SDR-denominated claims. The claims issued by the Account would be of indefinite maturity, as is the SDR reserve instrument created by the IMF. Initially, the Account might start at \$10–20 billion and could rise to \$50 billion over 5 years or so.

This scheme presents a number of potential advantages for the United States and other countries:

—The international monetary system is moving in an uncontrolled way from extremely heavy reliance on the dollar toward greater reliance on other major currencies such as the Deutschemark, the Swiss franc and Japanese yen. The process of diversification, if left to itself, can lead to heavy pressures on the dollar at inopportune times and potentially large costs to the U.S. in terms of dollar support. It can also cause serious economic and financial problems for the countries whose currencies are “targets” of diversification, such as Germany.

—While the existence of the Account would not necessarily halt this process, it could provide an attractive and non-disruptive off-market alternative to diversification through the market, and a “safety valve” that could be made available to potential diversifiers in times of market strain.

—From a longer-term perspective, the Account would be supportive of the generally agreed objective of moving away from national currencies and toward the SDR as the principal reserve asset of the international monetary system. If the Account succeeds and the SDR as-

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<sup>2</sup> No record of the meeting was found.

<sup>3</sup> Solomon briefed Miller on the status of the deputy-level negotiations concerning the substitution account in a January 16 memorandum. (National Archives, RG 56, Office of the Under Secretary of the Treasury for Monetary Affairs, Subject Files of Anthony Solomon, 1977–1980, Box 2, G–5)

sumes an increasingly important role, the international monetary system as a whole should become more stable through minimization of shifts among various reserve assets.

#### *Main Issues in the Negotiations*

The central issues relate to maintaining financial balance in the Account. The Account can experience losses of two kinds: the interest it receives from the U.S. Government on its dollar investments may not be enough to cover the interest it pays on its SDR-denominated liabilities; and it can show a negative “net worth” if the dollar exchange rate declines relative to the SDR. The question is how these losses are to be financed. Although other countries entered the negotiations with the position that the U.S. should bear these costs, it is now generally accepted that the Account is of potential benefit to depositors and the system as a whole as well as to the United States, and that any costs should therefore be shared equitably.

*Gold.* One approach to financing losses—which is essential if this key issue is to be resolved, and which appears to have the support of the major countries—is use of part of the IMF’s gold holdings. Assuming general agreement to use of some IMF gold, the main question here is whether the gold should be available to finance *all* losses by the Account, or whether the U.S. should be obligated to make special above-market interest payments to cover part of any interest gap, with the balance of any losses to be financed with IMF gold.

Some countries are interested in minimizing the need for sales of IMF gold, and see special U.S. “extra” interest payments as a way of achieving this objective. Others are less concerned about the modest gold sales that would be needed to cover interest shortfalls than they are about assuring—symbolically, for domestic political reasons—that the U.S. carries a “burden” in connection with the Account’s operations. We have argued that the U.S. cannot agree to such supplementary payments over and above market interest rates; that it is politically impossible for us; that it is unnecessary given the availability of IMF gold; and that it is unrealistic and inappropriate for others to insist on such payments for the sake of imposing a symbolic burden.

There is some concern over presentational aspects of using gold for the substitution account—that it could be interpreted as a step toward “remonetization,” contrary to U.S. policy and interests. It is difficult to see how the gap in negotiating positions can be bridged without some use of IMF gold, but it is at the same time important to minimize such presentational or image problems. We have therefore insisted, and the other major countries have agreed, that there must be some provision for actual *sales* of gold to meet an interest gap; and that remaining gold held by the Account would *not be valued at the market*, but would be re-

corded in ounces as a memorandum item on the Account's books or valued only at the price necessary to cover any net worth shortfall.

*Guarantees.* Even if the gold issue can be resolved satisfactorily, gold does not provide the whole answer: it is conceivable that the amounts of IMF gold available to the Account may become insufficient to maintain the Account's financial position, and participants will insist on a contingency provision to cover this possibility. We have indicated that, although we are *not* prepared to make supplementary interest payments to the Account, we *are* prepared to consider sharing (proportion not yet discussed) in financing any negative balance in the Account at the time of a decision to terminate its operations—*provided* that such a decision requires the joint consent of the U.S. and other participants, i.e., that we have a veto. Under such an arrangement, there would be at least two options in the event IMF gold became insufficient to balance the Account's financial position: the Account could terminate at that point and redeem its obligations in full without any calls on guarantees; or it could continue operations (creating new SDR claims on itself to cover any current interest shortfall) and balance its accounts through claims on the ultimate guarantees.

Some countries, while indicating there is a need for an ultimate guarantee at liquidation of the Account, have gone further to argue that guarantees should be callable periodically—before liquidation of the Account—to provide for “maintenance of value” on a current basis. This would mean that someone—presumably the U.S. and depositors in some agreed proportion—would have to pay money into the Account each year a shortfall occurred. The U.S. has argued that current maintenance of value is unnecessary, given the permanent/indefinite maturity of the Account's obligations and operations, and that the ultimate guarantees should suffice to maintain the integrity of the Account. We have also said that there is no realistic prospect that the U.S. would be able to obtain legislative authority to make maintenance-of-value payments on a current basis. It is also doubtful whether other countries would in fact be prepared to make such periodic payments to the Account.

### *Legislative Implications*

Although we cannot determine precise legislative requirements at this point, some form of legislation would probably be necessary under any variant of the Account that could be negotiated.

—*Authorization* would be required for the U.S. to participate in a joint guarantee to be activated upon termination of the Account. It is also possible, but not certain, that the Congress would require some form of *appropriations* action, even though a call on the U.S. commitment would be subject to U.S. veto. (If appropriations were required,

we would probably have to seek a permanent/indefinite appropriation, since the amount of our obligation would be indefinite.)

—*Authorization and appropriations* would almost certainly be needed in advance if the U.S. were to assume obligations to make guarantee payments on a current basis.

—*Authorization* might be required to raise the ceiling on long-term Treasury debt, depending on the exact arrangements negotiated on the Account's investment of its dollar holdings.

—U.S. payment of special above-market interest rates on the Account's investments, to cover part of any interest shortfalls, technically would not require legislation, but could trigger Congressional criticism and efforts to curtail the Secretary of the Treasury's authority to determine interest payable on the public debt. In any event we do not contemplate any such supplementary payments, and have made that position very clear.

#### *Recommendation*

I recommend that the U.S. take the following position at the forthcoming meetings:

First, that we are prepared to support establishment of a substitution account if key questions can be resolved satisfactorily.

Second, that we are not prepared to make supplemental, above-market, interest payments to the Account.

Third, that we will support use of a portion of the IMF's gold to meet financial imbalances in the Account, whether such imbalances arise from interest rate differentials or from exchange rate changes, subject to safeguards to minimize any interpretation that gold is being "remonetized."

Fourth, that we will participate in a shared guarantee of the Account's financial position, to be activated upon a decision to terminate the Account, with that decision subject to veto by either the U.S. or a majority of the depositors.

Fifth, that we are not prepared to agree to calls on this guarantee in advance of a decision to terminate the Account.

If an arrangement along these lines can be negotiated, and there is at least a reasonable chance, the Account would entail minimal costs or potential exposure to costs for the U.S. The interest rate paid to the Account would be a market rate, comparable to what the Treasury would have to pay on borrowings from any other source. The ultimate guarantee would be shared, would be payable upon liquidation, would be subject to U.S. veto, and in all likelihood would never be called.

The inter-agency International Monetary Group chaired by Tony Solomon has been closely involved in developing U.S. positions

throughout the negotiations, and is unanimously agreed on the course recommended above. In addition, Tony has consulted periodically with Senate Banking Committee members Proxmire, Stevenson and Heinz, Senator Javits, and Chairman Reuss and others on the House Banking Committee. They are very supportive of both the broad principle and the specific U.S. negotiating objectives.<sup>4</sup>

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<sup>4</sup> On April 24, Finance Ministers in Hamburg for a meeting of the IMF Interim Committee announced that work on a substitution account would be suspended. (Paul Lewis, "Dollar Plan For I.M.F. Is Shelved," *The New York Times*, April 25, 1980, p. D1) In the official IMF history, Boughton offers three explanations for the abandonment of the substitution account. The first two, Solomon's March 1980 resignation (Boughton notes that Solomon was the initiative's strongest advocate in the administration) and Volcker's anti-inflationary monetary policy (which "eased fears of a continuing glut of dollars"), decreased the urgency with which the project was pursued. The third reason (which was "more fundamental," according to Boughton) "was the dissatisfaction with the stalemate over how to cover exchange risk. Without a consensus on the use of the Fund's gold as part of an overall burden-sharing plan, the proposal had no hope for success." (Boughton, *Silent Revolution*, p. 943)

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**234. Memorandum From Secretary of State Vance, Secretary of Commerce Klutznick, and the United States Trade Representative (Askew) to President Carter<sup>1</sup>**

Washington, March 8, 1980

SUBJECT

Steel Policy

We are facing a potential crisis in U.S.–EC relations. The question before us arises from the decision of U.S. Steel to file anti-dumping cases against steel imports from France and Germany on Monday.<sup>2</sup> We need to decide how to prevent this filing from disrupting trade and political relations with Europe. Secretary Miller is sending you a memo on the situation.

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 174, 3/10/80 [2]. Confidential. Hormats initialed on behalf of Klutznick and Askew. This memorandum is attached as Tab A to a March 9 memorandum from Owen to Carter entitled "Steel TPM."

<sup>2</sup> March 10. Ultimately, U.S. Steel did not file an anti-dumping case.

We strongly recommend that you support the option in his memo to temporarily retain the Trigger Price Mechanism (TPM).<sup>3</sup>

On Monday we expect U.S. Steel to file dumping complaints against steel imports from West Germany and France. U.S. Steel has prepared cases against seven EC member states and is preparing cases against Japan and other steel producers. U.S. Steel is filing only two cases at this point because it—and the rest of the industry—is hoping that a negotiated resolution to the steel problem can be arrived at over the next 60–75 days. This limited filing gives us better prospects for managing the problem.

Roy Jenkins has written you the attached letter expressing his concern over the situation and asking for consultations before you consider suspending the TPM.<sup>4</sup> European leaders believe that the situation can be contained over the next two months or so if the TPM is maintained and no further cases are filed. Maintenance of the TPM would prevent steel price volatility, and would be useful in persuading other companies not to join U.S. Steel in filing cases. Should the TPM be suspended, they believe that the situation could quickly get out of control. Europe is facing a number of key trade decisions. Our Ambassador to the EC (Enders) reports that if the TPM is not maintained, the EC will probably be unable to resist pressures to impose a large tax on vegetable oils and fats, e.g., soybeans (affecting \$3 billion in U.S. exports). Pressures will also grow for restrictions on U.S. exports of textiles to Europe.

With regard to steel, Europe appears to be vulnerable to dumping complaints. From what we know at this point, the seven U.S. Steel cases could, if pushed to a successful conclusion, reduce EC steel exports to this market by about two-thirds.

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<sup>3</sup> In a March 9 memorandum to Carter, Miller recalled Carter's affirmation that he would suspend the TPM in the event of a request by U.S. steel producers for a major foreign dumping investigation. (See Document 232.) Miller reported that Jenkins and Davignon had subsequently urged retention of the TPM, arguing that suspension "would result in considerable pressures for EC trade actions that would be detrimental to U.S. interests. Under these circumstances, the Vice President, Commerce, USTR, State, Agriculture, Labor, and DPS recommend that the TPM not be suspended immediately even if U.S. Steel files the two petitions." (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, Steel [1]) Miller appears also to have sent Carter an earlier memorandum on the TPM issue that makes arguments similar to those made in his March 9 memorandum. (Memorandum from Owen to Carter, March 9; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 17, European Communities: 3/77–3/80)

<sup>4</sup> Jenkins' March 7 letter to Carter is not attached; a copy is *ibid.* In a March 9 memorandum to Carter, Owen noted that Miller, Eizenstat, Cooper, and Askew agreed "that we have no choice but to defer our decision until after consultation with the EC." (*Ibid.*)

This situation could have a profound impact on not only our trade but also our political relations with Europe and European support for certain of our foreign policy objectives.

We recommend the following course of action (see attached press release).<sup>5</sup>

- (1) Temporarily maintain TPM at present levels.
- (2) Announce that this is being done to prevent immediate disruption of steel trade and to complete a review of the accuracy of TPM calculations.
- (3) Also announce that a future decision on continuation of TPM will take into account our assessment of cases filed, any additional cases and the impact of cases on international trade.
- (4) Continue efforts to find a solution to the problem.

The pros and cons of this course of action are:

*PROS*

1. *Allows time to arrive at a negotiated result if that is possible.* Suspension of TPM at this point could result in a filing by U.S. Steel of its other five cases and probably a filing of petitions by other companies. European leaders, in turn, could lose control of the situation. Negotiation in this climate would be difficult at best.

2. *Avoids other companies joining U.S. Steel.* Other U.S. steel producers (Bethlehem, Republic, National) have said that they have prepared dumping cases but will not file them as long as we maintain TPM and continue to look for a solution.

3. *Necessary to enable European leadership to manage the situation.* EC Commissioner Davignon has said that price volatility<sup>6</sup> resulting from suspended TPM would cause him to lose control of the situation, but that he can manage the situation as long as the dumping complaints are limited and we maintain TPM.<sup>7</sup> The Europeans, like us, want to prevent the steel trade issue from spilling over into other trade and foreign policy areas.

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<sup>5</sup> Attached but not printed is an undated draft Department of Commerce press release entitled "United States Steel Corporation Files Antidumping Petitions Against Imports from West Germany and France."

<sup>6</sup> An unknown person underlined the phrase "price volatility" and wrote "?" in the adjacent margin.

<sup>7</sup> Davignon made statements along these lines in separate conversations with Askew and Hormats. (Telegram 3141 from USEC Brussels, February 19; Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Briefing Book Files, Box 121, Briefing Book: EPG [Economic Policy Group] Executive Committee Meeting 2/21/80; and telegram 3343 from Geneva, February 29; Carter Library, National Security Affairs, Staff Material, International Economics, Subject File, Box 6, Steel: 2–3/80)



4. *Time works in our favor if the situation remains fluid.* Steel imports from Europe appear to be falling, and the American steel market is strengthening. This should ease the tension.

5. *Maintains TPM flexibility.* If the steel industry moves in an unsatisfactory way, or if conditions otherwise warrant it, we remain free to suspend TPM.

#### CONS

1. *Administration might appear "soft" on steel.* We have said we would suspend TPM if broad antidumping cases are filed. While U.S. Steel has limited its filing to two EC producers, they are the largest EC producers and the amount of trade involved is substantial. Maintaining TPM even on a temporary basis may be seen as a reversal of our previously stated intention to suspend it.

2. *Inflation costs.* Our willingness to maintain TPM could open us to the charge that we have not done as much as we can to counter inflation in this market.<sup>8</sup> We believe, however, that the impact of many steel dumping cases, if pursued, could be more inflationary than the alternative solution.

Efforts to achieve a satisfactory solution will be difficult. We know that some representatives of the industry have totally unrealistic expectations. But we have already made progress in reducing the number of antidumping suits, and we believe we should continue our efforts to resolve this difficult issue through discussion. It is possible that the most satisfactory outcome is simply to let the U.S. Steel cases follow their procedural course through Commerce and the ITC, retaining TPM and avoiding additional cases. The trade and foreign policy costs associated with the alternative of immediately suspending TPM, which could cause many other suits to be filed, is sufficiently high that we should do all that we reasonably can to avoid it.

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<sup>8</sup> In his March 9 memorandum to Carter (see footnote 3 above), Miller cautioned him to "bear in mind that continuing the TPM and processing antidumping suits at the same time will be more inflationary than either of the two alone. Also, any negotiated solution of the dumping cases is likely to be more protective and, therefore, more inflationary than the status quo. Maintaining the TPM will probably be interpreted as inconsistent with an intensified anti-inflation program." Owen noted in his March 9 memorandum to Carter (see footnote 4 above) that "Treasury, CEA, and OMB believe, as do I, that inflation should be the dominant concern in making this decision. Other agencies don't disagree with this as a matter of principle, but they don't think that keeping TMP is more inflationary [than] suspending it."

**235. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, March 11, 1980

## SUBJECT

Tony Solomon's View on Steel TPM (U)

I called Tony Solomon, who is vacationing on the West Coast, to ask his views on the steel TPM. Here are my notes as to what he said:

—As the guy who put all this together and who negotiated with them (the steel people) for two years, it makes no sense not to suspend TPM. (C)

—The combination of TPM and the US Steel suits would have a significant inflationary impact. He has talked to 30–40 people on the West Coast, all of whom agree that the only issue on which you are vulnerable is inflation. Maintaining TPM in the face of the US Steel suits would make it look as though the Administration were fueling inflation. This should be the dominant consideration in your decision. You would receive strong consumer criticism if you did not suspend. (C)

—The US Government would be in a stronger position to negotiate with the steel firms if we had suspended TPM and thus demonstrated our toughness. Suspension of TPM would put more pressure on Roderick,<sup>2</sup> since the rest of the industry will want to see it restored. If we don't suspend, we will look like a paper tiger, and US Steel's terms will be that much stiffer as a result. (C)

—The Europeans are anxious to keep TPM, in large part, in order to firm up prices in the European market. TPM suspension will not produce a much worse European reaction than the suits themselves. (C)

—Your credibility is at stake and your image would be damaged by a reversal of our past position. The head of the National Steel Company had approached Tony two months ago to propose a deal under which US Steel would only file two suits and we would maintain the TPM. Tony replied that this didn't make sense, since Roderick could still keep the four other country suits dangling over our head, and we would encounter vigorous criticism from the US public. The head of National Steel replied: "You are right; we can't fool you, but maybe we can fool the White House." (C)

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 90, Economics/International: 1–5/80. Confidential. Sent for information. Carter wrote at the top of the page: "cc Lloyd—info. C."

<sup>2</sup> David Roderick was Chairman of U.S. Steel.

**236. Memorandum From the Chairman of the Economic Policy Group (Miller) to President Carter<sup>1</sup>**

Washington, March 14, 1980

SUBJECT

Administration Steel Policy

Consultations with EC Commissioner Davignon<sup>2</sup> produced the following:

—that protectionist pressures in the EC are likely to become more unmanageable if the TPM is suspended and if U.S. steel firms other than the U.S. Steel Corporation file antidumping petitions; and

—that if the TPM were kept in place and if other firms did not file petitions against EC steel producers, he would review without commitment the U.S. Steel petitions to determine what EC actions, if any, were needed to correct dumping where there are large margins and trade volumes.

Since U.S. Steel continues to threaten imminent submission of anti-dumping petitions, I recommend that you make a decision clarifying the Administration's policy on the TPM as soon as possible. Papers outlining the arguments for each option—suspending the TPM (Tab A), maintaining the TPM (Tab B), delaying a decision on TPM until 20 days after the cases are filed (Tab C)—are attached.<sup>3</sup>

The options are:

1. Suspend TPM if and when the two U.S. Steel petitions are filed and announce at that time that the TPM will be reinstated if the cases are withdrawn. In addition, instruct all Administration officials to avoid seeking any further restrictions on steel trade.<sup>4</sup> This would not preclude announcement of second quarter trigger prices if the petitions are delayed. Supported by Treasury, CEA, NSC, Kahn and the OMB.<sup>5</sup> These agencies oppose both options 2 and 3 on identical grounds. In

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, Steel [1]. No classification marking. Carter initialed "C" at the top of the page.

<sup>2</sup> Telegram 65105 to Alsteel Collective, March 12, reported on Davignon's March 10–11 visit to Washington to discuss the steel issue with U.S. officials. (National Archives, RG 59, Central Foreign Policy File, D800126–0350) In a March 13 memorandum to Carter, Askew and Klutznick discussed Davignon's visit, argued in favor of TPM retention, and proposed a scenario for future negotiations. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, Steel [3])

<sup>3</sup> Tabs A–C were not attached.

<sup>4</sup> This would not preclude attempts to negotiate an elimination of the dumping margins and thus withdrawal of the suits. [Footnote in the original.]

<sup>5</sup> Carter underlined the words "Treasury," "CEA," "NSC," "Kahn," and "OMB."

our opinion they are not distinct options since they will produce the same results.<sup>6</sup>

2. Maintain the TPM for 90 days if U.S. Steel limits its petitions to a maximum of two countries, to allow time to seek a negotiated solution that is satisfactory. Supported by State, Labor, Agriculture, Commerce, USTR, DPS, and the Vice President.<sup>7</sup>

3. Announce second quarter trigger price (at the same level as first quarter) and postpone making a decision on the suspension of the TPM until 20 days after the petitions have been filed. Use the 20 day period to evaluate the petitions for sufficiency and to consult with our European trading partners. Supported by Commerce and USTR<sup>8</sup> if you reject option 2.

**G. William Miller<sup>9</sup>**

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<sup>6</sup> Carter indicated his approval of this option

<sup>7</sup> Carter indicated his disapproval of options 2 and 3.

<sup>8</sup> Klutznick presented this proposal in a March 12 memorandum to Carter in which Askew concurred. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, Steel [3])

<sup>9</sup> Miller signed "Bill" above this typed signature.

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**237. Memorandum From the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>**

Washington, March 17, 1980

SUBJECT

Steel TPM—An Emergency

The Administration's failure to announce its decision regarding maintenance or suspension of TPM has created uncertainty which is discouraging needed steel exports to this country. This uncertainty needs urgently to be resolved, if the inflationary effects of a drying up of our steel imports are to be avoided.

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, Steel [3]. No classification marking.

As you know from the package that Bill Miller sent you last Friday,<sup>2</sup> I believe that the right course is to suspend TPM. Any other decision would be seen as inflationary—thus eroding some of the gains secured from announcement of your new economic program.<sup>3</sup> We would have sent the wrong signal to the critical labor negotiations. We would be criticized for inconsistency and for yielding to pro-inflation domestic pressures.

I see no advantage in the three week postponement of your decision that STR proposes. Indeed, this might be the worst of both worlds. Publication of second quarter trigger prices in the face of US Steel's two suits, would be criticized as inflationary, while the fact that a decision on TPM suspension was still only 21 days away would maintain the uncertainty that now discourages steel trade.

The effectiveness of our anti-inflation program hinges, in the end, on people believing that we will stick to it. The steel TPM is our first test.<sup>4</sup>

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<sup>2</sup> See Document 236.

<sup>3</sup> Carter announced a new anti-inflation program on March 14. For the text of his remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book I, pp. 476–482.

<sup>4</sup> The White House announced on March 19 that it would maintain the steel trigger price mechanism at the same level for 3 months. It also cautioned that the TPM would be suspended if steel producers initiated a major anti-dumping case. (Clyde H. Farnsworth, "Imported Steel Curb Unchanged," *The New York Times*, March 20, 1980, p. D1)

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## 238. Editorial Note

In a March 21, 1980, letter to Roy Jenkins, President of the Commission of the European Communities (EC), President Jimmy Carter noted that his "domestic advisers are strongly and unanimously of the view that if U.S. Steel files its suits, our government must suspend the Trigger Price Mechanism (TPM) or face grave inflationary consequences." Carter told Jenkins that "in authorizing the Commerce Department to publish the second quarter Trigger Price Mechanism at an unchanged level, I have decided that we will suspend that mechanism immediately if any major anti-dumping suits are filed." Noting that he had not foreclosed the possibility of reinstating the trigger price mechanism, Carter expressed his "hope that this meets some of Commissioner Davignon's concerns and that in the meantime you will be able to discourage any European over-reaction, as I have sought to resist

protectionist pressures in the United States. Any such reaction might set off a chain process that could endanger the MTN results of which we are both so rightly proud." (Carter Library, Plains File, President's Personal Foreign Affairs File, Box 1, European Communities, Commission of the, 7/78–3/80)

On March 21, the U.S. Steel Corporation filed anti-dumping complaints against steel producers in Belgium, France, Italy, Luxembourg, the Netherlands, the United Kingdom, and West Germany. In response, the Department of Commerce suspended the trigger price mechanism, while suggesting that it could be reinstated "in the event that the petitions are withdrawn or otherwise satisfactorily resolved." (Clyde H. Farnsworth, "Protective Pricing in Steel Suspended," *The New York Times*, March 22, 1980, page 1) In Brussels, Davignon conveyed to the U.S. Mission to the EC, the EC "Commission's disappointment and bitterness over the recent turn of events on the steel issue," asserting "that the filing by [U.S.] Steel and the suspension of the trigger price created a completely new situation which the EC would have to assess carefully before developing a new policy. Davignon was especially critical of what he regarded as a cop-out by the administration which would effectively leave the US industry to regulate the market." (Telegram 5178 from USEC Brussels, March 21; Carter Library, National Security Affairs, Staff Material, International Economics, Subject File, Box 6, Steel: 2–3/80) On March 27, the EC Commission released a statement expressing disappointment in the suspension of the trigger price mechanism, asserting that "a means of fighting protectionist tendencies in the U.S. has, for the time being, disappeared." While disavowing "rumors concerning possible retaliatory measures" and the possibility of a trade war, the EC also denied "that it might propose a modus vivendi such as 'orderly marketing arrangements' or self restraint on steel exports." (Telegram 5527 from USEC Brussels, March 27; National Archives, RG 59, Central Foreign Policy File, D800155–0663)

Over the next several months, as the investigation into the anti-dumping complaints progressed, U.S. officials engaged in informal talks with representatives of U.S. Steel in an effort to resolve the issue. In July, Davignon traveled to Washington to discuss the situation with U.S. officials, "urging that the Government and the steel companies find some way of settling the cases—presumably in a way that does not hurt the European steel producers too much." Davignon cautioned that there was a "growing possibility of a 'Trade War'" and expressed concern "that 'we will let the situation get out of our control.'" (Memorandum from Council of Economic Advisers member George Eads to Schultze, August 5; Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 80, Steel [3])

In September, the Tripartite Advisory Committee, established in December 1977 pursuant to the report of the Steel Task Force (see Document 79), submitted its recommendations on the U.S. steel industry. On September 28, the President's Assistant for Domestic Affairs and Policy, Stuart Eizenstat, and Domestic Policy Staff member Joshua Gotbaum sent Carter a draft response to the committee's recommendations for his comments. Carter wrote on the draft response: "Basically ok—proceed—check any changes with me." At the bottom of the first page of the response, he added: "Emphasize need to control inflation." (Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 283, Steel (CF, O/A 731) (3))

On September 30, Carter announced a revitalization program for the U.S. steel industry that reflected the recommendations of the Tripartite Advisory Committee. The program included provisions encouraging investment in industrial modernization, technological research and development, and compliance with environmental regulations, as well as assistance for dislocated workers and communities and the continuation of the Tripartite Advisory Committee. It also established a revised trigger price mechanism that would bring about the "expeditious investigation of unfair trade practices." In his statement, Carter also announced that U.S. Steel would drop its anti-dumping suits. For the text of Carter's statement on the steel revitalization program, as well as his remarks announcing the program, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book III, pages 1959–1969.

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### 239. Memorandum From Secretary of State Vance to President Carter<sup>1</sup>

Washington, March 29, 1980

#### SUBJECT

Possible French Proposal on Monetary Reform at the Venice Summit

Giscard announced in November and again in January that he would offer a major proposal on monetary reform at the Venice

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 23, France: 4–5/80. Confidential. Carter initialed "C" at the top of the page. The memorandum was sent to Carter under cover of an April 2 memorandum from Owen, who commented: "I agree with Cy's conclusion: The French probably won't have a proposal; and if they do it will probably be of a kind that will fit into our present plans. Art

Summit.<sup>2</sup> Neither he nor other French officials have offered any details. Giscard gave drafting responsibilities, but few instructions, to Bernard Clappier, former head of the Bank of France.

We tend to discount earlier reports that the Giscard proposal would envisage major structural changes in the monetary system, including separate currency zones, a return to the gold standard, and forcing the U.S. to guarantee the value of dollars held by foreigners. While the French still dream of fixed exchange rates and a return to gold, they realize their isolation. The Germans, as well as the U.S., would be unalterably opposed.

Present indications are that the French may be backing off, after warnings from the FRG and us that any proposal should be thoroughly vetted in the Summit preparatory work, i.e., we will brook no surprises.<sup>3</sup> If the French do make a proposal in the monetary area, it is likely they will lower their sights to two specific concerns: greater control of the Eurocurrency markets, and improving the process of recycling surplus OPEC funds to the oil importing LDCs. These issues are already under discussion in the IMF and among major central banks. We have indicated to the French, and also to the Germans, who had similar thoughts, that the former is too technical for the Summit. Recycling is now on the agenda, and we hope to produce a statement which will demonstrate major country concern about this question. This will be a major problem for the world economy in 1981–82, but we do not want to be too far in front of the developing countries in pushing for a solution soon.

In addition to the recycling question, we hope to use the Summit to move forward two issues in the monetary area: the Substitution Account, and more effective IMF Surveillance. We do not foresee detailed discussions on either issue. At present, we think it questionable that the French will have a major proposal on monetary reform for the Summit,

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Hartman told me this morning that Clappier, who is supposed to be drafting this proposal, hasn't even set pen to paper yet—and still doesn't have any new ideas to put forward. Giscard could get a brain-storm that would change all this over-night, but it hasn't happened yet." (Ibid.)

<sup>2</sup> During a televised interview on November 27, 1979, Giscard suggested that he would offer a proposal to encourage international monetary stability at the Venice G-7 Summit. ("France Preparing Currency Proposal," *The New York Times*, November 30, 1979, p. D13) In January, Giscard promised a proposal on international development; his spokesman subsequently suggested that the proposal would also address international monetary stability. (Telegram 3591 from Paris, February 1; National Archives, RG 59, Central Foreign Policy File, D800060–0623)

<sup>3</sup> In telegram 4593 from Paris, February 8, Hartman reported that he discussed U.S. "concerns about the timing and content of a possible initiative by President Giscard" with Clappier. (National Archives, RG 59, Central Foreign Policy File, P870111–1886, N800003–0156)



and any specific proposals would likely fall into areas we already plan for discussion.

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## 240. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, April 24, 1980

### SUBJECT

The Venice Summit

This memorandum reports on a trip to Italy last week to meet with representatives of the Summit nations to prepare for the Venice Summit.

1. *Macro-economic policy.* There was general agreement that the Summit communique should, as recommended in a paper that Charlie Schultze prepared for our group,<sup>2</sup> call for continued fiscal/monetary restraint—plus measures to improve productivity by encouraging the shift of resources from consumption and the public sector to investment. The Canadians (whose new government's<sup>3</sup> views on macro-economic policy appear to diverge from those of other Summit governments) indicated some reservation about committing themselves to politically unpopular measures for the latter purpose. Others said that it would help their heads of government to take these difficult measures if the Summit said that they were needed. (C)

2. *Energy.* Only the Germans objected to some kind of quantitative goals or yardsticks for (i) reduced oil imports in 1985 and 1990, and (ii) aggregate increased production of alternative energy sources by 1990. All agreed that present efforts in both these areas are inadequate. It was also agreed that there should be close monitoring of commitments, to make sure that they are fulfilled. The French thought that a collective commitment to increased production of alternative energy

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 65, Summits: 9/79–5/23/80. Confidential. Carter wrote at the top of the page: "Sounds ok. C." Brzezinski also initialed at the top of the page.

<sup>2</sup> The paper was not found.

<sup>3</sup> Prime Minister Pierre Trudeau formed a majority Liberal government in Canada after the February 1980 Federal election.

sources (coal, nuclear power, synthetics) should be the main outcome of the Summit. All saw energy as being its main business.

3. *North/South.* All, except the British (who are cutting their foreign aid), agreed that more attention should be paid to North/South issues at this than at previous Summits. The German proposal to focus on helping LDCs produce energy found favor; so did the US suggestion that the World Bank be asked to examine means of increasing its activities in this field, including the possibility of creating a new IBRD affiliate for this purpose, in which OPEC could play a large financing role. It was agreed to convene a special Summit preparatory sub-group to examine the US proposal to give the war on hunger higher priority in the Summit countries' aid programs—with particular emphasis on increased food production, improved food storage, and strengthened agricultural research.

4. *Political.* The French delegate objected to any Venice consideration of political issues (although this didn't prevent him from agreeing that strong language about terrorism should be included in the communique). The British said that they had been told the French would eventually agree to Summit consideration of political issues, if this was done informally. The Italians may propose that a seven-nation group, which would be an extension of the present Summit Preparatory group, meet before the Summit to canvass political issues. Several delegates spoke of the need for some such means of involving Japan, the major EC countries, and the US on a regular basis in informal consideration of political issues [before?] they come to a head, quite aside from Summit preparations.

5. *Scheduling.* There will be an 8:30 breakfast on the first day for the heads of governments to figure how they wish to run the Summit. (This leaves you free to arrange a breakfast of the four on the second day, if you wish.) The general view was that it might be wise to start the first day with a brief discussion of economic issues, so that the economic types could then go off to revise the draft communique in light of this discussion, while heads of governments devoted most of the first day and their dinner to political issues. The second day would be devoted to economic issues. The press conference will be at 6:00 p.m. of the second day.

6. *Comment.* I agree with the French that a collective commitment to greatly increased production of alternative energy sources should be the Summit's main outcome. It would help to elicit efforts from other Summit nations comparable to those the US now plans to undertake. At a dinner for OECD Secretary General Van Lennep last night, Congressman Wirth said that he thought such a commitment by the industrial nations would be welcomed by the American people as a sign that

the energy problem was being tackled on the global scale required for success. It would, he thought, redound to your political benefit.

It would also, I believe, provide the sense of allied cohesion that comes from jointly mounting a large and useful undertaking—responding to the current crisis, by making us less dependent on vulnerable Middle Eastern oil, in somewhat the same way that the Marshall Plan responded to the crisis of 1948, by enhancing Western Europe's ability to resist Soviet pressure. The Summit countries seemed more ready at this meeting to join in this kind of commitment than they were at our previous meeting, perhaps because events in Iran have highlighted the insecurity of their sources of oil supply.

7. *Your Bilateral Visit.* Dick Gardner has some interesting ideas about your bilateral visit—about one of which I will write you about separately: a meeting between you and representatives of the FAO and the other three international food organizations headquartered in Rome, at which you would receive a medal honoring your contributions to food and agriculture in poor countries.<sup>4</sup> He also suggested you be accompanied to Rome by leading Americans of Italian descent (as Schmidt is accompanied by prominent German businessmen and labor leaders on his bilateral visits overseas); I have reported this suggestion to Al McDonald.

8. *Next Steps.* The Italians will now prepare a first draft of the communique along the lines indicated above. They will send it to members of the Preparatory Group in mid-May, and I will submit it to you for review then. The Preparatory Group will meet again in late May and early June to put the communique in final shape, so that it will be ready for submission to the Venice Summit.

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<sup>4</sup> Neither a memorandum from Owen to Carter on this proposal nor any record of the proposed meeting between Carter and international food organization representatives was found.

**241. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Muskie<sup>1</sup>**

Washington, May 16, 1980

## Domestic Economic Policy and Foreign Policy

You have been inundated by briefing materials on all manner of foreign policy issues, and I hesitate to add to the load.<sup>2</sup> But I am writing about a topic not likely to be covered in the voluminous briefing books, namely the relationship between our *domestic* economic policies—especially regarding energy and overall monetary-fiscal policies—and foreign policy.

*Macroeconomic Policy*

It used to be said that when the U.S. sneezes the rest of the world catches pneumonia. That is not as true as it was 25 years ago, but it still contains a strong element of truth. If the United States is in economic recession, and if Europe and Japan do not at that moment happen to be having a boom, then most non-communist countries (and even a few communist ones) will find themselves in economic difficulty for reasons beyond their control. Because of the recession they will be selling less directly to the United States, and in addition the prices of the raw materials they sell, which are sensitive to U.S. recessions, will be reduced to all customers. These factors will of course be aggravated if, as in 1975, Europe and Japan are also in recession.

These days, in non-affluent countries, economic difficulties spell political difficulties. Political unrest mounts, sometimes explosively, and it becomes much more difficult to preserve or to restore democratic government.

The difficulties can be postponed to some extent by borrowing from abroad, and that is what many countries did in 1974 to 1976. But if the external situation does not improve, such borrowing only postpones and aggravates the agony.

The lesson that I draw from this is that there are strong foreign policy reasons (quite apart from the usual domestic reasons) for avoiding a deep and prolonged recession. It is up to the United States, with such help as it can get from other major countries, to maintain a

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 7, E—Memoranda of Conversations, Jan. 1980–June 1980. Confidential. Muskie initialed “EM” at the top of the page.

<sup>2</sup> Muskie was appointed Secretary of State on May 8 and entered on duty that day.

degree of buoyancy in the world economy. A pause in economic activity may be necessary now to break inflationary expectations; but it should only be a pause. A corollary of these concerns is that we should keep our markets open to the products from developing countries so they can earn the foreign exchange they need to buy food and capital goods and to repay their debts. If these two conditions are not met, carrying out our foreign policy will be very much more difficult in many parts of the world.

### *Energy Policy*

We are probably more vulnerable today to foreign threat than at any time since General Howe landed in New York and set out northward to divide the American colonies. The danger now is not from physical attack, but from an attack on our economic well-being (and our political cohesion) arising from our extreme dependence on oil imported from politically unreliable and possibly unstable countries. What happens in the world oil market is vitally important to four of our cherished aims.

—It is important for macroeconomic policy, since rapidly rising oil prices virtually assure both recession and inflation.

—It is important for the well-being of other developed and developing countries who cannot easily stand the strain of inflation, severe balance-of-payments difficulties, and low growth.

—It is important for preservation of unity between us and our major allies, for, as within the United States, nothing is more divisive politically than a scramble over limited supplies of oil.

—It is important for maintaining our freedom of action in foreign policy and for garnering allied support for that policy, e.g., with respect to the Soviet Union or the Middle East, because Japan, Europe and even some Americans feel hostage to our current dependence on Middle East oil.

I conclude from this that we need a major domestic effort to reduce our dependence on imported oil. Only by reducing this dependence can we abort the threat and restore the confidence within the United States and with our allies that is necessary for an effective foreign policy. As with macroeconomic policy, domestic energy policy is a crucial element of foreign policy.

We must also press, through the International Energy Agency and the Venice Summit, other major countries to conserve oil as well. Our main energy efforts must be in the consuming countries. For reasons I can spell out if you wish, I am deeply skeptical about striking a “global bargain” on oil prices and oil supply with the OPEC countries, although of course we should maintain our good relations with Saudi Arabia and other OPEC moderates.

## 242. Summary of Conclusions of a Presidential Meeting<sup>1</sup>

Washington, May 21, 1980, 11:30–11:50 a.m.

### SUBJECT

Trade Talks with Japan

### PARTICIPANTS

*White House*

The President

*STR*

Reubin Askew, United States Trade Representative

*NSC*

Rutherford Poats, NSC Staff

### Summary of Conclusions

Governor Askew reported that his discussions with the Japanese Government and automobile industry executives had yielded better results than expected,<sup>2</sup> principally:

—the Japanese Government's decision to propose to the Diet removal of all tariffs on automobile parts next year;

—acceptance of nine of the twelve US requests for changes in Japan's testing standards;

—scheduling of two Japanese government-industry missions to the United States on buying of auto parts and investment in US manufacture of parts for Japanese autos;

—Toyota's public commitment to go into production of cars in the United States if pending feasibility studies are favorable and Toyota's management supports this conclusion.<sup>3</sup>

He was confident that a change in government after the June elections<sup>4</sup> would not nullify this progress.

Governor Askew reported no immediate progress in opening Nippon Telephone and Telegraph (NTT) procurement to US suppliers, but he believed he had enhanced prospects for satisfaction on this issue by insisting that Japan apply the MTN code on government procure-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Country File, Box 41, Japan: 3–5/80. Confidential. The meeting took place in the Oval Office.

<sup>2</sup> Telegram 8747 from Tokyo, May 16, reported on Askew's May 10–15 visit to Tokyo. (National Archives, RG 59, Central Foreign Policy File, D800241–0834)

<sup>3</sup> Telegram 8462 from Tokyo, May 13, transmitted the texts of a series of documents on the resolution of issues in the U.S.-Japanese automobile trade. (National Archives, RG 59, Central Foreign Policy File, D800236–1002)

<sup>4</sup> A national election took place in Japan on June 22.

ment fully to NTT or risk losing access to \$16 billion in USG procurement.

The President endorsed this tough line. He also asked Governor Askew to maintain pressure on Japan to carry out its automobile trade and investment commitments.

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#### 243. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, May 27, 1980

##### SUBJECT

Summit Preparations (U)

I have just returned from the second Summit Preparatory Meeting; economic preparations are in good shape, although there are still some disagreements. (C)

1. The draft communique's section on macro-economic policy stresses the need for (i) prolonged fiscal and monetary restraint, to dampen inflationary expectations; (ii) policies that will encourage investment by shifting resources from the public to the private sector, from consumption to investment, and from declining to growing industries. This is the most important part of the Summit as far as Mrs. Thatcher is concerned. She believes that this kind of hortatory language will help heads of government by showing that these painful policies are regarded by all major industrial countries as the right recipe. (C)

2. The energy section includes strong commitments regarding increased production of alternative energy sources, particularly coal and synthetics. This section also blesses the agreements we got at the IEA Ministerial Meeting (the *Washington Post* report notwithstanding) regarding (i) the establishment of national IEA annual oil import yardsticks, which can be converted into oil-import ceilings if the oil market tightens, and (ii) reducing the Summit countries' aggregate 1985 import

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 27, President, Europe, 6/19–26/80: Cables and Memos, 5/20–29/80. Confidential. Sent for information. Carter wrote at the top of the page: "good. J." The memorandum was sent to Carter under cover of a May 28 memorandum from Brzezinski, in which he reported on the preparations for the discussion of political issues at the Venice G–7 Summit. (Ibid.)

goal by 4 mbd.<sup>2</sup> (If the oil conservation charge is still in dispute, I believe you can get the allies to support it vigorously at the Summit; I asked Lambsdorff to speak up on its behalf at the IEA meeting, with good results. See Tab A.)<sup>3</sup> (C)

3. The North-South section focuses on helping LDCs produce more:

—*energy*, and includes an interesting proposal for a new World Bank affiliate to this end;

—*food*, via more emphasis on research, production (irrigation), and food storage. The UK and Japan are still trying to cut back on the food proposals. (C)

4. There are shorter sections on trade, international monetary affairs, and terrorism. The principal problem here is the trade section: Our language on barring bribery and avoiding wasteful competition in export credits won't sell; we will have to compromise. (C)

5. The Italian delegate asked me to pass on his government's strong request that a Four-Power Summit Meeting at Venice be avoided. The Italians believe that the press would find out about this meeting and that it would then overshadow the Summit's constructive results in Italy, where it would be deeply resented—making it very difficult to get Italian parliamentary support for measures regarding Iran and the USSR. They were appalled that a four-power meeting on Italian soil should even be considered, given their role as host country and record of cooperation, to please a country which has shown as little concern for US interests as France.<sup>4</sup> (C)

6. A few further comments:

—All allied economic discussion focuses on US proposals. If we don't take the initiative, nothing happens. But the Europeans and Japanese expect us to consult about these proposals—to listen to their concerns. The IEA conference went well because Charles Duncan met most

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<sup>2</sup> Telegram 137327 to all OECD capitals, Jidda, Abu Dhabi, Doha, Manama, Kuwait, Algiers, Baghdad, Dhahran, Caracas, Jakarta, Tunis, Lagos, Mexico City, Quito, and Libreville, May 24, reported on the May 21–22 IEA Ministerial meeting in Paris. (National Archives, RG 59, Central Foreign Policy File, D800255–0512) The May 23 edition of *The Washington Post* published a story, written by Ronald Koven, entitled “West Rejects U.S. Plan on Oil Imports.” (*The Washington Post*, May 23, 1980, p. A21)

<sup>3</sup> Tab A, attached but not printed, is an undated article published in an unknown newspaper entitled “19 Allies Back U.S. Oil Tax.” The article, written by Paul Lewis of *The New York Times*, is based on an article published in the May 23 edition of *The New York Times* entitled “Europeans Back Carter on Oil Tax.” (*The New York Times*, May 23, 1980, p. D5)

<sup>4</sup> In his May 28 cover memorandum to Carter (see footnote 1 above), Brzezinski noted Giscard's belief “that only the Four and not the Seven should deal with political issues” at the Venice G-7 Summit. The Carter administration favored political discussions involving all seven Summit countries.



of the delegations separately before the conference started, and thus was able to take account of their concerns in the phrasing of our proposals.<sup>5</sup> I've tried to do the same in Summit preparations, and will call my opposite numbers before going to the final preparatory meeting in Paris next week, to tell them that you hope they will be able at that meeting to report any Summit economic concerns their heads of government want you to be aware of before you leave for Venice. (C)

—Deep US-European political disagreements and criticism of US foreign policy, which was evident in side talks, did not unduly shadow our economic discussions. There is considerable allied respect for US domestic economic policies, which the allies hope we will maintain. Ditto for our trade policies; your recent decisions on shoes, leatherware, and Japanese automobile imports are admired. There is, however, deep concern over what is happening in the Congress to the US appropriations needed to fulfill our commitments to multilateral banks; these concerns were somewhat mitigated by what I was able to tell my colleagues about your efforts to back these requests. (C)

—To get allied agreement for US economic proposals we need German support. After the US, Germany is clearly the most influential country in this area: Schmidt is admired for his economic performance and respected for his recent election successes. We got what we wanted at the IEA because we cut a deal with the Germans beforehand. On the Summit, the Germans are o.k. on the macro-economic section, reluctantly committed to the energy section, and firm on North-South issues, except for worrying about our record. They are attracted by the Brandt idea of a North-South Summit in 1981. All this could change between now and Venice; I can't be sure how much German colleague's assent reflected Schmidt's views. That is one reason I want to phone him and the others to make sure that they have checked with heads of government. (C)

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<sup>5</sup> Duncan reported to Carter on the IEA meeting and his subsequent bilateral discussions in a May 23 memorandum; see *Foreign Relations, 1969–1976*, vol. XXXVII, Energy Crisis, 1974–1980, Document 273.

**244. Memorandum From the United States Trade Representative (Askew) to President Carter<sup>1</sup>**

Washington, undated

## SUBJECT

Color Television Receiver Relief Extension

## PROBLEM

By June 30, 1980, you must decide whether to proclaim an extension of import relief for the U.S. color television industry. We need your decision before you leave for the Summit because one option recommended is to extend the existing orderly marketing agreements (OMAs) with Korea and Taiwan, and these would have to be renegotiated by June 30. The United States International Trade Commission (USITC) unanimously advised that termination of import relief on color television receivers and subassemblies from Taiwan and Korea would have an adverse economic effect on the domestic industry. By law, relief can be extended for a maximum of 3 years and at a level no greater than that in effect immediately before such extension. Attached is a paper summarizing further background on this case.<sup>2</sup>

COMPACT,<sup>3</sup> a coalition of eleven labor unions and three producers supports a continuation of relief. As of Friday, June 13, you had received 11 Congressional letters on this issue.

Within the interagency Trade Policy Review Group (TPRG), the Departments of *Labor, State, Treasury, Commerce, Interior, and the USTR support an extension of relief. The CEA, COWPS, IDCA, and Justice favor termination.*

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<sup>1</sup> Source: Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 51, Memos from President [1]. Confidential. Carter initialed "C" at the top of the page.

<sup>2</sup> Not attached; however, Attachment 1, an undated paper entitled "Background," is attached to another copy of Askew's memorandum in the Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 39, Hutcheson, Rick [9].

<sup>3</sup> Allied Industrial Workers of America, International Union; American Flint Glass Workers Union of North America; Communications Workers of America; Glass Bottle Blowers' Association of the United States and Canada; Independent Radionic Workers of America; Industrial Union Department, AFL-CIO; International Association of Machinists; International Brotherhood of Electrical Workers; International Union of Electrical, Radio, & Machine Workers; United Furniture Workers of America; and United Steelworkers of America. [Footnote in the original.]

*RECOMMENDATIONS**I. Continue Relief*

Agencies supporting continued relief argue that:

1. Extension of relief will provide more time for the industry to achieve benefits from the planned and implemented technological product innovations. Terminating relief during this economic recession could deny them some of these benefits.

2. Substantial idle color TV capacity exists in Korea and Taiwan which could result in a major increase in imports if U.S. import restrictions are completely lifted.

3. Failure to grant relief would make the United States the only major world market open to unrestricted import competition in color TVs.

4. Job loss in the industry could accelerate if relief is terminated.

5. Although relief has been in effect for the past 3 years in the case of Japan, and one and one-half years in the case of Korea and Taiwan, prices of color TVs have been stable relative to prices of most other articles.

All but one agency supporting continued relief recommend that you authorize USTR to seek to negotiate orderly marketing agreements (OMAs) with Korea and Taiwan at a combined level of 800,000 to 850,000 for the first year and 850,000 to 975,000 in the second year. These OMAs would not include incomplete receivers without picture tubes and receivers of a screen size 12 inches or less. Both exclusions represent a substantial liberalization of the existing relief. In addition, the Japanese OMA would be terminated; although we would indicate to Japan that any surges from recent levels could lead to U.S. restrictions. We would monitor the other countries to be in a position to prevent surges.

In the event that we cannot reach agreement by June 30, it is recommended that you implement a global quota of 1.4 million complete sets (including incomplete sets with picture tubes) the first year and 1.55 million in the second. This quota would exclude the same products as the OMAs. The quota would have indicative levels for individual countries to limit disproportionate surges.

The agencies supporting extension of relief feel that this proposal would:

- (a) provide a meaningful extension of relief;
- (b) meet the concerns of Korea and Taiwan who have been severely restrained under the existing relief;
- (c) continue the restructuring of the industry without significant inflationary consequences.

It is unlikely that COMPACT, particularly the unions, will publicly support this formulation, mainly because of the exclusion of incomplete receivers. This exclusion was recommended by virtually all agencies because they felt it did not provide meaningful protection for U.S. workers. I would propose to try to negotiate OMAs at the lower end of the ranges indicated (especially in the second year), if I can bring COMPACT to a more favorable posture.

The Department of Labor feels that the above approach will not provide sufficient relief to the domestic industry and recommends that you implement a global quota for two years at 1.4 million complete receivers and 3.05 million incomplete receivers each year. Labor would also exclude 12 inch and under receivers but feels that it is critical to include incomplete receivers and to have global coverage of imports. Under this option, OMAs could be negotiated later with Taiwan and Korea. It is considered likely that COMPACT would endorse this approach.

Should you decide to approve either of the relief options, we will provide you with a proclamation to be signed by June 30. Every effort will be made to keep your decision secret until after the Summit.

## II. *Terminate Relief*

COWPS, CEA, IDCA, and Justice support termination of relief for the following reasons:

1. Domestic firms have adjusted to import competition. Domestic production and exports were at record levels for 2 years. Capital investment, capacity, capacity utilization, and productivity all increased. Inventories and imports declined, and U.S. firms have initiated significant cost savings measures, and substantially rationalized production by moving labor-intensive subassembly and component operations offshore.

2. Four foreign firms have moved their final assembly operations to the United States, joining three others already in the U.S. market. These entrants helped cause the significant decline in complete color television imports from Japan.

3. Despite the OMAs, domestic employment has declined. Continuation of relief is not likely to stop this trend. As the U.S. industry continues to rationalize, production will become increasingly automated, and job losses should continue.

4. Domestic producers can better compete with imports in terms of price. During the OMAs, some domestic manufacturers have become competitive in the low-priced private label market in which they previously had been unable to sell.

5. Termination of relief will remove a distortion in the international color television market place and the small consumer cost caused by trade diversion.

6. Termination of import relief will allow the Korean electronics industry to recover from the serious consequences of the OMA, and strengthen the Korean economy in this period of political instability. It would also avoid problems with Taiwan and Japan which would occur were relief continued.

*DECISION*

I. Extend import relief either by:

A. Seeking to renegotiate OMAs with Taiwan and Korea and implementing a global quota of 1.4 and 1.55 million receivers respectively for 2 years should negotiations be unsuccessful (as recommended by USTR, State, Treasury, Commerce, and Interior).<sup>4</sup>

B. Implementing a global quota for two years at 1.4 million receivers and 3.05 million incomplete receivers each year (as recommended by Labor).

II. Terminate import relief (as recommended by CEA, COWPS, IDCA, and Justice).

III. Please Discuss with me.

Attached to this memorandum is the Trade Policy Staff Committee paper on this case.<sup>5</sup>

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<sup>4</sup> Carter indicated his approval of this option and initialed "J." Presidential Proclamation 4679 on color television receiver imports was released on June 30; for the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1257–1260.

<sup>5</sup> Not attached; however, a June 10 Trade Policy Staff Committee paper, Draft Document 80–89, entitled "USITC Section 203 Report on Color TVs," is attached to another copy of Askew's memorandum in the Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 51, Memos from President [1].

**245. Decision Memorandum From the Chairman of the Trade Policy Committee (Askew) to President Carter<sup>1</sup>**

Washington, June 30, 1980

## SUBJECT

U.S. Trade Relations with Japan: Trade in Light Trucks

*Issue*

On May 23 the U.S. Customs Service announced, as the result of a quasi-judicial process, that cab chassis (lightweight truck chassis with the cab attached but without cargo boxes) which are dutiable at 4 percent will be reclassified as unfinished trucks dutiable at 25 percent. You need to decide whether a) to leave the higher duty in place, b) to use it as a negotiating lever to gain trade concessions from Japan, or c) to lower it unilaterally.

*Background*

A 1979 court decision, which reversed the rationale of an earlier ruling on which Customs had relied, prompted the review of cab chassis classification. Customs made its decision to reclassify on the legal and technical merits.

Reclassification will affect the so-called “mini-pickups,” an item of major trade interest to Japan. Heavier trucks from Europe without cargo boxes are not now affected. In 1979, approximately 389,000 mini-pickups valued at \$1.4 billion were imported from Japan: roughly half by Toyota and Nissan, and half by GM, Ford and Chrysler. In the first quarter of 1980, imports of these trucks rose to a projected annualized rate of 480,000 valued at \$1.8 billion.

The currently applied 25 percent rate was proclaimed in 1963 as a penalty duty directed against EC truck exports as part of U.S. retaliation for European import restrictions on U.S. poultry. (Before that the tariff was 8.5 percent.) The increased tariff curtailed Volkswagen exports to the U.S. of its cargo vans and trucks. (Ironically, VW is now the only firm producing comparable small trucks in the U.S.—30,000 to be produced in 1980—although GM and Nissan have announced plans to start U.S. production, and Ford is expected to do the same.)

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 195, Trip to California, Florida, Georgia, Detroit, Alaska, and Japan, 7/3/80–7/17/80 [2]. Confidential.

In the early 1970s the Japanese began shipping cargo boxes and cab chassis separately for assembly in the U.S. to take advantage of the low 4 percent duty on cab chassis. Customs found this practice acceptable for about 10 years until a recent court decision caused it to reconsider. In making its decision to reclassify lightweight cab chassis as substantially complete trucks, Customs noted that U.S. assembly involved less than 3 percent of the parts and 7 percent of the value of the completed trucks.

Following normal practice, the reclassification will become effective 90 days after the May 23 announcement, i.e., on August 21. Before or after August 21 you have authority to reduce the 25 percent duty on trucks: (a) unilaterally to 8.5 percent either temporarily or permanently; (b) by a combination of unilateral action and agreement with Japan, to any rate of duty between 25 percent and 6.8 percent or possibly a tariff-rate quota with a higher rate of duty on imports over a certain quantity; and (c) by an agreement with Japan which is approved by Congress to any rate of duty between 25 percent and free.

During the MTN the U.S. offered to reduce its truck tariff from 25 to 3.4 percent. The EC offered only minimal payment and we withdrew the offer. Separately the U.S. indicated to Japan in the MTN that, in view of the controversy concerning the classification of cab chassis, the U.S. would be willing to consider a reduced tariff for mini-pickups. Japan did not show much interest, and the U.S. also withdrew this offer. Last December we again offered to negotiate a reduction in the truck duty, but Japan was not interested.

Reclassification comes at a difficult moment for the Japanese politically. The Ohira Government fell May 16 and Mr. Ohira died on June 12. Elections were held June 22, but until the establishment of a new government in mid-July at best, it is unlikely the GOJ could negotiate a major tariff reduction. Although any new government in Japan will maintain close ties with the U.S., it will face increasing pressure from business circles—which were instrumental in the LDP's smashing victory—to retaliate against a six-fold increase in the duty on a major Japanese export.

So far, the GOJ reaction to the reclassification announcement has been low-key. Japanese Embassy officials met with representatives of several USG agencies to express the GOJ's great regret that Customs decided to reclassify, to indicate, from their point of view, that we owe them because the U.S. raised a duty 21 percentage points, to state that reclassification will be a problem in the context of GATT, and to reserve the GOJ's GATT rights. (The GATT issues are complicated and without precedent; however USTR lawyers believe that a sound GATT defense can be made by the U.S.) The GOJ has reminded us of its recently an-

nounced auto package,<sup>2</sup> indicated reclassification will create difficulties for these efforts, and urged the USG to reduce the truck tariff to avoid disruption to trade. (Japan acted unilaterally in taking the initiatives contained in the auto package. While we told the GOJ it would be given credit for eliminating duties on auto parts in any subsequent dealing on automotive products, we made it very clear that we were not committed to initiating discussions or reducing the tariff on trucks.)

Domestically this issue cannot be isolated from the problems currently facing the U.S. auto industry and its workers. In your May 14 meeting with them, Caldwell of Ford, Meyers of AMC, and Fraser all stressed the importance of maintaining the 25 percent truck tariff at this time of drastically declining sales and employment in the industry.<sup>3</sup> May truck production was off 67 percent from last year, while May car output was off 44 percent. The 31 percent import penetration (from January to April) of the U.S. light truck market, moreover, is higher than the 27 percent import share of the car market. Additionally, the industry is concerned that a reduction in the 25 percent duty (which applies to cargo vans as well as trucks) would result in huge increases in the presently negligible cargo van imports further depressing U.S. motor vehicle sales. (None of the options below contemplates a reduction in the tariff on cargo vans nor have the Japanese requested such a reduction. If you approve an option to reduce the tariff for minipickups it will be done *without* reducing the tariff on cargo vans.)

Caldwell has reversed his company's previous request that the effective date of reclassification be delayed for 2½ years (until Ford's planned U.S. small truck capacity is in operation). He claims that immediate imposition of the 25 percent duty would increase U.S. truck sales by up to 200,000 units and auto employment by up to 20,000 jobs during the 1981 model year. (There is general agreement, even by individuals in the industry, that these estimates are highly exaggerated.) GM believes the higher tariff should be enforced but that it could be used as a bargaining chip and reduced over time to induce production in the U.S. Nissan has asked that implementation of the reclassification be delayed for 2½ years when its U.S. truck plant will be in operation. Chrysler suggests the increased tariff be phased in but does not believe

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<sup>2</sup> See Document 242.

<sup>3</sup> Carter met with automotive industry and UAW representatives in the Cabinet Room on May 14 from 1:12 p.m. until 2:58 p.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation of this meeting was found. A report on the meeting was published in the May 15 edition of *The New York Times*. (Reginald Stuart, "Carter Promises to Act on Autos," *The New York Times*, May 15, 1980, p. D1) Philip Caldwell was Chairman of the Ford Motor Company, Gerald Meyers was Chairman of the American Motors Corporation, and Douglas Fraser was President of the United Auto Workers.



it will result in significant sales or employment benefits. Toyota has requested that the tariff be reduced to 6.8 percent and that implementation be delayed for a reasonable period of time.

Estimating the impact on the U.S. truck market of an immediate 21 percentage point increase in the duty is difficult. The impact depends largely on assumptions of how much of the duty increase would be passed through to retail. Toyota has announced a price increase of \$800 per truck. Toyota believes the 25 percent tariff will result in a 30 percent decrease in all imports of mini-pickups. Toyota claims it could be subject to dumping charges if it absorbed a substantial portion of the 25 percent duty. The recent erosion of the yen/dollar exchange rate has considerably narrowed profit margins and could further support such dumping charges.

U.S. Government estimates indicate that the price increase could range from \$800 (or 16 percent) to \$400 (or 8 percent) per truck. In the former case imports would fall by approximately 26 percent and in the latter by 13 percent. In view of the recent appreciation of the yen vis-à-vis the dollar, it is likely that the price increase would be closer to the high side of these estimates.

Some consumers will shift to domestic pickups and station wagons, others to imported small cars and station wagons, and others will defer purchases. To the extent that the higher duty on mini-pickups would lead to increased sales of domestic trucks, there could be a small increase in oil imports. The mini-pickups are more fuel efficient than the nearest, comparable U.S.-made pickup (half-ton) by an average of about 5 mpg when not loaded. However, the fuel economy advantage of the imports decreases as the payload increases. The new Corporate Average Fuel Economy requirements will force fuel economy improvements on U.S.-made trucks thereby reducing fuel economy as a distinguishing feature in the next few years.

Projections indicate that the total U.S. production of mini-pickups will remain at the 30,000 units made by Volkswagen until model year 1982 even if the 25 percent reclassification occurs. GM will at that time have a plant in operation with a capacity of 250,000 to 300,000 mini-pickups. In 1983 Nissan's U.S. production will enter the market with 120,000 units. It is anticipated that Ford will announce plans to build mini-pickups.

Customs and Nissan officials indicate that exporters and importers will have difficulty finding a new loophole to circumvent reclassification. Toyota is reviewing the possibility but doubts that it will be economically feasible. Ford, Chrysler and GM indicate they are not exploring a new loophole. In order to be dutiable at the cab chassis rate manufacturers could increase substantially the U.S. value added, labor or parts, or they could remove the cab entirely. Customs will rule on

particular configurations on a case-by-case basis. Customs has not yet received a formal request for a new ruling.

### *Options*

*Option I:* Seek to negotiate the best possible package of concessions from Japan before reclassification is implemented August 21, 1980. Whatever concessions are obtained will be accepted as adequate. Before reclassification is implemented, the 25 percent tariff would be permanently reduced or suspended for 2–3 years to 8.5 percent. Suspension for 2½ years would give Nissan time to complete its U.S. truck plant and keep the pressure on Toyota to build in the U.S. In reducing the duty your proclamation would: a) note Japan's recent liberalization of automotive standards and auto parts tariffs; b) note that a six-fold increase in the tariff on this \$1.4 billion item would aggravate inflation and provide only minor immediate benefit to U.S. industry or labor; and c) note that the 25 percent penalty duty was directed at the EC, not Japan. (Given the large volume of trade, if the 25 percent truck tariff is maintained, reclassification would result in an increase of the average U.S. tariff on dutiable imports of *all* Japanese products of 1.08 percentage points, eliminating almost half of the 2.2 percentage point reduction which will result from tariff cuts agreed to in the MTN.)

#### *Pros*

- Avoids the inflationary effects of reclassification.
- Reduces political and trade friction with Japan during a time of political transition in Japan.
- Consistent with the open market position you have taken on auto imports.
- A suspension for 2½ years would help Nissan in moving production to the U.S.

#### *Cons*

- At a time of falling auto sales and increased auto unemployment, would be criticized by the UAW, most of the domestic auto industry, and many Congressmen; would increase pressure for restrictive legislation on autos.
- Reduces the negotiating leverage that the 25 percent duty provides.

*Option II:* Use the bargaining leverage to negotiate a significant package of acceptable concessions from Japan in return for lowering the 25 percent duty on trucks. Any concessions package would be submitted to you for approval. If negotiations are successful, then reduce the duty from 25 percent to a lower level—not less than 6.8 percent. The reclassification would go into effect if no agreement were reached by August 21, 1980.

*Pros*

—Utilizes the leverage of reclassification to seek trade concessions we have been seeking unsuccessfully from the Japanese.

—Congress would probably support the 25 percent duty as leverage if we get meaningful concessions.

—Would be responsive to Congressional and public concern over rising U.S. trade deficit with Japan and continuing Japanese import barriers.

—Reduces friction with Japanese by agreeing to negotiate now.

*Cons*

—Negotiations might yield minimum results which would anger industry and labor and endanger our earlier decision not to seek voluntary restraints on Japanese car imports. Short of an OMA limiting Japanese autos, it is highly unlikely we could get sufficient concessions in the auto sector to satisfy the U.S. auto industry. An OMA is a possibility only after the USITC finds injury in its Section 201 investigation.

—If the concessions are primarily in non-auto sectors, it might appear that a negotiating chip that could have helped the troubled U.S. auto industry had been wasted.

—May cause political problems with the Japanese who may resent being asked to pay for removal of a penalty duty levied against the EC at a time when we continue to need their close support on Iran and Afghanistan. They believe that under the GATT they are entitled to 8.5 percent, a position we are prepared to contest.

—If we are unable to reach a satisfactory agreement with the Japanese, we would be left with a 25 percent duty on an item not now in significant production in the U.S. although comparable models could be available as early as model year 1982.

*Option III:* Implement reclassification and hold the truck tariff at 25 percent for the time being. Inform the Japanese that in the current political and economic climate in the U.S., we do not believe that negotiations would prove successful. We will continue to consult with the Japanese on the situation and will be willing to negotiate a reduction in the truck tariff when it becomes feasible and appropriate.

*Pros*

—Would be responsive to demands of many in the U.S. auto industry who seek some protection from imports in a recession, even though it does not affect passenger cars.

—Would minimize the chance of negotiations that might yield minimum results which would anger industry and labor and endanger our earlier decision not to seek voluntary restraints on Japanese car imports. Short of an OMA limiting Japanese autos, it is highly unlikely we could get sufficient concessions in the auto sector to satisfy the U.S. auto industry. An OMA is possible only after the USITC finds injury in its Section 201 investigation.

—Would be responsive to Congressional and public criticism that we do not deal firmly enough with Japan and that we are not sufficiently concerned with our growing trade deficit with Japan.

*Cons*

- May cause serious political problems with the Japanese affecting not only auto issues but possibly broader cooperation as well.
- Would place a 25 percent duty on an item not currently produced in significant quantity in the U.S. although comparable models could be available as early as model year 1982.
- Would have inflationary impact.

*Decision*

*Option I:* Negotiate the best possible package of concessions before reclassification is implemented August 21, 1980. Accept whatever is negotiated and reduce or suspend the duty to 8.5 percent before it is applied.

Supported by: State.

*Option II:* Negotiate a reduction in the truck tariff from 25 percent to 6.8 percent or anywhere in between in return for Japanese concessions large enough to offset significantly domestic political opposition. The package of concessions would be submitted for your approval. If unsuccessful, the 25 percent duty will be applied.

Supported by: Treasury, NSC, CEA, Justice, Agriculture.<sup>4</sup>

*Option III:* Inform the Japanese that we are unable to negotiate a reduction in the 25 percent truck tariff until the domestic political and economic climate improves.

Supported by: USTR, Commerce, Labor, Transportation.

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<sup>4</sup> Carter indicated his approval of this option and initialed "J." On August 21, the cab chassis tariff was increased to 25 percent. In response, Japan announced that it would seek bilateral consultations with the United States under the auspices of the GATT. ("Higher Truck Duties Draw Japan Protest," *The New York Times*, August 23, 1980, p. 32)

**246. Memorandum From Secretary of the Treasury Miller to President Carter<sup>1</sup>**

Washington, July 1, 1980

## SUBJECT

Automobile Industry

Following your meeting of May 14 with the domestic auto producers and the UAW leadership,<sup>2</sup> you asked for an interagency review of the industry and its problems. This memorandum reports on the results of that review; describes a package of recommended actions to help the industry, its workers, and affected communities; and seeks your decision on one issue—short-term import relief.

*I. The Outlook for the Industry*

The current situation faced by the industry can be divided into two parts: (1) the dramatic change in energy prices has shifted consumer preferences sharply toward smaller, more fuel-efficient cars, a shift for which the domestic industry was ill-prepared; and (2) business conditions have deteriorated sharply since mid-March, compounding the industry's unemployment and profitability problems.

*The Present Situation*

—*Production and Sales*—In 1978, sales of domestically-produced automobiles peaked at 9.3 million units. By the final quarter of 1979, sales had fallen to a seasonally-adjusted annual rate of 7.5 million units, reflecting the plunge in demand for larger and less fuel-efficient cars.

Spurred by rebates and a generally strong economy, sales reached 7.9 million units during the first quarter of 1980. Initial production plans for the second quarter were for 7.3 million units. However, as the economy weakened, these plans were continuously revised downward, so that actual second quarter domestic production will be close to a rate of about 5.5 million units. Truck sales are off even more sharply than auto sales. Both Ford and Chrysler have permanently closed plants.

—*Employment*—By the third week in June, indefinite layoffs had grown to 239,000. The Ford and Chrysler permanent plant closings mentioned above account for about 33,000 of these indefinite layoffs.

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 194, 7/3/80. Confidential. Watson and McDonald forwarded the memorandum to Carter under cover of a July 1 memorandum, which Carter initialed. (Ibid.)

<sup>2</sup> See footnote 3, Document 245.

Layoffs have been heavily concentrated in the industrial midwest, with approximately 70 percent in Michigan, Ohio, Missouri, and Indiana. The layoff figures cited do not include the broader supplier industries, which are estimated to total approximately 450,000, or dealers that have closed or trimmed back employment. Thus, total auto-related layoffs may be approaching 800,000.

—*Financial*—In the first quarter, General Motors reported profits 88 percent below the comparable levels of 1979. Ford's North American operations lost \$473 million, although overseas profits reduced the corporation's total loss to \$164 million. Chrysler reported losses of \$448 million. Ford has announced deferrals of its capital investment plans that will reduce intermediate-term investments by \$1.8 billion (1979 dollars). GM, on the other hand, is increasing and accelerating its planned investment.

—*Imports*—Reflecting the growth in small-car demand, the import shares of the domestic automobile market rose from 17.7 percent in 1978 to 21.9 percent in 1979 and to 26.4 percent during the first quarter of 1980. The Japanese share of total automobile imports has risen from 68 percent in 1978 to 80 percent at present. During the second quarter sales slump, imports have suffered proportionate sales reductions in the market segments within which they principally compete (compact and subcompact), but the fact that demand in these market segments has remained relatively strong pushed the import share of the total domestic market up to 28.4 percent in May.

#### *Outlook for the Next Few Months*

The industry is pinning its hopes for a recovery on the 1981 models; no one expects a major increase in sales prior to their introduction in the fall. Unemployment in the industry may be nearing its peak, but it is normal for plants to be shut down for a month or so to retool; in some cases, these shutdowns will be lengthened by a week or so as the manufacturers hold off introduction of the 1981 models to reduce inventories of 1980 models. In July the auto firms will report their second quarter financial results; reflecting the recent fall-off in sales, these are likely to be as bad or worse than those of the first quarter.

#### *Outlook for the Intermediate Term (Fall of 1980 to Fall of 1983)*

During this period, the industry plans largely to complete its current round of downsizing, thereby positioning itself to compete more effectively against imports. GM, for example, plans to enlarge its capacity to produce fuel-efficient, front-wheel drive automobiles from 1.5 million at present to about 5.5 million in 1983. Total domestic front-wheel drive car capacity will reach 7.7 million in that year.

The extent of actual improvement in either industry employment or industry profitability will depend crucially on the public reception

these new downsized domestic cars receive and on the overall state of the economy. The industry faces three significant problems during this period:

—*Employment*—The level of total domestic sales may be so reduced by the recession, a subsequent sluggish recovery and continued high import penetration that high and regionally concentrated unemployment will continue for some time, both among auto workers and dealers.

—*Disinvestment*—Prior to the onset of the recession, the ability of the industry to complete its downsizing was not in serious question, but the magnitude of the investments (and borrowing) required were large by historical standards. The recession will significantly worsen all the companies' financial results over the next couple of years. Thus, it is quite possible that some companies will have trouble financing previously announced domestic downsizing plans. The firm of primary concern is Ford, which could elect to reduce its domestic size significantly because of the magnitude of its current and anticipated losses or due to its bleak view of its domestic future. This situation could be exacerbated if, as has been widely reported, the banks are reacting to the Chrysler situation<sup>3</sup> and reducing their overall exposure in the automobile industry by cutting back new loans to the weaker manufacturers.

—*Imports*—Imports may hold or even increase their current high share of the market. In order for the industry to weather the intermediate period of transition without relief from import competition, not only must the industry finance its conversion to smaller cars, but the public must also find these cars attractive relative to imports. The success of the new U.S. smaller cars is by no means automatic.

Over the past few years, imports have held about a 38 percent share of the subcompact and compact models, compared to a share of less than 5 percent for standard and larger cars. They have increased

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<sup>3</sup> By the late 1970s, Chrysler Corporation, the third largest U.S. automotive producer, faced a financial crisis. In December 1978, Chrysler representatives broached the possibility of Federal assistance with White House officials. In July 1979, Chrysler publicly announced that it had requested \$1 billion in Federal government assistance; the announcement came after the company had suffered a quarterly loss of \$207.1 million, its largest ever. Following months of negotiations, on December 21, 1979, Congress approved \$1.5 billion in loan guarantees for Chrysler, contingent upon the company's fulfillment of certain conditions. This represented "the largest Federal rescue plan ever for an American company." (Reginald Stuart, "Chrysler is Seeking a Billion in U.S. Aid After Record Loss," *The New York Times*, August 1, 1979, p. A1; Judith Miller, "Congress Approves a Compromise Plan on Aid to Chrysler," *The New York Times*, December 21, 1979, p. A1 (quotation is from this article); Judith Miller, "U.S. Board Approves \$1.5 Billion Backing for Chrysler Loans," *The New York Times*, May 11, 1980, p. 1) On January 7, 1980, Carter signed the Chrysler Corporation Loan Guarantee Act of 1979 into law; for his remarks at the signing, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book I, pp. 27–32.

their share of the domestic market principally because the segments in which they have been strong have been growing rapidly. If these segments continue to grow in importance, and if import penetration in them is not reduced, then imports might ultimately capture as much of the total domestic market as they now have of the small car market, i.e., 38 percent.

Whether correctly or not, the public presently perceives foreign cars to be fuel-efficient and of higher quality than domestic cars. Changing this perception will not be easy. The fact that GM's X-car has been so successful does not necessarily indicate that the imports can be beaten back. Much of GM's gains have come at the expense of Ford and Chrysler. Chrysler's K-car, if successful, may snare buyers from Ford's presently weak compact line as much as from Toyota, Nissan, or Honda. Ford is especially vulnerable since its downsizing has lagged significantly behind either GM or Chrysler.

*Outlook for the Longer Term (1984 and beyond)*

This is the subject of a separate larger study headed by DOT. Briefly, the principal problems for this period are related to:

—*International Competitiveness*—The Japanese (or others) may have a substantial and persistent cost advantage that translates into the potential for an ever growing share for imports.

—*Job Diminution Due to Productivity Gains*—The long-term survival of the US auto industry depends on productivity gains competitive with those with other countries. To the extent that such gains are realized, fewer workers will be required to produce a given number of cars.

Depending upon the rate of productivity improvement assumed, 1985 auto industry employment could range from 816,000 to 1,042,000. The former figure is only slightly above the current level of industry employment. The latter is roughly equivalent to the 1978 level.

—*GM Dominance*—In 1979, General Motors' share of domestic car sales was 59 percent. In May 1980, its share had increased to 62 percent. If Chrysler survives, and if Ford "shrinks" its North American operations, the structure of the domestic auto industry is likely to be changed radically: the "Big Three" will become the "Big One" plus an "Intermediate 1-1/2," plus a "Fringe." As long as imports provide competition, this change does not necessarily pose a problem.

## II. *Description of the Package*

The EPG recommends several proposals that will increase employment, ease the transitional difficulties of the localities and regions, and improve the investment climate. The proposals are limited to those that can be done now and, with one exception, to those that do not require



any new funding. This section presents consensus recommendations in the areas of credit, regulation, unemployment, and taxes.

[Omitted here are recommendations on credit, regulation, unemployment, and taxes.]

### III. Trade

The Section 201 case before the USITC,<sup>4</sup> if it results in a finding of injury, will require that you reexamine your position on short-term import relief. Some of your advisers believe that you should request the USITC to accelerate its investigation in order to demonstrate your recognition of the urgency of the situation and as an initial signal to the Japanese and domestic interests that you may be prepared to modify your position on this issue and consider appropriate relief.

#### *Background*

It is clear that your handling of the import issue is of central importance in this review. Domestically, the unions, companies (in varying degrees), and many members of Congress feel that import restraints are necessary to demonstrate your support for the U.S. auto industry and its workers. Internationally, decisions in this area will be watched closely and may significantly affect the willingness of other countries to fulfill the Venice Summit commitment to resist protectionist pressures (particularly in light of the decision to extend color TV relief<sup>5</sup> and of foreign anxiety about the steel dumping cases<sup>6</sup>) and the climate in the international trading system—even though most countries already have significant barriers to auto imports.

The Administration's current policy, which has been stated repeatedly before congressional committees and in other public fora, is to oppose voluntary Japanese export restraints and legislated import restraints on autos. This policy, approved by you in March,<sup>7</sup> was predicated on the adverse consequences of restrictions for our anti-inflation, trade, and energy policy objectives and the limited benefits to domestic

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<sup>4</sup> The UAW filed an automotive import relief petition with the USITC on June 12. (Clyde H. Farnsworth, "Auto Workers Union Asks U.S. To Curb Foreign Car Imports," *The New York Times*, June 13, 1980, p. D9) On August 4, the Ford Motor Company also filed an automotive import relief petition with the USITC. (Peter Behr, "Ford Asks ITC to Put Sharp Import Limits on Japan Cars," *The Washington Post*, August 5, 1980, p. D7)

<sup>5</sup> See Document 244.

<sup>6</sup> See Document 238.

<sup>7</sup> Askew sought Carter's decision on whether the United States should "[d]iscourage the Japanese from restraining exports of automobiles" in a March 14 memorandum. A handwritten note at the top of Askew's memorandum reads: "Original to Camp David." (Carter Library, White House Central Files, Subject File, Box TA-30, TA 4-16, 1/20/77-1/20/81) No copy of Askew's memorandum bearing Carter's decision was found.

firms and workers because most U.S. small cars (compacts and sub-compacts) were already selling virtually as fast as they could be produced (also, the lack of explicit legal authority to restrain trade).

Since your decision in March, there have been a number of significant developments which have a bearing on the auto import situation and on public perceptions thereof. These include the following:

(1) As described in the first section of this memorandum, worsening economic conditions and tight credit have severely depressed second-quarter car production and sales (including U.S.-produced small cars), employment, and auto company financial results.

(2) Before March, the domestic producers' weakness was concentrated in their large car sales, with small cars being produced at or near capacity and sold at record rates. After March, idle capacity in some small car lines and a general lagging of sales of small cars appeared as well, even though U.S. small cars have held their share of the small car market against imports.

(3) The import share of the U.S. market has continued at record high levels (it actually increased slightly—from 26.4 percent in the first quarter of 1980 to 28.4 percent in May). Due to weakened demand, absolute sales of imports declined after March (from an annual rate of 2.8 million units in the first quarter to 2.1 million in May). High import penetration, in conjunction with depressed sales, poor financial results of the auto firms, and major new layoffs have given impetus to demands for trade restrictions.

(4) In May, Treasury decided to reclassify cab chassis, thereby raising the tariff from 4 to 25 percent, effective mid-August. This decision affects \$1.4 billion in U.S. imports, mostly from Japan, and should produce some relief for the domestic industry (see separate decision memo by Ambassador Askew).<sup>8</sup> While this change was made for legal reasons, if you do not decide to modify it, it will benefit the domestic automotive industry through increases in sales and employment and you can take some credit domestically for leaving it in place (this is of particular interest to Ford).

(5) Since October 1979, the trade adjustment assistance program has certified over 370,000 autoworkers as eligible for assistance (where imports have been found to be a cause of unemployment)—170,000 have been certified since February. The Administration has had to request an additional \$1.5 billion largely to meet the needs of these workers—with considerable public attention—and this amount is likely to increase further.

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<sup>8</sup> See Document 245.

(6) The UAW, on June 12, filed a complaint with the USITC, under Section 201 of the Trade Act of 1974, for import relief, a significant step for a traditionally “free trade” union which demonstrates how seriously it views the import situation. The USITC is expected to take its legally allotted six months to investigate the complaint, but is expected to vote publicly on injury about November 10. The Congress, the President, or the petitioner (UAW) may request an expedited determination by the USITC. The filing launches a domestic legal process which is fully consistent with our international GATT obligations.

(7) Ford has announced a deferral of its investment plans (\$1.8 billion until after 1984), along with substantial cuts in overhead (*e.g.*, white collar staff) for its current operations. These cutbacks are thought by some to be the beginning of a Ford retrenchment in North America and greater concentration in overseas operations. GM has announced an increase in and acceleration of its investments.

(8) The Congress passed a concurrent resolution which, among other things, calls on the Administration to review its import policies in order to assess their possible effect on the domestic industry’s effort to retool for lighter, fuel-efficient cars.

(9) There have been a number of significant developments recently in Japan (which accounts for 80 percent of our auto imports), including:

—The fall of the Ohira Government. The June 22 electoral victory of the Liberal Democratic Party was substantial, but it is considered unlikely that a new Prime Minister and Cabinet will be selected until the latter part of July. During this transition period, there is little that the Japanese Government can do substantively on the auto issue.

—Growing irritation between the Japanese Government and Japanese auto companies. Major factors are the Treasury decision on cab chassis tariffs, which the companies feel should have been opposed more vigorously by the government, and the failure of the auto companies to respond to MITI’s pleas to restrain their auto exports. Such irritations complicate the domestic problems of the government in handling the auto issue.

—At our urging, the Japanese Government has decided to eliminate most auto parts tariffs in 1981; simplify auto standards and licensing procedures; and send missions to the United States to promote imports by Japan of auto parts from America.<sup>9</sup> This should create limited additional sales opportunities for U.S. auto producers, though these gains will not be realized for some time. (NOTE: The U.S. cab

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<sup>9</sup> See Document 242.

chassis tariff increase may make it difficult for the new Japanese Government to implement the elimination of parts duties.)

—Two Japanese auto companies (Honda and Nissan) have announced new investments in the United States, and a third (Toyota) has committed to invest here if a feasibility study now under way concludes that such an investment would be economically viable.

—While Japanese auto exports have fallen in recent months, there is no evidence that the auto companies are artificially restraining their sales to the U.S. market. The companies appear to be worried that any such restraint will cause them to lose market share to one another and create a serious risk they will be sued by their U.S. dealers for antitrust violations.

—At your request, the Japanese Government has been examining the issue of expansion of auto capacity in Japan, directed at the U.S. market. Their initial reaction is that such expansion is not taking place, and they plan to say so publicly. It appears they will be reluctant to explore this issue any further.

(10) Recent economic developments suggest that the domestic benefits of trade restrictions may be somewhat higher and the costs somewhat lower than were estimated in March, largely due to the appearance of some excess U.S. capacity to produce small cars. Despite possible upward revision of the benefits of trade restraints, under any reasonable set of assumptions, the short-term effects on auto employment are not large relative to current unemployment levels. For the next year (i.e., from July 1980 to June 1981), the maximum plausible import restriction is probably 250,000. If this were to generate 250,000 additional sales of domestic cars, auto industry unemployment would be reduced by about 19,000 workers, compared to current indefinite layoffs of about 240,000 workers. Indirect unemployment would be decreased by another 28,000 persons, compared to about 450,000 unemployed in the broader supplier industries. In the following year (July 1981 to June 1982), a trade restraint of perhaps twice the size (or 500,000 units) is conceivable. Still assuming the “upper bound” one-for-one domestic supply response, the employment gains during that year would be roughly double that for 1980–1981. A 100,000 unit per year restriction on Japanese imports could raise the price of the average imported Japanese car by \$138, and could cost consumers from \$0.2 to \$1.1 billion, depending on whether domestic prices also rise. A restriction of 500,000 units could add \$689 to the cost of a Japanese import and could cost consumers between \$1.1 and \$4.7 billion. This works out to a cost of between \$25,000 and \$100,000 for each job created. This ignores any possible savings in government outlays resulting from higher auto industry employment. (Attachment B to this memo provides

estimates of the costs and benefits of import restraints under various assumptions.)<sup>10</sup>

(11) The Commerce Department, in May, completed and released a survey of auto trade restrictions in other countries that indicates most other markets have substantially higher barriers to imports than the United States.

### *Decision*

Some of your advisers feel that you should request the USITC to accelerate its investigation and announce that you will expedite your decision on import relief should the USITC find injury. Others feel you should permit the investigation to go forward as scheduled.<sup>11</sup>

The current USITC schedule calls for a public vote on injury about November 10 and submission of its report to you in mid-December. You would then have 60 days to review the report and decide whether to grant import relief (by mid-February). If you were to decide to negotiate orderly marketing agreements, you could take an additional 90 days to conclude and implement such agreements (by mid-May).

If you request the USITC to accelerate its investigation, it is conceivable that its injury determination could be made 4–6 weeks earlier. It is unlikely the USITC could move much faster, given the time required to complete statistical surveys, hold public hearings, and receive post-hearing briefs. (In a recent case on canned mushrooms, the USITC accelerated its investigation by one month at USTR's request.)<sup>12</sup> Assuming the USITC would be willing to respond in a similar fashion on autos, its injury determination could be made in early October (possibly late September).

At that point—that is, before USITC's recommendations *for relief* are submitted—USTR's General Counsel believes it would be within

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<sup>10</sup> Attachment B, attached but not printed, is an undated paper entitled "Costs of Trade Restrictions."

<sup>11</sup> In a June 30 memorandum to Carter, Mondale supported the acceleration of the USITC investigation. In a July 1 memorandum to Carter, Eizenstat and DPS member Ralph Schlosstein summarized the positions of several U.S. officials on accelerating the investigation: Eizenstat, President's Deputy Assistant for Intergovernmental Affairs Gene Eidenberg, McDonald, and Butler favored acceleration, while Schultze opposed it. Owen advised Carter to "proceed with efforts to obtain a favorable Japanese statement regarding plans for future Japanese capacity, and decide later whether to accelerate the ITC investigation only if Japan is not forthcoming." McDonald offered his views in a July 1 memorandum to Carter entitled "Automobile Imports." All three memoranda are in the Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 194, 7/3/80.

<sup>12</sup> Askew sought Carter's decision on whether to provide relief for U.S. canned mushroom producers in an October 10 memorandum. Carter decided in favor of providing tariff relief. (Carter Library, Staff Office Files, Council of Economic Advisers, Charles L. Schultze Subject Files, Box 51, Memos from President [1])

USTR's authority to initiate discussions with the Japanese on a possible Orderly Marketing Agreement if you felt that relief was in the national interest. (USTR would probably have to be authorized to negotiate the full range of U.S.-Japanese auto-related issues, including the cab chassis tariff and the final disposition of the 201 case.) USTR might, in fact, conclude such an agreement before the USITC completes its report to you. You could not, however, implement an agreement until you receive the USITC's report. It is conceivable that agreement could be reached with Japan by late October and implemented in November under this approach. Should you await the final USITC report before deciding to grant relief, it is unlikely you could reach an agreement prior to mid-November and implement it before next year.

If the Japanese were unwilling to conclude an agreement, you would have to impose across-the-board relief on imports, including imports from Europe and Canada—through tariffs, tariff rate quotas, or quotas—since in initiating discussions with Japan on restraints, you would have effectively made the decision to grant relief.

Your request to the USITC for an accelerated USITC investigation would state that while you are not prejudging the outcome, a number of recent developments in the auto industry (*e.g.*, high import penetration, poor financial results, layoffs, depressed sales, idle small car capacity) have heightened public concern about the current and future condition of the auto industry. You would indicate that you share that concern and feel that, given the importance of this issue to the nation, expedited USITC consideration of this case and expedited consideration of relief should it find injury, is warranted. You would recognize the need to give a fair hearing to all parties and stress the importance of doing so, but also stress that failure to move more rapidly may cause more serious complications.

The advantages of this approach are:

—Demonstrates your recognition of the urgency of the situation and is an initial signal that you may be prepared to modify your position and provide relief.

—Lays the groundwork for you to modify your position on trade restraints, within a legally established framework.

—Only approach under consideration here that offers the possibility of increasing auto employment and production in the near term, even though increases may be small.

—In moving up your decision, you will assure domestic unions and firms that they will have an early decision. It demonstrates your concern and will be regarded as a significant step.

—Send signal to Japanese auto companies not to aggressively push exports and expand capacity.

—May reduce Congressional momentum to legislate restrictions.

—Gives you the possibility, but not the certainty, of announcing relief by November and putting it into effect before the end of 1980—as opposed to as late as May 1981 under the regular process.

—Failure to give this sort of signal of concern almost guarantees increased domestic criticism of your efforts to deal with auto industry's problems, given the limited non-trade actions available to you.

—Responds to the concern expressed by the UAW and others that, except for Germany, the U.S. market remains the only major market totally open to imports.

The disadvantages of this approach are:

—Likely that this request will be seen as a signal of intent to reverse your previous position on trade restraints and as prejudicing the USITC procedure.

—The USITC Chairman has indicated privately that the Commissioners would find it extremely difficult to speed up the process in such a complex and sensitive case and give all parties a fair hearing.

—Conditions may not have changed sufficiently since March to justify this action. Though even modest employment benefits are important, they are gains at the expense of higher auto prices and inflation.

—Likely to cause concern internationally that you are moving in a protectionist direction after having reaffirmed at the Venice Summit a commitment to an open world trading system.

—Could cause increased apprehension in Europe that their auto exporters will get caught in an eventual across-the-board import relief action, when Japan is “the cause of the problem.”

—Creates the possibility you will have to make a decision on import relief before the election. In the event the USITC does not find injury, you will be in an awkward spot domestically.

—Over the short term (i.e., the next model year), substantial restrictions on imports, coupled with a domestic recovery and a continued shift in consumer preferences toward smaller cars, could cause the domestic industry to bump up against small car capacity restraints, increasing the likelihood that domestic small car prices will rise substantially.

Please indicate your decision below on requesting an expedited USITC investigation.<sup>13</sup>

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<sup>13</sup> Carter did not indicate his decision.

Approve (recommended by Treasury, DPS, USTR, DOT, DOL, Commerce)

Disapprove (recommended by CEA, Alfred Kahn, State, OMB, Henry Owen (see separate memo))<sup>14</sup>

#### IV. *Likely Perception of the Proposal*

Overall, this package will be well received by auto interests, although there will be some criticism that it does too little. In this regard, the trade issue is critical. Our perception of how the various parties affected by the proposals will receive them is as follows:

A. *Industry*—In general, they will be supportive and perceive the Government as being concerned and reacting promptly. In several areas, they will be disappointed that more was not done. They wanted more in the regulatory area, and legislative tax proposals. All were concerned with the problems of credit which prevailed at the time of the May 14th meeting, but these concerns have since eased. For at least two companies, Ford and Chrysler, the treatment of the trade issue will be particularly critical to their perception of the overall package. There will, however, be something there for each of the companies.

—GM, by virtue of its strong financial and market position, will benefit from all actions the government takes. It has made tax and regulation its two top priorities.

—Ford's overwhelming concern is the trade issue (including cab chassis). Regulation and the problems of the dealers were also issues they raised, but much lower priority. Ford will view our response on these areas as positive.

—Chrysler, AMC, and VW will benefit from the regulatory changes and the improved availability of dealer credit.

B. *Unions and Employees*—Import restraint is the most important item in their set of priorities. They will support the dealer credit element and adjustment aid for communities, as well as the formation of the auto committee. Historically, the unions have been critical or negative on tax breaks for industry.

C. *State, Local, and Congressional*—They will see the overall program as positive but weak without the import restrictions.

#### V. *Contribution from Industry and Labor*

All members of the EPG feel that it is important to ensure that our program is perceived as a cooperative effort to which all parties contribute and not simply as a series of concessions by the government to the automobile industry. During past weeks we have discussed with

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<sup>14</sup> The memorandum was not found.



the industry areas in which we feel you may ask for their cooperation. (We have withheld discussing the package with the UAW until you have made your trade decision.) Most industry representatives have reacted favorably to our suggestions. The areas we have discussed are:

A. *Wage-Price Restraint*. If you are willing to consider new steps to deal with Japanese imports, there will be concern with the possible inflationary impacts of any restraints. We have indicated to each of the companies that under the circumstances you are likely to seek new commitments from them to restrain prices. All have agreed to recommit themselves to our existing price guidelines. These guidelines do not, however, significantly restrain price increases, both for technical reasons, and because industry profits are low. While a restatement from the industry of their commitment to the wage-price guidelines may be symbolically useful, it may not be perceived publicly as a significant action.

B. *Participation in the Auto Industry Committee*. The usefulness of the auto industry committee will only be as great as the commitment by all parties to participate openly and supportively. General Motors, Chrysler and VW all have indicated their willingness to do so. Ford and AMC have reservations, primarily regarding the loss of flexibility they fear from prenotification and open discussion of economic decisions to close plants. We believe that all parties would be willing to sit down to discuss how a group would be structured and to begin to set its agenda.

C. *Fuel Economy*. There is considerable public concern that, despite our regulations and industry investments, the U.S. auto industry will still remain far behind the Japanese in the fuel economy of its fleet. We have indicated to the companies that it is important for them to indicate publicly to you their commitment to push ahead as fast as possible in downsizing their fleets, and their confidence that their cars would soon be competitive from a fuel economy standpoint in world markets. All companies agreed to make firm statements on this subject.

D. *Productivity and Product Quality*. If our manufacturers are to remain competitive in world markets, it is important for them to improve the efficiency of their operations and the quality of their products. This will require a concerted effort by management and labor to introduce improved production techniques. Many of these changes may require sacrifices on the part of labor and extraordinary investment and risks by management. Chrysler and the UAW have already agreed to work together on this issue, and discussions between Ford and the UAW are under way. We are optimistic that their representatives will have positive statements to make concerning their future cooperation on the

issue. In any case you should raise this issue in the meeting with the industry.<sup>15</sup>

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<sup>15</sup> Carter met with automotive industry representatives on July 8 at the Detroit Metropolitan Airport in Detroit, Michigan, from 7:09 until 7:42 a.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation of the meeting was found. After the meeting, Carter announced his administration's automotive industry revitalization program. He also announced that he would ask for an acceleration of the USITC investigation. For the text of Carter's remarks announcing his decisions, as well as a July 9 letter to USITC Chairman Bill Alberger in which Carter requested the acceleration of the USITC investigation, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1329–1331. On November 10, the USITC voted against the automotive import relief petitions filed by the UAW and Ford Motor Company. (Clyde H. Farnsworth, "U.S. Rejects Limits on Japanese Autos," *The New York Times*, November 11, 1980, p. A1)

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## 247. Telegram From the Department of State to All Diplomatic and Consular Posts<sup>1</sup>

Washington, July 9, 1980, 2239Z

180781. Subject: Highlights of Venice Summit, June 22–23, and Follow-Up Action.<sup>2</sup> Ref: (A) Secto 04021, (B) State 177830.<sup>3</sup>

1. The Venice Summit was a well-prepared, highly successful, and harmonious event. The sessions were marked by a strong sense of unity—"we are all in the same gondola", as the Japanese Foreign Minister said—and an awareness that the difficult decisions that will need

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<sup>1</sup> Source: National Archives, RG 59, Central Foreign Policy File, D800329–0967. Limited Official Use; Immediate. Drafted by Katz's Special Assistant Ruth Gold; cleared by Hormats, DOE, Bergsten, EUR/RPE Director Robert Beaudry, EA/J Director Alan Romberg, Jenonne Walker (S/P), and Cooper's Executive Assistant Edward Morse; and approved by Cooper.

<sup>2</sup> No minutes of the economic discussions at the Venice G–7 Summit were found. A memorandum of conversation of the June 22 political discussion at the Summit is in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 38, Memcons: President: 6/80. Carter's handwritten notes on the Summit are *ibid.* and in the Carter Library, Plains File, President's Personal Foreign Affairs File, Box 4, Summit Meetings, 7/78–6/80.

<sup>3</sup> Telegram Secto 4021 from Venice, June 22, transmitted the text of the G–7 communiqué on Afghanistan issued on June 22. Telegram 177830 to all diplomatic and consular posts, July 6, transmitted the text of the G–7 declaration on hostage-taking issued on June 22. (National Archives, RG 59, Central Foreign Policy File, D800303–0574 and D800324–0816, respectively) For the text of both statements, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1170–1172.

to be taken in the period ahead will be less difficult if the industrial democracies act together. Energy dominated the economic discussions and Afghanistan the political. Participants reached a common assessment of the strategic importance of these and related challenges facing the Western world, as the communiqués make clear. Their language is strong, forthright, and unambiguous; the positions and decisions are fully consistent with, and indeed supportive of, US policies. Whether the long-term goals the principals endorsed at Venice will be given effect will depend on sustained follow-up action by all the Summit countries.

2. The communiqués are being repeated to all diplomatic and consular posts: the “Declaration of the Venice Summit”, which is the major statement on key economic issues;<sup>4</sup> the separate political communique on Afghanistan, Secto 04021; the statements on hijacking, and on refugees.<sup>5</sup> Posts have already received the Summit declaration on the taking of hostages, State 177830.

3. For the first time since the economic summits were initiated in 1975, one of the main sessions in the two-day period was set aside for political discussion. The other two sessions were devoted to the economic agenda. In addition, the participants took their meals together, the Heads of Government in one group, the Foreign Ministers in another, and the Finance and Energy Ministers in a third group, at all of which there were useful wide-ranging informal discussions. The Summit also provided opportunities for bilateral meetings. President Carter met separately with each of the Heads of Government and with the President of the EEC Commission. Thus the value of the Summit meeting lies not only in the decisions reached but also, and equally important, in the expanded contacts and understanding among national leaders that the two-day meeting encouraged. It lies also in the benefits derived from the preparatory process and follow-up. The work of pre-

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<sup>4</sup> Telegram 192218 to all diplomatic and consular posts, July 21, contains the text of the “Declaration of the Venice Summit” issued on June 23. (National Archives, RG 59, Central Foreign Policy File, D800349–0815) Documentation on the drafting of the Declaration, with particular emphasis on the economic portions, is in the Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 27, President, Europe, 6/19–26/80: Cables and Memos, 6/11–13/80; Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 28, President, Europe, 6/19–26/80: Cables and Memos, 6/19–20/80; and Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 28, President, Europe, 6/19–26/80: Cables and Memos, 6/21–22/80. For the text of the Declaration, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1186–1191.

<sup>5</sup> Telegram 184724 to all diplomatic and consular posts, July 13, contains the texts of the G–7 statements on hijacking and refugees, both issued on June 22. (National Archives, RG 59, Central Foreign Policy File, D800336–0955) For the texts of both statements, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1172–1173.

paring this Summit began in February and served not only to resolve contentious issues which would otherwise have required the attention of Heads of Government, but also gave impetus and direction to other international activities, particularly the IEA and OECD Ministerials.<sup>6</sup> As a result, Summit participants were free to spend a larger part of their limited time together discussing broad policy issues. Further, the preparatory process involved frequent discussions among a range of officials from the Summit countries covering all of the issues covered in the communiqué. This process fosters a higher level of mutual understanding and compromise than would be the case without the Summit. Organized follow-up is also an integral part of the Summit process, helping to assure that commitments undertaken by Heads of Government are pursued. The Summit series will continue with the seventh Summit meeting scheduled to take place in Canada in 1981.

4. Political discussion. The introduction of a separate political discussion at the Economic Summit was natural, given the strategic importance of the Soviet invasion of Afghanistan and the opportunity the Venice Summit offered the Heads of Government to share their assessments of this event face to face. The principals confirmed the strong Western reaction to the Soviet aggression. The advance work on the political agenda and communiqué prepared the leaders to deal promptly and directly with the Soviet ploy in announcing the withdrawal of some troops from Afghanistan on the eve of the Summit. The result was solid Summit unity in calling for complete Soviet withdrawal from Afghanistan.

5. Economic discussions. Energy was clearly the central issue. As the President said on arriving at Andrews Air Force Base, "The one word that permeated all of the discussions was oil."<sup>7</sup> It occupied more than 75 percent of the time devoted to the economic agenda. "Unless we can deal with the problems of energy, we cannot cope with other problems" says the Summit Declaration in its opening paragraph. It recognizes OPEC's responsibility for exacerbating inflation, recession, and unemployment in the industrialized world, and undermining and in some cases destroying the prospects for growth in the developing countries. The Declaration lays out at some length the essential elements of a strategy agreed among the seven nations to free themselves from their excessive dependence on imported oil within this decade. The main elements are conservation of oil in all sectors of their economies where substantial savings in the use of oil are possible, and reli-

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<sup>6</sup> The IEA met at the Ministerial level in Paris May 21–22; the OECD met at the Ministerial level in Paris June 3–4.

<sup>7</sup> For the full text of his remarks on June 26, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1234–1236.

ance on fuels other than oil to meet the energy needs of the future—coal, nuclear, synthetics, and renewable sources—whose potential to increase supply is estimated at the equivalent of 15–20 million barrels daily of oil by 1990. By carrying out the agreed strategy, the participants expect that the share of oil in total energy demand will be reduced in the Summit countries from 53 percent now to about 40 percent by 1990, that collective energy use will increase only 60 percent as fast as GNP (the ratio used to be one to one), and that collective oil consumption in 1990 will be significantly below present levels. The Declaration notes the mutual dependence of the industrialized democracies, the oil exporting countries, and the non-oil developing countries for the realization of their economic aspirations, and adds, as the Western countries have said many times before, that the participants “would welcome a constructive dialogue . . . between energy producers and consumers in order to improve the coherence of their policies.”

6. On his return from the Summit, President Carter said of the energy talks, “We recognize that we must break the relationship between economic growth in the future and our dependence on energy; in other words, to have more growth for less energy . . . Obviously our over-dependence on foreign oil takes away our own basic security, the right that we have to make our own decisions . . . Oil politics is literally changing the interrelationship among nations. We must stand united, cooperate whenever we can, and meet a common challenge to the security and certainty of the future brought about by rapidly increasing uncontrollable prices of oil, and excess dependence by all of us on imports of oil.”

7. In addition to energy, the agenda covered macroeconomic issues (inflation and growth), monetary problems, trade, and relations with developing countries. The Heads of Government agreed that curbing inflation and breaking inflationary expectations is the immediate top macroeconomic priority. It requires restrained fiscal and monetary policies. None of the participants urged the US to abate recession by stimulating the US economy now; they recognized the danger of rekindling inflationary expectations nor were they persuaded that there was a trade-off between inflation and unemployment. Rather, the discussion focused on inflation as a cause of unemployment. In addition to short-run demand management, the principals agreed that parallel action on the supply side is necessary to encourage investment and innovation and increase productivity.

8. The discussion of international monetary questions at Venice was limited. There was general satisfaction with the current operation of the foreign exchange market, and the discussions focused primarily on recycling problems arising from the latest oil price increases. The Summit recognized that a combination of financing and adjustment

was needed to deal with the large payments imbalances and that the private markets would again have to undertake the bulk of the recycling responsibility. Regarding the private markets, the Germans emphasized their concern about the safety and solvency of private financial institutions and suggested that the “safety net” which private banks in Germany have among themselves might be a useful example for the private sector to build on internationally. This gave rise to the favorable mention in the communiqué of BIS efforts to strengthen prudential aspects of banking operations, which could be supplemented by private bank efforts. The Summit made clear that in addition to recycling through the private market, OPEC should increase direct lending to countries with financial problems, and the international financial institutions—the IMF and World Bank—would have to play an expanded role. Several of the participants stressed the responsibility of OPEC to provide substantially increased grant aid to ease the burden on the developing countries that OPEC’s stunning oil price increases had caused. With regard to the IMF, the Summit pledged to implement the proposed quota increase,<sup>8</sup> supported the Fund’s efforts to borrow additional resources, and encouraged the IMF to seek ways to make it more attractive for countries with financial problems to use its resources, including measures to reduce charges to low-income developing countries. The Summit also endorsed the World Bank’s new structural adjustment lending program and emphasized the importance of the IMF and World Bank working closely together. The French did not unveil a monetary “initiative,” as had been long rumored.

9. Participants agreed on the importance of strengthening the open world trading system and resisting protectionist pressures. They agreed to strengthen the international arrangement on export credits, and to work toward an agreement to prohibit illicit payments to foreign government officials in international business transactions. They urged “the more advanced of our developing partners gradually to open their markets over the coming decade.”

10. Relations with Developing Countries. In addition to the massive balance of payments deficits of the developing countries caused directly and indirectly by the recent more than doubling of the price of oil, the problems for LDCs to which the Summit participants called attention and on which they offered their cooperation included developing indigenous LDC energy resources, enhancing food security, and moderating population growth. The World Bank was asked to consider the possibility of a new affiliate or facility for LDC energy exploration, development, and production, “and to explore its findings with both

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<sup>8</sup> IMF quotas were increased by 51 percent in November 1980. (Boughton, *Silent Revolution*, pp. 53, 854)

oil-exporting and industrial countries.” To improve the ability of food-deficit LDCs to feed themselves, the Summit countries proposed to help LDCs prepare comprehensive long-term food strategies, to improve national and international research services, to support new IBRD and FAO programs to improve LDC grain storage and distribution systems, to provide increased food aid, and to replenish on an equitable basis the International Fund for Agricultural Development (which was initially to be financed half by OPEC countries and half by industrialized Western countries; the final division of the contributions to the one billion dollar fund was agreed at 43 percent OPEC, 57 percent Western countries).

11. With respect to aid to developing countries, the Declaration gives strong support to the replenishment of the multilateral development banks. It ends the North/South section with a strongly worded paragraph (no. 26) calling attention to the need for the oil-exporting and the industrialized Communist countries to share equitably with the industrial democratic countries the responsibility for aid and other contributions to LDCs.

12. Follow-up action. As hitherto, the Personal Representatives of the Heads of Government (Ambassador Owen for the US), will meet periodically to review actions necessary to give effect to the Declaration and to prepare for the next Summit meeting. The first such meeting after the Venice Summit will be in September. In addition, the Declaration itself sets up two groups for specific follow-on work. The first (para 16 of the Declaration) calls for “a high-level group of representatives of our countries and of the EEC Commission” to review periodically the results achieved in the energy area. The Tokyo Summit Declaration also set up such a group. This is necessary because France is not a member of the IEA. The second (para 26 of the Declaration) instructs the Personal Representatives to review aid policies, procedures, and other contributions to LDCs and report back their conclusions to the next Summit. With respect to the energy group, it will likely be at Assistant Secretary level; it will meet after the IEA Governing Board meeting in July, and then again in September in conjunction with the first meeting of the Personal Representatives on Summit follow-up action in general, and thereafter as necessary. The mission of the aid group (para 26) is really two-fold: to consider (i) what might be done to make the North-South dialogue a more useful process and (ii) how to get OPEC surplus countries to do more for the developing countries in view of the enormous burden their oil price policies have imposed and the income transfer from the oil-poor LDCs to the oil-rich they entail.

13. Further follow-up action. The Declaration refers in para 6 to the need to understand better the long-term effects (on the environment, the climate, and natural resources) of industrialization and economic

development generally. “A study of trends in these areas is in hand” it adds. The reference here is to a soon to be completed US study, “Global 2000,”<sup>9</sup> which we will review with the six countries. A report on the projections in the study and the future problems they raise will be brought to the attention of Summit ’81.

14. The energy section of the Declaration has quite specific targets for coal, nuclear, synthetic, and renewable fuel development. Within the US, we will prepare for the field an analysis of where we stand with respect to these targets and what further needs to be done. The posts will be able thereby to keep their host governments informed of US progress in meeting the energy commitments and to monitor and encourage progress in the host government.

**Christopher**

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<sup>9</sup> On July 24, the Department of State and the Council on Environmental Quality issued their joint report on environmental issues, “Global 2000 Report to the President.” (Joanne Omang, “Report to President Warns About Overcrowded Earth,” *The Washington Post*, July 25, 1980, p. A2) For the text of Carter’s July 24 statement on the report, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1415–1416. Documentation on the report is in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs.

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**248. Memorandum From Secretary of Commerce Klutznick and the United States Trade Representative (Askew) to President Carter<sup>1</sup>**

Washington, July 29, 1980

SUBJECT

Decisions on Export Promotion and Disincentives

Section 1110(a) of the Trade Agreements Act of 1979 requires you to review export promotion programs and export disincentives and to report the results of that review to Congress. This report was to have been submitted to the Congress by July 15, 1980, but due to the com-

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<sup>1</sup> Source: Carter Library, White House Central Files, Subject File, Box TA–8, TA 3 7/31/80–8/31/80. For Official Use Only. A typed notation at the top of the memorandum reads: “Final Draft.” Neither Klutznick nor Askew initialed the memorandum.



plexity of the policy issues we have just now completed this review. The project involved very extensive private sector input, including some 250 letters from trade associations, individual exporters, labor unions, and others, six conferences on topics affecting our export posture, and input from Commerce's field offices and about 50 Foreign Service posts. Finally, we met with the President's Export Council leadership of Reginald Jones, George Busbee, C. William Verity, and Harry Gould.<sup>2</sup>

U.S. exports have grown strongly over the last decade and our share of industrial country exports rose in real terms, even though our share declined somewhat in value terms because of the depreciation of the dollar. Our export growth was not adequate to keep up with rising oil import costs, so we ended the decade with a 1979 trade deficit of \$24.7 (f.a.s.) billion. The prospect for continuing price-induced increases in our oil import bill—even if we reduce the volume of oil—makes it imperative we improve our export performance in the future.

Our review found that certain Government programs are having a serious detrimental effect on the ability of American companies to compete in global markets. While this impact cannot be precisely quantified, it is our best judgment that the ability of American companies to compete in world markets is being weakened substantially by the implementation of measures to achieve other policy objectives. What is needed is to tailor the operation of these measures and programs so they do not have excessive or unintended effects on our exports.

During the course of our review, we found a great deal of skepticism in the business community about whether the Administration is actually concerned with exports. Most are of the view that the Administration does not consider exports significant, and that the National Export Policy statement of September 1978<sup>3</sup> constituted a statement of worthy objectives which the Administration has not pursued effectively. The business community and most interested legislators were critical of your February 1980 interim report on export disincentives<sup>4</sup> as having avoided the tough issues. In releasing that report you said you would consider additional actions and would convey your views on export promotion and disincentives in your July report to Congress.

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<sup>2</sup> Reginald H. Jones was the Chairman and Chief Executive Officer of General Electric. George D. Busbee served as the Governor of Georgia. C. William Verity, Jr., was the Chairman and Chief Executive Officer of Armco, Inc. Harry E. Gould, Jr., was the Chairman and Chief Executive Officer of Gould Paper Corp.

<sup>3</sup> See footnote 2, Document 164.

<sup>4</sup> The interim report was included in Carter's February 27 statement on the reduction of export disincentives. See footnote 4, Document 230.

Thus while the wording of Section 1110(a) of the Trade Agreements Act does not require you to make any recommendations as to how to improve our export performance, we believe that you should announce some specific steps designed to help U.S. exports when you submit your report to Congress. We propose that you submit a brief signed report, to which would be attached the lengthy and comprehensive review of export promotion and disincentives. Your report would contain the actions you are taking or plan to take on the basis of the major findings of this review. We have attached a draft of your report,<sup>5</sup> which was written on the assumption you would act favorably on all our recommendations.

We recommend that you announce significant export-oriented actions in four areas: (1) taxation of foreign earned income; (2) Export-Import Bank funding; (3) uncertainties regarding the Foreign Corrupt Practices Act; and (4) export controls. These are the major issues of concern to the exporting community and are the areas in which we believe feasible actions are possible without sacrificing other major policy objectives.

This memorandum and the accompanying report have been circulated to all agencies on the Trade Policy Committee, and we have worked very closely with the agencies having primary jurisdiction over each issue. All relevant agencies concur with the recommendations in this memorandum.

### RECOMMENDATIONS

#### A. TAXATION OF FOREIGN EARNED INCOME

In comments received from trade associations, companies, and U.S. embassies, the taxation of Americans working abroad was the issue most frequently identified as an export disincentive. The export community regards the Administration's position on this issue as a key indicator of the seriousness of the Administration's commitment to export expansion. The President's Export Council leadership considers this to be the number one issue and the "litmus test" of your report to Congress.

Most of our competitor nations exempt from tax all or many of their nationals who reside and work abroad. Hence the tax liability of American citizens employed abroad frequently makes it more costly to hire Americans where the local income tax is lower than the U.S. tax. Various segments of the exporting community argue that these additional costs have some or all of the following consequences:

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<sup>5</sup> Not attached.

(1) U.S. companies are replacing many of their American personnel with foreign personnel.

(2) If American companies engaged in engineering or construction work abroad hire Americans in spite of the greater cost—because the companies are more confident of the skills and reliability of American employees—the companies risk losing contracts for overseas projects because of the higher cost of employees, and U.S. exports are lost.

(3) If the companies hire nationals of other countries instead of Americans, they may gain the contracts, but the valuable follow-up exports of supplies and equipment will be lost, because foreign nationals favor more familiar foreign suppliers.

(4) A number of foreign operations by American companies tend to create exports from the United States and also generate substantial earnings which help the United States balance of payments. Some U.S. companies feel they can be more successful in these beneficial foreign operations if they are able to use American employees rather than foreign employees, without having U.S. tax laws make this practice more costly for them.

(5) American companies operating abroad sometimes pick up or develop valuable technology in the course of their foreign operations. If this technology is in the hands of foreign employees, it is more likely to be lost to foreign-owned companies as these employees change employers than would be the case if the technology is in the hands of American employees.

(6) The detrimental effect on exports involves not only present competitiveness, but also a snowballing effect on future competitiveness as foreign companies gain strength at our expense.

(7) The special deductions allowed for foreign living costs and hardship conditions under present law are insufficiently generous and too complicated.

On the other hand, the cornerstone of U.S. tax policy has always been that all U.S. citizens share in the obligation to finance their government. That principle would normally govern tax policy in the absence of a countervailing national interest. It is of course difficult to quantify the effect of U.S. tax policy on exports in the aggregate. Not all Americans working abroad have an effect on exports. Many pay high foreign taxes, so have little or no U.S. tax after the foreign tax credit. And of course other factors such as increased foreign competition affect the success of U.S. exporters. Thus, taxation of U.S. employees working abroad is not solely responsible for the difficulty exporters are encountering.

The U.S. tax is most likely to be significant for employees in a position to influence exports, working in places where the foreign tax is low

(so the foreign tax credit does not eliminate the U.S. tax liability), compensation is necessarily high to offset hardship conditions, costs are high (so the tax bracket is also high), or in labor intensive industries (so the tax cost of U.S. personnel overseas is a significant component of total costs). The U.S. tax could also be significant where only some of these factors, or other factors, are present. The AFL–CIO believes in the principle that Americans should be taxed similarly everywhere in the world.

You last considered this issue in January 1980 when you announced that the operation of the 1978 law should be studied for at least its first year (1979) before further changes were proposed.<sup>6</sup> The 1979 returns were generally due in June 1980 (some in October) and will not be processed for analysis until March 1981.

In the meanwhile, a number of bills have been introduced in Congress to exempt all or most foreign earned income. Tentative revenue cost estimated for these bills is roughly \$500 million. In testimony before a subcommittee of the Senate Finance Committee on June 26, Assistant Treasury Secretary Lubick<sup>7</sup> indicated that the Administration had an open mind on this issue, but believed that any further relief should be targeted to the extent possible to those areas where further relief is considered necessary.

On balance, although the tax data on the 1978 changes are not yet available, the Secretary of Commerce and the U.S. Trade Representative believe that the evidence gathered in preparing this report is so persuasive that some further relief is appropriate and that your announcing that conclusion now would be helpful in overcoming the view of the export community that the Administration does not care about exports. There is widespread support in both tax-writing Committees of Congress for further relief.

*We recommend* that you state that the review conducted for Congress indicated that U.S. taxes on the earned income of U.S. individuals abroad do adversely affect the ability of U.S. exporters to compete in some markets, and that you will give early and favorable consideration to appropriate measures to deal with this in the Administration's 1981 legislative program.

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<sup>6</sup> Carter made this announcement in identical letters to the Speaker of the House of Representatives and the Chairman of the Senate Foreign Relations Committee, both dated January 24. The text of these letters is in *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book I, pp. 206–207.

<sup>7</sup> Donald C. Lubick was the Assistant Secretary of the Treasury for Tax Policy.

If you accept this recommendation, work would commence to formulate the specifics of the changes.<sup>8</sup>

#### B. EXPORT FINANCING

Eximbank financing is the most important official incentive for U.S. exports. Recent Congressionally-determined Eximbank budget levels, however, have not fully met U.S. export needs. These needs depend essentially on: (1) foreign official export credit competition; and (2) the availability of private sources of financing for U.S. exports. In the near-term, a strong Eximbank is needed to meet highly subsidized foreign official export credit competition. Meeting this competition head-on not only would support U.S. exports directly, but also would greatly enhance the U.S. position in the negotiations to reduce official export credit subsidies. It would put pressure on our trading partners to follow through on the intent of the Venice Summit Communique,<sup>9</sup> which recognized that a more market-related system of export credit interest rates should be negotiated by December 1, 1980.

You requested an increase in Eximbank loan authority to \$4.1 billion and an additional \$1 billion through the Federal Financing Bank for FY 1980. Some members of Congress wished to raise the FY 1980 authorization level for Eximbank direct loans to about \$5 billion; however, no FY 1980 appropriation has passed and Eximbank therefore remains at its FY 1979 level of \$3.75 billion. This presents problems for both U.S. exporters and our negotiating efforts to reduce export credit subsidies.

To solve the short-term budget problem, all of your principal economic advisers have agreed that we should urge Congressional approval for an increase in Eximbank's program activity. In order to bring the Bank's budget up to the requested level, an additional \$1.35 billion is needed—up to \$350 million in direct credits and the balance in financial guarantees. This would bring the FY 1980 Eximbank budget up to the \$5.1 billion level you originally requested. The appropriations committee has already acted, and the full Congress may take action to increase the Eximbank's funds for FY 1980 before recessing at the end of

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<sup>8</sup> Carter did not indicate his preference with respect to this recommendation. On September 9, Carter submitted to Congress a "Review of Executive Branch Export Promotion Functions and Potential Export Disincentives." In the message accompanying the review, Carter asserted that "the evidence gathered in preparing this report does illustrate the importance that the export community attaches to this tax issue. U.S. taxes on the earned income of U.S. individuals abroad do clearly have an adverse effect on the ability of some U.S. exporters to compete in some markets. Accordingly, I will propose to the Congress, in my 1981 legislative program, revisions of the current law in order to deal with this problem." (*Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, p. 1693)

<sup>9</sup> See footnote 5, Document 247.

July. The wording in your report will be adjusted to reflect the status of this issue at the time the report is actually sent to Congress.

The underlying problem, however, is assuring an adequate and reliable amount of Eximbank financing. There are several aspects to consider. Eximbank lending has not kept pace with export growth. Some of your advisors believe that fact is testimony to the strength of U.S. exports and that additional Eximbank lending would not have significantly increased exports. Others believe that U.S. exports would have been significantly higher if there had been more Eximbank financing and that our problems will be exacerbated if the export credit interest rate negotiations are not completed in a wholly satisfactory way. Expanding Eximbank funding to meet foreign competition could, however, have significant budget consequences.

Additionally, Eximbank assistance tends to be most needed precisely at those times when interest rates are highest and the government is most concerned with reducing the Federal Budget. Finally, the application of the Congressional budget process has recently created uncertainty as to the level of Eximbank funding as well as other international programs in the foreign aid appropriation bill well into the fiscal year. By contrast, exporters abroad can avail themselves, by deliberate governmental policy, of ample and competitively-priced credit for exports almost irrespective of domestic fiscal policies in force.

*We recommend* that you state you have decided on the basis of this review that assuring adequate and predictable Exim financing in coming years has become a significant problem which must be solved. You would state that you will be working with members of the Administration and Congressional leaders this fall to determine how best to resolve this problem, taking into account progress in the international negotiations.

If you approve this recommendation, a working group would be formed which would be chaired jointly by the Treasury Department and OMB and would include appropriate agencies. This working group would develop recommended approaches for assuring adequate and reliable Eximbank financing for the FY82 and subsequent budgets and report to you this fall.<sup>10</sup>

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<sup>10</sup> Carter did not indicate his preference with respect to this recommendation. In his September 9 message to Congress (see footnote 8, above), Carter announced that he would "be working with Congressional leaders and members of my Administration this fall to determine how best to ensure adequate and reliable Eximbank financing in the years ahead, taking into account progress in international negotiations." (*Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, p. 1692)

### C. FOREIGN CORRUPT PRACTICES ACT

Our review indicates that U.S. exporters consider the Foreign Corrupt Practices Act (FCPA) to be the second most significant export disincentive. The Act has two consequences. The first, not unexpectedly, is that some exports are lost because foreign companies can bribe foreign officials while U.S. companies cannot. However, this prohibition was fully intended. As a nation we have decided that bribery in international trade is reprehensible and that American companies must forego exports that can be attained only by illicit payments. Discouraging corruption in international business on the part of foreign firms requires a multilateral agreement. We have been pursuing such an agreement actively in the UN, with only marginal success, but will continue to press the issue. The steps you took at the Venice Summit give this exercise a boost.<sup>11</sup>

The major problem in the FCPA stems from ambiguities in the law itself and uncertainty in how it will be construed by Justice and the SEC. In a word, what conduct is prohibited and what conduct is not prohibited under the law is unclear. Almost without exception exporters and lawyers we consulted report that ambiguities in the law and uncertainty in how it will be construed by Justice and the SEC cause some businesses to avoid some export markets or export transactions altogether. Among the most ambiguous provisions are: (1) the “reason to know” standard under which companies can be held liable for the actions of foreign partners or agents over whom they have little control, notwithstanding company efforts to assure compliance with the FCPA; (2) the distinction between permissible and unlawful entertainment and gift expenditures; and (3) the boundaries of facilitating or “grease” payments.

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<sup>11</sup> In his September 9 message to Congress (see footnote 8, above), Carter said that at the Venice G-7 Summit he had “urged that these seven industrial democracies renew efforts to work in the United Nations toward an agreement to prohibit illicit payments by their citizens to foreign government officials; and, if that effort falters, to seek an agreement among themselves, open to other nations, with the same objective. While we did not set a time by which an agreement should be reached in the United Nations, I believe that one further year of negotiations should be sufficient. Accordingly, if an agreement has not been obtained in the United Nations General Assembly, I intend to ask the other heads of government at the 1981 Economic Summit to direct the prompt negotiation of such an agreement among our seven nations, but open to others.” (*Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1693–1694) Carter’s statement is in line with a recommendation offered in an August 27 memorandum from Eizenstat and Owen to Carter. (Carter Library, White House Central Files, Subject File, TA-8, TA 3 7/31/80-8/31/80)

The effect of these uncertainties is severe. We found instances in which companies have: (1) withdrawn from joint ventures for fear they may later be held responsible for the acts of their foreign partners; (2) incurred substantial legal and investigative costs to check the backgrounds of their sales agents abroad; (3) lost contracts simply because of the time needed to investigate middlemen and institute safeguards; (4) withdrawn from export markets; (5) declined to enter new markets. One attorney who polled 12 of his clients prior to our conference reported that six said problems associated with the FCPA did not interfere with their operations because they had simply stopped doing business in countries where the FCPA might raise problems. Such phenomena appear especially to involve smaller U.S. companies and exports to LDCs.

In an effort to reduce some of the uncertainties in the law and pursuant to your 1978 National Export Policy, the Justice Department instituted an FCPA Review Procedure. In your February 1980 export disincentives statement you announced the procedure and stated that after a year of operating experience the Attorney General and Secretary of Commerce would review its effectiveness. You stated that Congress may then find it appropriate to conduct its own review of the Act.

Our review indicates that exporters are convinced for several reasons the FCPA Review Procedure will be of very limited usefulness. First, it binds only Justice, not the SEC. While Justice will publish the substance of review letters, it has made clear that they may not be considered as precedents. Even if Justice's 30-day turnaround target were met, guidance would not be timely for many fast-moving transactions. While publication will provide some guidance, considerable time will pass before the letters cover a broad range of problems. Existing law cannot fully protect business confidential information provided for FCPA review purposes. Finally, many companies simply refuse to involve themselves voluntarily with the Justice Department, fearing that a request for guidance may invite criminal investigation.

Based on our review, we recommend two types of legislative changes: (1) technical amendments to clarify key provisions without weakening the purpose of the act or creating loopholes for bribery; (2) an amendment to eliminate dual enforcement authority by placing all enforcement responsibility over the bribery portions of the Act in the Justice Department. (SEC would retain jurisdiction over enforcement of the accounting provisions of the Act.) While these steps could be taken separately, we recommend both. Acting only to eliminate dual jurisdiction would relieve some uncertainties but would not in itself solve the problems stemming from ambiguities in the Act.

We believe the proper time for such legislation is the next session of Congress. Groundwork is now being laid. Senator Chafee and others



have introduced legislation in the last three months. Senator Proxmire, a key figure, has expressed a willingness to explore technical changes that do not create loopholes for bribery, but is likely to oppose taking enforcement jurisdiction away from the SEC. However, since the SEC did not urge the adoption of the foreign bribery provisions in the first instance, it may not strongly oppose elimination of dual jurisdiction. The GAO, SEC, and Chamber of Commerce all have studies of the FCPA underway that will be completed by fall. Proposing amendments to the Act, however, would almost certainly result in some negative publicity. Some would view any action here as a weakening of resolve against bribery. Your statement would have to be clearly and carefully worded to minimize such problems.

*Clarity:*

*We recommend* you reiterate your firm opposition to bribery, but stress that uncertainty should not be allowed to hamper exports. You would note the commencement of the FCPA Review Procedure but state that the review just conducted suggests that elimination of uncertainties requires changing the Act itself. You would announce you intend to submit to the Congress early next year amendments to clarify the Act.<sup>12</sup>

*Dual Jurisdiction:*

*We recommend* you state you believe enforcement jurisdiction over the corrupt payments provisions of the Act should be consolidated in the Justice Department to provide consistency of enforcement and that you will submit legislation to that effect. You would note that jurisdiction over the accounting provisions would remain with the SEC.<sup>13</sup>

#### D. NATIONAL SECURITY EXPORT CONTROLS

We identified two substantive changes in national security export controls which we believe should be implemented. The first has al-

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<sup>12</sup> Carter did not indicate his preference with respect to this recommendation. In his September 9 message to Congress (see footnote 8, above), Carter announced that he had "directed that the Attorney General and the Secretary of the Commerce report to me by March 1, 1981, not only their assessment of the first year of operation of the FCPA Review Procedure, but also their recommendations of whatever actions may then be necessary to remove any ambiguities in the Act. Uncertainties should not be allowed to hamper exports, but in no event will I propose nor will I support any amendments which would weaken the Act's proscription of bribery or which would result in loopholes for bribery of foreign government officials." (*Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, p. 1694) Carter's statement is in line with a recommendation offered in an August 27 memorandum from Eizenstat and Owen to Carter. (Carter Library, White House Central Files, Subject File, TA–8, TA 3 7/31/80–8/31/80)

<sup>13</sup> Carter did not indicate his preference with respect to this recommendation.

ready been agreed to by all relevant agencies and is problem-free: We will modify existing reexport controls to stop requiring a reexport license for any case in which we have already approved reexport of the same product as part of the COCOM process.

The second change, however, has a more far-reaching effect. While all relevant agencies and all your advisors are agreed that the action would not compromise our controls or security in any substantive way, there may be some political reactions in taking the action. Hence we are referring it to you for decision.

We propose that national security controls on exports of Commerce-controlled goods and technology to COCOM member countries and to Australia and New Zealand be essentially the same as present procedures for Canada (i.e., basically, no validated license will be required in advance of shipment). Instead, the exporter will be required to file with the Commerce Department, at the time of export, assurances that there will be no reexport unless our reexport licensing requirements have been satisfied. Controls on exports of munitions, nuclear-related items, and items in short supply would not be affected.

Last year the Department of Commerce approved more than 22,000 licenses for export to COCOM countries and to Australia and New Zealand. There were *no* denials to these countries on national security grounds. These licenses account for nearly one-third of the 72,000 export license applications processed last year. At an average exporter preparation cost per license of at least \$100, the total burden to business was over \$2 million. All your advisors agree no diminution in the effectiveness of our controls would result from the change. The licenses for exports to these countries now principally serve an informational function. The information needed (and binding legal undertaking) will be available from forms that exporters would be required to complete at the time of shipping. Security objectives might actually be enhanced, as we would be able to concentrate some additional time on the problem countries. Finally, an irritant to our relations with our allies would be removed.

There would, however, be a symbolic effect of “reducing” controls that some may see as reducing their effectiveness. Senators Jackson and Garn in particular may disagree in principle. Accordingly, we will discuss the changes, at least with Senator Jackson, prior to any public announcement.

*We recommend* you approve the proposed substitution of post-shipment reporting procedures in place of validated license requirements for shipments to COCOM countries and to Australia and New Zealand.

In implementing this change, the Department of Commerce would consult with the Department of Justice and other relevant agencies to

devise procedures under the modified system that will provide for effective enforcement and maintain safeguards against diversion.<sup>14</sup>

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<sup>14</sup> Carter did not indicate his preference with respect to this recommendation. In his September 9 message to Congress (see footnote 8, above), Carter reaffirmed his February 27 statement that “[i]n considering new export controls to achieve foreign policy objectives and in reassessing current sanctions—except in the field of arms exports—my Administration would be highly selective in the use of controls where the affected country has access to alternative supply.” He also announced that the United States would “stop issuing a separate U.S. reexport license in cases where we have already approved reexport of the same product as part of the COCOM process.” (*Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, p. 1694) Carter’s statement is in line with a recommendation offered in an August 27 memorandum from Eizenstat and Owen to Carter. (Carter Library, White House Central Files, Subject File, TA–8, TA 3 7/31/80–8/31/80)

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#### 249. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Muskie<sup>1</sup>

Washington, August 23, 1980

##### International Factors Bearing on U.S. Tax and Budget Policy

In view of discussions within the administration of potential shifts in US macroeconomic policy<sup>2</sup> and your up-coming lunch with Secretary Miller, I thought a brief outline of the foreign policy implications of US macroeconomic performance would be timely. While the US share of world GNP and world trade has declined over the years, what happens in our economy still has a tremendous impact on the world economy, and our economic recession will have a substantial depressive effect. This will reduce world inflationary pressures and world demand for oil, but it will increase protectionist pressures, aggravate the already serious financial problems of LDCs and smaller industrial countries, and generate political unrest in some countries.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 7, E—Memoranda of Conversations, Jan. 1980–June 1980. No classification marking.

<sup>2</sup> On August 28, Carter announced a national “economic renewal program” based on increased investment, public-private sector cooperation, efforts to relieve the effects of economic dislocation, and tax relief. See *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1585–1591.

We face a situation in which “fiscal drag” next year from higher inflation and the January 1 social security tax increase<sup>3</sup> will add \$60 billion of deflationary pressure to the economy. Thus even a “neutral” fiscal policy would include a tax cut in that amount. I do not mean to argue, at this stage, for or against a cut of any specific magnitude. The timing and size of any potential tax cut will be based on a weighing of costs (in terms of relaxing or appearing to relax the fight against inflation) against benefits (in terms of higher growth and employment). My object is to add to the cost/benefit calculation the international implications of US macroeconomic policy.

You are aware of the steep decline in the first half of the year in the US economy. The mid-year forecast assumes the decline tapers off in the second half of the year and we return to modest positive growth in 1981. This pattern of decline, accompanied by an assumed recovery in 1981, is common to all the major industrial countries. In general, the decline elsewhere is forecast to lag that of the US; and the recovery is expected to be modest as in the US. In particular, from mid-1980 to mid-1981, the OECD is forecasting real growth of less than 1% for the six Summit countries other than the US and about one percent growth for all the OECD excluding the US. With the United States, OECD growth rates will be even lower. Thus the main engines of growth in the world economy will be virtually dead in the water during the next year.

The continuing weakness of growth abroad is at least partly attributable to the fact that the 1979–80 increase in oil prices has not yet worked fully through their economies. In addition, the other industrial countries, like the US, are generally following restrictive fiscal and monetary policies. Interest rates abroad rose with US rates early this year. The other industrial countries also have fiscal drag arising from the effects of inflation on tax revenues and will also have stagnant public expenditure (in real terms) through the rest of 1980.

There are three aspects of the overseas impact of our economic growth which I would like to emphasize. The *first* has to do with the impact on rates of growth abroad. In the early post-war period a slowdown in the US had very sharp effects on growth elsewhere in the world through our demand for imports from abroad. That effect is weaker today, but is still important. In the meantime, however, growth abroad and world demand for US exports have become more important to us. A fall in European economic activity or a slower recovery will noticeably affect the depth of our recession and the speed of our recovery. CEA’s mid-year forecast takes account of foreign demand for

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<sup>3</sup> The salary base on which the social security tax was assessed increased on January 1. (Deborah Rankin, “Taxes,” *The New York Times*, January 1, 1980, p. 32)

our exports and, indeed, the assumption of the forecast is relatively pessimistic. The OECD's latest forecasts represent a shift down from previous projections of foreign growth. Even with these forecasts the OECD Secretariat and others in Europe (the EC Commission for example) see the major risks of error as being on the down-side.

The *second* aspect of these macroeconomic developments worth flagging is the pressure they will put on our trading relationships. Within the US Government we have tended to view the problems of automobiles and steel as special cases. It is true that each has a very particular set of circumstances, explanations, and solutions. However, industry-specific problems, while they may not be created by the overall economic slowdown, are strongly exacerbated by it. The number of problem industries both here and abroad will increase as slow growth persists. These industry-specific problems, in turn, will be characterized as "trade problems" and will create pressure for greater protection. If granted, that protection will increase prices and reduce efficiency, both compounding the cost of our economic slowdown. It will also create strains in the political relationships with our allies. Since similar pressures are operating abroad, the dangerous possibility of emulative "trade wars" arises.

The *third* important dimension of the slowdown has to do with our relationships with developing countries (LDCs). The IMF estimates that \$68 billion of the \$115 billion OPEC balance-of-payments surplus in 1980 will be borne as deficits by developing countries. Moreover, while the OPEC surplus is projected to decline to something less than \$90 billion in 1981, the developing country deficit will actually rise by an additional \$10 billion due to the economic slowdown in the OECD countries. Even within the industrial countries, virtually all of the projected fall in the combined deficit from 1980 to 1981 is concentrated in the largest economies. As a group, the smaller industrial countries are not expected to reduce their deficit at all.

Large LDC deficits—due partly to high oil bills, partly to recession-induced decline in prices of and demand for their exports—will mean they have to borrow more, and we will see many more calls for debt re-scheduling. New credits will worsen their already serious debt problems and merely postpone some of their difficulties. Absence of new credits will reduce growth in the LDCs, generate political unrest, and worsen the economic slowdown here and in Europe and Japan.

Of course, the LDCs must begin to make adjustments in response to their expanded deficits and higher oil prices. But we should not be blind to the fact that these adjustments entail political strains within the developing countries and in our relationships with them. These costs increase as the size and speed of the required adjustment rise.

We have set in train a number of actions which will assist LDCs in their adjustment process, including adaptations in the international financial institutions (IMF and World Bank). These measures are, however, only a partial response to the problem.

Historically, the economic growth of the industrial countries has been far more important as an engine of growth for the LDCs than the contributions of aid or lending by international financial institutions.

We should keep these international considerations in mind as we approach the possibility of a tax reduction and the President's overall budget proposals for January.

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**250. Memorandum From the Special Representative for Economic Summits (Owen) to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, September 25, 1980

SUBJECT

Friday Breakfast

1. Bill Miller called up in considerable agitation about the question of the President's attendance at the annual IMF/IBRD meeting September 30. The schedulers say that the President will be in town that day, but he will be busy catching up and so would not have time to speak to the Bank/Fund meeting.<sup>2</sup> Bill believes that the President's failure to open this meeting, as he and other Presidents have done in the past, would:

a) have highly adverse consequences for our relations with *developing countries*, particularly in view of our recent negative position in the UN debates on North/South negotiations. It would be seen by them

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 26, Friday Breakfast: 3/78–12/80. No classification marking. Sent for action. Brzezinski wrote at the top of the page: "done—OK. ZB." An unknown person wrote below Brzezinski's note: "H.O. reports that Miller has raised this with the P. who seemed receptive but Miller still wants the issue raised at b'fast."

<sup>2</sup> In a September 19 memorandum to Carter, Owen suggested some themes for a speech by Carter at the annual joint meeting of the IMF and World Bank in Washington. (Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 206, [9/22/80—Not Submitted—DF]) Phil Wise recommended not forwarding the memorandum, writing on a White House memorandum requesting his comments: "The P has no time to prepare for such a speech nor does he gain politically from it." (Ibid.)

as a deliberate snub, and would weaken our ability to secure their continuing support on the PLO issue in the Bank and Fund;<sup>3</sup>

b) would also sit poorly with the *industrial countries*, and produce critical comments from some of the European finance ministers, since the US President has traditionally opened these meetings, and these comments would be reported in the US press.

There could also be snide editorial comment in the US press, *i.e.*, that the President was too busy campaigning to attend this key international meeting.

2. I said to Bill Miller that I would report his concern to you. Cooper is asking Muskie and Christopher to raise this issue at the Friday breakfast.<sup>4</sup>

3. I attach a memo which you have seen, but which did not reach the President, outlining a Presidential speech to the annual meeting that could do us a lot of good, domestically as well as abroad.<sup>5</sup> Appearing on TV welcoming an international meeting of 130 Finance Ministers, and telling them about successful US economic and energy policies, would give the President a chance to appear statesmanlike and Presidential—a world leader in action. We could produce a speech that would cover this ground and that would take about ten minutes.

4. I share Bill's concerns. I can also understand the scheduler's view that it's simply not possible. But I'd feel more comfortable if the President was briefed about the issue in advance, so that he wasn't surprised if a spurt of criticism (such as he got for not attending the Tito funeral) ensued—& could decide for himself what to do.<sup>6</sup>

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<sup>3</sup> On September 19, a majority of IMF members voted down a proposal to admit an observer from the Palestinian Liberation Organization (PLO) to the forthcoming joint IMF-World Bank meeting. (Juan de Onis, "Aid Bank And I.M.F. Bar P.L.O.," *The New York Times*, September 23, 1980, p. D1)

<sup>4</sup> Carter breakfasted with his foreign policy advisers on Friday, September 26, from 7:33 to 8:56 a.m. (Carter Library, Presidential Materials, President's Daily Diary)

<sup>5</sup> Attached but not printed is Owen's September 19 memorandum to Carter; see footnote 2 above.

<sup>6</sup> Owen added "—& could decide for himself what to do" by hand. Carter did address the IMF-World Bank meeting on September 30; for his remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book III, pp. 1972–1974.

**251. Memorandum From the United States Trade Representative (Askew) to President Carter<sup>1</sup>**

Washington, December 18, 1980

## SUBJECT

Agreement Regarding Procurement by Japan's Nippon Telegraph and Telephone Company

On Friday, December 19, we will formally conclude negotiations with the Government of Japan regarding the application of the International Government Procurement Code between Japan and the United States. This will be done by an exchange of letters between myself and the Japanese trade representative, Dr. Okita.<sup>2</sup> This issue is the sole major issue remaining from the Multilateral Trade Negotiations. As a result of this agreement, U.S. exporters will gain access to over \$8 billion in purchases by the Japanese Government, including \$3.3 billion in purchases by Japan's Nippon Telegraph and Telephone Company (NTT).

Agreement with Japan was made possible by resolution of the difficult and highly sensitive issue of coverage of NTT by Code obligations. As you know, we have insisted that Japan provide full access for foreign firms to NTT by making all of its purchases subject to the Code. The Japanese had strongly resisted this proposal. However, after negotiations for more than two years, Japan has agreed to provide full access to NTT, though not in the form we had originally sought. While we have been seeking formal Code coverage of all NTT purchases, Japan has agreed to provide formal coverage of approximately half of NTT's purchases while placing the remainder of NTT's purchases under full Code requirements through a bilateral agreement with the United States. In my view, this approach provides, substantively, what we have been seeking.

I have consulted extensively with the U.S. companies, unions, and Congressional leaders most concerned about this issue. Many companies, such as IBM and Motorola, strongly support the agreement. No major company opposes it. The unions are quite skeptical. The members of Congress agree that we should accept the agreement.

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<sup>1</sup> Source: Carter Library, White House Central Files, Subject File, Box FG-92, FG 6-15 7/1/79-1/20/81. No classification marking.

<sup>2</sup> Telegram 332636 to Tokyo, December 17, contains the texts of the letters exchanged by Askew and Saburo Okita, Japan's Government Representative for External Economic Relations. (National Archives, RG 59, Central Foreign Policy File, D800598-1155)



**252. Report Prepared by the Special Representative for Economic Summits (Owen)<sup>1</sup>**

Washington, January 2, 1981

Report of Meeting of Summit Personal Representatives, Paris  
December 9 and 10, 1980

1. *General.* At the evening meeting of December 9, three general questions were discussed:

(a) *Summit Arrangements.* Canadian representatives explained that the heads of government were expected to arrive at Ottawa July 19; they will dine July 19 and meet July 20 in a nearby resort (Montebello), and will return to Ottawa for the second day's meeting (July 21). Dinner on Sunday, July 19, will be a *tete-a-tete* among leaders only, to help them to get to know each other. The Tuesday, July 20, session in Ottawa will include Ministers, as in the past. There remained a difference of view about the appropriate format for the Monday, July 20, session in Montebello. Three possibilities were discussed:

—The Canadian Personal Representative proposed that all Monday should be spent in private talks among leaders, with only the Personal Representatives present as note-takers. Ministers would meet separately in either Ottawa or Montebello—preferably to discuss issues requiring Ministerial, rather than heads of government, action.

—The German Personal Representative proposed that the Venice format be followed, which would mean that two Ministers would be present with each head of government for the Monday morning economic discussions, and Foreign Ministers, only, would be present for the heads of governments' Monday afternoon discussion of foreign policy issues. The Germans felt strongly about the need for such Ministerial attendance; the Chancellor would find it difficult, from the standpoint of coalition politics, to exclude either of the Ministers (both being of the other coalition party).

—The British accepted the German suggestion regarding Foreign Minister attendance at the Monday afternoon discussion of foreign policy, but wanted to limit the Monday morning discussion of economic issues to heads of government and Personal Representatives. The question was raised by some delegations as to whether heads of

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Office, Outside the System File, Box 60, Chron: 1/81. Confidential. Sent to Brzezinski under cover of a January 5 memorandum from Owen; Brzezinski initialed Owen's cover memorandum and wrote "fine." (Ibid.)

government might want to have at least one Minister present in the morning when North/South issues were under discussion.

It was agreed that each of us should check with his leader and report views to Canada as soon as possible.

*Comment:* The Germans felt more strongly about including Ministers in the discussion of economic issues than the others felt about excluding them. Agreement on including them seems likely.

Derek Burney, of the Canadian Government, will be in touch with press colleagues of the other Summit governments about media coverage. Discussion of this matter indicated that while some governments want more informal Summits in theory, none want to reduce on-site media coverage of Summits by their national media—if only for fear of offending excluded correspondents.

(b) *Foreign Policy Consultation.* The Canadian Personal Representative stressed the need for more effective foreign policy consultation among the Summit nations and suggested that the Summit Preparatory Group and the Summit itself might provide a framework for such consultation. The British and other Representatives suggested that it would be best to proceed pragmatically—i.e., to follow the Venice precedent by arranging a meeting among the seven nations' foreign policy experts a month or two before the Ottawa Summit in order to prepare for discussion of foreign policy issues at that Summit. The Canadians seemed to recede from their more ambitious proposal in the face of this suggestion. There was no discussion of existing Four Power procedures for political consultation.

(c) *Future Summits.* It was noted that the Ottawa Summit would be the last in the first cycle of seven Summit meetings, one of which had now taken place in each of the Summit nations. A question to be considered at Ottawa would be whether to proceed with a second cycle. If so, the next host would be France in 1982 and the United States in 1983. (This is consistent with past practice, which has, with a few exceptions, not involved Summits being hosted by a country that is holding a national election in the Summit year. That practice is not surprising: Since one of the main reasons for holding Summits has been to justify by international consensus such politically unpopular economic decisions as increased access to domestic markets for foreign imports, heads of government have rarely sought to draw attention to Summitry in domestic election campaigns, although Prime Minister Thatcher is reported to believe that the preceding Labour government tried to do so.)

2. *North-South.* The morning meeting on December 10 discussed the list of questions that the Canadian government had prepared, on the basis of submissions from other Summit governments, regarding

North-South issues. (See Tab A.)<sup>2</sup> These questions were intended to provide a basis for the study of foreign aid that the Personal Representatives had been asked at the Venice Summit to undertake for the Ottawa Summit. It was agreed that each Personal Representative should submit short answers to these questions, which would be discussed at the next meeting of the Personal Representatives. (I have asked the US agencies concerned to prepare these draft answers.) The next meeting will be February 18 and 19, with a dinner beforehand on February 17. The United Kingdom Personal Representative indicated that HMG might host the meeting in London. Three people per country should attend. (The US Delegation to such meetings has consisted in the past of the US Personal Representative, the Under Secretary of the Treasury for Monetary Affairs, and the Under Secretary of State for Economic Affairs.) After discussion of these questions by the Personal Representatives in February, they will agree on how the paper reflecting that discussion should be prepared for the Ottawa Summit. A 4–5 page introduction, dealing with the wider policy framework within which these questions is to be addressed, will be prepared by Horst Schulman, the German Personal Representative.

3. *Other Economic Issues.* At lunch on December 10, these issues were discussed:

(a) *Macro-Economic Policy.* The first step in planning the Ottawa Summit discussion of macro-economic issues will be to ask someone to perform the function that Charlie Schultze has undertaken to the satisfaction of Summit governments in the past—i.e., to prepare a paper on macro-economic prospects and policies for the Summit Preparatory Group. The general expectation was that this person will be Charlie Schultze's successor as head of EPC Bureau of the seven Summit nations' macro-economic experts. The new head of the US Council of Economic Advisers will be asked to host a March meeting of this Bureau in Washington, where he will presumably also be asked to head the Bureau and write this paper. The Canadian Personal Representative will raise this matter at the February Personal Representatives' meeting.

(b) *International Monetary Policy.* Whether, and if so how, the Ottawa Summit might address international monetary issues, including the substitution account, will be considered at the Personal Representatives' February meeting.

(c) *Nuclear Fuel Supply.* There was a brief discussion of whether the Ottawa Summit should consider the issue of US nuclear fuel supply for Europe and Japan. The Personal Representatives agreed that the US

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<sup>2</sup> Tab A, attached but not printed, is an undated and unsigned list of 21 questions entitled "Aid and Other Contributions to Developing Countries—Consolidated Short List of Questions."

would prepare an informal paper describing ways in which this issue might be addressed, and the pros and cons of doing so. I have asked the State Department to prepare such a paper, drawing, among other things, on the substance of the discussions that Ambassador Gerard Smith had in late 1979 with British, French, German, and Japanese representatives about changes in present nuclear fuel supply arrangements.

4. *Energy.* At the afternoon meeting on December 10, the Ottawa Summit energy agenda was discussed.

(a) *Monitoring.* All agreed that the Ottawa Summit should monitor fulfillment of energy commitments made at the Venice Summit. This will include monitoring of Venice agreements regarding international cooperation to develop new technologies, as well of individual countries' national actions to achieve the agreed Venice energy production and conservation goals. The seven nation High Level Group, established at Venice to undertake this monitoring in cooperation with IEA head Lantzke, will prepare a preliminary report for the Personal Representatives by early March, and a final report in May or June. The French suggested that this Group might also consider whether the production and conservation targets agreed at Venice should be changed, since they believe that these targets rest on over-optimistic assumptions regarding future OPEC production. The Japanese and others demurred, but seemed mildly pacified when the French indicated that they would only raise the need for change in targets if the High Level Group reported that large changes were required by new developments.

(b) *Relation to World Bank.* It was agreed that the Ottawa Summit might give a further push to the World Bank's creation of an affiliate, largely financed by the private market, to help the LDCs produce more energy, as discussed at Venice, and that this should be a second item on the Ottawa Summit's energy agenda.

(c) *Oil Bank.* The French and Italian Personal Representatives pushed for Summit discussion of proposals that their Energy Ministers have made for new agreements regarding creation of an allied oil stockpile and drawing rights on that stockpile. It was agreed that each Summit Personal Representative would advise the Canadians in two weeks as to whether he would object to the High Level Group examining these proposals. Since then the British have objected, suggesting that these issues should be considered, instead, in the International Energy Agency and the European Community. The Japanese and Germans have also indicated some reservations, but are prepared to go along with a consensus in favor of considering these issues. The other Personal Representatives agreed that the French and Italian governments were entitled to consideration of their proposals in the course

of Summit preparations. The Canadians will raise this issue again at the February meeting.

(d) *Long-Term Strategy*. It was agreed that each Personal Representative would distribute to the other Representatives before the February 18–19 meeting a paper about whether long-term oil pricing and production strategy should be included on the Ottawa Summit agenda. (The view of the State Department, which is preparing the US paper, is that it would not be desirable for the Summit to get into this issue, unless it seems that the OPEC countries are likely soon to agree on such a strategy.)

(e) *Nuclear Waste*. It was agreed that the US Personal Representative would distribute to the other Representatives before the February 18–19 meeting a paper indicating whether the Ottawa Summit should consider this issue and, if so, in what context. (This task has also been assigned to the State Department.)

5. *Illicit Payments*. I reminded the Personal Representatives' Group that the Venice Summit had agreed that if our effort to conclude a UN agreement prohibiting illicit payments "falters, we will seek to conclude an agreement among our countries, but open to all, with the same objective." Others noted that the US now labors under a disadvantage, since US law prohibits such payments while exporters in other countries are not similarly inhibited. The Canadian chairman asked that the US prepare a paper on how such an agreement might be negotiated in preparation for the Ottawa Summit, with a view to seeking acceptance of the agreement at that Summit. (I have asked the State Department to prepare such a paper, for distribution to the Personal Representatives before their February meeting.)

Henry Owen<sup>3</sup>

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<sup>3</sup> Printed from a copy that bears this typed signature.

# North-South Issues; Commodities Policy

## 253. Memorandum From Edward Fried and Henry Owen to President-Elect Carter<sup>1</sup>

Washington, November 26, 1976

### SUBJECT

Redirecting Foreign Aid

1. *The Problem.* During the campaign, you signalled your intent to follow a more forthcoming policy toward the developing countries. Relations have worsened over the past few years because the United States has been the most hard-nosed of the industrial countries in resisting the demands of the developing countries for a "new international economic order."<sup>2</sup> For the most part, these demands are not practical and the United States, as the richest and most powerful of the industrial countries, has to take much of the heat for opposing them. The new administration will be able to soften its rhetoric and explore the more moderate proposals sympathetically, but these actions will not go far to meet the demands of the poor countries. Development assistance through concessional and non-concessional capital transfers is the only major area where a new U.S. policy could make a big difference; but at the moment U.S. policy on foreign aid is in a state of paralysis.

2. *Why Is This So?* The developing countries could effectively use a great deal more foreign capital than they are now able to mobilize. Yet U.S. performance has been getting worse for years; the volume of economic aid we supply on concessional terms is down about 40 percent from a decade ago, adjusted for inflation. Furthermore, we have restrained the hard lending programs of the World Bank and the regional

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 66, Transition Messages: To Governor #26-51: 12/3-14/76. Confidential. Forwarded to Carter under cover of a December 3 memorandum from Aaron and Lake. Carter initialed at the top of the page of the cover memorandum and wrote: "Good info—Include for early Jan mtg w/Congress leaders." (Ibid.) At the time of this memorandum, both Edward Fried and Henry Owen were with the Brookings Institution, Fried as a Senior Fellow and Owen as the Director of Foreign Policy Studies.

<sup>2</sup> On May 1, 1974, at its Sixth Special Session, the UN General Assembly adopted without a vote a Declaration on the Establishment of a New International Economic Order (UNGA Resolution A/RES/3201 (S-VI)) and a Programme of Action on the Establishment of a New International Economic Order (UNGA Resolution A/RES/3202 (S-VI)). See *Foreign Relations, 1969-1976*, vol. XXXI, Foreign Economic Policy, 1973-1976, Document 257.

banks, that is, the loans they make on essentially market rates of interest and which require little in the way of budgetary resources from member governments.

The hard fact is that aid programs—both bilateral and multilateral—are in trouble on the Hill and the administration has done little to change the situation, even though there is ample reason to do so and powerful new grounds for making the case. If the United States is to move effectively to improve North-South relations, it will have to break the aid bottleneck at home. This would require a new sense of direction and purpose, a moderate increase of funding in FY 1978, and a substantial reorganization of our programs.

3. *The Ford Approach.* Most of the outgoing administration's effort has gone into persuading the Congress to provide military aid and economic supporting assistance to bolster U.S. military allies and to use as a bargaining counter or as a political payoff in Asian, Middle East, and African negotiations. Such attention as it has been willing to devote to development aid has gone to bilateral aid, which can be used more readily to advance short-term U.S. foreign policy purposes. The result has been a growing and embarrassing shortfall on the multilateral front: The Congress has been unwilling to appropriate the funds to fulfill our commitments to provide capital for the World Bank and its soft loan affiliate, the International Development Agency (IDA), for the Inter-American Development Bank, and for the Asian Development Bank. There is a shortfall of \$500 million past due these institutions, and the payment of an additional \$700 million on previous commitments to them will carry over into the next two fiscal years. In addition the administration has dragged its feet in negotiations with other donor countries about future funding for these institutions, in particular on the next replenishment for IDA.

4. *An Alternative Approach.* During the campaign, you spoke several times (most notably in your New York speech to the Foreign Policy Association)<sup>3</sup> of your intention to emphasize multilateral aid. This makes sense for several reasons:

(a) Multilateral aid is provided by international financial institutions, which can insist on tough self-help conditions without being accused of U.S. "imperialism."

(b) About two-thirds of multilateral aid is provided by other donors—Western Europe, Japan, and the oil exporting countries. Every dollar of U.S. aid is thus multiplied several times.

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<sup>3</sup> Carter spoke before the Foreign Policy Association on June 23; a partial transcript of his speech was published in *The New York Times*. ("Excerpts From Carter's Speech and His Replies," *The New York Times*, June 24, 1976, p. 22)

(c) Multilateral hard lending can shore up the international credit position of the developing countries in the face of pressures from the world recession and the oil price increase, while automatically distributing the credit risk among all industrial countries. This helps to maintain demand and employment in the industrial countries and reduces the risk that debt worries will cause a crisis in the international banking system.

(d) Multilateral concessional aid is detached from controversy about short-term U.S. foreign policy. It can thus be provided to such countries as India, which need it and can put it to good use, regardless of ups and downs in their day-to-day relations with the United States.

5. *A Possible Model.* A specific program to shift U.S. development aid to multilateral channels was recommended in 1970 by a task force of prominent private citizens chaired by Rudolph Peterson, former head of the Bank of America.<sup>4</sup> These proposals were endorsed by many thoughtful students of development aid; they got nowhere during the Nixon administration but seem even more relevant today:

(a) Capital development aid should increasingly be provided through the World Bank group and the regional development banks (Asian Development Bank, Inter-American Development Bank, and African Development Bank).

(b) The U.S. bilateral program should consist essentially of technical assistance, redesigned to seek technological breakthroughs in a few major fields (e.g., population, agriculture, and education), or to experiment with new forms of development cooperation (for example, the financing of rural development banks). This bilateral program would be carried out by a new U.S. Development Institute, which would supplant AID (although it could selectively draw on its personnel), be supervised by a mixed public/private board of directors and, like a foundation, have sufficient continuity to support promising projects on a long-term basis.

(c) Supporting and military assistance should be provided separately from development assistance, and might be included in the Defense Department's appropriation; this would clarify the trade-off between funds for security assistance and for U.S. armed forces. The security assistance program should be under the close policy guidance of the Department of State, since it is directed to political/security rather than development purposes—even though some or all of it might be administered by the Department of Defense.

Since U.S. capital development aid would be provided multilaterally, this approach would make it easier to move toward the concept of a world development budget, such as you suggested in your speech to

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<sup>4</sup> On March 8, 1970, the Presidential Task Force on International Development (also known as the Peterson Task Force) submitted its report, entitled "U.S. Foreign Assistance in the 1970s: A New Approach," to Nixon. For the text of the report, as well as Nixon's remarks upon receiving it, see the Department of State *Bulletin*, April 6, 1970, pp. 447–467.



the New York Foreign Policy Association. Such a budget could be drawn up by the World Bank; it would estimate for a few years ahead the rough total of capital needed for different developing countries, how much of this capital would be provided from domestic sources, and how much foreign capital would be needed. These estimates could be submitted to the Joint Ministerial Committee on Development,<sup>5</sup> a group of senior government officials from both industrial and developing countries, and then used as a framework within which donor governments could consider needs for aid and present requests to legislatures.

6. *Effect on the Budget.* We now spend about \$5.7 billion annually for foreign assistance, of which 55 percent is for development aid (including PL 480) and 45 percent for security assistance. The breakdown of the FY 1977 appropriation is as follows (in billion dollars):

*Development Aid:*

Bilateral (through AID)	1.1
P.L. 480	1.3
Multilateral	<u>.7</u>
Sub-total .....	3.1

*Security Assistance:*

Military	.8
Economic (of which	
.75 to Israel and	
.75 to Egypt)	<u>1.8</u>
Sub-total .....	<u>2.6</u>
Total .....	\$5.7

A redirection of foreign assistance, featuring heavy emphasis on multilateral development aid, a redesigned bilateral technical assistance program, and a declining security assistance program would require the following:

—*An increase of about \$1 billion for multilateral aid in the FY 1978 budget.* This would clear up past due accounts, mostly in subscriptions to the Inter-American Development Bank, and pay for the U.S. share of

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<sup>5</sup> Apparently a reference to the Joint Ministerial Committee of the Boards of Governors of the World Bank and the Fund on the Transfer of Real Resources to Developing Countries (more commonly referred to as the Development Committee), which was established in October 1974. See *Foreign Relations, 1969–1976*, vol. XXXI, Foreign Economic Policy, 1973–1976, Document 83.

the fifth replenishment of IDA, negotiations for which are currently under way (see below).<sup>6</sup>

—*Holding the bilateral aid program to the present level of about \$1 billion*, while it is revamped and new funding requirements are established. (The Ford administration reportedly will be asking for an increase in bilateral aid in the 1978 budget). Eventually, the bilateral aid should decline as it is redirected to the provision of technical assistance.

—*Reappraisal of security assistance programs*, notably to lay out the future level of funding and its implications for foreign policy and the defense budget. Some reduction seems feasible.

The increase in the FY 1978 appropriation for multilateral aid is large because your administration will have to make up in one year for many years of lagging U.S. attention to, if not neglect of, these programs. This will be an important budget decision. A strong U.S. lead now would exert an immediate positive influence on U.S. relations with the developing countries; more foot-dragging would be damaging to those relations.

The key decision—the U.S. position on the fifth replenishment of IDA covering the period 1978–80—will have to be taken early in the year. All donor countries except the United States and Saudi Arabia have agreed on a total replenishment for the three years of \$8 billion, of which \$7.2 billion is to be supplied by the OECD countries and \$800 million by the OPEC countries. The U.S. share would be 30 percent of the total, requiring contributions of \$800 million a year beginning in FY 1978. If IDA is not assured of new financing soon, it will have to cut its program drastically. This would be costly to the poorest countries, since IDA's loans are restricted to these countries and represent the largest single element in their receipts of concessional aid.

If we phase bilateral aid into a smaller more effective technical assistance program and reduce security assistance, we should be able to support higher levels of multilateral concessional aid and to take the lead in negotiations with other donor countries to achieve this objective. Putting U.S. influence squarely behind multilateral aid, which is politically disinterested, would be convincing evidence that the U.S. objective is to improve the welfare of poor countries, not to influence

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<sup>6</sup> In their December 3 cover memorandum to Carter (see footnote 1 above), Aaron and Lake noted, at Owen's request, that Ford would "request an FY 77 supplemental appropriation of \$540 million to make up U.S. arias [*arrears?*] with international financial institutions. For the FY 78 budget he will approve \$375 million for IDA IV and \$400 million for IDA V contributions. Together with other funds for international finance institutions, the total requests are \$1.4 billion for FY 78 and adding in FY 77 the total comes to about \$2 billion. The point is that as it leaves office, the current Administration is taking a 'high option' in funding international financial institutions after a long period of stringency and even neglect."

their politics. This would be effective foreign policy for North-South relations.

In addition, the United States should be encouraging the World Bank and regional banks to expand their hard lending programs by increasing their subscribed capital. This mostly requires government guarantees (callable capital), rather than budgetary resources (paid-in capital). With their credit guaranteed by these increased subscriptions, the international institutions will be able to borrow more extensively in private capital markets and re-lend the proceeds to the developing countries on commercial terms.

The ability of many of the better off developing countries to service debt on these terms attests to the fundamental change that has taken place in their position. Most of them no longer depend on concessional aid; they can secure loans from the multilateral institutions at market rates of interest, which support and supplement their own access to private capital markets. As a result, concessional aid now can be concentrated on the poorest countries. They need more of it, but if it is provided multilaterally the burden for any one donor country, even the United States, will not be large and will be within our past level of foreign aid, because of the decline in bilateral development and security aid.

Furthermore, over the years the international financial institutions have grown steadily and have now reached the point where they are far and away the largest single channel for providing capital to the developing countries. These institutions have their failings, but these are more than offset by the fact that the institutions have made the world's development effort international in character. Bilateral aid, whether from the United States or other countries, increasingly has become a political anachronism.

In short, as far as capital transfers to the developing countries are concerned, we have entered into a new and more promising phase, but we have yet to make this clear in presentations of our capital assistance programs to the Congress or to the public.

#### *7. Next Steps.*

(a) *Funding.* As indicated above, decisions on the IDA replenishment and on the FY 1978 budget request will have to be taken early in 1977, and will heavily influence political relations with developing countries.

(b) *Reorganization of AID.* It would be desirable now to commission a study to explore the pro's and con's of reorganizing the U.S. bilateral aid program and moving purposefully to a multilateral approach. To argue that multilateral aid makes much more economic and political sense today than bilateral aid is not an unqualified vote for the management or policies of international financial institutions; there is much

criticism of these institutions on the Hill, and this needs to be carefully weighed on its merits. This study might be carried out in one of several ways: (i) the new Secretary of State might be asked to organize such a study within the executive branch; or (ii) a Commission of distinguished private citizens might be asked to explore the question; or (iii) a public policy research institution, such as Brookings, might be asked to undertake the study with substantial involvement of members of Congress. An executive branch study was successful in producing a new program in 1961,<sup>7</sup> but the danger of a bias toward the status quo exists. Either of the other courses would be consistent with your statement during the campaign that you would ask for an outside assessment of aid early in your administration. Reaction to a new Commission of private citizens might be unfavorable because there is a long history of outside commissions studying U.S. foreign aid.

(c) *Care should be taken not to foreclose this new approach by unsuitable appointments.* The person selected to head AID should be open to change and have the kind of background that would be suitable for a technical assistance program, if that should be this agency's future.

**Edward Fried**

**Henry Owen<sup>8</sup>**

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<sup>7</sup> Possibly a reference to the 1961 foreign aid task force headed by International Cooperation Administration Director Henry Labouisse; see *Foreign Relations, 1961-1963*, vol. IX, Foreign Economic Policy, Document 103.

<sup>8</sup> Fried and Owen both initialed above these typed signatures.

254. Presidential Review Memorandum/NSC 8<sup>1</sup>

Washington, January 21, 1977

TO

The Vice President  
The Secretary of State

ALSO

The Secretary of the Treasury  
The Secretary of Agriculture  
The Secretary of Commerce  
The Secretary of Labor  
The Director, Office of Management and Budget  
The Chairman, Council of Economic Advisers  
The United States Representative to The United Nations  
The Special Representative for Trade Negotiations  
The Director of Central Intelligence  
The Assistant to the President for Energy Policy

SUBJECT

North-South Strategy (U)

The President has directed that the Policy Review Committee undertake an analysis of, and provide options concerning, U.S. policy on relations between developed and developing nations. The economic aspects of this analysis are to be staffed through the Economic Policy Group prior to their consideration by the National Security Council. The agencies listed in parentheses should take leadership responsibility for the following subjects:

—Institutional arrangements, including forums in which North-South issues can be discussed, with proposed strategies for UNCTAD and CIEC<sup>2</sup> (State)

—Commodities, including commodity agreements, the Common Fund,<sup>3</sup> and price indexation (Treasury and State)

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 2, PRM/NSC 1–24 [1]. Secret. The Chairman of the Joint Chiefs of Staff was originally included as a recipient, but was deleted on January 22 per Inderfurth's instructions. NSC Staff Secretary Jeanne Davis forwarded a copy of PRM 8 to the Secretary of Defense under cover of a January 26 memorandum in which she noted that he had been "inadvertently omitted from the list of addressees." (Ibid.) Acting NSC Staff Secretary Michael Hornblow forwarded a copy to the AID Administrator under cover of a February 9 memorandum in which he noted the AID Administrator's addition to the list of addressees of PRM 8. (Ibid.)

<sup>2</sup> See footnote 3, Document 28.

<sup>3</sup> At the end of its fourth session in Nairobi, Kenya, in May 1976, UNCTAD agreed to consider the establishment of a Common Fund to finance a buffer stock program designed to smooth out primary commodity price fluctuations. See *Foreign Relations, 1969–1976*, vol. XXXI, Foreign Economic Policy, 1973–1976, Documents 304–306.

- International financial matters, including aid and debt (Treasury)
- Market access for manufactured goods (State)
- Energy (Schlesinger), relations with OPEC and other LDCs (State), and related financial issues (Treasury)
- Food (Agriculture)
- Migration of workers (Labor)
- Technology transfer and direct investment (Commerce)
- North-South political issues and the conceptual aspect of the structure of U.S. relations with the LDCs (State)

Each study should analyze the contribution of the various policy options to U.S. domestic and global economic interests, humanitarian interests, international political relationships, and security interests. It should include an assessment of the impact of each option on the interests and objectives of other industrialized democracies. Each study should also suggest specific initiatives which the U.S., or the industrialized countries together, might take, and each should assess relevant Congressional considerations, including the nature, timing, and strategy of legislative action. These studies should be completed by February 28 for early submission to the President through the National Security Council.

**Zbigniew Brzezinski**

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**255. Memorandum From Roger Hansen of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, February 10, 1977

SUBJECT

Suggested Approach to the North-South "Conceptualization" Effort

After thinking about the best approach to this problem during my first two weeks on the job, let me briefly outline the pros and cons of four alternative procedures and request your reaction and advice. Please excuse the lengthy memo, but if we can't figure out a productive

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 25, PRM-08 (1 of 3) [1]. Confidential. Sent for action. Copies were sent to Hormats and Thornton. Aaron wrote at the top of the page: "ZB—I have asked Hansen to set up a meeting with you me Hormats + Owen for early next week. D.A."

way for me to serve you and the President, then it really doesn't make much sense to keep me on the payroll even though I would hate to leave. First, one word about the task you have given me.

#### *Task Definition*

As I understand it, you would like me to try to develop a policy-relevant conceptual framework against which all U.S. governmental decisions having any impact on any or all aspects of "North-South" relationships—economic, political, strategic, normative and institutional—can be measured. I assume you consider this task to be of some importance because *without* such a conceptual framework, the government will continue to make decisions on the merits of *each case as it arises*, with (1) no attention paid to the impact of a decision on a purely "economic" issue (e.g., the Common Fund) on any other issue on the "North-South" agenda (e.g., LOS III, G-77 and Non-aligned policy vis-a-vis the Middle East situation, the strengthening of Lome Convention ties, proliferation, etc.); and (2) little attention to the implicit tradeoffs *within* the "economic" realm (e.g., Common Fund versus trade liberalization, new sources of "automatic" resource transfers, etc.). In short, I assume the *task* to be to see if the U.S. Government cannot rise above "eclectic incrementalism" in its approach to North-South relations, and to *institutionalize* an approach, *perhaps* increasingly multilateral (stage one, greater OECD concentration; stage two, OECD-G-77 consultation and/or negotiations) in which *all implicit tradeoffs* across the relevant spectrum of North-South issues are automatically raised and considered.

#### *Option No. 1—The Straight PRM-8 Approach*

##### Pros:

1. The PRM-8 process is well under way; the due date for all papers is February 28.<sup>2</sup> Answers to the questions raised in it are needed for spring 1977 North-South negotiations. *If* the agencies can be forced to produce papers which are broad in scope and medium-term in time-frame, they can be a valuable input into the assigned task.

2. If the PRM-8 process can be used to *force* the agencies to address the final issue listed ("North-South political issues and the conceptual aspect of the structure of U.S. relations with the LDCs"), my task will be considerably facilitated.

3. *If* the tasked agencies *also* pay attention to the first sentence of the final paragraph of the PRM ("Each study should analyze the contribution of the various policy options to U.S. domestic and global economic interests, humanitarian interests, international political relation-

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<sup>2</sup> See Document 254.

ships, and security interests.") my task should be all the more aided by the PRM-8 process.

Cons:

1. *Most* of the papers are very likely to be unifocal (economic), short-term and biased in favor of no change. This is probable for three reasons. First, most papers are coming through the EPG process. Second, most are being written by parts of the bureaucracy which have long-held positions to defend (e.g., the E Bureau of State). Third, most of these parts of the bureaucracy fall into what I call the "false concreteness" school in their conception of the North-South issue. Most are devout believers that the "South" does not exist as a serious diplomatic unit; that whatever solidarity is present is rhetorical only; and that the U.S. can and should "get the LDCs back to rational, bilateral relationships with the U.S."

These people *may* be right. But they are *not likely* to produce helpful or intelligent papers on the crucial issues.

2. Because of the upcoming negotiations (UNCTAD, CIEC), the short-term bias of the paper writers, and, to *some* extent, the wording of the PRM, the focus of the exercise is very likely to be *very* short-term in nature. If so, it will be very difficult to use the PRM-8 process to accomplish my task as I interpret it.

3. Since most papers are coming via the EPG route, I personally have no involvement in the process until the papers reach the NSC proper. And even if I did, the short-term deadline date (February 28), the nature of the players, and the focus on upcoming negotiations all inhibit my ability to use the PRM-8 process until a very late stage in the game. [*None* of this should be viewed as a criticism of Bob Hormats, who is one of my closest personal friends, who has been *very helpful*, and who has always had my professional admiration. It is simply a statement of an unavoidable bureaucratic dilemma.]<sup>3</sup>

4. Cons No. 1 and No. 2 listed above are not the products of my thinking alone. They are reflected by many people with whom I have talked in both State and Treasury. Even a very high-placed CFR Committee on Studies colleague of yours now at State with more than a passing interest in North-South issues is concerned that the State channels for PRM-8 are most likely to produce an unproductive set of papers for the broader task you have assigned to me. And the worst evidence concerning my fears surfaced today (February 10) when an Assistant Secretary who had just finished reading the E Bureau's 57 page draft of the most crucial issue—that relating to "political issues and the

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<sup>3</sup> Brackets in the original.



conceptual aspect . . .<sup>4</sup>—told me that “it is the most narrowly focused, damage-limitation exercise I’ve ever read. It gives the President a view which presents only *problems*, and no *opportunities*. It’s so bad we can’t even improve it with revisions, and are considering an outright dissent and maybe a proposed alternate draft. But, given channels here, I don’t think we can possibly win.” This characterization, to repeat, is made about the sole “political” paper on the PRM–8 list, which was assigned to the E Bureau. Furthermore, these concerns are shared by S P at State.<sup>5</sup>

*Option No. 2—The Two-PRM Approach*

This approach would recognize the high probabilities that the PRM–8 papers will not be of much assistance to my broader task, though perhaps quite useful for the next six months of discussions and negotiations. Therefore it would call for a second PRM specifically addressed to the *longer-term* issues with *more stress* on the *linkages* between economic, political, security and normative issues. The exercise might best begin immediately after the PRM–8 papers were completed.

Pros:

1. The new set of instructions could provoke much more detailed intra- and inter-Agency thought and discussion of the longer-term conceptual framework being sought.

2. A different set of bureaucratic actors, *without* long-held positions on the issues to defend, would provide the major impetus for the review. For example, a carefully worded PRM might guarantee that much more initial input was produced by the regional bureaus, SP and the IO Bureau at State rather than the E Bureau. If political, institutional and security questions are asked—noting that much of the economic analysis has already been provided in the PRM–8 process and noting further that that material would be used in the second stage—then the people involved from the very start will be those (probably) better qualified to examine the broader issues we wish to analyze.

3. If a new set of actors can become involved from the beginning under new PRM instructions, there would be no need to involve the EPG. We would already have their PRM–8 input, we could see that people like Hormats, Chuck Frank,<sup>6</sup> and Fred Bergsten/Dick Cooper/Tony Solomon stand-ins were involved so that all new economic issues would be analyzed with the highest degree of professionalism, and

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<sup>4</sup> Not found.

<sup>5</sup> In a February 11 memorandum to Aaron, Hansen discussed in greater detail the concerns that had arisen within the Department of State about the draft response to PRM 8. (Carter Library, National Security Council, Institutional Files, Box 25, PRM–08 (1 of 3) [1])

<sup>6</sup> Charles Frank was Deputy Assistant Secretary of State for Economic and Social Affairs.

last, but (parochially?) not least, I could actually draft the new PRM and be centrally involved from the outset (as, of course, could Tom Thornton now that he's on board as the permanent North-South "cluster leader").

Cons:

1. For various bureaucratic reasons you might prefer not to ask for back-to-back North-South PRMs.

2. There may be no way to *assure* that a more bureaucratically "disinterested" and analytically "interested" group would be put to work on the new PRM by Department Secretariats. No matter how the PRM is worded, Secretary Vance, for example, *might* end up sending it to the E Bureau.

3. Even with a completely recast and non-overlapping mandate, entrenched bureaucratic interests (*mostly* of an economic nature) might limit the capacity of the PRM system at its best to play the kind of conceptualizing role which you are after in the North-South arena.

#### *Option No. 3—Radical Surgery on PRM-8*

This option presupposes that the papers, coming through the EPG process, will fall *far short* of what will be required to present the President with a cogent option (or policy) paper. The radical surgery would necessitate a sharp break in the process once the PRM-8 papers get through the EPG process and reach the NSC *per se*.

Pros:

1. All good work could be salvaged; all bad work *sent back* for re-drafting or *scuttled*. For example, the State paper on political aspects could simply be dropped as "not germane at this time."

2. It would avoid a second North-South PRM.

3. Within the NSC a great deal of alternate drafting of the worst work might be undertaken and (hopefully) substituted for the Agency originals.

Cons:

1. This approach might call for you to take harsh actions on papers cleared by Cabinet members. You might wish to avoid being put into this position.

2. The procedure will probably leave major gaps to be filled, and could raise the issue of "the proper role of the NSC" as a major drafter of sections of PRMs.

3. Even if the cracks could be papered over, it is very difficult to believe that the end product would not be a rather inferior product.

#### *Option No. 4—A Radical Alternative to PRM-8*

The PRM-8 is off to such a bad start at State that *two major bureaus* within the Department now feel that they may end up carrying out-

right dissents to the Secretary rather than attempting to rework the present draft. It is possible that they may try for a major postponement in the intra-Departmental due date to write a major alternative presentation. In either case, there is reason to be concerned with the probability of success of their challenge, since the “official” draft has been handled through all the proper channels, and perhaps with minor changes, will probably receive the endorsement of the Under Secretary for Economic Affairs.

Given this situation some consideration should be given to withdrawing PRM–8 before it proceeds any further. A new PRM with much more lead time and a newly written mandate would then present the opportunity for a much broader consideration of the relevant issues. Alternatively, what you referred to as a “study group” approach might be attempted in place of the PRM approach.

Pros:

1. If the PRM–8 process is to produce anything of value, much more time is needed and a rather lengthy intra-State Department review process will be required. The only other way to circumvent a choice between a bad PRM and postponed deadline would be for you to intervene directly with Secretary Vance to express concern that the State draft is totally out of character with the President’s campaign themes on the subject and in no way aids in the process of thinking about the issues from a new perspective. The draft is presently characterized as “pre-Kissinger” by thoughtful critics within the Department. And unless you desire to intercede shortly, it might be far better to withdraw PRM–8 than to let it proceed. For if, without very major changes, it does survive the EPG/NSC process, it will serve the President very poorly.

2. A hand-picked study group might be the *only way* to get imaginative thinking on a rather new subject from the bureaucracy.

3. *Is an early North-South PRM needed?* A *good* one would be nice to have, but with the present odds against getting one out of PRM–8, a withdrawal of the request may be the best way to avoid the unfortunate set of choices entailed in the options.

Cons:

1. Decisions will have to be made on some issues on the North-South agenda shortly, i.e., a position on the Common Fund, and on CIEC issues. The latter, of course, can be postponed for a few months.

2. Withdrawal of PRM–8 may avoid a minor disaster, but it provides no positive answer to the need for serious inter-Agency consideration of North-South issues.

3. Perhaps, despite the lead role of State in PRM–8 preparation, other agencies will object so strongly to State drafts that the exercise can be saved.

RECOMMENDATIONS

- (1) Do not accept Option No. 1 (The Straight Approach).
- (2) Do not accept Option No. 2 (The Two-PRM Approach) unless you find it preferable to Option No. 3 (Radical Surgery), Option No. 4 (Radical Alternative), or a combination thereof.
- (3) Accept Option No. 3 unless you feel that the potential conflict this might create between the NSC and some major Departments is a risk you are not prepared to accept at this point in time.
- (4) If you feel that the system is not ready for the risks entailed in Option No. 3, approve Option No. 4. If you do so, we (Hormats, Thornton and Hansen) can explore the relative merits of a new PRM versus the "study group" approach.

My *apologies* to both you and Bob Hormats for not consulting with him on the actual wording of this memorandum. I have discussed it in general with him, but he has been so busy I *have not* consulted him on it in any real detail. And perhaps I am acting too hastily, but right or wrong my personal judgment is that you may have to make a decision on this issue by *early next week* at the latest, or lose the flexibility you still retain at this time.

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**256. Memorandum From Roger Hansen of the National Security Council Staff to the President's Deputy Assistant for National Security Affairs (Aaron)<sup>1</sup>**

Washington, February 16, 1977

SUBJECT

Suggested Approach to the "Second Track" of the PRM-8 Process

As I interpreted the results of this morning's meeting,<sup>2</sup> the following scenario will unfold over the coming 2-3 months:

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<sup>1</sup>Source: Carter Library, National Security Council, Institutional Files, Box 25, PRM-08 (1 of 3) [1]. Confidential. Sent for action.

<sup>2</sup>Apparently a reference to the meeting referred to in footnote 1, Document 255. No memorandum of conversation was found. Hansen described the conclusions reached at the meeting in a February 17 memorandum to Thornton. (Carter Library, National Security Affairs, Staff Material, International Economics, Guy Erb File, Box 42, PRM 8: 2-4/77)

(1) Work on the EPG track will continue as planned, and as scheduled. The only change is that I will have access to all the draft papers, will attend the Group's meetings with Bob Hormats, and will suggest just enough reservations about the short-term nature of the work being done by the EPG (valuable as it is as a CIEC preparation exercise) to open the door to the "second track."

(2) The "second track" will begin with the assembling of a "Study Group"<sup>3</sup> (I don't know what to call it, and welcome any suggestions) which I will pull together and chair. (In putting the group together I will work closely with Hormats, and will be in close enough touch with people like Nye, Lake and Maynes that the group's membership and freedom to examine North-South problems within a broader and longer-term frame of reference should be assured. Tom Thornton will, of course, be included and closely consulted.) The Group will work to a schedule which looks about as follows:

1. Group named and officially notified of first meeting by the end of next week (Feb. 25).<sup>4</sup>

2. Group will meet for first time early the following week (by March 2) to discuss:

a) work of the EPG;  
b) *raison d'être* of this "second track" procedure;  
c) what the group will attempt to accomplish, a schedule of meetings, and a target date for an "options paper" which will allow for the expression of a relevant range of views on U.S. policy regarding the conceptualization and management of "North-South" issues. In order to free the Group from the constraint of Agency clearance of views, unless you direct otherwise, I would set up the Group on the ground-rule that no *individual* or *agency* positions would be identified. I don't see any other way of moving with the speed needed to develop a paper to raise questions for PRC and Presidential consideration prior to the Summit meeting.

3. The Group would have its first substantive meeting the following week (March 7–11). The subject would be an initial draft paper prepared by me and circulated at least three days prior to the meeting. EPG papers would also be available to the Group so that it would understand the probable "starting point" for the economic aspects of North-South relations.

4. A series of weekly meetings would be held in order to identify areas of agreement and disagreement—conceptual and substantive. Papers for these meetings would be written in order to add *substance* to the argumentation for or against various options. By the end of the

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<sup>3</sup> Aaron crossed out the word "Study" and replaced it with "PRC working."

<sup>4</sup> Aaron underlined the date "(Feb. 25)."

process (eight weekly meetings?) a paper should have emerged which would accomplish at *minimum* the following objective:

a) Alert the Administration to the *weaknesses* as well as the *strengths* of the CIEC “creeping incrementalist” approach to dealing with the Group of 77.<sup>5</sup>

b) Analyze the tradeoffs *within the strictly economic realm itself* as the U.S. deals with responses to LDC demands.<sup>6</sup> Right now the Administration, having inherited CIEC from the past, is letting G-77 demands set the parameters of our response; the G-77 asks for concessions in four major areas, and we are struggling to produce modest concessions in each area *without asking* the prior question, to wit, shouldn't our responses in some areas be “nothing doing,” and be quite responsive in others?

c) Analyze the degree to which a *more integrated approach* to policy-making vis-a-vis the LDCs is desirable and feasible. The G-77 plays “Linkage politics;” shouldn't we? Since we face them in almost every international negotiating forum—LOS III, Environmental Conferences, Food Conferences, Population Conferences, Human Rights Conferences, etc.—shouldn't we begin a much more integrated look at tradeoffs across different issues within the so-called North-South agenda? Example: What if a U.S. (better, an OECD) commitment to reach a 0.7% GNP official aid target by 1980 could have a substantial positive influence on the spread of population control programs, agreements on regional nuclear fuel reprocessing facilities, etc.? The obvious difficulty with an integrated approach is that you may find that you don't try it at all, or you must carry it very far. One of the major purposes of the Group's exercise would be to attempt to analyze *in some detail* the potential consequences of such an approach, positive and negative.<sup>7</sup>

d) Address much more specifically than ever before the potential gains to general U.S. policy goals in the area of *security aims* (economic as well as physical); *humanitarian aims* (human rights, the provision of basic human needs, and the building of institutions to support these goals); *ecological aims* (population, pollution, resource constraints, etc.); and *international institutional aims* (the strengthening of existing institutions and the building of new ones—e.g., the recent International Fund for Agricultural Development funded by OECD and OPEC,<sup>8</sup> with voting power divided among OECD, OPEC and the LDCs on an “equal shares” basis)—which will see that we have the appropriate institutional structure with which to manage today's and tomorrow's so-called “global agenda” problems (food production, nuclear proliferation, population control, etc.).<sup>9</sup>

<sup>5</sup> Aaron wrote “ok” in the margin adjacent to this section.

<sup>6</sup> Aaron drew a line to this sentence and wrote “EPG + [illegible]” in the margin adjacent to the sentence.

<sup>7</sup> Aaron wrote “ok” in the margin adjacent to this section.

<sup>8</sup> The International Fund for Agricultural Development was founded in 1977.

<sup>9</sup> Aaron twice wrote “ok” in the margin adjacent to this section, once in the upper half of the section and once in the lower half of the section.

David, I suddenly find that I have outlined the process I envisage and the questions which the “second track” will seek to explore for a PRC without directly responding to your immediate question: what issues would I put forward in my own initial draft paper? While they are implicit in much of the above description of the “Study Group’s” activities, let me append in outline form a brief sample of questions (or options) which would be fleshed out in first draft and grow from there (or be deleted entirely) in the course of the Study Group’s responses and the process of weekly interaction.

1. How does the U.S. presently “conceptualize” its relations with the “South?” Does it really believe there is a “South?” If the LDCs do have at least a weak unity for certain bargaining purposes, is it in the U.S. interest to *encourage* or *discourage* that unity? What is the cost/benefit analysis of continued attempts to drive a wedge between OPEC and the remaining LDCs?<sup>10</sup>

2. How much validity is there to the widely-held academic view that the growing list of “global agenda” items requires the U.S. (probably in concert with the OECD) to “accommodate” many LDC demands? The view assumes that a) problems whose solutions require the active cooperation of the LDCs are growing; and b) that “accommodation” will win that cooperation. Is either half of the equation so weak as to make the “accommodation” strategy indefensible?

3. Does the “global equity” theme sounded with increasing frequency by statesmen and academics alike survive careful scrutiny?

a) Problems with the definition of “global equity.”

b) Is it a *fashion*, or a secular trend in international relations which the U.S. must take seriously?

c) If it does require serious policy consideration, what is the range of *relevant U.S. options* in not simply responding to a problem, but perhaps taking an initiative? (Also, examination of domestic, OECD, and LDC constraints on policy initiatives in the area.)

4. The U.S. Congress, the Scandinavian countries, the World Bank, the ILO and many private but influential private sector groups (the Club of Rome, the Aspen Institute, etc.) are now pushing for a global “basic human needs” strategy to raise standards of living for McNamara’s so-called “forgotten forty percent.” Again,<sup>11</sup> is this a cyclical fad, or a secular trend of growing concern? Even George Ball,<sup>12</sup> who refuses to take “the South” seriously, takes this strategy seriously.

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<sup>10</sup> Aaron wrote “ok” in the margin adjacent to this point and the one below.

<sup>11</sup> Aaron underlined the phrase “raise standards of living for McNamara’s so-called ‘forgotten forty percent.’ Again,” and wrote “What would we [illegible]?” in the adjacent margin.

<sup>12</sup> George Ball was Under Secretary of State for Economic Affairs from February until December 1961, and thereafter Under Secretary of State until September 1966. He was the U.S. Representative to the United Nations from June until December 1968.

a) Is a U.S. initiative in support of such a strategy feasible or not? Is it an initiative which might engage LDCs in a far more fundamental and productive set of discussions and negotiations than five years of CIECs? Or is it an initiative which would expose the Administration to too many domestic and international dangers to warrant the effort?<sup>13</sup>

Finally, for each set of questions and judgments, the *programmatic* implications for the U.S. (domestic and international) would be spelled out. Therefore, the reader would be able to choose one option (or some combination of the options discussed) in full recognition of the alternatives (with both their costs and benefits) forgone.

To simplify things for you I'll let you mark *approve* or *see me* below. If you choose the latter, I'll call your office and set up a short appointment.<sup>14</sup>

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<sup>13</sup> Aaron wrote "*Substance?*" in the margin adjacent to this section.

<sup>14</sup> Aaron indicated his approval of the "See Me" option, writing "Call Tues" below; presumably Tuesday, February 22.

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**257. Memorandum From Robert Hormats and Roger Hansen of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and the President's Deputy Assistant for National Security Affairs (Aaron)<sup>1</sup>**

Washington, February 25, 1977

SUBJECT

EPG Meeting on North-South Issues; Saturday, February 26 at 10:30 a.m.; Roosevelt Room

This meeting will be the first Cabinet-level look at North-South strategy, particularly with respect to the issues with commodities.<sup>2</sup> At the meeting you will have the opportunity to:

—Ensure that the various options are discussed within the proper foreign policy framework—which has tended to be overcome at times by the nuances of various economic options at the Deputies level.

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 25, PRM-08 (1 of 3) [1]. Confidential. Sent for action.

<sup>2</sup> No memorandum of conversation of this meeting was found.



—To establish at the outset that you personally view international economic issues—and North-South issues—as major ingredients in US foreign policy and will ensure that they are integrated with other elements.

—To underline the need for formation of a PRC working group to carry out the longer-term political/conceptual effort called for in PRM-8.

#### *Political/Economic Framework*

US economic interests in the developing world have changed radically over the last ten years. Among the ranks of the nations who count themselves as part of the Third World are the oil-rich nations, vigorous new trading nations, nations facing the pressures of unmanageable rates of population growth, desperately poor nations, nations wanting to get into the nuclear game and to accumulate conventional arms, nations anxious to reap the benefits of the oceans, and nations demanding a larger share of the world's economic pie.

The US is likely to become increasingly dependent upon developing nations for raw materials, much as it is now upon their oil. The Commission on Supplies and Shortages estimates that in 1985 the US will import 100% of its tin, bauxite, manganese, cobalt, chromium and platinum, and more than 75% of its nickel, potassium, tungsten and lead. Developing countries account for 40% of US world trade, 26% of its direct investment abroad and 60% of the overseas loans it has provided. A number of semi-industrialized developing nations such as Brazil, Mexico, Iran, Korea and Venezuela make up the largest portions of these figures. A number of developing countries with large balance of payments deficits have the capability of disrupting severely the international financial system. And all of these countries are of great importance in dealing with such "global agenda" issues as the Law of the Sea, non-proliferation and arms control.

Of late, the developing countries have approached an increasing number of issues with extraordinary solidarity. This stems partly from a deep conviction by nearly all of them that in cohesion there is strength. Just as OPEC worked together, so they believe they can likewise achieve positive results by common pressure—and implicitly, the potential use of oil as leverage—on developed nations for more financial resources, for greater control over the institutions of the international economy and for a variety of benefits in various negotiations.

It is important to recognize, however, the major differences which exist among the developing countries and the variety of interests we have in the Third World. Our interests in Africa do not arise from its trade or financial importance but from the potential of its natural resource base and the danger of violent conflict. Our interests in Latin America derive both from its natural resource potential and its growing importance in world trade and finance; our strategic concerns, for the

moment, appear to be less compelling, except in the Caribbean area. Our interests in Asia come not so much from its natural resource potential as from its trade, finance and strategic importance.

There are, in addition, divisions resulting from disparate growth performance and natural resources endowments. A dozen or so developing countries, including much of South America, Mexico, Korea, Hong Kong, Saudi Arabia and Iran have experienced remarkable economic growth in the post-war period, surpassing the weaker industrialized countries of Europe. Each of these nations has significant economic interests to defend that are far more important than any benefits they expect to receive from the general LDC call for more concessional aid, preferential treatment and commodity agreements. The very poor countries of Asia and Africa would gain from more aid but, lacking substantial amounts of raw materials, very little from commodity agreements. A number of commodity exporting countries could gain from commodity agreements, but have little real interest in more aid (which would go to poorer nations).

#### *US Interests*

The US has a fundamental interest in securing the support for or, failing that, acquiescence in an open multilateral economic system, and orderly change within that system. Further, we have an interest in avoidance and containment of regional disputes and in maximizing logistic support capabilities of our forces. Finally, we have a major interest in constructing new global system in such areas as nuclear proliferation, conventional arms sales, the controlling of terrorism, the use of "global commons" like the oceans, population control and global food production.

Stringent challenges by the poorer countries to the economic system's equity and legitimacy could undermine the world economy, global political stability and the potential to cope successfully with the new "global order" issue you have written so eloquently about for the last five years.

We are not at present experiencing the same tensions as we did in 1974—with growing radical tactics of the developing countries, a tight alliance between the OPEC cartel and the developing countries. In fact, the developing countries appear, for the time being, to be convinced that they may after all have a place in US foreign policy. Kissinger's UN and UNCTAD speeches<sup>3</sup> made some progress in re-establishing a rea-

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<sup>3</sup> For the text of Kissinger's speech to the Seventh Special Session of the UN General Assembly, which he was unable to deliver but Moynihan read in his stead on September 1, 1975, see the Department of State *Bulletin*, September 22, 1975, pp. 425–441. The text of Kissinger's address at UNCTAD IV in Nairobi on May 6, 1976, is in the Department of State *Bulletin*, May 31, 1976, pp. 657–672.

sonable relationship with these countries at the multilateral level; they are now waiting to see if Carter delivers on what he implied would be a more forthcoming position.

*The Commodity Issue*

The only specific North-South issue to be discussed is the US approach to commodities.<sup>4</sup> The developing countries see commodities as one of the fundamental issues of the New International Economic Order. In particular, they are pressing for direct government intervention in markets and indirect resource transfer through such means as indexation of commodity prices and LDC-controlled Common Fund to finance buffer stocks for a range of commodities. The Group of 77—supported by the UNCTAD Secretariat—has made the Common Fund a major political objective.

The US objective is to redirect the substance of the North-South dialogue into areas that will improve the international economic structure to the benefit of all countries, rather than fundamentally change it—especially because most economists believe that the demands of the developing countries in the commodity area are extreme, and would ultimately redound to the disadvantage of most of them. We have, therefore, rejected direct regulation of commodity markets and stressed instead case-by-case improvement of existing markets, liberalized trade, stabilization of LDC export earnings and more orderly conditions for investment in developing countries. While from an economic point of view this is the soundest approach, we also want to be politically sensitive in this area in order to prevent commodity issues from becoming an obstacle to improved relations with the developing countries—thus we wish to avoid a new confrontation over this issue.

There are five separate aspects to the commodity issue:

—With respect to how many commodities will the US agree to, and participate in, price stabilization arrangements, including buffer stocks, as well as other measures to improve the functioning of the market.

—Should the US support further liberalization of arrangements to ensure the stability of export earnings of developing countries heavily dependent on commodity exports?

—Should the US support measures to improve the availability of financing of buffer stocks?

—Should the US encourage or guarantee any investment in commodity production in LDCs?

—Should any new institutional arrangements for dealing with commodities be proposed?

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<sup>4</sup> A February 25 paper entitled "Presidential Review Memorandum #8: Commodities Options" is in the Carter Library, National Security Council, Institutional Files, Box 25, PRM-08 (1 of 3) [1].

There are four options which touch on these issues:

*Option 1:* Oppose any significant movement in the commodity field (i.e. continue our case-by-case policy in individual commodities, reflect a disinclination to agree to any international stabilization measures, including any buffer stocks, and oppose all versions of common funding). This would reflect the low priority we attach to commodities as opposed to other aspects of North-South relations, and may induce a greater sense of realism in other countries; *but* it runs a strong risk of provoking a major blow-up in North-South relations, will be opposed by our developed country allies and get the Administration off on a sour international note.

*Option 2:* Continue case-by-case approach combined with initiatives on several selective commodities, including a clearing-house arrangement to allow one commodity buffer stock to lend to another. This demonstrates a bit more flexibility and avoids the need to seek Congressional appropriation of funds prior to, and in the absence of, agreement on individual buffer stocks, *but* it falls far short of the LDC desires, and will probably produce a blow-up.<sup>5</sup>

*Option 3:* A more integrated approach involving the establishment of a "central depository" into which individual buffer stocks could deposit funds and borrow money, along with a more active effort to identify possibilities for negotiating commodity agreements, including buffer stocks. (This could also include the variant of putting the "central depository" within the IMF-World Bank framework.) This would be a more integrated program than Options 1 and 2, provide a Common Fund type feature by allowing individual buffer stock facilities to borrow from the IMF if funds were required and would thus be reasonably well received by the developing countries and would still enable the US to exercise control over individual commodity negotiations; *but* it would be criticized as inadequate by the more militant developing nations, be criticized in the Congress as turning the IMF into a development institution, and would be non-negotiable in UNCTAD.

*Option 4:* Accept the Common Fund and its "anti-market" approach. This would be well received by the developing countries, ease pressure on the US and enable us to make trade-offs in other areas of North-South relations; *but* by reducing financing constraints, it increases the possibility of ill-conceived buffer stock arrangements, reduces our negotiating leverage with respect to individual commodities, and will be strongly opposed in the Congress.<sup>6</sup>

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<sup>5</sup> In the margin adjacent to and between Option 1 and Option 2, Brzezinski wrote: "unites radicals/moderates."

<sup>6</sup> In the margin adjacent to Option 3 and Option 4, Brzezinski wrote: "1—consider with JC, explain; 2—political need; 3—divides radicals/moderates; 4—pt. toward a more comprehensive long-term N-S strategy."

We recommend that you avoid entering into the debate among these various proposals although you may wish to question whether:

—Each of the options has the correct balance between political and economic considerations.

—Whether by doing more in other (non-commodity) areas of the North-South relationship, we can buy more support among the LDCs for a less forthcoming US position on commodities; how we can gain support from the moderates for an economically reasonable package.

—Whether our indicating in advance our willingness to be forthcoming with respect to negotiation in certain individual commodities (e.g. copper and rubber) would buy support among important countries enough to moderate demands for more extreme generalized measures.

#### *The Broader North-South Issue*

The second paper to be discussed at the meeting is the State draft (not yet received by us) of an “overview” to North-South relations<sup>7</sup> which, at last writing, was almost totally lacking in longer-term conceptualization of North-South relations. It is a source of distress to many bureaus in State and representatives of OMB who are looking for a longer-term analysis and orientation.

Perhaps one exchange—between Dick Cooper and Jules Katz—captures the issue at stake and the need for your presence on Saturday.<sup>8</sup> When examining all the papers prepared for the EPG early this week, Cooper expressed his mild surprise that there was no paper on Law of the Sea problems, to which Katz responded, “But Dick, that’s not a North-South issue”. This exchange suggests how seriously an integrative and conceptual track—focusing on longer-term political, security, humanitarian and organizational aspects of North-South relations—is needed as a fundamental part of the PRM–8 study, and how appropriate your presence to express this message would be on Saturday morning.

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<sup>7</sup> Cooper circulated an undated summary of a paper entitled “PRM–8: Institutional, Political and Conceptual Aspects of North/South Strategy” to EPG members under cover of a February 25 memorandum. (Carter Library, National Security Council, Institutional Files, Box 25, PRM–08 (1 of 3) [1])

<sup>8</sup> February 26.

258. **Memorandum From the Assistant Secretary of the Treasury for International Affairs-Designate (Bergsten) to Secretary of the Treasury Blumenthal<sup>1</sup>**

Washington, February 28, 1977

SUBJECT

My IDA V Negotiations in Paris

There were five noteworthy results of my negotiations in Paris last Friday:<sup>2</sup>

1. *The technical details surrounding the IDA V replenishment were resolved to the satisfaction of most, but not all, of the other donor countries.* The meeting was proposed by McNamara because of our decision to seek Congressional authorizations of future U.S. contributions "subject to appropriations,"<sup>3</sup> and the resulting uneasiness of some other donor countries that the U.S. pledge would hence be "conditional". Most of the group accepted our proposal to leave the IDA resolution unchanged, with clear language in the accompanying report which recognizes the "new" U.S. practice. However, the Germans have not yet committed themselves to the proposed approach—and the Japanese, French and Swedes are hiding behind the Germans. It still *seems likely that the agreement can be finalized at Vienna on March 14–15, as scheduled, but it is not certain.*<sup>4</sup>

2. We agreed that the IDA V replenishment would become active only upon appropriation of the first annual U.S. tranche (as well as the three-year authorization); the donors would meet to reconsider the sit-

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, DA-7-1-2 International Development Association (IDA). No classification marking. Reviewed by Godley on March 2 and Hessler on March 3. Copies were sent to Solomon and Deputy Assistant Secretary of State for Economic and Business Affairs Paul Boeker. A stamped notation at the top of the page reads: "Noted by W.M.B."

<sup>2</sup> February 25.

<sup>3</sup> In a February 24 memorandum to Blumenthal on his upcoming meeting with the IDA Deputies, Bergsten noted this decision was "required by the Budget Act. My position, and that of the World Bank, is that this 'change' is simply an explicit recognition of the de facto situation and that existing Bank practices can continue, unaltered." (National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, DA-7-1-2 International Development Association (IDA))

<sup>4</sup> On March 15 in Vienna, the IDA Deputies agreed on the terms of the fifth IDA replenishment, totaling \$7.6 billion; the U.S. contribution would be \$2.4 billion. (Telegram 2052 from Vienna, March 16; National Archives, RG 59, Central Foreign Policy File, D770090-0515)

uation if there is any slippage.<sup>5</sup> This will place maximum pressure on the Congress to come through, but is fully consistent with all of our understandings with them. In addition, any cuts in the IDA appropriation can be attributed to our (delayed) contribution to IDA IV—so *the Administration maintains great flexibility* domestically. (Needless to say, this latter possibility must be held extremely closely.)

3. For its part, the *IDA management agreed*—for the first time—to *stop committing U.S. capital before it is appropriated*. I regard this as *a major step forward*. Current IDA practice is both fiscally imprudent and extremely damaging to our position with the Congress, which is just getting on to the fact that its appropriation prerogatives have been badly undermined by such advance commitments.

4. *The other donors, with varying degrees of enthusiasm, appeared to accept our call for a thorough review of the future allocation of IDA lending*—hopefully leading to a much lower share for India (now getting 40 percent) with more going to Egypt, Africa and perhaps others.<sup>6</sup> They recognized that there has been no such review since mid-1973, despite massive changes in the world economic situation. We should pursue this initiative through the Executive Board at the World Bank, and I raised the issue with McNamara today. DELIVERY ON THIS ISSUE WILL, IN MY JUDGMENT, GO FARTHER THAN ANY OTHER SINGLE STEP TO RESTORE CONGRESSIONAL SUPPORT FOR OUR IDA, AND PERHAPS OVERALL IFI, REQUESTS—and it makes sense in both economic and international political terms as well.

5. Most important of all, the session *began a process—which will necessarily be slow—of restoring others' faith in U.S. policy* in this area. Several speakers candidly said that they distrusted the last Administration, or at least did not know where it stood. They believe that we are sincere, are working hard, and may be able to deliver. Last Wednesday's<sup>7</sup> approval by the House Appropriations Subcommittee of our long-

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<sup>5</sup> The terms of the replenishment included "a procedure whereby the United States in signing up for IDA V must make an unqualified commitment for the first installment of \$800 million and may make a qualified commitment (subject to appropriations from the Congress) for the second and third installments." The rules governing the activation of the second and third installments were structured so as "to require a full appropriation of the US share each year for the replenishment to proceed as planned." If need be, the IDA Deputies could convene in order "to consider what steps to take to obtain the necessary commitments." (Ibid.)

<sup>6</sup> In his February 24 memorandum to Blumenthal (see footnote 3 above), Bergsten noted that he intended "to begin the process of seeking support from other donors for cutting India's share of IDA lending (now 40 percent) and raising the share of Egypt, several African countries and perhaps several in the Far East. Such a shift is necessary on equity and economic grounds, as well [as] in response to intense Congressional pressure. State fully agrees with us, and indeed is calling in the Indians today to inform them of our new posture."

<sup>7</sup> February 23.

outstanding \$55 million contribution to the first (FY 1976) tranche of IDA IV was of great help. *But there is still much skepticism, and our policies will have to be credible at every step of the way if we are to restore full confidence.*

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**259. Memorandum From Robert Hormats of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, March 4, 1977

SUBJECT

Presidential Message on Foreign Assistance

Attached at Tab B is a memo from Christopher and Blumenthal requesting a Presidential statement on foreign assistance and a Presidential meeting with Congressmen who play critical roles in this legislation.<sup>2</sup>

I agree. If anything, the memo understates the need for forceful Presidential involvement. This is critical if we are to obtain the full requests for multilateral and bilateral assistance, which are vital to our position in the North-South dialogue. The President will have to make a particularly strong pitch in the case of the International Development Association (IDA), for which we are requesting \$2.4 billion for a 3-year authorization and an \$800 million appropriation for 1978. (Inouye was skeptical of multilateral assistance during Vance's testimony last week,<sup>3</sup> and the House Appropriations Subcommittee cut the Asian Development Bank and the Inter-American Development Bank.)

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 93, Foreign Assistance: 1-6/77. Confidential. Sent for action. Hansen and Thornton concurred.

<sup>2</sup> Tab B, attached but not printed, is a February 19 memorandum from Blumenthal and Christopher to Carter entitled "Congressional Hearings on Foreign Assistance." Lake discussed Congress and the foreign aid program in a March 4 memorandum to Christopher. (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977-January 1981, Lot 82D298, Box 2, S/P-Lake Papers—3/1-3/15/77)

<sup>3</sup> Vance testified before the Senate Appropriations Subcommittee on Foreign Operations on February 24. (Bernard Gwertzman, "Security Links Cited," *The New York Times*, February 25, 1977, p. 1)



At Tab A is a Presidential message based on a draft by State and Treasury; OMB has approved those portions relating to the budget.<sup>4</sup> The message focuses on the need for international cooperation in dealing not only with the issues of economic development but also with matters of critical concern to the developed nations, such as the evolution of a stable world economy.

We have discussed the message at length with the speech writers; they wish to limit such messages to straightforward descriptions of the legislation. Fallows would like to drop the first three paragraphs of foreign policy context—already cut down from two pages—but is willing to put the decision to the President. I believe strongly that we need this language to emphasize to Congress the importance of these programs and the President's commitment to them.

Regarding a scenario for the Congressional meeting with the President, I suggest the following, which I have discussed with the Congressional relations people:

—Obtain Presidential approval of the aid message (Tab A) and of a meeting with the Congressmen. The message could be released on Monday, or after the Wednesday meeting.<sup>5</sup>

—President would discuss the message at the Tuesday leadership meeting,<sup>6</sup> summarize his approach to aid, and indicate his desire for a Congressional meeting on Wednesday.

—Because Inouye's Senate Appropriations Subcommittee may mark up the FY-77 supplemental on Tuesday, a Presidential call on Monday (or a call from Frank Moore) would be important both to inform Inouye of the Wednesday meeting with the President and to encourage him to be forthcoming in his workup.<sup>7</sup>

#### RECOMMENDATION

That you sign the memo to the President at Tab I recommending that he approve the message at Tab A and agree to meet with key Congressmen.<sup>8</sup>

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<sup>4</sup> Tab A, attached but not printed, is an undated paper entitled "Presidential Message on Foreign Assistance."

<sup>5</sup> Monday, March 7, and Wednesday, March 9.

<sup>6</sup> On Tuesday, March 8, Carter met with Democratic Congressional leaders for a breakfast meeting in the White House first floor private dining room from 8:02 until 9:17 a.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation of the meeting was found.

<sup>7</sup> Carter did not speak to Inouye by telephone on March 7. (Ibid.)

<sup>8</sup> Tab I, attached but not printed, is a March 7 memorandum from Brzezinski to Carter entitled "Your Tuesday Leadership Meeting (Foreign Assistance)." On March 17, Carter sent Congress a message on foreign assistance; for the text of the message, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book 1, pp. 455–458.

## 260. Memorandum of Conversation<sup>1</sup>

Washington, March 9, 1977, 8:15 a.m.

### SUBJECT

Foreign Assistance

### PARTICIPANTS

The President  
Secretary Vance  
Secretary Blumenthal  
Secretary Bergland  
Director-designate Gilligan  
Senator Sparkman  
Senator Inouye  
Senator Humphrey  
Senator Long  
Senator Case  
Senator Young  
Speaker O'Neill  
Congressman Mahon  
Congressman Zablocki  
Congressman Harrington  
Congressman Long  
Congressman Cederberg  
Congressman Stanton  
Congressman Foley  
Congressman Reuss  
Congressman C.W. Young  
Douglas J. Bennet, Jr.

*The President* opened by stating that he was willing to take a large share of the political heat for this year's foreign aid bill because of its importance to our foreign policy at a critical moment. We have new opportunities for gains in Africa and Latin America if we have the flexibility to deal with them. OPEC is willing to help. We must back up our human rights commitment.

*Secretary Vance* then outlined the components of the \$1.7 billion increase—\$1.3 billion for IFI's, of which \$1 billion is callable capital being appropriated for the first time.

*The President* then acknowledged difficulties with the aid program in the past which have become important symbols: World Bank salaries, the fact that 40 per cent of IDA funds go to India alone, the

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 34, Memcons: President: 3/77. Confidential. The meeting, which took place in the Cabinet Room, began at 8:15 and ended at 9:06 a.m. (Carter Library, Presidential Materials, President's Daily Diary)

over-concentration of administrators who live in relative opulence in Washington and other capitals. The Administration is seeking to address each of these issues.

*Congressman Reuss* agreed on the need to support IFI's. He volunteered the desirability of a "Congressional declaration supporting the Administration view that human rights are important and that we will use our vote and any other leverage in the IFI's to advance human rights." The Administration faces a moment of truth tomorrow on two multilateral loans to Argentina.

*The President* replied that the Administration would "err on the side of human rights" decisions involving multilateral loans. He stated, however, that there can be no absolute standards as the Korean case shows.<sup>2</sup> A declaration by Congress with regard to human rights in the IFI's would be fine, the President said, as long as it left the Administration some flexibility.<sup>3</sup>

*The President* noted that the IFI's have exerted "conservative lending pressure" on borrowers which has been healthy for inflation control.

*Senator Humphrey* noted that while India gets 40 per cent of IDA loans, it is not at the top of the list on a per capita basis. The President stated that India had made remarkable progress recently not only because of good crops, but in human rights as Mrs. Gandhi has taken steps away from totalitarianism.

*Senator Case* switched the discussion to his concern that foreign assistance decisions should not be contingent upon any U.S. domestic pressures. It has been argued, he said, that U.S. assistance is actually spent in the U.S. and benefits American industries, that P.L. 480 helps

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<sup>2</sup> Speaking before the Senate Appropriations Subcommittee on Foreign Operations on February 24, Vance announced reductions in U.S. assistance to Argentina, Uruguay, and Ethiopia on the grounds of their poor human rights records; Vance noted, however, that assistance to strategically important countries like South Korea would not be cut. (Bernard Gwertzman, "Security Links Cited," *The New York Times*, February 25, 1977, p. 1)

<sup>3</sup> In a March 11 memorandum to Carter, Blumenthal noted that after Carter's March 9 meeting with Congressional leaders, "*Henry Reuss agreed informally with Treasury and State on a draft of legislation directing the U.S. to advance the cause of human rights in its participation in the international financial institutions.* The draft would leave intact the legislative requirements (the Harkin amendment) that already exist for the Inter-American Development Bank, which we feel is necessary if Harkin and other proponents of mandatory voting provisions are to be brought along. We feel that the Reuss draft is the best obtainable in the circumstances." Carter initialed Blumenthal's memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 21, Treasury Department: 2/77-3/78) The Harkin Amendment was attached to P.L. 94-302, a 1976 law governing U.S. participation in the IDB and ADF. The amendment authorized the U.S. IDB Executive Director and the U.S. ADF Governor to vote against loans for countries whose governments violated human rights.

American agriculture, and so forth. In the long run, it would be better to separate our parochial interests from our foreign policy objectives to achieve flexibility in meeting the latter. *Congressman Long* nodded approval throughout Case's remarks. *Senator Humphrey* subsequently noted that Case's position was not realistic politically because much of the support for our aid program came from farmers, for example, who perceived the benefits of P.L. 480.

*Senator Inouye* noted that the Senate had supported foreign aid vigorously for the last four years but expressed several concerns of his own:

—U.S. IFI contributions should be no more than 25 per cent. The President subsequently agreed that this was a desirable policy objective, but as Secretary Blumenthal concurred, it would take several years to achieve.

—We are picking up 70 per cent of the cost of the U.N. drug agency whose work is largely devoted to Europe and which has a very small impact on heroin imports to the United States.

—While others charge that we contribute only .26 per cent of our gross national product to aid, that figure covers development assistance alone, does not include military assistance (including aid to Israel), callable capital, Ex-Im Bank loans, P.L. 480, etc. Nor does it include the fact that we spend 6 per cent of our GNP for defense while nations like Japan, whom we in fact defend, are spending less than 1 per cent. *Senator Humphrey* observed that the figures can hardly be totalled since the Ex-Im Bank is a money maker, the callable capital hasn't been called, and P.L. 480 does as much good for our farmers as its beneficiaries.

*Chairman Mahon* stated that foreign aid in general was highly unpopular in Congress and that it passed only because of the Middle East package. The House will not approve a \$7 billion package, he predicts. *Chairman Zablocki*, *Congressman Cederberg* and *Congressman Long* agreed. *The President* reiterated the Administration's intention to deal with Congressional concern, but also stated that the public will support a cleaned up program adequately focused on human needs.

*Congressman Long* expressed concern about contradictions he perceives within the Administration's position. The same Administration which preaches openness wishes to turn over a larger share of aid dollars to international institutions which escape Congressional control, whose operations are secret, and for which no adequate audit is available. This is why he opposed the 40 per cent increase in aid to multilaterals.

Secondly, he said we preach reduction in conventional arms availability at the same time we give countries (who are spending their own resources for arms) IDA loans which are virtually free.

From these contradictions, *Congressman Long* concludes that our best option is to improve our own already excellent bilateral aid program and reduce emphasis on IFI's.

*Congressman Cederberg* supported Reuss's initiative to retain the President's flexibility on IFI's. *Congressman Stanton* emphasized the need to reach new members of the affected committees to build up support.

*Secretary Blumenthal* stated that we are appointing strong new directors to the IFI's who, he hoped, would be able to deal with many of the concerns that had been raised. Achieving the 25 per cent limit would require time, and he hoped it could be done by getting contributions *increased* from others.<sup>4</sup>

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<sup>4</sup>On March 16, Hormats forwarded this memorandum of conversation to Brzezinski, noting that it "essentially square[d] with" his notes on the meeting. Hormats asserted: "The tone of this meeting demonstrated the importance of the President putting a significant amount of political capital behind the aid program if appropriation requests are to be passed by the Congress. As I have noted before, foreign assistance is the area in which we can do the most for the developing countries. Without a strong aid performance by the US, our credibility as a nation concerned with poverty will be eroded, our influence in other areas of the North-South dialogue will be jeopardized, and our ability to resist some of the more extreme demands of the developing nations will be weakened." (Memorandum from Hormats to Brzezinski, March 16; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 34, Memcons: President: 3/77)

**261. Memorandum From the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, March 9, 1977

TO

The Vice President  
The Secretary of State

ALSO

The Secretary of the Treasury  
The Secretary of Agriculture  
The Secretary of Commerce  
The Secretary of Labor  
The Director, Office of Management and Budget  
The Chairman, Council of Economic Advisers  
The United States Representative to the United Nations  
The Special Representative for Trade Negotiations  
The Director of Central Intelligence  
The Assistant to the President for Energy Policy  
The Administrator, Agency for International Development

SUBJECT

Second Stage of PRM 8 Preparation

The work of the Economic Policy Group on PRM 8 (North-South Relations) is close to completion. It will provide the necessary analysis, options and recommendations to complete preparations for the March "Common Fund" negotiations<sup>2</sup> and the CIEC negotiations which will follow in May. Since the negotiating calendar has of necessity forced the EPG to concentrate virtually all its attention on short-term economic issues, a decision has been made to constitute a PRC Working Group to examine the longer term and essentially *political* aspects of North-South relations concerning which the President requested analysis and the presentation of options in the initial PRM 8 instructions.<sup>3</sup>

The PRC Working Group will fulfill that original assignment through an analysis and presentation of options which focus upon the broad political, security, humanitarian and organizational/institutional

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 1 of 3 [2]. Secret. Hansen sent a draft of this memorandum to Brzezinski and Aaron under cover of a March 9 memorandum; Aaron wrote on Hansen's memorandum: "ZB—Expect some blowback by State that *they* are not chairing it." (Ibid.)

<sup>2</sup> The first session of the UN Negotiating Conference on the Common Fund took place March 7–April 3 under the auspices of UNCTAD. For more information, see *Yearbook of the United Nations*, 1977, p. 472.

<sup>3</sup> See Document 254.

aspects of North-South relations seen in a 4–8 year time frame. The Group will use the basic analysis of the EPG as a starting point in relating the economic to the political aspects of North-South relations.

The Working Group will be chaired by Roger Hansen of the NSC. I would appreciate your designation of a representative with whom Mr. Hansen can consult in constituting the Working Group, bearing in mind that the task of the group is to examine the essentially political and overall diplomatic aspects of the North-South relationships, not to repeat the economic exercise already performed by the EPG.<sup>4</sup>

**Zbigniew Brzezinski**

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<sup>4</sup> Hansen noted that, in an earlier draft of this memorandum, his intention in the final paragraph was “to find wording which will give us the flexibility to make sure that we get the people we want on the Group, not simply those assigned by ‘the system’.” Hansen suggested that “[i]f the NSC retains the right to ‘negotiate’ on the constitution of the Group it should be much easier (1) to limit its size (some agencies may not even insist on being represented, and I would hope they don’t), and (2) to assure the presence of the people most qualified to participate fruitfully in this kind of exercise.” The goal, suggested Hansen, was “to produce a document with some provocative and novel options which are still ‘sound’ enough to assure the exercise a serious hearing.” (Memorandum from Hansen to Brzezinski and Aaron, undated; Carter Library, National Security Council, Institutional Files, Box 26, PRM–08 1 of 3 [2])

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## **262. Memorandum From Acting Secretary of State Christopher to President Carter<sup>1</sup>**

Washington, April 1, 1977

[Omitted here is discussion unrelated to the Reuss Amendment.]

*The Reuss Amendment.* You raised a question about the implications of the Reuss Amendment (attached)<sup>2</sup> to authorizing legislation for the

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 18, Evening Reports (State): 4/77. Secret. Carter wrote at the top of the page: “To Cy, cc Zbig. J.C.”

<sup>2</sup> Not attached. The Reuss Amendment (H.R. 5262), which was to apply to U.S. participation in international financial institutions, directed “that the United States, ‘in connection with its voice and vote, shall advance the cause of human rights, including by seeking to channel assistance toward countries other than those whose governments engage in a consistent pattern of gross violation of internationally recognized human rights, such as torture, or cruel, inhumane or degrading treatment or punishment.’” (Bernard Gwertzman, “U.S. Backs a Move For a Rights Curb On Overseas Loans,” *The New York Times*, March 24, 1977, p. A5)

international financial institutions (IFI's).<sup>3</sup> We have supported the Reuss approach as preferable to the extension of the more restrictive Harkin Amendment<sup>4</sup> adopted in the last session to all of the IFI's. The Harkin Amendment requires us to vote against loans from the Inter-American Bank and the African Development Fund to countries which are gross human rights violators, unless the loans benefit the needy. This approach grew out of Congressional frustration with the lack of action on human rights in the previous Administration. We regard the Harkin Amendment as a very awkward tool, which tends to politicize the IFI's and divide recipients and donors into two camps.

Our support of the Reuss Amendment may be paying off. In the House, the Banking Committee agreed to repeal the Harkin Amendment in favor of the Reuss approach. It is likely that the Committee will be able to sustain its action on the floor although the going will be difficult. Senate Foreign Relations is also in the process of replacing Harkin with a Humphrey Amendment similar to the Reuss Amendment.<sup>5</sup>

Congress is almost certain to enact human rights provisions in authorizing legislation for the IFI's. But the current trend in the Congress is away from the rigid positions of the past and toward giving the Administration greater flexibility. We, in turn, must work quietly in the IFI's to ensure that they are more sensitive to the human rights concerns.<sup>6</sup>

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<sup>3</sup> In a March 23 Evening Report to Carter, Vance noted that during his appearance that day before the Senate Foreign Relations Committee, there had been a prolonged discussion of human rights and foreign aid. Vance reported: "When asked about our position on how to handle human rights in the international financial institutions, I said that we supported the human rights provision in Reuss' bill authorizing our contributions to the IFIs." Carter wrote in the margin below this sentence: "This concerns me. Please briefly assess ultimate consequences." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 18, Evening Reports (State): 3/77) The March 24 edition of *The New York Times* contains a report on Vance's March 23 appearance before Congress. (Bernard Gwertzman, "U.S. Backs a Move For a Rights Curb On Overseas Loans," *The New York Times*, March 24, 1977, p. A5)

<sup>4</sup> See footnote 3, Document 260.

<sup>5</sup> Carter wrote "ok" in the margin adjacent to this paragraph.

<sup>6</sup> On April 6, the House of Representatives rejected the approach of the Reuss Amendment in favor of directing U.S. IFI representatives to vote against loans for countries whose governments violated human rights. ("Carter is Rebuffed by House on Rights," *The New York Times*, April 7, 1977, p. 1) On October 3, Carter signed H.R. 5262 into law. The act, which regulated U.S. participation in a number of international financial institutions, directed U.S. representatives in the IBRD, IDA, IFC, IDB, ADF, and ADB to vote against loans for countries whose governments violated human rights. For additional documentation on human rights and U.S. participation in international financial institutions, see *Foreign Relations, 1977-1980*, vol. II, Human Rights and Humanitarian Affairs.



**263. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, April 14, 1977

## SUBJECT

Completion of EPG Work on PRM-8—North-South Issues

Mike Blumenthal's memo (Tab A) reports on the EPG review of the economic aspects of North-South policy. It identifies four major issues requiring your decision prior to the Summit and the Conference on International Economic Cooperation (CIEC). Following your decision, we will promptly seek Congressional support and build support among our allies and key LDCs.

In sum, your affirmative decisions on the most important of these four issues, coupled with the more forthcoming position already agreed upon by the EPG in a number of other areas—including softening aid terms, improved procedures for assessing LDC debt problems and a willingness to negotiate an international grains reserve—will represent a positive, but not dramatic, movement in the US position toward the LDCs.

The LDCs will doubtless want more; and a number of smaller industrialized countries may sympathize with the LDC demands. However, it is the view of your advisors that our proposals achieve the proper balance between being politically forthcoming and economically sound, and are important steps in a positive direction. The larger developed countries (Germany, Japan and probably the UK) will be highly supportive; and a number of LDCs will also regard them as constructive.

The key to how our position is received by the LDCs as a group, and whether CIEC will be seen as a "success" or "failure," will be whether we can convince influential LDCs that (a) our proposals represent a positive first step by the Carter Administration, and that (b) although the proposals do not meet their every expectation, the LDCs do have more to gain by accepting them as a sincere effort, pointing to the CIEC as a positive step, and continuing the cooperative process than by decrying them as unacceptable and returning to the confrontation of 1974. (We believe that our proposals, and others developed in CIEC, will be adequate to avoid a new confrontation, but there is no cer-

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<sup>1</sup>Source: Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 1 of 3 [2]. Confidential. Sent for action. Aaron initialed the memorandum on Brzezinski's behalf. Carter wrote at the top of the page: "Don't announce our position until I approve. J."

tainty.) In order to encourage the LDCs toward the more constructive of these two outcomes, we will consult actively with them prior to the next meeting of the CIEC at official level (April 26–27).

With regard to the specific issues:

*Issue 1. All agencies agree that the US should support a common fund which permits a pooling of the funds of various buffer stocks and includes a provision for World Bank lending to supplement these funds. This will be seen as a demonstration of US flexibility, although it will not meet all the demands of the LDCs.<sup>2</sup>*

*Issue 2. All agencies recommend that the US negotiate a substantial World Bank general capital increase—which is important to many of the medium-income LDCs, particularly in Latin America—and indicate our willingness to do so at the Summit and/or at the CIEC Ministerial.<sup>3</sup>*

*Issue 3. The agencies agree on the desirability of a public pledge by the US to seek major increases in foreign aid, but they differ on specifics—whether to announce our intention to seek a five-year doubling of aid appropriations (from the FY 77 base) or only to signal an intention to seek substantial increases. State, AID, HUD and Labor support the “doubling” option. Treasury, OMB, CEA and Commerce prefer the “substantial increase” option.*

There is a risk in offending Congress by an implied pre-commitment to double aid, which could endanger aid increases we are now seeking for FY 78, and there would be advantages to avoiding such an announcement before completing our aid review. However, a “doubling” announcement would demonstrate a sustained multi-year Administration commitment which might help deter annual piecemeal, Congressional cuts, and it might help stimulate similar efforts from Germany, Japan and OPEC.

A pledge to seek major increases in foreign assistance is highly important and I recommend that you approve it. A “doubling” announcement, although beneficial from a foreign policy perspective, is not as critical; a commitment to a “substantial increase” would also be quite useful.

Approve pledge to seek a “substantial increase in foreign aid”

Announce intent to seek a “doubling of aid appropriations”

Disapprove<sup>4</sup>

<sup>2</sup> Carter indicated his approval of this recommendation.

<sup>3</sup> Carter indicated his approval of this recommendation, writing in the adjacent margin “for hard loans.”

<sup>4</sup> Carter indicated his disapproval of this recommendation, writing in the margin “‘more effective aid’ ok.”

*Issue 4. The Europeans believe that a \$1 billion increase in industrialized country aid to the poorest LDCs, with similar action from OPEC, is critical to the success of CIEC. The point is tactical, although the poorest countries certainly need the money. Such a commitment could, by demonstrating support for the lowest income developing nations, enable CIEC to claim a major success. By supporting this European proposal, we would be better able to convince the Europeans to support our initiatives; our failure to support the Europeans might cause a split.*

Our agreeing on this proposal would entail seeking in our regular FY 79 bilateral aid programs, \$300 million above the FY 77 request for the poorest countries. All agencies except OMB, which prefers to wait until this can be examined in the FY 79 budget context, support this recommendation. This proposal could well be a key swing factor in ensuring a “successful” CIEC; I recommend that you approve it.<sup>5</sup>

## Tab A

### Memorandum From the Chairman of the Economic Policy Group (Blumenthal) to President Carter<sup>6</sup>

Washington, April 9, 1977

#### SUBJECT

North/South Economic Strategy: Major Decisions Issues

The EPG has reviewed the economic aspects of North-South policy. Tab 1 summarizes the EPG’s discussions/recommendations on various elements of our overall strategy. *This memorandum covers four major issues highlighted by the EPG review which require your early decision in view of pressures arising from the Summit and CIEC. In each case, if you approve our recommendations we will seek Congressional support prior to consulting with our OECD partners.*

#### *Decision Issue 1—Common Fund for Buffer Stocks*

*Issue: The developing nations have placed a great political priority on the establishment of a common fund for financing commodity buffer stocks. We are now being pressed to further specify our policy and should be prepared to take a clear position by the Summit or CIEC Ministerial.*

*Background: The less developed countries (LDCs) are backing a \$6 billion common fund which they could control. They want to establish the*

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<sup>5</sup> Carter indicated his approval of this recommendation.

<sup>6</sup> Confidential. Sent through Brzezinski who did not initial the memorandum.

fund prior to concluding new individual commodity agreements. In current negotiations we have expressed willingness to consider a common funding arrangement for financing buffer stocks where they are part of commodity agreements. The European Community has just gone one step further by stating unconditionally that it will support the establishment of a common fund—but clearly not the one proposed by the LDCs.

We do not recommend a commitment by the US to a common fund now, but need to lay the groundwork with the Congress in coming weeks.

*The common fund arrangement we believe we could eventually support is a pooling of buffer stock funds supported by some lending to the pool, preferably by the World Bank. Aside from any contributions which we would make to individual commodity agreements, we plan no budgetary outlays. While this position responds to the real problems in financing buffer stocks, the developing countries will find it wanting. If we have a positive US approach on aid, trade and individual commodity agreements, however, we believe our approach to a common fund will further an overall constructive U.S. stance in North-South relations.*

*Recommendation:*

The EPG *unanimously recommends* that you agree to the following approach as a basis for our consultations with Congress:

1. *We will consider participating in financing individual buffer stocks where direct government contributions are necessary.*

2. *We could support a common fund arrangement consisting of a) a pooling of the funds of various buffer stocks—preferably linked institutionally to the World Bank; and b) provision for the World Bank, on decision of its own board, to lend some supplementary funds to the pool, should extraordinary circumstances such as a severe recession cause most buffer stocks to draw all their funds from the pool. (Such World Bank loans would be financed from its regular capital resources.)*

3. *We are prepared to negotiate toward establishment of a common fund arrangement, parallel with specific commodity negotiations, but we believe one or more commodity agreements beyond the existing arrangements for cocoa and tin should be in place before a common fund arrangement is implemented.<sup>7</sup>*

*Decision Issue 2—World Bank Capital Increase*

*Issue: The World Bank will inevitably need an increase in its general capital to support a lending level beyond the current one. Should we participate, to what extent, and when?*

*Background: McNamara is pressing for an early decision on a large general capital increase for the World Bank. Politically we see great ad-*

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<sup>7</sup> Carter did not indicate his preference with respect to this recommendation.

*vantage in responding now* to such an increase as part of a forthcoming overall U.S. position on aid at the Summit and CIEC Ministerial. Increased World Bank resources would enable the Bank to expand lending in its normal programs. Also, *it would enable us to propose new departures in its lending to promote energy development in non-OPEC LDCs, to increase production of minerals in short supply, and to aid diversification in LDCs dependent on commodities with bleak long-term prospects.*

We believe an ultimate U.S. contribution to a World Bank capital increase could involve up to \$2 billion annually in FYs 81–83, with probably no more than 10% or \$200 million annually for 3 years representing cash outlays.

*Recommendation:*

*The EPG unanimously recommends that we agree at the Summit and/or CIEC Ministerial to negotiate a substantial World Bank general capital increase but leave the amounts and timing to be worked out in the Bank Board.*<sup>8</sup>

*Decision Issue 3—Strategy on Future Aid Levels*

*Issue: A forthcoming position on future aid levels is essential to meet long-term development needs. A commitment by the US now would pay major political dividends at the CIEC Ministerial. Should the US publicly pledge this spring to seek major increases in our aid, and if so, should we specify our plans in general or quantitative terms?*

*Background: The EPG unanimously agrees that our present aid levels need to increase to respond to the legitimate development needs of LDCs as well as to sustain our objective of a constructive US position in North-South relations. A key element of our Summit and CIEC strategy should, therefore, be a general undertaking with other major donor countries to increase substantially our foreign assistance over the coming years.*

*A significant increase in development assistance levels might take the form of doubling U.S. appropriations over the five years FYs 78–82 (from the base of \$5.8 billion in FY '77). Doubling would imply our seeking total U.S. aid appropriations of \$11.6 billion by 1982, compared to \$7.6 billion we are seeking for FY '78. A World Bank general capital increase (as described in the previous issue) would account for about \$1.5 billion of the increase. The remaining \$2.5 billion might be utilized in our bilateral development and food aid programs and in other multilateral pro-*

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<sup>8</sup> Carter did not indicate his preference with respect to this recommendation.

grams. Attached are some illustrative tables, but the program mix is very flexible (Tab 2).<sup>9</sup>

*Alternatively, you could announce a pledge to seek a substantial increase in future aid levels, but with no quantitative target.* Specific levels would continue to be decided on the basis of annual budget submissions.

If you agree to increasing aid levels, then the issue is how we express our pledge.

*Factors favoring an announcement to double our appropriations:*

—It could help to stimulate similar efforts of West Germany, Japan and other donors.

—It could provide a firmer basis for engaging the recipient countries in the policy and institutional reforms required for more effective use of development assistance.

—It would enable us to demonstrate a sustained commitment to development and thus might help deter the annual piecemeal Congressional cuts in our requests by placing them in a more appropriate multi-year context.

—It would provide a constructive US stance in the North-South dialogue in this critical first year of your Administration.

*Factors favoring a non-quantitative announcement:*

—The announcement of specific increases over coming years could offend Congress through the implied pre-commitment of its action, and this could endanger aid increases we are seeking now for FY 1978.

—We would be committing ourselves to specific levels before completing an overall review of our foreign assistance programs.

—It would not accord with the stated intent to conduct zero based budgetary reviews of all programs.

—A failure of Congress in future years to go along with quantitative targets would damage our relations with LDCs and other OECD countries.

*Recommendation:*

*The EPG unanimously recommends that you approve in principle a public pledge by the U.S. this Spring to seek major increases in foreign assistance.*<sup>10</sup>

*If you approve there are two options:*

*Option 1: Announce this Spring an Administration intention to seek a five-year doubling of U.S. foreign aid appropriations from the 1977 base. (State, AID, NSC, HUD, and Labor support this option.)*

<sup>9</sup> Attached but not printed is an undated table entitled "A Doubling of U.S. Foreign Aid Appropriations FY-77-FY-82: An Illustrative Breakdown by Program."

<sup>10</sup> Carter did not indicate his preference with respect to this recommendation.

*Option 2: Announce our intent to seek substantial increases in US aid over coming years. (Treasury, OMB, CEA, and Commerce support this option.)*<sup>11</sup>

*Decision Issue 4: Immediate Action on Additional Aid for the Poorest LDCs*

*Issue: The European Community (EC) places great importance on its plan to propose at CIEC a \$1 billion increase in industrial countries' aid to low-income LDCs to be complemented by similar action from OPEC countries. What should be our response?*

*Background: The EC believes that its proposal is critical to a successful CIEC outcome. We believe it is less important to the Ministerial, but would have serious coordination problems with the EC if we flatly refused to join in. Even if we did participate, however, we could not accept three features of the present EC plan: that the money come from 1978 appropriations, that it go to IDA, and that it be used for balance of payments support as opposed to specific projects. Compromises in these areas would have to be negotiated with the EC.*

*The advantages of joining the EC plan would be to improve our stance on North-South issues, bolster the final CIEC package, and improve OECD coordination. The principal disadvantage is that your FY '79 budget flexibility would be constrained. Moreover, it would be difficult to sell to the Congress, and as it now stands is of questionable substantive merit.*

*Recommendation:*

*That we inform the EC that we can participate in a special effort for the low income LDCs subject to the caveats noted above by declaring our intent to seek Congressional approval in FY '79 for \$300 million additional (over FY '77) for these countries in our regular bilateral aid programs. (We would also cite our requested FY '78 increase of \$100 million for these countries.)*

*State, Treasury, AID, NSC, Labor, HUD, and CEA support this recommendation. OMB believes a decision on FY '79 aid requests for these countries should await our examination of the entire FY '79 foreign assistance budget.*<sup>12</sup>

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<sup>11</sup> Carter did not indicate his preference with respect to either Option 1 or Option 2.

<sup>12</sup> Carter did not indicate his preference with respect to this recommendation.

**Tab 1**

**Paper Prepared by the Economic Policy Group<sup>13</sup>**

Washington, April 8, 1977

Review and Recommendations of Economic Issues  
in North/South Relations

1. *Should the U.S. improve the "quality" of its aid by softening terms, untying procurement, making multi-year appropriations, and enhancing the developmental focus of food assistance programs?*

Recommendation (1): Provide assistance *including food aid* to the least developed countries (29 countries identified by UNCTAD) primarily on a grant basis; (2) provided other donors take similar steps, untie bilateral assistance except security supporting assistance to the Middle East, food aid, and technical cooperation grants; (3) earmark minimum regular quantity of grain for multi-year food aid programming according to development criteria.

*LDC Position:* Developed countries should: provide all assistance for the poorest or least developed countries (LLDC's) by grants; untie all development assistance; increase the dependability of food aid; and commit to multi-year aid appropriations.

*Industrial Countries Position:* Despite some reluctance on the part of France and Canada, industrial countries are likely to support U.S. initiatives.

*Summit Action:* Inform our allies of what aid quality improvements we plan to adopt and seek assurances that our approach is consistent with their plans. Perhaps the Summit could recommend improving the quality of aid by donor countries.

*CIEC Action:* Seek: a uniform developed country commitment to U.S. proposals on the "quality" of aid; and an agreement that OECD negotiations on aid untying be accelerated to permit agreement in principle so that the results could be mentioned in the CIEC ministerial communique. We would seek comparable commitments from OPEC countries.

*Options Considered and Rejected:* TERMS. Adopt terms to individual debt servicing capacity and project characteristics while continuing to provide all development assistance as grants to LLDCs; give all bilateral assistance in grant form; provide AID development assistance to LDCs with per capita annual income under \$300 base essentially

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<sup>13</sup> Confidential.



through grants. UNTYING. Untie all development loans, except SSA; untie all AID bilateral assistance provided other donors untie their loans. MULTI-YEAR COMMITMENTS/PL 480 PROGRAMMING. Oppose multi-year programming; continue PL 480 program as it presently exists; abolish PL 480 Title I and appropriate equivalent dollar amount for additional official development assistance (ODA).

2. *Should some form of generalized debt relief be provided LDCs?* They desire additional resource transfers, and believe debt relief is more readily obtainable than additional foreign assistance. The issue has taken on disproportionate significance relative to its economic impact because of the importance accorded it by certain LDCs in terms of their political leadership among developing countries.

*Recommendation:* Continue to oppose all proposals for generalized debt rescheduling because: (a) the distribution of debt accumulation markedly mismatches current need of LDCs; (b) the U.S. would bear a disproportionate share of cost; (c) incentives for efficient LDC resource management would be reduced; (d) LDC creditworthiness in world capital markets could be undercut; and (e) there would be little development payout.

*LDC Position:* ODA loans outstanding to LLDCs should be converted to grants; ODA loans to the other poor countries should be rewritten on IDA terms or better; and debt relief (on unspecified terms) should be granted any other LDC requesting it.

*Industrial Countries Position:* Although the weight of industrial countries' opinion is against generalized debt relief, the industrial countries are not united. Strongest opponents of debt relief are the U.S., France, Germany and Japan; advocates are Sweden and the Benelux countries. EC unity is not easy to maintain because some regard debt relief as a low-cost pacifier of the LDCs (important because the EC depends heavily on trade with LDCs).

*Summit Action:* Be silent on this issue.

*CIEC Action:* Support existing U.S./EC proposals that: improve functioning of "Creditor Clubs"; provide a new mechanism for speedy assessment of LDCs with serious balance of payments difficulties (including debt service problems); and coordinate donor responses.

*Options Considered and Rejected:* Use debt relief as a normal means of transferring aid resources to LDCs; provide generalized debt relief on a one-time basis and limit the cost by controlling the number of recipients, terms of relief and the consolidation period.

3. *To what extent should the developed countries commit themselves to provide increased market access to developing country exports and how do we respond to domestic requests for increased protection against imports from LDCs?*

*Recommendation:* That the substance of the Tokyo Declaration be reaffirmed at the Summit,<sup>14</sup> while we try to make significant progress in the multilateral trade negotiations (MTN) on issues of interest to LDCs.

*LDC Position:* LDCs want DCs to remove restrictions on imports of LDC goods with no or very limited reciprocity on their part.

*Industrial Countries Position:* These countries generally favor a moderate and preferential liberalization of tariffs affecting LDCs, although with sufficient U.S. effort they might support a substantial but non-preferential reduction in tariffs.

*Summit Action:* The Summit declaration would reaffirm the general principles of the Tokyo declaration regarding LDCs.

*CIEC Action:* The industrial countries should commit themselves to make reductions in the MTN to barriers to LDC trade with a view to enabling LDCs to increase their share in world trade over time. LDCs would be expected to reciprocate in ways consistent with their development.

4. *Should the United States support international grain reserves that emphasize price stabilization?*

*Recommendation:* There should be speedily negotiated an international grain reserves system within the context of a general agreement on grains. Leave open the possibility of simultaneous inter-related bargaining in Geneva and London and the issue of whether to use a quantity or price trigger mechanism in the reserve.

*LDC Position:* Developed countries should bear the major burden of financing an international system of nationally-held grain reserves to provide food security in times of world crop shortfalls. These reserves should be made available to LDC's at concessional prices.

*Industrialized Countries Position:* Most other countries support the concept of price stabilization scheme for grains. They oppose further concessions for LDCs on prices of grain during periods of shortage.

*Summit Action:* Seek support in the Summit declaration for the concept of an international system of nationally-held reserves, without explicit agreement on details and endorse negotiations to this end, without prejudging the relation to the MTN.

*CIEC Action:* Seek G-8 agreement for a unified announcement that there should be negotiated an international grains reserve within the context of a general agreement on grains.

*Options Considered and Rejected:* United States has proposed a grain reserves system based on *solely* quantity triggers; other countries have suggested a price-trigger system.

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<sup>14</sup> For the text of the Tokyo Declaration, issued at the end of the September 1973 GATT Ministerial meeting, see the Department of State *Bulletin*, October 8, 1973, pp. 450-452.

5. *Should the IMF Compensatory Financing Facility (CFF) be further liberalized?* Drawings from the CFF played a significant role in meeting the financing needs of the LDCs in 1976. The chief advantage of expanding compensatory financing to offset downward fluctuations in LDC export is that it operates through income mechanisms rather than market intervention.

*Recommendation:* That we would sympathetically consider, without a prior commitment, liberalization of the IMF's CFF if quota limits become a binding constraint and IMF resources have been expanded.

*LDC Position:* The CFF should be liberalized by: (a) calculating shortfalls in real terms, (b) relaxing or abolishing quota limits, (c) requiring repayments only from export earnings above norm, just as drawings are now based on "shortfalls" in export earnings, (d) allowing LDCs to draw without "basing claims entirely on balance of payments criteria," (e) compensating for increased import volumes due to climatic or other factors beyond a country's own control, and (f) providing drawings in the form of grants in some cases.

*Industrial Countries Position:* This issue has not been actively discussed since the 1975 liberalization. The Germans are reported to be considering recommending a liberalization of the CFF in the Interim Committee.

*CIEC Action:* Let it be known that the U.S. would sympathetically consider, without prior commitment, increased compensatory financing once the two conditions outlined in the recommendation are met.

*Options Considered and Rejected:* Liberalize the CFF at this time.

6. *Should there be an expanded STABEX<sup>15</sup> Facility outside the IMF?* We could consider globalization of an European STABEX-type scheme and expand its coverage to more commodities.

*Recommendation:* That we not pursue a globalized expanded STABEX on the grounds that it would: (1) require additional Congressional appropriations; (2) lead to recurring LDCs' pressure for replenishment; (3) work outside the IMF framework—thus avoiding balance of payments need, IMF quota limits and mandatory repayment schedules.

*LDC Position:* The LDCs want compensation on highly concessional terms based on shortfalls in all commodity export earnings. They have expressed interest in CIEC in a Swedish proposal for a

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<sup>15</sup> An EC facility which lends money to countries when commodity earnings are below normal. It contains a highly concessional element for the low income countries. [Footnote in the original.]

global, highly concessional income stabilization scheme in the U.N. framework.

*Industrial Countries Position:* The EC, particularly Germany,<sup>16</sup> favors a globalized STABEX-type scheme, as does Sweden. Some elements in Germany believe such a scheme can substitute for the Common Fund and individual commodity agreements, a view we do not share.

*Summit Action:* Chancellor Schmidt has said he will raise the issue of a global STABEX. We should be prepared to explain our opposition to this approach.

*CIEC Action:* Same as the Summit.

7. *Should we take new initiatives towards Saudi Arabia to obtain Saudi cooperation in ensuring adequate quantities of energy at manageable prices?* The Saudis have expressed a concern over the safety and value of the surplus financial assets they are accumulating although this concern does not appear to have been an important factor affecting Saudi production policy thus far, and it is unclear whether it will become a constraining factor with regard to future production policy.

*Recommendation:* That, while we should be willing to discuss the OPEC assets issue if raised, we should not get out in front on the issue, and we should continue to oppose providing special treatment. Considerable further study is needed of the likely determinates of future Saudi production and pricing policy and of possible options for affecting Saudi policies. State and Dr. Schlesinger should work together to devise a U.S. position on overall international energy policies.

*LDC Position:* The non-OPEC members have only grudgingly supported the Saudi demands for special treatment of OPEC assets. They presumably would welcome an agreement which resulted in OPEC price moderation. Aside from the several other OPEC surplus countries (Kuwait and the UAE) the other OPEC members do not feel strongly about the OPEC asset issue but surely would be against any Saudi agreement to increase production or moderate prices. While the Saudis have asked for special treatment of their assets they, to date, have not aggressively pursued this request. The Saudi position on the possible contingency options is unknown.

*Industrial Countries Positions:* Other developed countries agree with the U.S. position on OPEC assets. Their position on the possible contin-

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<sup>16</sup> On April 20, Owen forwarded to Carter a "non-paper" from Schmidt on stabilizing LDC commodity export earnings. (Memorandum from Owen to Carter, April 20; Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 6, Germany, Federal Republic of: Chancellor Helmut Schmidt, 2-4/77)

agency options is unknown although they clearly recognize the importance of ensuring adequate Saudi production and price moderation.

*Summit Action:* Reaffirm U.S. opposition to providing special treatment to OPEC assets or remain silent on the issue.

*CIEC Action:* Continue to support developed country position for calling for fair nondiscriminatory treatment of OPEC assets but not preferential treatment.

*Options Examined on a contingency basis:* Offer preferential treatment for OPEC (Saudi) assets in return for (1) a Saudi commitment to progressively increase production levels, to continue to moderate price decisions within OPEC and to produce enough oil to prevent future tight market conditions, or (2) a Saudi commitment to enforce within OPEC an oil price agreement that provides for small price increases over a limited time period.

8. *Should the U.S. consider changes in its policy on the transfer of technology in order to accommodate the demands of the LDCs?* Present USG policy is to work towards a voluntary Code of Conduct for Technology Transfer in the UNCTAD and to engage in various development programs to increase effective utilization of technology in LDCs.

*Recommendation:* That the U.S. (a) continue to oppose binding international obligations on corporations while emphasizing the importance of private sources of technology and, (b) increase technological assistance through existing or new government programs in the LDCs.

*LDC Position:* Developed nations should pressure their companies through binding codes of conduct into (a) transferring more technology (b) transferring it under more favorable terms and (c) transferring resources for development of indigenous technological development. LDCs also want more government resources to spur local research and technology.

*Industrial Countries Position:* Opposed to a binding code of conduct, however, opinion differs on the levels of governmental assistance to LDCs.

*Summit Action:* NONE

*CIEC Action:* Reaffirm the benefits from private transfers of technology and our continued interest in assisting LDCs in developing their capacity to utilize technology effectively.

*Options Considered and Rejected:* Accede to LDCs' demands for more regulation of technology transfers.

**264. Memorandum From Secretary of State Vance to President Carter<sup>1</sup>**

Washington, May 20, 1977

## SUBJECT

Aid Assessment

During the campaign, you pledged an outside assessment of U.S. foreign aid. I believe that the time is at hand to carry out this pledge. We need a concerted foreign aid strategy and efficient means of carrying it out. This requires rigorous analysis of U.S. aid purposes and programs, to see how they should be reshaped in the coming period.

That analysis should focus on both bilateral and multilateral aid; it should include capital assistance, technical assistance, P.L. 480, and guarantees of private investment. It should address not only development aid but also security assistance, insofar as it affects our development objectives. It should take into account broad political and security factors, including our concern for human rights, as well as economic considerations.

The assessment should be carried out by persons outside the executive branch not only because of your campaign pledge but also because this would ensure—and would make clear to the Congress and the public—that the assessment was not shaped by executive branch preconceptions. The study should, however, take account of on-going studies of aid in the executive branch, including the study of multilateral aid now underway in the Treasury Department.

There are various ways of commissioning an outside assessment. One individual might be asked to take on the job; I doubt any single person could accomplish such a large task. A commission of distinguished citizens might be created; the trouble is that there have been too many of these in the aid field in the past, and one more might not be well received. I would suggest, therefore, that an independent research institution be asked to take on the task. Brookings is a natural candidate, in view of its strength and experience in this field. There is a precedent of sorts: In 1948, when President Truman proposed the Marshall Plan to Congress, Senator Vandenberg, as Chairman of the Foreign Relations Committee, asked Brookings to study the question and the resulting study played a significant role in decisions as to how to organize the European Recovery Program.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 17, State: 6/77. No classification marking.

The assessment should be completed in time to influence next year's aid budget requests.

The assessment should involve close consultation with members of the Congress to ensure that their concerns are taken fully into account. Brookings' close links with people on the Hill should facilitate this.

The assessment might be assisted by an advisory committee of distinguished private citizens both to ensure that a wide variety of views are brought to bear and to lend its conclusions added weight.

The State Department's Office of External Research may be able to make a contribution to funding the study, which I am told would cost less than \$100,000. If this contribution is not feasible or not sufficient, we could support Brookings' requests for funding from the National Science Foundation and private foundations.

Since it would address the operations of several U.S. agencies, the request for this study should come from the President. Contract relationships and coordination of governmental support activities can be handled through the Department of State.

I attach a draft letter from you to Mr. MacLaury, President of Brookings.<sup>2</sup>

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<sup>2</sup> The draft letter to Bruce MacLaury, President of the Brookings Institution, is not attached. In a June 3 memorandum to Vance, Brzezinski wrote: "Further to your memorandum to the President of May 20, and our subsequent conversations concerning the desirability of the Brookings Institution carrying out a study of U.S. foreign aid strategies, it would be preferable for you to request the study on behalf of the President. In my view it is unnecessary and undesirable for the President or members of the White House Staff to become directly involved in arranging a contractual relationship with Brookings. Though the choice of Brookings is the Department's decision, there should be no doubt that the President initiated the idea of the proposed study. To this end, you may wish to note in your letter to Bruce MacLaury that the President wants the project to be undertaken." (Ibid.) No letter from Vance to MacLaury was found.

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## 265. Editorial Note

The Conference on International Economic Cooperation (CIEC), which began meeting in December 1975, held its final meeting at the Ministerial level in Paris from May 30 to June 3, 1977. As the opening of the meeting approached, officials at the Department of State revisited the issue of announcing a doubling of U.S. foreign aid over 8 years. (See Document 263.) On May 25, Secretary of State Cyrus Vance met with

several members of Congress to discuss the CIEC. He later reported to President Jimmy Carter: "Most of the discussion centered around our proposal to seek from the Congress authority to double our bilateral aid over the next five years. A large majority of the group said that if we made such a statement in Paris now we might prejudice the current aid bill. They suggested we make a general statement about increases and work to develop support for doubling our aid later on the basis of the results of the CIEC meeting." (Memorandum from Vance to Carter, May 25; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 18, Evening Reports (State): 5/77) As a result, in his May 30 address to the CIEC, Vance announced that "President Carter will seek from the Congress a substantial increase in the volume of our bilateral and multilateral aid programs over the coming five years." For the text of Vance's address, see the Department of State *Bulletin*, June 20, 1977, pages 645-648. (Quotation is on page 646.) Vance sent Carter frequent reports on the status of the negotiations; these reports are in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 18, Evening Reports (State): 5/77 and Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 18, Evening Reports (State): 6/77.

Telegram 16350 from Paris, June 3, summarized the conclusion of the Conference on International Economic Cooperation thus: "CIEC came to a satisfactory conclusion during the early morning hours on June 3. The two sides reached agreement on a number of issues in the four areas of CIEC: energy, raw materials, development, and financial affairs. Gap in package was lack of agreement on on-going energy consultation process. While the areas of agreement fell short of G-19 aspirations, the substantive outcome was generally favorable. The tone and atmosphere of the CIEC conclusion should have a positive impact on future North/South relations." The telegram noted that the Conference communiqué announced agreement "on guidelines for energy supply and cooperation, on the principle of a common fund, for increased and more effective official development assistance, for enhanced public financing for energy and raw materials development, on the special action program of one billion dollars to assist the poorest countries on a relatively fast-disbursing basis, as well as other subjects related to transfer of technology, industrialization, and food and agriculture. The key disappointment was failure to get conference agreement on an on-going energy dialogue." According to the telegram, "an integral element in the final CIEC compromise, which the G-19 reluctantly accepted was that the results of CIEC could not be pocketed by the G-19 and then condemned in a unilateral declaration." As a result, the communiqué balanced reference to the lack of progress on certain developing country goals with reference to the belief that the negotiations had increased mutual understanding. (Telegram 16350 from Paris, June



3; National Archives, RG 59, Central Foreign Policy File, D770198-0487) The text of the final communiqué of the Conference on International Economic Cooperation is printed in the Department of State *Bulletin*, June 20, 1977, pages 650–652.

In the June 4 Evening Report to Carter, Acting Secretary of State Warren Christopher suggested that the United States could “be reasonably satisfied with the results of the CIEC,” which he summarized thus: “a common text was agreed upon; the developing countries did not issue a unilateral declaration; both sides expressed disappointment that only limited agreement had proved possible; but both sides also pronounced themselves satisfied that the dialogue had been comprehensive and that a positive tone had prevailed.” Christopher asserted that the “CIEC represents a form of diplomacy that is growing in importance. In the UN and elsewhere, the developing countries continue to demand action to reduce the asymmetry they perceive in the international economic system. The developed countries have responded with concessions calibrated to continue the dialogue and keep it nonacrimonious. The state of bilateral relations between the US and particular developing countries has had only a rough bearing on their conduct in this kind of multilateral discussion. Bloc politics has produced a cohesion that survives in the face of widely divergent national economic interests. To take four countries with whom we have relatively good relations, Iran and Saudi Arabia were both helpful to us at CIEC, but Mexico and Venezuela were not. We need to reflect on the implications of this kind of diplomacy and consider how we can deal with it more effectively.” Carter directed that Assistant Secretary of State for Inter-American Affairs Terence Todman and First Lady Rosalynn Carter be apprised of the stances of Mexico and Venezuela. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 18, Evening Reports (State): 6/77)

**266. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Vance<sup>1</sup>**

Washington, June 11, 1977

## Post-Mortem on CIEC

The US team to CIEC met for an hour and a half yesterday to reflect on what lessons we might learn from the CIEC experience. We discussed coordination within the US Government among the industrial countries and with developing countries. We also tried to assess the value of CIEC and to draw what lessons we could for multilateral diplomacy in the future.

With some self-satisfaction, we concluded that coordination within the US Government had been very good on CIEC matters. The agencies worked well with one another. There were a few areas where those working on CIEC matters were not as cognizant as they might have been of other related activities—the main problem here being our desire to commit to aid doubling at a time that was extremely awkward in terms of the legislative calendar on current aid appropriations. Coordination among the industrial countries was also very good, although there were a few slippages. The desire to place a high priority on close coordination means, of course, that we were somewhat more rigid on some issues than the US acting alone would have been. But, on balance, we certainly gained more than we lost from close coordination with the other industrial countries. The coordination was not in such lock-step that from time to time independent action was not possible. The main slippage came in early April when I thought we should make a coordinated approach to the key developing countries on how we viewed the prospects and outcome of CIEC. Michael Butler (UK),<sup>2</sup> speaking for the European Presidency, agreed with this, but somehow the European Council of Ministers torpedoed it. We went ahead with our bilateral anyway, with Butler's tacit approval, but without formal coordination with the other countries.

It is difficult to assess the value of the bilaterals we had with the developing countries. They took place mainly in April with your follow-up letter to Ministers delivered by our Ambassadors in

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 2, RNC Testimony before JEC on CIEC—6/21/77. Confidential. Vance initialed “CV” at the bottom of the page.

<sup>2</sup> Michael Butler was Deputy Under Secretary for Economic Matters at the British Foreign and Commonwealth Office.

mid-May.<sup>3</sup> The Mexicans disappointed us at CIEC, and played a far less constructive role than we had hoped on the basis of my bilateral conversations in Mexico City in mid-April.<sup>4</sup> They apologized privately for this—Solomon chided Roel for the unconstructive role that they were playing in Paris—but explained, somewhat sheepishly, that for them G-77 diplomacy is different from bilateral diplomacy. We cannot make separation so clearly and should emphasize to other countries that only a certain degree of inconsistency between their bilateral and multilateral stance is tolerable for us. Our bilateral approach may have helped with the Indonesians and Algerians, and it certainly did with the Saudi Arabians. I come away from the experience with the conviction that we were right in going ahead with our bilateral discussions and that, if anything, on future occasions we should intensify them, although I admit it is difficult to be certain that they are helpful.

It is difficult to assess CIEC as a whole. It ended with meager results, but with a very good tone. I believe we came out about as well as we could reasonably have expected to do. Certainly, the dialogue lacked the acrimony and even hostility that accompanied the North-South dialogue two years ago. It would be nice to credit CIEC with (1) having exerted a calming influence on North-South relations over 1975–1977, and (2) having led to moderation in oil prices. This would represent a plausible but not wholly persuasive assessment, and we will never really be sure. We will learn more about CIEC's effect on the tone of North-South relations when the outcome is taken up in the UNGA. Perez-Guerrero is again out on the hustings for a New International Economic Order, which, he concedes, is necessarily a long process, with the threat that oil prices will be used as the instrument to attain it, albeit "reasonably and advisedly". This is an instrument which is not at Venezuela's disposal, and its actual use depends on how much pressure OPEC countries can bring on Saudi Arabia on NIEO and other grounds.

As to the implications for multilateral diplomacy, we agreed that it would be desirable in the future to avoid negotiating on such a broad agenda as CIEC had. We will, of course, continue to have general discussions in the UN and elsewhere, but we should strive to drive actual negotiation into specialized forums where directly interested countries dominate on any particular issue, and where they are represented by

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<sup>3</sup> Telegram 120307 to selected posts, May 25, transmitted a message on the CIEC from Vance to G-19 Ministers. (National Archives, RG 59, Central Foreign Policy File, D770185–1212)

<sup>4</sup> No memoranda of conversation of these discussions were found. According to telegram 6763 from Mexico City, May 6, Cooper conveyed the U.S. position on CIEC to Mexican officials when he was in Mexico City on April 14. (National Archives, RG 59, Central Foreign Policy File, D770162–0409)

persons with expert knowledge, who will be more pragmatic and more desirous of achieving real results, rather than rhetorical victories.

Standing back from the North-South dialogue as a whole, I believe we have been in a predominantly defensive posture, and we have allowed the developing countries to seize the moral ground. I believe we have to regain the initiative in two respects:

1. Whenever developing countries propose an area for negotiation, we should quickly address the issue with a proposal that we find acceptable, rather than simply responding negatively to proposals—or broad suggestions—put forward by the developing countries.<sup>5</sup> At CIEC, we were in a strong position on external debt, even though the developing countries did not accept our proposal. We showed them we took the issue seriously by seizing it and responding to it. The US stance is also very good on sugar, where it is widely recognized that we made a constructive proposal even though it has not yet achieved general agreement.

2. We must find a number of areas to take the offensive. The President's position on human rights represents an example outside the economic area. Our proposal on illicit payments is another example. Still other possible examples where we might take the offensive is in urging developing countries, in their own interests as well as ours,<sup>6</sup> to reduce their very high levels of tariff production and to take visible and effective domestic actions to help correct the extraordinary maldistribution of income within developing countries. I will try to develop an analysis of possible areas where the US and other industrial countries can take the offensive in multilateral discussions. The purpose is not to be strident or acrimonious, but rather to show that we also care how the world system operates and to make clear that we consider developing countries to be part of it, not a privileged group outside it. The purpose will also be to regain the moral ground in international debate that has been captured by leaders in developing countries—sometimes with genuine commitment, but often with cynical opportunism—but that is historically and philosophically ours.

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<sup>5</sup> Vance highlighted this sentence and wrote "OK" in the adjacent margin.

<sup>6</sup> Vance highlighted the portion of this paragraph that begins with "Our proposal on illicit payments" and ends with "in their own."

**267. Briefing Memorandum From the Director of the Policy Planning Staff (Lake) to Secretary of State Vance<sup>1</sup>**

Washington, June 17, 1977

## Prospects for Expanded Soviet Bloc Role in North-South Problems

*Summary and Conclusions*

There are two contrasting motives for encouraging the Soviet Bloc to play a more active role in North-South problems,<sup>2</sup> particularly in various measures for economic development, as you suggested at CIEC:<sup>3</sup>

a) to elicit a genuinely cooperative effort on the part of the Soviet Union, with the aim of maximizing the positive role they have to play in Third World development and dampening East-West political competition; or

b) to silhouette Soviet inadequacies in contributing to Third World needs, with the aim of revealing the gap between Soviet rhetoric and reality and exposing the Soviets to criticism on the part of the developing countries.

The relative weight to be accorded these motives shows up when the complex of North-South issues is broken down into its components: negotiations focusing on the *International Wheat Agreement*,<sup>4</sup> other individual *commodity agreements* (except coffee), aid for basic *human needs*, and the producer-consumer dialogue in *energy* offer some promise of success in integrating the Soviet bloc into the North-South dialogue in a constructive way.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Office, Outside the System File, Box 48, Chron: 6/77. Confidential. Drafted by Theodore Moran and Jenonne Walker (S/P) and concurred in in EB, IO, INR (draft), and EUR/SOV (draft). Vance forwarded this memorandum to Carter as an attachment to a June 26 "Memorandum on Some Possible Measures for Stabilizing US-Soviet Relations." (Ibid.) Carter wrote at the top of the page: "Some good ideas. J."

<sup>2</sup> In a May 31 memorandum to Carter on "Patterns of Communist Aid," Brzezinski discussed the provision of military and economic assistance by Communist countries to non-Communist LDCs. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 12, unlabeled folder)

<sup>3</sup> In his May 30 address to the CIEC, Vance asserted: "We believe the industrialized Communist countries also should increase their development assistance. We are prepared to join with them in such assistance, when and where they are willing to do it." (Department of State *Bulletin*, June 20, 1977, p. 646)

<sup>4</sup> The International Wheat Agreement, first signed in 1949 by 42 countries, including the United States, regulated wheat prices and sales among its wheat-exporting and wheat-importing signatories. In 1971, the United States signed a later iteration of the agreement.

On the Food Aid Convention,<sup>5</sup> IFAD, general bilateral aid, multi-lateral development efforts via the UN, trade, and technology, in contrast, it will be extraordinarily hard to move the Soviets into a pattern of positive contribution. But it should be relatively easy to expose the dismal Soviet performance to Third World criticism, without our appearing to conduct an anti-Soviet campaign.

The United States need not choose definitively, between the two approaches. Rather, it can explore both options without foreclosing either.

But there are limits to how much we can expect from this effort. While some Soviet officials have recently been throwing out hints of greater interest, Moscow's official position is that it wants no part of the "North-South" dialogue as such; that it is a false way of looking at the world and that the real division—between capitalist and socialist countries—puts them squarely on the side of the developing states.

Beyond rhetoric and ideology, the Soviets have not wanted to dilute the political impact of their assistance by subsuming it within broader efforts by the industrialized (read Western) nations. And they focus more on arms and military equipment than on economic aid. This gives them a short-run political impact disproportionate to their outlays, and leaves Western countries shouldering the more important, longer-term economic aid burden.

Finally, we should be under no illusion that LDC pressure on the West springs from a notion that the Soviets wear white hats and we black. It reflects, instead, a realistic assessment that we have most of what the LDCs need, and are more likely to give at least some of it.

Thus, whether we get the Soviets to cooperate in the North-South dialogue or merely score propaganda points off them, we should not expect it to lessen LDC pressure on ourselves.

### *The Issues*

#### *1. Agriculture*

##### *(a) International Grain Agreement*

This fall the United States wants to begin negotiations on a new International Grain Agreement. The Soviets want an agreement that will produce stable prices, but have been reluctant to sign an accord that requires reserve stocks. To ensure food security for the Third World there must be grain stocks. The Soviet Union must bear central responsibility: variations in Soviet grain production currently account for about 80% of worldwide production variations. And if history is a guide, the

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<sup>5</sup> The Food Aid Convention, which was concluded in 1967, set guidelines for the granting of food assistance.

Soviet Union will probably encounter serious weather problems in at least one or two of the next five years. They have an interest in getting an agreement to give them some security on price. Pressing them on the need to contribute to protection against starvation in the Third World might push them over the top toward making a commitment on reserves. Probability of success: moderate.<sup>6</sup>

(b) *Food Aid Convention*

This fall we shall start negotiations for a new Food Aid Convention, which will consist of pledges by member countries to donate an annual minimum amount of food aid. The Soviets have not been a member in the past. This year we could seek Soviet membership. Probability of success: extremely low. Prospects for shaming the Soviets: good.

(c) *IFAD*

IFAD is a fund to finance agricultural development in the Third World via projects carried out by the World Bank, regional banks, or FAO. The Soviets have not promised to contribute. We could press them. Probability of success: almost none. Prospects for shaming the Soviets: moderate.

2. *Commodity Agreements*

The Soviets are already a member of commodity agreements—cocoa, tin, rubber, and sugar (now defunct). To have successful agreements on sugar, copper, and eventually other materials, we shall have to insist that they make their bilateral agreements public (e.g., Cuban sugar) and that they include intra-bloc trade as part of the world trade for purposes of market control (e.g., copper shipments in Eastern Europe). Probability of success: moderate.

3. *Development Assistance*

(a) *Basic Human Needs*

There are some specific areas in which the Soviets might be able to make a productive contribution to development assistance in cooperation with American aid programs. One is the training of paramedical personnel, where the Soviets have a comparative advantage and the South has a great need. Other areas for US-Soviet bloc cooperative aid programs in the “human needs” category might include: a) water treatment; b) waste disposal; c) joint research in host countries on tropical diseases; d) responses to protein deficiency; e) immunization; f) clinics and low-cost health delivery systems. (Note: Cuba has an outstanding record in organizing and managing programs, especially rural programs, in many of these areas.)

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<sup>6</sup> Carter wrote “Let them know the consequences of not cooperating also” in the margin adjacent to this paragraph.

The US Congress might not like the notion of joint ventures, especially with Cubans. It might be well to begin by adding LDC needs to the agenda of ongoing US-Soviet exchanges on, for instance, agriculture, housing, and medical subjects. Probability of success: unknown.

(b) *Bilateral Aid*

The process of assisting developing nations to higher levels of economic and social development has been and still remains primarily a task undertaken by the industrial West. Assistance from the Communist countries has been small (\$1.7 billion in 1975 from the USSR and Eastern Europe); repayment terms are frequently stiffer than those asked by the West; there are fewer outright grants; most of the poorest countries are not included; the emphasis is on showcase heavy industrial projects at the expense of light industry and agricultural programs; all aid is totally tied to procurement from the communist states; and aid is highly concentrated in a few countries in which communist nations have strong political interests. It should not be hard to heighten Third World consciousness of the fact that the Eastern impact on the fundamental development process has been negligible, or to stimulate Third World spokesmen to make demands upon the Soviet bloc that will only be met with rejection. Probability of expanding Soviet bilateral aid in a way harmonious with US interests: nil. Prospects for exposing Soviet shortcomings: moderate.

(c) *Participation in Multilateral Development Efforts*

Soviet contributions to the South via the UN system have almost invariably been in non-convertible rubles. A major part of the recent UNDP funding crisis was due to the unusable supply of rubles held by the organization (a point successfully exploited by the US delegation). We could give strong public encouragement of greater Communist contributions to those UN multilateral assistance programs such as the UNDP and UNIDO where the Bloc wields influence not commensurate with their financial participation. Probability of success: low. Prospects for exposing Soviet shortcomings: moderate.

(d) *Membership in the IMF*

While the IMF plays a large and rapidly growing role in lending to the LDCs, the question of Soviet participation goes well beyond the North-South dialogue (conditionality of loans to Great Britain and Italy, stability of the international financial system). Unless one were to relax the conditions of membership drastically, the possibility of Soviet membership would seem remote: members of IMF are generally required to refrain from imposing restrictions on international payments, to avoid discriminatory currency practices, to make their currency convertible, and to furnish the Fund with information on international reserves, trade, payments, exchange rates, domestic production and price of goods and services, and the production and import and export of



gold. Moreover, membership in the IMF should require a large Soviet capital outlay. To make the exceptions required would be a large task, with few if any positive implications for the North-South dialogue in return. (Romania is the only bloc country that currently is a member of the IMF. Poland is considering joining.)<sup>7</sup>

At least as important as Soviet willingness to join the IMF is our willingness to have them. They might well work from inside the Fund to change its rules and generally create obstacles to its operation.

(e) *Membership in the World Bank*

IMF membership is a precondition for joining the Bank. One could, however, make some major exceptions (see above) to get the bloc countries in. This would be a great leap forward for the Soviets into the North-South dialogue. They would gain the prestige derived from “association” with all of the Bank’s projects and relieve themselves from much potential Third World criticism for their stinginess toward the South. What they could contribute to the development of the South other than (perhaps) a small capital subscription to the Bank is unclear. Moreover, in general, the Soviets have not wanted to “dilute” the impact of their own aid by channeling it through multilateral institutions. (Romania is the only bloc country that currently is a member of the Bank.)

Prospects that Soviets will join IMF and IBRD in the foreseeable future: remote.

4. *Trade*

Soviet trade with the Third World is small, accounting (even prior to the 1973 rise in oil prices) for less than 5% of the LDC’s total trade turnover. The composition of trade—Soviet manufactured goods in return for Third World food stuffs and raw materials—has the effect, in the words of a non-government specialist, “of perpetuating a trade pattern which in another context the communists label ‘imperialistic.’” The United States could easily be more vocal in linking G-77 demands about opening industrial markets for manufactured goods to Southern exporters, and about untying commercial credit to finance trade, to poor Soviet bloc performance on these issues. Probability of success: nil. Prospects for exposing Soviets to criticism: moderate.

5. *Technology*

In those countries where the Soviet Bloc does have active aid programs, the technology offered tends to be both capital intensive and obsolete, that is, “inappropriate”, by the standards of the Third World. We could exploit this point more vigorously in those North-South

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<sup>7</sup> Carter wrote “Let’s concentrate on satellite & other socialist countries first” in the margin adjacent to this paragraph.

forums (UNCTAD, UN Center for Transnational Enterprises) where appropriate technology is discussed. Probability of inducing change in Soviet behavior: zero. Prospects for criticism of Soviets: unknown.

#### 6. *Energy*

It has traditionally been assumed that the Soviets could only make mischief over energy, favoring higher prices to benefit their own oil and gas exports and giving rhetorical support to the demands of the more extreme OPEC and G-77 members. (See 1976-77 Transition Paper for example).<sup>8</sup> Although the CIA predicts a drop off in Soviet oil production by 1985, it is not certain how this, if it occurs, will affect Soviet energy policy. There might eventually be an opportunity to bring them into a producer-consumer energy dialogue on the side of the moderates (and in opposition to Iraq and Algeria.) Probability of success: wholly unknown.<sup>9</sup>

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<sup>8</sup> Not found.

<sup>9</sup> In a June 27 memorandum to Brzezinski, Thornton characterized Lake's memorandum to Vance as "a sensible and basically negative piece, not very imaginative" and stated that his "main criticism is the persistent concern to use North-South fora to 'show the Soviets up'. We should not get involved in this. They are doing a fine job on their own in this regard and we will unnecessarily cheapen ourselves if we start making propaganda shots. It is also likely to deflect us from more serious matters." (Carter Library, National Security Affairs, Staff Material, North/South, Thornton, Subject File, Box 101, North/South: 2-12/77)

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## 268. Memorandum From President Carter<sup>1</sup>

Washington, June 27, 1977

### MEMORANDUM FOR

The Secretary of State  
The Secretary of Treasury  
The Secretary of Defense  
The Secretary of Agriculture  
The Director, Office of Management and Budget  
The Administrator, Agency for International Development

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 1 of 3 [2]. Confidential. Hutcheson sent this memorandum, as well as an alternative version that incorporated changes proposed by Lance, to Carter under cover of an undated note. Lance's changes included removing military assistance from the study, as well as a separate study on official and private assistance. (Ibid.)

## SUBJECT

Analysis of the Effectiveness of United States Foreign Assistance

On several occasions, including my foreign assistance message to Congress and the London Summit,<sup>2</sup> I have pledged a more effective U.S. development assistance performance. This commitment was further reinforced at the CIEC Ministerial, for which I also approved announcement of our intention to seek from Congress substantial increases in future aid levels.

I am now directing the Economic Policy Group and the National Security Council jointly to undertake a full examination of our foreign assistance programs prior to my making major budget decisions this fall. The study should address bilateral assistance including food aid, security supporting assistance, and military aid insofar as it bears on the effectiveness of our over-all assistance; and multilateral assistance provided through international financial institutions and other organizations. It should draw on work in progress, including PRM 8. New analysis and consultations with non-governmental organizations and individuals should be initiated where necessary.

The study should be carried out through the Development Coordination Committee,<sup>3</sup> chaired by Governor Gilligan, with participation by other agencies as necessary. Three broad questions should be addressed:

—Within the context of our evolving North-South relationships, what should be the basic orientation of our foreign economic and military assistance over the next five years and beyond? How should they complement other ingredients of U.S. policies toward the developing countries?

—What should be the relationship among the components of our assistance effort?

—In the context of substantial aid increase over the next five years, what are the alternative effective program mixes? And what kind of programs are most likely to evoke the required degree of public and Congressional support?

More specific issues are listed in the attachment.

A final report should be ready for cabinet level review not later than September 1, 1977.

**Jimmy Carter**

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<sup>2</sup> Regarding Carter's message to Congress, see footnote 8, Document 259. For the minutes of the first session of the London G-7 Summit, see Document 27.

<sup>3</sup> Executive Order 11841, February 28, 1975, established a Development Coordination Committee to "advise the President with respect to coordination of United States policies and programs affecting the development of the developing countries, including programs of bilateral and multilateral development assistance."

## Attachment

### Paper<sup>4</sup>

Washington, undated

#### ADDITIONAL ISSUES TO BE ADDRESSED

—What basic objectives should guide our foreign assistance efforts?

—What set of techniques and guidelines can we devise to measure the effectiveness of our programs?

—Which programs have been most effective in meeting their assigned objectives? Which have been least effective? Which, if any, should be phased out or discontinued?

—Are there new types of programs or approaches which should be undertaken to better relate our efforts to changing circumstances in developing countries?

—To what extent does military assistance contribute to our overall objectives?

—In which programs does our aid dollar have the most development impact? Which most directly improve the welfare of the poor majority? How can multilateral and bilateral programs be changed to better reach the poor?

—Which programs could be managed at reduced cost without sacrificing our objectives? Where can waste and mismanagement be eliminated? Where can the planning, implementation, and reporting processes be streamlined to reduce cost, personnel, and needless work?

—In which programs could additional assistance be absorbed in ways that would improve the programs' efficiency, i.e., in which the marginal utility of additional funds would be substantial?

—Are we taking adequate measures to insure that host countries pursue policies which magnify or otherwise support the impact of our bilateral assistance and multilateral aid? Should the conditionality of our assistance be made stronger?

—How can the U.S. effectively involve itself in pre-project planning and post-project assessment of multilateral assistance programs?

—How can we best control salaries and living styles of U.S. Government employees and personnel of international financial institutions?

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<sup>4</sup> Confidential.

—What kind of programs and approaches are the most effective in producing additional commitments from other donors, including OPEC; which lend themselves best to cooperation with other nations, including COMECON?

—How can coordination between bilateral and multilateral programs be improved within the U.S. Government, among donors, and within host countries? How can coordination between official and private assistance programs be improved?

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## 269. Briefing Memorandum From Richard Feinberg of the Policy Planning Staff to Secretary of State Vance<sup>1</sup>

Washington, June 30, 1977

### Basic Human Needs Strategy: Some Caveats

At CIEC and the OECD, you supported a development strategy emphasizing the basic human needs of the world's poor majority.<sup>2</sup> While such an approach commands wide support, it also faces many pitfalls. The purpose of this memo is to alert you to these potential problems before they become real. Some will be resolved through further study, and others can probably be finessed. None needs prove fatal.

*IDENTIFYING NEEDS:* Needs have a strong subjective component and vary culturally. The mud hut which maintains moderate temperatures year-round may seem less impressive than a more modern (and more expensive) brick home with a pre-fab aluminum-sheet roofing—which boils in the summer and fails to insulate in the winter. Nutritional needs, even for the same sex, age and activity, vary among different people and different environments. Whatever programs are developed must be clearly designed as situation-specific.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 2, S/P-Lake Papers—6/16–30/77. No classification marking. Drafted by Feinberg on June 29. Sent through Lake.

<sup>2</sup> Regarding Vance's May 30 address at the CIEC Ministerial meeting, see Document 265. The OECD met at the Ministerial level in Paris June 23–24; for the text of Vance's intervention at the meeting, see the Department of State *Bulletin*, July 25, 1977, pp. 105–109.

*IDENTIFYING THE POOR:* This task is not as easy as might appear at first glance. Because the poor often inhabit a non-monetary, non-recorded world, their exact living conditions are not known. Secondly, poverty is relative: a person with a \$500 income in the slums of Rio may *feel* poorer than someone with a \$75 income in rural India. Cross-cultural definitions of poverty must be viewed skeptically. It will be essential to involve local organizations that are in close touch with—if not composed of—people from poverty backgrounds; such groups can help identify the needy and assist social scientists in devising surveys to reflect indigenous concerns.

*THE MONETARY COST:* Developmentalists now cite specific estimates for the budgetary costs of boosting global living standards beyond a minimum level—one common figure is \$125 billion in foreign assistance (IFI's plus OECD bilateral), to be disbursed to the poor countries over a ten-to-fifteen-year period. The models these figures are derived from are so crude as to be considered worthless by many. Starting at the individual country level in order to calculate the amount of resources required to satisfy basic human needs is a more promising approach, since one at least can take into account specific political and cultural factors, and an economic environment can be posited.

*DELIVERING SERVICES:* In most LDC's the benefits accruing from social services flow to the privileged groups, as does the distribution of income. One cannot assume that aid programs categorized as, say, health, agriculture, or education necessarily benefit the poor. Continued vigilance will be necessary to "audit" the strategy.

*PROGRAM DEVELOPMENT:* Designing—and implementing—programs that will reach the poor are relatively untried tasks. Progress, therefore, will have to proceed at a modest pace, and those hoping for the quick fix will be disappointed. The ultimate impact of a particular program may not be apparent. For example, raising the price of food produced by the rural poor can result in pressure for higher urban wages which are passed on in higher prices for industrial products, including those purchased by the poor farmers: the net income effect may be negligible. Higher wages may benefit some workers but prevent others from being hired. Projects cannot be implemented in isolation: their side effects must be carefully traced through the individual country's economic and institutional structures.

*RAISING PRODUCTIVITY:* The peasant cannot be productive without land, nor can the industrial worker produce without a job. Social restraints on productivity are often monumental. The basic-human-needs agenda, therefore, raises the tough issues of land reform, insufficient land and uneconomic holdings in the country, and restrictive union practices, massive educated unemployment and social inhibitions on manual labor by the educated in the cities. The Alliance for

Progress initially pressed hard for land reform, only to beat a hasty political retreat. A combination of caste, insufficient land and local political pressures are pervasive restraints in India. Moreover, even land-reform advocates must admit that, in the short run, the productivity of the new land-owners often drops, and they often sell their land off quickly. Productivity gains must be viewed from a long-run perspective.

*INTERDEPENDENCE OF BASIC HUMAN NEEDS:* Good health depends on good nutrition, potable water, adequate housing, and education, not only on access to medical facilities. This means a level of planning and coordination that outdistances the administrative capability of many LDCs. Delivery procedures must be developed that eliminate red tape, perhaps through decentralization or increased decision-making by the poor themselves.

*POLITICAL CONSTRAINTS:* Some leading analysts, including the World Bank, argue that in some LDCs a major restructuring of political and economic power relations has to be a pre-requisite to serious implementation of a basic human needs strategy. The implication is that, for governments such as those in Chile or Uruguay, not only must they be pressured to halt torture and summary executions, but they must abandon their “trickle-down” model of development. This is tantamount to asking for their abdications: in these two countries, as in others, the military seized power in order to crush political forces favoring more equitable income distribution. In other countries with more democratic structures, such as India, the tenacity of conservative social forces makes an effective grass-roots restructuring of political and economic power extremely difficult, given the local pressures. Many southern elites will view the basic human needs strategy as a Machiavellian maneuver to divert attention away from the international distribution of income, and will cry “interventionism”. Even further, they may perceive it as a way of inhibiting them from “catching up” with the West technologically. These negative reactions can be diluted by our being reasonably forthcoming on development assistance and other NIEO issues.

*SELECTION CRITERIA:* If the aid agencies decide to concentrate on governments indicating a serious commitment to basic human needs, what criteria will be used as proof of this commitment? Statements of intent are only words. The existing income distribution might have evolved in spite of, rather than because of, government policies. Moreover, income distribution figures are notoriously inadequate. (Even in the US they have been found wanting and are currently being revised to take into account, for example, non-market items like home-grown foods as well as corporation “perks”.) Whatever criteria are chosen, those countries that are de-selected will raise a political

storm. Nevertheless, such disaffections will be outweighed by the higher rate of return that aid will produce in those countries in agreement with the donor's objectives.

*US DOMESTIC OPPOSITION:* The AFL-CIO would raise eyebrows over a development scenario that, in effect, advocates allocating labor-intensive industries to the LDCs. And capital goods industries prefer that the IFIs continue to finance their exports. While the products of some multinationals fit neatly into a basic human needs strategy, others do not: a strategy emphasizing the basic needs of the poor is implicitly critical of stimulation, through advertizing or demonstration, of non-basic needs. Finally, there may of necessity be implied criticism of traditional allies who are less concerned with meeting the basic human needs of their population. We will have to make a persuasive case that the US will be well served by a successful basic human needs approach.

None of these problems means that a basic human needs approach will not work. We believe it can and that it is right. But awareness of the potential difficulties—as we also examine the benefits—will help us minimize them.

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**270. Memorandum From Roger Hansen of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and the President's Deputy Assistant for National Security Affairs (Aaron)<sup>1</sup>**

Washington, July 20, 1977

SUBJECT

A Summary Analysis of PRM-8 Second Stage Process and the Issues for Resolution

*A. Process of Work Group*

1. You will recall that the Second Stage was constituted after the EPG had focused quite narrowly on several key North-South economic issues for which the Administration needed to take a position at the UNCTAD-sponsored Common Fund meetings (March), the London

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 63, PRC 028 North/South Issues [1] 7/27/77. Confidential.



Summit (May), and the CIEC Ministerial (May 29–June 2). The two PRMs themselves are attached for your convenience under Tab C.<sup>2</sup>

2. The crucial wording of the PRM 8 Second Stage instructions is the following: “Since the negotiating calendar has of necessity forced the EPG to concentrate virtually all its attention on short-term economic issues, a decision has been made to constitute a PRC Working Group to examine the longer term and essentially *political* aspects of North-South relations concerning which the President requested analysis and the presentation of options in the initial PRM 8 instructions.”

3. The working Group (membership listed in Tab D)<sup>3</sup> consisted in great part of officials at the assistant secretary and deputy assistant secretary level; the official membership was kept at no more than twenty; and the Group held *only six 2-hour meetings*. The *conscious trade-off* was: fewer meetings and less demanding paper work in exchange for high level representation. The *rationale*, throughout the entire process, ran as follows in my mind:

a) The numbers of bureaucratic actors involved in key decisions on North-South relations is very small, and consists almost entirely of *line economic officers*.

b) These economic officers’ major concerns are short-term “system maintenance”. Therefore, except in the case of an OPEC, they will never focus on North-South issues because in general developing countries cannot cause major systemic problems. Even when they might, as in the case of massive debt default, the economic line officers will look for short-term solutions with a major focus on the most-developed LDCs, since *they are the LDCs strong enough* (in sheer economic terms) *to cause systemic problems*. Therefore little serious attention is paid to *economic development per se*, or the “lower tier” LDCs.

c) The North-South issues, while most often cast in economic terms, are *far more complex*. They are issues of status, identity, autonomy, relative deprivation, etc. These issues in turn present problems *and possibilities* for the achievement of *all US foreign policy goals—economic, political, security, humanitarian, etc.*

d) Finally, the North-South agenda is loaded with “global agenda” or “world order” problems, e.g., food production, population growth, the food/population balance, global “commons” issue, ecological problems, proliferation, etc. All these issues in turn raise the fundamental question of *international institutional innovation* for global management.

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<sup>2</sup> Printed as Document 254 and Document 261.

<sup>3</sup> Not attached.

e) Therefore, the most important *single advancement* which could be made by the PRM 8 Second Stage process was to widen the group of key bureaucratic actors who would be involved *from the start* in the "making" of North-South policy defined in this broader sense.

4. The attendance of people like Tony Lake, Bill Maynes, Joe Nye and several others went far to accomplish this purpose. *If the President approves PRM Issue #1*, a group representative of this broad range of concerns and now familiar with the issues which are central to North-South relations want and will have a legitimate role in the formulation of a North-South strategy and policies for as long as you find them helpful in the process of broadening our understanding of the necessities of North-South relations (and capacity to respond in policy terms with appropriate insights).

5. As you read parts IV and V of the PRM response,<sup>4</sup> the general level at which they are cast and the lack of hard "either/or" options for the President may well disappoint you. Right or wrong, this was the price I had to pay to "legitimize" a broader inter-agency group and key set of individuals on these issues, and to give you and the President far more room to make and implement policies in this arena without the bureaucracy (read Treasury, E Bureau, etc.) fighting you subtly every step of the way. Now Secretary Vance is aware of his own Departmental problems; Lake, Maynes and Nye have access to all North-South issues, and the E Bureau is on the defensive. Less has been accomplished at Treasury. With absolutely no pejorative connotation intended, Bergsten and crew remain, I fear, very much "system maintenance" oriented, and unwilling to think very far ahead about North-South issues. The CIA has proved a surprising and articulate ally; US/UN is an ally without intellectual ammunition on this set of issues.

6. I remind you that DOD was given four out of some 20 seats on the Group, and all were encouraged to comment in detail on the Agenda and all papers, and submit their own papers when they deemed it helpful. DOD (ISA and JCS) contributed nothing, and only the two alternates showed up for the bulk of the meetings. Davis made 1½, and General Winger made two meetings.<sup>5</sup>

7. A summary of PRM 8 findings can be found in Part IV of the PRM, pp. 37-40 (Tab E).<sup>6</sup> I will repeat only one short section here:

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<sup>4</sup> Dodson forwarded the response to the second stage of the PRM-8 process, an undated paper entitled "North/South Strategy," to Mondale, Vance, Blumenthal, Brown, Turner, Young, Lance, and Gilligan under cover of a July 18 memorandum. (Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 2 of 3 [1])

<sup>5</sup> Neither Davis nor General Winger has been identified.

<sup>6</sup> Not attached; see footnote 4 above.

“Conceptually, our *overall strategy* will be composed of *four categories of policies*:

1. Those dynamic changes to which the Administration has already committed itself in the areas of trade, aid, international monetary arrangements, international food reserves, and increased support for international development institutions.

2. Policies which relate more directly to the politically, economically and militarily strong LDCs, where our immediate economic and security interests are most obvious.

3. Basic human needs policies which directly attack the problem of “absolute poverty” throughout the world.

4. Policies which analyze, advocate and implement systemic changes in those international arrangements which reveal increasingly limited capacity to manage old problems or cope with new ones.

“There is little argument that *efforts should be devoted to each category of policies*. The difficult choices are the degree to which each is pursued relative to other US goals (e.g., human rights, non-proliferation), and relative to one another; and the mechanisms to be used in implementing each set of policies.

“In short, an *appropriate US strategy* will be one which starts from the Administration policies already adopted and incorporates the insights of each of the three focuses on North-South relations examined by this Working Group. It will need the bilateral finesse suggested by the focus on the ‘upper tier’ of developing countries; it will need a program to rapidly increase the standards of living of the world’s poorest people—a program incorporating many ideas relevant to the fulfillment of basic human needs; and it will need to build upon some of the most suggestive insights which the global systemic reform approach brings to the linkages between major problems on the ‘global politics’ agenda for the coming eight years. The leadtime needed to make progress on a problem like population control is so extensive that the United States can no longer afford to relegate such problems to the lower echelons typical in past Administrations.

“Finally, and fundamentally, an appropriate US strategy will be one which continues movement toward trade liberalization; a global food reserve program; substantially increased foreign assistance; augmented resources for such crucial international organizations as the IMF and the IBRD; and altered norms for the operation of and representation in these key organizations that meet Southern desires in ways that gradually strengthen the operation of the international economic system. *It is difficult to overestimate the importance of progress along these lines to which the Administration is already committed*. Indeed, one of the major reasons that this PRM response has not focused on the so-called ‘middle-tier’ developing countries in any discrete way is that these countries in the aggregate should find the economic policies already enunciated by the Administration very congenial to their economic aims and development pol-

*icies*. Without crucial progress in these areas where the US is already committed, the problems analyzed in this PRM 8 response will be immeasurably more difficult to manage, and new initiatives will be undermined by a continuing Southern bitterness over 'unfulfilled pledges of good faith.'"

The remainder of the Summary and Section V will give you the flavor of the analysis and argumentation which was accepted by almost the entire group.

### B. *Issues for Resolution*

This section of the PRM (pp. 40–54) contains *five major issues*, for Presidential guidance, and *five* follow-up issues attached to specific major issues.

I will list the issues in the order they appear, explaining briefly my view of the importance of the issue and adding comments on other divergent views which seem predictable at this time.

#### Issue #1—*The Bureaucratic Framework for Consideration of North-South Issues*

Earlier parts of this memo indicate why I give so much importance to this issue, and why I strongly hope that you and the President will support *a continuation of the process* begun by the PRM 8 Second Stage Work Group. State and CIA will be strongly supportive, both seeing this as an opportunity to overcome the singular, narrow focus brought to North-South issues by most of the Treasury line officers and State's E Bureau.

The *rationale* for placing this issue first is that *all the remaining issues have work programs attached to them*. An interagency group, along the lines of the PRM 8 Work Group, described in Issue #1 (p. 43) *would have direct responsibility for tasking and overseeing all the follow-on work*, reporting to the PRC, you and the President as directed on each major issue.

*My overriding concern is that if this bureaucratic framework is not blessed here and now, all "the action" will fall back into the hands of the line economic officers (or the EPG). That's why this issue is placed first, and the PRM emphasizes that we are at the beginning of a process.*

One last word. Such a group is not "stacked" in *any* direction. Its make-up simply *forces differing bureaucratic perspectives to join issue*; the winner is the President and US foreign policy. But watch Treasury and perhaps AID and OMB; they may try to defend "bureaucratic turf". Van Dyk, incidentally, feels that the DCC should get this job. He can't see that aid is but one very small piece of a very large puzzle. He may make a pitch for the DCC taking over the job at the PRC meeting.

#### Issue #2—*US Strategy and Policies Toward the "Upper-Tier" of Developing Countries*

This issue was given great emphasis by Treasury and the E Bureau of State: their reasons are very briefly summarized in both Sections IV

and V of the PRM response. The LDCs being considered here are two types of Sam's<sup>7</sup> "regional influentials"—the oil rich (Saudi Arabia) and the industrialized (Brazil). The concern is how to "bring them into the system" so that they will cooperate when so many US policies are presently creating problems with many of them (proliferation, human rights, arms sales, trade protectionism, etc.).

While some group members carried this particular concern to extremes, all recognized the validity of the policy problem posed. Since State (IO) let us down sadly on a paper for this problem, the Group can do no better than to call for a specific type of follow-on study (for 8–12 countries) *if* the President is concerned enough about the problem to approve further review. As described on page 45 of the PRM response, a major focus of the country studies would be how these "local Leviathans" can be better integrated into *existing and new regional and international institutions*.

Issue #3—*The "Absolute Poverty" Problem and the Concept of Fulfilling Basic Human Needs*

There have been *three major ways* of trying to undercut placing an option before the President which would allow him to support a "significant increase" in US efforts and resources consonant with a BHN strategy, despite manifest agreement by *all working group members* that, at the least, steady movement in the BHN direction was highly desirable.

The first attempt to undercut the option takes the form (Bergsten, Boeker, etc.) of claiming this really isn't an issue ("we're all for it—its a false issue") and at the same time requesting that *no figures be discussed* and *no new mechanisms* to administer such a program be discussed ("this problem can easily be handled incrementally"). My personal view, elaborated in Appendix Paper #6, is that incremental moves and no new institutions will quite probably lead to another Alliance for Progress fiasco in the BHN area.

The second attempt to undercut the option is to focus on the obvious opposition which an emphasis on the approach will initially evoke from LDC elite groups which are doing just fine the way things are. Sometimes the economic "incrementalists" use this line because they do not want any major shifts in emphasis in present US policies; sometimes the political analysts (CIA) press it because their concern is that *we should respond more to the demands of LDC governing groups*. And BHN surely is *not* at the head of any list of LDC demands.

The final attempt to undercut the BHN approach has come singularly from Ted Van Dyk. It takes the form of argument that there should

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<sup>7</sup> Possibly Samuel Huntington of the NSC Staff.

be *no focus* on the “absolute poverty” problem (and therefore a BHN strategy to get at the one billion living in absolute poverty conditions); rather the focus should be on “the poor majority”. I have not been able to convince Ted that the entire US aid effort (save military assistance) is already *supposed to be concentrated on the “poor majority”* (a term with so many conceptual and operational problems that it is *useless* as a policy guideline). I cannot get him to see that a BHN strategy has a *specific target group*, and requires a *specific* set of *policies* to raise the standard of living of this group; and would be a *novel* and *important* political/developmental ingredient of a Carter foreign policy.

Van Dyk will surely bring this issue up; I have addressed it *directly* in the PRM response (p. 26, top paragraph).

In meeting these arguments I have tried to build into the PRM 8 paper (pp. 20–30) two countervailing ideas:

(1) Despite LDC elite demands for a lot of free resource transfers via NIEO, BHN is an *appropriate US counter-proposal* in perfect continuity with the President’s ideas and one which will give the Human Rights emphasis the broadening it needs.

(2) The BHN approach is *not meant to substitute for other responses to LDC needs*; it is a *particular policy* aimed at a *particular problem* which the US feels is deserving of priority attention. We are willing to take all the nasty and predictable Argentinian speeches that may come our way for this new emphasis.

In all, the group ranged from lukewarm (especially Treasury) to very supportive (S/P, parts of AID—not Van Dyk, but hopefully Gilligan). Cooper told me he was all for it, “but you will have trouble with the E Bureau”. Vance, of course, is strongly on record already.

Here again my hope would be that you and the President would strongly endorse Issue #3 (“increase significantly US support”) for a BHN effort.

If this approval is given, the Group (proposed in Issue #1) would owe the President *a full-scale set of options on a major BHN approach* by November 15 (as called for in follow-up pp. 47–48). Additionally, I would hope the President would *approve* follow-up issue *b*, which would settle an awful lot of inter-agency squabbling quickly by approving the view that basic human needs as defined in this PRM Response is “an integral element of human rights”. (S/P made this specific proposal for Presidential decision.) Finally, *approval* of follow-up issue *c* will serve to beef up the Vance effort to get OECD endorsement for a BHN emphasis in all DAC member programs.

Again, the opponents will argue that “this isn’t what the LDC’s are asking for”. These people suffer from bad logic. They are the first to scream about the need for “reciprocity” in the narrow sense, but cannot view *our* placing BHN on the North-South agenda as the reciprocal of

the LDCs placing the Common Fund on the agenda. “They” want more Northern resources and other forms of assistance; “we” want to make sure that some of that assistance reaches a specific strata of people living in the LDCs. This concept is not all that difficult to grasp, if one *wants* to understand it.

Secondly, those same opponents are never willing to give the LDCs what they ask for anyway, so why the hell do they worry that proposing BHN isn’t being “responsive”? This is the same crew that brought you the 6th Special Session of the UNGA<sup>8</sup> and CIEC . . .

Issue #4—*The Potential Trade-off Between an “Upper Echelon” Emphasis and a “Basic Human Needs Emphasis”*

Putting the issue somewhat cynically, Treasury wanted this option in to make the point that BHN can easily get out of hand if anyone (like the President or Congress) jumps on it too hard. The E Bureau wanted it *out*, I suspect, because they feared that, if forced to choose between emphases, the President might “tilt” toward BHN. At any rate, most Group Members (including me) see little chance that a trade-off area will ever be reached unless one pushes *either* a BHN *or* an “upper echelon” set of policies very far beyond reasonable bounds. Therefore I would suggest that you support *option a* under Issue #4.

Issue #5—*Global Reforms and North-South Relations*

I am personally very disappointed not to be able to offer more of a concrete nature for your consideration (and the President’s consideration) here. The Group simply lost its collective voice or went to sleep when this set of issues was raised.

Yet, as pp. 51–54 demonstrate, voices from both the State Department and the CIA spoke up in favor of doing far more systematic thinking in a longer-term time frame once they read, in the first draft, how little the Group had accomplished.

If you feel it will be impossible to get the bureaucracy to focus on such issue linkage (e.g., the food/population/basic human needs/development set of linkages), you may not even wish to bring the issue to the President’s attention.

On the other hand, his major interest in the problem of global hunger suggests to me that thinking *systematically* about some of these crucial “global agenda” issues—most of which have deep North-South roots—would be very appealing to the President, and would complete the bureaucratic shake-up that the President’s “approval” of Issue #1 and its follow-up could begin: in other words, Presidential approval on Issues #1, #3 and #5 would produce (1) a much broader set of actors

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<sup>8</sup> The focus of the Sixth Special Session of the UN General Assembly, which met in New York April 9–May 2, 1974, was raw materials and development issues.

with divergent (and thus healthy) focuses and value judgments on North-South issues; (2) a BHN emphasis on which a full set of *specific options* would be due by November 15; and (3) a Presidential stamp of approval on a kind of thinking about "global issues" which would encourage all parts of the bureaucracy to engage in it. Without that thinking, no matter what we do for Mexico, we will have about 120 million Mexicans on our doorstep in 20 years, and so many of them will be unemployed that we will need neutron bombs rather than radar along the border.

The hyperbole is used to make a very simple point. The Phase Two exercise of PRM 8 has made a start. It is too limited to stop here. The message from this PRC meeting and the following PD should be "We are not giving anything away, but we have got so many problems which cannot be solved without Southern cooperation that we had better change our modes of thinking about these issues in a hurry". The message is not what we are going to do for them, but *what we have to do together*. And the first thing, whether it is popular with South elites or not (BHN) is to indicate what we believe to be the appropriate set of policies to start to move in the right direction.

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**271. Memorandum From Roger Hansen of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and the President's Deputy Assistant for National Security Affairs (Aaron)<sup>1</sup>**

Washington, July 26, 1977

SUBJECT

A Last Attempt at a PRM-8 "Product" for the President

Zbig,

Your phone call this morning deeply saddened me. It revealed that for five months and three weeks I have worked for you with so little communication that I have wasted your time and mine, and it appears that no constructive purpose has been served.

When you asked me to come on board for six months, the purpose was specifically stated: "to get PRM 8 through the bureaucracy in a way

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 63, PRC 028 North/South Issues 7/27/77 [1]. No classification marking.



that allows us to reconceptualize North-South relations". That is what I have been trying to do ever since the last day of January; that is why the Track II group was eventually set up after the failure of the EPG effort; and that is why the PRM 8 before you now<sup>2</sup> is *not* a Roger Hansen think-piece, but the very best I could squeeze out of the bureaucracy after three months of hard work. It is still so "out-front" that the Van Dyks', the Bergstens', the Paul Boekers', etc. are at work desperately trying to produce a deadlock tomorrow.<sup>3</sup>

I finally thought that the best I could do for you was to start a process for thinking about North-South relations, based on four major elements (p. 37–38 of PRM). That is what I hoped the PRC meeting would produce.

Now, with three days left, I find that you want a Roger Hansen proposal, regardless of whether or not anyone in the bureaucracy agrees with it. Had I known this earlier, I could have saved us both six months of wasted effort, and needn't have joined the NSC to produce the product for you.

What follows is an attempt to set forward in less than five pages an overall approach to North-South relations, followed by much more specific emphasis on the "Carteresque" centerpiece, as I read the President's instincts and think about the domestic and international constraints with which he must deal in proposing North-South initiatives.

## **Attachment**

### **Paper Prepared by Roger Hansen of the National Security Council Staff<sup>4</sup>**

Washington, undated

#### **A NORTH-SOUTH POLICY FOR THE ADMINISTRATION**

A lengthy reconsideration of US policies toward the "Third World" countries leads to the following conclusion:

##### **I. Overall Scope**

US North-South strategy should consist of four component parts, each aimed at the accomplishment of a different set of US foreign policy goals (with some overlap between them).

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<sup>2</sup> See Document 270.

<sup>3</sup> A PRC meeting on North-South strategy took place on July 27. See Document 273.

<sup>4</sup> No classification marking.

1. Those *changes in direction* in what have in the past been thought of as the central core of US policies vis-a-vis the developing countries: trade liberalization; substantially increased economic assistance; a system of global food reserves; and a strengthening of such central financial institutions as the IMF and the World Bank. In these areas of "traditional" North-South policy, the Administration has already made important commitments which will be of considerable interest to the so-called "middle tier" LDCs, neither the strongest nor the weakest. The US goal in these policy arenas will be to keep Administration commitments made already by defending them successfully before the Congress and the American public. This job will be neither easy nor glamorous, but nevertheless second only to a Basic Human Needs initiative described below in importance to more constructive North-South relations.

2. A second ingredient in an appropriate North-South strategy will entail greater flexibility needed to deal with the *problems* and the *opportunities* presented by the emergence of the so-called "upper-tier" of developing countries. Some are financial powers, e.g., Saudi Arabia; some are industrial powers, e.g., Brazil; some are rapidly becoming potential military powers (at the regional level), e.g., Iran.

The United States must develop a set of policies and bilateral relationships with such countries which will allow us to incorporate such emerging local powers into all of our trilateral global systems of consultation and management which are appropriate. A major element in this set of policies will be greater flexibility in encouraging such countries to become members of such organizations as the Group of Ten on monetary affairs, particular working groups of the OECD of special interest to them, etc.

This set of policies is of particular importance if we are to gain the cooperation of these countries in the achievement of our policy goals in such realms as human rights, non-proliferation, conventional arms sales, and cooperation in such bodies as the UN, CIEC, and others where they can *sometimes* act as a "bridge to the South".

3. The third element, far less specific yet terribly important as one looks to the longer term, concerns a concentration on the need for global reforms where more-than-incremental approaches may well be necessary to deal effectively with "world order" problems over the coming decade. The vision needed in the North-South area is similar to the Presidential mandate given to the CEQ in his May 23 Environmental Message.<sup>5</sup> Clearly a strong case can be made for systematically studying such linked issues as food production, health facilities, popu-

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<sup>5</sup> For the text of Carter's May 23 message to Congress on the environment, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 967-986.

lation growth, and the fulfillment of basic human needs. If we do not begin to examine these problems in their aggregate and in their linkages to one another, we may well miss the opportunity to find “simultaneous” solutions which detailed study of each issue in isolation will not produce.

4. Finally, and for reasons detailed below, the Administration should make a major commitment to a Basic Human Needs (BHN) approach in its support of development progress bilaterally, together with OECD associates, and through such multilateral institutions as the World Bank and the International Development Association. This initiative would be of more benefit to the “lower tier” LDCs where the largest numbers of the so-called “absolute poverty” population is to be found. In this sense it would add balance to our entire package of North-South policies. But it is recommended for far more important reasons detailed in the next section.

## II. An Initiative on Basic Human Needs: Rationale

An initiative on a Basic Human Needs (BHN) approach should become the centerpiece of our North-South strategy for the following reasons:

1. *The time is right.* Development economists throughout the world, North and South, are stressing the fact that older approaches to development have failed to spread the benefits of growth. The result is that approximately one billion people within the LDCs today are living in what is described as “absolute poverty” (as measured by infant mortality, caloric intake, longevity, health and sanitary facilities, etc.). Many economists are turning to the concept of the *fulfillment of basic human needs* by which they mean assured levels of food, health and educational facilities, clean water, etc. Measurements and definitions differ; all are beginning to come together.

2. *The US foreign policy setting is right.* Given the Administration’s emphasis on human rights, a new and added emphasis on BHN would not only be a natural complement but also an integral part of a *global stress* on human rights. North and South have long feuded over the divergent emphases in the Universal Declaration of Human Rights: the North emphasizing personal, civil and political rights; the developing countries, basic economic rights (needs). The US can take a major step toward closing this “values gap” by embracing *jointly* the concepts of human rights and basic human needs, and by proposing a major development program to see that the fulfillment of basic human needs is achieved throughout the world by the end of the century.

3. A BHN focus can help the North and South to break out of the presently deadlocked “dialogue” last noted at CIEC. It can provide a *comprehensive framework* in which general North-South agreement can

be reached, which would then facilitate the solution of many other specific political and economic problems between North and South. Although many southern elite groups would initially oppose such a program, this opposition is to be expected and not to be a cause of concern. Far better than "fairness" among nation-states, a concept difficult to defend philosophically or support empirically, "fairness" among people in *delivering to all* a package of basic human needs can be seen as the ultimate purpose of all other economic policies, and a *global norm* to which all countries can subscribe.

4. BHN is also an integrating concept which has great potential for producing greater coherence and sense of direction to the entire UN system in the development field. Already the embryonic notion is beginning to provide an integrating framework for mutually supporting efforts at increasing food production (in FAO, the WFC, and IFAD); at developing integrated basic services to reach the billion poorest people of the world (UNICEF, WHO, etc.); and at formulating more sensible and integrated strategies of so called "self-reliant" development (UNESCO, UNIDO, ILO, etc.).

5. BHN could produce the same result for the development efforts of the OECD countries. That is, it could give the aid programs of the OECD countries a common purpose and a shared methodology in approaching the problem of the world's *poorest people*. It would not interfere with other aspects of development assistance serving different goals (e.g., infrastructure projects in "middle tier" countries not related to BHN).

6. Finally, it could also become (and is already becoming) an organizing principle within the international community's International Financial Institutions. Again it would infuse these heterogeneous agencies with a common purpose, program, and methodology for approaching the problems of the poorest.

### III. Outline of a Specific Proposal on BHN

1. It has been very roughly estimated that a BHN program which would make available to the "absolute poverty" population minimum acceptable diets, drinking water, sewage facilities, minimum public health standards and basic education might cost about \$10 billion a year over a twenty year period (1975 dollars and prices). If housing were included, the figure would rise somewhere between \$2-6 billion. (While the comparison is not relevant, it is still somewhat unsettling to note that the estimated annual investment cost of a BHN program is about 3% of annual global defense spending.)

2. The United States, which has already requested that the OECD countries mount a serious study of the BHN concept and the problem of making it operational, should develop a set of proposals to provide a

minimum of \$10 billion (1975 dollars) per year for the financing of a global BHN program. The money should be contributed by the US, as many other OECD countries as we can engage in the effort, and by the OPEC countries.

3. The program would need a great deal of technical work before it could be presented in detail. Among the most difficult problems would be:

a) The raising of the minimum \$10 billion per annum contribution. (Not all would be “new” money. The DAC countries now give close to \$14 billion in assistance. The more of these funds that were allocated toward a BHN set of programs, the less “additionality” over present levels.)

b) The “*conditionality*” problem. Northern countries would insist on oversight mechanism which assured that the money was being spent on projects agreed upon. But the LDCs will resist any overt “*intervention*”. Thus the problem; how to develop a new (or old) mechanism which can receive the funds from the North and distribute them to the South in accordance with agreed-upon ground-rules.

c) To work best, Southern countries must be assured that the funds will be available for lengthy periods of years. So the North must be prepared to pledge lengthy automatic commitments just as the South pledges to undertake serious policy reforms to become eligible for the funds.

d) In sum, there is the difficulty of striking a major North-South bargain, and of developing a mechanism to receive and allocate funds and monitor expenditures. All of this *could* be done bilaterally, but, *far less effectively*.

e) Finally, there is the problem of operationalization of such a program. How much does one count on the market system? How much on administrative decision? What kind of “*delivery*” systems will actually get food, medical care, etc., to the target population?

4. In light of the international political, financial and institutional issues, and the very technical issues about the mounting of a BHN program in any particular country, any US proposal will need to be carefully constructed. Therefore, it is urged that an inter-agency group be assembled immediately under the chairmanship of \_\_\_\_\_ to develop the appropriate range of options for a major US BHN initiative within the coming six weeks.

272. **Memorandum From Robert Pastor of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)**<sup>1</sup>

Washington, July 27, 1977

SUBJECT

PRC Meeting on PRM-8—July 27, 1977

I think the paper<sup>2</sup> is superb in sorting out conceptually the three goals which we will want to pursue in our North-South policy: (1) basic human needs; (2) reform of global institutions; and (3) bringing the regional influentials into our system. But, conversely, I think the paper is weakest in failing to show how these three goals can be and should be integrated into a comprehensive policy. The materials for developing such a policy are all there; the problem is that we view the co-optation of regional influentials as a *goal* when it is actually the best of all *means* for pursuing a comprehensive North-South strategy.

Ironically, we continue to carry some of the baggage of the Kissinger era of "confrontation politics," when Kissinger's goal was to break the bloc, and he used ostensibly positive proposals as a vehicle to do that. His insincerity was clearly perceived, and the result was that he failed. We are, of course, all sympathetic to Roger's premise that a positive and sincere effort by the U.S. will invite greater flexibility by the LDCs and thus progress. If we are truly concerned about breaking up bloc politics, the best way to do that is not to worry about it but just to negotiate seriously. When the LDCs begin to realize we have an end-picture in mind, they will get into the details of a proposal and differing interests will divide countries.

Similarly, if we set our goals as contributing to a global basic human needs strategy and to reforming the Bretton Woods institutions to take into account the need for greater participation for all developing countries but particularly the regional influentials (REGINFs), then one sees that our natural allies in pursuit of such goals should be the REGINFs. We will consult with them more often, but we need not structure the final package (bilateral or multilateral assistance or what-

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 63, PRC 028 North/South Issues 7/27/77 [1]. Confidential. According to the NSC Correspondence Profile, Brzezinski noted the memorandum. (Ibid.)

<sup>2</sup> Apparently a reference either to the paper entitled "North/South Strategy" prepared in response to the second stage of the PRM-8 process (see footnote 4, Document 270) or the July 26 memorandum from Hansen to Brzezinski and Aaron printed as Document 271.

ever) just to attract them; they are now so much a part of the system, that they will benefit by overall reforms. (This is recognized by the fact that the reforms and programs are improvements in the current—our—system, rather than aimed at replacing old institutions.) Moreover, I don't think we should follow any strategy which in any way implies that our purpose is to divide the developing world.

*The key to a comprehensive strategy is to connect Roger's three elements of a North-South policy with a single overlapping concept: participation.* Basic human needs is intended to increase the capabilities of the poor people of all countries to participate more fully in the social and economic lives of their nations. The purpose of reforming global institutions is to increase the *participation* of developing countries and thus the responsiveness of the institutions to their needs. Finally, bringing the REGINF's into our system is intended to *give them a voice and a vote* commensurate with their growing power.

The attraction of participation as an over-arching goal is that it not only relates to the developing world in a comprehensive way, but also to our own country and to the entire world. The civil rights struggle, the intention of the President to help the poor in the US, the voting rights laws—all provide a natural link between the domestic and the foreign policy objectives of tackling the problems of the poor. In a world in which the line between domestic and foreign policy is becoming less relevant, the idea of *promoting participation can provide an easy handle for the American people to relate US problems to the world's problems.*

**273. Summary of Discussion and Conclusions of a Policy Review Committee Meeting<sup>1</sup>**

Washington, July 27, 1977, 3:30–5 p.m.

SUBJECT

North-South Strategy

PARTICIPANTS

*State*

Secretary Vance

Anthony Lake

Richard Cooper

Jeffrey Garten

*Defense*

Charles W. Duncan

Brig. Gen. James M. Thompson

Gen. George S. Brown

Gen. William Y. Smith

*Treasury*

C. Fred Bergsten

*US/UN*

Dr. Charles Frank

*CIA*

Dr. Robert Bowie

[name not declassified]

*NSC*

Zbigniew Brzezinski

David Aaron

Roger Hansen

Thomas Thornton

Robert Hormats

*OMB*

Bowman Cutter

*AID*

John Gilligan

Ted Van Dyk

SUMMARY OF DISCUSSION AND CONCLUSIONS

I. The *principal issues for discussion* were:

(1) The need to institutionalize an interagency mechanism for further refinement of the North-South strategy outlined in the PRM 8 response, and to flesh out a specific set of policy options for the President.

(2) The growing complexities of US relations with the so-called “upper-tier” developing countries such as Brazil, Saudi Arabia and Iran, and the need to develop a set of US policies toward these countries which increasingly incorporate them into the leading international institutions in ways that strengthen US capacity to achieve its foreign policy goals.

(3) The primary focus which the US should place on the development of a global strategy of meeting the basic human needs of the world’s poorest people.

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 63, PRC 028 7/27/77 North/South Issues [1]. Confidential. The meeting took place in the White House Situation Room. Brzezinski forwarded the summary to Carter under cover of a July 30 memorandum; Carter initialed Brzezinski’s memorandum and indicated his approval of the summary. (Ibid.)



(4) The mutually supporting relationship between a US human rights strategy and US efforts to place basic human needs at the center of our development policies.

II. The *principal conclusions* were:

(1) An interagency group chaired by the State Department and reporting to the PRC, would become the central bureaucratic mechanism for the elaboration of the ideas contained in PRM 8 and for the development of specific policy options in the field of North-South relations.

(2) The fulfillment of basic human needs should be considered as an integral element of the fulfillment of human rights. The two closely related concepts can and should form a central core of US foreign policy.

(3) While the fulfillment of basic human needs is but one of several elements of the North-South strategy outlined in PRM 8, it should be a primary focus of the overall strategy and a central component of the resource transfer aspect of US North-South policies.

(4) The *core elements* of a basic human needs program should be the provision of minimum levels of food/nutrition, health services and basic education.

(5) US relations with the “middle” and “upper-tier” developing countries require an emphasis on a broad range of policy tools which need further investigation. A basic human needs strategy will be far less central to their needs, and its role in these countries needs further study.

III. The *following actions* are to be taken:

(1) The new North-South Working Group will immediately undertake the analysis and development of policy options considered necessary for the President’s September address to the United Nations.<sup>2</sup> Drawing on the work done in preparing PRM 8 and being done in the present DCC study of foreign aid<sup>3</sup> where appropriate, the Group will present specific options to the PRC during the first week in September.

(2) Beyond this initial assignment, the Group will flesh out in detail the four-part strategy for North-South relations outlined and proposed in PRM 8. It will attempt further refinement by disaggregating North-South problems into (a) issues; (b) countries; (c) venues; and (d) policy instruments.

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<sup>2</sup> Carter addressed the UN General Assembly on October 4; for the text of his address, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book II, pp. 1715–1723.

<sup>3</sup> See Document 268.

On the basis of this analytical exercise, the Group will produce a series of *action/decision papers* for consideration by the PRC throughout the coming six months.

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**274. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, undated

SUBJECT

US Relations with the Developing Countries: The Next 12 Months—Report by the PRM 8 Working Group

The PRM 8 working group's report of 13 September (PRM 8-III)<sup>2</sup> is a good review and analysis of the North/South relationship as it affects the US. The report also identifies "key specific issues" on which US actions will be required over the next year. These issues are discussed in an annex (Tab B).<sup>3</sup> However, the report does not request immediate PRC guidance on many of the problems which are identified as critical. Presidential guidance will have to be sought on trade policy, commodities and common fund issues, foreign assistance, and agriculture, to name a few.<sup>4</sup> Furthermore, please note the judgement (pp. 2-3) that the North/South environment could deteriorate if negotiations bog down on trade, a common<sup>5</sup> fund, etc. I concur. Yet, only one<sup>6</sup> of the issues for immediate PRC decision is directly relevant to sustaining, in the short-run, the relatively constructive North/South environment: The request for a PRC meeting on common fund issues. Hence, I attach great importance to eventual PRC consideration of the annex at Tab B,

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 65, PRC 038 9/22/77, North/South Issues—PRM 8. Secret. Sent for action. Erb did not initial the memorandum.

<sup>2</sup> The September 13 Working Group paper, entitled "PRM 8-Track III, US Relations with the Developing Countries, The Next Twelve Months," is *ibid*.

<sup>3</sup> Tab B, attached but not printed, is an undated paper entitled "Key Issues for the Next Year."

<sup>4</sup> Brzezinski underlined the words "trade policy, commodities and common" and "issues, foreign assistance, and agriculture" in this sentence.

<sup>5</sup> Brzezinski underlined the words "on trade, a common."

<sup>6</sup> Brzezinski underlined the words "only one."

and to the development of policy guidelines on the key issues set out there.

CIA has also prepared an annex (Tab A)<sup>7</sup> on key LDCs and security relationships. This material is of some interest in assessing LDC participation in North/South negotiations, but it is not critical for the PRC meeting.

#### *AGENDA ITEM 1*

Rather than asking the PRC to tackle the key issues immediately, the report requests guidance on the “basic policy framework for North/South relations” (see pp. 9–11). I recommend that you endorse the basic approach, with the caveat that the “community of interest and objectives” should take full account of the differences between developed and developing countries; moreover, for tactical reasons, the diverse situations and varied positions on international economic issues within the developing countries should also be kept in mind (see pp. 3–5 of the report).

If the basic policy framework is accepted, I recommend that you refer to the annex (Tab B) to place the key issues in the agreed North/South policy framework.

#### *AGENDA ITEM 2*

The PRM working group could not agree on the role which quantitative targets can play in US policies. In my view, targets for the performance of developing countries and international goals, such as acceptance of doubling food production or greatly reducing infant mortality, should be a part of the US approach to overall North/South negotiations. Carefully defined quantitative goals for development achievements should be part of the US response to developing-country demands for international changes. I recommend that you approve an investigation of appropriate targets directed by the DCC. I recommend against a PRC discussion at this time of types of targets since the necessary material is not available.<sup>8</sup>

#### *AGENDA ITEM 3*

Discussion of the role of an “overview mechanism” on North/South issues in the UN revealed significant differences of opinion within the working group. Treasury, for example, felt that not only is an “overview mechanism” undesirable, but it is probably avoidable. I

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<sup>7</sup> Tab A, attached but not printed, is an August 31 CIA memorandum entitled “Key LDCs in the North/South Dialogue: Issues and Forums.”

<sup>8</sup> Brzezinski highlighted the final two sentences of this paragraph.

do not agree. A UN oversight<sup>9</sup> role is inevitable, either as a result of the 32nd UNGA or of the restructuring of the UN. An overview mechanism could be prejudicial to US interests if we do not take an active role in moving the General Assembly away from negotiations on specific issues and timetables, and toward general considerations of North/South problems. Moreover, the President reviewed this issue in connection with the Latin American bilaterals and expressed a preference for: a) steering UN General Assembly North/South discussions toward broad issues; b) the avoidance of negotiations within the General Assembly, c) negotiations on specific issues in functional bodies. I therefore recommend that Option 1, favoring an overview mechanism be approved.

#### *AGENDA ITEM 4*

Acceptance of greater participation of LDCs in the international system will flow from PRC agreement on the basic policy framework. I recommend that you approve the PRM 8 working group's recommendations that the USG make a major effort to enlarge the group of countries which manages the international system.<sup>10</sup>

#### *AGENDA ITEM 5*

The basic human needs section of PRM 8-III is far superior to what is now found in the drafts of the Development Coordination Committee or the Brookings Report.<sup>11</sup> No final decisions need be taken on the issues presented at this time. In the preliminary discussions on basic human needs, I recommend (1) that you explore the possibility of approving the working group's recommendation that its basic human needs approach<sup>12</sup> be endorsed; (2) that you express a preference for bilateral programs that are flexible enough to be directed toward<sup>13</sup> middle income countries, as appropriate; (3) that you express a cautious approach to the conditionality which will be required of developing countries (on US leverage and conditionality the PRM 8-III, the DCC and the Brookings study are quite divergent); (4) that you express support for the working group's recommendations that the US support the basic human needs policies of international development lending institutions; and (5) that you endorse the working group's cautious approach to expanding the basic human needs concept to other areas.

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<sup>9</sup> Brzezinski underlined the words "A UN oversight."

<sup>10</sup> Brzezinski highlighted the last sentence of this paragraph and underlined the words "group of countries which manages the international."

<sup>11</sup> See Document 277 and footnote 2 thereto.

<sup>12</sup> Brzezinski underlined the words "basic human" and "approach."

<sup>13</sup> Brzezinski underlined the word "toward" and wrote "who" in the margin adjacent to this sentence.

*AGENDA ITEM 6*

PRM 8 working group has requested a PRC meeting on the common fund. I recommend acceptance of this recommendation.

The working group also requests an assignment to prepare another general report on North/South relations early next year. I do not object to the preparation of another report. But I do recommend that you request an expanded treatment of the key issues in Tab B rather than another general overview.

Deal, Pastor, and Thornton concur with this memorandum.

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**275. Paper Prepared in the Department of State for  
President Carter<sup>1</sup>**

Washington, undated

PRIORITY NORTH/SOUTH ISSUES AT  
THE UN GENERAL ASSEMBLY

*ISSUES FOR DECISION*

At the 32nd United Nations General Assembly,<sup>2</sup> we want to advance the Administration's commitment to constructive and mutually beneficial treatment of North/South issues. We hope thereby to sustain the generally pragmatic cooperation which characterized the Paris Conference on International Economic Cooperation<sup>3</sup> (CIEC).

We require two policy decisions regarding the appropriate means for seeking to achieve these objectives:

1) how we should try to manage UN General Assembly treatment of the numerous economic issues addressed in CIEC, and

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 65, PRC 038 9/22/77 North/South Issues—PRM 8. Confidential. Attached is an undated note by Brzezinski that reads: "Perez recommended a working group (OECD, OPEC, and asst. states) of some 35 states at the UN to give greater focus to North-South issues. State—if I understand the paper—recommends 'a low profile.' I feel that some cooperative but manageable mechanism is needed (like CIEC), and I would be inclined to encourage Perez to develop his idea further—and it do so sympathetically."

<sup>2</sup> The 32nd UN General Assembly session took place September 20–December 21.

<sup>3</sup> Carter underlined the words "Conference" and "International Economic Cooperation."

2) how active we should be in attempting to influence the selection of a specific UN mechanism to serve the overview function of the North/South dialogue in the post-CIEC period.

#### ESSENTIAL FACTORS

The Administration has clearly demonstrated its concern for the real problems of developing countries. In CIEC, the US, along with the other industrialized countries, agreed to increase substantially its development assistance to developing countries and to negotiate a financially-viable common fund to stabilize commodity prices; along with the EC, the US proposed a comprehensive procedure for dealing with LDC debt problems, on which agreement was not reached in CIEC. At this summer's ECOSOC conference, Ambassador Young announced that, in contrast to earlier positions, the US now accepts the New International Economic Order as an evolving concept, while maintaining our reservations on certain specific measures proposed by the developing countries.<sup>4</sup>

We believe the focus of the North/South dialogue in the post-CIEC period should be in the existing functional fora where negotiations on the complex individual issues are conducted among countries with an economic stake in the outcome and by persons who are experts on the issue. Trade issues should be negotiated in the GATT; commodity issues in UNCTAD; and financial and monetary issues in the International Monetary Fund, the World Bank, and their joint Development Committee. Negotiations in general fora, such as CIEC and the UN General Assembly, have the major disadvantage of linking all issues so that political success requires concessions on most or all of them. They thus encourage a bloc-to-bloc approach to the issues and tend to increase political pressure on the industrialized countries.

On the other hand, it is inevitable that UNGA will have some substantive discussions on the specific issues addressed in CIEC. The G-77 members as a group will continue to demand a major restructuring of the international economic system through large, automatic, and often economically inefficient resource transfers (e.g., commodity price indexation, generalized debt relief). We want to begin the process of turning UN General Assembly discussions toward 1) the broader economic issues of global economic interdependence and the responsibility of all countries for the future world economy and 2) moral and political issues, in particular, human rights, basic human needs, and equitable distribution of income within countries.

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<sup>4</sup> The 63rd session of the Economic and Social Council took place in Geneva July 6–August 4. For the text of Young's address delivered on July 8, see the Department of State *Bulletin*, September 19, 1977, pp. 383–389.

Since the conclusion of CIEC, several G-77 members have advocated the establishment of a UN mechanism to conduct a general overview of progress on North/South issues along CIEC lines. No consensus has emerged on the location of this mechanism. The Venezuelans have advocated a new, restricted-membership committee attached to the UN General Assembly for this purpose, and the President has indicated our support for this concept.<sup>5</sup> However, Venezuela has not been able to garner substantial LDC support for this idea and has stopped pushing it. Developing countries are considering other alternatives, including assigning the overview function to the current Second Committee of the UN General Assembly<sup>6</sup> or the UN Economic and Social Council (ECOSOC).

### THE OPTIONS

A. UN General Assembly treatment of specific North/South issues.

1. Seek to begin steering UN General Assembly North/South discussions toward broad issues of global economic interdependence and responsibility and gaining greater international support for human rights, basic human needs, equity in income distribution, and the importance to all of global growth. Avoid negotiations though not general discussion of the specific issues being treated in functional fora.

This option would not prejudice negotiations on the specific issues in fora most conducive to progress. It would mobilize support for our positions on human rights and other global development issues and allow us to regain to some degree the moral offensive in the North/South dialogue. It could contribute to a more pragmatic and mutually cooperative dialogue in the future. The developing countries may not favor this approach because they hope to use the General Assembly to impose guidelines and timetables on the negotiations in the functional fora. Some developing countries will resent and question our motivations for raising the broader issues of human rights and human needs.

2. Permit UN General Assembly either to reopen the CIEC negotiations on the individual issues or help pre-determine the results in the

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<sup>5</sup> During a June 29 meeting with Pérez, Carter stated "that he was willing to accept Venezuela's proposal to set up a group of representatives from 30-35 nations, including the Soviet Union and the People's Republic of China, as well as industrialized and developing countries, to work within the U.N. on North-South economic issues." Carter also expressed his hope "that the US and Venezuela would work closely in this forum to develop proposals, but it was President Carter's preference, in general, not to set up new organizations if one already existed to do the job." (Memorandum of conversation, June 29; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 35, Memcons: President: 6/77)

<sup>6</sup> The Economic and Financial Committee of the UN General Assembly was also known as the Second Committee.

functional fora by adopting prejudicial guidance and timetables for them.

While the developing countries may favor elements of this option, it would hamper mutually satisfactory negotiations in the functional fora and could encourage a return to the more confrontational atmosphere of the past. It tends to "front load" political benefits by setting ambitious deadlines and goals at the cost of later castigation for inadequate fulfillment. Other industrialized countries support minimizing the actual negotiating role of the UN General Assembly and other general fora.

#### *RECOMMENDATION*

That we seek to manage UN General Assembly discussions along the lines of option 1.<sup>7</sup>

B. How active should we be in selecting which UN body will have the North/South overview function.

1. To affirm publicly our support for the Venezuelan concept of a special, restricted-membership committee attached to the UN General Assembly in an effort to mobilize support for this concept.

If there is to be an overview mechanism, we consider this idea the best of the various alternatives. But it is unclear whether sufficient developing country support can be generated for it. Furthermore, our open support of the initiative would not necessarily help garner support for it.

2. Maintain our current low public profile on this issue and wait and see if the developing countries can agree on the concept of an overview mechanism and the question of where it should be located.

This option would permit us to avoid committing ourselves until the fate of the Venezuelan proposal in developing country circles is clear. While there are relative advantages and disadvantages to the Second Committee and ECOSOC alternatives, one is not sufficiently preferable to prompt an active role for the US in support of it if the Venezuelan idea is not supported by developing countries. Should circumstances later warrant, we could then assume a more active position. On the other hand, developing country failure to agree on an overview mechanism would not necessarily be contrary to our interests.

#### *RECOMMENDATION*

That we maintain a low profile as in option 2.<sup>8</sup>

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<sup>7</sup> Carter indicated his approval of this recommendation.

<sup>8</sup> Carter indicated his approval of this recommendation.



*North/South Discussions with Latin American Leaders*

We believe the most productive exchange on North/South issues would be with leaders of Venezuela, Brazil, Jamaica, Peru, Mexico, and Argentina. These leaders represent countries that were most directly involved in CIEC, are more active in North/South matters generally, and represent the most influential countries in the region.<sup>9</sup>

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<sup>9</sup>Carter made a checkmark in the margin adjacent to this paragraph and initialed "J."

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**276. Summary of Conclusions of a Policy Review Committee Meeting<sup>1</sup>**

Washington, September 22, 1977, 3:30 p.m.

SUBJECT

PRM 8–Track III (North-South)

PARTICIPANTS

*State*

Warren Christopher  
Richard Cooper  
Anthony Lake

*Defense*

David McGiffert  
Dr. Ellen Frost

*JCS*

Lt. Gen. William Y. Smith

*CIA*

Dr. Robert Bowie  
[*name not declassified*]

*OMB*

Bowman Cutter  
Randy Jayne

*Treasury*

C. Fred Bergsten

*AID*

Governor John J. Gilligan  
Philip Birnbaum

*USUN*

Ambassador Andrew Young  
Ambassador Melissa Wells

*OSTP*

Frank Press

*White House*

Zbigniew Brzezinski  
David Aaron

*NSC*

Guy Erb  
Thomas Thornton

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<sup>1</sup>Source: Carter Library, National Security Council, Institutional Files, Box 65, PRC 038 9/22/77 North/South Issues—PRM 8. Confidential. The meeting took place in the White House Situation Room. Brzezinski initialed at the end of the summary.

## SUMMARY OF CONCLUSIONS

The PRC met on September 22 to consider PRM 8-Track III, the PRM 8 working group's report on US relations with the developing countries over the next twelve months. The working group's report requested PRC decisions on six points.<sup>2</sup>

1. *Basic Policy Framework.* The PRC decided that the US approach to North-South issues set out in PRM 8-Track III is sound. (It was pointed out that strategic issues would have to be taken into account in a comprehensive framework for North-South relations.) The importance of delivering on US commitments was emphasized as was the likelihood that US capacity to deliver would fall short of expectations in the developing world. Developing-country reactions to what they perceive as inadequate US initiatives may create tensions toward the end of the next twelve months.

2. *Quantitative Targets.* After a review of the issues posed by the use of targets, the PRC decided to ask the Development Coordination Committee to undertake a study of specific, achievable targets which could be appropriately used by the US for internal planning as well as in international discussions, for example, during the preparations for the Third Development Decade.

3. *Role of the UN in the North-South Dialogue.* The PRC was informed of the President's directive to (a) steer UNGA North-South discussions toward broad issues, (b) avoid negotiations within the General Assembly, and (c) negotiate on specific issues within functional bodies.<sup>3</sup>

On the question of a review mechanism within the UN, it was pointed out that the circumstances had changed since the President had discussed the issue of CIEC follow-up with President Perez. Discussions at the 32nd UNGA were focusing on two possibilities for a UN review of the North-South dialogue: (1) the Second Committee of the UNGA, and (2) the ECOSOC, if it were made more effective as a result of a UN restructuring exercise. The PRC agreed that it might be necessary to reconsider this issue according to developments during the 32nd UNGA.

4. *Participation of LDCs in the International System.* The PRC agreed to ask the PRM 8 working group to explore means of increasing LDC involvement in international organizations.

5. *Basic Human Needs (BHN).* The PRC reviewed the issues posed by PRM 8-Track III and decided to defer the discussion of BHN until October 11 when PRM 8-Track III, the DCC report, and the Brookings study could be examined simultaneously.

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<sup>2</sup> See Document 274.

<sup>3</sup> See Document 275.

6. *Follow-up*. The PRC agreed to hold a meeting in October on a US policy toward negotiations on a common fund.

The PRC agreed to ask the working group to make another report early in 1978. That report will contain the working group's findings on participation of LDCs in international organizations. It will also analyze the most important of key issues identified at Tab B to PRM 8-Track III.<sup>4</sup>

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<sup>4</sup> See footnote 3, Document 274.

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## 277. Paper Prepared by the National Security Council Staff<sup>1</sup>

Washington, undated

ISSUES PAPER  
PRC MEETING  
October 11, 1977, 3:30 p.m.  
Situation Room

### *Introduction*

On October 11, the PRC will review two studies on US foreign assistance policies: the DCC report on foreign assistance (summarized at Tab A) and an interim report by the Brookings Institution which assesses development assistance strategies (summarized at Tab B).<sup>2</sup> In addition, the PRC has before it a section of PRM 8-Track III (pp. 14–23) which presents options for basic human needs policies.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 65, PRC–039 Foreign Aid 10/11/77. Confidential. Sent to Brzezinski under cover of an October 7 memorandum from Owen and Erb. (Ibid.)

<sup>2</sup> Tabs A and B are not attached; they are attached to another copy of this paper *ibid*. See also Tabs A and B to the Attachment to Document 282. For Carter's June 27 request for the DCC study, see Document 268. Gilligan circulated it, along with a summary of its findings, to PRC members under cover of an October 6 memorandum. (Carter Library, National Security Council, Institutional Files, Box 26, PRM–08 3 of 3 [1]) For the request that Brookings undertake a study of U.S. development assistance, see Document 264.

<sup>3</sup> See Document 274. Dodson sent a copy of the September 13 paper, "PRM 8-Track III, US Relations with the Developing Countries, The Next Twelve Months," as well as an undated summary, to the Secretary of Defense, the AID Administrator, the JCS Chairman, the DCI, the President's Assistant for Domestic Affairs and Policy, and the President's Special Assistant for Health Issues under cover of an October 7 memorandum, in which she noted that the paper would be discussed at an October 11 PRC

The purpose of this issues paper is to set out for PRC review the principal options for the orientation of US foreign assistance which emerge from the studies. The need for the presentation of sharply defined policy options to the President and for a Presidential Directive on the purpose and size of US foreign assistance underlie the concentration of this paper on the main foreign assistance policy options.

It is suggested that, after its review of the various development assistance strategies, the PRC establish a high-level interagency working group to prepare a final options paper for Presidential review. If established, the PRC working group should examine the relationships of the different strategies to alternative funding levels, as well as the implications of each strategy for the organization of US assistance programs, achievement of US foreign policy objectives, Congressional attitudes and possible changes in legislation, the relative emphasis given to bilateral and multilateral assistance, and ways of evaluating the effectiveness of US development assistance. The working group should complete the options paper and circulate it for PRC comment in time for its transmittal to the President by October 31. Submission of the paper by that date would enable the President to take decisions which could then be fully reflected in the budget review process.

#### *The Effectiveness of Development Assistance*

There is growing concern over whether bilateral and multilateral assistance programs effectively meet the needs of poor individuals. The basic human needs strategy—which by general consensus will be a major part of any strategy for US foreign assistance—is in essence a response to the judgment that development assistance can reach poor people more effectively. PRM 8-Track III (pp. 14–23), the DCC study (Part III, pp. 12–19), and the Brookings report (pp. 1–16) review BHN issues and policy choices which are relevant to the PRC's consideration of the alternative strategies for US assistance.

The problems affecting the administration of US aid programs cited by the DCC and the critique found in the Brookings Institution report amount to a judgment that the current US bilateral program and its legislative framework as well as multilateral programs need improvement. For example, the DCC's study suggests that administrative changes within AID and improvements in the Foreign Assistance Act would make the US bilateral program more effective. The Brookings report argues for a major reorganization and restructuring of the US development assistance effort.

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meeting. (Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 3 of 3 [1])

*Concessional Development Assistance Strategies*

Given the general support for an intermediate BHN approach, and setting aside for the moment SSA and hard loans by international development lending institutions (IDLI), various strategies for concessional development assistance—by IDLI soft windows, UN programs, bilateral development assistance, and PL 480—can promote US interests. It should be noted that the ability of the US to influence multi-lateral programs is relatively limited, compared to bilateral programs.

*Options*

(1) *Concentrate on key developing countries, regions, or problems of importance to the US, regardless of the level of development of recipient countries.*

Under this option, the programs would emphasize, but not be limited to, a relatively small number of key countries. These countries would range from the poor (India, Philippines) through middle and higher income (Caribbean nations, Brazil, Mexico). Criteria would not be limited to a country's income levels or its commitment to growth with equity programs, but rather would emphasize its economic or political significance to the US (e.g., raw materials, non-proliferation, regional stability, human rights, illegal migration).

(2) *Concentrate on global problems.*

Under this approach, the US would focus its development assistance programs on two or three critical global economic or social problems. World hunger, health, and family planning are possible target areas. Activities in other fields would be sharply cut back. These global efforts would be undertaken in areas, in low or middle-income countries, and institutions whose policies would contribute most to the solution of these problems.

(3) *Concentrate on poor countries in support of growth with equity/BHN.*

Under this option, priority would be placed on the poor countries. The objective would be to improve production and employment as well as the basic services for the poor majorities in these countries. Funding would be concentrated on countries with domestic policies favorable to equitable growth. The sectors of concentration could be more numerous than the possibilities under Option (2) and more directed toward poor countries. Under this option traditional concessional assistance would be limited to the poorest countries, complemented perhaps by reimbursable technical assistance to middle-income countries.

(4) *Concentrate on poor people.*

Under this option, basic human needs objectives are stated in terms of poor people rather than poor countries. This means at-

tempting to meet basic needs in middle-income as well as low-income countries, giving less attention to political considerations, and less emphasis to macroeconomic performance criteria relative to Option (2).

(5) *Multiple objectives.*

Under this option the main emphasis would be on assisting the development of poor countries, with allowance for programs based on economic, political or security objectives where development assistance was judged to be an appropriate tool.<sup>4</sup>

Country allocations would be based on multiple criteria (e.g., human rights performance, economic importance) rather than on development policies and performance alone. It would be possible under this option to launch global campaigns against particular development problems.

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<sup>4</sup> Brzezinski wrote several comments at the bottom of this page (page 3) of the memorandum: "US [illegible]: growth, development; US *Bilateral Policy*: [illegible]; and BHN: 1) poor (people + countries), 2) selective global problems, 3) key countries (if not covered by above)."

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**278. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, October 10, 1977

SUBJECT

PRC Meeting on Foreign Assistance, October 11, 3:30 p.m., Situation Room

The PRC meets on October 11 to consider the foreign assistance issues presented by PRM 8-Track III (the section on basic human needs), the DCC study, and the Brookings Institution report. An Issues Paper (Tab III)<sup>2</sup> contains the main policy options which emerge from the reports and summarizes the DCC and Brookings studies.

Our objectives for this meeting are two-fold:

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Deputy, Meetings File, Box 5, PRC Meeting: 10/11/77: [Brzezinski Copy] [I]. Confidential. Sent for information. Copies were sent to Aaron, Owen, the North-South Cluster of the NSC Staff, and Tuchman.

<sup>2</sup> Printed as Document 277.

(1) We seek PRC comment and guidance regarding the five principal options *as outlined in the Issues Paper*. Note: The Issues Paper's options differ from those contained in the DCC's summarization of issues.

(2) The PRC should approve a White House-chaired working group to prepare an options paper for the President by October 31. That paper should analyze the implications of the principal aid strategies for funding levels, the organization of US foreign assistance programs, and other issues. The working group's report would define issues for Presidential decision and assist OMB in its preparations of the FY 1979 budget review.

The following points are relevant to the PRC meeting:

(1) *The strategic options for foreign assistance*. The attached Issues Paper's five options for foreign assistance appear broad, but the choice among them could have a serious impact on (a) the direction of US foreign assistance programs and (b) their relation to US foreign policy objectives.

To illustrate, Option 5, "Multiple Objectives", could most easily incorporate assistance programs in support of a variety of US foreign policy objectives; for example, an initiative for Caribbean countries. Option 3, a "poor country" strategy, if narrowly defined, would make initiatives in middle-income developing countries relatively difficult.

(2) *The effectiveness of US assistance*: The President requested the DCC to examine the overall effectiveness of US assistance programs (see Presidential Memorandum of June 27, Tab IIA).<sup>3</sup> The DCC could not agree on an assessment of the multilateral and bilateral components of US assistance programs. In contrast, the Brookings report contains a sharp critique of the bilateral programs's current effectiveness.

The DCC and Brookings reports call for improvement in US assistance programs and both, as well as PRM 8-Track III, accept a strong US focus on meeting basic human needs (BHN). Taken together, these findings indicate that we must design programs that (a) reach poor people more directly, and (b) will be more effectively administered by the US.

(3) *Relations with Congress*. An expansion of US assistance will require improved understanding on Capitol Hill of the Administration's objectives. The imbroglio over the appropriations bill<sup>4</sup> illustrates the need for an Administration initiative seeking broader Congressional and public support for US foreign economic policies.

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<sup>3</sup> Printed as Document 268.

<sup>4</sup> Apparently a reference to the Carter administration's effort to secure the removal of country-based restrictions on the provision of direct or indirect foreign assistance by the United States.

The Treasury representative at the PRC meeting may refer in this context to the study on multilateral institutions which emerged as part of the compromise on the appropriations bill. Treasury first indicated that a *joint* Administration/Congress study of multilateral institutions would be undertaken. In concert with other agencies and the US Executive Directors of the IDB and the World Bank, I have insisted that the study be *in consultation with* the Congress. Moreover, that study should be seen as one part of the Administration's response to Congressional concern, not as a device to delay PRC consideration of the options for an overall approach to US bilateral and multilateral concessional assistance.

(4) *Funding levels.* Both the DCC and Brookings reports contain *illustrative* tables on alternative funding levels (see Tabs A and B to the Issues Paper).<sup>5</sup> Note: DCC figures are in nominal terms and Brookings figures are in real terms; to make a rough comparison between the two tables, add one-fifth to the Brookings figures.

We do not want PRC determination of funding levels at the October 11 meeting. However, it would be useful to have a PRC discussion of the prospects for low, moderate, or high levels of US concessional assistance.

(5) *The Organization of US Assistance.* The DCC study advocates administrative reforms in AID and a simplification of legislative requirements for bilateral assistance programs. The Brookings report calls for a complete overhaul of AID and the establishment of two new institutions. As in the case of funding levels, we do not seek final PRC pronouncements on organizational questions. Nevertheless, preliminary indications of agency views would be useful to the working group.

(6) *Other Issues:* Only a brief and general consideration of security assistance or PL 480 should take place at this PRC meeting.

Tom Thornton concurs with this memorandum.

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<sup>5</sup> See footnote 2, Document 277.



## 279. Summary of Conclusions of a Policy Review Committee Meeting<sup>1</sup>

Washington, October 11, 1977, 3:30 p.m.

### SUBJECT

Foreign Aid

### PARTICIPANTS

#### *White House*

Zbigniew Brzezinski  
Peter Bourne  
Henry Owen  
Robert Ginsburgh

#### *Defense*

Charles Duncan  
Dr. Ellen L. Frost

#### *Treasury*

C. Fred Bergsten

#### *OSTP*

Frank Press  
Anne Keatley

#### *AID*

John J. Gilligan  
Philip Birnbaum

#### *Commerce*

Stanley Katz  
Frank Weil

#### *USUN*

Melissa Wells

#### *State*

Warren Christopher  
Richard Cooper  
Anthony Lake

#### *CIA*

Dr. Robert Bowie  
[name not declassified]

#### *JCS*

Lt. Gen. William Y. Smith

#### *Agriculture*

Robert Bergland  
Harry Wilhelm

#### *OMB*

Bowman Cutter  
Randy Jayne

#### *NSC*

Thomas Thornton  
Guy Erb

### SUMMARY OF CONCLUSIONS

On October 11, 1977, the PRC met to consider US foreign assistance. Three reports had been submitted to the PRC: (1) the Foreign Assistance Study of the Development Coordination Committee (DCC); (2) An Assessment of Development Assistance Strategies, an Interim Report by the Brookings Institution; (3) PRM–8-Track III, US Relations with Developing Countries: The Next Twelve Months.

The PRC considered the principal options for foreign assistance strategies, taking into account the relationship between foreign assistance and other elements of US foreign economic policy, such as trade

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<sup>1</sup> Source: Carter Library, Staff Office Files, Domestic Policy Staff, Eizenstat Files, Box 238, NSC (National Security Council) (C/F, O/A 724). Confidential. The meeting took place in the White House Situation Room. Brzezinski initialed at the end of the summary.

policy and the transfer of technology. There was a consensus that an intermediate approach to Basic Human Needs (as defined in PRM 8-Track III, pp. 17a–17b) would be an essential element of any US foreign assistance strategy.

The PRC requested an interagency working group, chaired by the NSC, to prepare a paper for the President on the main strategic options for foreign assistance by October 31. The paper should pay particular attention to the implications of each option and to the relationship of the options to possible funding levels for foreign assistance.

Following the completion of the paper on options for assistance strategies, the working group should address in more detail the organizational issues which arise in the DCC study and the Brookings Institution report. The PRC decided that the second report of the working group and its recommendations should be submitted to the President by December 1, 1977.

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**280. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, November 3, 1977

SUBJECT

PRC Meeting on the Negotiations on a Common Fund, 4 November 1977,  
3:30–5:00 p.m.

*Summary of Main Issues*

The US is involved in a complicated negotiation with developing countries on a common fund for commodity price stabilization. The PRC meets to consider these negotiations on 4 November 1977. The main question before the PRC will be: (1) is the US prepared to continue the negotiations and contemplate compromises which may be necessary to bring them to a successful conclusion? If the answer to (1) is yes, other important questions are: (2) can possible changes in the US nego-

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 66, PRC 042 11/4/77 Common Fund Negotiations. Confidential. Sent for action. Copies were sent to Owen and Thornton. In a November 3 note to Brzezinski, Thornton indicated his concurrence in Erb's memorandum. (Ibid.) In another note to Brzezinski, also dated November 3, Owen wrote that he had "not followed this as closely as Guy. In general he seems to me to be on the right track." (Ibid.)

tiating position be examined during November, (a) on foreign policy grounds (given the importance of the negotiation to the overall North-South relationship) and (b) in relation to the credibility of the OECD proposals and the viability of a common fund itself; and (3) should consultations with the Congress be undertaken on US objectives and proposals within the negotiations.

If the PRC answers question (1) negatively we will have to consider urgently a series of steps that might minimize the damage to US relationships with other OECD members and the LDCs.

### *Background*

The PRC has received a discussion paper on the negotiations on a common fund (Tab A). The negotiations, which will take place from 7 November through 2 December,<sup>2</sup> are the fourth major North-South encounter on the common fund: previous meeting occurred at UNCTAD IV in Nairobi in 1976, at an UNCTAD meeting in March of this year; and at the CIEC meeting last June when it was decided that a common fund "should be established."

President Carter has referred twice to the US intent to negotiate a common fund. The proposed mechanism has become, for better or worse, the touchstone of the UNCTAD commodity proposals and a critical factor in the overall North-South relationship.

Since April 1977 the USG has worked with other OECD countries to develop an OECD proposal to make to the Group of 77 developing countries. The US approach has been guided by an April 1977 EPG submission of recommendations on common fund issues (Tab B).<sup>3</sup> At that time, the President approved the following paragraph in which you summarized the EPG recommendations:

Issue 1. *All agencies agree that the US should support a common fund which permits pooling of the fund of various buffer stocks and includes a provision for World Bank lending to supplement these funds.* This will be seen as a demonstration of US flexibility, although it will not meet all the demands of the LDCs. (See your memorandum to the President, April 14, 1977, No. 2059.) (Tab C)<sup>4</sup>

With considerable ingenuity, US officials have followed up that Presidential guideline by crafting a proposal for a pooling arrangement which has become the basis for an OECD *opening position* for the negotiations.

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<sup>2</sup> For more information on this second session of the UN Negotiating Conference on a Common Fund, see *Yearbook of the United Nations, 1977*, p. 472.

<sup>3</sup> Tab B was not attached. For more information, see Tab A to Document 263.

<sup>4</sup> Printed as Document 263.

*The US Proposal*

The US proposal is summarized on pp. 1–3 of the discussion paper. In my view, the pooling concept on which it is based has serious technical and political shortcomings:

My critique of the financial viability of the pooling proposal includes the following points:

—a pooling arrangement without a back-up facility based on direct government contributions or guarantees would not offer a significant incentive to producer/consumer commodity agreements to join the pool;

—a common fund without its own financial resources would not be able to convince private bankers of its credit-worthiness and consequently would have a weak borrowing capacity on private capital markets. Note: The World Bank lending proposed by the EPG was an attempt to respond to this issue.

—the pooling mechanism envisages a complex way of using the callable capital of commodity agreements and some existing agreements might not be able to participate in the pool as presently defined.

On political grounds the pooling proposal:

—risks splitting the group of developed countries in November since some of the smaller European countries are not satisfied with the proposal as it stands.

—may well provoke a confrontation with developing countries because it falls far short of the Group of 77 proposals.

*The Proposal of the Developing Countries*

The common fund proposals of the Group of 77 now include: (1) creation of a central source of funds for international commodity price stabilization agreements between producers and consumers; (2) support by a common fund for “other measures” which would include improvements in productivity, marketing and diversification; (3) financing for stocks and other measures for commodities not covered by international commodity agreements.

Only the first of the above proposals offers us a reasonable prospect for compromise. This is so because the US cannot at this time responsibly support a *new* institution for financing “other measures” when we must still deliver on commitments of \$800 million to *existing* international development lending institutions. Moreover, support by a common fund for commodities not covered by agreements would only be possible if the US and other developed countries had agreed with producers to international guidelines which were comparable to those in formal international agreements.

The Group of 77 is not united solidly behind their proposals, a factor which lends considerable uncertainty to interpretations of their possible reaction to the OECD proposal. My best guess is that the LDC

moderates will not be able to contain sharply critical LDC statements during the early stages of the November meeting. The ability of the US to respond constructively to that criticism may determine whether or not we will be able to channel the common fund negotiations toward technical working groups following the November meeting. Such groups would be preferable to another high-level, highly politicized negotiating session.

The major European countries have been informed of the possibility that the US might have to revise its position in the light of events during the November meeting. An improved US response might:

- force the Group of 77 to react to a constructive proposal rather than maintain their maximum demands in a confrontational manner.
- enable the US to resist pressure to make more changes in its proposals.

### RECOMMENDATIONS

The following are my recommendations related to the main questions posed at the beginning of this memo:

#### *Question 1:*

Is the US prepared to continue the negotiations and contemplate compromises which may be necessary to bring them to a successful conclusion?

The President has approved your suggestion of a US approach to the LDCs based on cooperation and shared responsibility. That approach justifies a serious US intent to negotiate a common fund.<sup>5</sup>

#### *Question 2:*

Can possible changes in the US negotiation position be examined during November, (a) on foreign policy grounds (given the importance of the negotiation to the overall North-South relationship) and (b) in relation to the credibility of the OECD proposals and the viability of a common fund itself?

We should seek from the PRC policy guidelines which authorize the serious exploration of improvements in the US position, for example those found in paragraphs 9–15 of the discussion paper. A PRC request to explore urgently those, and other, possible changes in the US position could aim at providing our representatives in Geneva with the negotiating flexibility that they may use as needed.<sup>6</sup>

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<sup>5</sup> Brzezinski did not indicate his preference with respect to any of the recommendations. On Question 1, the Disapprove option includes the action to “Prepare steps to contain damage to US relations with OECD countries and LDCs.”

<sup>6</sup> The Disapprove option under Question 2 includes the query “other action?”

*Question 3:*

Should consultation with the Congress be undertaken on US objectives and proposals within the negotiations?

As we determine the substance of possible changes in the US position, the Congress should be consulted on the evolving US position. In our consultations on Capitol Hill the objective of price stabilization (not price rigging, not more foreign aid) must be continually borne in mind.

**Tab A****Discussion Paper Prepared for the Policy Review Committee<sup>7</sup>**

Washington, undated

## THE COMMON FUND

November 4, 1977 The Situation Room

*The Setting*

1. The UNCTAD negotiations on a common fund have become a principal focal point in the North/South dialogue. The March 1977 negotiating conference made little progress in bridging the major differences seen at the Fourth UNCTAD in Nairobi in 1976. At CIEC the industrialized and developing countries agreed in principle to establish a common fund. It was clear on both sides, however, that the type of common fund the major industrialized countries were willing to consider was a much more limited and modest mechanism than that sought by the LDCs.

2. Since CIEC the US has led an effort in the OECD to develop a common fund proposal for the 4-week negotiating conference that begins November 7. The US has proposed a common fund that would facilitate the financing of commodity buffer stock operations by pooling the cash resources of International Commodity Agreements (ICAs) and borrowing in the market against commodity stock warrants and callable capital pledged by governments through the ICAs. The proposed fund would not receive direct contributions from governments and would not have financial resources independent of the participating ICAs. Latest indications are that this approach is acceptable to other OECD countries as an opening position.

3. The LDCs want the common fund to be a global commodity institution that would act as a central source of financing for ICAs with

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<sup>7</sup>Confidential.

financial contributions made directly to it by national governments. Many of them also want the fund to finance non-stabilization measures—diversification, infrastructure investment, research and development, product improvement and market promotion. Inclusion of “other measures” is basic to LDC cohesion because it offers benefits to LDCs who would not gain from buffer stocking. We and most other industrialized countries believe these non-stabilization needs are in large part already being addressed or could be addressed through existing financial institutions (IBRD, UNDP, regional banks), bilateral assistance programs, and ICAs themselves. Finally, the LDCs want the fund to be a new international institution with its own resources under their control. We seek to limit the scope of the fund’s activities, prevent control by the LDCs as a bloc, and preserve the autonomy of ICAs.

4. We cannot be sure how the LDCs will react to our current proposal in November. In view of the distance we have come, in the last year, the LDC moderates may be willing to work with our approach and attempt to move us along in November and further negotiating sessions next year. On the other hand, given the fundamental differences between our concept of a common fund and that demanded by the LDCs, we must be prepared for a contentious and politicized session that could end in a stalemate and sour the general negotiating environment on North/South issues. The common fund negotiations occur at an important moment in the dialogue, being the first major “economic” event after CIEC; preceding an upcoming series of difficult North/South negotiations; and coming before and during the President’s trip.<sup>8</sup> The Group of 77 developing countries (G-77) are likely to use the opportunity provided by the trip to increase pressure on the US.

#### *The U.S. Proposal*

5. We have argued in the OECD that our proposal would offer the following benefits:

a. it would provide economies from the pooling of substantial cash resources;

b. it would substantially reduce the financial outlays of government for each ICA by relying on commercial borrowing to enable participating ICAs to obtain financing up to 100% of their negotiated financial requirements;

c. it would be able to borrow more effectively and at lower costs than individual ICAs by consolidating their financial operations;

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<sup>8</sup> Carter was scheduled to travel to nine countries November 22–December 3, but the trip was postponed in early November. (Charles Mohr, “Carter Postpones Foreign Tour To Deal With Energy Legislation,” *The New York Times*, November 5, 1977, p. 1)

d. it would enhance the fund's standing on the market over time through the financial solidarity derived from the participation of major industrialized countries.

6. In advancing our arguments in the OECD we have brought along the major industrialized countries to the point where—despite some misgivings on the part of the UK and France—they are now willing to support our approach as a credible opening position, although LDC pressure could result in a breakdown of OECD cohesion during the course of the November session.

7. The scheme has been criticized, even within the USG, on the grounds that its credit worthiness could be strengthened; that—aside from the economies derived from pooling cash resources under ICAs—the fund would not provide any benefits beyond those the ICAs could obtain on their own; and that since it would have no resources of its own, it is no more than a useless financial intermediary. In this view, tabling of such a proposal would be viewed by the LDCs as a failure by the industrialized countries to live up to their commitment at CIEC and could, therefore, lead to a major confrontation.

#### *Negotiating Strategy*

8. An immediate issue is whether a common fund of the sort outlined above is of sufficient scope to be a valid basis for negotiations throughout November and beyond. The basic conceptual difference between the US and G-77 centers on the provision of direct financial contributions to the common fund and whether such contributions can be used for purposes other than price stabilization through international buffer stocks. The following paragraphs discuss a number of proposals that have been put forward as possible additions to our current proposal:

##### *Producer/Consumer Co-financing of ICA Buffer Stocks*

9. Link the proposal to an explicit statement by industrialized countries accepting the principle of consumer participation in the financing of buffer stocks negotiated by producers and consumers. Although The Executive Branch has already accepted this principle, further consultations with the Congress will be necessary. The Germans, in a major policy reversal, have endorsed this principle as well. The British are referring it to Ministers and the Japanese have not yet accepted it. A joint industrialized country statement on this issue would represent a genuine step forward in assuring adequate financing of buffer stocks. It would also significantly enhance the credibility of a pooling arrangement.

##### *Support for Backup Mechanisms*

10. Provide government contribution(s) to the fund as a backup reserve, either directly or through each ICA for the purpose of enhancing



the fund's ability to borrow. Such funds could not be withdrawn by individual ICAs. From a financial point of view the desirability of such contributions is related to the deposit ratio issue discussed below. The lower this ratio the greater the desirability of such contributions. This approach has the attraction of offering a limited compromise on the central source issue—still the major conceptual gap between our approach and that of the G-77—and providing the fund with minimal direct resources to assure its continued operation in the event of default by a participating ICA or participating members of an ICA. Unless we could convince the Congress that such resources were essential to the fund's operations and would not be used for the benefit of ICAs of which we were not a member, such support would probably not be authorized. And even if we could provide such assurances, the need to obtain Congressional support would be a major constraint in introducing the proposal. And were Congress to go along, we might expect that these appropriations would be at the expense of other foreign assistance programs.

11. Lower the proportion of cash ICA resources which must be deposited with the fund. By thus reducing initial budgetary outlays, this step would make the fund more attractive to members of ICAs. But there is then a risk that if support for the back-up mechanism ever shifted from callable capital pledged through ICAs to direct contributions, we could end up with a fund that a) required substantial amounts of direct resources and b) required participating countries to support borrowing on behalf of ICAs of which they are not members. To avoid this problem, we would have to seek agreement on the nature of the back-up mechanism before settling the deposit ratio and other basic issues.

12. Endow the fund with an overdraft within the World Bank or IMF that would be activated in the event of an IMF-certified recession and if the common fund had exhausted its commercial borrowing capacity. This step would be consistent with our position that there are benefits to all countries in sustaining production and employment by propping up commodity prices in the event of a severe decline. When this idea was raised earlier this year with other industrialized countries, it was generally opposed and we have not discussed it further in the OECD framework. The objections raised to the proposal were:

a) the existence of such a facility would tend to reduce the incentive for ICAs to raise the appropriate amount of their own financing when the agreements are negotiated;

b) the ICAs themselves might have to be amended in order to obtain financing significantly in excess of 100% of their negotiated financial requirements;

- c) an overdraft with the Bank or IMF would require changes in their respective Charter and Articles of Agreement; such changes could be difficult to obtain and would risk further undesirable amendments;
- d) establishment of such an overdraft facility could result in drawing away funds for economic development purposes in the case of the Bank and for anti-recessionary balance of payments financing in the case of the IMF, when the need for such financing would be greatest.

*"Other Measures"*

13. Seek a commitment by developed countries to support increased attention by the World Bank to commodity problems in connection with the proposed general capital increase. This step—together with agreement by the developed countries that the objectives of ICAs could include financing of product improvement and R&D programs—would be a defensible answer to LDC insistence that a common fund finance other measures. The disadvantages are: a) we are not in a position to " earmark " a future general capital increase; b) the LDCs will argue they are destined to receive the benefits of a general capital increase in any event and that there is, therefore, no additionality; and c) they will view this step as a ploy to subvert their concept of a common fund, which directly addresses "other measures" and, therefore, contains something of interest to virtually every LDC.

14. Provide for an advisory role for the fund on other measures. Here, the fund's membership would issue "recommendations" to other institutions to undertake "other measures" where traditional price stabilizing agreements are not feasible. While this might seem better than nothing to some LDCs and innocuous to many developed countries, it accepts a definite role for the fund on other measures, thus paving the way for pressure to move from "advising" to "financing," and would almost certainly result in a new large international bureaucracy.

15. Provide for voluntary contributions to a second window for the financing of other measures. This would provide an outlet for any voluntary contributions, including those from OPEC, and also perhaps satisfy the LDCs that the fund would have a financing role on other measures. On the other hand, in addition to the disadvantages cited in 14) above, it would be difficult for the US to resist the inevitable pressure on us to contribute to the second window, which would become in effect a new aid institution requiring periodic replenishment. A second window is thus inconsistent with our position, and that of most OECD countries, that there is no economic justification for common fund financing of non-stabilization measures.

16. We should bear in mind that there is no certainty that changes in the US approach would bridge the wide gap between the industrialized countries and the LDCs. An arduous negotiation thus appears inevitable. Moreover, our support for consumer-country participation in

buffer stock financing—which is a central element in our commodity policy—has not really been tested yet on the Hill. In determining our position, tactics and strategy, we must weigh the desirability of a possible short-term political gain against our own preferred approach to commodity issues and the major Congressional constraints that loom in the background.

### *Timing*

17. The timing of possible introduction of any of the above changes is a matter of judgement with respect to negotiating strategy and tactics in UNCTAD.

18. Introduction of some changes fairly early in the negotiations could reduce the risk of our immediately being thrown on the defensive and enhance our ability to make the OECD proposal the basis for discussion in November.

19. The nature of the North/South dialogue and the entire history of negotiations between the developed and developing countries suggest that the latter quickly snatch any concessions made and then up the ante. Given the conceptual gulf between the two sides on the common fund—even with the US in its most forthcoming possible posture—there is every reason to suspect history will repeat itself in November. This argues for a conservative opening position with some flexibility held in reserve and used only when absolutely necessary. The limitations on that flexibility, however, argue for stretching out whatever changes we may be able to make over the longest possible period. We cannot realistically hope in November to change the nature of negotiations in UNCTAD. Despite the obvious risks involved, we may want to sensitize the LDCs early in the negotiations to the real limits in our position and to the fact that, while we hope for some progress in November, we do not expect all major issues to be resolved.

## 281. Summary of Conclusions of a Policy Review Committee Meeting<sup>1</sup>

Washington, November 4, 1977, 3:30–5 p.m.

### SUBJECT

Negotiations on a Common Fund

### PARTICIPANTS

#### *State*

Secretary Cyrus Vance  
Mr. Richard Cooper  
Mr. Julius Katz  
Mr. Jeff Garten

#### *Defense*

Mr. David McGiffert  
Dr. Ellen Frost

#### *JCS*

Vice Admiral Patrick Hannifin

#### *CIA*

Dr. Robert Bowie  
[*name not declassified*]

#### *OMB*

Mr. Randy Jayne

#### *NSC*

Guy Erb  
Thomas Thornton

#### *AID*

Governor John J. Gilligan  
Mr. Constantine Michalopoulos

#### *Agriculture*

Mr. Harry Wilhelm

#### *Commerce*

Mr. Frank Weil

#### *Treasury*

Secretary W. Michael Blumenthal  
Mr. Anthony Solomon

#### *USUN*

Ambassador Melissa Wells

#### *White House*

Zbigniew Brzezinski  
Charles Schultze  
William Nordhaus

### SUMMARY OF CONCLUSIONS

The PRC met on November 4, 1977 to consider the US approach to the negotiations on a common fund (Geneva, November 7–December 2).

The PRC reviewed the strengths and weaknesses of the US proposal which was the basis for the opening position of the OECD countries in the negotiations. The PRC also considered the various positions of different countries within the Group of 77 developing countries and within the OECD.

There was agreement on the necessity to consult regularly with the Congress on the evolution of the negotiations and of the US position.

The PRC agreed that the November meeting should remand further work on a common fund to technical inter-governmental groups

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 66, PRC 042 11/4/77 Common Fund Negotiations. Confidential. The meeting took place in the White House Situation Room.

which would prepare issues for consideration at another negotiating conference.

The PRC agreed that the US would adhere to the opening position which had been drawn up within the OECD. It was also agreed that the US negotiators could announce, at the moment they deemed appropriate, that the US was willing to accept financial commitments by consuming countries in regard to the financing of individual commodity agreements.

The PRC called for further analysis of the pros and cons of possible changes in the US opening position. The possible improvements in the US approach which are set out in the PRC discussion paper of November 4, 1977<sup>2</sup> (paragraphs 10 through 15) and other possible changes should be analyzed immediately.

Decisions in Washington on possible changes in the US position will be taken in the light of the analysis of the pros and cons of individual measures as well as information received from US negotiators in Geneva regarding statements and possible actions by the Group of 77 and the other OECD countries.

The PRC agreed to meet again on the common fund negotiations on Friday, November 11, 1977.

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<sup>2</sup> See Tab A to Document 280.

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## 282. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, November 9, 1977

### SUBJECT

Economic Assistance Options

Attached is a memorandum that the PRC decided should be prepared, asking you to make choices concerning the aid strategies and long-term funding levels that will guide internal US planning. OMB is anxious to get your decisions soonest, to help it in reviewing AID's FY

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 16, Economic Assistance Strategy: 10/77–5/78. Confidential. Sent for action.

1979 request. If you wish a meeting with the PRC principals before deciding, please let us know.

A later memorandum will come to you by November 30 about organizational issues.

This memorandum was prepared by Guy Erb of the NSC staff and me. It is based on the Development Coordination Committee and Brookings studies of foreign aid, and on PRC discussion of these studies. It has been coordinated with other agencies. The preferences of these agencies among the indicated strategies and options are stated in the memo.

My own views are not recorded in the memorandum. I favor Strategy #1, focusing concessional development aid on helping poor people in poor countries, while using Supporting Security Assistance and such non-concessional aid as World Bank loans to help middle-income countries; and I favor the moderate funding option, a one-third overall increase in concessional assistance by FY 1982. I would make implementation of whatever decision you reach about aid funding conditional on your being satisfied that needed improvements in aid effectiveness have been achieved. This is at least as important as funding levels.<sup>2</sup>

If you are pressed for time, it is not necessary to read the tabs. You may, however, want to look at Cy's memo at Tab F, commenting on the future of US foreign assistance.

## **Attachment**

### **Memorandum for President Carter<sup>3</sup>**

Washington, November 9, 1977

#### **CONCESSIONAL ECONOMIC ASSISTANCE OPTIONS**

This memorandum is to secure your guidance on US concessional economic assistance strategy and longer-term (FY 1982) funding goals.

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<sup>2</sup> In a November 11 memorandum to Carter, Brzezinski indicated his support for "State and AID in their preference for strategy number 2. It combines the morally desirable objective of focusing on the poor people with the needed political flexibility. Strategy number 3 is too vague, while strategy number 1 does not give us the occasionally needed flexibility for political purposes or, indeed, for the morally good objective of stimulating some concern within middle-income nations for their own poor people." Carter initialed Brzezinski's memorandum, a stamped notation at the top of which reads: "The President has seen." (Ibid.)

<sup>3</sup> Confidential.

That guidance will provide the basis for Executive Office review of 1979 aid budget requests and for the planning of later aid programs.

This memorandum draws on studies of alternative strategies, funding levels, and organizational arrangements prepared by the Development Coordination Committee and the Brookings Institution. Summaries of these studies are at Annexes A and B. This memorandum deals only with concessional assistance. It does not deal with the capital replenishment of the World Bank and other hard lending agencies—a replenishment which, although largely without impact on federal outlays, will require substantial appropriations under present Congressional procedures. Nor does it deal with military assistance.

### I. *Introduction*

In the last twenty-five years, considerable progress has been made by the developing countries. With substantial external assistance, many of these countries have achieved sufficient growth so that they no longer fall into the category of poor countries as defined by the World Bank, i.e., countries with less than \$520 per capita annual income in 1975 dollars. These middle-income developing countries, most of which are in Latin America and East Asia, can now rely mainly on export earnings, hard loans from the World Bank and other private and public lending institutions, and private investment. Their growth rates do not depend on further large-scale concessional aid.

Nonetheless, over a billion people in the developing world still live in degrading poverty. Many of them are in the middle-income countries; these countries often lack the technical expertise and resources, and more importantly the political will, to improve the lot of their poor. Most of the world's poor, however, are in poor countries—largely in South Asia and Africa. US policy should seek to help these countries achieve faster growth with equity, so that their peoples can overcome poverty and so that their governments can reduce their reliance on concessional aid. In addition to the strong moral and humanitarian considerations involved, we have a powerful interest in helping to bring about the increased food output and the reduction in rates of population growth that would attend more rapid growth in the developing world.

The main prerequisite to achieving these goals, apart from open markets and expanding economies in the industrial countries, is more effective domestic policies in the LDCs. Although external resources are only a small part of the total resources available to LDCs, they can be important in bringing about needed policy reforms. To secure these external resources, the poorer LDCs need increased concessional aid; they cannot rely wholly on export proceeds.

The United States currently provides only about 30% of total OECD Official Development Assistance. The poor countries' needs for increased concessional aid must thus be met by increased contributions from all donor countries. The US role will be critical in determining whether such an aid effort is forthcoming. Although other countries' aid as a share of GNP is greater than ours and has been rising, while ours has been declining as a percentage of GNP, we are still the largest single donor, and other countries look to us for leadership.

Concessional aid is only one of several means by which the industrial countries assist progress in the developing world. A total policy response to economic development must include such other actions as trade and commodity policy, which are not treated in this paper. But bilateral and multilateral concessional aid is an essential element in the mix.

Two contradictory trends bear on the future of concessional assistance:

—US interdependence with the developing world is increasing. An improvement in the economic welfare of LDCs benefits the United States, both economically and politically. Higher LDC production of food, energy, and raw materials would serve US interests—as would the decline in the rate of population growth that would likely result from higher LDC levels of health and education.

—The difficulties of securing foreign assistance appropriations from the Congress remain; they will grow if aid requests are increased.<sup>4</sup> Widespread public support for aid is lacking. In part, these difficulties reflect criticism of the effectiveness of bilateral assistance. In part, they reflect Congressional concern over lack of US control over multilateral aid.

These facts underline both the importance and the difficulty of securing the increased US assistance pledged at the Downing Street Summit<sup>5</sup> and elsewhere. They point up the need for measures to improve the effectiveness of our bilateral aid programs, if enlarged resources are to be secured. They also point up the need for having a clear foreign assistance strategy and for explaining to the Congress and the American people the link between that strategy and our domestic and international interests.

Against this background, three questions need to be addressed in determining the optimum role of US economic aid to developing nations:

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<sup>4</sup> Nonetheless, AID notes that in recent years the Congress has approved increasing levels of economic assistance, and that AID authorizing legislation has been passed by larger majorities than in the past. [Footnote in the original.]

<sup>5</sup> For the text of the Declaration issued at the conclusion of the London G-7 Summit, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1977*, Book I, pp. 819-824. See also Documents 27 and 28.



- What aid strategy will best achieve US objectives?
- What FY 1982 funding levels should be envisaged as goals?
- What are the organizational prerequisites for an effective aid program?

This memorandum addresses the first two questions. A separate report about organizational issues will be forwarded to you by the end of November. Decisions on the questions raised in this memorandum need not wait on that report.

## II. *Present Programs*

*Bilateral concessional economic assistance* is immediately responsive to Presidential decisions and permits concentration on geographic and functional areas of importance to the United States. It has three major components:

—The development assistance program of AID, which has been running about \$1 billion annually, concentrates around 80% of its resources on meeting basic human needs of the poor in poor countries. The rest goes for similar programs in middle-income countries, largely in Latin America. There is a heavy functional concentration (90% of the total program) on agriculture, health, population, and education—by Congressional mandate.

—PL-480 food aid, which has been running at almost \$1.5 billion annually, provides food to foreign countries in the form of grants or concessional loans. About 70% of PL-480's total dollar resources is allocated to poor countries for humanitarian relief, economic development, balance of payments support, and support of US political objectives; the rest goes to such middle-income or affluent countries as Portugal, Korea, and Israel. The selection of recipients among middle-income countries has been heavily influenced by foreign policy considerations. The size of PL-480 is partly determined by domestic agricultural conditions and objectives; these have sometimes led to its being used in ways that reduce incentives for food production abroad. USDA has announced its intention to place less emphasis on domestic-oriented goals in planning future PL-480 programs.

—Security Supporting Assistance (SSA), which has been running about \$2 billion annually, is given for political reasons and is heavily concentrated in the Middle East, particularly Israel and Egypt. The funding levels requested for SSA have tended to vary from year to year, depending on political events. Its size is determined by the executive branch independently of the levels requested for development assistance; there is a potential trade-off in the Congress between SSA and development aid, however, since both are appropriated in the same bill.

Other components of US bilateral concessional assistance run to around \$200 million annually and include the Congressionally funded

Inter-American Foundation, and private voluntary organizations, which draw on official as well as private funds. Such organizations have had considerable success in reaching poor people directly through grass roots activities.

A table showing major recipients of AID funds and PL-480 over the last several years is attached as Annex C.<sup>6</sup>

*Multilateral concessional assistance* has two major components:

—The roughly \$1 billion that the US contributes annually provides about 30% of the resources of soft-loan windows of international financial lending institutions, of which the largest is the International Development Association (IDA). These institutions' aid is provided on concessional terms to poor countries. (The middle-income countries receive loans on non-concessional terms from the hard-loan windows of international financial institutions; the FY 1978 US foreign aid appropriation includes about \$1 billion for callable capital for this purpose.)

—The roughly \$200 million that the US contributes annually to development programs of the United Nations is directed to all developing member countries, both middle-income and poor.

### III. *Effectiveness*

Measuring the relationship between aid inputs and project outputs is complicated. Some progress has been made, however, in answering the basic question of what does and does not work in respect of *individual development projects*.

Measuring the impact of aid on *overall development programs* is more difficult. As noted earlier, economic growth and social progress are determined mainly by each receiving country's own resources and policies. Since concessional assistance usually provides only a small part of these resources, its impact hinges on encouraging the receiving countries to adopt improved policies. This leverage will vary according to the size of the recipient economy and its need for external resources. The potential for influence is thus greater in poor than in middle-income countries, and in small than in large countries.

Trying to estimate this critical link between aid flows and policy reforms is difficult—not only because it requires sorting out the impact of concessional aid from other social and economic variables, but also because it must be attempted with inadequate data and relatively weak analytic tools. To overcome these constraints and build solid assessments of aid impact will take time. A few generalizations can be made, however, about the economic effectiveness of present programs.

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<sup>6</sup> Tab C, attached but not printed, is a table entitled "Major Recipients of U.S. Economic Assistance Ranked by 1976 Per Capita GNP." In the margin at the end of this paragraph, Carter wrote: "Table seems to lack logic in '78 proposals."

The international financing institutions' soft windows are generally well managed and have a reputation for apolitical professionalism. Our contributions to these institutions evoke larger total contributions from other countries. The fact that these institutions are international and disburse large resources enhances their influence on the receiving countries' economic policies.<sup>7</sup>

Bilateral aid has had substantial successes, e.g., in Korea and Taiwan. These successes took place at a time when the US provided large resources and the receiving countries needed and welcomed US advice. Neither condition now obtains in the same degree. The opportunities for exerting policy leverage through US bilateral assistance programs thus hinge on an increase in its scale and a close linkage between that aid and the policies of the international lending agencies. US willingness to exert bilateral pressure for economic reform and the recipient country's ability to yield to such pressure are now sharply constrained.

Measuring the effectiveness of US aid in promoting *political objectives* depends on the specific objectives involved. If aid is given as part of a base rights negotiation, its effectiveness can be judged by whether we do or don't get the base, and at what price. But the effectiveness of aid in advancing more general objectives, such as peace in the Middle East, is more difficult to appraise: No one can be sure whether that peace would be further removed if we had given less aid. The effectiveness of aid in promoting good relations with the receiving country is even more difficult to assess. The United States probably gets more political credit from recipients for bilateral than for multilateral aid. But it is hard to define whether, and if so how, this credit gets translated into policies of benefit to the US. Countries' gratitude tends to be short-lived.<sup>8</sup> Providing aid for generalized political purposes is partly an act of faith—or of fear that things would be even worse without aid.

#### IV. Strategies

Although the funding levels discussed later in this paper treat both bilateral and multilateral aid, the strategies presented below focus largely on bilateral US assistance, since US influence over the policies of international financial institutions is limited. The question of how best to use this influence is being examined in a separate study of multilateral aid strategies and funding levels being conducted by the Treasury Department, in close consultation with the Congress.

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<sup>7</sup> Carter underlined these words and phrases in this paragraph: "international financing institutions"; "well managed"; "larger"; "contributions"; "other countries"; and "enhances their influence."

<sup>8</sup> Carter underlined the words "gratitude" and "short-lived" and wrote "amen" in the margin adjacent to this sentence.

All the strategies described below have four things in common:

—All would continue Security Supporting Assistance,<sup>9</sup> as a means of providing concessional aid to advance our political purposes.

—All would continue, in varying degree, the US policy of using bilateral development aid and PL-480 aid to serve basic human needs of the poor abroad.<sup>10</sup> This means a focus on improving the lives of poor people and helping them to gain access to such amenities as adequate food and nutrition, health and family planning services, shelter, and basic education. (The definition of aid for basic human needs recommended by the PRC is given at Annex D.)<sup>11</sup>

—All would have the US take account of the human rights performance of countries in allocating aid.<sup>12</sup>

—All would emphasize global problems—food, population, health, and education<sup>13</sup>—in some degree. This emphasis could be harder to come by under a strategy that stressed political purposes than under one that stressed helping poor people. If the attack on global hunger was given greater emphasis as a rationale for increased aid, we would probably elicit increased support among the American people.

*Strategy #1* would limit bilateral development assistance to meeting the basic human needs of poor people in poor countries (defined as those meeting the IDA eligibility of \$520 or less in 1975 dollars),<sup>14</sup> on the grounds that they need it and have no other recourse. The proportion of PL-480 going to poor countries would rise. Bilateral development assistance and PL-480 would be heavily concentrated in Africa and South Asia; bilateral development aid to governments in Latin America and the Near East would be limited to a few poor countries. Allocation of concessional development aid among IDA eligibles would be determined principally by the receiving country's economic performance and commitment to helping its poor.

Concessional aid to middle-income LDCs would be gradually phased down; concessional aid to these countries in support of technological collaboration (increased US support of research, development, and training on problems of special concern to LDCs) would continue, as it would under the other strategies discussed in this report. SSA and

<sup>9</sup> Carter underlined the words "continue Security Supporting Assistance."

<sup>10</sup> Carter underlined these words and phrases in this sentence: "continue"; "using bilateral development aid"; "PL-480 aid"; and "poor."

<sup>11</sup> Tab E (not Tab D, as indicated in the memorandum), attached but not printed, is an undated paper entitled "PRC Recommendation for the Basic Human Needs Approach of US Foreign Assistance."

<sup>12</sup> Carter underlined the words "human rights performance."

<sup>13</sup> Carter underlined the words "food," "population," "health," and "education."

<sup>14</sup> The map at Tab E shows eligible nations. [Footnote in the original. Tab D (not Tab E, as indicated in the memorandum), attached but not printed, is a World Bank map entitled "Countries Eligible for Soft Loans from the International Development Association (IDA)."]

hard loans from international financial institutions would continue to be used to meet other needs for aid to middle-income countries, e.g., discouraging emigration to the US and encouraging regional collaboration in the Caribbean.

Because the poor countries have a limited capacity to design and implement projects, this strategy would allow only moderate increases in AID funding levels, unless we either moved toward a broader interpretation of current Congressional mandates regarding the kinds of projects that can be aided or resumed substantial aid to India. If these changes were made, this strategy would probably result in more aid going to poor countries than any other; as a result, US influence in seeking to improve these countries' policies would probably be greater than under any other, and there would probably be more progress toward meeting basic human needs in poor countries than under other strategies.<sup>15</sup> Important segments of the Congress, which have been pressing for elimination of bilateral development assistance to middle-income countries, would react favorably to the greater emphasis on poor countries. So would many poor developing countries; middle-income countries might well take a different view. There might be some Congressional objection to the broader interpretation of current Congressional mandates, which would allow AID to finance infrastructure programs in support of human needs.

*Strategy #2* would provide concessional assistance (both bilateral development assistance and PL-480) to meet the basic human needs of poor people, primarily in low-income countries, which would continue to receive top priority, but also in middle-income countries if enough aid were available.<sup>16</sup> The dominant factor in allocating aid among countries would be where it would do the most good to help poor people; any aid to governments of middle-income countries would thus depend on the recipient's commitment to helping its poor.<sup>17</sup> Like strategy #1, this strategy would allow a sharp sectoral focus.

In granting concessional loans to middle-income countries under this strategy, our terms would be stiffer and we would expect the recipients to contribute more of their own resources than low-income countries. Because our aid would represent a smaller part of the total resources available to middle-income countries, it would probably

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<sup>15</sup> Carter underlined these phrases in this sentence: "US influence"; "be greater"; and "meeting basic human needs."

<sup>16</sup> Carter underlined these phrases in this sentence: "poor people" and "middle-income."

<sup>17</sup> Carter underlined these phrases in this sentence: "most good" and "help poor people."

provide less leverage<sup>18</sup> on the receiving countries' *overall* policies than it would in poor countries. It might have a catalytic effect, however, in stimulating middle-income countries to carry out *specific programs or projects* to help their poor.

Strategy #2 would allow more flexibility<sup>19</sup> than strategy #1, since it would permit more concessional assistance to reach middle-income countries that are politically important to us and that we may want to see participate in regional development programs—*provided* that these countries are prepared to use US aid to help their poor. Since we cannot assume that this will always be the case, this strategy would provide less political flexibility than strategy #3, below.

The Congress might perceive this strategy as a rejection of its clearly stated preference for concentrating foreign aid in the poorest countries. If the Congress considered the amount going to middle-income countries excessive, increased aid appropriations might be jeopardized. On the other hand, we would still be serving poor people; State and AID believe there is a good chance that many Congressional objections could be surmounted.

*Strategy #3* would be directed to multiple purposes, under improved procedures and with differences dictated by changing circumstances, e.g., a greater emphasis on meeting equity concerns. This strategy would give the President greater flexibility<sup>20</sup> than strategies #1 or #2 in meeting political needs. Bilateral development aid and PL-480 aid would be used to promote such foreign policy purposes as regional cooperation and non-proliferation, even if this required using aid in ways that were not directed toward helping the poor.

Thus, although most bilateral development aid and most PL-480 would continue to go to helping meet the basic human needs of poor people, more would go to advancing political or security purposes than under strategies #1 or #2. Larger amounts of bilateral development aid and of PL-480 would be directed to key developing countries, regions, or problems of importance to the United States, regardless of the recipients' level of development, and their commitment to helping the poor. SSA would probably be a larger part of total concessional aid than under strategies #1 or #2.

To the extent that this strategy emphasized political purposes, it would evoke stronger Congressional criticism from supporters of development aid than strategies #1 or #2. It would probably be supported by those who view aid primarily as a foreign policy, rather than a developmental, tool, on the other hand.

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<sup>18</sup> Carter underlined the words "less leverage."

<sup>19</sup> Carter underlined the words "more flexibility."

<sup>20</sup> Carter underlined the words "greater flexibility."

Underlying the choice among these strategies are two key issues: What should be the relative emphasis in allocating concessional aid between poor and middle-income countries; and what should be the relative emphasis between development/humanitarian and political purposes? The temptation is to say that we should do all of these things: provide all the aid that is needed for all countries and all purposes. This will be possible if we can secure all the aid funds needed to these ends. But if aid funds are limited, and if the limit does not vary greatly as between strategies, hard choices will have to be faced. In this event, more aid for middle-income countries will mean less aid for poor countries, and more aid for political purposes will mean less aid for development needs. The selection of a clear strategy should assist us not only in resolving these choices but also in effectively managing our programs and in presenting them to the Congress and to the public.

#### V. Long-Term (FY 1982) Funding Goals

US concessional aid totaled about \$5 billion in FY 1977 and nearly \$6 billion in FY 1978. The breakdown follows:

Concessional Development Assistance (Commitments in \$ billions)	<u>FY 1977</u>	<u>FY 1978</u>
<i>Bilateral</i>		
Security Supporting Assistance	1.8	2.2 <sup>21</sup>
AID development programs	1.1	1.2
PL-480 food aid	1.2	1.4
Other	<u>.2</u>	<u>.2</u>
Subtotal	4.3	5.0
<i>Multilateral</i>		
Contributions to multilateral soft lending	.7	1.0 <sup>22</sup>
Voluntary contributions to UN development-oriented programs	<u>.2</u>	<u>.2</u>
Subtotal	.9	1.2
<i>Total</i>	5.2	6.2

These totals overstate the amount of aid allocated to development purposes. Some bilateral development aid, a good part of PL-480, and most SSA responds to political objectives.

<sup>21</sup> Carter drew an upward-slanting arrow next to this number and a horizontal arrow next to the next three numbers in this column.

<sup>22</sup> Carter drew an upward-slanting arrow next to this number and a horizontal arrow next to the number below it.

Three broad options for the levels of US concessional assistance to be achieved by 1982 are discussed below, two of them involving a real increase in aid.<sup>23</sup> The mix of programs mentioned under each of these illustrative options is only one of a number that might be appropriate at each funding level.<sup>24</sup> Your selection among these options will provide guidance for internal executive branch planning, but not for submission of future aid projections to the Congress at this stage.

1. *Continue Present Aid Levels in Real Terms.* Total FY 1982 concessional assistance (including SSA) would rise in current dollars to about \$7.5 billion.<sup>25</sup> In constant dollars it would remain the same as in FY 1978, i.e., about \$6 billion. Unless there were a marked shift from bilateral to multilateral aid, this would require us to refuse the increase in the size of the soft-loan windows of the multilateral banks that their presidents are likely to propose. If SSA were held constant in nominal terms, however, this option would permit a modest increase in US bilateral concessional development assistance. Aid levels would decline as a proportion of GNP. Other donor countries' aid performance would be adversely affected. Developing countries' growth rates would thus be as heavily dependent as in the past on their internal economic policies and on trends in the world economy. Relatively rapid growth would probably continue in the middle-income countries of East Asia and Latin America; there would be little or no per capita income growth in many poor countries of South Asia and Africa. US aid performance would be criticized and would have an adverse impact on US relations with developing countries. This option would be viewed by many as a violation of our Summit and CIEC pledges by you and Secretary Vance to increase aid.

2. *Moderate Increase in Assistance.* Under this option, FY 1982 concessional development assistance (including SSA), in FY 1982 dollars, would be over \$10 billion.<sup>26</sup> In constant 1977 dollars, it would range around \$8 billion, or an increase of about one-third over FY 1978 levels. This could mean:

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<sup>23</sup> The Brookings study concludes that substantial changes in past AID management practices and personnel procedures would be needed if these increased funds were to be effectively spent. Governor Gilligan indicates that he has already begun making these improvements. The Brookings study suggests that changes in legislation and in Congressional requirements regarding aid presentation and implementation would also be needed. These issues will be treated in our later paper on organizational issues. [Footnote in the original.]

<sup>24</sup> The illustrative figures shown under each option do not include the over \$800 million by which we will soon be in arrears in meeting our past commitments to the soft and hard-loan windows of international financial institutions. We will have to seek additional funds from the Congress to cover these overdue payments. [Footnote in the original.]

<sup>25</sup> Carter underlined these phrases in this sentence: "FY 1982" and "\$7.5 billion."

<sup>26</sup> Carter underlined these phrases in this sentence: "FY 1982" and "\$10 billion."



—about a 50% increase in real terms over the FY 1978 contributions to the soft-loan windows of the multilateral banks, which is what the heads of these banks will likely propose;

—about a 100% increase in real terms in bilateral development aid over FY 1978 levels;

—SSA remaining about where it is now;

—a moderate increase in PL-480 sales.<sup>27</sup>

Assistance at this level, if carefully programmed, might well induce important policy reforms in some poor countries. In resource terms, it could have significant impact on LDC growth rates if it were focused on countries where such reforms were being undertaken. Under this option, you could more readily carry out the proposal made to you in a recent report of the National Academy of Sciences for providing increased support for private and public agricultural research and development, in the US and the developing countries,<sup>28</sup> and you could provide for increasing technological collaboration with developing countries in other fields, as well. US aid as a proportion of GNP would be about the same as now, given the projected increase in GNP. Other donors would welcome our absolute aid increase, as would the LDCs. There would, however, continue to be LDC pressure for US concessions in other areas. There would be significant Congressional resistance, mitigated by the fact of the increase being spread over five years; a large investment of political capital and a close working relation with the Congress would be required to overcome this resistance.

3. *Large Increase in Assistance.* Levels of US concessional assistance (including SSA) in FY 1982 would go up to around \$13 billion in 1982 dollars. In constant 1977 dollars, aid levels would range around \$10 billion. This could mean not only the 50% increase in multilateral aid described above (which is probably the most that the donor countries would agree to), but almost a doubling of PL-480 over FY 1978 and a tripling in real terms and quadrupling in nominal terms of bilateral development assistance. If concentrated in a relatively small number of countries' with growth potential, this aid level might have a significant impact on the recipients' economic growth and their progress in meeting basic human needs—although here, too, policy reforms would be more important than the resource transfer. The US would be providing about the same proportion of GNP as aid as the other OECD countries. This option would thus place you in a good position to call for increased international effort by all countries in attacking such

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<sup>27</sup> Carter wrote “—?” in the margin adjacent to this point.

<sup>28</sup> This report, entitled *World Food and Nutrition Study: The Potential Contributions of Research*, called for additional spending on nutrition and food production research. See *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs, Document 212.

global problems as hunger and disease. It would go a long way toward meeting the developing countries' aid demands, although they would still press for initiatives in such other areas as trade and commodities. Obtaining Congressional support for an increase of this magnitude would be extremely difficult.

## VI. *Your Decisions*

### *Your Decision on Strategy for Concessional Assistance*

*Strategy #1:* Concentrate bilateral concessional aid on helping poor countries—with SSA, non-concessional aid, and concessional aid for technological collaboration going to middle-income countries. (Favored by Treasury, OMB, and the Brookings study on the grounds that it would concentrate aid on (i) the people who need it most, because they live in countries that have less recourse to such outside resources as World Bank loans than middle-income countries; (ii) the countries where it could have the most beneficial leverage on the recipients' policies, because it will constitute a larger share of the total resources than it would in middle-income countries.)<sup>29</sup>

*Strategy #2:* Concentrate on helping poor people in poor LDCs with the flexibility to reach poor people in middle-income nations as well. (Favored by State, AID, and the NSC staff on the grounds that this strategy might reach the largest number of poor people, would give the US the opportunity to develop cooperative relationships with the largest number of LDCs, and would provide substantial flexibility to meet varied objectives including regional programs, as in the Caribbean, while allowing us to balance our interests between poor countries and middle-income countries, as well as between economic and political purposes, *provided* that these purposes could be served by programs that would help the poor.)<sup>30</sup>

*Strategy #3:* Follow multi-purpose strategy, with substantial attention to the political purposes of bilateral development aid, on the grounds that this will afford us greater flexibility than either strategies #1 or #2, since aid would not be limited to helping poor people. Since this strategy would place more emphasis than strategies #1 or #2 on political and security factors in programming bilateral development aid, it would make it easier to use bilateral development aid to advance such political goals as non-proliferation and regional collaboration.<sup>31</sup>

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<sup>29</sup> Carter did not indicate his preference with respect to this option.

<sup>30</sup> Owen wrote "Supported by Peter Bourne" at the end of this paragraph. Carter indicated his approval of this option and initialed "J."

<sup>31</sup> Carter did not indicate his preference with respect to this option.

*Your Decision on FY 1982 Concessional Aid Funding Goals*

*Low Option:* Maintain FY 1978 aid levels in real terms.<sup>32</sup>

*Moderate Option:* An increase of one-third in total concessional aid over FY 1978 in real terms. (Supported by Treasury, the NSC staff, and OMB as the most appropriate target, in view of likely relevant circumstances at home and abroad. Supported by State, subject to upward revision if it is demonstrated that increased aid can be used effectively.)<sup>33</sup>

*High Option:* A rough doubling of total concessional aid over FY 1978, in real terms. (Supported by AID, which believes it essential that the President approve a planning figure consistent with the enormous political and economic stakes that the US has in the future growth of the developing world. The Brookings study recommends a large increase in concessional aid, and notes that various estimates of future aid needs converge around this high option.)<sup>34</sup>

Whatever your choice among these strategies and funding levels, we face a difficult task in carrying it out—in making needed improvements in bilateral development aid, and in selling both bilateral and multilateral aid to the Congress. But we can address both these tasks more effectively if we have a clear sense of your long-range goals.<sup>35</sup>

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<sup>32</sup> Carter did not indicate his preference with respect to this option.

<sup>33</sup> Owen wrote “Supported by Peter Bourne” at the end of this paragraph. Carter indicated his approval of this option and initialed “J.”

<sup>34</sup> Carter did not indicate his preference with respect to this option.

<sup>35</sup> At the end of the memorandum, Carter wrote: “Need to sell to people—Develop comprehensive PR effort—Needs to sound conservative & idealistic—Use popular persons from movies, sports, etc.—Also, we do not need to use World Bank measurements which minimize importance of PL 480.” On November 29, Erb forwarded to Brzezinski a paper that he and Thornton had prepared entitled “Public Presentation of a North-South Strategy.” According to Erb’s cover memorandum, a meeting was to be held on the issue on November 30. No memorandum of conversation of the meeting was found. (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 108, North-South Policy: 1977)

## Annex A

### Summary of Study Prepared by the Development Coordination Committee<sup>36</sup>

Washington, undated

#### DCC Study

#### Summary

The first section of the DCC report discusses the US stake in the developing world, the history and role of US development aid, and the major instruments used to provide assistance (bilateral development programs, PL-480, International Development Lending Institutions, or IDLIs, UN programs and strategy emphasizing growth with equity and aimed at meeting basic human needs) as the most effective way of promoting US development aid objectives.

The second part of the study, whose purpose is to examine the effectiveness of each of the major instruments mentioned above, concludes that all are generally effective in addressing major objectives but that some have comparative advantages in specific areas: bilateral development assistance; IDLI soft lending and UN programs in meeting developmental-humanitarian goals; IDLI hard lending in meeting economic-commercial goals; security supporting assistance in meeting security-political goals.

The study discusses problems which confront bilateral and multilateral assistance efforts. Citing improvements and reforms which could improve bilateral and multilateral assistance, the study includes the following measures which could enhance the effectiveness of the bilateral program: (a) concentrating bilateral development assistance on countries willing to adopt appropriate policies conducive to equitable growth, (b) influencing domestic LDC development policies by use of leverage, and (c) innovative programming to demonstrate new ideas and a dialogue with LDC officials to influence their acceptance of program and policy changes.

The final part presents major substantive and funding issues, some with DCC recommendations and others, where no DCC consensus emerged, with options for PRC consideration. Major issues include:

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<sup>36</sup> Confidential. Gilligan circulated the DCC study on U.S. foreign assistance, as well as a summary of its findings, to PRC members under cover of an October 6 memorandum. (Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 3 of 3 [1])

—Overall strategy for development assistance.

—Funding levels: Illustrative 1982 funding levels are presented, each representing a substantial increase over current amounts for all programs in both real and nominal terms.

—US assertiveness in pushing basic human needs and types of BHN programs to be funded: the DCC recommends supporting the IDLIs and the LDCs in stressing BHN rather than taking the lead unilaterally, and also recommends an “intermediate” approach permitting some capital investments in addition to programs immediately benefiting the poor.

—Bilateral programs: Options are presented on the mix of countries to be assisted, the sectoral composition of the programs and the degree of conditionality to be used in allocating funds.

—Security supporting assistance: This issue relates to the separation of politically motivated programs from those with mainly developmental objectives.

—PL-480: The DCC recommends de-emphasis of market development and surplus disposal, and maximum use of the new Title-III authority.

—IDLIs: Options are presented on the mix of hard and soft lending and the relative emphasis of the World Bank and regional banks. No recommendations are made because of Treasury’s agreement to undertake a full study of future US approaches to the IDLIs, in consultation with the Congress.

—UN programs: Options are presented on increasing the US share of voluntary contributions to UN programs and on the relative role of UNDP and the specialized agencies.

**Tab B****Summary of Interim Report Prepared by the  
Brookings Institution<sup>37</sup>**

Washington, undated

**Brookings Interim Report: An Assessment of  
Development Assistance Strategies****Summary**

The study is based on the premise that although development must occur primarily through self-help, increased concessional aid for the poorest and non-concessional aid for the middle-income countries is needed and can play an important role in hastening growth with equity. Furthermore, the continuous development of new knowledge is critical to development and is a field where the US has a unique capacity, drawing extensively on the US private sector, to build indigenous LDC capabilities.

In its consideration of the effectiveness of current programs, the report concludes that most bilateral foreign aid vehicles need substantial improvement.

1. *AID*: AID has over-narrowly interpreted the New Directions mandate,<sup>38</sup> thereby missing areas important to development—such as regional development and research. Managerially, it has been hobbled by unnecessary paperwork, overly restrictive legislation, and insufficiently qualified personnel.

2. *PL-480*: With insufficient stress on promoting economic development, PL-480 aid has not fulfilled its potential, and has occasionally acted as a disincentive to LDC agricultural production.

3. *Security Supporting Assistance* does not go to the countries that most need development aid, and cannot be readily used to influence the receiving countries' economic policies; has little development impact, and detracts from the amounts otherwise available for development assistance. Its benefits are largely political.

The report expresses a different view on multilateral assistance: The International Financial Institutions, particularly the World Bank Group, have been effective and efficient, have mobilized other donor

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<sup>37</sup> No classification marking.

<sup>38</sup> Reference is to the changes in U.S. foreign aid programs mandated by the Foreign Assistance Act of 1973 (P.L. 93-189).

countries' resources, and have exerted substantial influence on the receiving countries' policies.

The Brookings report includes the following recommendations:

1. *Program Direction*: US development assistance should focus on meeting basic human needs, by expanding productive employment, as well as by the direct provision of services and commodities to the poor. This would entail:

—concentration of bilateral concessional assistance on the poor countries and the use of concessional aid to support technological collaboration in the middle-income countries and non-concessional aid to meet their other needs;

—greater reliance on the recipient country's responsibility for project design and administration;

—a larger effort to mobilize the resources of the private sector, in both the US and developing countries, to promote research, development, and training on problems of direct concern to developing countries;

—a PL-480 food aid program directed largely to development and humanitarian goals;

—continued support for expansion of multilateral hard lending to middle-income countries.

2. *Institutional Arrangements*: To improve the US capacity to implement an effective development assistance program:

—AID should be replaced by (i) a Development Cooperation Agency (DCA) to carry out existing AID functions, whose creation could be the occasion for needed legislative, procedural, and personnel changes; and (ii) an International Development Foundation (IDF), guided by a board of public and private members, to define and support research, development and training programs on problems of concern to LDCs.

—SSA should be administered by the DCA; its funds would be appropriated to, and justified to the Congress by, the State Department.

—A Coordinator for International Development Policy should be appointed to ensure that the different types of assistance (bilateral development aid, IFIs, PL-480, etc.) fit together into a coherent program.

### 3. *Funding Levels*

—The Brookings Study presents alternative funding levels. Under the high option, concessional assistance would double in real terms between 1977 and 1982—from \$5.04 billion to \$9.9 billion in 1977 dollars. Under the lower options, FY 1982 aid levels would be \$7.5 and \$8.8 billion respectively.

The report suggests only a modest increase in bilateral development assistance for next year; larger increases would only be requested the following year, *after* the proposed changes in aid procedures and organization had taken effect.

**Tab F****Memorandum From Secretary of State Vance to  
President Carter<sup>39</sup>**

Washington, November 10, 1977

## SUBJECT

The Future of U.S. Foreign Assistance

You are receiving an NSC memorandum presenting three alternative strategies to guide future U.S. foreign assistance programs as well as alternative planning figures for FY 1982 funding levels.

I would like to reiterate my personal support for Strategy #2, which concentrates on poor people, with a priority for low income countries but with flexibility to maintain or initiate programs in some middle income nations as well. I believe this approach would permit us to respond to the needs of the greatest number of poor people and also maintain necessary foreign policy flexibility. In addition I believe this strategy can be successfully defended in Congress, because it will be focused on basic human needs in sectors such as health and agriculture, because middle income nations would be expected to devote a significant amount of their own resources to projects that we help fund, and because our loans to these countries would be on stiffer terms than those for poorer countries.

If we confine ourselves only to low income nations (Strategy #1), we will lose the opportunity for programs in areas like the Caribbean, which you have designated as high priority. On the other hand, if we pursue the so-called "multipurpose" approach (Strategy #3), I believe that our programs will be too diffuse and that both program effectiveness and congressional support will suffer accordingly.

On funding, I strongly recommend the middle option—a moderate increase in assistance with a planning figure of around \$8 billion in 1977 dollars or \$10 billion in 1982 figures. In my estimation this amount is sufficient to meet your pledge for "substantial increases." However, I would hope that you will permit this planning figure to be revised upward if we can demonstrate that increased amounts of aid can be used effectively.

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<sup>39</sup> Confidential.



**283. Memorandum From the Representative to the United Nations (Young) to President Carter<sup>1</sup>**

Washington, undated

## SUBJECT

NSC Options Memorandum on Future Bilateral Development Assistance

The National Security Council has sent you an options memorandum on alternative U.S. bilateral aid strategies and alternative funding levels through FY–1982.<sup>2</sup> The memorandum is based on the work of AID and the Brookings Institution in reviewing our aid policies. As you consider these options, I hope you keep in mind a very promising field of economic assistance to the developing world: support for regional economic groupings. Let me point to some of the possibilities in three regions.

*Caribbean Basin:*

United States interests in the Caribbean Basin continue to be endangered by the slow pace of economic development, rising population pressures and political polarization. There are considerable opportunities for greater economic development which could do much to diffuse the potential for trouble in this strategically placed region. The nations of the region already have built regional integration mechanisms: the Caribbean Common Market, the Central American Common Market; and the Andean Pact in South America, which includes the littoral nations of Colombia and Venezuela. The democratic and forward-looking leaders of the region—Perez of Venezuela, Oduber of Costa Rica, and Manley of Jamaica—have a vision for the region which is compatible with ours. We should support them. We should be prepared to strengthen these groupings through development assistance to their regional institutions, particularly the Caribbean and Central American Development Banks. We should also begin helping to build institutional bridges among the various groupings in the region.

*Southeast Asia:*

With the collapse of SEATO,<sup>3</sup> the importance of the Association of South East Asian Nations (ASEAN) takes on new meaning as it gives

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Agency File, Box 22, United Nations: 8–12/77. Confidential. Young did not initial the memorandum. A stamped notation reads: "The President has seen."

<sup>2</sup> See the Attachment to Document 282.

<sup>3</sup> The Southeast Asia Treaty Organization (SEATO), which was established as a result of the September 1954 Manila Pact, ceased to exist in June 1977.

political cohesiveness to the area and a possible framework for future security cooperation. The Japanese have announced their own large technical cooperation and aid package for the ASEAN region as they seek to protect their markets and sources of raw materials. The United States has given only modest support for the regional institutions; allowing the Japanese complete freedom in the area may risk U.S. markets for exports and lose attractive investment opportunities for U.S. business.

*Africa:*

Regional integration may be the only means of ensuring economic survival, let alone progress, for some of the poorer and politically insecure nations of the African continent. Especially given the mounting tensions in Rhodesia and South Africa, regional cooperation may be the only means of strengthening the economies and political security of countries such as Zambia, Botswana, Tanzania and Zaire. Once Zimbabwe and Namibia attain independence, substantial new opportunities for regional economic cooperation will arise which should be planned now and grasped when the independence comes if regional stability is to be maintained. Another promising venture in Africa is the Economic Community of West African States (ECOWAS), strongly backed by Nigeria and the Ivory Coast and linking 16 anglophone and francophone West African states. We could evidence our support for regional cooperation in Africa by molding the special requirements fund and the Zimbabwe Development Fund toward regional development in southern Africa, supporting the African Development Fund in regional development projects and encouraging the new ECOWAS fund.

As you examine the various strategies put forward to you, I recommend that you request a further study and options concerning assistance to regional integration efforts in the developing world.

*Recommendation:*

That you direct the NSC to chair a study and prepare options for you on assistance to regional economic groupings.<sup>4</sup>

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<sup>4</sup> Carter indicated his approval of this recommendation, writing below it: "Within existing AID study & '79 budget effort. J."

**284. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, November 9, 1977

## SUBJECT

PRC Meeting, 2:00 p.m., 11 November 1977: Negotiations on a Common Fund—  
Direct Contributions and Other Measures

Attached are a discussion paper prepared by an interagency group in response to the PRC's request for more information on possible improvement in the US position on a Common Fund (Tab I), and the agenda for the November 11 PRC meeting (Tab II).<sup>2</sup> I also enclose the earlier discussion paper submitted to the PRC for its meeting of 4 November (Tab III).<sup>3</sup>

*Direct Contributions*

The first issue before the PRC, direct contributions to a Common Fund, derives from the divergent views of Secretary Blumenthal, on the one hand, and yourself, Under Secretary Cooper and Ambassador Wells, on the other. You will recall that Secretary Blumenthal favored US adherence to the OECD opening position for a pooling arrangement. He was against making any direct contributions to a Common Fund. The opposing view expressed during the PRC meeting was that a constructive response to LDC and developed-country interest in direct contributions, plus the impact which such contributions would have on the financial viability of a Common Fund, justify a change in the US position at an appropriate moment.<sup>4</sup>

My impression is that working-level agency positions conform roughly to those expressed at the PRC on 4 November. State, OMB, Agriculture, and possibly Commerce, are willing to consider a US indication of its willingness to discuss direct contributions at an appropriate point in the negotiations.<sup>5</sup> Treasury staff have been very constructive during the preparations of the discussion paper, but they are con-

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 66, PRC 043 11/11/77 Common Fund Negotiations. Confidential. Sent for action.

<sup>2</sup> Tab II is attached but not printed.

<sup>3</sup> Printed as Tab A to Document 280. For the November 4 meeting, see Document 281.

<sup>4</sup> Brzezinski highlighted the portion of the paragraph beginning with "that a constructive response" to the end of the paragraph.

<sup>5</sup> Brzezinski underlined the words "a US" and "willingness to discuss" in this sentence.

strained, of course, by Secretary Blumenthal's announced opposition to direct contributions. However, the logic of Under Secretary Solomon's criticism of the OECD opening position might lead Treasury to acceptance in principle of direct contributions. In that case, the main constraint on Treasury could be concern that direct contributions could not be sold on Capitol Hill. Further consultations on the Hill will help clarify that issue.

#### *Other Measures*

The second issue before the PRC relates to measures other than buffer stocking. Because of the \$800 million US arrearage to the hard and soft-loan windows of international development lending institutions, there is little that we can offer here. The discussion paper puts the best face possible at this time on a US approach to this issue.

#### *Recommended Next Steps*

The discussion paper requests PRC guidance on whether the US can consider making direct contributions to a common fund. If that is the case, further staff work and consultations with the Congress will be necessary.

I recommend that you approve the consideration of direct contributions and the consequent staff work and consultations.<sup>6</sup>

I also recommend that you raise at the PRC meeting the possibility that the US discuss the direct contributions issue within the OECD. This may be farther than other agencies are willing to go without a reading of Congressional attitudes. However, I believe that cautious OECD consultations are a logical consequence of a decision to consider making direct contributions.<sup>7</sup>

The PRC is also asked to refer the issue of direct contributions to the interagency Commodity Task Force, which is chaired by State (Katz or Bosworth) and which provides guidance and instructions to the US delegation in Geneva.

I recommend that you approve this delegation of responsibility to the Commodity Task Force.<sup>8</sup>

The discussion paper suggests that the PRC refer the Other Measures issue to the Commodity Task Force for the determination of the manner and time of its presentation during the negotiations in Geneva.

I recommend approval of this step.<sup>9</sup>

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<sup>6</sup> Brzezinski indicated his approval of this recommendation, writing "ok."

<sup>7</sup> Brzezinski underlined the words "that cautious OECD" in this sentence. He did not indicate his preference with respect to this recommendation.

<sup>8</sup> Brzezinski did not indicate his preference with respect to this recommendation.

<sup>9</sup> Brzezinski did not indicate his preference with respect to this recommendation.

The discussion paper also suggests that the PRC refer to the Commodity Task Force questions relating to (1) the deposits by International Commodity Arrangements to a common fund, and (2) an overdraft mechanism.

I recommend approval of this suggestion.<sup>10</sup>

**Tab I**

**Discussion Paper Prepared for the Policy Review  
Committee<sup>11</sup>**

Washington, undated

**THE COMMON FUND: DIRECT CONTRIBUTIONS  
AND OTHER MEASURES**

November 11, 1977 The Situation Room

The PRC requested, at its meeting on November 4, 1977, that an elaboration be prepared of possible improvements in the US position for the negotiations on a common fund. In particular, more information was requested on the issues posed by paragraphs 10 through 15 of the Discussion Paper for the November 4th meeting (Tab A).<sup>12</sup>

This paper concentrates on the issues posed by (1) a decision on whether or not to make a direct contribution to a common fund (Paragraph 10) and (2) the US approach to the demand by LDCs that a common fund include measures other than buffer stocking in its activities (paragraphs 13–15).

Paragraph 11 of the Discussion Paper raised the issues of whether and when to propose an alteration of the OECD position on the proportion of cash resources of an International Commodity Arrangement (ICA) which must be deposited with a pooling arrangement. It is recommended that a decision on this question be delegated to the Commodities Task Force, chaired by the Department of State, which will provide guidance and instructions to the US delegation.

Further work is necessary regarding the possibility of an overdraft mechanism which might support members of ICAs in the event of a world recession. It is recommended that the Commodities Task Force

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<sup>10</sup> Brzezinski did not indicate his preference with respect to this recommendation.

<sup>11</sup> Confidential.

<sup>12</sup> Tab A, attached but not printed, is an excerpt comprising paragraphs 10–15 of the Discussion Paper printed as Tab A to Document 280.

consider the legal and financial implications of an overdraft mechanism.

*Issue 1: Direct Contribution to a Common Fund*

In the negotiations on a common fund the US will have to address the question of whether it will agree to provide government contributions to a common fund. These funds would be in addition to the deposits in a pooling arrangement made by individual International Commodity Arrangements (ICAs). (It is assumed that the US would agree to make contributions to a common fund which were for the administrative costs of a common fund organization.) The purpose of a US agreement to consider direct contributions would be two-fold; (1) it would permit the US, at an appropriate point in the negotiations, to move some distance toward LDC demands that a common fund have its own capital resources; (2) direct contributions might enhance the borrowing capacity of a common fund by strengthening assurances to investors of its continued operation in the event of a default by a participating ICA or by participating members of an ICA.

To ensure that a direct contribution would be consistent with our objectives, we would limit its use to building a contingency reserve within the common fund. Its purpose would be to enable the common fund to promptly satisfy its obligations in the event that a member government defaulted on its obligations to a particular ICA. If that ICA were fully extended at the time and the default required putting up additional collateral, the common fund could make a bridging loan to that ICA. The common fund would not assume ultimate liability for the outstanding loans of that ICA. This liability would continue to rest with member governments of the ICA. But the bridging loan would help to keep market conditions orderly while the ICA's procedures for dealing with default of a member government came into force.

Funds made available for contingency reserve purposes could be either in cash, in the form of callable capital or in the form of loan guarantees. From the point of view of creditworthiness of the common fund, cash contributions would be preferable. They would be available as a liquid cash reserve and could enhance both the borrowing capacity as well as the terms on which the common fund could borrow. In addition, cash contributions would yield earnings on investment, which could help defray interest and other expenses the common fund might have. The callable capital option, while also enhancing the financial efficiencies the common fund could obtain, would do so to a lesser extent. Loan guarantees would be the least helpful from a capital market efficiency point of view, because they could be mobilized only in the case of default and would not be available to bridge temporary liquidity problems.

*Possible Mechanisms for a Direct Contribution*

There are conceptually two approaches to providing contributions for a contingency reserve within the common fund. One approach would define the contribution as some percentage (probably less than five percent) of the financial commitments of each ICA that participated in the fund. Under this approach, we could, at the time membership in an ICA was put to Congress for approval, ask for two authorities in addition to those negotiated in the agreement:

(a) authority for the US representative to the agreement to vote for accession of that agreement to the common fund, if and when such a common fund had been constituted and approved by the Congress; and

(b) appropriation of the amount required for the contingency reserve of the common fund.

Another approach would be a direct contribution not directly linked to membership in specific ICAs. Under this approach the amount of the contribution could be five percent or less of our share in the ICAs in which we expected to participate. We would seek Congressional approval of, and appropriations for, the common fund, separately from approval and appropriations for ICAs.

A variant of this approach would be to make a single contribution without attempting to estimate requirements of all possible ICAs. This contribution would probably be smaller than a contribution which was based on an attempt to estimate needs of all potential ICAs participating in a fund. This type of contribution could be supplemented by contributions made through ICAs as they became participants in the common fund.

*Safeguards*

Certain safeguards would appear to be essential to protect our interests in the event we were to contribute to a contingency reserve.

(1) We should eliminate or minimize the possibility that our contribution would support ICAs in which the US did not participate.

(2) A contingency reserve should be related solely to the price stabilization objectives of a common fund. It should not be an aid mechanism, but a stock of cash, callable capital, or loan guarantees held by a common fund and not intended for transfer to members of the institution.

(3) The institutional arrangements governing decision-making and operations of a common fund would have to be acceptable to the United States.

(4) A common fund, with or without direct contributions, should not control individual ICAs.

(5) We should ensure that the relationship among the various elements of a common fund—deposit ratio, borrowing capacity, callable capital, stock warrants, and a possible contingency reserve—is consistent with our interests and the financial viability of the common fund.

*Issue 2: Measures Other Than Buffer Stocking*

The role of a common fund in financing commodity measures other than price stabilization will be one of the key issues at the conference. The LDCs want the common fund to allocate a portion of its resources to the financing of such measures as market promotion, product research and development, production expansion, up-grading of production efficiency and expansion of LDC processing and transportation activities. This objective is basic to LDC cohesion on the common fund because it would provide benefits to LDCs unable to benefit from buffer stocking. Developed countries regard non-stabilization measures as appropriate and necessary to deal with many of the commodity problems of developing countries and favor increased international attention to other measures. However, the major developed countries, including the US, believe that creation of a new central source of international financing for these measures is neither necessary nor desirable, and seek to restrict the common fund to financing of stabilization measures. The prospect of sharp confrontation at the conference on this issue calls for presentation by developed countries of as constructive and concrete alternatives as possible to the financing of other measures by the common fund. The principal elements of a developed country approach are outlined below.

1. *Producer-consumer cooperation:* International commodity organizations (ICAs) and other producer-consumer organizations must provide the foundation for effective international action on other measures. By virtue of their interest in and knowledge of particular commodities, participants in producer/consumer organizations are especially qualified to identify and evaluate the need for specific measures. ICAs, or other producer/consumer organizations, can be expected to play a major role in implementing market promotion and new product research and development programs. The International Institute for Cotton, for example, has a \$6 million annual market promotion and product research program financed by producers and consumers. In addition to the projects they implement themselves, the ICAs and other producer/consumer organizations could also provide project proposals and coordinate recommendations to international development institutions such as the IBRD or the UNDP. To underline its support for strengthened producer/consumer cooperation on other measures, the US should confirm at the common fund negotiations that



it is prepared to examine, in discussions of particular IPC commodities, the need for specific other measures and how they can be carried out.

2. *International development institutions*: International technical assistance and development finance institutions comprise a second key instrument of international action on other measures. These institutions have extensive experience in development activities, personnel skilled in project appraisal and established sources of finance. Although the extent of their commodity related activities is not generally appreciated, the World Bank will be financing about \$3.0 billion in commodity-related development projects between 1975 and 1979, and the UNDP, FAO, UNIDO and the International Trade Center also have substantial commodity related programs. Developed countries should be prepared to strengthen the commodity activities of these international institutions. We should also be prepared to ensure that the World Bank has adequate resources to respond to the commodity related needs of LDCs without sacrificing attention to other priority needs. This approach would provide specific evidence of the constructive commitment of developed countries to the other measures issue, though it would not satisfy the desire of developing countries to establish a source of finance under their control.

3. *UNCTAD coordination*: Effective and comprehensive coordination of international activities respecting other measures could continue to be carried out under UNCTAD leadership. This coordination involves all of the international development, finance, and technical institutions; the ICAs; and the other producer consumer groups. Its purpose is to tie together the various commodity related activities of these institutions. Such a formal, continuing coordination mechanism responds to the fundamental LDC desire to have the international development institutions to address the commodity related problems of LDCs on a global, rather than country-by-country basis. A main purpose of this coordination is to enable the international development lending institutions and technical assistance agencies to obtain and share a continuing flow of information and recommendations from commodity organizations and their members as to commodity related needs of developing countries. An immediate step might be for UNCTAD to undertake a general survey of presently available financial and institutional resources relevant to other measures and the effectiveness with which they are being employed.

#### *Next Steps*

*Issue 1*: If the PRC believes that the US can consider making direct contributions to a common fund, possible mechanisms will need to be analyzed and evaluated. In addition, detailed consultations with Congressional leaders and staff will have to be undertaken on this issue.

The staff work and consultations related to the direct contribution issue could be undertaken by the inter-agency Commodity Task Force, which will provide guidance and instructions to the US delegation in Geneva.

*Issue 2:* If the PRC believes that the approach outlined under Issue 2 is satisfactory, this issue and the determination of the manner and moment of its presentation in Geneva could be referred to the Commodities Task Force.

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**285. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to the Under Secretary of the Treasury for Monetary Affairs (Solomon)<sup>1</sup>**

Washington, November 10, 1977

SUBJECT

PRC Meeting on the Common Fund

The PRC will meet on Friday, November 11 to discuss various alternatives that might be used to augment the U.S. proposal for a Common Fund. At the last meeting on November 4, the PRC requested that the various "sweeteners" to the U.S. proposal (see paragraphs 10–15 of the discussion paper at tab B)<sup>2</sup> be elaborated and the advantages and disadvantages outlined.

The attached NSC paper (tab A)<sup>3</sup> does not quite meet the request made by the PRC. It discusses two possible approaches to the issue of direct contributions to the Common Fund and does not elaborate much of the detail. In addition, the discussion of possible measures other than buffer stocks, although wordier than in the first presentation, does not add further to the substance.

On the matter of overdraft possibilities and the size of the cash deposits which ICAs might put with the Common Fund, the staff group

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<sup>1</sup> Source: National Archives, RG 56, Records of Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, 1977–1979, Box 1, Meetings (Mtg's) 1977. No classification marking. Drafted by Junz and Hazen Gale, Director of the Office of Raw Materials and Ocean Policy, Department of the Treasury. A stamped notation reads: "Noted by Mr. Solomon."

<sup>2</sup> Printed as Tab A to Document 280.

<sup>3</sup> Printed as Tab I to Document 284.

suggests that further work should be done in the Commodity Task Force chaired by State Department. One aspect of a possible overdraft, that of direct lending by the World Bank, has been eliminated because legal opinions make it virtually certain that the Charter of the World Bank either would or should have to be amended to permit such lending.

#### *Direct Contributions*

The NSC paper does not pose the question of the desirability, or otherwise, of direct contributions in any further detail than in the earlier paper (tab B). It is our view, as stated earlier, that the Common Fund proposal as it stands now would be financially viable. The outstanding issue concerns the extent of financial efficiencies which could be obtained over and above what ICAs could obtain on their own. It is clear that some kind of capital base, however minimal, would increase the financial economies to be derived from a Common Fund. In addition, there is the likely tactical need to provide for some direct resources. Nevertheless, the question of direct contributions of this sort needs to be seen in the context of the overall negotiations. We believe the U.S. should agree to them only in order to obtain a positive outcome both in terms of acceptance of institutional arrangements that gives a considerable measure of control to the ICAs and to consuming nations. Preliminary discussions with staff members of relevant Committees on the Hill indicate that—to the extent they represent their Member's views—there is little, if any chance that Congress would authorize capital funding for a Common Fund that did not have appropriate institutional control features.

If it is decided that some kind of direct contribution is needed, agencies are agreed that any direct contributions to the Common Fund should be relatively small and should be put into a contingency reserve that would be used by the Common Fund to relieve a temporary liquidity squeeze in the event of default by a member government of a particular ICA.

Two approaches have been suggested:

—An additional contribution through the ICA, to be authorized and appropriated at the time governments join an ICA. These contributions would be used for bridging loans only in the event of default by a member or members of an individual ICA. They would not be available to discharge ultimate obligations of that ICA.

—A contribution directly to the Common Fund, to be authorized and appropriated separately from authorizations of ICAs that are concluded. The size of these contributions could be based on the likely number of ICAs to be negotiated or on a negotiated lump sum.

Both approaches would enhance the creditworthiness of the Common Fund and they would permit the industrial countries to move

toward the G-77 demand for a fund with its own resources. Either of these approaches would require greater safeguards in the decision making, voting, and operational provisions of the Common Fund.

The first approach would allow us to preserve the principle that no member government should assume responsibility for the liabilities of ICAs to which it did not belong. It seems feasible also to obtain some protection on this principle under the second approach, but the risk of pooling liabilities is considerably greater.

*Recommendation:*

The PRC should direct the Commodity Task Force to undertake further work, including consultations with members of Congress, to determine the technical and political feasibility of the two approaches and to determine the appropriate time for implementing a U.S. proposal for direct contributions to the Common Fund.<sup>4</sup>

*Other Measures*<sup>5</sup>

Three possibilities for making efforts in the area more effective have been outlined in the NSC paper:

—Strengthening the role of ICAs in identifying specific commodity problems and making recommendations to international financial institutions and other funding sources.

—Stepping up the efforts of the existing institutions (IFIs, UNDP, FAO, etc.) to identify and coordinate commodity related projects.

—Strengthening the efforts of UNCTAD's Committee on Commodities in coordinating projects and making recommendations to appropriate institutions.

A fourth possibility, which is not addressed directly in the paper, is a coordinating role for the Common Fund itself.

Because of the substantial efforts already going on in the area of "other measures," there is considerable sentiment within the U.S. Government and in other major OECD countries that the Common Fund does not need to get involved in additional financing. But the Nordic countries, the Dutch, and some officials in the U.S. Government believe that some concession will have to be made on the issue of other measures, though not necessarily on financing, in order to achieve a successful conclusion of the Common Fund negotiations. It is our view

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<sup>4</sup> In the margin adjacent to this paragraph, Bergsten wrote: "Tony—I believe we should *oppose* direct contributions. Any 'flexibility' now will be quickly used up by our negotiators, in a session that will be inconclusive anyway. We should decide *either* to hold firm (my preference) or make a *major* offer; the *worst* approach is to be pulled along inch by agonizing inch; we then lose with *both* the Congress and the foreigners (LDCs and DCs). Let's pose the issue that way. C.F.B."

<sup>5</sup> Bergsten added quotation marks around the heading "Other Measures."

that at most the Common Fund might have a role in identifying desirable commodity projects and in making recommendations to existing financial institutions. It would rely on those organizations to determine the feasibility of such projects and the final priorities of funding.<sup>6</sup> The Common Fund would have no money to finance such projects.

Although some countries have suggested that voluntary contributions could be used to finance other measures, Treasury believes that any such contributions should be used as part of the backup to the buffer stock financing operations of the Common Fund.

*Recommendation:*

The delegation should be authorized to support all three possibilities outlined in the NSC paper. In addition, the U.S. should be prepared to support, if necessary to the successful conclusion of the negotiations, a coordinating role for the Common Fund itself.<sup>7</sup>

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<sup>6</sup> Bergsten highlighted the portion of this paragraph that begins with “Common Fund might have a role” and ends with “rely on those organizations” and wrote in the adjacent margin: “This is OK. Is it what is meant by a ‘coordinating role?’”

<sup>7</sup> Bergsten underlined the phrase “a coordinating role for the Common Fund itself” and wrote below: “unclear; above seems to suggest a *catalytic* role, which is OK” and initialed C.F.B.

## 286. Summary of Conclusions of a Policy Review Committee Meeting<sup>1</sup>

Washington, November 11, 1977, 2–3:30 p.m.

### SUBJECT

Negotiations on a Common Fund

### PARTICIPANTS

#### *State*

Secretary Cyrus Vance

Mr. Richard Cooper

Mr. Julius Katz

#### *Defense*

Dr. Ellen Frost

#### *CIA*

Dr. Robert Bowie

[*name not declassified*]

#### *OMB*

Mr. Randy Jayne

#### *USUN*

Amb. Melissa Wells

#### *Agriculture*

Mr. Harry Wilhelm

#### *Commerce*

Mr. Frank Weil

#### *AID*

Governor John Gilligan

Mr. Constantine Michalopoulos

#### *Treasury*

Mr. Anthony Solomon

Mr. C. Fred Bergsten

#### *White House*

Zbigniew Brzezinski

Charles Schultze

Henry Owen

#### *NSC*

Guy Erb

Thomas Thornton

### SUMMARY OF CONCLUSIONS

The PRC reviewed the status of the negotiations on a common fund and noted the emphasis which was being given by developing countries to measures other than commodity price stabilization.

With regard to the possibility of direct contributions to a common fund by the US, it was agreed the US delegation would not be authorized to make any statements on this issue until further work had been completed in Washington.

The PRC noted the importance of consultations with the Congress on (1) the rationale for US participation in international commodity arrangements (ICAs) and in a common fund, and (2) on the possibility of US contributions to a common fund. The PRC requested the Commodities Task Force to draw up talking points for consultations with the Congress. Initial consultations should be completed by Friday, November 18.

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 66, PRC 043 11/11/77 Common Fund Negotiations. Confidential. The meeting took place in the White House Situation Room.

The PRC agreed that the material in the Discussion Paper of November 11<sup>2</sup> on other measures could be transmitted to the US negotiators in Geneva. The PRC revised the issues paper by granting to a common fund, rather than UNCTAD, a coordinating role regarding ICAs.

The PRC agreed that the US approach to deposit credit ratio should be kept under review.

The PRC also agreed that the Commodities Task Force should further consider the pros and cons of an overdraft mechanism.

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<sup>2</sup> See Tab I to Document 284.

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**287. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to Secretary of State Vance<sup>1</sup>**

Washington, November 23, 1977

SUBJECT

Follow-up to PRC Meeting on US Relations with Developing Countries: The Next Twelve Months—Studies by the PRM 8 Working Group on Increasing Participation of LDCs in the International System and Key Issues in North-South Relations

The PRC has agreed to ask the PRM 8 working group to undertake a study on Increasing the Participation of LDCs in the International System.<sup>2</sup> The study should address such issues as:

1. specific initiatives which the US could support for new or changed institutional relationships;
2. whether it is desirable to consult with key LDCs on the general issue of developing-country participation in international bodies or only with regard to individual institutions or mechanisms;
3. the pros and cons of enabling LDCs to have a greater voice in international organizations by (a) adaptation of existing institutions, such as the OECD and the IMF, or (b) using institutions with new decision-making structures, such as IFAD.

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 3 of 3 [2]. Confidential.

<sup>2</sup> See Document 276.

The PRC also agreed to request the PRM 8 working group to prepare a report on North-South relations for consideration early next year. This study should consider the most urgent of the key issues identified by the working group at Tab B of PRM 8-Track III.<sup>3</sup> Those issues were trade, finance, commodities, non-nuclear energy issues, nuclear energy issues, direct investment, technology transfer, agriculture, human rights, arms transfer policy, law of the sea, and defense issues. The PRM 8 working group's report should focus on the issues the group considers most appropriate for PRC review. For each issue the working group should assess the effectiveness of present policies in meeting US objectives, accomplishments to date, and problems which impede achievement of specific US goals.

To facilitate PRC consideration of these issues, please submit by February 28, 1978, a single report embodying the PRM 8 working group's analysis of participation of LDCs in the international system and key issues in North-South relations. That report will then be reviewed by the PRC.

**Zbigniew Brzezinski**

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<sup>3</sup> See footnote 3, Document 274.

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**288. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to Secretary of State Vance<sup>1</sup>**

Washington, November 23, 1977

**SUBJECT**

Follow-up to PRC Meeting on U.S. Relations with Developing Countries: The Next Twelve Months—Study by DCC on Quantitative Targets

The PRC has agreed to ask the Development Coordination Committee to undertake a study of quantitative development targets for use in planning and implementing U.S. programs and in international con-

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 26, PRM-08 3 of 3 [2]. Confidential.



sideration of development objectives.<sup>2</sup> The study should address such issues as:

1. the implications of international targets which may lead to commitments for U.S. performance, and safeguards against such implied commitments;
2. the type of target most appropriate for the U.S. in light of Congressional intentions to ensure that U.S. assistance effectively reaches those most in need;
3. the merits or demerits of targets set for specific sectors or countries relative to other kinds of targets.

The study should pay particular attention to the distinction between planning targets for use within the U.S. Government and international targets which might be part of an agreement on the objectives of the Third Development Decade.

Please submit a report by February 28, 1978 for review by the PRC.<sup>3</sup>

**Zbigniew Brzezinski**

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<sup>2</sup> See Document 276.

<sup>3</sup> Tarnoff forwarded the study, an April 1978 paper entitled "Development Coordination Committee Quantitative Targets Study," to Brzezinski under cover of an April 24, 1978, memorandum. (Carter Library, National Security Council, Institutional Files, Box 66, PRC 043 11/11/77 Common Fund Negotiations)

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**289. Memorandum From the Deputy Secretary of State  
(Christopher) to Secretary of State Vance<sup>1</sup>**

Washington, November 25, 1977

SUBJECT

PL 480, Title I

This memorandum is intended to apprise you of the steps we are taking to comply with the new amendment of the Agricultural Trade

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Office of the Deputy Secretary, Warren D. Christopher, Lot 81D113, Box 18, Human Rights—P.L.—480 II. Confidential. Vance wrote "See p. 3" (see footnote 5 below) at the top of the page and initialed at the bottom of the page. Christopher chaired the Interagency Group on Human Rights and Foreign Assistance, known as the Christopher Committee.

Development and Assistance Act of 1954 which became effective on October 1, 1977.<sup>2</sup> The amendment provides:

“Sec. 112. (a) No agreement may be entered into under this title to finance the sale of agricultural commodities to the government of any country which engages in a consistent pattern of gross violations of internationally recognized human rights, including torture or cruel, inhuman, or degrading treatment or punishment, prolonged detention without charges, or other flagrant denial of the right to life, liberty, and the security of person, unless such agreement will directly benefit the needy people in such country. An agreement will not directly benefit the needy people in the country for purposes of the preceding sentence unless either the commodities themselves or the proceeds from their sale will be used for specific projects or programs which the President determines would directly benefit the needy people of that country. The agreement shall be used to benefit the needy people and shall require a report to the President on such use within six months after the commodities are delivered to the recipient country.

“(b) To assist in determining whether the requirements of subsection (a) are being met, the Committee on Agriculture, Nutrition, and Forestry of the Senate or the Committee on International Relations of the House of Representatives may require the President to submit in writing information demonstrating that an agreement will directly benefit the needy people in a country.

“(c) . . .

“(d) The President shall transmit to the Speaker of the House of Representatives, the President of the Senate, and the Committee on Agriculture, Nutrition, and Forestry of the Senate, in the annual presentation materials on planned programming of assistance under this Act, a full and complete report regarding the steps he has taken to carry out the provisions of this section.”

Twenty-nine countries are scheduled to receive PL 480, Title I assistance during FY 78. They are listed under Tab 1.<sup>3</sup> State, AID and Agriculture are complying with the new statutory requirement set forth above by seeking to include a new provision in the FY 78, PL 480, Title I agreements with certain countries. The new provision, calling for assurances that the food or the proceeds therefrom are used for needy

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<sup>2</sup> In November 9 memorandum, Katz, Coordinator for Human Rights and Humanitarian Affairs Patricia Derian, and Deputy AID Administrator Robert Nooter requested Christopher's decision on how the amendment to Title I of P.L. 480 (P.L. 95-88) should be implemented. (Ibid.) In a November 22 memorandum to Brzezinski, Tuchman provided background on both the issue and how it was being pursued. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 49, PL 480: 11/77-1/80) Both memoranda are printed in *Foreign Relations, 1977-1980*, vol. II, Human Rights and Humanitarian Affairs, Documents 86 and 88.

<sup>3</sup> Tab 1, attached but not printed, is a list entitled “Countries Scheduled to Receive PL 480, Title I Assistance During FY 78.” The following countries are on the list: Afghanistan, Bangladesh, Dominican Republic, Egypt, Guinea, Haiti, Honduras, India, Indonesia, Israel, Jamaica, Jordan, Korea, Lebanon, Morocco, Pakistan, Peru, Philippines, Portugal, Senegal, Sierra Leone, Somalia, Sri Lanka, Sudan, Syria, Tanzania, Tunisia, Zaire, and Zambia.

people, is attached under Tab 2.<sup>4</sup> (With Herb Hansell's help, we are preparing a simplified version of the requested assurances.)

In considering which of the 29 recipient countries ought to be asked to agree to the new provision, we assessed the possibility of only including countries engaged in a consistent pattern of gross violations of internationally recognized human rights ("gross and consistent violators"). However, of the 29 countries on the overall list, none has thus far been formally determined to be a gross and consistent violator. While some of the countries on the list are arguably in that category, it has been our view that a formal designation to that effect is not a particularly useful policy tool and has many obvious disadvantages. Yet any effort to confine our application of the new statutory provision to gross and consistent violations would almost certainly result in the designation of several of the 29 countries. Accordingly, we concluded it would be a mistake to ask only countries designated gross and consistent violators to agree to the new provision.

As another possibility, we considered seeking to include the new language in the agreements with all 29 countries. The claimed benefit of this approach was that it would avoid singling out any countries as human rights violators. However, AID and Agriculture were strongly opposed to this course of action because of the considerable additional burden, expense and possible delay that it would entail, not only in the negotiating process, but also in the efforts required to monitor compliance with the new provision. Moreover, inclusion of all 29 countries would not be a faithful construction of the terms of the amendment.

The third approach we considered—and the one we chose—was to seek to include the new language in agreements with those countries as to which there are serious human rights questions.<sup>5</sup> Such an approach avoids the principal disadvantages of the two extreme courses discussed above. It does not, at this point, stigmatize any country as a gross and consistent violator, but nevertheless enables us to comply with the statute. Moreover, this approach will prove useful when we report to Congress on our compliance efforts, as required by the statute: we will be able to report that all countries about which there is a "serious question" complied with the "needy people" requirement of the statute, and yet we will not have to brand any country as a gross and consistent violator. On the other hand, this approach avoids the onerousness of including all 29 countries, thus permitting AID and Agriculture to operate without undue disruption of the PL 480 negotiating and monitoring process.

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<sup>4</sup> Tab 2, attached but not printed, is an undated paper entitled "New Provision for Inclusion in Certain FY 78, PL 480, Title I Agreements."

<sup>5</sup> Vance wrote "*I approve*" in the margin adjacent to this sentence.

Having chosen the middle course of including only countries with seriously questionable human rights records, we determined after wide consultation within State, AID and Agriculture that, of the agreements which are ready to be negotiated, those with Indonesia, Korea, Bangladesh and Guinea should include the new language. Negotiating instructions to our personnel in Indonesia, Korea and Bangladesh have been sent out, and those for the Guinean agreement will be dispatched on Monday.<sup>6</sup>

The instructions state that the negotiation of these agreements should be given top priority and that every effort should be exerted to conclude the agreements within ten business days. If it should appear that efforts to include the new provision will make it impossible to conclude the agreement within that period, we will communicate a possible fallback position to the posts, e.g., a side letter or memorandum of intent. (We are receiving quite understandable complaints from the posts and bureaus on this matter, but the problem stems from the statute itself and our need to implement it with fidelity to our human rights policy.)

Negotiating instructions were also sent out earlier this week to our personnel in six other countries—and on Monday will be sent to our post in a seventh—whose human rights records were not determined to be seriously questionable: namely, Afghanistan, Israel, Jordan, Morocco, Pakistan, Egypt and Sri Lanka.<sup>7</sup>

For technical reasons unrelated to human rights, the remaining 18 agreements are not ready to be negotiated at this time. We are considering within the Department which of the 18 countries are regarded as raising serious human rights questions. I am attaching, under Tab 3,<sup>8</sup> a supportive editorial from yesterday's *Washington Post* and two earlier *Washington Post* stories, apparently inspired by the Department of Agriculture.

Warren Christopher<sup>9</sup>

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<sup>6</sup> November 28. The instructions were not found.

<sup>7</sup> Not found.

<sup>8</sup> Tab 3, attached but not printed, comprises three clippings from *The Washington Post*: a November 23, 1977, article by Dan Morgan entitled "17 Countries Await 'Human Rights' Clearance for Food Aid," p. A8; a November 24, 1977, editorial entitled "Food for People," p. A22; and a November 22, 1977, article by Dan Morgan entitled "U.S. Holds Back Food Aid in Rights Review," p. A1.

<sup>9</sup> Christopher signed "Warren" above this typed signature.

**290. Memorandum From Michael Armacost of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, November 30, 1977

## SUBJECT

PL-480, Title I: Shipments to Human Rights "Violators"

PL-480, Title I shipments to a number of countries are being held up as a result of monumental confusion in our purposes, exaggerated interpretations of the Congressional intent, and bureaucratic mis-steps by the Christopher Committee. The salient facts in this case are these:

—Section 112-A of the legislation governing PL-480 Title I programs specifies that shipments of commodities should not go to countries that are "gross and consistent violators of human rights", except when the President determines that any commodities going to such countries will be channeled to the needy.

—There are 29 recipients of PL-480 Title I shipments. So far as we are aware, none has ever been determined to be a "gross and consistent violator of human rights".<sup>2</sup> Thus we are not legally required to withhold shipments to the intended recipients (evidently Chile has been judged a "gross and consistent violator", but none of the shipments are planned for Chile anyway). The Christopher Committee has decided that 14 of the 29 recipients have engaged in questionable human rights practices, and the Committee has decided that our PL-480 contracts with these countries be amended to provide for additional reporting on human rights matters.<sup>3</sup> Our Ambassadors to these countries have been instructed to seek host government concurrence in such amendments.

—This effort has not been crowned with great success. The Indonesian Government bristled at our suggestion and refused. Our Ambassadors in South Korea and Bangladesh have refused thus far to raise it with the host government.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 49, PL 480: 11/77-1/80. Confidential. Sent for action. At the top of the page, Inderfurth wrote: "See last paragraph first for explanation of urgency. Rick." Brzezinski wrote: "MA, good—OK—talked. 4 countries only [illegible] only. ZB." Attached to the memorandum is an undated handwritten note by Brzezinski listing the four countries (Guinea, Bangladesh, Korea, and Indonesia) with the comment "all we ask for answers & for information."

<sup>2</sup> Brzezinski highlighted the second sentence of the paragraph.

<sup>3</sup> Brzezinski underlined a portion of the word "questionable" in this sentence. Regarding the decision by the Christopher Committee, see Document 289.

—Evidently new contracts must be signed next Monday.<sup>4</sup> Thus we must either press ahead to secure these amendments in the contracts, thereby risking a repetition of our experience with Indonesia in other countries, *or* seek less offensive new reporting requirements, *or* drop for at least this round of PL-480 shipments any effort to change the contracts with recipient governments.

—This effort—which Agriculture leaked to the *Washington Post* last week<sup>5</sup>—has encountered a frosty reception from the Hill. Senator Inouye is livid about it and has indicated his belief that the Executive Branch is over-interpreting the Congressional intent embodied in Section 112-A. Senator Humphrey, we are told, is disturbed that the enormous effort that he put into the development of the PL-480 program over the years may be jeopardized by this ill-considered move. Twelve Senators have written to express their dismay that the United States would withhold food from less developed countries as a lever on human rights.<sup>6</sup>

—Bob Bergland evidently is eager to repeal Section 112-A of the law. But that will take time and will not resolve our immediate problem.

—The continued delays in shipments that have resulted from this confusion are costly to the recipients. For example, in the seven weeks shipments have been held up, the cost of commodities desired by Indonesia has increased by \$17 million.

A reasonable interpretation of the law does not require us to withhold shipments from any of the intended recipients. We believe it would be desirable to expedite early dispatch of the commodities. Since this has become a public issue, however, it would be prudent to consult with the Congressional leadership and secure their understanding that for this round of shipments we will not attempt to add new amendments to PL-480 contracts, while leaving open the future of Section 112-A and how it should be interpreted by the Executive Branch. This

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<sup>4</sup> December 5. Inderfurth underlined the words “contracts must be signed next Monday.”

<sup>5</sup> See footnote 8, Document 289.

<sup>6</sup> Brzezinski highlighted the portion of this paragraph that begins with “effort that he put into the development” and ends with “as a lever on human rights.” Fourteen Senators signed the November 16 letter to Talmadge; see *Foreign Relations, 1977-1980*, vol. II, Human Rights and Humanitarian Affairs, footnote 5, Document 92. Senator Robert Dole (D-Kansas) sent a copy of the letter to Carter under cover of a November 17 memorandum requesting that he personally intervene in the matter. (Carter Library, White House Central Files, Subject File, Peace, Box PC-1, Executive, 1/20/77-1/20/81) Talmadge sent a copy of the letter to Vance and Christopher under cover of a November 18 memorandum. (National Archives, RG 59, Office of the Secretariat Staff, Records of the Office of the Deputy Secretary, Warren Christopher, Lot 81D113, Box 18, Human Rights—PL 480)

would allow us to move the commodities, escape from a politically embarrassing position, elude a confrontation with the Hill, and avoid the establishment of what can only be viewed as a “hit list” (the 14 countries required to send in new human rights reports as a pre-condition for obtaining PL–480, Title I assistance.)<sup>7</sup>

RECOMMENDATION:

That you call Vance and discuss this matter with him, urging a resolution of the immediate problems along the lines suggested above.<sup>8</sup>

Henry Owen concurs.<sup>9</sup>

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<sup>7</sup> Such a list would have the most pernicious consequences for not only will it complicate our relations with nearly a score of countries, many of which are good friends, but will undoubtedly acquire some bureaucratic standing and legitimacy and serve as an excuse for withholding other support from these governments, whether military or economic assistance. When that occurs, the conclusion for many countries will be inescapable: the U.S. is using human rights concerns in order to justify reductions in its assistance efforts. Guy Erb agrees that PL–480 shipments should not be held up but does not have enough information on the human rights dimension of the PL–480 program. Jessica has seen a copy of this memo, but has not had a chance to react to it. There is some urgency to this matter inasmuch as instructions are going out this afternoon to our Ambassadors in the 14 countries instructing them to negotiate changes in the contracts. At a minimum, I believe you should call Warren Christopher and ask him to hold up outgoing cables on this subject until the NSC can review it.” [Footnote in the original. Brzezinski underlined the words “Guy Erb,” “Jessica,” and “has not had a chance to react to it.” He also highlighted the portion of the footnote that begins with “should call Warren Christopher” to the end of the sentence.]

<sup>8</sup> Inderfurth placed a vertical line in the margin and Brzezinski underlined “you call Vance” and highlighted the recommendation in the margin. He did not indicate his preference with respect to the recommendation; however, he did speak to Vance that afternoon, according to a November 30 note from Christopher to Brzezinski. (National Archives, RG 59, Office of the Secretariat Staff, Records of the Office of the Deputy Secretary, Warren Christopher, Lot 81D113, Box 7, WC—Memos to the White House—1977) Brzezinski spoke to Christopher that afternoon, according to a November 30 note Christopher sent to Brzezinski transmitting copies of his letter to Talmadge and the simplified form of assurance. (*Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs, footnotes 3 and 4, Document 92) On December 17, *The Washington Post* reported that the Department had reached agreement in principle regarding P.L.–480 Title I shipments with South Korea, Guinea, Zaire, Bangladesh, and Indonesia. (“‘Agreements’ Said Reached On Food Aid,” *The Washington Post*, December 17, 1977, p. A16) See also Seth S. King, “Link to Food-Aid Program Helping Carter’s Human Rights Campaign,” *The New York Times*, December 18, 1977, p. A3.

<sup>9</sup> Brzezinski underlined this sentence.

**291. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, December 14, 1977

## SUBJECT

Future Aid Goals

A few weeks ago you approved agency recommendations that our goal should be to increase US concessional aid by one-third in real terms by FY 1982.<sup>2</sup> Allowing for inflation, this means that concessional aid would double in nominal terms by FY 1982—to over \$10 billion. News of this decision has begun to leak—notably to the *Christian Science Monitor*. We have received queries from Congressman Long's<sup>3</sup> office.

At your foreign aid budget meeting, OMB staff pointed out that we are obligated by law to show expected out-year outlays five years in advance. You expressed concern, as did the Vice President, over the effect of showing future higher aid goals. It was agreed to postpone a decision until I could consult with members of the Legislative Inter-Agency Group.<sup>4</sup>

I have now consulted. All members of this Group feel that:

a. The out-year goals should be shown and discussed with the Congress since to do otherwise (e.g., to straight-line future years) would be to expose ourselves to the charge of deliberate deception.

b. The out-year goals should be shown as very tentative targets, whose fulfillment will depend on a substantial improvement in aid performance; these targets will be reviewed and perhaps revised from year to year, in light of that performance.

## RECOMMENDATION

That you approve our showing and discussing with the Congress the long-term aid goals that you approved recently, in the tentative and conditional sense described above.<sup>5</sup>

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 65, 12/21/77 [2]. Confidential. Sent for action. Brzezinski wrote at the top of the page: "Concur. ZB." An attached undated note from Hutcheson indicates that OMB also concurred. (Ibid.)

<sup>2</sup> See the Attachment to Document 282.

<sup>3</sup> Apparently a reference to Representative Clarence Long.

<sup>4</sup> No other record of a meeting specifically on foreign aid was found. Carter met to discuss the 1979 foreign affairs and intelligence budget on December 5 from 2 to 5:32 p.m. (Carter Library, Presidential Materials, President's Daily Diary)

<sup>5</sup> Carter indicated his approval of the recommendation and initialed "J."



**292. Memorandum From Acting Secretary of State Christopher to Vice President Mondale<sup>1</sup>**

Washington, January 5, 1978

[Omitted here is discussion unrelated to P.L. 480.]

*PL 480 Agreements.* FY–1978 Title I agreements have now been negotiated and signed with nine governments, covering 2.7 million metric tons of commodities (approximately 50 percent of the total Title I program for FY–1978). Purchase and shipment of most of these commodities are expected to begin in the next several weeks. Negotiations have been authorized or are underway with another nine countries, covering nearly 750,000 tons of commodities. These negotiations should be completed in the next two weeks, with purchase and shipment to follow. Programs for 12 other countries, covering another 1.6 million tons, are still under consideration by the Interagency Staff Committee chaired by the Department of Agriculture.

In light of the recent amendment that brings human rights considerations to bear on the Title I program,<sup>2</sup> we have thus far asked six countries with serious human rights problems to agree to a new provision in the PL 480 agreement which, in essence, provides that the food or the proceeds from its sale will be used to benefit the needy. Following is the status of Title I programming in these six countries.

—*Indonesia:* The Indonesians accepted the new provision and the agreement has been signed. We are advised that they will probably start to purchase the commodities in the next few days.

—*Korea and Bangladesh:* The new provision has been accepted and negotiations are nearing completion. Shipments can be scheduled soon thereafter.

—*Somalia:* Negotiations have just begun. We believe the Somali Government will not object to the language.

—*Guinea:* The new provision has been accepted, an agreement has been signed, and shipments can be scheduled.

—*Zaire:* Negotiations are still underway, but the GOZ has not objected to the new provision.

In view of significant Congressional and farm state interest in expediting this year's Title I program, we will continue to seek maximum progress in implementing the program.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 1/78. Secret.

<sup>2</sup> See Document 289.

293. Memorandum From the Director of the White House Office of Administration (Harden) to President Carter<sup>1</sup>

Washington, February 9, 1978

SUBJECT

World Hunger

When your mother and I were in California last fall, she and Shirley MacLaine got into a discussion of their respective experiences with poverty in India.<sup>2</sup> I was fascinated by their interaction and subsequently suggested to them that they work together in making the public more aware of the problem.

On December 3rd, an initial meeting was held with representatives from AID, ACTION,<sup>3</sup> NSC, Peter Bourne's study group,<sup>4</sup> Midge's<sup>5</sup> staff, the Domestic Policy Staff, and Shirley MacLaine. A wide range of options were discussed and a decision was made to hold a second meeting on January 5th with Miss Lillian in attendance.

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<sup>1</sup> Source: Carter Library, Donated Material, Papers of Walter F. Mondale, National Security Issues, Box 87, National Security Issues—World Food [6/30/1977–12/17/1979]. No classification marking. Richard Harden became the Director of the White House Office of Administration and the President's Special Assistant for Information Management in December 1977.

<sup>2</sup> Lillian Carter visited American actor Shirley MacLaine's home in Malibu, California, in November 1977. (Nancy Collins, "What Makes MacLaine Run?," *The Washington Post*, November 14, 1977, p. C1) On December 2, 1977, MacLaine met with Carter administration officials at the White House to discuss world hunger. (Memorandum from Marilyn Haft to Margaret Costanza and others, December 9, 1977; Carter Library, White House Central Files, Box HE-6, Subject Files—Executive, HE-3, 9/30/77–12/31/77) Lillian Carter served as a Peace Corps volunteer in India for 2 years in the 1960s. She returned to the country in February 1977 as leader of the official U.S. delegation to the funeral of Indian President Fakhruddin Ali Ahmed. MacLaine visited India in 1964 and 1967; in addition, a 1970 report indicates that she provided financial assistance to an Indian orphanage. ("Hollywood Today: Shirley's Indian Orphanage," *The Chicago Tribune*, February 20, 1970, p. B16)

<sup>3</sup> On March 24, 1971, Nixon sent Congress a proposal to place several Federal volunteer programs, including the Peace Corps, under the jurisdiction of a single agency. The new agency, called ACTION, began operations on July 1, 1971. For the text of Nixon's message to Congress proposing the reorganization, see *Public Papers of the Presidents: Richard M. Nixon, 1971*, pp. 466–471.

<sup>4</sup> On September 30, 1977, Carter announced that Bourne would lead an interagency World Hunger Working Group that would provide recommendations on global malnutrition and hunger. For the text of Carter's memorandum on the formation of the group, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1696–1697. Documentation on the Working Group is in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs.

<sup>5</sup> Reference is to Margaret Costanza, the President's Assistant for Public Liaison from 1977 until 1978.

The outgrowth of the second meeting was the decision that the most productive use of Miss Lillian's and Shirley's time would be to appear in a documentary pointing out what is and can be done and how the average citizen can help. The representatives from the various agencies were asked to develop background material which could be used in production of the film.

On January 11th, Midge and I met with Shirley and Rupert Hitzig, a producer of documentaries, to discuss details and possible approaches. It was felt that the maximum exposure could be obtained by having a one-hour documentary during prime time on one of the major networks. It was further felt that there would be a good likelihood that the network would actually produce the film, thereby eliminating the need to raise any funds. Rupert has taken responsibility for drafting an outline.

Since it is projected to take 6–12 months to produce the documentary, we are considering the possibility of having Miss Lillian and Shirley appear jointly on some of the talk shows during the next few months.

Everything is progressing on schedule, and the main purpose of this memo is to make you aware of what we are trying to do. I thought you might want to mention it to your mother the next time you speak with her, and you might want to drop Shirley a brief note letting her know you appreciate the work she is doing with Miss Lillian.

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#### **294. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) to President Carter<sup>1</sup>**

Washington, February 10, 1978

SUBJECT

A Letter to Jamaican Prime Minister Manley

Prime Minister Manley wrote you a provocative letter on the North-South dialogue which was sent on December 22, but received on

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 10, Jamaica: Prime Minister Michael Norman Manley, 5/77–12/78. Confidential. Sent for action.

January 10.<sup>2</sup> Because of the complexity of the issues raised by Manley and the differences within the government on appropriate ways to respond, I recommended that you send an interim response to Manley, expressing your appreciation for his gifts to you and informing him that you would send a more detailed response shortly. The interim letter was sent on January 25, 1978.<sup>3</sup> The more detailed response is at Tab A.

In his letter at Tab B, Manley described what he considers to be the core issues of the North-South dialogue: commodity price stabilization; preventing the erosion of the purchasing power (through exports) of the developing countries and including energy pricing; and massive resource transfers. He also suggests that we address the debt problem and take Perez' proposal (to transfer the increase in the price of petroleum to the needy countries) seriously.<sup>4</sup> Finally, he expresses hope that you will respond positively and that a "genuine dialogue" between our countries can begin.

In your letter, you note that Dick Cooper will be inviting Manley's representative to Washington to discuss these and other issues. The rest of your letter responds in a fairly positive and always candid way to the points Manley raised.

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<sup>2</sup> In his December 22, 1977, letter to Carter, attached at Tab B but not printed, Manley noted his desire to follow up on the discussion of North-South economic issues that he had had with Carter during his recent visit to Washington. A memorandum of conversation of a December 16, 1977, meeting between Carter and Manley is in the Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 11-12/77.

<sup>3</sup> Carter's January 25 letter to Manley is in the Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 10, Jamaica: Prime Minister Michael Norman Manley, 5/77-12/78. In a January 23 memorandum to Brzezinski, Erb noted that his and Pastor's efforts to secure a draft reply to Manley's letter to Carter from the Departments of State and the Treasury had produced "only a preliminary draft and a request from Dick Cooper for time to prepare a more constructive and substantive letter. The Manley letter goes to the heart of the North-South policy issue which you and I have discussed. We can use the letter to foster a constructive overall response to North-South issues." Noting that it would take time to prepare "an adequate reply," Erb and Pastor recommended the dispatch of an interim reply to Manley. (Ibid.)

<sup>4</sup> On December 20, 1977, during an OPEC Summit in Caracas, Pérez suggested that the profits from an increase in oil prices of between 5 to 8 percent be given to debt-ridden less developed countries. (Juan de Onis, "But It Asks a '78 Meeting to Consider Rise Tied to Aiding Poorer Nations," *The New York Times*, December 21, 1977, p. 71) The Embassy in Caracas reported: "Pres Perez's proposal to increase assistance to the third world apparently fell on deaf ears, in part possibly due to his over enthusiastic efforts to promote it among the assembled OPEC Ministers." (Telegram 12394 from Caracas, December 22, 1977; National Archives, RG 59, Central Foreign Policy File, D770479-0764)

RECOMMENDATION:

That you sign the letter attached at Tab A.<sup>5</sup>

Jim Fallows and the State Department have cleared the text of the letter.

**Tab A**

**Letter From President Carter to Jamaican Prime Minister Manley<sup>6</sup>**

Washington, February 13, 1978

Dear Mr. Prime Minister:

Thank you very much for your thoughtful letter of December 22. I was glad to learn of your views on economic relations among developed and developing countries.

The issues you highlighted—commodities, debt, energy, and the transfer of resources—are all important. As you know, my Administration is eager to cooperate with other nations for global economic development, and I greatly value our close working relationship in these endeavors. I understand that Under Secretary Cooper will invite Sir Egerton Richardson, your Special Adviser, to Washington to discuss these North-South issues as well as bilateral concerns. We know that new efforts are needed to solve worldwide economic problems, and we hope that the new United Nations General Assembly Ad Hoc Committee of the Whole will help us in that search.

Let me reaffirm the United States' commitment to strengthening the international system for commodity trading. We will continue to search for sound, effective ways to deal with the problems of individual commodities within the framework of the UNCTAD Integrated Program. On the Common Fund, I regret that the negotiations have not progressed as rapidly as we both have wished. At the November negotiating conference, the industrialized countries proposed a formula for an effective Common Fund, which we hope will provide a basis for fruitful negotiations when they resume.

We believe that a Common Fund should support commodity arrangements between producers and consumers that are designed to stabilize prices around their long-term market trends. In our view, a general expansion of world trade would do more than anything else to

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<sup>5</sup> Carter indicated his approval of the recommendation.

<sup>6</sup> No classification marking.

improve the overall export earnings of developing countries. We are working toward this goal in the Geneva trade negotiations and encourage your leadership.

As you note, energy prices concern both of us greatly. We should examine all aspects of this issue—for instance, the relationship between oil price increases and debt. The fivefold increase in oil prices since 1973 created balance of payments problems for both our countries, as they did around the world. These increases have slowed the pace of development. We are concerned about the debt issue and are discussing it in appropriate forums, such as UNCTAD and the IBRD/IMF Development Committee.

I agree with you that increased transfers to developing countries are necessary. At the Conference on International Economic Cooperation, the United States and other countries pledged to increase their development assistance substantially. My Administration will carry out its commitment as we seek appropriation of additional development assistance from the Congress in coming years.

My Administration will appeal to the Congress to continue its support for US participation in the international financial institutions. We will join in a general capital increase of the World Bank. We are determined to support substantial replenishments of Inter-American and the Caribbean Development Banks. We expect to win Congressional approval of the United States' participation in the IMF's new Supplementary Finance Facility.<sup>7</sup> It is important to recognize, however, that there are limits to the amount of assistance which the US and other developed countries can provide. As you note in your letter, additional economic assistance must be provided by oil-producing countries as well as traditional donors.

We must remember that much of the external capital the developing world receives comes from the private sector—and that their share is likely to increase. Therefore, it is in our interests to ensure that measures are not taken which would discourage these flows. At your request, I have instructed the Commerce and State Departments to cooperate with your government to do an analysis and a report of the investment climate of Jamaica, offering suggestions on how it could be improved.

Sincerely,

**Jimmy Carter**

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<sup>7</sup> Meeting in Paris in August 1977, representatives of selected IMF member states agreed to the establishment of the supplementary financing facility known as the Witteveen Facility. Later that same month, the IMF Executive Board formally established the facility. See Document 50 and de Vries, *The International Monetary Fund, 1972–1978: Cooperation on Trial*, vol. I: Narrative and Analysis, pp. 549–554.

295. **Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)**<sup>1</sup>

Washington, February 11, 1978

SUBJECT

North-South Policies: Assessment and Recommendations

This memo responds to your request for a review and analysis of our current North-South policies and the possibilities for future actions.

The first point to bear in mind is that what we commonly describe as “North-South” issues, that is, the common fund, commodity agreements, technology transfer, poor-country debts, are only a part of a very complex set of relationships between the US and the developing world. We face important policy issues regarding:

- arms transfers to the more advanced developing countries—new demands are expected, not only for such items as AWACS and F-15s, but for all-weather and night fighting capabilities, standoff precision-guided bombs and rockets, coproduction agreements, and man-portable anti-aircraft missiles;
- nuclear non-proliferation—pressure points include heavy water technology, research reactors, and control of dual capability technology;
- economic policy—the US capacity to admit increasing exports from middle and upper-tier LDCs is primarily an issue of *domestic* policy, and is directly related to the overall economic and employment policies of the Administration. Our approach to those LDCs that take up our offer to negotiate in the Multilateral Trade Negotiations (MTN) will have a significant impact on our trade *and* financial relations with the key developing countries.

The reality of changing relations regarding arms, nuclear technology, and trade and investment interdependence underlies the rhetoric of the North-South dialogue. Yet there is no effective link between our bilateral concerns with specific developing countries and the implementation of international economic policy on the one hand, and “North-South” encounters on the other. For example, US Government discussions of debt policy focus on proposals to assist the poorest among the developing countries. The proposals could entail easing the terms of debt outstanding to the United States valued at anywhere

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<sup>1</sup>Source: Carter Library, National Security Council, Institutional Files, Box 25, PRM-08, 1 of 3, [1]. Confidential. Copies were sent to Owen and the North/South Cluster of the NSC Staff. Aaron initialed at the top of the page.

from \$1.0 to \$8.0 billion. But in the wake of the debts incurred since 1973 by 14 "upper tier" developing countries, their annual interest payments are estimated at \$7.0 billion and their annual payments on principal will rise 45 per cent to \$16.0 billion (1978-79 over 1975-76). US trade policies and its reciprocal bargaining with the major developing countries will have to take into account the need of international debtors to increase their exports. Without an adaptation to that need we run the risk of threatening the viability of the international financial system. Yet even the upper tier of developing countries appear reluctant to break with the Group of 77 on trade and other issues that are related to this problem. For our part, Congressional pressures make it difficult to sustain the open trade policies that the situation requires.

Turning to our current approach to North-South trade, foreign assistance, commodity policy, and technology transfers I feel that we are in a defensive position on too many fronts. With two possible exceptions, our approaches to the MTN and foreign assistance, our policies can be described by one word, containment.<sup>2</sup> We seek to contain first those developed countries that wish to adopt more forthcoming approaches to negotiations with developing countries; and second, the leading developing countries, whose proposals are seen as a challenge to an economic system that has served our interests well and could also serve the interests of developing countries if given a chance. For the time being the Soviet Union and other Eastern European countries are at the margin of international consideration of North-South issues. The influence of the PRC is limited.

On a variety of issues the United States consciously adopts a conservative position within the Group of OECD countries. (See Tab A, p. 4)<sup>3</sup> This is done because of (1) a conviction that in so doing we best serve our interests in a well functioning world economy, (2) concern that the Congress would oppose "concessions" to the developing world, (3) bureaucratic inertia, (4) the natural (and appropriate) conservatism of the Treasury Department, or (5) the responsiveness of State's Bureau of Economic and Business Affairs (E/B) to the short-run concerns of the business community.

Statements by the President, Ambassador Young and yourself have described the political and economic changes that require leadership by the United States. But we have not translated your commitment to work towards a "broader political and economic international

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<sup>2</sup> Brzezinski highlighted the first two sentences of the paragraph. He also underlined the words "to the MTN and" and "word, containment."

<sup>3</sup> Tab A, attached but not printed, is a January 25 memorandum prepared by the CIA National Foreign Assessment Center entitled "The International Setting for North-South Relations in 1978."



system” into clear guidance for US officials as they approach overall North-South issues and specific policy decisions.

As a consequence, our policies are fragmented and limited in scope. Moreover, there is no clear overall context for the evaluation and implementation of specific policies.

- We seek a more effective negotiation with developing countries in the MTN but the consequences of a possible response by them for other North-South issues and of our own importation of more LDC exports have not been adequately analyzed;

- Foreign assistance dominates US policies toward developing nations but our strategies for different types of LDCs and our funding goals have not yet been clearly explained to the American public,<sup>4</sup> other OECD nations, and recipient countries;

- The US position for the forthcoming UNCTAD meeting on international debt is currently so modest that strains within the OECD group and a confrontation with the developing countries appear inevitable;

- Our willingness to negotiate producer/consumer commodity agreements offers evidence of a commitment to share responsibilities with developing nations. But we are perceived as being more negative than we really are because interagency squabbles delay constructive US approaches to international meetings on individual products;

- The common fund is a reminder of the danger of making a *high-level* commitment that is not backed up by a *bureaucratic* commitment to deliver the goods. Again, the United States is seen as a major obstacle to further progress;

- The US approach to technology issues is hampered by a reluctance to confer any legitimacy on the negotiations within UNCTAD and by an oversensitivity to the attitudes of American corporations.

US Government decisions on non-aid issues that affect developing countries, for example, the US offer of concessions in the MTN, stock-pile policies, the contribution to the Tin Agreement, are not informed by an agreed approach to US relations with developing countries. The latter are variously viewed as 1) adversaries, 2) insignificant in the context of other factors, or 3) petitioners. The mutual gains that both the United States and the developing countries could receive from certain policies receive lip service, but little real consideration.

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<sup>4</sup> In a February 8 memorandum to Christopher on “A Program to Educate the American Public on Foreign Aid,” Lake discussed a recent request by Carter that Vance and Jordan confer “on the possibility of a public campaign to educate the public on our foreign assistance programs.” Lake noted that “[s]ome work has already been done by S/P, the NSC, and others on developing a public education campaign on foreign assistance. This effort, however, has been progressing very slowly. We must formulate a concrete strategy and begin to act immediately, if we want to undertake a public education effort during the legislative cycle.” (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 3, S/P-Lake Papers—2/1–2/15/78)

Within the OECD the United States is viewed 1) as a conservative force whose defense of economic principles will prevent the adoption of measures that some European countries are willing to accept, if only to defuse confrontations with developing countries (France, UK, Germany); or 2) as an obstacle to real progress in the North-South Dialogue (Nordic countries). Japan's position is somewhat ambiguous; their government supports us on some issues, but not on others.

A striking element of the current situation in developed countries is a lack of mutual confidence between senior officials of the major Western countries and their political leadership.

- A recent cable from Ambassador Enders pointed out that Trudeau is far ahead of his Cabinet on North-South questions.<sup>5</sup>
- Recently, several officials from England, France and Germany expressed concern that a Summit, an EC Council meeting, or some other gathering of political leaders might lead to advances in North-South issues that the officials would find uncongenial.

But the responsibility for the impasse on North-South issues is clearly not ours alone. The Group of 77 is in difficult straits. On both debt and common fund issues—the two main planks of the present platform of the developing countries—their unity is sustained only by extreme demands. Disagreements within the group forced the suspension of the Common Fund negotiations in November, since any move toward the OECD proposal would have fractured their unified front. Disagreements within the 77 will also hamper their ability to negotiate on debt in March.<sup>6</sup>

Unfortunately, the very fragility of the cohesion of LDCs leads them to adopt extreme positions. Those positions, in my view, increase the likelihood of confrontations between the developing and developed countries. However, the CIA downplays the likelihood of a major confrontation in 1978 with the Group of 77 (Tab A). The CIA analysis does stress the frustrations that are building up within the Group of 77 and we must therefore look beyond the next twelve months to the UNCTAD meeting in 1979 and the Special Session of the UN in 1980.<sup>7</sup> Both offer the G-77 considerable opportunities for a return to the confrontation tactics of 1974-75.

In 1974 and 1975 the United States found itself isolated from its allies and facing a hostile majority in the United Nations. The outcome was the Kissinger speech to the UNGA in 1975 (delivered by Moy-

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<sup>5</sup> Telegram 536 from Ottawa, February 3. (National Archives, RG 59, Central Foreign Policy File, D780052-0246)

<sup>6</sup> Brzezinski highlighted this paragraph. Reference is to the discussion of international debt at the March meeting of the UNCTAD Trade and Development Board.

<sup>7</sup> UNCTAD V took place in Manila from May 7-June 3, 1979; the Eleventh Special Session of the UN General Assembly took place August 25-September 15, 1980.

nihan).<sup>8</sup> The conciliatory tone of that speech ended the rhetorical fireworks at the UN, led to the creation of CIEC, and, in effect, bought nearly three years for the beleaguered OECD countries. That string has just about run out. I trace the disquiet that you, and indeed, all of us in the North-South Cluster, feel with current North-South policies to an increasing discomfort with the stagnation of economic policies that has followed Kissinger's forty-one initiatives.

The challenge before us is to make our policies reflect our need to adapt to political/economic changes in the developing world. We have a choice: to lead the way toward improved economic and political relationships, or to try to prevent or slow down drastically the changes that are occurring. In my view, we now run the risk of taking the latter course. Piecemeal protective measures abound. The OECD commitment to an open world economy may be faltering, and I sense an unwillingness to take the international and the domestic steps that would give the US the leading role it should have in restoring the world's economic health.<sup>9</sup>

A new approach to the North-South issues would not turn around the world economy but it could *contribute* to a US policy that aimed at reversing the present economic trends. More positive economic policies toward LDCs might also balance the hard line that the United States should take on arms transfers and non-proliferation issues.

There are three options for North-South policies that we should consider:

1. The United States can muddle through the North-South dialogue, hoping that divisions within the Group of 77 will prevent strong pressures on us and that verbal accommodation can defuse any confrontational situation that does develop. Although I reveal my own biases by my terminology, this is by no means a phony option. Maintenance of the separation between the "soft" North-South issues and US bilateral relations with key developing countries is a course that many senior and working level US officials would favor.

2. We could attempt to make a tactical advance by using rhetoric and proposing a long list of initiatives comparable to those contained in the 1975 speech by Secretary Kissinger. Such a policy might buy some time, but our credibility would be immediately questioned, and we would be correctly perceived as retreating from stated objectives.

3. The President could sharpen the cooperation and shared responsibility theme of the proposed Caracas speech<sup>10</sup> and emphasize the

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<sup>8</sup> See footnote 3, Document 257.

<sup>9</sup> Brzezinski highlighted this paragraph.

<sup>10</sup> Carter addressed the Venezuelan Congress on March 29; for the text of his remarks, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 619–623. Carter visited Caracas March 28–29; see Document 303.

leadership role that the United States can play in moving the world toward a more just and more fully employed world economy. The elements of this approach could include:

- a statement that the US faces hard choices that constrain our ability to meet the demands of the developing countries coupled with a serious effort to move toward mutually beneficial policy initiatives wherever possible;
- constructive criticism of the current approach of the Group of 77;
- a commitment to work with developing and other developed countries to end the current impasse. US actions in the United Nations, functional organizations (the IMF, IBRD, GATT, UNCTAD, etc.), and bilateral contacts would all be part of the implementation of that commitment;<sup>11</sup>
- a strong defense of the foundations on which new economic relationships can be built, the Bretton Woods institutions and an open trade policy;
- announcement of the President's decision to reach poor people effectively with our foreign assistance;
- an enumeration of the specifics of possible cooperative actions with developing countries on food and energy development, and on science and technology.

Choice and implementation of this final option would provide the guidance on specific North-South negotiations that US Government officials now need. At best, this option could break the deadlock in which the OECD countries and Group of 77 now find themselves. Short of that outcome, this option could clear the air and allow more fruitful US relationships with individual or groups of developing countries. Firm implementation of this option would entail some bureaucratic upheavals but without a commitment to take that risk I see little prospect that our North-South policies will be any different in 1980 than they are now.

*RECOMMENDATION:*

That you approve the third option.

Approve (Prepare draft of Caracas speech and policy guidelines in specific sectors, such as trade, debt, commodities, foreign assistance-basic human needs, etc.)<sup>12</sup>

Disapprove (Other action?)

<sup>11</sup> Brzezinski highlighted this option up to the end of this point.

<sup>12</sup> Brzezinski checked this option and wrote "Speak to me." According to the NSC Correspondence Profile attached to this memorandum, Brzezinski met with Owen, Thornton, Pastor, and Erb to discuss Carter's speech in Caracas and Pastor and Erb were directed to prepare an outline. (Carter Library, National Security Council, Institutional Files, Box 25, PRM-8 (1 of 3)) No memorandum of conversation of this meeting was found.

296. **Memorandum From Thomas Thornton of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)**<sup>1</sup>

Washington, February 14, 1978

SUBJECT

North-South Matters

You will be meeting with Guy and me this Friday on North-South questions.<sup>2</sup> In preparation, I have some observations to make, flowing in part from the paper that Guy did at your request earlier this week.<sup>3</sup>

Guy correctly emphasizes the economic side. This is just about the only real “North-South” question since it is the only heading under which we confront the “South” as a whole. Also, of course, it is how they define the issue.

Now obviously, the question of participation in the decision-making process is a highly political question. But, in fact, what they are aiming at for the most part is participation in the decision-making process on *economic* issues.

In general, then, the political dimensions tend to be bilateral or regional, even when (e.g., Middle East or South Africa) almost the whole Southern world is our audience. We have been doing well in this area, not just by Andy Young performing mirror tricks, but because we have been approaching these issues sensibly in terms of an ethos that is acceptable to the LDCs and to our own consciences. Andy has, in fact, had a lot to work with—even he couldn't have mesmerized the people at the UN if he had our previous Africa policies to work with. Let's not sell ourselves short in this regard, although there are huge problems (arms sales, human rights and non-proliferation) along the way. What we need to do there is make sure we have a policy and then stick to it for a long-term gain, even if we have short-term difficulties.

The economic scene, however, is quite different. We are very much in disarray—some of which could have been prevented and some of which probably couldn't. Guy's paper tells the story well and I have only a few supplementary observations to make.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, North/South, Thornton, Subject File, Box 101, North/South: Objectives: 10/77–11/78. Confidential. Sent for information. Copies were sent to Henry Richardson, Pastor, Erb, and Owen.

<sup>2</sup> No memorandum of conversation of the meeting on Friday, February 17, was found.

<sup>3</sup> See Document 295.

First, the problem is quite insoluble in terms of present public and Congressional attitudes on LDCs. This is, of course, a point that I have been making for the best part of a year.<sup>4</sup> Once the President got the same idea, people started paying attention and slowly but surely we are starting to work out a public affairs strategy.

Second, we are not organized to negotiate intelligently. We approach these economic negotiations individually without any grand strategy. There are possible trade-offs between them; we don't have to be forthcoming on every front as long as we are credible on most or some of them. State was asked by the PRC to provide a strategic overview for this year; they have just produced it but it is only a list.<sup>5</sup>

Guy states it well when he says that we are perceived as being on the defensive. What we need to do is find some areas where we need not be defensive. The only way to force Cooper and Company to do this is to make them show their entire hand on the full range of North-South negotiations. They have a very good case to make on each individual point. The poverty of their position seen as a whole, however, will be so evident that Vance or the President will tell them to do something.

From an economist's point of view, the best strategy for everybody concerned is to build up the American economy so that we can buy more from the LDCs. This, however, is not an acceptable political strategy any more than it would be domestically to rely solely on a program of tax incentives to large companies as the way to combat unemployment. We accept domestically that it is necessary sometimes to take second-best economic solutions in order to meet a pressing political need. The same is true internationally.

Another point that we need to keep in mind is that our ideas of economic and political rationality are not universally held. Not only do other countries (and not just LDCs) have different ideas about what a common fund should look like; many countries (including sympathetic ones such as India) do not think much of our basic human needs approach to aid. We have to consider compromise on both political and economic issues if there is to be a genuine dialogue instead of sermonizing on our part.

Again, the way to force these matters out into the open is to make the bureaucracy produce (or react to) a grand strategy. If State is un-

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<sup>4</sup> For example, on October 18, 1977, Thornton forwarded to Brzezinski a paper he had prepared entitled "Public Presentation of a North-South Strategy." In his cover memorandum, Thornton noted that he had "been flogging for some time the idea that the President should lay the North-South out before the people." (Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 7, President, Europe and Asia, 12/29/77-1/6/78: Cables and Memos, 10/14-25/77)

<sup>5</sup> Not found.

willing or unable to produce, then perhaps we should look to an outside consultant. It is not just in Europe and Canada that the political leadership is not in tune with the economic bureaucracy

Guy's options are useful for organizing ourselves. The first one is obviously not attractive *except* as an interim stage while we continue to sort ourselves out (and get the public debate started.) It would make sense only if we know pretty well what we are going to do in 1979 and 1980 when the big international pressures will start building. (And, by the way, when we are going to have to go to Congress for big increases in aid, if we intend to meet the doubling target.) In sum, then, this is a strategy that might be a good idea for one or two years.

The second strategy must be rejected out of hand. We have gone to this well before; to try to do so again will make us look foolish. Better to say straight out that we have not sorted ourselves out yet and ask for more time. Also, absent a lot of other work on our part, we probably could not follow through on any promises that we made.

Option three has many good ideas. What we will need to elaborate, however, is the specifics of its implementation. There will be a temptation to take the rhetoric for the fact, but unless there are tangible underpinnings, it will be just as counterproductive as the second option would be.

297. Presidential Review Memorandum/NSC 33<sup>1</sup>

Washington, February 16, 1978

TO

The Vice President  
The Secretary of State  
The Secretary of Defense

ALSO

The Secretary of the Treasury  
The Secretary of the Interior  
The Secretary of Agriculture  
The Secretary of Commerce  
The Secretary of Labor  
The Secretary of Health, Education and Welfare  
The Secretary of Housing and Urban Development  
The Secretary of Energy  
The Director, Office of Management and Budget  
The Chairman, Council of Economic Advisers  
The Assistant to the President for Domestic Affairs  
The Administrator, Agency for International Development  
The Director, Arms Control and Disarmament Agency  
The Director of Central Intelligence  
The Administrator, National Aeronautics and Space Administration  
The Director, Office of Science and Technology Policy  
The Director, National Science Foundation

SUBJECT

Science and Technology in Developing Countries (U)

The PRC/NSC should develop options for Presidential decision concerning political and economic objectives, criteria for balancing objectives, new initiatives, as well as possible legislation and administrative action regarding U.S. scientific and technological relationships with various developing country groups. The review should provide:

- basis for reports on these matters called for in recent legislation,<sup>2</sup>
- policy guidance for the U.S. position at the UN Conference on Science and Technology for Development,<sup>3</sup> and for
- the U.S. position on related issues in other international forums, including the consideration of a Technology Transfer Code of Conduct at the UN Conference on Trade and Development,

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 2, PRM/NSC 25-47 [1]. Confidential.

<sup>2</sup> Not further identified.

<sup>3</sup> The UN Conference on Science and Technology for Development took place in Vienna August 20-31, 1979.



—options for implementation of Presidential decisions on foreign assistance strategies, and

—an evaluation of the level of support of international science and technology assistance and cooperation extended by U.S. agencies.

Among the basic questions that should be considered are:

—An assessment of the political and economic implications of providing scientific and technological resources, both private proprietary as well as public, to various developing country groups, including the upper-tier. The assessment should include consideration of transfer of dual-use technologies.

—An assessment of the developing countries' requirements and interests for U.S. scientific and technological resources, including analysis of areas of convergence or conflict with current U.S. policies and programs.

—An assessment of the scientific and technological resources which the U.S. Government could mobilize for the benefit of developing countries, through such efforts as research and development, science and technology assistance and cooperation, and education and manpower training. Special attention should be given to the provision of resources for development of and experimentation with technologies that are appropriate to developing countries' technical, economic, and social environments.

—An assessment of the benefits and risks of government action regarding private proprietary technology transfer to developing countries. This should include analysis of possible policy measures and their impact on capital flows, market access, and labor displacement.

—An assessment of the implications for other OECD countries and for the Communist countries of expanding U.S. scientific and technological relations with developing countries. The assessment should include analysis of opportunities for multilateral policy coordination in the areas of trade and technology transfer with OECD countries.

—An analysis of the relationship between U.S. scientific and technological relations with developing countries and a range of global issues, such as energy and natural resource supply and demand, nuclear proliferation, food and population, and others.

The review should draw on related PRM materials and other studies. It will be chaired by the Secretary of State. It should be submitted for PRC discussion by June 1, 1978.

**Zbigniew Brzezinski**

298. **Memorandum From Secretary of Agriculture Bergland, the President's Special Assistant for Health Issues (Bourne), the President's Assistant for National Security Affairs (Brzezinski), the President's Assistant for Domestic Affairs and Policy (Eizenstat), the Director of the Office of Management and Budget (McIntyre), and the Chairman of the Council of Economic Advisers (Schultze) to President Carter<sup>1</sup>**

Washington, February 17, 1978

SUBJECT

Presidential Commission on World Hunger

*BACKGROUND*

During the last session, the Congress passed a resolution calling on you to establish a Commission on Domestic and International Hunger and Malnutrition. Passage was unanimous in the Senate and 364 to 38 in the House.<sup>2</sup> At a meeting on February 3 with key Congressional sponsors of the resolutions you announced that you planned to establish such a Commission.<sup>3</sup> Following that meeting, you asked us to prepare an options paper on the subject.

*COMMISSION OBJECTIVES*

The first and most important step in charting the course of the Commission is to identify its objectives as clearly and completely as possible. Most of the remaining decisions regarding the make-up and operation of the Commission are largely dependent on the task assigned the Commission. Commissions can and are called upon to serve a variety of different purposes ranging from issue definition and basic fact-finding to the promotion of public awareness through public relations activities.

We are persuaded that the Hunger Commission must be designed to pursue several related objectives including:

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<sup>1</sup> Source: Carter Library, Donated Material, Papers of Walter F. Mondale, National Security Issues, Box 87, National Security Issues—World Food [6/30/1977–12/17/1979]. No classification marking. Bergland did not initial the memorandum, Rubenstein initialed for Eizenstat, and Bourne initialed for McIntyre. A stamped notation at the top of the page reads: "The President has seen."

<sup>2</sup> The House of Representatives passed H.Res.784 on November 1, 1977, while the Senate passed S.Res.271 on October 27, 1977.

<sup>3</sup> The meeting, which began at 9:47 a.m. and ended at 10:10 a.m., took place in the Cabinet Room. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation was found.

- the development of a solid factual base that identifies the causes of the problem,<sup>4</sup>
- identify existing authorities and programs, public and private, and national and international, and
- assess the programs to determine which are working, which are not, and why.

These objectives are generally consistent with those in the Congressional resolutions. Such data gathering and analysis has not been done on a comprehensive basis. Until it is, there will be no clear view of the problem nor will we know the magnitude of present world-wide efforts and how the problem can be dealt with more effectively. Before launching an aggressive effort, we must know where we are and how we got here. Much of the analysis has already been done through the World Hunger Working Group, and their report, a summary of which is being sent to you separately today, can serve as a basis for their work.<sup>5</sup> This Commission provides a unique opportunity to assemble free of institutional constraints, a comprehensive and in-depth review in a thorough and integrated way.

Once the factual base is developed, we hope this could be accomplished during the first 6 to 9 months, the Commission would then prepare an options paper on actions to be taken. Any initiatives requiring legislation should be prepared in time for possible inclusion in the Administration's 1979 legislative package. At that point, we would see the Commission turning to the promotion of improved public understanding and awareness of the issue and the role of the United States in helping alleviate the problem.

The key decision then, as we see it, is the extent to which we rely on the Commission to help develop hunger policies and design programs or whether the Commission is used primarily to promote public awareness and generate support. The major argument in favor of using the Commission as a principal means of fashioning policies and programs is that the assembly and assessment task requires concentrated effort by a staff unencumbered by other duties. The central drawback to using the Commission in this capacity is that given its independent status vis-a-vis Presidential control, its conclusions and recommendations will not necessarily correspond with those of the Administration. In fact, to the extent we succeed in obtaining a dynamic, well-balanced membership, one can almost guarantee there will be strong differences of opinion and dissension within the Commission. But this can be

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<sup>4</sup> Carter made a checkmark in the margin adjacent to each of these bulleted points.

<sup>5</sup> The summary of the report of the World Hunger Working Group, established under Bourne's chairmanship in September 1977 (see footnote 4, Document 293), is printed in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs, Document 245.

useful and requesting an options paper minimizes the risks. We recommend that you look to the Commission as one mechanism for identifying and assessing hunger policies and programs and presenting options for consideration. Certainly it will provide an important information base whether or not you accept all their recommendations.

Bourne and Brzezinski feel the emphasis of the Commission should be primarily on building public attention and support for this issue rather than too heavy a focus on conducting additional studies.

#### *DECISION*

Focus primarily on conducting study and policy formulation.

Focus primarily on building public support with policy formulation secondary.<sup>6</sup>

As described in the Resolutions, the Commission would focus on hunger in the United States as well as internationally. We question the advisability of attempting to deal with the fundamentally different issues of domestic and world hunger within the confines of a single commission. For this reason, we recommend that the Commission concentrate on world hunger,<sup>7</sup> but that domestic policies and programs be assessed so this experience can, where applicable, be brought to bear. Some of us feel (Bourne and Brzezinski) that the Commission should informally<sup>8</sup> broaden its scope to serve as a vehicle for building support for foreign assistance in general, consistent with your decision memo on that subject,<sup>9</sup> and the evolving program to gain public support in this area. This broad approach might not be acceptable to some of the Congressional sponsors, if it was explicit. However, the choice of chairman can be an important factor in the focus the commission adopts.

#### *DECISION*

Emphasis on world hunger (Bergland, Eizenstat, Schultze)<sup>10</sup>

International and Domestic Hunger

World Hunger and General Foreign Assistance (Bourne, Brzezinski)

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<sup>6</sup> Carter indicated his approval of this option and wrote: "Collate studies already done."

<sup>7</sup> Carter underlined the words "world hunger."

<sup>8</sup> Carter underlined the word "informally."

<sup>9</sup> See Document 282 and footnote 35 thereto.

<sup>10</sup> Carter indicated his approval of this option and wrote: "will obviously have to include a) domestic food & hunger plus b) assistance."

*MECHANISM FOR ESTABLISHING THE COMMISSION*

Two choices exist for establishing the Commission

(1) *Executive Order*

A Commission authorized by Executive Order can be initiated immediately with a prescribed membership; be given carefully prescribed responsibilities; and operate under a statutory base for agency funding and manpower sharing. This approach would clearly define Presidential interest, allow more direct control over the Commission by the White House, and provide a test of public reaction and interest before the Administration modifies programs or requests legislation. Such authorization, however, would still require an appropriation from the Congress. To enable the Commission to be established immediately, some money could be allocated from the President's Discretionary Account while an appropriation was being sought.

(2) *Executive Order Accompanied by a Message on World Hunger to the Congress*

This variation of the Executive Order mechanism offers the advantage of option (1), but also provides an opportunity to communicate the recommendations of the World Hunger Working Group, to broaden the framework within which the Commission will conduct its work and offers an opportunity to make near-term changes in existing programs. Perhaps most important it provides a very appropriate opportunity to lay out your overall world hunger policy, without having to wait until the Commission completes its report. To wait that long without any major statement from you might be too long. Such a message could also contain a request for an appropriation for the Commission.

*DECISION*

Executive Order Only

Executive Order and Message to Congress<sup>11</sup>

*BUDGET*

We recommend a budget of \$2 to 2.5 million per year for each year of the Commission's operation. There are three options for funding:

(1) *Funding by the Agencies*

Utilizing funds from agency budgets is difficult because most funds are already committed. In addition, present interagency conflicts might be aggravated as the agency contributing the bulk of the support could feel it had a preemptive right over the work of the Commission.

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<sup>11</sup> Carter indicated his approval of this option.

A small amount of funds from the agencies might, however, be added in the early months to those from the Presidential Discretionary account to allow the rapid implementation of the Commission.

(2) *Congressional Appropriation*

Members of Congress who have sponsored the resolutions could be asked to sponsor legislation to provide funds for the Commission. However, this would open the opportunity for Congress to specify the form and operation of the Commission more narrowly than we prefer.

(3) *Supplemental Appropriation Submitted by the Administration*

This option is favored by OMB. While it might be slower than option (2), it would allow us to maintain control over the Commission as a Presidential initiative. We recommend this option with a funding level at \$2 to 2.5 million<sup>12</sup> per year for 2 years. Approximately \$100,000 would be sought from the Presidential Discretionary Account and from existing agency budgets to allow the Commission to begin operating until Congressional action is completed.

*DECISION*

Funding by the Agencies

Congressional Appropriations

Supplemental Appropriations (recommended)<sup>13</sup>

*DURATION OF THE COMMISSION*

The Congressional resolutions call for the Commission to have a life of two years. This is probably reasonable. A shorter period of time would make it difficult to staff-up and carry out the kind of activities planned.

*DECISION*

2 years (recommended)<sup>14</sup>

1 year

Other

*SIZE AND MAKE-UP OF THE COMMISSION*

The Congressional resolution recommends that "the Commission shall be a balanced membership composed of fifteen persons appointed by the President from individuals who represent diverse background."

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<sup>12</sup> Carter underlined the words "\$2 to 2.5 million" and wrote "seems high" in the adjacent margin.

<sup>13</sup> Carter indicated his approval of this option.

<sup>14</sup> Carter indicated his approval of this option.

You are free, however, to create a Commission of any size, selected on any basis, and with or without Congressional representation.

We recommend a Commission of twenty people selected to represent a broad cross-section of interests including business, humanitarian groups, technical experts, entertainers with demonstrated interest in world hunger, with appropriate ethnic and geographic diversity. Because of the intense Congressional interest in this Commission, we recommend that inclusion of four Congressional members (two from each House and party).

Given the widespread interest in this issue and the many groups that would like to be represented on the Commission *a careful selection process is required*. This is particularly true with regard to the chairmanship of the Commission. Since the members depend upon the objectives of the Commission, they cannot now be selected. We suggest that the signers of this memo serve as a nominating committee<sup>15</sup> and that we provide you with a list of candidates within 7 days.

DECISION

Approve<sup>16</sup>

Disapprove

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<sup>15</sup> Carter underlined the words “nominating committee” and wrote “ok” in the adjacent margin.

<sup>16</sup> Carter indicated his approval of this option and wrote “I prefer 15” in the adjacent margin. Executive Order 12078, issued on September 5, established the Presidential Commission on World Hunger. For the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1498–1499. Documentation on the Commission’s activities under the chairmanship of Sol Linowitz is in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs.

**299. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, February 21, 1978

SUBJECT

PRC on U.S. Policies Regarding International Debt

On Wednesday, February 22, 1978, the PRC will meet to consider international debt issues, in particular, the U.S. position for the March meeting on debt of the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD). The Board will meet at the "Ministerial" level: Richard Cooper will lead the U.S. delegation.

A discussion paper for the PRC is attached at Tab III. Annexes to the paper provide background on debt issues and North/South relations (Tab A);<sup>2</sup> the current debt situation, U.S. debt policy and the positions of other donor countries (Tab B);<sup>3</sup> the text of the proposal prepared by the United States and the European Economic Community at the time of the Conference on International Economic Cooperation—*PRC decision issue* (Tab C);<sup>4</sup> a note on retroactive terms adjustment—*PRC decision issue* (Tab D);<sup>5</sup> and a note on a means of allowing a debtor country to forego payments on principal under certain circumstances—the Bisque clause (Tab E).<sup>6</sup> As *Background*, I attach CIA assess-

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 68, PRC 053, 2/22/78, International Economics. Confidential.

<sup>2</sup> Annex A, attached but not printed, is an undated paper entitled "Debt in North/South Relations."

<sup>3</sup> Annex B, attached but not printed, is a February 2 paper prepared by EB/IFD/OMA entitled "Current Debt Situation, U.S. Debt Policy, and Donor Country Positions."

<sup>4</sup> Annex C, attached but not printed, is the text of the U.S.-EEC proposal. The paper at Annex A (see footnote 2 above) noted that the U.S.-EC proposal "clearly distinguished between debt relief to deal with emergency situations and the provision of appropriate assistance to handle longer term transfer of resources problems" and "preserved the case-by-case approach to the problems of developing countries." Its provisions "identified measures by debtors and creditors to prevent debt crises from arising;" "laid out guidelines for creditor-club operations, which would insure equitable and efficient treatment for countries experiencing a debt crisis;" and "suggested a new procedure to enhance assistance to developing countries experiencing structural balance of payments problems, of which debt is an element, which unduly impinge on development prospects."

<sup>5</sup> Annex D, attached but not printed, is an undated paper entitled "Retroactive Terms Adjustment."

<sup>6</sup> Annex E, attached but not printed, is an undated paper entitled "Bisque Clauses."



ment of LDC Positions on Debt Relief Issues and a CIA research paper on Non-OPEC LDC debt.<sup>7</sup>

The developing countries, especially India and Pakistan, have called for rescheduling of commercial and official debt and/or debt moratoria. Their proposals have proved unacceptable to the United States, whose current debt policies are based on an April, 1977, EPG recommendation that the United States oppose calls for generalized debt relief as well as the use of debt relief as a normal means of transferring aid resources.<sup>8</sup>

However, the UNCTAD secretariat is seeking a compromise that would involve an outcome for the Ministerial meeting that would be rather modest from the point of view of the LDCs. In effect, proposals regarding commercial debt (already questioned within the group of developing countries) would be dropped and emphasis placed on 1) adjustment of the terms and conditions of outstanding loans, and 2) a mechanism to continue international discussion of features or guidelines for treatment of severe external debt problems.

The main issues that require PRC decision prior to the UNCTAD Ministerial are as follows:

1) Should the U.S. agree to table the USEEC debt proposal, and, if so, should the U.S. accept the use of debt relief on a case-by-case basis as a means of implementing the section of the US/EEC proposal on the structural balance of payments problems of developing countries?

2) Should the U.S. seek Congressional approval for retroactive terms adjustment on a case-by-case basis to provide assistance to poor countries?

A decision of secondary importance at this time concerns the possible analysis of a) the role of aid consortia and creditor clubs in debt relief exercises and (b) *bisque* clauses.

The first two decision issues could involve a modification, but would not overturn, current U.S. debt policies. In assessing these decision issues we have to bear in mind the impact of debt policies on 1) other OECD countries, 2) the overall North-South relationship, 3) the credit worthiness of individual debtor countries, and 4) prospective requests for debt reschedulings.

Regarding the two main issues before the PRC, the discussion paper poses the following options:

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<sup>7</sup> Attached but not printed are two papers prepared in the CIA. The first, ER 78-10095, dated February 1978, is entitled "LDC Positions on the Debt Relief Issues." The second, ER 78-10001, dated January 1978, is entitled "The Non-OPEC Less Developed Countries: External Debt Positions and Prospects."

<sup>8</sup> See Tab 1 to Document 263.

(1) U.S. opposition to tabling the US/EEC proposal and to taking any other initiatives.

(2) U.S. support for tabling the US/EEC proposal, but opposition to taking any other initiatives.

(3) U.S. opposition to tabling the US/EEC proposal, but support for an initiative on retroactive terms adjustment.

(4) U.S. support for tabling the US/EEC proposal, and for an initiative on retroactive terms adjustment.

I recommend Option (4).

#### *US/EEC Proposal*

The US/EEC proposal, although a relatively weak reed, should be tabled.

—Even if the United States does not agree to table the US/EEC paper, other OECD countries probably *will* table it, perhaps with changes that we would find objectionable.

—Agreement to table the proposal does not commit the United States to any specific action, but merely to further discussion of the proposal and to consideration, in consultation with the Congress, of various means of implementing the proposal (see Discussion Paper, p. 5).

—Failure to table the proposal would divide the OECD and leave the initiative on debt entirely with the Group of 77 developing countries. Even if the G-77 rejects the proposal, as it is likely to do, the US/EEC paper would remain as an element of subsequent discussions (Note: there is a risk here because we cannot agree, at this time, to major revisions in the US/EEC paper).

—Failure to table the proposal would give an impression that the US was backsliding on the debt issue.

#### *Retroactive terms adjustment*

I recommend that the United States agree to retroactive terms adjustment on a case-by-case basis for the least developed countries (LLDCs—15 of which owe the United States debts on past Foreign Assistance Act and PL 480 loans) *plus* those IDA eligible countries with outstanding loans on *harder* than current U.S. terms. This course of action—sub-option #3 on p. 7 of the Discussion Paper<sup>9</sup>—would affect a total of \$1.5 billion of debts outstanding on U.S. loans, at a real cost to the United States of less than \$500 million. The reduction in annual debt service receipts would be less than \$50 million in 1987. (See table on p. 8 of the Discussion Paper.)

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<sup>9</sup> Reference is to suboption 3) under Section C of the attached Discussion Paper.

—Retroactive terms adjustment for LLDCs and IDA eligible countries would be a constructive U.S. action that would have a positive impact on our overall North-South relations, but at a relatively low cost to the United States;

—In my judgment, the effect on the credit worthiness of developing countries would be minimal. The impact on future requests for reschedulings is uncertain, but is unlikely to be sufficiently great to overturn the traditionally cautious U.S. approach in creditor clubs or other fora;

—Comparable action is under consideration by the British and the Danes. The Dutch are pressing for this type of measure within the EEC, as well as within the OECD. The Japanese are interested in the proposal. The Danes have also indicated a willingness to consult with the Germans on this issue. The recent Swedish, Swiss, Dutch and Canadian debt cancellations or reschedulings (see Annex B to the Discussion Paper, Tab II, pp. 6–7) have created a climate in which a negative US decision would be unfavorably compared to other OECD approaches to the debt issue. On the other hand, an affirmative U.S. decision would be in step with actions envisaged by several OECD countries although the French and Germans are said to have problems with this approach.

—Conversion of past loans to *current terms* has a logic that provides an excellent basis for the necessary consultations on Capitol Hill: for example, the proposal brings terms on past loans *up to the standards now accepted by the Congress* (grants for LLDCs and soft loans for other IDA eligible countries) and is a policy that takes into account the distribution of aid as well as the economic circumstances of individual countries and their development policies. The Discussion Paper suggests that the United States seek LDC commitments to use freed resources for agreed development objectives. Such a proviso *might* enhance the proposal's prospects on Capitol Hill. However, the amounts are small and U.S. leverage will be slight. This factor plus the disadvantages of setting up another accounting procedure lead me to recommend against this form of conditionality.

By tabling the US/EEC paper and announcing its willingness to consult with Congress on retroactive terms adjustment the USG would give the UNCTAD secretariat a fighting chance to pull off its proposed compromise. Secretary General Corea's attempt to reach an intermediate position between the G-77 and the OECD countries (as usual, the Soviets are at the margin of these discussions) is a significant move, with implications for the common fund talks and future North-South discussions. We are uncertain as to whether the G-77 will accept the UNCTAD proposals. However, the constructive U.S. action that I recommend would greatly strengthen the hand of the moderate LDCs within the group of developing countries. Without such U.S. action, it

is very likely that the developing countries will stick to a hard line on debt issues between now and the next major UNCTAD meeting in 1979. As a consequence, the UNCTAD Secretariat's attempt to act as a "broker" would have been set back, an outcome contrary to our interests.

*Aid Consortia vs. Creditor Clubs and Bisque Clauses*

The PRC is also asked to review two other questions: 1) the use of aid consortia or creditor clubs for debt rescheduling and 2) the use of bisque clauses in loan agreements.

Neither one of these questions has yet been adequately examined within the Government. The issues are familiar to those responsible for debt policy and I recommend that a study be requested by the PRC, to be completed *before* the U.S. delegation leaves for the UNCTAD Ministerial. Bisque clauses might well be offered during the UNCTAD meeting as a possible item for consideration by a working group comprised of experts from developed and developing countries. Such a U.S. initiative could prevent the contrasting approaches of the US/EEC paper and the LDC proposals from dominating the follow-up to the Ministerial meeting.

**Tab III**

**Discussion Paper Prepared for the Policy Review  
Committee<sup>10</sup>**

Washington, undated

U.S. POLICY ON DEBT RELIEF FOR DEVELOPING COUNTRIES

February 22, 1978 The Situation Room

SECTION I: INTRODUCTION

Virtually all the LDCs are avoiding militancy on North/South issues, at least for the moment, in part because of the continuing slackness in the world economy and the press of immediate economic problems. However, no significant progress has been made on such issues as the codes on technology and multinational corporations, and the UN Overview Mechanism got off to only a modest beginning. At the same time, prospects for movement on issues of importance to the

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<sup>10</sup> Confidential.

developing countries (Group of 77) as a whole, the Common Fund and debt, are uncertain.

Debt issues will be the focus of the ministerial-level session of the Trade and Development Board of UNCTAD next month (March 6–10). The only other agenda topic relates to development and financial problems, including debt, of the least developed countries (LLDCs). The G-77 views the meeting as an opportunity to secure commitments from the developed countries for increased resource transfers, and in particular will be pressing for generalized debt relief on official debt owed by low-income LDCs. The pressure for generalized relief comes predominately from the few LDCs (India, Pakistan, and Bangladesh) that stand to benefit the most, although for a number of others (particularly African LDCs) the issue has developed political importance.

Last week in Washington, UNCTAD Secretary General Gamani Corea spoke with U.S. officials.<sup>11</sup> His presentation represented a move away from the original G-77 position. He said that a procedural solution could be devised to handle proposals on debt relief mechanisms. However, on the issue of debt relief or alternative measures to transfer resources, he felt that something needed to be done. He allowed, though, that each creditor country could, on a case by case basis, decide on how such relief would be provided.<sup>12</sup> Corea emphasized that he could not guarantee that the G-77 would accept his position.

Differences between the developed countries (Group B) and the G-77 remain broad and substantive. The G-77 will almost certainly raise the discussion in the new Overview Mechanism in the United Nations,<sup>13</sup> and probably at UNCTAD V in May 1979. (See Annex A on the debt issue in North/South relations.)

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<sup>11</sup> Telegram 48583 to all OECD capitals, February 24, reported on Corea's February 14–15 visit to Washington. (National Archives, RG 59, Central Foreign Policy File, D780088–0849) In his February 16 Evening Report to Carter, Vance discussed his February 14 meeting with Corea and Cooper's February 15 meeting with Corea. Vance noted that the developed and developing countries differed over "the call of the developing countries for a 'second window' to finance measures to improve commodity export earnings. Dick warned that if the Common Fund took on the aura of a new aid institution, as it would under this approach, Congress would not support any type of Common Fund. We urged Corea to concentrate on the main function of the Fund—financial support for commodity price stabilization agreements." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 2/78)

<sup>12</sup> In his February 16 Evening Report to Carter, Vance noted that, according to Corea, the LDCs had "narrowed their demands and now seek relief of the debt burden of the poorest countries. Corea suggested retroactive adjustment of the terms of past official debt to conform with current aid terms." Cooper countered that "adjustment of terms of all past loans to a group of countries would be a form of aid, and basic needs and human rights are important US aid allocation criteria;" as such, "each country should be considered separately and on its merits." (Ibid.)

<sup>13</sup> UN General Assembly Resolution 32/174, December 19, 1977, established a Committee of the Whole to oversee North-South economic negotiations.

*U.S. POLICY ON DEBT RELIEF FOR DEVELOPING COUNTRIES*

U.S. debt policy recognizes the distinction between an immediate debt crisis and a structural balance of payments problem of which debt is one element. U.S. debt relief is provided on a case-by-case basis in situations of default and imminent default where necessary to ensure future repayment. Debt relief should not be used as a form of development assistance and debt reorganizations should normally take place in the framework of a multilateral creditor club. Furthermore, in April 1977, the EPG agreed to recommend opposition to all proposals for generalized debt rescheduling and to the use of debt relief as a normal means of transferring aid resources.

The U.S. policy on debt relief reflects: (a) the economic necessity of a case-by-case approach; (b) the importance of honoring contractual obligations; (c) a desire to adhere to the budgetary process and avoid "back door" financing, and (d) the need to maintain the confidence of private capital markets.

In considering the alternative positions discussed below in Section II for the UNCTAD Ministerial meeting, two issues arise which could lead to modification of U.S. policy on debt relief:

—Should the U.S. use debt relief to provide assistance to LDCs on a case-by-case basis in implementing the structural balance of payments section of the US/EC proposal? (See Annexes B and C.)

—Should the U.S. use, with Congressional approval, retroactive terms adjustment (a form of debt relief) on a case-by-case basis to provide assistance to the least developed LDCs?

## SECTION II: ISSUES FOR THE UNCTAD MINISTERIAL MEETING

The U.S. objectives for the meeting are to: (1) preserve the long-term financial interests of the U.S.; (2) maintain a unified position among the major creditor countries; (3) keep discussion of the debt issue and the problems of the LLDCs on a constructive level; and (4) avoid adverse effects on overall North/South relations. These objectives must be delicately balanced; too much emphasis on one will undercut the others.

The major questions that need to be addressed with regard to the U.S. position at the UNCTAD Ministerial are: (a) whether or not to support tabling the US/EEC CIEC proposal on debt; and (b) whether or not to support any other debt-related initiatives. There are four possibilities:

(1) U.S. opposition to tabling the US/EEC proposal and to taking any other initiatives.

(2) U.S. support for tabling the US/EEC proposal, but opposition to taking any other initiatives.

(3) U.S. opposition to tabling the US/EEC proposal, but support for an initiative on retroactive terms adjustment.

(4) U.S. support for tabling the US/EEC proposal, and for an initiative on retroactive terms adjustment.

A discussion of each of these four possibilities follows.

*A. NO US/EEC PROPOSAL AND NO OTHER INITIATIVES*

Proposals from the developing countries (G-77) for generalized debt relief will be on the table at Geneva. The developed countries (Group B) have not yet agreed to place proposals on the table. Last year at the Conference on International Economic Cooperation (CIEC), the U.S. and the EEC tabled a joint proposal on “features” to guide international action in situations involving debt-servicing problems. It was tabled as part of the CIEC package of the developed countries on a take-it-or-leave-it basis. The proposal was not accepted by the LDCs, but the Ministers agreed that it could form a useful basis for consideration elsewhere. The proposal was rejected by the LDCs. At USG insistence, this proposal has not been “activated” for consideration at the UNCTAD Ministerial. The EEC, supported by Japan, has been pressing to table it as the centerpiece of the Group B position for the Ministerial. If the LDCs rejected it a year ago, there is a presumption that they would reject it again.

*In the absence of any U.S. initiative, other Group B countries might:*

- a. choose not to move forward on debt at this juncture; or
- b. choose to go ahead with the US/EEC proposal (or a modified version of it) without the U.S.; or
- c. abandon the US/EEC proposal with each country advancing as far as it can to meet LDC demands.

*In the absence of significant Group B initiatives, the G-77 might:*

- a. downplay the significance of the setback by agreeing to hold further technical discussions; or
- b. hold fast to their more extreme demands for generalized relief and pursue them in other UN fora, such as the UN Overview Mechanism;
- c. break off the discussions charging bad faith on the part of Group B, and raise the stakes by making debt relief their major objective at UNCTAD V (May 1979 in Manila).

In short, the pros and cons of going to the UNCTAD Ministerial “with an empty bag” are the following:

*PROS:*

- Ensures that the U.S. position on debt is not eroded.
- A hardline position, if supported by Group B, might defuse expectations for future concessions in the debt area.

*CONS:*

- Destroys Group cohesion on debt.

- Isolates the U.S., thereby exposing the U.S. to greater pressure.
- Risks bringing the dialogue on debt to a halt and reducing chances for compromise on other North/South issues.

#### *B. THE US/EEC PROPOSAL, BUT NO OTHER INITIATIVES*

The value of tabling the US/EEC proposal at the meeting is essentially tactical. *Tabling the US/EEC proposal is probably the only course of action that would keep Group B together and allow the developed countries to say they are being responsive to LDC concerns.*

The other members of Group B could be persuaded that the US/EEC proposal should be “activated” without any substantive changes, and not for negotiations. Having rejected it once, it is unlikely that the G-77 would accept this proposal at the UNCTAD Ministerial. The G-77 might decide to break off the dialogue on debt in the expectation that the developed countries would sooner or later feel enough pressure to move further toward meeting LDC demands (perhaps at UNCTAD V). However, *it seems most likely that the G-77 will insist on continuing discussions on debt proposals.*

There is one significant drawback for the U.S. in tabling the US/EEC proposal: *we would have difficulty implementing the proposal if it were accepted by the G-77.* The section of the proposal addressed to countries having debt problems of a longer-term structural nature outlines a new international procedure for dealing with these situations. The U.S. and other donor countries would be committed to “enhance” their assistance to a country that opted to take advantage of the new procedure. (See Annex C, page 4, subpara. (v).) This would be done by increasing the quantity and improving the quality of their aid by various measures with special emphasis on program aid and other flexible forms of fast disbursing aid, as well as debt reorganization. Thus the US/EEC proposal clearly implies a U.S. commitment to extend assistance to LDCs experiencing structural balance of payments problems that impinge unduly on their development.

The U.S. has no aid instruments which lend themselves readily to this purpose. Bilateral Development Assistance, P.L. 480 and Security Supporting Assistance (SSA) are all subject to varying policy and legislative constraints. Moreover, Congressional concerns expressed during the recent Witteveen Facility hearings about the use of official financing for balance-of-payments support suggest that the Executive Branch might face considerable criticism if it attempted to implement the US/EEC proposal.

It is difficult at this late stage to change the language of the US/EEC proposal to eliminate our problem with implementation. The changes we would want to make are unacceptable to the EEC, and might open up the proposal to changes that the U.S. could not accept.



Thus, there are three alternative approaches to implementing the proposal for benefiting countries:

ONE: Reschedule debt due on official development assistance (ODA). This could be justified under current FAA legislation which permits rescheduling to ensure repayment.

TWO: Adopt an *ad hoc* approach. Each time a country takes advantage of the procedure, the U.S. would explore the various ways of putting together a package of new aid from development assistance, SSA, and P.L. 480 funds (as was done for Jamaica). If in exceptional circumstances, debt relief were also utilized, consultations with the Congress would be required.

THREE: Seek Congressional authorization and appropriations for the amounts of balance-of-payments support required to meet commitments resulting from the new procedure. Only a prior authorization and appropriation of funds would allow fast disbursement of assistance for this purpose.

The diplomatic benefits for the U.S. of joining with Group B in tabling the US/EEC proposal are considerable. Against these advantages, the costs in terms of tension between the Administration and the Congress must be weighed. If the PRC agrees on one of these alternatives, it would be necessary to consult with Congress prior to agreeing to table the proposal at the ministerial in order to avoid a reaction by Congress that could affect adversely more important actions sought by the Administration (such as larger FAA and IFI appropriations, or approval for U.S. participation in the Witteveen Facility of the IMF). While there may be costs in terms of Congressional relations, the risk of incurring these costs are likely to be small *since there is a strong expectation that the G-77 would not accept the US/EEC proposal.*

In short, the pros and cons of joining with other Group B countries in tabling the US/EEC proposal are the following:

*PROS:*

- Helps assure Group B cohesion.
- Minimizes the chances of a breakdown in the discussions on debt without yielding any additional ground.
- Serves as a counterproposal to LDC proposals that are already on the table.

*CONS:*

—Risks some damage to the Administration's relations with Congress and a possible adverse impact on Congressional actions on bilateral and multilateral assistance.

—The USG would have difficulty implementing the US/EEC proposal unless it made a commitment to provide assistance to LDCs facing structural balance of payments problems.

—Since the LDCs are likely to reject the proposal and because Group B could not agree to substantive revisions in it, tabling the proposal would be an empty tactical ploy.

—Tabling the proposal may make it an important part of subsequent discussions of debt relief with developing countries.

*C. AN INITIATIVE ON RETROACTIVE TERMS ADJUSTMENT, BUT NO US/EEC PROPOSAL*

The terms of old aid are harder than the terms of new aid for a number of LDCs. For the least developed, which generally receive grants now, there is a significant discrepancy between current terms and past terms. At the moment, AID assistance to the LLDCs is solely in the form of grants; P.L. 480 is extended on a mixture of grants and loans.

In a DAC meeting last month, the Netherlands proposed that donor countries give consideration to some form of retroactive terms adjustment for the poorer developing countries. The UNCTAD Secretariat sees agreement on this as the major accomplishment of the March ministerial meeting.

Section 208 of the International Development Cooperation Act of 1978 (S.2420) would partially modify current U.S. policy by authorizing the new aid agency—on a case-by-case basis—to waive interest payments and use payments of principal (in the form of local currency) for development purposes. The authority would extend only to existing Foreign Assistance Act loans to the LLDCs. The authority proposed is similar to existing authority covering new P.L. 480 loans under Title III. If approved, the Humphrey Bill would, in effect, permit retroactive terms adjustment for past FAA loans for LLDCs.<sup>14</sup> The rationale for and the effect of retroactive terms adjustment is to increase resource transfers through a debt relief process.

There are three basic options for case-by-case retroactive adjustment of past loan terms; two with respect to the least developed countries and one with respect to other low-income countries.

1) For the 15 least developed countries that owe the U.S. ODA debt, convert the loans provided under the Foreign Assistance Act (FAA) to grants. (This is basically consistent with the debt provision contained in the recently proposed Humphrey Bill.)

2) For those 15 countries, convert *both* FAA and P.L. 480 loans to grants.

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<sup>14</sup> Senator Humphrey's International Development Cooperation Act of 1978 (S.2420) addressed U.S. bilateral and multilateral development policy. Following Humphrey's death in January 1978, Senators Case and Sparkman introduced the bill in Congress.

3) In addition to action for the LLDCs, for non-LLDC IDA eligible countries (per capita income less than \$550 in 1976), adjust past FAA and P.L. 480 loans which are at harder than the currently most favorable loan terms (ten years grace at two percent interest, thirty years amortization at three percent interest) to these most favorable loans terms.

There has been staff level considerations of other options, but they were discarded as either impractical or too costly.

The cost to the U.S. and benefit to the LDCs of these options is described in the table below.

As a general principle, specific action would only be taken on a case-by-case basis to exclude countries which, for example, violate human rights. In addition, we could seek to obtain LDC commitments to use freed resources for agreed development objectives. This would enhance the likelihood of obtaining Congressional approval but reduce the attractiveness of the initiative for the LLDCs.

US Costs of Alternatives for Retroactive Terms Adjustment  
(\$ million—For Debt as of December 1, 1977)

	Reduction in US Annual Debt Service Receipts		Real Economic Cost to U.S. from Adjustment Action (Change in Present Value)	Present Value of Debt Outstanding Subject to Adjustment	Total Debt Outstanding Subject to Adjustment
	1977	1987			
<i>Option 1</i>					
Convert LLDC FAA Debt to Grants— Humphrey Bill	5	25	156	156	512
<i>Option 2</i>					
Convert LLDC FAA and PL 480 Debt to Grants	25	47	362	362	1051
<i>Option 3</i>					
(2) Plus Non-LLDC IDA Eligible Convert to Best Current Loan Terms	25*	47*	425	666	1479

\*Additional Debt—Mostly Local Currency Repayable PL 480

The pros and cons of U.S. support for a Group B initiative on retroactive terms adjustment are the following:

*PROS:*

—Retroactive terms adjustment is a means of increasing resource transfers quickly to the countries most in need of additional aid.

—Announcing this initiative at the UNCTAD meeting may have a political payoff in the North/South dialogue.

—Section 208 of the Humphrey Bill reflects some Congressional support for adjustment.

—By restricting use of retroactive adjustment to a case-by-case basis, U.S. opposition to generalized debt relief is not compromised.

—Aid distribution, economic conditions in LDCs, and their development commitment are taken into account.

—The cost to the U.S. is small.

*CONS:*

—It would not be additional if Congress responded by making off-setting cuts elsewhere. It would not be additional for other donors that provide debt relief within aid budget ceilings.

—It is unlikely to be of any real interest to the LDCs and thus may buy little in the debt negotiations.

—We have been told that the French and the Germans may not be able to support this initiative due to both statutory and political constraints.

—It removes the main argument that the U.S. has used to resist use of debt relief as an aid instrument—i.e., that the Executive Branch cannot support it because of Congressional restraints. Thus it may give rise to pressures to widen the list of countries eligible for retroactive adjustment or to provide other forms of debt relief.

—It would require both authorizing and appropriations legislation from the Congress.

If the PRC decides that the U.S. should support a retroactive adjustment initiative, the U.S. delegation at the UNCTAD meeting would only be able to support the principle and to express the intention of the Administration to support legislation for it.

*D. THE US/EEC PROPOSAL AND AN INITIATIVE ON  
RETROACTIVE TERMS ADJUSTMENT*

U.S. support for tabling the US/EEC proposal *plus* support for an initiative on retroactive terms adjustment would combine the advantages and disadvantages of each component.

SECTION III: OTHER ISSUES

*A. ADDING BISQUE CLAUSES TO ECONOMIC ASSISTANCE  
LOANS*

A bisque clause allows a debtor, at its option, to skip a few payments of principal on a loan containing such a clause if it faces debt-servicing problems. These principal payments can be added onto the end of repayment schedule or stretched out over the remaining life of the loan. Interest on the remaining payments can be increased so that

in present value terms there is no net loss to the creditor. (See Annex E on *bisque* clauses.)

As a further initiative for the UNCTAD Ministerial, the U.S. might propose that donor countries agree in principle to adding *bisque* clauses to aid loans. However, there has been little discussion of this possibility and it is unlikely that the other members of Group B would be prepared to support this on such short notice. Since this device is closely related to aid terms, it lends itself to examination at the technical level.

In general, the pros and cons of adding *bisque* clauses to aid loans are the following:

*PROS:*

—The addition of *bisque* clauses to F.A.A., P.L. 480, and SSA loans would not require legislation. However, prior consultations with key congressional committees should be undertaken.

—A *bisque* clause is not a debt-relief device if it is written into the original loan contract.

*CONS:*

—The financial benefit derived from adding *bisque* clauses to aid loans would be very small, which means that an initiative of this nature would get Group B little mileage in the dialog on debt.

—If introduced in the context of negotiations on debt relief, this limited initiative would compromise the U.S. position on generalized debt relief, making it more difficult to resist other LDC proposals.

—The G-77 would not view this initiative as being responsive to their current debt problems.

### *B. AID CONSORTIA VS CREDITOR CLUBS*

The U.S. has participated in negotiations to reschedule official and officially-guaranteed external debts of a dozen developing countries on more than twenty separate occasions since 1956. Except for India and Pakistan—where extraordinary conditions pertained—these negotiations took place in ad hoc creditor clubs convened when a debt crisis clearly existed.

At UNCTAD IV in 1976, the U.S. announced that it would reschedule debt only in creditor clubs. This policy statement was a consequence of an early decision to stop providing debt relief to India in the Indian aid consortium. However, because of the precedents of India and Pakistan, a question has arisen as to whether any exceptions to the basic policy of rescheduling in creditor clubs should be allowed in the future. The question is particularly relevant because Pakistan has for-

mally requested that debt relief be negotiated at the next meeting of its aid consortium.

Although other creditors are willing to address ODA debt reorganization in aid-consortia, debt renegotiation in aid-consortia poses three serious problems for the USG:

(1) Aid-consortia are by definition concerned with the provision of economic assistance, and dealing with debt through them suggests that debt relief is being used as a substitute for aid.

(2) For the USG, debt relief is in addition to budgeted assistance. This is not the case for most other creditors where debt relief constitutes a portion of the aid budget and thus does not necessarily represent a real increase in resource transfers. Thus on burden-sharing grounds, the USG is placed at a disadvantage.

(3) The IMF "conditionality" of the creditor club exercise has been much stricter than experienced in an aid-consortium.

The question arises, however, as to how the U.S. should respond to a request for a consortium rescheduling by a debtor encountering financial difficulties where ODA debt is a major element and other creditors will not support creditor club action. The U.S. has three basic options for dealing with these situations:

(1) We can strictly adhere to a policy of rescheduling only in a creditor club. This would place the U.S. at odds with other donors that are willing to negotiate debt in aid consortia.

(2) The U.S. could consider a genuine request for a rescheduling in an aid consortium by a debtor country to facilitate the treatment of ODA debt problems in a creditor club; or introduce some creditor club criteria, or conditionality into consortia arrangements.

### 300. Summary of Conclusions of a Policy Review Committee Meeting<sup>1</sup>

Washington, February 22, 1978, 2:30 p.m.

#### SUBJECT

U.S. Debt Policies

#### PARTICIPANTS

##### *State*

Richard Cooper—Under Secretary for Economic Affairs

Robert Hormats—Deputy Assistant Secretary, Bureau of Business and Economic Affairs

##### *AID*

Governor John Gilligan

David Bronheim—Special Assistant to the Administrator

##### *Defense*

Charles Duncan—Deputy Secretary

Ellen Frost—Deputy Assistant Secretary for International Economic Affairs, ISA

##### *USUN*

Ambassador Melissa Wells—Ambassador to UN for Economic Affairs

##### *JCS*

Lt. General William Y. Smith

##### *NSC*

Guy Erb—Staff Member

##### *CIA*

Dr. Robert Bowie—Deputy to the Director for National Intelligence

[*name not declassified*]*]—Analyst, Office of Economic Research*

##### *White House*

David Aaron

##### *OMB*

Bowman Cutter—Executive Associate Director for Budget

Randy Jayne—Associate Director for National Security and International

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 68, PRC 053, 2/22/78, International Economics. Confidential. The meeting took place in the White House Situation Room. Erb sent the Summary of Conclusions to Brzezinski under cover of a February 27 memorandum in which he noted that it “reflects the discussions after the PRC meeting between Dick Cooper and Tony Solomon that resulted in a decision to support, if asked, the section of the Humphrey Bill on retroactive terms adjustment of the debt of the least developed developing countries.” Erb reported that “[o]ther agencies have agreed to approve the decision to support the debt section of the Humphrey Bill and State, Treasury, and AID have approved the summary as it now stands.” (Ibid.) In a February 27 memorandum to Aaron, Erb commented that “Treasury resisted change hedgerow-by-hedgerow. State, AID, and NSC were in favor. OMB acquiesced, but with little enthusiasm. Agriculture supported the decision. Defense was indifferent.” (Carter Library, National Security Council, Institutional Files, Box 25, PRM 08 [1 of 3] [1])

*Treasury*

C. Fred Bergsten—Assistant Secretary for Monetary Affairs  
Robert Pelikan—Director of Development Nations Finance

*Agriculture*

Howard W. Hjort—Director for Economic Policy Analysis and Budget

## SUMMARY OF CONCLUSIONS

The PRC met on February 22, 1978 to discuss U.S. policy toward the official debts of developing countries, and in particular (1) a forthcoming meeting at the ministerial level of the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) (March 6 through 10) that will discuss international debt issues; and (2) Section 208 of the International Development Cooperation Act of 1978 (Humphrey Bill), that would authorize the U.S. to adjust outstanding loans to the poorest countries, making them equivalent to the grants that the U.S. now provides to those countries.

*The US/EEC Proposal*

The PRC considered possible U.S. actions regarding the debt proposal that the United States and the EEC tabled at the Conference on International Economic Cooperation last year. The PRC agreed that the US/EEC proposal should be tabled at an appropriate moment during the UNCTAD Ministerial meeting.

*Retroactive Terms Adjustment*

The PRC also considered the possibility of a case-by-case retroactive adjustment of the terms of loans outstanding to least developed developing countries, or to those countries plus those eligible for credits from the International Development Association.

The PRC agreed that the Administration, if asked, will support the Humphrey Bill provisions on least developed country debt.<sup>2</sup> The U.S. delegation to the UNCTAD Ministerial will so state, in the context of discussions of retroactive terms adjustment, and will indicate that U.S. policy on this subject will depend on the outcome of the legislative process.

*Other Issues*

The PRC also agreed to request further study of (1) the possible role of aid consortia and creditor clubs in debt rescheduling operations; and (2) whether clauses that allow a debtor to skip a few payments of

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<sup>2</sup> In a March 6 memorandum to Owen and Erb, Brzezinski noted that Carter had "directed that in each case, we must assess the impact on the budget." (Carter Library, National Security Council, Institutional Files, Box 68, PRC 053, 2/22/78, International Economics)



principal if it faces a debt servicing problem could be added to U.S. loan contracts (bisque clauses).

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**301. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, March 7, 1978

SUBJECT

North-South Policies

Dick Cooper sent you a memo to follow-up his conversation with you and Henry Owen concerning our North-South policies. (Tab A)<sup>2</sup> After some discussion within the State Department, no reference was made in the memo to implementation of policies announced by the last Administration, e.g., the International Fund for Agricultural Development and the IMF Trust Fund. The note is optimistic, and on specific points is somewhat misleading. For example, its reference to a “generous offer” in the MTN refers to the average *overall* tariff cut that we offered, 43 percent. The U.S. offers to most developing countries are considerably lower, for example, Brazil—25 percent, India—33 percent, Malaysia—33 percent, Mexico—34 percent. The offer to Nigeria, 66 percent, is an exception.

The report, *U.S. Relations with the Developing Countries—1978*, prepared by the PRM 8 working group, gives a contrasting impression of the state of our North-South policies. (Tab B)<sup>3</sup> That report states that the “honeymoon” is over between the United States and the developing countries. After reviewing trade, foreign assistance, investment, and arms sales, the PRM 8 report concludes that, “. . . we face a very difficult set of issues, with few bright spots for 1978.”

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 27, PRM 08, 3 of 3, [3]. Confidential. Sent for information. A stamped notation at the top of the page reads: “ZB has seen.” Copies were sent to Owen and the North/South Cluster of the NSC Staff. The latter copy included an unidentified regional bureau report, presumably at Tab A (see footnote 2 below).

<sup>2</sup> Tab A, attached but not printed, comprises a February 23 memorandum from Cooper to Brzezinski and an undated Department of State paper entitled “North-South Activities of the Carter Administration.” The latter asserts that “[s]ince taking office the Administration has pursued an active North-South policy.”

<sup>3</sup> Tab B is attached but not printed.

**302. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, March 24, 1978

## SUBJECT

Secretary Blumenthal's Memo to You Regarding IFI Replenishments

1. *Purpose.* In the attached memorandum (Tab A),<sup>2</sup> Secretary Blumenthal:

- a. discusses his *general* strategy regarding IFI replenishments, for your background information;
- b. recommends *specific* replenishments for the Asian and African development banks.

My memorandum defines alternative responses for your consideration, and records the views of other agencies.

*I. General Strategy*

2. *Overall Level.* Treasury describes three overall strategies regarding IFI replenishment, and favors the middle option: that the IFIs should be replenished at a rate that would increase their real lending resources by an average of 3–5% annually. The upper end of this range would be consistent with your November decision that there should be a substantial increase in multilateral aid between now and 1982<sup>3</sup> (as would the high option: 7–9% real annual growth). Treasury is not now asking you to choose among these options.

3. *World Bank and Inter-American Development Bank.* This average conceals a marked divergence between what Treasury believes should be done to replenish individual IFIs. For example:

a. Treasury favors a larger percentage increase for the World Bank's soft loan window (IDA) than for the World Bank, since it considers that soft lending is more needed than hard lending in most developing areas.

b. Treasury favors a substantial increase for the Inter-American Development Bank's hard lending window, and a cut in its soft lending window, since it considers that there is little need for soft lending in Latin America.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 24, Financial Support Fund (FSF): 2/77–4/78. Confidential. Sent for action. Carter initialed "C" at the top of the page.

<sup>2</sup> Tab A, attached but not printed, is a March 16 memorandum from Blumenthal to Carter.

<sup>3</sup> See the Attachment to Document 282.

Treasury is not now making recommendations regarding either of these banks, since the staff work and international negotiations are not sufficiently advanced. Treasury says that its recommendations on the World Bank Group and the Inter-American Development Bank will come to us in July or later. Some idea of the magnitudes involved can be gained from this range of rounded annual appropriations, which would have to be secured in FY 1982 for the World Bank and Inter-American Development Bank under the high and low strategies described by Treasury:

	<u>Low</u>	<u>High</u>
World Bank Hard Lending	\$1.4	– \$1.6 billion
World Bank Soft Lending	\$0.9	– \$1.4 billion
Inter-American Bank Hard Lending	\$0.4	– \$0.7 billion
Inter-American Bank Soft Lending	<u>\$0.1</u>	<u>– \$0.2 billion</u>
	\$2.8	– \$3.9 billion

## *II. Specific Recommendations*

4. *Timing.* Treasury recommends that you now make decisions concerning replenishment of two smaller banks:

a. The Asian Development Fund, on which we need to make our decision known at a Board meeting April 22.

b. The African Development Fund, on which a decision is required before April 30. You may wish to make our decision known during your African trip.<sup>4</sup> Nigeria is the Fund's strongest supporter in Africa and you may have an opportunity to meet briefly with Kwame Fordwor, President of the African Development Bank, in Lagos.

Treasury will carry forward Congressional consultation about each of these replenishments as soon as you have made your decisions. Treasury is confident that, by phoning and meeting members during the recess, it could complete the African Fund consultation in time to permit you to announce this decision while you are in Africa. The Asian Fund consultation will take longer, since a good deal more money is involved and there has been less preparatory Congressional consultation; if we begin immediately, Treasury indicates that we will be able to meet the April 22 deadline.

OMB recommends in a memo at Tab B that you not make decisions on these two banks until Treasury can develop fuller alternative strategies for the IFIs as a whole, which you can review upon your return.<sup>5</sup>

<sup>4</sup> Carter visited Nigeria and Liberia March 31–April 3.

<sup>5</sup> Tab B, attached but not printed, is a March 24 memorandum from McIntyre to Carter which reads: "Given the other replenishment decisions pending, I have strong reservations about your making these two decisions in a piecemeal fashion. The entire

*Cy Vance, Mike Blumenthal, and I* recommend that you make this decision now. While the discussion of alternative strategies in Treasury's memo could be amplified, I doubt this would contribute greatly to your decision since the differences among options that you will be reviewing in these two cases are not so large as to hinge on later decisions you will be making regarding much larger World Bank and Inter-American Development Bank replenishments. Delay would prevent you from announcing the African Fund decision during your trip and could make it difficult to complete Congressional and international consultation regarding the Asian Bank before the April 22 Board Meeting.

I share, however, OMB's desire to secure early Treasury recommendations concerning the general magnitude of World Bank and Inter-American Development Bank replenishments. I recommend that you authorize us to indicate to Treasury that you wish its recommendations on these two larger banks to be submitted in time to be considered during OMB's mid-May budget reviews.

Defer decision on Asian and African Development Funds. (OMB)

Decision on these Funds, as indicated below (Vance, Blumenthal, Owen) and request Treasury to prepare strategy and recommendations on World Bank and Inter-American Bank before spring budget review.<sup>6</sup>

#### 5. *Asian Development Fund*

a. *Treasury* recommends US support for a four-year \$1.8 billion overall replenishment, requiring annual US appropriation requests of \$100 million for each of the fiscal years 1980–83, inclusive. Treasury believes that this option strikes the best balance between international and Congressional concerns.

b. *The Vice President (who is interested because of his forthcoming Asian trip),<sup>7</sup> State, AID, and I* recommend authority to agree to a four-year replenishment of up to \$2 billion, which would imply an annual US appropriation request of \$111 million annually. This course would be more responsive to the desire of other donor countries (Japan, Germany, UK, and Australia), who favor the \$2.15 billion ADB replenish-

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group of IFI decisions raises the fundamental problem with foreign development assistance. On the one hand, you have indicated your desire for U.S. leadership in foreign aid with substantial increases in the more effective programs, such as the IFIs. On the other, Congress has shown strong hostility toward large foreign aid budget increases, particularly for the IFIs, and may undercut your initiatives. Given this major dilemma, these IFI replenishment decisions deserve your most careful consideration as a package with the implications for bilateral aid also taken into account."

<sup>6</sup> Carter indicated his approval of both actions in this option.

<sup>7</sup> Mondale visited the Pacific and Southeast Asia May 2–10.

ment recommended by its management, which is efficient and could put the money to good use. The difference between \$100 and \$111 million annually would not be of great amount [*account?*] on the Hill, where we have been told that *any* increase over the \$60 million annual level will cause problems.<sup>8</sup>

6. *African Development Fund*

a. *Treasury and I* recommend that the US offer a three-year contribution of \$125 million toward a three-year replenishment of \$625–750 million. This is larger than the overall 5% IFI replenishment rate discussed under I, above, or than suggested by a sense of the Senate resolution, which called for a US contribution of 10.6% to this Bank. Treasury believes the money can be well spent and is needed, since the Bank is new; it also believes that the Congress will be receptive, since the Black Caucus and other House and Senate supporters of aid to Africa are favorable. My reason for opposing the larger US contribution suggested below is that I am not clear more money could be put to good use.<sup>9</sup>

b. *State and AID* recommend that the US offer to take a 20% share of any replenishment of up to \$750 million, which would result in a US three-year contribution of up to \$150 million. They support this option because it would be more responsive to other countries' desires and would assure a US share roughly equivalent to that in other multilateral banks.

In case you make decisions on the Asian and African Development Funds now, OMB has no preference among or objection to any of the above options, all of which it considers consistent with a middle-of-the-road strategy.

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<sup>8</sup> Carter indicated his approval of this recommendation.

<sup>9</sup> Carter indicated his approval of this recommendation.

303. Memorandum of Conversation<sup>1</sup>

Caracas, March 29, 1978, 9:15–10 a.m.

## SUBJECT

North-South Dialogue, Energy, the Caribbean and Law of the Sea

## PARTICIPANTS

President Jimmy Carter  
 Secretary of State Cyrus R. Vance  
 Dr. Zbigniew Brzezinski, Assistant to the President for National Security Affairs  
 Terence A. Todman, Assistant Secretary of State for Inter-American Affairs  
 W. Anthony Lake, Director, Policy Planning Staff  
 Robert A. Pastor, NSC Staff Member  
 Ambassador Viron P. Vaky  
 Guy F. Erb, NSC Staff Member

*Venezuela*

Carlos Andres Perez, President  
 Simon Bottaro Consalvi, Minister of Foreign Affairs  
 Manuel Perez Guerrero, Minister of State for International Economic Affairs  
 Valentin Acosta Hernandez, Minister of Energy and Mines  
 Carmelo Lesseur Lauria, Minister, Secretariat of the Presidency  
 Hector Hurtado, Minister of State, President of the Investment Fund  
 Ambassador Ignacio Iribarren  
 Dr. Reinaldo Figuerido, Director of Foreign Trade Institute

*North/South*

Saying he would like to exchange ideas on North-South matters, Perez observed that President Carter's administration had given another cast to the dialogue. Recalling that the developing nations waited for President Carter to take office before concluding the CIEC talks, Perez noted that while the termination of CIEC was not entirely satisfactory, nevertheless new perspectives opened up on such items as the Common Fund and the debt problem. Even though the proposals agreed upon were relatively modest, the U.S. had showed understanding.

Since that time, however, virtually nothing has happened, and he felt very pessimistic. Perez said he would be meeting with European Chiefs of State in Jamaica in June. They would try to move the "hard heart" of Germany's Schmidt. The U.S. position, however, would be key and the attitude of the United States could support other U.S. pol-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 2-3/78. Confidential. The meeting took place in the Miraflores Palace. Carter visited Caracas March 28-29. The portion of this memorandum of conversation on energy is printed in *Foreign Relations, 1969-1976*, vol. XXXVII, Energy Crisis, 1974-1980, Document 146.

icies, in Africa, for example. Perez said he would like to have President Carter's evaluation of the situation.

*President Carter* said he had of course been in office a little more than one year. He has nevertheless seen a common desire on part of both the North and South to reach goals which were not incompatible among themselves: Common Fund, commodity prices, debt forgiveness, increased aid. But our mutual desires have been frustrated by the inability of the DC's to negotiate with any semblance of order or mutual understanding with 90 different nations. Each leader acted politically for his audience back home. Attention focused on the most radical demands or proposals. News media concentrated on leaders who abused us the most. *President Carter* said he had discussed this problem with Manley.<sup>2</sup> There was an obvious need for a forum that could work in a calm and objective atmosphere. This was the case, for example, with the Common Fund. We were eager to contribute. We felt that there was a major responsibility on the shoulders of those who buy and sell commodities to reach agreements on these issues. But this was almost impossible in a large group of over a hundred nations.

Until a procedural system could be set up to permit quiet negotiations, differences will continue to be emphasized rather than cooperation. We have, however, been unsuccessful so far. *President Carter* said he was prepared to use his influence with the DC's, and even the USSR, to persuade them to contribute to solution of all these problems. We feel frustrated, however, because of the desire, which we recognize is legitimate, of everyone for a voice in the deliberations.

*President Carter* suggested that there could be two stages: a small committee which could discuss these issues reasonably, draw up the general lines of a proposal, and then make a presentation to a larger group.

*Perez Guerrero*, speaking for Perez, noted that they shared *President Carter's* perceptions, and especially those described in his speech to the Venezuelan Congress.<sup>3</sup> The world was in a profound crisis, not one which would pass easily. It required mutual cooperation. You need us, he said, and we certainly need you. He described the move in the UN for adequate machinery and the eventual decision to move to the committee of the whole. He appreciated the need for some kind of two-step procedure and this is something to be considered.

*Perez Guerrero* then noted that Perez' reference to Schmidt's "hard heart" should not be taken as meaning that was the only problem. We

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<sup>2</sup> See Document 294.

<sup>3</sup> Carter addressed the Venezuelan Congress on March 29; for the text of his speech, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 619–623.

have the impression, he said, that even the U.S. at times was more inclined to defend the status quo than create new solutions. There seemed to be at times those who looked to poverty as the problem rather than to structural changes. But while poverty and the need for aid should be attended to, a change in the rules of the game to permit nations to develop more equitably was also important. The necessary changes could take place gradually.

Attention necessarily focused on the U.S. and on how it handled economic and fiscal problems. How was the U.S. handling the critical monetary problem, for example? Can you do that and balance the budget?

*President Carter* said that we had to move from confrontation to negotiation. We have seemed defensive because we have had to respond to loud attacks. Many past Presidents, including Nixon and Ford, were prepared to cooperate more with the developing world than the Congress. The Congress, very sensitive to the mood of the people, reacted to condemnations of us. When they heard such attacks their perception was that aid was not only not appreciated but not wanted. Hence, they were unwilling to authorize some major moves that were needed.

*President Carter*, responding directly to the question of the monetary crisis, said that the U.S. has a sound and strong economy with no basic weakness. He cited GNP and other indicators. We have deliberately tried, he said, to keep growth high. OPEC nations, he noted, had a positive trade balance of \$40 billion. This had to be absorbed by the rest of the world. Germany and Japan had positive balances. Our trade, he noted, was negative by over \$30 billion.

*President Carter* noted several factors that should lead to a strengthening of the dollar. Interest rates would be higher in the U.S. this year, leading to greater investment in-flows. There would be no increase in oil import levels in 78. Last year our economic growth averaged three percent higher than our major trading partners. This year that gap will narrow because other nations' economies are growing faster. We are more aware of the need to act to stabilize the dollar in times of market disorder, and we have worked out agreements with Germany and Japan in this regard. Had oil prices been pegged to the SDR during recent years, *President Carter* noted, OPEC would have earned less.

The U.S. will seek continued growth; we expect to balance the budget by 1980, but it may not be balanced before that. We hope to have an energy bill passed shortly giving us an overall energy policy for the first time.

We have confidence in the strength of the U.S. economy, *Perez* said. What worries us is that the North/South dialogue has stagnated. We have talked about ways of moving the dialogue forward in the UN.



The G-77 has pressed for an open forum. No decisions have been made to carry out the limited agreements of CIEC. Concern over the poor is understood, but poverty is a symptom not a cause. We understand, Perez continued, the U.S. efforts to decrease consumption of oil; it is difficult to become more austere. But concretely, Perez said, how do we put our mutual ideas into practice? How do we make progress on such items as the Common Fund or debt?

*President Carter* said that the U.S. for its part often has the impression that the G-77 wants all or nothing. Its demands often seem so strict, its condemnation so severe, that it apparently does not understand the practical limitations that do exist. We would welcome, he said, through Under Secretary Cooper or the Secretary of State or some other official to describe what we have done, what our plans are, what our practical problems and limitations are so that mutual understanding will be enhanced. We are prepared, for example, to make various types of aid available such as food. Perhaps we could work out a plan that the DC's could carry out sequentially. But we feel that our limits have not been comprehended by others.

*Perez* said that we are in a vicious cycle. Whenever the LDC's talk of cooperation, the U.S. talks of aid. The U.S. concept is anchored to aid. This is important, of course, but more important is to cooperate on changing relationships, so that countries can overcome the need for aid. Charity is not the answer. Cooperation to establish better relationships in major economic interactions is what is needed. What is needed is not always food, but technology to grow it. Often with food aid, purchasing and production power is reduced. *Perez* cited trade as an example. While on the one hand the U.S. spoke of loaning money or providing aid, protectionism seemed to be rising in the U.S. Increased trade barriers will only make imbalances and poverty worse and the need for aid greater.

*President Carter* noted that the U.S. had taken the lead in the MTN. Negotiations were being pushed by us. LDC support of our efforts to lower trade barriers would be helpful. The French would not even discuss the issue until after the elections.<sup>4</sup> The Japanese and the Germans have been reluctant to get involved. If the U.S. Congress knew that the LDC's were willing to cooperate, they might take a different view.

At the President's request, *Secretary Vance* then reviewed the various items in the North/South agenda. On debt, he noted that limited progress had been made at the recent UNCTAD meeting; more could have been made had there been better preparation by the partici-

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<sup>4</sup> Apparently a reference to the elections for the French National Assembly held on March 12 and 19.

pants. But progress here would depend upon working out possible formulae in smaller groups.

On the Common Fund, the Secretary said, the trouble is the "second window". We are fairly close together on the "first window". Some work was done in UNCTAD, but the next step is to work on the second window concept, since this was symbolic as well as substantive. Here again perhaps a smaller group could get things started. We should make that the next step due to the importance of the Common Fund.

On the financial side, replenishments for the IFI's were of major importance. Support for this would assist in persuading Congress to take favorable action on these replenishments. In trade, the key sector was the MTN. LDC support in this was important. (Perez Guerrero interjected that the U.S. had worked more with the other DC's on this than with the LDC's.) Finally, there should be some cooperation and consideration for refining the structure of the overview committee.

*President Carter* suggested that Under Secretary Cooper might meet with comparable officials of a few other nations, including Venezuela and Jamaica, for quiet consultations. At this staff level issues could be defined and analyzed for the information of the leaders in a quiet way.

*Perez* said that was a good idea, but it should be done with discretion so that others could not accuse us of "running things". In this connection, *Perez* said, the role of Algeria, as Chairman of the Overview Committee, is important. Despite some of their strong views, its leaders were responsible and practical and should be included.

*President Carter* mentioned that several other leaders, even the Saudis and Sadat, had suggested that we work with Boumediene.

[Omitted here is discussion of energy, the Caribbean, and the Law of the Sea.]

**304. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>**

Washington, May 19, 1978

## SUBJECT

A Strategy For the Multilateral Development Banks (MDBs) Into the Eighties

As you requested, we have developed a proposed strategy for the MDBs into the 1980s. To facilitate planning, *I am seeking your approval of an overall strategy for all the MDBs and a preliminary U.S. position for upcoming replenishments in the largest banks*—the International Development Association (IDA), the International Bank for Reconstruction and Development (IBRD), and the Inter-American Development Bank (IDB). Your decisions on the Asian Development Fund (ADF) and the African Development Fund (AFDF) have already been made,<sup>2</sup> and successfully negotiated internationally. My recommendations are *agreed by all agencies, with one exception* as noted.

## IDA

The principal multilateral component of your program to increase U.S. concessional aid should be *a major expansion of IDA*, in which the U.S. would provide around *\$1.4 billion annually during FY 81–83*. Such an expansion is *essential to approach your overall aid target of \$10 billion by FY 82*.

At this level, IDA would be able to almost *double its programs aimed at the poorest people* in the poorest countries with almost *50% of lending related directly to food production*. It will be able to exercise *maximum leverage for appropriate policies* in recipient countries. Our participation at this level would *induce other donors to maximize their contributions*. It would make a *major contribution to the overall U.S. posture in the North-South dialogue*.<sup>3</sup>

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<sup>1</sup> Source: Department of the Treasury, Office of the Secretary, Executive Secretariat, 1978 Files, 56–83–69. No classification marking. Sent to Blumenthal for his signature under cover of a May 18 memorandum from Bergsten, who noted that Carter had requested the memorandum “for the mid-year budget review, to lay out our overall strategy for the MDBs as part of total U.S. foreign assistance strategy for 1979 and beyond.” Bergsten also noted that Treasury officials had “worked out the memo in some detail with NSC (Henry Owen) and OMB, and believe they will support our proposal.” (Ibid.)

<sup>2</sup> See Document 302.

<sup>3</sup> Carter did not indicate his preference with respect to this recommendation.

*World Bank*

We should seek a \$40 billion *General Capital Increase* (GCI) in the IBRD, with a U.S. share of 24 percent (\$9.6 billion). This would enable the Bank to expand its real lending by 5 percent annually for about six years, maintaining its position as the central agent of global development. Such a contribution would enable us to maximize our leverage in the bank.

Annual appropriations of \$1.6 billion would be needed during FY 82–87, if there is a continued need to appropriate callable capital—an issue on which we are now working with key Congressional leaders. In any event, however, budget outlays would be only 0 to 10 percent of this total because of the large callable capital component.

With this increase, the Bank could support continued rapid growth in the upper and middle income LDCs and provide a much needed “cushion” for them against many uncertainties in the world economy such as shortfalls in private capital flows. *The cost to us is only two cents for every dollar of lending*, because of burden-sharing among donor countries and the Bank’s heavy reliance on borrowing from the private capital markets. The major alternative is to limit the GCI to \$30 billion, but this would greatly reduce the impact of our pledge—with only a slight reduction in the annual appropriation request and cutting only one year off the replenishment period.<sup>4</sup>

*Inter-American Development Bank*

In the upcoming IDB replenishment, we should support 7 percent annual real growth in the Ordinary Capital (OC) while reducing modestly the size of the *Fund for Special Operations* (FSO) because there is little need for highly concessional funds in Latin America. The net result would be a virtually unchanged level of total IDB lending, with a shift from softer to harder terms due to the rapid economic improvement of most Latin American countries. From FY 80–83, annual U.S. appropriations would be \$661 million for the OC and \$150 million for the FSO.

State prefers to hold the FSO at current levels (\$200 million annually) and increase OC lending by 10% annually (\$720 million) in order to provide some increase in total IDB activity. They believe that the cutbacks which I propose would have adverse effects on overall U.S. policy toward Latin America.

Approve my proposal \_\_\_\_\_

Prefer State proposal \_\_\_\_\_<sup>5</sup>

<sup>4</sup> Carter did not indicate his preference with respect to this recommendation.

<sup>5</sup> Carter did not indicate his preference with respect to this recommendation.

*General Discussion*

While I am seeking authority for specific U.S. pledges to the replenishments, *we need to retain a certain degree of negotiating flexibility* to adjust to the position of other donors and maximize our leverage on key policy issues, and to take into account subsequent Congressional views. We should be able to move our pledges plus or minus about \$200 million annually in IDA, perhaps \$100 million annually in the IDB, and to a lower level in the World Bank. *The recommended figures, however, represent the preferred outcome on which we would seek agreement with the Congress and then negotiate internationally.*

These recommendations would permit the MDBs to continue to serve priority U.S. interests. Aggregate growth in MDB lending will keep pace with LDC growth, enabling the banks to maintain their share of total aid flows and thus their policy leverage. This leverage will increasingly be oriented towards improved basic human needs (BHN) policies by recipients, as well as more BHN projects. Our human needs *and* human rights objectives will be furthered by this emphasis. More projects will also be developed in the priority area of energy and raw materials.

*These recommendations have taken fully into account our Congressional difficulties with MDB appropriations. In fact, I am encouraged by the prospects for making good on the bulk of our existing arrearages (\$835 million) over the course of this year and next, if we continue to work hard with the Congress on the issue. These numbers may, however, result in future arrearages, especially for IDA. My proposals would produce the following appropriations levels for the future:*

<i>Bank</i>	(\$ millions)				
	<i>Actual FY 78</i>	<i>Request FY 79</i>	<i>Est. FY 80</i>	<i>Est. FY 81</i>	<i>Est. FY 82</i>
IBRD	380	666	523	—	1600 <sup>6</sup>
IDA	800	1550	800	1400	1400
IDB	<u>480</u>	<u>914</u>	<u>811</u>	<u>811</u>	<u>811</u>
Subtotal	1660	3130	2134	2211	3811
Others	<u>265</u>	<u>375</u>	<u>450</u>	<u>357</u>	<u>557</u>
Total	1925	3505 <sup>7</sup>	2584	2568	4368 <sup>8</sup>

<sup>6</sup> If full appropriation required for callable capital. Only 0–10 percent of IBRD total produces budget outlays in any event. [Footnote in the original.]

<sup>7</sup> Includes \$835 million of arrearages. In practice, makeup will be split between FY 79 and FY 80, thereby smoothing the annual appropriation trend. [Footnote in the original.]

<sup>8</sup> If full appropriation required for callable capital. Only 0–10 percent of IBRD total produces budget outlays in any event. [Footnote in the original.]

*If you approve my recommendations, our FY 82 appropriations level will be about \$4.3 billion compared to our current level of \$3.5 billion (a base of \$2.7 billion with \$835 million in arrearages). If we are successful in eliminating the need to appropriate callable capital, the FY 82 level would be only around \$2.0 billion, compared to \$1.6 billion in FY 79 on that basis. Congressional support for these figures will be difficult to achieve and will require a maximum political effort by the Administration each year. However, if successful, there will be major benefits for our international economic policy and for overall U.S. foreign policy.*

**W. Michael Blumenthal<sup>9</sup>**

Attachment<sup>10</sup>

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<sup>9</sup> Printed from a copy that bears Blumenthal's stamped signature "Mike" above this typed signature.

<sup>10</sup> Not attached. In his May 18 cover memorandum to Blumenthal (see footnote 1 above), Bergsten noted: "A longer background paper is also attached, which elaborates on the issues in the memo for the President and will be submitted to OMB to provide detailed backup."

**305. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, June 15, 1978

## SUBJECT

Legislative Constraints on Foreign Assistance

Secretary Vance's memo at Tab A, prepared at your request,<sup>2</sup> transmits a detailed list (Tab 1) of existing legislative constraints on our authority to carry out U.S. military and economic assistance programs and a list of proposed renewals or new constraints (Tab 2).<sup>3</sup> He also recommends actions to deal with these restraints.

This list offers persuasive evidence that your complaint about legislative interference is well founded. Secretary Vance points out that the restrictions fall into three general categories:

1. *Conditional Restrictions*. These are provisions that allow certain actions to be taken only if it is first determined that specified criteria are met and that the Congress is so informed.

2. *Prohibitions*. These prevent the granting of assistance by naming countries explicitly or by setting forth criteria that trigger such action automatically.

3. *Congressional Veto*. Some restrictions provide for Congressional approval or veto of actions you propose to take.

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 92, 6/19/78 [2]. Confidential. Sent to Carter under cover of a June 17 note from Hutcheson, who wrote: "The attached memorandum was received by my office midday today. Dr. Brzezinski's office has requested that you review this memo at your soonest convenience as the State Department must testify on Monday [June 19]. Due to time constraints, I have been unable to get thorough White House staff review of this memo, particularly from Frank Moore's office. This is being forwarded to you at this time *for your information*." (Ibid.)

<sup>2</sup> During a May 25 news conference in Chicago, Carter made a statement on foreign assistance programs in which he said: "Some of the legislation governing these foreign aid programs has the effect of placing very narrow limits on where and when they can be used. Some of these limitations, though they were enacted many years ago and under special circumstances, continue to be entirely appropriate and advisable today. Others may be outmoded. For that reason, I have concluded that we should review the full range of legislation which now governs the operation of these programs. I've asked the Secretary of State to conduct this review and to consult with Congress constantly in preparing the study for me. We want to take a careful look at whether our legislation and procedures are fully responsive to the challenges that we face today." For the text of Carter's statement, as well as the ensuing question-and-answer session with members of the press, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 972–979. No written request to Vance to undertake this review was found.

<sup>3</sup> Neither of the tabs to Vance's memorandum was attached.

Secretary Vance recommends that we concentrate on resisting new restrictions and on avoiding renewal of those that would otherwise expire. This makes sense.

Secretary Vance also proposes we consult with the Congress on the possibility of introducing floor amendments to pending bills to remove certain restrictions during this session of Congress. This course seems to OMB, NSC staff, and me to involve serious problems:

—In almost all cases, floor amendments to pending bills would require an intensive lobbying effort by the Administration.

—This is probably not the proper moment for raising such new budgetary issues as a Security Assistance contingency fund and expanded military assistance, in light of your concern about budget discipline and our current aid troubles on the Hill.

—We need to review the restrictions in detail and obtain the views of all interested agencies before deciding which to try to repeal. Then we can undertake the Congressional consultations that Secretary Vance recommends.

Accordingly, OMB, NSC staff, and I have recommended to State that when Secretary Vance testifies Monday before the House International Relations Committee<sup>4</sup> to provide an overview of the Administration's foreign policy and an assessment of the legislative restrictions, he:

—focus on the present legislative constraints, citing some that seriously interfere with the conduct of U.S. foreign policy;

—avoid giving the impression that the Administration is seeking repeal of all restrictions, without regard to underlying Congressional concern;

—emphasize that the list should serve as a basis for joint Executive/Legislative branch consultations, and offer to work with Congress to see what should be done to improve present legislation and drop unnecessary constraints;

—reiterate our opposition to the new restraints proposed in the FY 79 aid bills;

—stress the importance of adequate funding for AID and IFI's and the need to resist unjustified budgetary cuts in ongoing programs, since the meat-axe approach to aid funding is as much of a restraint on U.S. policy as the specific restrictions set forth in present legislation;

—lay the groundwork for a major Administration effort during the next budget cycle to "remove the barnacles" on U.S. economic and military assistance programs.

We will work with State on this testimony and move promptly to coordinate an Administration position on the proposals set forth in the attached memo, as well as other questions regarding these restrictions.

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<sup>4</sup> Vance's June 19 statement focused on U.S.-Soviet relations and U.S. policies in Africa. See the Department of State *Bulletin*, August 1978, pp. 14-16.



**Tab A**

**Memorandum From Secretary of State Vance to  
President Carter<sup>5</sup>**

Washington, June 10, 1978

SUBJECT

Legislative Constraints on Foreign Assistance

This is a report on our review of legislative constraints on authority to carry on military and economic assistance programs. It includes recommendations of short-range and long-range efforts to head off further constraints and revise the existing laws.

*I. Existing Legislation*

The authority to conduct programs of military and economic assistance is derived primarily from two basic statutes, the Foreign Assistance Act of 1961 and the Arms Export Control Act (originally enacted in 1968). The Foreign Assistance Act governs bilateral economic assistance programs and grants of military equipment and training. The Arms Export Control Act governs foreign military sales and financing, as well as the licensing of commercial arms exports.

Both of these statutes originally were drafted in broad terms. In recent years, Congress has perceived that there has been abuses of the authority granted under those broad statutes. That, coupled with a Congressional desire for more active involvement in foreign policy matters, has spawned a gradually increasing array of statutory prohibitions, conditions, reporting requirements and complex procedures. The cumulative effect of these constraints has been to make assistance programs more cumbersome and inflexible, and less effective as foreign policy instruments.

At Tab 1 is a compilation of existing restraints. While it does not purport to include every provision that might be characterized as a constraint, it does illustrate graphically the extent to which and the ways in which the conduct of foreign relations of the United States can be regulated and controlled by legislation. While constraints imposed by other laws have been included, most of the restrictions enumerated relate to the Foreign Assistance and Arms Export Control Acts.

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<sup>5</sup> No classification marking. Carter wrote at the top of the page: "Cy—Consult & minimize restrictions as much as you can. No time for me to decide now on each item. Consult with Baker and Rhodes also. J." Senator Howard Baker (R-Tennessee) was Senate Minority Leader and Congressman John Rhodes (R-Arizona) was House Minority Leader.

As illustrated by the attached compilation, the existing statutory constraints take many forms and address a wide range of subjects. However, from the standpoint of their effect on military and economic assistance as implements of foreign policy, they fall into three general categories.

The first type consists of conditional restrictions—provisions of law which allow certain actions to be taken only if it is first determined that specified criteria are met and Congress is informed. (The statute which required your recent determination on assistance to Zaire is an example.)<sup>6</sup> This type of restraint is intended to assure Congress that potentially controversial actions will be subject to high-level approval within the Executive Branch and that Congress will be informed of the decision in a timely way so that it can make its views known. These statutes may delay or impede action, but usually do not prevent you from carrying out programs you regard as important.

The second type of constraint is the prohibition against providing assistance. Some of these name specific countries as ineligible for U.S. assistance. Others refer to types of conduct (e.g., severance of diplomatic relations) that result in ineligibility. In either event, they may operate to prevent furnishing of assistance which is otherwise within the scope of your general statutory authority.

The third group is comprised of provisions for Congressional veto or approval of actions you propose to take. (Examples are major arms sales and nuclear exports.)

Many statutory prohibitions either provide for the possibility of waiver, or are subject to your general authority to waive most prohibitions against programs under the Foreign Assistance Act. Some waivable constraints are enacted with the expectation that they will be waived and, as a practical matter, fall into the category of conditional restrictions described above. In some cases, however, even though a waiver would be legally possible the political cost would be very high. For example, the thirty-day Congressional review for major arms sale proposals may be waived and the sale made immediately in any case where “the President states . . . that an emergency exists which requires such sale in the national security interests of the United States.” In the four years that the Congressional review procedure has been in effect, this waiver authority has never been exercised.

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<sup>6</sup> In accordance with the International Security Assistance Act of 1977, Carter issued Presidential Determination No. 87-11 on May 18, in which he determined that providing military and economic aid to Zaire was in the interests of U.S. national security. For the text, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book I, pp. 930-931.

## II. *Next Steps*

In your May 25 statement, you indicated that any proposal for modification to the existing law would await our review of all restrictions and consultations with the appropriate committees of Congress. At the same time, you expressed your intention to oppose any further restrictions.

It is very late in the legislative cycle to propose major changes in the pending bills. Committee work has been completed on all five FY 1979 bills (development assistance and security assistance authorizations in each house, and foreign assistance appropriations in the House); the House has passed its development bill, and floor action on all of the others will probably occur in the next few weeks.

This means that any legislative initiative at this time would have to take the form of floor amendments to the pending bills. The prospects for success of floor amendments are always difficult to judge, and success or failure is highly visible. Careful preparation is therefore essential. Moreover, once a bill is opened up with proposed floor amendments, there is an increased risk that others will also propose amendments of their own.

## III. *Short-Range Recommendations*

I recommend that we now concentrate primarily on minimizing new restrictions and on avoiding the renewal of those that would otherwise expire. (At Tab 2 is a list of principal constraint provisions in FY 1979 foreign assistance bills pending in Congress.) We therefore should initiate immediate consultations with Congress to determine whether it would be feasible to propose floor amendments to the pending bills. In these consultations, we would try to determine whether any initiatives at this time would undermine other objectives of the Administration's legislative program (e.g., repeal of the Turkish arms embargo), detract from our efforts to resist new restrictions, or dissipate Congressional support for a more comprehensive revision of the legislation at a later date. I would begin the consultations by discussing our approach with Bob Byrd and Tip O'Neill.<sup>7</sup>

If you agree that we should begin consultations with the Congress on the possibility of introducing floor amendments to pending bills, I recommend the following proposals as worthy of consideration:

1. *Economic Development and Security Supporting Assistance for the Same Country.*

The Senate development assistance bill retains an existing prohibition against long-term development assistance and short-term eco-

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<sup>7</sup> Carter indicated his approval of this recommendation.

conomic support (security supporting assistance) for the same country. The bill passed by the House repeals this prohibition. A floor amendment in the Senate to repeal this prohibition would avoid the likelihood of Senate Foreign Relations Committee insistence on its retention when the bill goes to conference. This would increase our ability to respond to immediate economic needs without foregoing longer term development projects. Some members are certain to oppose this amendment as a "politicization" of aid.<sup>8</sup>

## 2. *Contingency Fund.*

### Economic Assistance:

The House security assistance bill authorizes \$10 million for the Foreign Assistance Act's economic assistance contingency fund. The Senate bill authorizes only \$2.5 million. Unless the Senate bill is amended on the floor, a compromise in conference (probably \$3 to \$5 million) is likely. We would need to explore with the Congressional leadership whether a major increase in the contingency fund (of up to \$50 million) could be achieved without incurring a reduction in some other program. However, strong opposition to an increased contingency fund can be expected, based on Congressional reluctance to provide funds without a specific intended use in mind. Those who work most closely with the Congressional Committees believe that we would be fortunate to achieve \$10 million.<sup>9</sup>

### Military Assistance:

The Foreign Assistance Act authorizes the President to draw on Defense Department stocks for emergency military assistance needs involving vital U.S. security interests. Grants up to \$67.5 million may be made in any fiscal year under this authority, subject to the same constraints as apply to other military assistance. However, the availability of this authority in any year requires appropriation act language. This latter requirement, added in 1976, has never been met because of Appropriations Committee opposition and, therefore, you cannot exercise this authority. Some members would strongly oppose a floor amendment to permit the use of this authority. They would argue that it is a form of a contingency fund and is also a possible opening for the resumption of grant military assistance programs Congress has terminated.<sup>10</sup>

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<sup>8</sup> Carter indicated his approval of this recommendation.

<sup>9</sup> Carter underlined the phrase "achieve \$10 million." He indicated his approval of the recommendation.

<sup>10</sup> Carter indicated his approval of this recommendation.

### 3. *Waiver Authority.*

You have authority under section 614(a) of the Foreign Assistance Act to waive most limitations contained in the Foreign Assistance Act and in acts appropriating funds for Foreign Assistance Act programs. However, this waiver authority does not apply to constraints unless they are in the Foreign Assistance Act or an appropriations act. Thus, country specific prohibitions in the annual appropriation acts may be waived to allow assistance under the Foreign Assistance Act, but not under any other law. (Had Zaire not paid its delinquent debt, assistance would have been prohibited by the appropriations act. This prohibition could have been waived to provide economic assistance under the Foreign Assistance Act, but not military credits under the Arms Export Control Act.) We should attempt by consultation to determine whether a broadened waiver authority would be supported in Congress, in view of the likely opposition to what would be widely seen as an erosion of hard won Congressional powers.<sup>11</sup>

### IV. *Long-Range Recommendations*

Together with Congressional Committees, we are beginning an extensive revision of the foreign assistance legislation for the next session that will simplify and restructure the applicable legal requirements. In this process we will strive for a better balance between Congressional oversight needs and Executive requirements for flexible authority, including sufficient authority to be able to deploy foreign assistance resources rapidly to serve priority foreign policy needs. This effort will be coordinated with other agencies. We plan intensive consultations with a view to developing legislative revisions that both the Administration and the Congress can endorse. We hope that the new legislation will be ready for the new Congress.

In addition, I have asked the Department to study the effect of these constraints on the ability of American companies to sell their goods and services abroad.<sup>12</sup>

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<sup>11</sup> Carter highlighted the portion of this paragraph that begins with “but not military credits” through the end of the paragraph. He indicated his approval of the recommendation.

<sup>12</sup> Carter indicated his approval of this recommendation.

306. Memorandum of Conversation<sup>1</sup>

Panama City, June 17, 1978, 8:45–9:35 a.m.

## SUBJECT

Summary of Second Multilateral Meeting in Panama

## PARTICIPANTS

President Jimmy Carter  
 Andrew Young, U.S. Representative to the U.N.  
 Dr. Zbigniew Brzezinski, Assistant to the President for National Security Affairs  
 Warren Christopher, Deputy Secretary of State  
 Terence Todman, Assistant Secretary of State  
 Robert A. Pastor, NSC Staff Member (note taker)

President Carlos Andres Perez, Venezuela  
 Simon Consalvi Bottaro, Minister of Foreign Affairs for Venezuela

President Alfonso Lopez Michelsen, Colombia  
 Virgilio Barco, Colombian Ambassador to the U.S.

Prime Minister Michael Manley, Jamaica  
 P.J. Patterson, Minister of Foreign Affairs, Foreign Trade and Tourism for  
 Jamaica

Omar Torrijos, Chief of Government, Panama  
 Nicolas Gonzalez Revilla, Minister of Foreign Relations for Panama

Rafael Angel Calderon Fournier, Minister of Foreign Relations for Costa Rica

(Other members of other governments' delegations attended but are not  
 identified.)

*Prime Minister Manley* opened the second session by referring to the frustration he felt on the primordial issue of the North-South dialogue. There has been no practical results yet from the Paris meeting.<sup>2</sup> In trying to understand the causes of the failure, he said that he attributed it to the interaction of two groups—the industrialized countries and the oil-producing countries—who saw the North-South dialogue as merely a way to bargain with each other. The industrialized countries were saying that if they could receive fair prices for oil, then they could consider large transfers of resources. The oil-producing countries said that if international institutions could be reformed, then they would consider transfer of resources, provided also that there were greater resources transferred from the industrialized countries.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 36, Memcons: President: 6-7/78. Confidential. The meeting took place in the El Panama Hotel. Carter was in Panama City June 16–17 to sign the protocol confirming the exchange of documents ratifying the Panama Canal Treaties. The memorandum of conversation of the first multilateral meeting, held the evening of June 16, is *ibid*.

<sup>2</sup> See Document 265.

To summarize, Manley said that the developing world got “caught in the door, and the result is a terrible crisis”. The overall effect is a serious slowing down of the world economy, but what is painful for the industrialized countries is disastrous to the developing world.

*Manley* suggested that we pause to look at the non-oil-producing developing world. As the tendency grows toward protectionism, there is a hesitancy on the part of important industrialized countries to reach the point of practical action in the North-South dialogue.

There are many developed countries, *Manley* said, that are finally beginning to realize the deleterious impact on their economies of the inability of developing countries to expand their own economies. Industrialized countries are beginning to learn that they cannot sell if the developing countries cannot buy.

*Manley* suggested a practical solution to this problem in a comprehensive context. Fundamentally, the need is to effect the terms of trade. This has four components: First, the Common Fund is the first practical attempt to look at this problem in structural terms. Energy must also be included. Secondly, transfer of resources. Thirdly, reform of multilateral institutions, particularly the International Monetary Fund. Fourth, debt.

If we could arrive at a simultaneous response to each of these four elements that would mean important progress in the North-South dialogue.

Jamaica had been working on two areas. First it had been trying to move its own approach from one of generalities into one of practical solutions. There has been some progress. Secondly, internationally, it had done some work recently among the Commonwealth countries within the context of the trade negotiations in Geneva, and it believes that has been effective. At the same time, Jamaica has been using its strategic position in the Non-Aligned Movement to press socialist countries to be more forthcoming on North-South issues since they just cannot ignore them any more.

*Manley* urged President Carter to look at two sets of negotiations: First, the Bonn Summit in July,<sup>3</sup> where he urged President Carter to make sure that the leaders at the Summit will not exclude agricultural products from the trade negotiations. Also, he asked that he use the Bonn Summit for helping push forward the UNCTAD negotiations, which will begin in mid-September. He stressed the importance of the UNCTAD negotiations in achieving structural reform with regard to commodity trade.

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<sup>3</sup> The Bonn G-7 Summit took place July 16–17. See Documents 145–148.

*President Carter* said that Manley had addressed the problems of North-South relations in a very profound way. There is no doubt, he said, that "I, as well as other leaders of the industrialized countries, have not given adequate attention to the developing world. I have not." But as a person who deeply cares about this issue, I will try. But at the same time, the developing countries could help. In the multilateral trade negotiations, Colombia and Venezuela could play a much more active role than they are playing right now. The problems of agriculture are not really with the U.S., but with the European community. Your voices could be very constructive.

The Non-Aligned Movement could be much more helpful if it were much more independent than it is right now. The U.S. feels that it is being captured more and more by the Cubans. By no stretch of the imagination can Cuba realistically be considered a non-aligned country. If the Non-Aligned Movement is to keep its independence and its objectiveness, then it must consider which path it will take in the future.

At the last summit in London,<sup>4</sup> *President Carter* said, there was a constructive feeling on our part as well as on the part of the Federal Republic of Germany, but the developing countries have since rejected anything but a total compliance with their own demands. There needs to be a phased implementation of an overall plan based on principles that we all agree to. He suggested that this be done in the new Committee of the Whole of the United Nations.

*The President* then said that his own conclusion is that he should work much more with leaders like Prime Minister Manley and President Perez and others to sketch out points of agreement as well as points of disagreement. It is only by doing this that he could see clearly what steps the developed countries need to take. Only then could he use his own position as a leader with the industrialized countries and also to the OPEC nations—particularly the wealthy ones, like Venezuela. He said that he would use his influence with both groups to see that these steps are taken. He said that it is necessary to take advantage of the goodwill on both sides and leave aside the radical rhetoric that sometimes is used in the Group of 77. It is this rhetoric which the U.S. Congress and the American people hear. We feel that our contributions to the World Bank and to the Inter-American Development Bank are neither understood nor appreciated by the developing countries. There is a need in the U.S. for some recognition of our contributions. This would be extremely helpful to the U.S. Congress. Excessive rhetoric or demands by the developing countries makes it more difficult to discuss these issues in the Congress.

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<sup>4</sup> The London G-7 Summit took place May 7-8, 1977. See Documents 27 and 28.



*The President* then suggested that we follow up this meeting, and he pledged that he would take a more active role and have an analysis drafted of the points of agreement as well as the points of disagreement. This memo would go to the Bonn Summit with specific recommendations on positions which the industrialized countries should take at the September UNCTAD meeting.

*The President* then asked for Prime Minister Manley's analysis and those of the others of whether the United States and other industrialized countries should channel their financial contributions through the multilateral development banks or through other means.

*The President* said that the United States is trying to sustain its growth as a way of helping the world economy and the developing countries. He said that the United States and other industrialized countries are bringing the leading and more prosperous developing countries—including OPEC—into more important roles in international institutions, such as the World Bank. He alluded to the U.S. friendship with Saudi Arabia and Iran as helpful in this regard. He said that they now want to participate more actively in these organizations. A second objective of his economic program is to reduce inflation. He said the Germans are particularly concerned about this, but that we are making progress.

With regard to energy, he said that the United States is almost the largest energy producer as well as consumer in the world. For a long period, the producer interests in the United States have had the political power in Congress. It is therefore difficult to develop an overall energy policy, but he was hopeful that it would be done.

In summary, the President said that he would try to make a clear presentation at Bonn and that he would be responsible for not only the presentation, but ultimately for the implementation of the new positions. Furthermore, he will make sure that the September UNCTAD meetings will have our complete participation and constructive leadership. At the same time, however, he asked that the Group of 77 moderate their rhetoric and put the discussions onto a more constructive plane. He believes that we have finally reached a point where we can make progress.

In closing, the President reaffirmed his hope that the governments who are present at this meeting would take a strong role in the multilateral trade negotiations, in the GATT, and in the Non-Aligned Movement because their leadership in some ways is much more effective than what the United States can do. The President said that he has not been in office very long, but he has begun to see the problems which Prime Minister Manley described as very profound. Americans are a very generous people and they would like to be helpful. As for himself,

the President said that he will take a more responsible and active role in these North-South issues from then on.

*President Perez* then expressed his absolute solidarity with Prime Minister Manley's words. Since President Carter was elected, we have been hearing from the U.S. a voice of sincerity and a will to contribute to these actions which we have not heard before. It is true that the tone is not always appropriate in our rhetoric, but often times other considerations play a part in this. At the same time, however, Perez believes that we have reached a grave situation. On the one hand, the industrialized countries appear to be becoming preoccupied with East-West problems and have begun to ignore North-South issues, which are more profound. If this continues, the President is likely to hear screams instead of rhetoric. President Perez said that he fears that we will move backward, and he said that he hopes that President Carter will stimulate his advisors instead of quieting them.

*President Carter* responded by saying that he would like to have someone representing himself take an outline of what he intends to propose in Bonn. After consulting with Deputy Secretary Christopher, he said that probably would be Dick Cooper.

*Prime Minister Manley* confirmed that the first documents would be coming from the United States.

Then *President Carter* said that we would try to get a document to the Jamaicans as early as we can so that we have time to discuss this issue before the Summit. He very much valued Prime Minister Manley's comments on this document and repeated that he wanted to present the points of agreement, the points of disagreement, and within the latter, our position and the G-77 position. He said that he wanted Prime Minister Manley to correct our interpretation of the G-77 position if that was warranted.

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### 307. Editorial Note

In his June 22, 1978, Evening Report to President Jimmy Carter, Secretary of State Cyrus Vance discussed the status of the bilateral consultations on North-South issues to which Carter and Jamaican Prime Minister Michael Manley had agreed during their June 17 discussion in Panama City (see Document 306). Vance reported that the Under Secretary of State for Economic Affairs, Richard Cooper, would travel to Jamaica in July for the proposed consultations. In the meantime, the Department of State had given Jamaican Foreign Minister P.J. Patterson

“papers which describe the US position and what we believe to be the Group of 77 position on major international economic issues, and what we believe to be areas of agreement and disagreement. Subjects covered include trade, resource transfers, commodities, monetary issues, debt, technology transfer, illicit payments and multinational corporations. The Jamaicans will comment on these papers before Cooper sees Patterson.” In the margin adjacent to this section of Vance’s report, Carter wrote: “Keep me informed with an outline of the issues.” (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 6/78)

Eight papers on North-South issues were given to Patterson on June 23; copies of all eight are attached to a June 23 memorandum by Alexander Watson, Director of the Office of Development Finance in the Bureau of Economic and Business Affairs, Department of State. (Memorandum from Watson to Cooper and other Department of State principals; National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 3, Memorandums RNC—1978)

Carter subsequently sent all eight papers to British Prime Minister James Callaghan, under cover of a July 7 letter in which he noted that he “would very much appreciate” Callaghan’s opinion on them. (Carter Library, National Security Affairs, Brzezinski Material, President’s Correspondence with Foreign Leaders File, Box 20, United Kingdom: Prime Minister James Callaghan, 6–9/78)

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### 308. Paper Prepared in the Department of State<sup>1</sup>

Washington, undated

#### Outline of Major North/South Issues

##### I. Trade

US and G-77 agree on desirability of maintaining open trading system with expanded opportunities for LDC exports. Disagreement focuses on the following:

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 7/78. No classification marking. Carter wrote at the top of the page: “Most of LDC demands seem unreasonable. JC.” The paper was originally sent to Carter under cover of the June 28 Evening Report from Vance, who noted: “You requested an outline of the issues involved between the US and the Group of 77. [See

(1) Improved market access for LDC exports. LDCs want all barriers to their trade removed; US believes that improved market access is desirable but at times we must adopt measures to prevent disruptions of US domestic market and allow industry to adjust.

(2) Special and differential treatment (S&D). LDCs want preferential access to DC markets; US agrees this is useful means of facilitating LDC trade but that eventually preferential treatment should be phased out.

(3) Reciprocity. US expects LDCs to make contributions by July 15 to Multilateral Trade Negotiations (MTN) which are consistent with their development needs; LDCs are reluctant to make contributions until July 15 when other offers may be judged.

## II. *Resource Transfers*

Consensus exists that economic development is in interest of all countries and that it will be expedited by a net transfer to LDCs of economic resources. At issue on official aid are:

(1) Volume—Will US and other DCs accept target of transferring 0.7 percent of GNP annually to LDCs in the form of official development assistance (ODA)? Presently US ODA is about .23 percent of GNP.

(2) Quality—Can quality of US assistance be improved?

(3) Automaticity—Will US agree to provide resource transfers automatically, irrespective of annual OMB budget process, Congressional procedures, or concern for efficient and effective use of the funds?

(4) Conditionality—Will US alter concern that aid be specifically targeted to meet needs of poor in LDCs, by providing direct budget and BOP support rather than project loans and grants?

## III. *Commodity Trade*

Trade in commodities has been important issue in North/South dialogue since Seventh Special Session of UNGA and subsequent adoption of UNCTAD's Integrated Program for Commodities.<sup>2</sup> Major issues are:

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Document 307.] Such an outline is attached, indicating what we believe to be the areas of agreement and disagreement. It was drawn from the papers presented to the Government of Jamaica by Dick Cooper." Carter wrote in the margin adjacent to Vance's comment: "Retained." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 6/78) Brzezinski returned the paper to Vance under cover of a July 8 memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 19, Evening Reports (State): 7/78)

<sup>2</sup> Adopted on May 30, 1976, in UNCTAD Resolution 93(IV).

(1) Need to further liberalize conditions for IMF Compensatory Finance Facility (CFF) loans to offset declines in foreign exchange earnings caused by depressed world market commodity prices.

(2) Inclusion in new Wheat Agreement provisions for financing of stocks to be held by LDCs.<sup>3</sup>

(3) Number of commodities for which price stabilization agreements may be feasible.

(4) The weight to be given economic feasibility in judging desirability of negotiating new international commodity agreements.

(5) Source of capital for a Common Fund; appropriate capital structure for a Fund; need to give such a Fund a role in financing non-stabilization measures (second window); and design of an acceptable decision-making structure for a Fund.

#### IV. *Debt*

March 1978 UNCTAD Ministerial meeting produced broad agreement on DC debt.<sup>4</sup> At issue are:

(1) In debt rescheduling, whether debt relief should be provided by creditors not only in situations of imminent default but also as aid device to enhance economic growth and help LDCs achieve development targets.

(2) Extent to which debt relief should be conditioned upon debtor country undertaking comprehensive economic development and/or stabilization program.

#### V. *Monetary Issues*

US has fostered reforms which allow international monetary system to be more responsive to individual country needs. Yet LDC's believe present monetary arrangements operate to their disadvantage and they therefore seek greater access to official BOP financing on favorable terms. At issue are:

(1) Nature and extent of conditions on IMF loans.

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<sup>3</sup> Nations were negotiating a new agreement to replace the 1971 International Wheat Agreement. No agreement was reached in 1978 and the negotiations were suspended.

<sup>4</sup> On March 11, the UNCTAD Trade and Development Board issued Resolution 165 (S. IX), which, among other things, reflected agreement that donor governments would endeavor to revise the terms of previous development assistance loans in keeping with the more lenient terms of contemporary loans. The resolution also called for international expert consideration of how the way in which previous debt issues were addressed might offer lessons for the future. See *Yearbook of the United Nations, 1978*, p. 429; see also "Developing Nations Agree to Reduce Debt Relief," *The New York Times*, March 12, 1978, p. 10.

(2) Whether LDCs should be given a larger share of IMF quotas and of IMF decision-making, irrespective of their financial contributions to the Fund.

(3) Whether SDRs should be issued on automatic basis to LDCs as a mechanism to transfer economic resources.

(4) Whether new provisions for flexible exchange rates operate to disadvantage of LDCs.

#### VI. *Illicit Payments*

Consensus for international agreement on illicit payments appears to be developing in UN working group on corrupt practices.

No important substantive difference between US the LDCs exists. However, in 1976 and 1977 the G-77 were not ready to schedule diplomatic conference to include agreement on illicit payments. Issues are:

(1) Priority and importance of the issue.

(2) Timing of a diplomatic conference.

(3) Efforts by some members of G-77 to link illicit payments agreement to conclusion of negotiations on a code of conduct.

#### VII. *Technology for Development*

Dialogue on technology thus far has focused on regulation of proprietary technology and conduct of enterprises and governments. Fundamental issues are:

(1) Whether a code will be legally binding.

(2) Whether propositions of G-77 will sustain flows of relevant technology to LDCs.

(3) How LDCs will improve capabilities to receive and effectively apply technology, and move toward self-sustaining technological capability.

#### VIII. *Transnational Enterprises and Investment Climate*

Foreign direct investments are important source of economic resources and technology for LDCs. However, value of this investment to DCs and LDCs has been open to debate. For more than a year UN Commission on Transnational Corporations has sought to elaborate code of conduct as a means to establish international framework within which TNCs should operate. Major issues are:

(1) Whether code should apply both to responsibilities of governments as well as TNCs.

(2) Whether the code should be binding or voluntary.

(3) Whether the code should have a follow-up mechanism, and if so, what kind.

(4) Whether the transnational enterprises covered by code should include state-owned and mixed ownership enterprises.

(5) Definition of standards for expropriation and compensation.

(6) Availability of international dispute settlement mechanisms for arbitration under international law.

(7) Respect for contractual obligations and other agreements, and standards in event of renegotiation of contacts.

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**309. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, July 3, 1978

SUBJECT

North-South Dialogue and the Summit

Attached are the North-South papers that you asked Dick Cooper to prepare.<sup>2</sup> I recommend that you read his covering memo and the Summary of Issues at Tab A, which precedes an analysis of the possibilities for compromise. Tab B summarizes what your Administration has done so far in this field; Tab C contains the papers that Dick Cooper will discuss with the Jamaicans.

I agree with Dick that the central North-South issues are aid and trade. This is how the vast majority of resources move from industrial to developing countries. The other Summit countries believe these issues should be at the center of the Summit North-South agenda; they are emphasized in the draft Summit Declaration.<sup>3</sup> It will be useful to press your Summit partners on trade and to join in what I sense to be their general desire to increase aid—e.g., by pledging more resources for multilateral banks and more aid to help LDCs produce energy.

But there are also foreign policy aspects to the North-South relationship. From this standpoint, commodity agreements and the Common Fund are important, even though there is not much that we can say about them at the Summit. Dick's substantive conclusions on these issues make sense to me.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 13, President, Germany, 7/13–17/78: State Visit. Confidential. Sent for information. Brzezinski initialed at the top of the page.

<sup>2</sup> Not attached. See Document 310.

<sup>3</sup> See footnote 5, Document 148.

Progress on aid, trade, and commodities will require a large expenditure of political capital. The Congress is now sitting in judgment not only on aid and (prospectively) on trade, but also on the International Coffee and Sugar Agreements and a US contribution to a buffer stock for the International Tin Agreement.<sup>4</sup> Since our influence on the Congress is limited, we should focus on a few key issues. Even this may require an effort that is almost Panama Canal-ish in scope.<sup>5</sup> Your own continuing involvement will be the key to success.

It would be helpful to know, at the meeting Dick recommends or otherwise, whether you agree that aid and trade should receive priority attention among North-South issues at the Summit. After the Summit, in light of its results and of Dick Cooper's discussions with Jamaican leaders, we can do more staff work and recommend follow-up actions on these and other North-South issues that they will raise, such as the Common Fund and LDC participation in international consideration of economic issues.

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<sup>4</sup> The International Coffee, Sugar, and Tin Agreements regulated commodity prices and sales among their signatories, which included both importing and exporting nations. In 1975, the United States signed the then most recent version of the Coffee Agreement; in 1977, it signed the latest iteration of the Sugar Agreement; and in 1976, it signed the fifth iteration of the Tin Agreement.

<sup>5</sup> Reference is to the Carter administration's effort to secure ratification of the Panama Canal Treaties. See footnote 4, Document 163.

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### 310. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to President Carter<sup>1</sup>

Washington, July 3, 1978

SUBJECT

North/South Dialogue: Follow-Up on Your Discussions in Panama

As you requested, I have compiled two sets of papers on North/South economic issues. The first set (Tab C)<sup>2</sup> describes areas of agree-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 13, President, Germany, 7/13-17/78: Economic Summit (II). Confidential. Brzezinski initialed at the top of the page.

<sup>2</sup> Tab C, not attached, includes the June 23 memorandum from Watson to Cooper and the eight papers on North-South issues discussed in Document 307. Tabs A-C are attached to a copy of this memorandum in the National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980, Lot 81D134, Box 3, North-South Dialogue—1978.



ment and disagreement between the U.S. and the LDCs (the so-called Group of 77 or the "G-77"). This was given to the Jamaicans and the Venezuelans on June 23 and we will shortly receive their comments. I will be traveling to Jamaica for discussions with Prime Minister Manley and his officials at the end of this week, July 7 and 8. The second set (Tab A)<sup>3</sup> suggests possibilities for reconciling or at least narrowing the differences between us and the G-77. It would be helpful to have any guidance you might want to give before then, both to guide my discussion with the Jamaicans and to give some indication beforehand to the other participants at the Summit of your sense of priorities in this large and diverse domain.

The North/South dialogue covers a vast range of subject matters—trade, monetary affairs, foreign investment, technology transfer and so on. We have singled out eight of the most important areas in these papers. The developing countries are a diverse group with diverse interests in each of these many areas. They are held together by a common stand with respect to the rich countries and they have developed a "political platform" with something to appeal to everyone, held together with a strong appeal to the need for political solidarity. They schedule conferences in international bodies to provide pressure points on the developed countries (which in practice means the Western democracies—they have been peculiarly silent on the role of the communist countries). Apart from the UNGA, the major conferences coming up are UNCTAD V and the UN Conference on Science and Technology, both about a year from now.

There are serious, and in most cases, insurmountable, obstacles to reconciliation of our position with the current position of the G-77. This is for three reasons. The first involves the extreme character of many of the G-77 proposals. Some of these sound like caricatures of themselves but unfortunately they are not. (For example, one proposal calls on the governments of industrialized countries to regulate production of all synthetic products that are in competition with natural products.)

The second reason is the immobility of the G-77 with respect to their formal proposals. Their commitment to solidarity plus something-for-everyone leaves them practically no negotiating flexibility. Moreover, the Group can be intimidated by its own radical members from giving way on stated positions. For similar reasons, they have been unwilling to establish priorities among issues, although we observe that they seem to attach more importance to some issues than to others. We have attempted to loosen up the G-77 position by bilateral approaches through national capitals. These approaches have the desirable effect of

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<sup>3</sup> Tab A, not attached, is an undated paper entitled "Summary of Issues."

maintaining a dialogue and assuring the developing countries of our genuine interest in their problems. But so far we have been able to make only limited progress in getting the G-77 as a group to be more flexible.

The third obstacle to reconciliation concerns our difficulty in persuading the Congress and more generally the public to contemplate seriously taking steps that seem to run so strongly against present U.S. conceptions of domestic and world order, and often seemingly against U.S. interests. Even when they may be in our interests, Congress is reluctant to spend funds for these purposes.

I conclude from these considerations that we cannot reconcile our positions with those of the G-77 in the near future on most issues. But we must continue to engage in constructive discussion with them, since the process of discussion reinforces the moderate voices within the G-77. There are, moreover, some things which we can and should do which will be well received by the developing countries, and others which we could do if we thought it necessary in the interest of mollifying them. These actions are called "accommodating moves" in the material at Tab A and are pulled together in the summary introducing them. The G-77 can perhaps be persuaded over time to move their positions, so that accommodating moves may eventually involve a reconciliation. (We have already actually made a number of accommodating moves since you have taken office, and these are listed at Tab B.)<sup>4</sup>

The most important areas for us to focus on, in terms of substantive value to the developing countries and our own long-range interests, are *trade* and *aid*:

—On trade, a) we should make our MTN offers on products of special interest to developing countries as generous as possible. We should also press advanced developing countries to make contributions to the MTN, and to encourage this we should be prepared to enrich the offers which we have already put on the table. Second, we should undertake not to impose countervailing duties against LDC export subsidies unless we can show injury to the domestic economy. Third, we should seek tight, internationally managed procedural rules around the European Community's insistence on the introduction of "selective safeguard action" against individual countries.

b) More generally, we should maintain our markets open to the products of developing countries. We actually have quite a good record here, although developing countries are reluctant to acknowledge it. They focus especially on textiles. Our policy toward sugar is of great,

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<sup>4</sup> Tab B, not attached, is an undated paper entitled "North/South Activities of the Carter Administration."

both real and symbolic, interest to the developing countries, especially those in Latin America. It is important in the North/South context that we not move toward greater restrictions on sugar imports and preferably that we relax the restrictions that we now have.

—The volume of foreign aid, both bilateral and multilateral, is of tremendous importance substantively and politically. You know the domestic difficulties with this, so I will not rehearse them here.

It would be good to emphasize these two areas at the Summit. The Japanese and especially the Europeans are skittish on the question of trade, and we need to remind them of the vital importance to the economic prospects of developing countries of maintaining our markets open to their products. You also might mention there your planning targets on U.S. foreign aid for FY 1982, since that will indicate your commitment to this area despite the widely-known domestic political difficulties with it.

In addition to these two areas, we should continue to push along with price-stabilizing commodity agreements where there is some promise of success. We have agreed to negotiate on rubber and there is perhaps some prospect for a copper agreement. Beyond price-stabilizing agreements, we may want to indicate a willingness to support applied research for product improvement in other commodities (e.g., jute, sisal).

In the category of things we might do if necessary to mollify the developing countries are our positions on the Common Fund and on providing debt relief before acute debt crises arise:

—The Common Fund is a major plank in the G-77 platform of demands. The substantive value to the economic welfare of developing countries is considerably less than the political significance that they have given to it. A major move toward the G-77 position on the Common Fund would be well received by them, but because it would provide only marginal benefits to the world economy, a major investment of your political capital would be required to secure Congressional support for U.S. participation and a U.S. contribution of perhaps \$100 to \$250 million.

—Authority to ease the terms on outstanding debt of the poorest countries is now before the Congress. In addition to pressing for that authority and using it when we get it, we would please some of the leading moderates in the G-77 (e.g., India, Pakistan, Jamaica) if we would agree to a procedure whereby official debts could be rescheduled in anticipation of a balance-of-payments crisis rather than, as now, trying to provide additional aid in such situations and relying on debt rescheduling only when default appears imminent. However, this approach could involve very substantial amounts of money and there will be major Congressional difficulties with getting authority and appro-

priations for this purpose because it would be inconsistent with the Congressional desire to control the uses of aid funds.

On most matters now involved in the North/South dialogue, the G-77 have set the agenda. True, by its nature it covers most of the topics of interest to both sides, but we can and should seize the initiative in certain respects. Illicit payments is one area where we have done so. The emphasis on basic human needs in foreign aid is another. We could reinforce this latter initiative by setting concrete objectives—e.g., in the areas of disease eradication, clean water, food production—for the year 2000. Moreover, we could be much more aggressive than we have been concerning the trade barriers imposed by advanced developing countries, in comparison with which all the industrial countries are paragons of free trade.

Henry Owen's counterparts in the other Summit countries have been told that you will raise North/South issues at the Summit. Most of those countries have positions roughly similar to ours, although there are often important differences in detail. They also have problems on their home front, and one thing we all need to do is to improve domestic consciousness of the importance of North/South relations.

If you have the time, I would recommend that you meet with your senior advisers concerned with North/South issues sometime before the Summit, perhaps on July 10, to discuss these issues and for you to provide guidance to us on where you would like to lay the most emphasis.

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### **311. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, July 12, 1978

SUBJECT

North-South Issues at the Summit

1. In the attached memo (Tab A) Dick Cooper reports to you about his talks in Jamaica with Prime Minister Manley and other Jamaican officials.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 14, President, Germany, 7/13-17/78: Cables and Memos, 7/7-24/78. Confidential. Sent for information. A handwritten notation indicates that Hunter and Erb had copies.

2. I agree with Dick that the two key LDC issues for the Summit are MTN and aid.

a. On MTN I concur with Dick's recommendation that the Summit should direct the US, EC, Japanese, and Canadian negotiators to bring the developing countries into the negotiations.

b. On aid, I also agree with what Dick says about Summit pledges to provide more resources for IDA and other multilateral institutions.

3. We have late information about four likely North-South issues that other heads of government may raise at the Summit:

a. *Trudeau* may want to strengthen that section in the draft Declaration which calls for more aid to help LDCs increase energy production, and requests the World Bank to examine how this can be done most effectively. This is one of the more promising Summit initiatives, and we should support *Trudeau*.

b. *Callaghan* may announce forgiveness of some past LDC debts to the UK. It is not clear whether this would represent an increase in aid to LDCs; it might be offset by reductions in new aid. This idea came up at the Summit Preparatory Group; the British wanted all countries to join a multilateral statement to this effect, but others did not agree. If *Callaghan* announces this British decision and say that legislation now before the Congress would permit the US also to ease the terms of some past LDC debts. I attach a briefing memo on this point at Tab B.<sup>2</sup>

c. *Fukuda* will announce a doubling of Japanese aid from 1977 to 1980, with the comparison being made in dollars. This is a disappointing outcome to the argument between the Finance Ministry and the Foreign Ministry, which favored a doubling from 1978 to 1981 in terms of yen. The Foreign Ministry position would have meant \$4 billion in aid in 1981; the Japanese decision means \$2.8 billion in 1980 (or about \$3 billion in 1981). *Bob McNamara* urges you to press *Fukuda* at Bonn to change his position. I agree. Aid proponents in Japan, we are told, believe that external pressure on *Fukuda* might cause him to alter his view. This could mean \$1 billion more per year for LDCs.

d. *Giscard* may raise his idea of an African fund. If so, you might say that the US agrees fully with the need for more effective coordination among aid donors and between donors and recipients in Africa. We cannot, however, support certain aspects of the French proposal as it now stands: We cannot commit ourselves to multi-year financing or a high US share of financing; nor can we commit ourselves to participation in every project donors desire. But we have no objection to mentioning aid for Africa in the Summit Declaration, and will continue dis-

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<sup>2</sup> Tab B, attached but not printed, is a July 10 paper prepared in EB/IFD/OMA entitled "Retroactive Terms Adjustment."

cussions with others to assure the most efficient and visible use of our resources.

4. You should know that Prime Minister Manley is again considering a North-South Summit. He has invited Schmidt, Callaghan, and Nordli to Kingston in late August or early September and has discussed the proposed meeting with Trudeau and Fraser. Over the long run, the idea of a North-South Summit may well warrant exploration, but it would have to be well prepared, which means that it could not happen in the near future. In the meantime, informal North-South consultations of the sort that you directed Dick to hold with Jamaican leaders will continue to be useful.

5. There is a US initiative in the aid field that you may want to mention: your intention to create a Foundation for International Technological Foundation [Cooperation], to relate US private and public science and technology more effectively to LDC needs. This is the one new idea to emerge from our aid review: you have mentioned it in several of your speeches; and planning is now going forward. I believe other countries would be interested and impressed. Talking points are at Tab C.<sup>3</sup>

## **Tab A**

### **Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to President Carter<sup>4</sup>**

Washington, July 11, 1978

#### **SUBJECT**

Report on my Discussions in Jamaica

On July 7-8 I led a small U.S. delegation to Kingston to meet with Prime Minister Manley, Foreign Minister Patterson and senior Jamaican officials to follow up your Panama discussions on North/South

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<sup>3</sup> Tab C, not attached, is a July 12 memorandum from Press to Carter on "Talking Points for Economic Summit on Foundation for International Technological Cooperation." Tab C is attached to a copy of this memorandum in the Carter Library, National Security Affairs, Staff Material, International Economics, Subject File, Box 5, Summit: 7-11/78.

<sup>4</sup> Confidential.

economic issues.<sup>5</sup> In his opening remarks Manley specifically requested that I convey to you his compliments on “your superb performance in Panama,” during which you gave so many speeches to so many people, providing something different and pertinent on each occasion. The tone of our meetings with Manley, and subsequently with Patterson and his team, was cordial. Our exchanges were frank, and often revealed substantial differences of approach.

This meeting was an attempt to find ways to improve the current North/South relationship through an informal exchange of views on both the substance and procedures of the dialogue. In view of the complexity of the problems that beset the dialogue I did not expect to, nor did we, achieve a breakthrough at the Kingston meetings. But I believe that over time such informal consultations can help us reduce our political and economic differences with the LDCs. The meeting has supported most of the points made in my memo to you of July 3.<sup>6</sup> And I believe that most of the talking points on North/South issues that were sent to you on the same date remain valid. However, many of the issues that the Jamaicans raised will come up during the Bonn Summit and some will soon require significant U.S. policy decisions.

The Jamaicans made clear that they were not speaking for the Group of 77, but would convey their best interpretation of the G-77 position, even though focusing occasionally on issues of particular concern to Jamaica. Patterson placed the highest priority on: 1. agreement on a Common Fund, 2. debt relief, 3. energy. Manley and Patterson also stressed the importance of trade, referring to Manley’s agreement with you in Panama on the need for trade liberalization.<sup>7</sup> During the discussions they further emphasized the importance of negotiations on international commodity agreements, the institutions for conducting the North/South dialogue and cooperation for development with OPEC and the Eastern European countries—on the last point they made a specific proposal for greater East/West cooperation. They clearly favored expanded flows from developed countries. They responded in a constructive manner to subjects that we had raised in our papers, especially private investment and illicit payments.

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<sup>5</sup> A memorandum of conversation of a July 7 meeting among Cooper, Manley, and U.S. and Jamaican officials is in the Carter Library, National Security Affairs, Staff Material, International Economics, Guy Erb File, Box 37, Manley (Prime Minister Michael) Summit: 7/78–1/79. A draft memorandum of conversation of a July 7 discussion among Cooper, Manley, Hormats, and Erb is in the National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 3, Memorandum of Conversation, Jul–Dec, 1978.

<sup>6</sup> See Document 310.

<sup>7</sup> See Document 306.

—*Common Fund*. The Jamaicans put considerable emphasis on the early negotiation of a Common Fund with its own resources to support the buffer stocks of international commodity agreements and a “second window” based on voluntary contributions by participating countries. They see the Common Fund as an important instrument to restructure markets so as to stabilize export earnings from commodities. The Common Fund has considerable political significance and our ultimate approach to it will have to weigh the importance of this issue to our North/South relations, its probably modest economic impact, and the considerable political efforts that will be necessary to gain Congressional approval of a Common Fund. Tactically, I recommend that we not go beyond the present brief reference to the Common Fund in the Summit Declaration. Any movement toward the LDCs on this point at the Summit would reduce our flexibility when negotiations resume.

—*Debt*. The Jamaicans’ main point is that LDC commercial indebtedness is bound to pose serious problems over time. Accordingly they would like to establish a facility for rescheduling private as well as the official debt. We indicated the difficulties with this, and they probably could not get G-77 support for their view, particularly for advanced developing countries who must borrow in private capital markets.

—*Energy*. The Jamaicans stressed the links between energy and achievement of a New International Economic Order. However, apart from Venezuela, they do not have OPEC support for their views that trade-offs exist between energy and other North/South issues. The Jamaicans did support the types of energy cooperation between developed and developing countries that will be considered at the Summit.

—*Trade*. The Jamaicans are disappointed with progress in the MTN on matters of interest to them and other developing countries. They are particularly concerned about the liberalization of trade in agricultural products and the negotiation of a safeguards code, where acceptance of the proposal of the European Community for selective safeguards would be quite detrimental to LDC interests. Jamaica also stressed a bilateral trade issue: their request for a U.S. offer of a tariff concession on rum, an item of great interest to many Caribbean countries and on which a final U.S. decision is still pending.

—*North/South Dialogue*. The Jamaicans strongly supported the U.N. Committee of the Whole,<sup>8</sup> which in their view should follow up the CIEC with high level negotiations on key North/South issues. Our approach to this U.N. Committee is different—we favor frank ex-

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<sup>8</sup> See footnote 13, Document 299.



changes, but not negotiations. Other Summit participants are skeptical as to the value of this Committee.

—*East/West Issues*. The Jamaicans proposed that the Summit countries call upon the Soviet Union and other Eastern European nations to collaborate with industrialized democracies in support of Third World development. This was the main Jamaican initiative during the meeting and it reflects Jamaica's hope that the Socialist countries will play a larger role in world development. Manley may have supported this initiative because he believes the Socialist countries have something to contribute but also because he feels the West would do more if the Socialist nations were more forthcoming.

### *The Bonn Summit*

Jamaica would like to see several results from the Summit:

—recognition that economic development in the LDCs will strengthen prospects for growth in developed countries, thus there is a mutuality of interest in economic progress in developing countries.

—agreement on the importance of providing increased assistance to LDCs for development purposes, and to provide special support to LDCs in balance-of-payments difficulty.

—a commitment to provide substantial benefits to the developing countries in the MTN.

—discussion of, but not necessarily public statements about, the desirability of joint East/West collaboration for development.

### *Recommendations*

*What to say at the Summit*: I recommend that at the Bonn Summit you stress:

—The importance of developing country growth to developed country prosperity.

—The need for a common commitment to substantial increases in development assistance, including the need for large World Bank and Inter-American Development Bank capital increases and a large IDA replenishment (along the lines you already approved), stressing your personal commitment to work with the Congress to make good on our commitments.

—The importance of a common effort by developed countries to insure that the developing countries both contribute to and benefit from the overall results of the MTN, namely through greater developed country tariff concessions on specific products of concern to LDCs, and avoidance of a closing off of offers and final agreements on tariffs and codes—especially the safeguard code—until adequate negotiations have taken place with LDCs. In this connection the Summit should ask negotiators to integrate the LDCs more in the MTN.

**312. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, August 11, 1978

SUBJECT

Letter from Prime Minister Callaghan

Prime Minister Callaghan has written you a letter (Tab B), replying to your letter of July 7, which transmitted a statement of US North-South policies and our points of agreement and disagreement with the developing countries.<sup>2</sup> Callaghan thanks you for the paper, encloses his officials' comments, comments on the broad consensus between our two countries, and mentions two issues where there may be a difference of approach: LDC indebtedness, and the Common Fund. On these issues he recognizes our constraints and urges us to be as flexible as possible in light of these constraints. Attached is a draft reply (Tab A)<sup>3</sup> that should meet his concerns.

On LDC indebtedness, the reply says that we will continue to play a positive role in international discussions, and indicates that much depends on what happens to pending legislation.

On the Common Fund, the reply indicates that we will participate constructively in negotiations, while consulting actively with the Congress. This is consistent with the Summit commitment: "We agreed to pursue actively the negotiations on a Common Fund to a successful conclusion . . ."<sup>4</sup> Church and Javits have recently indicated their opposition to (and their belief that there is no chance of securing Congressional approval for) a Common Fund involving a direct US contribu-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 20, United Kingdom: Prime Minister James Callaghan, 6-9/78. No classification marking. Sent for action.

<sup>2</sup> Tab B, attached but not printed, includes an August 3 letter from Callaghan to Carter and a U.K. paper commenting on the eight U.S. papers on North-South issues. See Document 307.

<sup>3</sup> Tab A, attached but not printed, is a copy of the signed August 15 letter from Carter to Callaghan.

<sup>4</sup> See footnote 5, Document 148.

tion.<sup>5</sup> With both the Chairman and Ranking Minority Member of the Foreign Relations Committee opposed, the chances of securing ratification of a Common Fund treaty would be dim. But we can participate usefully in international discussion and negotiations about this issue while seeing whether we can, through Congressional consultations, alter attitudes on the Hill. In light of these consultations, we can then make firm decisions.

I have cleared the attached reply with State (Dick Cooper, who is working on a memo for you about the Common Fund pursuant to your breakfast discussion today),<sup>6</sup> Treasury (Fred Bergsten), and Jim Fallows' office.

#### *RECOMMENDATION*

That you sign the letter to Prime Minister Callaghan at Tab A.<sup>7</sup>

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<sup>5</sup> Owen reported on a conversation with Javits in an August 8 memorandum to Carter. Javits had "said that neither he nor Senator Church believed there was any chance of the Congress approving a Common Fund. They thought the Congress would support individual commodity agreements, and perhaps some arrangement for transfer of funds among such agreements, but not a Common Fund to which there would be a direct US contribution. He stressed that as Chairman and Ranking Minority Member of the Foreign Relations Committee their views as to what the Congress would accept should be taken seriously. He made clear that he and Senator Church shared the attitude they attributed to the Congress." (National Archives, RG 56, Office of the Under Secretary of the Treasury for Monetary Affairs, Subject Files of Anthony Solomon, 1977–1980, Box 1, Common Fund)

<sup>6</sup> Carter held a breakfast meeting on August 11 with Vance, Brown, Brzezinski, and Jordan in the Cabinet Room from 7:34 until 9 a.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation was found. An August 10 briefing memorandum on the Common Fund prepared by Lake for Vance for the meeting is in the National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 4, S/P-Lake Papers—8/1–8/15/78.

<sup>7</sup> Brzezinski wrote beneath the recommendation: "Concur. ZB." A separate handwritten notation reads: "signed 8–15–78."

**313. Memorandum From Secretary of the Treasury Blumenthal to President Carter<sup>1</sup>**

Washington, August 17, 1978

## SUBJECT

Common Fund

I understand that you will shortly be considering whether the Administration should initiate consultations with the Congress on U.S. participation in the Common Fund. I want you to know that *I have very strong reservations about the whole enterprise, for three fundamental reasons.*

*First, the economic justification for any Common Fund which we could support is extremely small. Even its supporters agree that the real impact on developing countries would be tiny.*

*Second, we have a large number of far more important development issues under consideration by the Congress. The major effort that would be required to win Congressional approval of U.S. participation would clearly divert support from much more fundamental U.S. programs—including bilateral and multilateral aid, the Witteveen Facility at the IMF, individual commodity agreements and trade measures which help the developing countries. The game would simply not be worth the candle. I feel that even raising the issue on the Hill may adversely affect these much more important programs.*

*Third, there is little chance that Congress would support U.S. participation at all unless you personally invested a great deal of effort and prestige in the project. Even then, success is not assured. In any event, as just indicated, your doing so would clearly hurt us on much more important issues by diverting your own time and that of much of the Administration.*

*I therefore believe that we should stick to the present U.S. negotiating position, excluding mandatory contributions to the Common Fund of the type envisaged by the LDCs which would clearly turn it into an aid institution. If necessary, I believe we can fashion a more limited approach based on contributions to a contingency reserve fund against possible losses by the organization, which the LDCs would accept if we—and the other industrialized countries—make it clear that we can go no further.<sup>2</sup>*

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 100, 8/28/78. No classification marking.

<sup>2</sup> Carter wrote in the margin adjacent to this sentence: "may be best bet."

In combination with a narrowly defined “second window” this approach could thus avoid any significant foreign policy costs and might even generate modestly positive reactions. *If we go to the Hill, I would thus start with this alternative—or quickly fall back to it—to avoid the larger costs outlined above. Even this modest version, however, may not be acceptable to the Congress without your heavy personal involvement.*

W. Michael Blumenthal<sup>3</sup>

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<sup>3</sup> Blumenthal signed “Mike” above this typed signature.

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**314. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, August 18, 1978

SUBJECT

Common Fund

Attached are memoranda from Secretaries Vance and Blumenthal concerning the Common Fund.<sup>2</sup> They differ about its merits and the form that it would take, but agree that there are serious Congressional obstacles. Under the circumstances, I believe the most useful next step would be intensive Congressional consultation about the advantages of the type of Fund that Cy proposes, in the course of which variants such as Mike proposes could also be explored. After that consultation we can judge better whether changes in US policy are feasible and desirable. Accordingly, I recommend that:

1. You authorize us to proceed with intensive Congressional consultation about the Common Fund as soon as the foreign aid bill has been passed (probably in late September). This timing will leave little time for fixing the U.S. position before negotiations begin in early October; we will try to accelerate consultations.<sup>3</sup>

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 100, 8/28/78. Confidential. Carter wrote at the top of the page: “Be cautious w/ Congress. J.” Brzezinski also initialed the memorandum.

<sup>2</sup> Blumenthal’s memorandum is printed as Document 313.

<sup>3</sup> Carter indicated his approval of all three recommendations in this memorandum.

2. You direct that U.S. representatives at informal international meetings in the meantime indicate that we will consult intensively with the Congress about the unresolved issues and will frame our positions on these issues in light of the results of that consultation and of ongoing international discussions.

3. You direct that the results of Congressional consultations be reported to you and that the PRC be asked promptly to give you agreed or divergent recommendations as to U.S. policy, in light of these results.

## Attachment

### Memorandum From Secretary of State Vance to President Carter<sup>4</sup>

Washington, August 18, 1978

#### SUBJECT

Common Fund

I believe it is politically important in the North/South context to move the Common Fund negotiations toward a timely, successful conclusion. The developing countries see the Fund as the touchstone of industrial countries' attitudes toward their aspirations and our support for it as an important indication of our commitment to a constructive North/South dialogue. The Bonn Summit and statements by you, Mike and me during the ASEAN Ministerial meeting<sup>5</sup> have increased expectations that the U.S. will take the initiative at expected negotiations on the Fund this November.

I believe that we should make a vigorous effort to move forward. Our taking a major step towards the LDCs—with a view to breaking the impasse in the next round of negotiations—would be a positive political gesture. It would strengthen the climate in the UN, UNCTAD

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<sup>4</sup> Secret. Cooper sent a draft of this memorandum to Vance for his signature under cover of an August 15 memorandum. (National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980, Lot 81D134, Box 3, Common Fund—1978)

<sup>5</sup> The Ministerial meeting between the Association of Southeast Asian Nations and the United States took place in Washington August 2-4. For Vance's statement at the opening session, the transcript of a post-meeting news conference, and a joint statement issued at the end of the meeting, see the Department of State *Bulletin*, September 1978, pp. 19-25. For a statement issued by the White House on Carter's participation in the meeting, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, pp. 1378-1379.

and other forums. On the other hand, failure to move forward will sour our relations with the LDCs in multilateral forums.

Negotiating an agreement with the LDCs on this issue, however, poses considerable difficulties, which merit careful consideration:

—We will have major difficulties securing Congressional approval—a treaty will be involved—and may not succeed.

—The Common Fund will compete for Congressional support and financing with other foreign economic policy issues which Mike Blumenthal and others consider to be of greater substantive economic importance to us and the LDCs.

—The contribution of a Common Fund to world economic welfare would be modest.

### *Issues*

Differences between developed and developing countries revolve around four issues: (1) direct contributions to the Fund versus cash deposits via individual commodity agreements, (2) need for a “second window” to finance development-type measures, (3) the precise terms of reference of the Fund, and (4) voting arrangements.

The U.S.—together with other industrialized countries—has proposed a Common Fund financed through pooling of the assets of individual commodity agreements. We have argued that the Fund does not need a second window because the financing of non-stabilization measures is best handled by existing international institutions—though we have agreed the Common Fund could play a coordinating role. Finally, we want voting shares that reflect our stake in commodity trade and equity in the Fund.

The G-77 say there can be no Common Fund without direct contributions, although limited possibilities for compromise may exist. The G-77 position on voting may be more flexible, and they may agree that contributions to the second window can be voluntary.

### *Direct Contributions for Price Stabilization (First Window)*

The LDCs, particularly ASEAN, see direct contributions (the U.S. share probably amounting to \$50–100 million) as the *sine qua non* of the Common Fund. This level represents a scaling down of earlier demands. While direct contributions may not be essential to the financial viability of the Fund, the LDCs view them as: 1) symbolic of our political support for the Common Fund and for their objective of greater participation in the international economic system, 2) a means of shifting the burden of financing commodity agreements from developing to developed, socialist, and OPEC countries.

Our agreement to “up front” direct contributions would significantly improve prospects for the success of the negotiations, but it would not remove all obstacles. For instance, our insistence on voting

arrangements satisfactory to us would run counter to the basic G-77 desire for a new institution controlled by the developing countries.

### *Second Window*

We could now agree to a second window based on voluntary contributions to finance such measures as commodity productivity improvements, research and development, and new product usage, without agreeing to contribute to this window. Some other developed countries are likely to contribute. The U.S. will be under increasing pressure to do so as well. Many African countries and the Indian Subcontinent believe they will not benefit from buffer stock financing arrangements. To them the second window will be more important than the first. Our willingness to make a contribution to it would significantly improve prospects for success in the negotiations, and might make it easier to reach agreement in a first window closer to our objectives.

### *Terms of Reference*

There is still a substantial difference of view over the appropriate terms of reference for the Common Fund. Some LDCs would like it to be very broad, permitting the Fund, for example, to intervene directly into commodity markets even when there is no agreed International Commodity Agreement for the Commodity in question, or permitting the Second Window to finance manufacturing activities that use primary products. The developed countries want a much narrower term of reference with respect to both windows. This can probably be worked out in the negotiations.

### *Decision-making*

Some LDCs see the Common Fund as a key element in the New International Economic Order, as "their" institution which they will control. Needless to say, the developed countries want to maintain at least a blocking minority. Moderate LDCs have indicated that the LDC position here is negotiable, but at best we can expect some tough negotiations on this.

### *Congressional Considerations*

In view of the precedent of individual commodity agreements (all of which have been treaties), the need for appropriations, and the nature of the Fund as a major "umbrella" commodity institution, it seems likely that the Senate would insist that it be presented as a treaty requiring advice and consent to ratification. Some members of Congress have told us recently that a Common Fund would be rejected by the Congress. I do not share that view if we properly prepare the ground. A major campaign on the Hill, supported by your strong personal involvement, would be necessary. Even so, it might not succeed.



The question of timing is also important. The 1979 legislative calendar will be crowded with other initiatives of great importance to the LDCs and ourselves, viz the MTN, IMF quota increase, aid legislation, and a World Bank capital increase. The Common Fund would compete with these initiatives for Congressional support and funds, and success in obtaining Congressional support for the Fund might come at the expense of these initiatives. On the other hand, to put off submission of any Common Fund agreement until 1980 would involve another set of problems, since 1980 will be a short session, shadowed by the election.

If, however, we stick to our present position, the negotiations are likely to fail, and the onus of failure will likely be on the United States. Acrimony in the North/South dialogue would be inevitable, though how damaging or enduring the fall-out might be is open to question since—with the exception of a few countries (e.g., Venezuela)—the Common Fund has not been a problem in our bilateral relations with LDCs.

Most other developed countries are anxious to move for political reasons and will join us if we move in a positive direction. The exception so far has been Germany. Schmidt has argued that a global export earnings stabilization scheme would be preferable to a Common Fund. In fact a similar scheme has been in existence for some time—i.e. the IMF's Compensatory Finance Facility, which lends substantial sums to countries suffering export shortfalls. We are now looking for ways to improve this Facility. Schmidt's argument also ignores the political significance of the Common Fund to the LDCs.

There is obviously considerable room for trade-offs among the four major issues discussed above. Highly satisfactory decision-making arrangements would allow us to be more flexible on the terms of reference, for instance, and a willingness to make a contribution to the second window might permit successful negotiations on the basis of a very tight position on the first window. We will be working with Treasury and others during the next month to establish a detailed negotiating position if you give us the general go ahead now.<sup>6</sup> You will have an opportunity to review the position before we begin negotiations.

#### *Recommendation*

That you approve our moving forward to achieve a timely and successful conclusion of the Common Fund negotiations. This will al-

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<sup>6</sup> In an August 29 memorandum to Vance, Cooper noted "that the President took favorable note of Secretary Blumenthal's position that we could fashion a more limited approach to a Common Fund based on contributions to a contingency reserve fund." (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 17, S/P-Lake Papers—Sensitive 7/1–9/30/78) For Blumenthal's position, see Document 313.

most certainly require some form of direct U.S. contribution to the Fund. We should only take a firm position on this issue, however, after Congressional consultation (which we would undertake immediately after passage of the aid bill) has given us some view as to the chances of Congressional ratification.<sup>7</sup>

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<sup>7</sup> Carter indicated his approval of this recommendation and wrote: "See H Owen Memo. J."

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### **315. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Vance<sup>1</sup>**

Washington, August 18, 1978

#### A Possible Orientation to North/South Issues in 1979

This memorandum suggests a possible orientation for the Carter Administration to North/South issues in 1979. It concentrates on two issues, and does not purport to be comprehensive.

Since 1974 we have been on the defensive in the North/South debate. To a great extent this is inherent in the character of the debate, since the G-77 are the demandeurs, and we are the defenders, if not of the status quo at least of the essentials of the existing international economic system. By any historical standard this system has served most countries—including most developing countries—exceedingly well.

Nonetheless, it would be desirable for us to regain the initiative. To do so, we should play from our strengths. Apart from our economic size and our military might, traditionally the two strongest elements of the American position in the world, as seen by others as well as by ourselves, have been our leadership in moral and humane values (in particular, our commitment to freedom of the individual and our defense of his rights against the state and other large impersonal entities) and our technological prowess. The President's early emphasis on the importance of human rights as an element of American foreign policy,

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980, Lot 81D134, Box 3, E Memorandum's from RNC to Secretary, Deputy Secretary, 78. Confidential. A stamped notation at the bottom of the first page reads: "CV." Vance underlined portions of the memorandum.

and the shift of emphasis in our aid program to basic human needs, have both helped us to regain the initiative in the area of moral and humane values. We should continue to press those issues, firmly but not obsessively, in our relations with developing countries. Not all developing countries will like this position, but in my view it provides the only possible basis for building and sustaining broad-based support for foreign assistance with the American public.

The second half of President Carter's administration presents several opportunities to emphasize our second strength, technological prowess. January 1979 is the 30th anniversary of Harry Truman's inaugural address, in which he put forward his famous "Point Four" proposals. Truman, it is said, is the President Jimmy Carter admires most; it would be fitting if he picked up a dramatic Truman initiative in his own administration. The State of the Union message offers an ideal occasion for recalling Truman's Point Four initiative, reviewing briefly the substantial progress in the intervening 30 years, and outlining his own program in general terms.

(Truman's Point Four program offered to make "the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas".<sup>2</sup> He offered to make available our store of technological knowledge to "produce more food, more clothing, more materials for housing and more mechanical power to lighten their burdens" of the free peoples of the world. It represented the beginnings of our development-oriented foreign aid program.)

In the international arena, UNCTAD V will take place in Manila in May and the UN Conference on Science and Technology will take place in August. Each presents an occasion for unveiling some details of the program. Indeed, others will be looking to the U.S. to take some initiative at these conferences.

What would be the content of such a program?

First, we could pull together in an integrated fashion a number of disparate initiatives President Carter has already approved:

1. The Foundation for International Technological Cooperation (FITC).

2. The technological aspects of the President's world health initiative, especially greater emphasis on tropical diseases in our medical research.<sup>3</sup>

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<sup>2</sup> This program was the fourth component of the "program for peace and freedom" outlined by Truman in his January 20, 1949, inaugural address; see *Public Papers of the Presidents of the United States: Harry S. Truman, 1949*, pp. 112–116. (Quotation is on p. 114.)

<sup>3</sup> Documentation on the Carter administration's world health initiative is in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs, Document 313.

3. The technological aspects of the President's forthcoming world food initiative (although he should not anticipate too baldly the results of the Presidential Commission his food message will establish.)<sup>4</sup>

4. Our technological cooperation with others in energy (we will try to assure you that this can have some real contents).

5. Other miscellaneous technological projects which are spread around the government, such as those of NASA, the Geological Survey, the Bureau of Weights and Measures, etc.

Second, we must spell out more precisely the orientation of the FITC and our own approach to technological cooperation with developing countries. Here I would emphasize three aspects:

1. FITC should serve as a broker between the needs for applied technology in developing countries and the availability of American skills and knowledge both in the USG and in the private sector.

2. Assistance, largely in the form of specialists on temporary duty, in establishing institutions of applied research and other technologically oriented organizations in developing countries.

3. Assistance in training persons from developing countries in U.S. colleges, universities, and technological training institutions.

Obviously some additional money will be required to carry out these functions, but the sums need not be large. Even the costs of training large numbers of foreign students in the U.S.—which I strongly support, since I believe U.S. training and direct exposure to the United States is one of the best long-term investments we can make in developing countries—would involve only relatively minor costs, about \$100 million to train 10,000 foreign students annually.

Collaboration in research and development projects involving hardware, for example various energy projects, would not be ruled out. This could involve more substantial money, but each large project could be put to Congress on its merits, just as we do for domestic research and development projects.

A reasonably well integrated program in technical assistance offers a constructive approach to middle-income developing countries. These are countries which do not need our financial assistance and for which we find it increasingly difficult to justify financial assistance. We can, nonetheless, emphasize our willingness to engage in technological collaboration, to help train people, and to help establish applied research facilities in those countries, provided they are willing to bear much of the cost. At the same time, this approach complements well our emphasis on basic human needs—food, health, education—in our foreign assistance programs.

If you agree that this is a useful approach, I will work with Lucy Benson, Tony Lake and others over the next several weeks to sketch out

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<sup>4</sup> See footnote 6, Document 171.

the content and timing of a suggested program in technology in 1979 starting with the President's State of the Union message.<sup>5</sup>

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<sup>5</sup> Vance highlighted this paragraph and wrote "Yes—please do" in the adjacent margin.

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**316. Briefing Memorandum From the Assistant Secretary of State for International Organization Affairs (Maynes) to Acting Secretary of State Christopher<sup>1</sup>**

Washington, September 8, 1978

SUBJECT

Committee of the Whole Suspends Work Pending General Assembly Discussion of Mandate

After two days of intensive caucusing by the G-77, the Committee of the Whole met this afternoon to have the Chairman announce a decision to suspend the Committee's work pending General Assembly discussion of its mandate. The G-77 decided that it wanted no further substantive discussion of issues until the question of the Committee's decision-making authority is resolved.

Since Jamaica and others in the G-77 leadership came to the COW meeting with the purpose of forcing the issue of decision-making and fully prepared to pay the price of scuttling the Committee if their tactics didn't work, there was an air of inevitability about the breakdown and little immediate bitterness expressed. Foreign Minister of Jamaica stressed the fact that "one country" was responsible for the failure to reach agreement, and further finger-pointing at the United States can be expected. However, a number of Western delegations supported the U.S. position with varying degrees of enthusiasm.

As a result of the impasse in the COW, the General Assembly debate on North/South issues will no doubt take on a confrontational

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 3, Memorandums—RNC—1978. Limited Official Use. Drafted by Robert Barry, Director of the Office of UN Political Affairs, Bureau of International Organization Affairs. Sent through Cooper.

tone unless there are breakthroughs visible on the horizon on substantive issues under negotiation in other bodies.

We plan to make a major effort to get our position on the role of the COW across to developing countries prior to the opening of the General Assembly.

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**317. Letter From President Carter to British Prime Minister Callaghan<sup>1</sup>**

Washington, September 25, 1978

Dear Jim:

When I thanked you for your letter of August 3 about North-South issues, I had in mind also providing you with further comments about the views you expressed in that letter and in the memorandum attached to it.<sup>2</sup>

I agree on the need to provide greater opportunities for developing countries to export to the industrial world, and I very much share your view that there should be "safeguards against safeguards". I know that your representatives and ours will work closely together in the Multilateral Trade Negotiations to help bring this about.

I made some progress this year in persuading the Congress to appropriate increased funds for both bilateral and multilateral aid. I also expect that next year the United States will create a Foundation for International Technological Collaboration to help developing countries. I commend your recent actions to soften the terms of past aid, and I be-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 20, United Kingdom: Prime Minister James Callaghan, 6-9/78. No classification marking. Sent to Carter for his signature under cover of a September 23 memorandum from Owen, who noted that State, Treasury, and Fallows had all cleared the letter. (Ibid.)

<sup>2</sup> Regarding Callaghan's August 3 letter to Carter and its attachment and Carter's August 15 letter to Callaghan, see Document 312. In his September 23 memorandum to Carter (see footnote 1 above), Owen noted that "the State Department, in coordination with other agencies, has prepared a detailed comment on a paper that Callaghan sent you with his letter. I believe it would be useful to let Callaghan know that this U.S. comment is being sent to his government, to make your own views known on the key issues that it raises, and to suggest that we act on the suggestion Schmidt made at Bonn: that a small group of officials from Summit countries get together to lay out a long-term strategy on North-South issues."

lieve we will soon have Congressional authority to do the same for the poorest countries.

My views are similar to yours on most aspects of commodity stabilization policy. With movement by developed and developing countries alike, I hope we can resolve differences on the Common Fund; but the obstacles are formidable as far as we are concerned, not least because of Congressional attitudes.

Turning to the U.N. General Assembly's Committee of the Whole, let me say that Secretary Vance and other U.S. officials are making considerable efforts to bridge the gap that emerged as the Committee suspended its work.<sup>3</sup> We hope that all members will contribute to a solution that is consistent with the Committee's mandate.

To continue our cooperation on North-South issues I suggest that we now act on the suggestion Chancellor Schmidt made at Bonn: to have officials from Summit countries meet quietly to develop a strategy on aid and other North-South issues that we could consider at the next Summit. I have asked Henry Owen to get in touch with John Hunt on this.

Meanwhile, our people will be transmitting to your staff more detailed comments on the attachment to your letter of August 3.<sup>4</sup>

I hope that you and I can continue to stay in close touch about North-South issues.

With my best regards,

Sincerely,

**Jimmy**

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<sup>3</sup> See Document 316.

<sup>4</sup> No detailed comments were found.

**318. Memorandum From the Director of the Office of Management and Budget (McIntyre) and the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, October 18, 1978

SUBJECT

The Common Fund

1. *State Proposal.* In the attached memo (Tab A) Secretary Vance reports to you on the results of the Congressional consultations about the Common Fund that you directed, and seeks authority to take a new approach in the negotiations in Geneva. State would like to send out a telegram of instructions tomorrow (Thursday), since preliminary discussions will conclude shortly.

The Secretary reports that Congressional consultations produced a yellow light: Some members were skeptical, some friendly, and some in between. In light of these diverse reactions, and since a proposal for a Common Fund Treaty would not go to the Congress until the fall of 1979 or, more likely, early 1980, he concludes that it is impossible to predict how the Congress would respond. He is clear, however, on one point: The Congress would insist that a Common Fund only come into being when an adequate number of commodity agreements are in place and are working effectively. (This is not yet the case, but the US is working on it; it will take time.)

The Secretary concludes that the US can proceed with caution to the next step of negotiations. He recommends two changes in the US position: The US should be prepared to make a direct contribution of up to \$60 million for the first window of the Fund, and should agree to creation of a narrowly circumscribed second window to which the US would not contribute, at least initially. Creation of the Fund should depend on participation of an adequate number of effective commodity agreements.

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 107, 10/20/78. Confidential. Sent for information. Carter initialed "C" at the top of the page. Brzezinski also initialed the memorandum. An attached undated note from Hutcheson and "Bill" (not further identified) indicates that Schultze concurred with McIntyre and Owen.



2. *Treasury View*. Mike Blumenthal concurs (Tab B)<sup>2</sup> with Secretary Vance's recommendation, making clear that he only does so because (i) creation of the Common Fund is to be tied to the existence of four or five effective commodity agreements, and (ii) any direct contributions to the first window are only to be used to enhance the credit worthiness of the Common Fund. (He mentions using direct contributions as a contingency reserve, but agrees that this is only one of the ways in which the Fund's credit worthiness could be enhanced.) He recommends further Congressional consultations as the negotiations evolve; and this is intended. He believes that the proposals that Secretary Vance is putting to you go to the limit of what would ultimately be supported by the Congress.

3. *Our View*. We also concur in Secretary Vance's proposal.

Although there is always some risk that the tentative US commitment to a direct contribution would become only a first bargaining chip, to be followed by others, Secretary Vance clearly has this risk in mind: He indicates in his memo that he assumes there will be no further significant changes in the US negotiating position, and that he will conduct the negotiations accordingly. We agree with him on both points: The US should not go beyond this proposal, and this should be made clear to LDCs. It would be less than honest, however, not to point out that some risk of an unfavorable outcome to the negotiations is inherent in the course proposed in Tab A. There is also, of course, some risk of an eventual Congressional turn-down of a Common Fund proposal, even if the US does not go beyond Vance's proposal.

While direct contributions to the Fund's first window would not have great economic value, the developing countries will not set up a Common Fund without such contributions. And while the Fund is not essential from an economic standpoint, it would significantly assist the effective functioning of commodity agreements, which can be very useful in stabilizing prices. Moreover, the Fund has acquired great symbolic importance for LDCs. On balance, the advantages warrant proceeding.

4. *Frank Moore* concurs.

#### RECOMMENDATION

That you approve the proposals in the attached memorandum from Secretary Vance.<sup>3</sup>

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<sup>2</sup> Tab B, attached but not printed, is an October 17 memorandum to Carter in which Blumenthal wrote that while he still harbored "serious reservations about the whole enterprise," he could "generally concur" with the proposed amended Common Fund negotiating instructions.

<sup>3</sup> Brzezinski wrote at the bottom of the page: "I concur; this has become a test of our ability to fashion a forthcoming North/South economic policy, matching the political progress that you + Andy [Young] have made. ZB."

**Tab A**

**Memorandum From Secretary of State Vance to  
President Carter<sup>4</sup>**

Washington, October 13, 1978

SUBJECT

Common Fund

Last August you approved the recommendation in our memorandum of August 18<sup>5</sup> that we move forward to achieve a timely and successful conclusion of the Common Fund negotiations, but that we take a firm position on the issue of a direct U.S. contribution only after consultations with the Congress.

We have now carried out a portion of those consultations and the response we have gotten is essentially a yellow light. The following points emerged:

—The Senators, Representatives and staffers we have spoken with all emphasize that it is impossible to predict the mood of the Congress 18 months ahead when a specific proposal for a Common Fund involving a direct contribution to finance buffer stocks (first window) and a voluntary second window might come up for consideration.

—Four Senators—Church, Ribicoff, Stevenson, and Javits—were agreed that a Common Fund on the scale envisaged—that is, with a US contribution of \$50–60 million—would not jeopardize or compete with our other foreign assistance programs.

—A condition of Congressional support for a Common Fund would be making its entry into force—though not its negotiation—subject to the existence of an adequate number of effective international commodity agreements prepared to accede to the Fund. There are now four commodity agreements—coffee, sugar, tin, and cocoa (the U.S. is not a member of the latter), and one in prospect, rubber. For diverse reasons, none are functioning effectively.

—It would be easier to secure Congressional approval for a \$40–60 million US contribution than \$100 million, which would be much more visible, but even a \$40–60 million contribution would have to be seen to offer specific benefits to the United States; it could not be sold on “political” grounds alone.

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<sup>4</sup> Confidential. Carter initialed “C” at the top of the page.

<sup>5</sup> See Document 314

The Congressional consultations we have carried out so far are inconclusive in that we cannot predict the chances for success or failure on the Hill. At the same time nothing we learned in the consultations would preclude us from proceeding to adopt a negotiating position that would meet the basic stipulations laid down by the ASEAN countries in our meetings with them last August, namely, scaled down direct contributions to the first window, and a narrowly circumscribed second window based on voluntary contributions.

We will have further informal consultations in Geneva October 19–20 to set the stage for a resumed negotiating conference beginning November 14. Our preference is to cut a deal at that conference, but we recognize this may not be possible and therefore anticipate subsequent negotiating sessions.

To participate constructively in the meetings through November, we need a negotiating mandate that will enable us to tell the 77 that we are prepared to negotiate seriously, but that we are not going to move unless they show convincing signs that they are able and willing to reciprocate. We would not necessarily reveal our full position this month or even in November but rather would adjust our tactics to our assessment of the prospects for G-77 willingness to accept a package deal.

A flexible, forthcoming US position would permit us to regain the initiative in seeking a successful outcome to the negotiations. Even so, there is a good chance the 77 might not meet our position, either because they consider it inadequate or because they lack the flexibility to compromise.

As necessary we will seek more specific authority from you on particular issues as the talks progress and possible trade-offs become clear.

#### *Recommendations*

I recommend you authorize us to negotiate a Common Fund with a direct US contribution to the first window of up to \$60 million. The use of such a contribution would be tightly defined. This amount need not be contributed all at once but could be linked to the establishment of individual commodity agreements and their accession to the Fund. In any case the Fund would only become operative on the condition that an adequate number of agreements were prepared to join.<sup>6</sup>

I further recommend that you give us authority to accept a tightly defined second window, based on voluntary contributions, with the understanding that the US would not intend to contribute to such a second window, at least at the outset.

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<sup>6</sup> Carter indicated his approval of both recommendations and initialed "J" in the margin adjacent to each.

If you approve these recommendations I will assume that no further significant changes in the US negotiating position are intended, and direct that our negotiations about the Common Fund be conducted accordingly.

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**319. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) and the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, October 21, 1978

SUBJECT

Invitation from Prime Minister Manley to Attend a North/South Summit:  
December 28–29, 1978

Prime Minister Manley has sent you two letters (Tabs B and C),<sup>2</sup> inviting you to Jamaica on December 28th and 29th to meet informally with Chancellor Schmidt, Prime Ministers Fraser, Nordli, and Trudeau and a few leaders of developing countries, including Nyerere and Perez.

After weighing the pros and cons of your attendance, the State Department recommends against your participation.<sup>3</sup> We agree with

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 10, Jamaica: Prime Minister Michael Norman Manley, 5/77–12/78. Confidential. Aaron initialed the memorandum on Brzezinski's behalf. Carter wrote at the top of the page: "Retype. J." An unknown person wrote below that: "retyped 10/25/78."

<sup>2</sup> Tab B, attached but not printed, is an October 4 letter from Jamaican Ambassador Alfred Rattray to Carter transmitting a message from Manley. Carter initialed at the top of Rattray's letter and wrote: "Nice regrets." Tab C, attached but not printed, is an October 13 letter from Manley to Carter. Carter initialed at the top of Manley's letter.

<sup>3</sup> In an October 14 memorandum to Brzezinski, Tarnoff discussed the Department of State's "view that it would not be in the best interests of the United States for the President to participate in a mini-summit on the North/South dialogue without detailed advance preparations—something the Jamaicans clearly do not have in mind. In addition, we are uncertain how Jamaica's fellow members in the Group of 77 feel about Manley asserting himself in a leadership role, especially now that Tunisia has replaced Jamaica as leader of the New York contingent of the G-77. The meeting could foster negative reactions among the non-invited major economic powers, particularly Japan and France. It also seems unlikely that the President would be able to announce enough changes in U.S. positions to improve the atmosphere of the North/South dialogue." (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 10, Jamaica: Prime Minister Michael Norman Manley, 5/77–12/78)

State's judgment that the time and place are not opportune for you. Your participation could raise international expectations that could not be realized at this time.<sup>4</sup>

You have on several occasions expressed support for formal North/South meetings. Your reply therefore indicates your support for such meetings because of the contribution they can make to improving North/South relations, while also indicating the risks.

You may wish to read Manley's letters. The second of them (Tab C) includes a personal note to you and Mrs. Carter as well as Manley's views on two issues—the mandate of the U.N. Committee that succeeded the Paris North-South Dialogue (Secretary Vance addressed this issue in his speech to the U.N. General Assembly)<sup>5</sup> and the Common Fund.

The reply has been cleared with State and Jim Fallows.<sup>6</sup>

*RECOMMENDATION:*

That you sign the letter to Prime Minister Manley at Tab A.

**Tab A**

**Letter From President Carter to Jamaican Prime Minister Manley<sup>7</sup>**

Washington, October 25, 1978

Dear Mr. Prime Minister:

I appreciate very much your invitation to visit Jamaica this December to participate with you and other Heads of State and Government in an informal discussion of North/South issues. Although I take seriously the points made in your letter of October 13, I deeply regret that I am unable to accept your invitation.

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<sup>4</sup> In an undated memorandum to Brzezinski, Erb and Pastor suggested arguments in favor of Carter's attendance at the summit, but accepted Brzezinski's "assessment that this North/South Summit is not the right place or time for the President and perhaps has not brought together the right combination of people." (Ibid.)

<sup>5</sup> For Vance's September 29 address to the UN General Assembly, in which he endorsed the Committee of the Whole, see the Department of State *Bulletin*, November 1978, pp. 45–50.

<sup>6</sup> An unknown hand wrote "OK" at the end of this sentence and initialed the memorandum.

<sup>7</sup> No classification marking.

As you know from our conversations in Panama earlier this year,<sup>8</sup> I am keenly interested in relations between developing and developed countries. Improved communication among the parties to the North/South dialogue offers the best hope for progress. Under Secretary Cooper's talk with you in Kingston<sup>9</sup> provided me with insights that were helpful during my discussions in Bonn.<sup>10</sup>

Although it will not be possible for me to join you in Jamaica, I hope that the meeting, and others involving leaders of developed and developing nations, will help each side understand the other.<sup>11</sup>

I look forward to hearing the results of your discussions, and to continuing cooperation between developed and developing countries.

With my best wishes for a successful meeting.

Sincerely,

**Jimmy Carter**

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<sup>8</sup> See Document 306.

<sup>9</sup> See Tab A to Document 311.

<sup>10</sup> Carter is referring to the Bonn Economic Summit; see Documents 145–148.

<sup>11</sup> A draft of this letter contains two additional sentences at the end of this paragraph: "I believe such meetings are useful, if they do not give rise to unrealistic expectations, or thoughts of earlier and more concrete results than are likely to occur. In my country, at least, this is a risk that I have to bear in mind." These sentences were crossed out by hand; an unknown hand wrote in the margin next to the sentences: "JC hand writing 'scratches.'" (Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 10, Jamaica: Prime Minister Michael Norman Manley, 5/77–12/78)

**320. Memorandum From Thomas Thornton of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, November 8, 1978

SUBJECT

Outlook for North-South Matters

Attached is a paper that I have put together from the contributions of the Tuesday morning North-South group (cluster plus Deal, Mathews, Denend, Platt and Albright). It probably reflects nobody's view completely, but it is probably as close to a consensus as we could come—and we would all agree that it is the most viable consensus.

While we and State both envision a Vance speech early in the year, our approach differs from some of the thinking going on in the State Planning Staff. Our outlook is bleaker; we are more inclined to focus our approach on a few issues rather than go through a laundry list that sounds like Kissinger's Seventh Special Session speech; and we want to see the speech specifically aimed at the US domestic audience.<sup>2</sup>

Erb and I will be working with State on the proposed Vance speech. It would be very helpful if you could remind Vance or Lake at some point that you want us to be thoroughly involved at all stages of work. We don't want to have to go through once again the coordination problems associated with Vance's UNGA speech.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 108, North-South Policy: 1978. Confidential. Sent for information.

<sup>2</sup> In this paragraph, Brzezinski underlined the phrases "outlook is bleaker," "our approach," "on a few issues," and "aimed at the US domestic audience." He also wrote "I tend to agree. ZB" at the bottom of the page and drew a line pointing to this paragraph. For Kissinger's speech to the Seventh Special Session of the UN General Assembly, see footnote 3, Document 257.

**Attachment****Paper Prepared by Thomas Thornton of the National Security Council Staff<sup>3</sup>**

Washington, undated

## NORTH-SOUTH AFFAIRS: THE OUTLOOK

While the impulse of the North-South relationship is political, its content continues to be economic and is usually defined in terms of the agenda set forth by the G-77 and in UNCTAD. By its nature, this agenda is loaded against us—at least in terms of our short and mid-range ability to respond effectively. The LDCs look to a different distribution of the world's resources and power—we find difficulties here not only because we perceive ourselves to be pretty short of resources at this time but also because we lack a strong base of public and Congressional support for policies that affect international power relationships or cost money. Also, many believe that the demands being put forth by the LDCs make little economic sense.

There are, however, bright spots in the picture. We have improved our performance in some of the areas of concern to the LDCs. We came out well on the aid budget this year; we will have a generally reasonable posture in the next round of Common Fund negotiations; we have pulled back from a potentially bitter confrontation over the COW mechanism, and we have been forthcoming in a number of other specific areas. Movement in these areas, however, has not been sufficient to offset growing LDC perceptions in the framework of the N/S dialogue that the United States has not altered its stance on NIEO issues.

But there are more bright spots when we move away from the "G-77 agenda" items.

—On the political front, our actions in Southern Africa, the Middle East and on the Panama Canal have been well received and bought us a lot of support.

—In bilateral relationships we have made some significant steps forward, especially in dealing with the emerging middle powers. While this progress has been mainly in the political/psychological realm, it has also been economic.

Unfortunately, there is relatively little feed-back among these realms, except to the extent that the broad atmosphere of trust and confidence generated by the Carter Administration on political issues has

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<sup>3</sup> Confidential.



probably reduced somewhat the kind of bitterness our economic “shortcomings” would otherwise have evoked.

The good will is wearing thin, however, and we will be confronting a new range of challenges from the G-77 in the coming year.

In addition, continued budgetary stringencies in the US plus run-up to an election year in 1980 will make it very difficult for us to meet our own targets, let alone the G-77 demands. We could also encounter some very heavy political weather in the coming months, especially in Southern Africa, that would dispel much of the good will that we have gained by our past policies. Also, we are once again increasingly isolated in the UN on such issues as racism and mass media. Thus, we expect things to get harder rather than easier.

Given the predictable distractions at home plus steady pressure from the G-77, we generally agree that our North-South policies in the multilateral economic area should be pursued cautiously and with limited involvement by the President—probably until after the next election. Although there was some sentiment for the proposition that domestic political capital could be found in an aggressive approach to North-South matters, this was a minority view.

In our domestic public relations effort, we should continue to work hard on long-term building of public and congressional attitudes and mount major or dramatic programs only to meet particular legislative goals; namely the final MTN package and perhaps foreign assistance.

We will have to assess very carefully what our capabilities are, and carefully focus our rhetoric and actions in those areas that are (a) most likely to produce results, (b) most likely to obtain effective domestic support, or (c) salient in terms of the negotiating agenda. We have not generally indulged in excessive rhetoric in the past, but an even more cautious approach is indicated. There will be pressure for retrenchment of explicit and implicit administration goals—e.g. growth in aid levels—and we will have to give this a serious hearing.

In 1979, trade and commodities, including continuing negotiations on a Common Fund, are the areas on which we will have to focus. There will be important negotiations in these fields; they are probably the most promising in terms of stimulating development; and they should be saleable domestically since they can produce measurable benefits for our economy. Of course, since they cause dislocations, they also gore some specific oxen in a way that aid—paid for out of the general revenue—does not. (Tactically, this suggests that we should key our public relations efforts to groups that have a positive interest in our programs—especially consumers.)

These, however, are not the only issues that we will be facing. Macro-economic performance, monetary and financial issues, energy, our IFI arrearages, technology transfer, WARC and Law of the Seas

issues will all need attention at the negotiating table and possibly action by Congress. Our strategy, while concentrating on trade and commodities, must also include these. The entire agenda should be presented to the public and to Congress with special attention to matters that will require Congressional support in the next session. We should probably avoid setting public priorities for as long as possible in developing our legislative programs and rationales; we will, however, need to have our priorities clearly set in our own minds as we elaborate a strategy for the remainder of the session.

Putting across our policy, with all of its limitations, is going to be hard. We will find it difficult to participate in any North-South debate without either raising undue expectations or returning to the confrontations of previous years. We will have especially heavy going at UNCTAD for failure to respond to the broad range of G-77 demands. Under these circumstances, it will be a challenge to keep our rhetoric in line.

There is an argument to be made that we should downgrade our representation there (and in similar fora) as a symbol of our refusal to accept them as the proper place for serious negotiation. This would provide a certain cover for our inability to do much and, it is hoped, force the LDCs to deal with us more bilaterally. This probably overestimates our ability to define the scope and content of the North-South debate, and given this Administration's commitment to the UN and North-South debate, most of us do not support such a step.

We will, however, need to focus much more attention on the problem of getting economic discussion more into channels where we have strong cards to play.

The proper vehicle to get this off the ground will be a major speech by an Administration official in the U.S. to an American audience. The speech should set out our approach to relations with LDCs (shared responsibilities), our accomplishments thus far, our objectives for the future (both political and developmental), and the means with which we intend to accomplish them. Vance is the likely candidate. It will have to be very well advanced if it is to have an impact. By way of introduction, there should be some reference to key North-South issues in the State of the Union message.

Overall then, the prospect on the North-South economic front is for concentration on things that we do best and/or are most important. We continue to discuss among ourselves how we might be able to make some gains on the political front, either through dealings with the NAM or by shifting position slightly on some key UN-related issues. Any such gains will, however, affect our overall position only marginally.

**321. Memorandum From the Director of the Policy Planning Staff (Lake) and the Deputy Assistant Secretary of State for Economic and Business Affairs (Hormats) to Secretary of State Vance, the Deputy Secretary of State (Christopher), and the Under Secretary of State for Economic Affairs (Cooper)<sup>1</sup>**

Washington, November 9, 1978

SUBJECT

North-South Strategy for 1979

*INTRODUCTION*

Several exercises have recently been launched within the Department to examine how we can steer the North-South dialogue in a more constructive direction. We believe that by UNCTAD V, if agreement on the Common Fund can be reached, commodity and debt issues will move off center stage. This will reflect the fact that we have made considerable progress in these areas. New issues, however, will emerge to fill the agenda. We want to be in a position to guide the selection of issues and shape the way in which they are addressed.

Internationally, the G-77, UNCTAD Secretariat, and the OECD countries have not established a clear set of new priorities for the North-South dialogue nor settled on specific reforms they want to press. There is a danger that if alternatives are not offered by us, LDC radicals may focus attention on controversial and symbolic demands in areas such as trade and monetary reform which will lead to new confrontation and sterile debate.

Domestically, North-South issues tend to be greeted with confusion or lack of interest. Next year's Congressional debates on an MTN package, commodity agreements, and aid reorganization will require us to try harder to explain the importance of the developing countries to the US and to present a coherent and domestically defensible overall North-South policy linking such areas as aid, human rights, trade, and conventional and nuclear arms non-proliferation.

For both international and domestic reasons, then, we believe the Administration should launch a well-planned strategy on North-South issues beginning in January with UNCTAD V, the COW, the International Development Strategy (IDS),<sup>2</sup> and UNCSTD as key focal points.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 4, S/P-Lake Papers—11/1–15/78. Limited Official Use. Drafted by Johnson.

<sup>2</sup> Reference is to the new International Development Strategy for the Third United Nations Development Decade (1981–1990).

We would also step up our bilateral and regional approaches on North-South issues. Our ASEAN activities provide a good model, and we hope that the Colombo Plan meeting<sup>3</sup> can also be helpful. Multilaterally and bilaterally, we would seek to clarify the major framework of our North-South policy, endeavor to have a major influence on the setting of the international agenda on North-South issues over the next half decade, and announce several carefully designed new initiatives which we believe would be politically appealing, economically sound and domestically supportable, and respond to real LDC needs. This memo summarizes the proposed approach, while the attached paper<sup>4</sup> spells out a variety of possible initiatives in greater detail.

Many of the specific ideas are tentative and represent possibilities which might be explored rather than recommendations for action. Those which are particularly controversial (including between EB and S/P) are marked with an asterisk.

#### *A US FRAMEWORK FOR NORTH-SOUTH POLICY*

The North-South dialogue ranges over a wide spectrum of specific political and economic issues. US policies must be designed to deal with each. These policies should be consistent with, and indeed supportive of, four central US North-South objectives:

- the alleviation of the worst physical aspects of poverty;
- the promotion of self-sustaining growth with equity;
- the encouragement of societies which value individual civil and economic rights;
- the integration of the developing countries into an open and equitable international economic system.

These objectives are both altruistic and in our self-interest. They were developed jointly between this Administration and the Congress and became law in the International Development Assistance Act of 1978.<sup>5</sup> They make sense and should be acceptable to the LDCs. We should refer to them more actively in outlining our basic North-South policies.

These are essentially *long-term goals*. The LDCs have established a North-South agenda in various international forums which is much more *short-term* in scope. The focus is on three issues:

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<sup>3</sup> Apparently a reference to the Colombo Plan Consultative Committee meeting that took place in Washington November 28–December 6.

<sup>4</sup> Attached but not printed is a paper entitled “The North-South Dialogue: A US Agenda for the Future.” The paper was drafted on November 9 by Johnson.

<sup>5</sup> Carter signed the International Development and Food Assistance Act of 1978 into law on October 6. For his statement on signing the bill, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1978*, Book II, p. 1721.

—means by which the LDCs (often through rather dramatic intervention by governments) can obtain more external resources through trade in manufactures and commodities, through attracting foreign equity and debt financing, and through official development assistance;

—means of encouraging the creation, transfer, and application of technical knowledge needed for development;

—means to increase significantly the development orientation of international economic institutions and to enlarge the decision-making role of the LDCs in them.

This formulation has major flaws from our perspective. The issues as couched above are all in terms of *more*—more resources, more technology, more power in international institutions—to the LDCs, with little attention to the *uses* to which such additional resources, technology, and power will be put. Nor does this formulation address the most central developmental issue—the question of how the LDCs can effectively marshal and focus their own human and capital resources. In fact, the central irony of the North-South dialogue is that while it ostensibly centers on development, development per se is almost never discussed. Finally, the high flown rhetoric in North-South forums and concentration on demands for concessions by the industrial countries has also cost the LDCs considerable US domestic support, particularly in the Congress. Both substantively and tactically, DCs and LDCs need to find a better approach to North-South problems.

In our preparations for UNCTAD V, the COW, and the IDS, we have tried to develop such alternative approaches. Hormats is chairing an interagency group to develop a US approach to the IDS which focuses on four clusters of issues: the supply side of basic human needs (food, education, housing, health and population); the demand side of basic human needs (employment and income); effective utilization and husbanding of resources (energy, commodities, deforestation and desertification), and engineering and industrial science. This should provide a comprehensive and internally consistent basis for US development policy and our international activities. For purposes of focusing international and domestic attention, however, we suggest concentrating US proposals on a more limited number of specific substantive areas in which the LDCs have clear interests, where we have particular strengths, and where we can obtain domestic support for our actions. We have identified five priority areas (under which many of the above subjects can be subsumed) which seem generally to meet those criteria and which we believe could provide focal points for US North-South activities in the months ahead. These include:

- Energy;
- Food;
- Health;

- LDC Capacity for Development;
- Institutional Reforms for Development.

If handled properly, these substantive packages might marry our long-term development objectives with the more immediate concerns of the LDCs. Certainly each of the suggested areas of US concentration involve questions relating to resources availability, knowledge, and institutions. The issues are of interest to all LDCs; specific proposals are designed to meet the needs of different specific clusters of LDCs, ranging from the poorer to upper tier countries. We will, of course, have to be able to address specific LDC proposals and the existing agendas of such forums as UNCTAD V and the COW. But if in our speeches on North-South issues, in our legislative and domestic agency priorities, and in our bilateral and multilateral activities, we can emphasize the themes suggested above, we may be able to slowly shift the North-South dialogue from an almost exclusive preoccupation with mechanisms to greater attention to specific goals.

We should note, of course, that our ability to conduct such a North-South strategy will depend in large part on our performance in meeting past obligations and living up to our own stated current policies. Thus our adherence to trade liberalization, our ability to meet past commitments in commodity agreements and our moving forward with new ones, our efforts in increasing our bilateral and multilateral assistance along the lines of the Presidential commitment for 1982, and our success in making up arrearages with the MDBs, will all have an impact on the credibility of our leadership efforts in the North-South dialogue and the interest with which initiatives such as those outlined below are greeted.

### ENERGY

Of the substantive areas we wish to highlight in the North-South dialogue, energy offers the most scope for positive initiatives. This is also an area where our domestic interest in helping LDCs reduce their reliance on petroleum-based energy is clear. We have several suggestions for action, of which the most important are:

—*International Renewable Energy Program*: We are taking the lead in fulfilling the Bonn Summit commitment to coordinate individual country bilateral programs on renewable energy for the LDCs. We are encouraging particular attention to R and D programs on biomass conversion, non-electrical applications of solar energy, and forestry programs which include firewood and charcoal as important components.

—*Renewable Energy Financing Mechanisms*:\* As unconventional renewable energy technologies become more cost effective, there may be a gradually increasing need for expanded or new mechanisms to assist LDCs finance such technologies, which tend to have relatively high ini-

tial costs and a long-term payback period. We could design and propose such a mechanism, which might involve such options as a special window at the MDBs, a new bank or fund, or a special bond underwritten by an international institution or consortium of OECD and OPEC countries.

—*International Research Institutes*: We might take the initiative, perhaps through the FITC, to stimulate the establishment of several international energy research institutes in the LDCs using the model of the international agricultural centers. We would try to mobilize foundation, MDB, and bilateral funding, plus a major commitment from host LDCs.

—*Nuclear Energy Program*.\* It is inevitable that LDCs will include nuclear power as a component in their energy programs. We can take some steps to try to limit the ways in which such nuclear programs can complicate our non-proliferation effort. We might consider expanding membership in the London Suppliers Group to LDCs with nuclear technologies, establishing internationally controlled enrichment centers in upper tier LDCs, and pushing the Nuclear Fuel Bank concept.

#### FOOD

Although good weather in grain producing countries over the past three years has reduced worldwide concern with ensuring adequate food supplies and stocks, long-range projections, particularly for Africa and Asia, point to large and growing food deficits over coming decades. We need to include food as a central North-South issue. The President's Commission on World Hunger is an important vehicle, and we should use it. Four specific initiatives we may wish to press are:

—*World Food Security Reserve for LDCs*: Should the current grain negotiations fail, we could propose a world reserve of 13–15 million tons of grain to be held by key producing countries which could be made available to LDCs suffering from substantial crop shortfalls or when world prices increase sharply.

—*Food Aid*: We should continue to push for an international food aid commitment of 10 million tons annually, of which the US would provide about half, even if we cannot achieve it through the International Wheat Agreement's Food Aid Convention.

—*Agriculture Research*: We might announce a research package geared to the crops (tubers and tree starch crops), livestock (goats and sheep) and techniques applicable to the poorest rural populations. FITC and domestic reserves could be used.

—*LDC Public Policy*: We could make a major effort through bilateral programs and via international institutions to help LDCs develop the public policies most conducive to increased agricultural production, e.g. tax, investment, transport and price policies.

## HEALTH

Diseases in LDCs result in high infant mortality, adult disability and lower productivity. Waterborne diseases are particularly prevalent, and children are still not immunized against most diseases for which vaccines are available. We suggest two initiatives:

—*UN Water Decade*: A strong commitment might be made, using projected AID resources, to support the UN Water Decade goal of bringing clean water to one billion people in rural areas over the 1980–1990 period. A plan of this kind has been approved on behalf of the Department by Undersecretary Benson.<sup>6</sup>

—*Worldwide Immunization Program*: We could announce we were ready, in cooperation with other donors, to back a global WHO program to inoculate children with multiple antigen vaccine for measles, smallpox, yellow fever, tetanus, whooping cough, and diphtheria. Cost to donors per shot would be about \$1.

## LDC CAPACITY FOR DEVELOPMENT

LDCs have taken a renewed interest in the availability of technology appropriate to their development needs, and in their institutional capacity to apply it. We want to steer them away from sterile exercises on international codes on technology transfer and focus attention on building their capacity to obtain, generate, adapt, and utilize technology. We suggest several initiatives; the two most important being:

—*Foundation for International Technological Cooperation (FITC)*: The launching of the FITC will be the Administration's main effort in the technology area. We could ensure that the FITC emphasize our priority subjects (energy, food, health), center its activities in LDC institutions where feasible (to build local institutional capacity), and support projects which include a regional focus, often located in upper tier LDCs, but with participation by lower income LDCs.

—*US Agency Mandates*: We may wish, through executive and legislative means, to broaden US agency mandates to allow greater activity in R&D in our priority areas. For example, NIH and DOD could expand their research in tropical medicine, DOE could do more in LDC-oriented non-conventional energy research, and USDA could increase its tropical and subtropical research programs.

## INSTITUTIONAL REFORMS FOR DEVELOPMENT

The international economic system has already undergone many modifications to make it more responsive to LDC development needs.

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<sup>6</sup> Documentation on U.S. planning for the UN Water Decade is in *Foreign Relations*, 1977–1980, vol. II, Human Rights and Humanitarian Affairs.



Successful resolution of the Common Fund issue would result in a new institution believed important by the LDCs. There are additional changes which could usefully be made, and we should have some concrete suggestions before UNCTAD V. We have over a dozen ideas for alterations in international institutions or in the way we fund our multilateral and bilateral assistance programs. The most important are:

—*GATT Special Assistance Unit*: The US could support the continuation of the GATT Special Assistance Unit after the end of the MTN to assist LDCs in handling trade complaints within the GATT dispute settlement mechanisms, particularly during the next two–three years when new codes will be put into practice.

—*Compensatory Finance Facility (CFF)\**: Successful commodity agreements and a Common Fund may provide greater price stability for a few commodities, but still leave some problems with income stabilization for LDCs dependent on commodity earnings (during a recession or after a crop failure, stable prices will still mean lower incomes for an LDC). Rather than bow to pressure for a new Stabex program, either worldwide (the Schmidt proposal) or regional (ASEAN approach), we could consider further modest changes in the IMF's CFF, such as allowing drawings when export earnings from specific commodities suffer temporary shortfalls, gearing payback of drawings to restoration of earnings from the affected commodities, and increasing the percentage of a country's quota which may be borrowed in single year.

—*IMF–IBRD Special Financial Assistance Unit*: LDCs argue that the IMF conditions are too tough and disrupt economic development. The IMF complains LDCs approach them only when events have reached a crisis stage and drastic measures are needed. A joint IBRD–IMF unit could assist LDCs approaching debt difficulties with a mix of development and financial advice, thereby encouraging LDCs to seek advice earlier. Such a unit might also advise LDCs which are dealing with a creditor club.

—*IBRD Bond Guarantee Facility*: Only a handful of upper tier LDCs obtain long-term financing through international bond markets. The IBRD has the authority to guarantee such bond issues, but technical restrictions have precluded use of this facility. We should examine changes which would allow this facility to be utilized.

—*International Development Cooperation Administration (IDCA)\**: Depending on the final stance of the Administration on the establishment of an IDCA, a new institution could have symbolic and real value in demonstrating our commitment to development.

—*Callable Capital*: Appropriating callable capital (and some guarantees) in the same manner as funds to be disbursed inflates our foreign assistance bills and limits more imaginative uses of guarantee schemes. We suggest establishment of a callable capital guarantee fund

whereby we would only appropriate a fraction (say 10%) of callable capital to all the MDBs to go to a pooled guarantee fund in Treasury. This parallels the approach to FMS credits. We might also try appropriating large multi-year callable capital commitments, particularly for the IBRD, at once in separate bills, to reduce the annual development assistance appropriations.

### *STRATEGY*

We suggest that an overall North-South tactical strategy covering all of 1979 be developed. A speech by you or the President at an appropriate forum in early January might lay out our overall North-South framework, touch on our substantive priority areas (particularly energy), and provide details on certain initiatives. Such a speech, before the G-77 ministerial in Arusha in early February<sup>7</sup> might help moderate LDCs to ward off a hard-line G-77 platform. Another major address might be delivered several weeks before UNCTAD V, again stressing our overall approach and detailing a number of institutional initiatives. By making such a speech in advance of UNCTAD V, we would avoid a repeat of the tactical disaster at UNCTAD IV where US proposals were delivered at the Conference itself. A speech by you or another US official at UNCTAD V could review our overall North-South policy and suggest priorities for future discussions.

A major food address might be geared to the President's Commission interim report, which is due about June of next year, and is expected to contain a number of recommended policies. Proposals on LDC development capacity, particularly regarding our program for the FITC and any decisions to broaden US agency mandates, might be outlined at the UN Conference on Science and Technology for Development next August.

By determining initiatives now and laying out a program of Congressional consultations and public addresses for all of next year, we can avoid many of the tactical problems which have plagued US North-South activities in the past. We would also be able to coordinate our efforts in various North-South forums (COW, UNCTAD, ECOSOC), improve the effectiveness of bilateral and regional consultations, and increase our chances of steering the dialogue in more constructive directions.

Should this approach meet with your approval, we suggest that you request the proposals in the attached memo to be fully staffed out by the Department and then cleared with other agencies (Guy Erb has seen all the preparatory work for this memo and agrees with its sub-

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<sup>7</sup> The G-77 met at the Ministerial level in Arusha, Tanzania, February 12-16, 1979.

stance. He has notified Brzezinski of this project). We could work toward a final package by year end.<sup>8</sup>

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<sup>8</sup> In a December 5 memorandum to Department of State principals, Lake and Hormats, noting that Vance had requested that they “more fully evaluate the proposals contained in the memo sent him on November 9,” announced the establishment of a series of working groups on North/South issues. (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 4, S/P-Lake Papers—12/1–15/78)

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### 322. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, November 30, 1978

#### SUBJECT

Your Aid Query

At last week’s budget meeting,<sup>2</sup> you asked what the increases in US concessional economic assistance had been from FY 1977 to FY 1978, and from FY 1978 to FY 1979—and how this related to our published outyear aid goals.

1. *Increases.* In FY 1977 the Congress provided concessional economic assistance programs totalling \$5,718 million and in FY 1978 \$6,524 million—an increase of about 14% in nominal terms, or about 7% in real terms. In FY 1979 the Congress provided \$6,945 million in concessional economic assistance, or an increase of 7% in nominal terms, which means no increase in real terms.

2. *Goals.* In November 1977, you decided that total concessional aid should rise by one-third in real terms between FY 1978 and FY 1982.<sup>3</sup> As you can see, we achieved none of this rise from FY 1978 to FY 1979.

3. *Policy.* I do not argue that FY 1980 should see a large aid increase. Having been one of the first to press for deep budget cuts in the EPG, I would be embarrassed to do so. But I do want us to be able to explain

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 93, Foreign Assistance: 7–12/78. Confidential. Sent for information. Both Carter and Brzezinski initialed at the top of the page.

<sup>2</sup> Carter held a meeting on the 1980 budget on November 21. (Carter Library, Presidential Materials, President’s Daily Diary) No memorandum of conversation was found.

<sup>3</sup> See Document 282.

our position effectively at the Tokyo Summit. Simply saying that we had to cut aid to fight inflation will not meet this need. The three other main Summit aid donors achieved substantial aid increases when they were following restrictive fiscal policies (See Tab A).<sup>4</sup> To sell your position at Tokyo, I believe we will need to do three things, in *descending* order of importance:

—Go forward to the Congress with an aid reorganization, so that FY 1980 can be portrayed as a year of qualitative improvement rather than quantitative expansion.

—Keep the outyear aid goals at present levels, but let them slip one year.

—Avoid identical FY 1979 and FY 1980 AID figures, by having a modest increase in bilateral development aid.

I checked the US aid figures in this memo with OMB.

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<sup>4</sup> Tab A, attached but not printed, is an undated paper that notes that over the period 1973 to 1975, France increased its aid by 34 percent; from 1973 to 1976, West Germany had a 36 percent increase in aid; and from 1975 to 1976, Japan increased its aid by 23 percent. (All figures are nominal.) The paper also indicates that “the UK and Canada said that they would exempt aid from the deep current cuts being made in their overall budgets.” The Tokyo G-7 Summit was scheduled for June 28–29, 1979.

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**323. Memorandum From Guy Erb and Robert Pastor of the National Security Council Staff to the President’s Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, December 12, 1978

SUBJECT

The Summits at Guadeloupe and Jamaica (U)

Our Embassy in Kingston has raised some trenchant questions about the way the Guadeloupe Summit<sup>2</sup> will be seen by Jamaica—and we would add, by other developing countries—in the light of the fact that the President declined Manley’s invitation to a “North-South”

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 119, Summit: 8–12/78. Confidential. Sent for action. Sent through Owen, who did not initial the memorandum. A copy was sent to Hunter.

<sup>2</sup> See footnote 5, Document 179.

Summit in Jamaica (see Tab A).<sup>3</sup> The Embassy clearly feels that the announcement of a four-power Summit to take place so soon after the Jamaica meeting will have an adverse effect on our bilateral ties with Jamaica and on the President's relationship with Manley. In addition, we are concerned that, unless we take steps to alter the first impressions in Third World capitals of the Guadeloupe meeting, the four-power Summit will affect negatively international perceptions of our North-South policies. (C)

US-Jamaican relations have several aspects. Seen from one perspective, we could easily endure a worsening of relations with a small, developing island state. On the other hand, Jamaica exercises a weight in Third World forums out of proportion to its size. Although Henry Owen feels that, "We do not want to make Manley our chosen instrument for North-South dialogue,"<sup>4</sup> we would argue that we will never be able to choose an entirely satisfactory interlocuter on North-South issues. The differences of perspective and real economic interests are too great between rich and poor countries for us to be entirely satisfied with anyone who emerges as a Third World spokesman. Manley, for all the drawbacks that his activism entails, does lead a democratic and progressive regime. He is, moreover, the only Caribbean leader with any prospect of competing for regional leadership with Fidel Castro, and his influence on events in the Caribbean could be substantial. Aesop's fable of the stork-king<sup>5</sup> should be borne in mind when we contemplate who else might come forward as a proponent of Third World interests. (C)

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<sup>3</sup> Not attached. When Manley invited Carter to a North-South summit in Jamaica (see Document 319), the Embassy in Kingston argued in favor of Carter's attendance "on the grounds that: (1) only by attending can the U.S. affect the outcome of the meeting; (2) he could use the meeting to express U.S. concern for African issues; (3) he might be able to move Manley toward a more moderate stance in the North/South dialogue; and (4) the breakdown of the Committee of the Whole requires some action to improve the atmosphere of the North/South dialogue." (Memorandum from Tarnoff to Brzezinski, October 14; Carter Library, National Security Affairs, Brzezinski Material, President's Correspondence with Foreign Leaders File, Box 10, Jamaica: Prime Minister Michael Norman Manley, 5/77-12/78)

<sup>4</sup> Owen wrote in a December 4 note to Brzezinski that he did "not believe it would be in the President's interest to upgrade the Manley mtg by receiving a special emissary to hear its results. We do not want to make Manley our chosen instrument for North-South dialogue." (Carter Library, National Security Affairs, Staff Material, International Economics, Guy Erb File, Box 37, Manley (Prime Minister Michael) Summit: 7/78-1/79)

<sup>5</sup> Apparently a reference to an Aesop fable known as "The Frogs Who Desired a King" or "King Log and King Stork." In this fable, Zeus grants the wish of a colony of frogs for a monarch by providing them a log as their new king. However, this monarch was insufficiently animated for the frogs' taste. The Log King not being to their liking, Zeus gave the frogs a second monarch, a stork. The Stork King promptly set about eating its way through the frog colony.

Although we have made some advances on multilateral issues, namely the common fund, we are still short of final agreement in that negotiation, and we have taken a relatively hard line with regard to technology, the MTN, and specific commodity negotiations with developing countries. These factors must be added to the publicity given to shortfalls in our aid; Jack Gilligan has pointed out to the President that on present indications the Carter Administration's aid performance will be worse than that of the Nixon/Ford years. In this context, the failure to attend the Manley Summit, an unwillingness to receive a specially designated emissary from the Summit, and the Guadeloupe meeting will have a very negative impact. Developing countries could conclude justifiably that we are backing away from the Administration's commitment to forthcoming North-South policies, just as preparations begin for the UNCTAD V in Manila next May. (C)

We really want to stress that we view this choice as a possible turning point in the Carter Administration's attempt to formulate a North-South policy. Rejection of a North-South Summit in favor of a "rich man's club" in Guadeloupe and down-grading our aid levels will symbolize a significant change of policy direction. (C)

We therefore request that you reconsider the guidance you provided on Guy Erb's memo of December 2nd regarding an emissary from the Jamaica Summit. That memo and Henry Owen's comments are attached at Tab B.<sup>6</sup> (C)

#### *RECOMMENDATION*

That you approve one of the following alternative courses of action:

(1) That we inform the Jamaicans that the President could meet an emissary chosen by participants in the Jamaica Summit, either in Washington or in Guadeloupe itself, if the participants designated either Schmidt, Callaghan, Manley, or someone else, who could travel directly from Jamaica to Guadeloupe.<sup>7</sup>

(2) That the President write a letter to Manley informing him that he will have an opportunity to speak with both Fraser and Schmidt following the Manley Summit but that he would welcome a letter from Manley on the result of North-South Summit.<sup>8</sup>

Thornton concurs.<sup>9</sup>

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<sup>6</sup> Tab B was not attached. For Owen's comments, see footnote 4 above.

<sup>7</sup> Brzezinski indicated his disapproval of this recommendation.

<sup>8</sup> Inderfurth wrote "My suggestion" in the margin adjacent to this recommendation. Brzezinski indicated his disapproval of the recommendation.

<sup>9</sup> A handwritten notation next to this sentence reads: "and still leans toward Option 2."

**324. Note From the Special Representative for Economic Summits (Owen) to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, December 14, 1978

Zbig,

When I mentioned to my colleagues at the recent Summit Review Group meeting in Bonn<sup>2</sup> the idea of Manley sending a special emissary to report the results of the meeting to the President, they were horrified at the notion of thus dignifying a conference that most of them considered insignificant, at best. I asked: In that case, why is Schmidt going? Answer: He wanted a Caribbean vacation (before Guadeloupe was fixed).

Cooper gave me a report on his impressions of Manley that reinforce my urge not to build him up as a figure in North-South dialogue, even by inviting him to write a report (which we would then have to answer). I suppose we could do worse than Manley, but we could also do a lot better, and I'd rather gamble on the latter.

In short, I'd leave the matter alone. The President will hear reports from Schmidt and Frazier.<sup>3</sup> That's enough.

**Henry Owen<sup>4</sup>**

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 119, Summit: 8–12/78. Confidential. Brzezinski wrote at the top of the page: "agree. ZB."

<sup>2</sup> See Document 188.

<sup>3</sup> Reference is to Australian Prime Minister Malcolm Fraser, who visited Washington January 1–3, 1979. During his January 2 meeting with Carter, Fraser "described the Jamaica Summit from which he had just come, emphasizing the view of the conference that inflation is stagnating the world economy, including the LDCs. He urged establishment of a Common Fund and compromise to achieve this goal." (Telegram 3865 to Canberra, January 6, 1979; National Archives, RG 59, Central Foreign Policy File, D790008–0549)

<sup>4</sup> Owen initialed "HO" above this typed signature.

**325. Letter From Secretary of State Vance to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, December 26, 1978

Dear Zbig:

The United States will participate over the next two years in a number of major international conferences on issues affecting the developing countries, including UNCTAD V, the World Conference on Agrarian Reform and Rural Development,<sup>2</sup> the UN Conference on Science and Technology for Development (UNCSTD), UNIDO III,<sup>3</sup> and a special session of the UN to approve an International Development Strategy for the next decade and beyond.<sup>4</sup> The Tokyo Summit is also likely to devote time to North-South issues. We will confront both old and new demands from the developing countries to support policies which they believe will enhance their development prospects and increase their participation in the management of the world economy.

Realistically, we will be hard pressed over the same period to fulfill our current commitments on foreign assistance, meet our arrearages on the multilateral development banks, and obtain Congressional approval of an MTN package and various commodity agreements. We will have to be very cautious about making major new commitments (particularly if the Common Fund is successfully negotiated).

Given the large number of North-South events, and the tight constraints within which we must operate, I believe we must plan an overall approach to our North-South activities over the next two years, relating possible initiatives to scheduled international conferences and carefully managing our public statements. Such advance preparation will enable us to play an active rather than defensive role, consistent with our interests. Within the State Department I have asked Tony Lake, Director of the Policy Planning Staff, and Bob Hormats, Senior Deputy Assistant Secretary of the Bureau of Economic and Business Affairs, to draft a statement of the Administration's North-South policy and a strategy to explain that policy over the next two years to the American public, the Congress, and to developed and developing

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 44, North-South: 4/78-2/79. No classification marking.

<sup>2</sup> The World Conference on Agrarian Reform and Rural Development took place in Rome July 12-20, 1979.

<sup>3</sup> The UNIDO Third General Conference (UNIDO III) took place in New Delhi January 21-February 9, 1980.

<sup>4</sup> The Eleventh Special Session of the UN General Assembly, which considered the International Development Strategy for the Third United Nations Development Decade, took place August 25-September 15, 1980.



countries participating in the North-South dialogue.<sup>5</sup> As part of this exercise, they are identifying US initiatives which might be feasible within the financial and political constraints under which we must operate.

We look forward to working very closely with other agencies in the preparation of such an overall strategy and in the analysis of such potential initiatives. Guy Erb of your staff has been involved in this project from its inception, and we will value the continued participation of him and other members of your staff. When work has sufficiently advanced to take stock, I would hope by mid-January, I envision requesting that a PRC review progress and make recommendations on our overall approach. Let me express my appreciation in advance for the cooperation of your staff in this exercise.

Sincerely,

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<sup>5</sup> See footnote 8, Document 321.

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**326. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Vance<sup>1</sup>**

Washington, January 9, 1979

Our Meeting on Common Fund  
Wednesday, January 10, 1979<sup>2</sup>

I thought it might be helpful to provide you with a summary of the current status of our negotiations with the G-77, the major issues separating Group B and the G-77, and our plans for dealing with key countries in the G-77.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 4, UN—Common Fund. Limited Official Use.

<sup>2</sup> No memorandum of conversation of this meeting was found.

At the November negotiating session,<sup>3</sup> Group B put forward a comprehensive proposal that fully met our commitment to Asean Ministers last summer.<sup>4</sup> The proposal provided for direct contributions to the first window and a limited second window based on voluntary contributions. Members of the Group of 77, while indicating in private some areas of flexibility, were not able to respond formally to the Group B proposal or to table a paper of their own. This immobility allowed them to protect their basic position while apparently pocketing the concessions we have already made. It also raises questions about how much substantive progress was really made. (Widjojo, the Asean spokesman on the Common Fund at the US-Asean Ministerial last August, has suggested the need for "greater flexibility" by the U.S., even though we have met all the conditions they expressed there.)

We still must get from the G-77 solid agreements on:

- the nature and function of the first window, to insure that it will not be another resource transfer mechanism;
- the scope of the second window's functions, to insure that it does not duplicate the activities of the IFI's, and the voluntary character of contributions;
- a clear separation between the first and second window; and
- specific guidelines for voting and decision making so that country voting weights will accord with country financial interests in the Fund.

As agreement in principle on these major items falls into place, we will be better positioned to negotiate on the dollar values associated with each window.

The reports from the Jamaican Summit were positive, but somewhat unclear on important details.<sup>5</sup> The Canadians, for example, indicated that there seemed to be movement by LDC representatives toward our position on the nature and function of the first window and some recognition of the need for separating the first and second window. Perez Guerrero, however, told Ambassador Luers in Venezuela that he thought a consensus emerged to transfer a portion of the funding from the first window to the second and that the U.S. would go

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<sup>3</sup> Negotiations on the Common Fund took place in Geneva November 14-30, 1978. Telegram 18440 from Geneva, December 1, 1978, summarized the status of the negotiations at the end of the session. (National Archives, RG 59, Central Foreign Policy File, D780496-0210)

<sup>4</sup> See footnote 5, Document 314.

<sup>5</sup> A undated memorandum summarizing the proceedings of the December 28-29 summit at Runaway Bay, Jamaica, is in the Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 16, President, Guadeloupe, 1/4-6/79: NSC Briefing Book [III]. Erb and Hormats commented on the summit in a January 4 memorandum to Brzezinski. (Carter Library, National Security Affairs, Brzezinski Material, Trip File, Box 16, President, Guadeloupe, 1/4-6/79: SITTO 1-34) See also footnote 3, Document 324.

beyond its position on the scope of activities for the second window.<sup>6</sup> (Perez Guerrero also expressed appreciation for the forthcoming position the U.S. showed in Geneva in November.) Some clarification of these points should emerge at the OECD Executive Committee meeting next week.<sup>7</sup>

Regional meetings of G-77 countries have now begun in preparation for the G-77 meeting at Arusha, February 6–16, when the G-77 will set their position for the next round of negotiations and for UNCTAD V. We have already dispatched a message to selected Asian countries, who are caucusing through the middle of next week, and will do so with other regional groupings of G-77 countries prior to their caucuses.

African countries, who view success in the Common Fund in terms of a broadly mandated and well-funded second window, will be key to a successful negotiation. Yet, there are major problems in dealing with the Africans. First, they are poorly organized; there are no two or three individuals who can speak for the African countries as a group. Second, many African countries do not understand the issues, and outside of their Geneva representatives who frequently act on their own authority, attach great importance to the negotiation but cannot address the vital details. Third, we have little leverage that we can exert. We can point out to the Africans that we can do more through the African Development Bank to meet their needs on some of their concepts of second window activities than we can through a Common Fund, and that the Bank's ability to do so will increase significantly as the U.S. and other non-regional countries subscribe to the shares of the Bank. Cameroon Finance Minister Yondo will be here later in January. He is capable and is respected in African financial circles, so that will provide a useful occasion for detailed discussion.<sup>8</sup> We should not, however, delude ourselves into thinking that this linkage alone will do the trick.

What may be necessary is a well-coordinated political approach by Foreign Ministers of selected developed countries with their counterparts in Africa. If in the course of our meeting you concur, I can initiate this at the OECD Executive Committee meeting next week.

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<sup>6</sup> Telegram 122 from Caracas, January 5, reported on Luers' January 3 discussion with Pérez Guerrero. (National Archives, RG 59, Central Foreign Policy File, D790007-0926)

<sup>7</sup> The OECD Executive Committee met in Paris on January 17. Telegram 2196 from USOECD Paris, January 22, reported on the discussion of North-South issues. (National Archives, RG 59, Central Foreign Policy File, D790032-0724)

<sup>8</sup> A memorandum of conversation of Cooper's January 26 meeting with Yondo, during which they discussed the Common Fund and financial and monetary issues, is in the National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980, Lot 81D134, Box 5, Memorandum of Conversation, Jan-June '79.

**327. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski)<sup>1</sup>**

Washington, January 19, 1979

SUBJECT

Secretary Vance's Letter on North-South Issues (U)

Since receiving your guidance to support a PRC on the North-South issues that Secretary Vance raised in his letter of December 26 (Tab A),<sup>2</sup> we have reviewed the State papers within the NSC. I have also had several conversations with Hormats, Lake and others at State. (U)

The State approach focuses on constructive initiatives that could build a record of modest but solid U.S. achievement on North-South developmental issues. Owen, I, and others have reviewed each of these proposed steps and concluded that most of the initiatives are already in motion; a few are new ideas worth exploring. We will continue to monitor each of the useful initiatives, new or old, to insure that they receive needed support. On some issues, we may find that a PRC is necessary to determine an Administration position on specific issues, but a decision on the need for and the timing of such a PRC can be deferred until staff work has been completed. (C)

I have emphasized to State that the initiatives in support of *internal* LDC development—useful as they might be—do not respond adequately to the political dimension of the North-South dialogue. As the North-South cluster has indicated to you previously (Thornton memo of November 8, #6746)<sup>3</sup> we believe that U.S. policy must also include a response to the *international* reforms that LDCs call for if we are to have a significant impact on our multilateral relations with developing nations. (C)

S/P is drawing up a strategy indicating how and when each of the initiatives might be related to upcoming phases and events in the

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 44, North-South: 4/78-2/79. Confidential. Sent for information. Sent through Owen. Brzezinski wrote at the top of the page: "Monitor closely. Don't let it become a substitute for NSC coordination of policy. ZB." A separate handwritten notation below Brzezinski's comment reads: "1-22-79."

<sup>2</sup> Printed as Document 325.

<sup>3</sup> See Document 320.

North-South dialogue.<sup>4</sup> S/P envisages one or more high-level Administration statements this spring on the framework for North-South relations and the direction of U.S. policy. We will be in touch with you about these later, as well as about an idea that Henry and I have been discussing: for a Presidential speech to a U.S. audience that could be beamed via satellite to the Manila UNCTAD. Gerry Rafshoon and Bernie Aronson are mildly encouraging about the possibility of a Presidential speech on North-South relations. (U)

Since we are working closely with State on this matter, there is no need for you to send a written reply to Secretary Vance at this time. (U)

Thornton concurs.<sup>5</sup>

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<sup>4</sup> Lake and Hormats outlined a work program on North-South issues in a January 2 memorandum to Department of State officials (copies of which were sent to AID, NSC, Treasury, and USDA). (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 4, S/P-Lake Papers—1/1–1/15/79)

<sup>5</sup> Thornton initialed above this sentence.

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**328. Briefing Memorandum From the Director of the Policy Planning Staff (Lake), the Deputy Assistant Secretary of State for Economic and Business Affairs (Hormats), and the Assistant Secretary of State for International Organization Affairs (Maynes) to Secretary of State Vance<sup>1</sup>**

Washington, March 2, 1979

SUBJECT

North-South Strategy—Progress to Date

*Summary:*

We have now gained general interagency concurrence on a set of basic themes on North-South issues which the Administration might stress over the next year and a half, reached accord on a general scenario as to how those themes could be related to the key North-South events over the same time frame, and have agreed on several initiatives

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 5, S/P-Lake Papers—3/1–15/79. Confidential. Drafted by Johnson.

we might take. We are preparing your Seattle speech for March 30<sup>2</sup> and conducting final staffing on those initiatives on which there is some interagency disagreement. We may want to consult with you on how to finally resolve those differences.

*Background:*

At a March 1 meeting which included AID, NSC, OMB, OSTP, and the relevant domestic agencies, we reviewed the themes, initiatives, and the scenario for an Administration approach to North-South issues.<sup>3</sup> Other than minor caveats, agreement was reached on the major themes of:

—encouraging the evolution of an international economic and political system which provides increasing decision-making power and responsibility for the developing countries;

—shifting the dialogue away from an emphasis on resource transfer mechanisms and toward specific development problems, stressing four areas—energy, food, health, and LDC capacity to use technology—which can be cooperatively tackled by developed and developing countries (see Tab A for details).

In addition, agreement was reached on a scenario for linking these themes and a number of initiatives to the major North-South events of the coming months, beginning with your Seattle speech and including UNCTAD V, the World Health Assembly,<sup>4</sup> the Tokyo Summit, the UNCSTD, UNIDO III, and the special session of the UNGA scheduled for next spring<sup>5</sup> (see Tab B for calendar, Tab C for scenario).<sup>6</sup> We should have a draft of your speech in a week or ten days.

There was also general agreement on several potential initiatives, including:

—GATT special assistance unit to help LDCs gain maximum benefit from the agreement during the post-MTN period when new codes are implemented;

—greater emphasis on US assistance to LDCs in assessing their energy requirements, and to energy research (particularly in renewable energy technology) in LDCs.

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<sup>2</sup> Vance spoke in Seattle on March 30 before the Northwest Regional Conference on the Emerging International Order; for the text of his remarks, see the Department of State *Bulletin*, May 1979, pp. 33–37.

<sup>3</sup> No memorandum of conversation of this meeting was found.

<sup>4</sup> The World Health Assembly took place in Geneva May 7–25.

<sup>5</sup> Reference is to the Eleventh Special Session of the UN General Assembly, which actually took place August 25–September 15, 1980.

<sup>6</sup> Tab B, attached but not printed, is an undated paper entitled “Calendar of Major North-South and Other Meetings.” Tab C, attached but not printed, is an undated paper entitled “Possible North-South Scenario.”

- a proposal by the US to explore the desirability of increased international support for regional energy research and training centers modeled after the successful international agricultural centers;

- heightened attention to US support for the concept of primary health care delivery systems;

- stepped up programs in immunization and research on tropical diseases;

- increased support for research on new food crops and post harvest loss problems;

- a greater US stress on assisting LDCs to design public policies which promote food production and distribution, and better land management.

We have asked for preparation of final detailed staffing papers on these generally agreed initiatives within two weeks.

We have not yet reached agreement on whether the USG will be in a position before UNCTAD V to indicate general support for further liberalization for the Compensatory Finance Facility of the IMF, increased public financing for LDC energy development, particularly for unconventional renewable sources, or on whether to make a specific public commitment of \$2.5 billion over the 1980's to support the UN Water Decade. We are also still grappling with what positive action we could take to improve the functioning of existing mechanisms (mainly the IMF and IBRD) with respect to how they deal with developing countries having both short term financial and longer term structural economic problems.

We have asked that additional papers on these latter issues also be prepared within the next two weeks, and we will consult with Henry Owen on how these matters might finally be decided. After talking with Owen, we may request a few minutes with you to discuss this.

Overall, we are making steady progress. The OMB representative commented that this effort by State to put together an overall strategy for North-South would be very useful from their perspective. He urged us to continue the exercise, and to integrate it into next year's overall budget cycle. The major problem we still face is a lack of concrete initiatives addressing international institutional reform, particularly regarding the complex of issues involving debt, balance of payments financing and structural economic problems, which will be a key issue at UNCTAD V. We believe there is a legitimate problem in this area; we will continue to work with Treasury on this issue.

**Tab A****Paper<sup>7</sup>**

Washington, undated

## US THEMES FOR THE NORTH-SOUTH DIALOGUE

The US should stress two broad themes in addressing North-South issues:

—*The System*: Both national and international institutions must be flexible enough to respond to change. A major change in the world over the post World War II era is the increasing importance, politically and economically, of the developing countries. US security and economic prosperity are increasingly affected by the domestic and international policies pursued by developing nations, and by the rate and nature of their economic growth.

We therefore wish to work with the developing countries to encourage the continuing evolution of an international economic and political system which is supportive of development and provides increased roles for the developing countries, both as regards decision-making and responsibilities. We must see that the system both encourages the efficient use of scarce resources, and equitably distributes the benefits of the system. As a country develops, and the benefits it derives from the international system increase, both its ability to influence the system and its responsibilities for maintaining it should increase accordingly.

We have already made many reforms in the international political and economic system to accommodate developing country interests. When after World War II the UN, Bretton Woods institutions, and the GATT were established, their primary role was to facilitate political and economic relations among the industrial countries. Over the past three decades, these institutions have increasingly become preoccupied with development concerns and the relations between industrialized and developing countries. Many of the specific changes which were part of this evolution resulted from US proposals. The US will continue to entertain and propose additional reforms which are economically sound and mutually beneficial. Likewise, we will continue to support domestic measures which allow our economy to adjust smoothly to changing international conditions. Adjustment assistance and export

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<sup>7</sup> Confidential.



promotion programs, for example, help us to deal positively with shifting trade patterns.

—*Specific Development Problems*: While we should and must continue to address reforms of the international system, debate on North-South forums has too often focused exclusively on such systemic reform with little reference to actual development problems. This approach has often led to confrontational rhetoric and sterile debate, which in turn has undercut US domestic support for development assistance and other positive policies toward the LDC's. We want to increase the attention of the North-South dialogue to specific development problems. We want to find specific means by which such problems can be tackled through cooperative action by developed and developing countries in ways which will contribute to the welfare of all people, but particularly the most disadvantaged. Over the next year, we would concentrate attention and suggest initiatives in the fields of energy, food, health, and the institutional and human capacity of LDCs to link technology to their development needs.

- *Energy*: The energy technologies selected by developing countries, the rate by which they increase their energy consumption, and their success in meeting their own energy needs from indigenous sources (and in having exportable surpluses), will have a direct impact on US citizens. If we are faced with an increasingly tight energy market this year, both developing countries and the Congress should be responsive to proposals in this area.

- *Food*: Good weather in grain producing countries over the past three years has reduced worldwide concern with ensuring adequate food supplies and stocks. However, long-range projections, particularly for Africa and Asia, point to large growing food deficits over coming decades. US economic and humanitarian interests are directly involved in the functioning of international food markets, food assistance, and the domestic food policies pursued by developing countries.

- *Health*: Diseases and malnutrition in LDCs result in high infant mortality, adult disability and lower productivity. Both for economic and humanitarian reasons, the US and other developed countries should be willing to continue working with the developing countries to improve health conditions in the developing world.

- *LDC Capacity To Use Technology*: LDCs have taken a renewed interest in the availability of technology appropriate to their development needs, and in their institutional capacity to apply it. We want to de-emphasize unproductive exercises on international codes on technology transfer and concentrate on building their capacity to obtain, generate, adapt, and apply technology to development needs.

**329. Memorandum From Guy Erb of the National Security Council Staff to the President's Assistant for National Security Affairs (Brzezinski) and the Special Representative for Economic Summits (Owen)<sup>1</sup>**

Washington, May 9, 1979

SUBJECT

UNCTAD V (U)

A major "North-South" event, the U.N. Conference on Trade and Development, began this week.<sup>2</sup> The U.S. approach to this meeting (Tab A)<sup>3</sup> reflects our straitened circumstances and a reluctance to let the UNCTAD secretariat work in areas that are the provinces of other institutions, in particular, the International Monetary Fund and the General Agreement on Tariffs and Trade. (C)

Two previous UNCTAD meetings agreed on measures of some significance: UNCTAD II (1968) launched the generalized system of tariff preferences and UNCTAD IV (1976) agreed on a commodity program that eventually led to the recently negotiated framework for the common fund.<sup>4</sup> This conference's most likely results will be institutional, for example, the establishment of an expert group that may supplant the U.N. General Assembly's Committee of the Whole. (U)

Reform of the IMF's compensatory finance facility should receive a boost from the Manila meeting. The U.S. delegation will resist any UNCTAD incursion into this matter but can indicate our willingness to consider liberalization of the facility. The conference may also give some impetus to guarantees of LDC borrowings from private capital markets. You can expect some fireworks about the "failure" of the

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 108, North-South Policy: 1979. Confidential. Sent for information. A copy was sent to the North/South Cluster of the NSC Staff. A stamped notation reads: "ZB has seen."

<sup>2</sup> UNCTAD V opened in Manila on May 7.

<sup>3</sup> Tab A, attached but not printed, is a copy of telegram 115254 to selected posts, May 5, on "U.S. Positions on Key UNCTAD V Issues." Katz forwarded an UNCTAD strategy memorandum to Vance under cover of an April 18 memorandum; Lake commented on the strategy memorandum in an April 19 memorandum to Vance. (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977-January 1981, Lot 82D298, Box 5, S/P-Lake Papers—4/16-30/79)

<sup>4</sup> Negotiations on the Common Fund, held in Geneva March 12-20, resulted in agreement on a framework for the fund. Telegram 4845 from Geneva, March 21, transmitted the text of the conference resolution, an accompanying annex entitled "Fundamental Elements of the Common Fund," and the U.S. statement on the annex and the negotiating conference. (National Archives, RG 59, Central Foreign Policy File, D790131-1196)

MTN to benefit developing countries. We will try to channel such criticisms toward a constructive UNCTAD work program on trade while encouraging the LDCs to join in the implementation of the MTN in order to maximize their gains from the trade codes that were agreed in Geneva.<sup>5</sup> (C)

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<sup>5</sup> The Tokyo Round of multilateral trade negotiations concluded on April 12 in Geneva; see Document 209.

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### 330. Briefing Memorandum From the Director of the Policy Planning Staff (Lake) to Secretary of State Vance<sup>1</sup>

Washington, June 22, 1979

SUBJECT

North-South Strategy After UNCTAD V

*Summary:*

UNCTAD V's results were mixed, but on the whole, not inconsistent with our overall North-South policy.<sup>2</sup> Several aspects of the Conference reinforce the US approach: UNCTAD V took place in a non-confrontational atmosphere; general demands for restructuring of the world system were remanded for future consideration; energy was finally acknowledged to be an important development issue; and a consensus was reached on several specific work programs and reform of the secretariat.

Pursuant to your Seattle speech, we should now step up our own efforts this fall in the areas of energy, food, technology, trade, and fi-

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 5, S/P-Lake Papers—6/16–30/79. Confidential. Drafted on June 21 by Johnson (S/P) and cleared by Hormats and Deputy Assistant Secretary of State for Economic and Development Policy Marion Creekmore. In a June 22 handwritten note to Vance, Lake commented: “While UNCTAD V made little practical progress, at least the tone was not bad. This memo reviews some steps we could take to support moderate LDC’s who would like to head off a new, unproductive North-South confrontation. The steps are, of necessity, modest. But I hope you get a chance to review this.” (Ibid.)

<sup>2</sup> Telegram 10987 from Manila, June 3, summarized the results of UNCTAD V. (National Archives, RG 59, Central Foreign Policy File, D790251–0410) For the text of Young’s statement before the conference on May 11, which included a message from President Carter to the delegates, see the Department of State *Bulletin*, September 1979, pp. 64–67.

nance, and seek the support of other governments for specific proposals. As suggested and explained in the body of the memorandum, you may wish to take the following immediate steps:

—Instruct EB and IO to coordinate an effort to seek agreement among the Group B governments, in as much detail as possible, on a set of priorities and initiatives for the series of international conferences on North-South issues to be held over the next 18 months.

—Hold a meeting with Dick Cooper, Jules Katz, Bill Maynes, and me to discuss how we can:

- Get a prompt USG response on the Inter-American Development Bank's proposal for investment guarantees in the mineral and energy sectors.

- Secure the support of industrial, developing, and OPEC countries for regional energy research and training centers in LDCs.

- Advance the idea of bond guarantees, including obtaining the support of other countries for an IBRD study of a pilot project.

- Obtain a more positive US position on further liberalization of the Compensatory Finance Facility.

- Look at the overall LDC debt/balance of payment funding questions we are likely to face over the next several years, and how we ought to respond.

—Request EB and H to keep tabs on the Food Security Act and to request intervention by you or other State officials if needed.

—Ask Dick Cooper to review with Tom Ehrlich the role his staff might play in lobbying for domestic agency programs which support our North-South goals.

#### *UNCTAD V:*

Several features of UNCTAD V deserve note:

—Sweeping resolutions demanding major restructuring of the world's economy went nowhere. Rather than try to paper over fundamental disagreements between the G-77 and Group B, the Conference remanded the issues on which there was no agreement to the October UNCTAD Trade and Development Board meeting.<sup>3</sup>

—Expectations for dramatic results were lower than at previous ministerial level UNCTAD meetings, in part because progress on a number of key issues—the Common Fund, results of the MTN, the declaration on resource transfers in the COW, the negotiations on a rubber agreement, etc.—had deprived LDCs of politically attractive rallying points.

—The energy issue deeply divided the G-77. Manila may mark the end of the taboo on discussing this issue in North-South fora, although

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<sup>3</sup> The UNCTAD Trade and Development Board met in Geneva October 8–20, with a concluding session held on November 23.

industrial countries will have to approach this issue with great caution. If we get out front, we may drive the G-77 back together (OPEC's first instinct will be to try to limit discussion of the issue to intra-LDC meetings).

—LDCs continued to exhibit strong sensitivity to the use of terms such as “differentiation,” “graduation,” and “selectivity” by DCs. Their concern is not so much economic, as that such concepts mask an attempt to divide the G-77 politically.

—Agreement was reached on a resolution concerning protectionism and restructuring, on a special program for the least developed countries, on institutional reform of UNCTAD, and on work programs for commodities, trade, and Economic Cooperation among Developing Countries.

—In spite of the stalemate on some major issues (“global consultations” and evaluation of the world economy, evaluation of the MTN, and several monetary/financial questions), UNCTAD V ended on a quiet note with no strong recriminations on the part of the G-77 (although we are likely to hear such recriminations at the ministerial meeting of the non-aligned nations in September).<sup>4</sup>

The dialogue could go in one of two directions in the aftermath of UNCTAD V. LDC radicals, including some OPEC states, may urge increased militancy as a way to press for further structural reforms of the international system and as a means to restore G-77 unity. This option will probably be considered at the non-aligned meeting.

Alternatively, G-77 moderates will argue that the period of declarations, action programs, and general debate may have about run its course, and further progress for LDCs will depend on tackling specific issues. We can support this view by:

—Doing everything possible within the Executive Branch and on the Hill to keep development assistance and food aid at respectable levels, to fight trade protectionism, and to secure legislation implementing commodity agreements.

—Indicating that genuine progress has been and is being made on North-South issues (MDB replenishments, the MTN, the Common Fund, etc.).

—Publicly noting that modest results from UNCTAD V were primarily a result of lack of focus and priorities on specific issues.

—Making clear that we distinguish between the political unity of the G-77, which the developing countries see as an important counterweight to the developed countries' economic power, and the need for

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<sup>4</sup> The Non-Aligned Movement met at the Ministerial level in Havana September 3–9.

differentiation among developing countries when it comes to specific economic and development policies.

—Moving forward, preferably with other developed countries, in proposing concrete programs in energy, food, technology, trade, and finance.

#### *The Next Six Months*

Over the next six months, we need to continue the program we launched this spring. Events we can use include the Tokyo Summit, final approval and funding of the Institute for Scientific and Technological Cooperation (ISTC), launching of the IDCA, the release of a report by the President's Commission on World Hunger, the COW and IDS in the UN, the UNCSTD and WCARRD (World Conference on Agrarian Reform and Rural Development) conferences, approval of the MTN package, and the opening address to the UNGA, presumably to be given by you.<sup>5</sup> Substantively, the following program is suggested:

—*Energy*: The current international energy situation makes more timely than ever a major effort to assist LDCs with energy problems. We should push forward our ideas regarding energy financing and regional research centers, while increasing our current programs of energy assessments and technical assistance.

- *Energy Financing*: The IBRD's new program to finance exploration and development of mineral fuels is getting into gear. Response from developing countries has been strong, and several proposals are now in the pipeline. We believe the first projects under this program should go to the Executive Directors within two to three months. In response to your Seattle speech, Fred Bergsten has sent a letter to Ed Fried officially requesting that the IBRD be asked to study what special financial arrangements might be required to encourage investment in renewable energy technologies in the LDCs.<sup>6</sup> Funding of renewable energy technology will be aired at the Tokyo Summit.

Also in response to your speech, Treasury, through our executive directors, has asked the regional banks to report on their current energy activities with a view toward encouraging more activity in the field. The Inter-American Development Bank staff has prepared a proposal to provide investment guarantees and insurance for petroleum and mineral exploration and development. The idea has aroused interest in

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<sup>5</sup> For Vance's September 24 address to the UN General Assembly, see the Department of State *Bulletin*, November 1979, pp. 1–6. In a September 5 memorandum to Vance, Maynes, Hormats, and Lake discussed "seven proposals in the area of North/South dialogue and how they relate to your UNGA speech." (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 5, S/P-Lake Papers—9/1–15/79)

<sup>6</sup> The letter was not found.

Latin America and a positive response from Japan and several other industrial country members. We have prepared a favorable response which should go to the IDB shortly.<sup>7</sup>

- *Research Institutes:* The President may reiterate at the Summit your Seattle speech recommendation on regional LDC energy research and training institutes. We also plan to test this idea in bilateral conversations and at the UNCSTD. If the developing countries respond positively to this idea, we may make a specific proposal at UNCSTD for a more detailed evaluation of this approach. We may also be in a position by autumn to make specific proposals in your UNGA speech on this and other energy initiatives.

- *Conference on New and Renewable Energy:* A US strategy paper is now being drafted for the 1981 Conference.<sup>8</sup> We would hope that the Conference would endorse progress made in the expansion and creation of regional research centers and in experiments with energy finance (such as those undertaken by the IBRD and regional banks), and might establish some kind of global coordinating mechanism to set priorities and coordinate funding for research on LDC energy problems (probably along the lines of that which exists for agriculture).

- *Assessments:* DOE has completed an assessment of national energy needs and resources for Egypt, is wrapping up the Peru assessment, and is about to get one underway with Argentina. In addition, an assessment program is probable for Portugal and possible for Yugoslavia and South Korea. AID is launching a major assessment project with Indonesia, and assessment components are included in a number of specific technical assistance projects (see Thailand below, for example). More funds could be effectively used in these programs as well as in the technical assistance and demonstration programs below.

- *Technical Assistance and Demonstration Programs:* AID is undertaking a \$26 million program in 30 countries this year, and plans to expand this to over \$40 million in FY 80. A major new program in Thailand provides a good example of our bilateral activity—it will include technical training, building institutional capacity to analyze energy programs and formulate policies, and will particularly highlight rural energy needs, including a fuelwood technology component.

- *Tax Policy:* Another idea that may warrant serious consideration—but is likely to encounter domestic opposition because it could appear to help the oil companies—is for the US to give more favorable foreign tax credit treatment to income earned by US companies from

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<sup>7</sup> Not further identified.

<sup>8</sup> The paper was not found. The UN Conference on New and Renewable Sources of Energy met in Nairobi in August 1981.

energy investments in non-OPEC LDCs than to income earned in OPEC states.

—*Food:*

- *Food Assistance:* We may be heading for another difficult period regarding availability of adequate food assistance. We anticipate a poor Russian harvest and a mediocre one in Europe. The monsoon in India is late, but it is too soon to predict whether there will be difficulties. It is, however, realistic to assume that grain prices in FY 80 will be at least 25% above those of FY 79. In the case of the US, our PL 480 budget for FY 80 will be about the same level as FY 79, which implies a cut in volume of food assistance of at least 25%. Egypt has requested a 500,000 ton increase in food aid for FY 80, in addition to the 1.5 million ton commitment it already has from us. A detailed memo is being prepared for you on this issue.

These developments increase the urgency of the kind of action called for in your Seattle speech. The US had already pledged to meet its higher levels of food aid commitments which were negotiated as part of a new Food Aid Convention, and called on other countries to do likewise, even though negotiations on a new International Wheat Agreement are not complete. This week the EC announced it will follow our lead and meet its higher commitments. We have also asked other countries to agree to a new Food Aid Convention independently of progress on the IWA. Finally, the Administration's Food Security Act has been introduced in the Senate and will be in the House. It would allow the USG to set aside four million tons of wheat in an International Emergency Wheat Reserve to meet our volume commitments to the Food Aid Convention in times of short crops and high prices. Chances for passage of the legislation this year are considered reasonably good, but we may need a push from you at some point.

- *Research on New Crops and Marginal Lands:* The establishment of the ISTC in October will allow us to press forward in these areas. Furthermore, USDA and Interior now seem more inclined to step up research in these areas out of their own budgets. For example, USDA hopes to expand its research program on guayule (a latex producing plant which grows in arid regions) from \$250,000 in FY 80 to \$2.5 million in FY 81. This undertaking will involve cooperative work with Mexico on new crops and dry lands agricultural techniques.

We need to find a way to insure that these kind of programs get a fair hearing within the Administration's overall budget planning. Domestic and cooperative research programs such as these often have trouble in fighting for budgets within their own agencies and with OMB. Budgets for such activities are often relatively small and are low on a domestic agency's overall priority list. Programs which ran into difficulty last year included tropical medicine and immunization re-



search at NIH and cooperative energy research at DOE. The IDCA might usefully devote some staff time to monitoring and lobbying for such activities within the executive branch.

- *WCARRD*: Preparations are now moving into high gear for the World Conference on Agrarian Reform and Rural Development next month. Andy Young is slated to head the US delegation. His opening address can set forth US priorities. The delegation's position papers will stress getting our points across in the Conference resolutions, particularly as regards the necessity for LDCs to pursue domestic policies (such as land reform, adequate credit facilities, and technical extension services) which encourage increased food production and distribution. We do not intend to propose new multilateral programs. We will continue to press the issues of domestic policies in the COW and preparatory work on the IDS.

- *President's Commission on World Hunger*: The Commission now plans to issue its final report in late August or early September. Our preliminary indications are that the report will emphasize a number of areas in which we are taking initiatives—new crops, research on marginal lands, post-harvest loss prevention, and food aid guarantees. We will try to review preliminary drafts, and help assure that the report gets heavy publicity overseas through our posts and ICA programs.

—*Technology*: Our main actions here still relate to the launching of the ISTC, now scheduled to go into formal operation on October 1, and the UNCSTD, now moving into an advanced stage of preparations.

—*Trade*: We want to obtain as many LDC adherents to the new MTN package as possible. Only Argentina has initialed the package to date. We believe the failure of others to do so largely reflects an effort to maintain G-77 unity going into UNCTAD V. It also relates to the desire of many LDCs to see how the negotiations on a new safeguards code are resolved. They regard the demand by the EC for "unilateral selectivity" as a direct threat to the ability of LDCs to increase their manufactured exports. ("Unilateral selectivity" would allow a country which believes it is suffering injury to an industry because of imports from one or several specific countries to take protectionist measures against the sources of those imports, rather than on an MFN basis, without prior consultations.) Up to now, the US has maintained a neutral position, but shares many of the concerns of the LDCs. Should we move in the EC direction, we may badly undercut our objective of integrating the LDCs more fully into the GATT.

Assuming a satisfactory resolution of the safeguard issue, our own legislative trade package may encourage the LDCs to accept the MTN, as the legislation contains several liberalizing measures for GSP which should particularly benefit regional grouping of LDCs such as ASEAN, the Central American Common Market, and the Andean Pact. In addi-

tion, the US should play an active role in pressing for GATT responsiveness to LDC concerns, particularly through a strong GATT Special Assistance Unit, which will be launched this fall.

—*Finance*: Prospects for the future include high oil prices, continued worldwide inflation, slow growth in the industrial countries and stagnant aid levels. As a result, developing countries will again have to choose between cutting their growth rates or borrowing heavily to maintain growth and import levels. Private banks are already heavily exposed in some developing countries, and we do not know if they will be able to respond as readily to LDC demands for credit as they did in the mid-seventies. We can predict that financing balance of payments and debt will again be major economic and political issues in North-South relations. There are several possible responses:

- *Bond Guarantee Proposal*: An innovative new way to substantially increase resource flows to the LDCs without straining aid budgets would be to provide official multilateral guarantees to support bond issues in the private capital markets by credit-worthy LDCs. Under such a scheme, bonds would be floated on the private bond markets, and the IBRD, developed countries and surplus oil producers would join together to provide partial or full surety for the borrowings. Such a mechanism could be general or limited to certain types of bonds, such as to support energy investments. Treasury has historically been negative on this concept, but Tony Solomon agreed that at UNCTAD V we could support an IBRD study on the establishment of a pilot program to determine the efficiency of such guarantees.

The opportunity to broach this issue did not arise at UNCTAD V, and we must still find an appropriate forum to launch it. The World Bank/IMF meeting in September<sup>9</sup> offers the best platform. It would be useful to discuss this idea informally with other industrialized countries and some LDCs before then. Although the bond guarantee idea is not slated to come up at the Summit, if the issue should surface, you may wish to note that we are exploring the concept and hope to exchange ideas before the Bank/Fund meeting.

- *Compensatory Finance Facility*: The question of a further liberalization of the CFF will come up at the September Bank/Fund meeting. As things now stand, the US will probably give grudging approval to some enlargement of the share of quotas which can be borrowed from the facility, while opposing any other liberalizing changes. The IMF staff had made several other suggestions, such as including tourism in calculating shortfalls in export earnings, allowing compensation for

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<sup>9</sup> The annual joint meeting of the IMF and World Bank took place in Belgrade October 2-5.

sudden surges in food imports, and providing a separate calculation for export earnings shortfalls related to commodities. These suggestions have generally been rejected out of hand in Treasury, and have generated little enthusiasm in some parts of State. We need a fresh look, and then ought to get behind whatever changes we decide upon.

- *Other Financing Mechanisms:* As usual, any movement in the financial area is most difficult. Over our negative votes, resolutions were passed in Manila asking the IMF to examine the need for a medium-term balance of payments support facility and requiring the Secretary General of UNCTAD to conduct a study of a possible complementary facility to the Compensatory Finance Facility. We believe the Brandt Commission will propose some mechanism to encourage surplus countries to lend on long-term conditions to developing countries.<sup>10</sup> Our bond guarantee proposal could be part of the answer to these demands.

—*Launching the IDCA and ISTC:* Unless blocked in Congress, the IDCA and ISTC come into formal existence on October 1. We ought to give major publicity to these events. The IDCA should be portrayed as a US commitment not just to foreign assistance, but development per se. Likewise, we should try to gain maximum exposure for the ISTC, both domestically and internationally through ICA.

—*Involving Other Foreign Governments in Our Efforts:* Up to now we have concentrated on pressing within our own government for a North-South package. We should now step up our efforts to explain our approach in developed and developing countries. The Summit will be a start. However, as we prepare for the UNGA and UNCTAD TDB,<sup>11</sup> we may want to do more in several key OECD countries and LDCs, to explain our approach and solicit ideas on energy, food, and financial issues. We will work with EB and IO on a separate memo on this topic.

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<sup>10</sup> In 1977, McNamara proposed that Brandt preside over an independent commission on North-South issues. Telegram 15053 from Bonn, September 14, 1977, transmitted a letter from Brandt to Carter on the proposed commission, and telegram 19870 from Bonn, November 30, 1977, reported on a November 29 press conference in which Brandt announced the formation of the Independent Commission on International Development Issues. (National Archives, RG 59, Central Foreign Policy File, D770333–0074 and D770444–0392, respectively) The Commission's report was issued in 1980; see Document 345.

<sup>11</sup> The UNCTAD Trade and Development Board served as a preparatory committee for UNCTAD V.

**331. Memorandum From Benjamin Huberman and Guy Erb of the National Security Council Staff and Nathaniel Fields of the Office of Science and Technology Policy to the President's Assistant for National Security Affairs (Brzezinski), the Director of the Office of Science and Technology Policy (Press), and the Special Representative for Economic Summits (Owen)<sup>1</sup>**

Washington, July 20, 1979

SUBJECT

PRC Meeting on Science and Technology and Development

A PRC meeting, chaired by Warren Christopher, on Science and Technology and Development will be held on Monday, July 23 at 10:00. The lack of a PRC review of PRM-33<sup>2</sup> has left unresolved overall U.S. policy on S&T cooperation with developing countries. This has also severely hampered U.S. preparation for the UN Conference on Science and Technology for Development (UNCSTD).

This meeting is being held at our insistence to wrap up PRM 33 and to get control over U.S. preparations for the UN Conference on Science and Technology for Development (UNCSTD), which begins on August 20 in Vienna. The PRM was intended to develop a coherent policy on S&T for development but was overtaken in this regard by the creation of the ISTC.<sup>3</sup> Beyond this, State was hampered in its leadership of the PRM by personnel turnover. On UNCSTD, State has so far avoided not only interagency but also internal clearances on positions and initiatives for the conference. This memo tracks the four agenda items and gives you our recommendations.

*Issues for PRC Action:* The PRC has four items for consideration (Tab B).<sup>4</sup>

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<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 48, PRC Meeting on PRM-33 Room 305, Monday, July 23, 79. Confidential.

<sup>2</sup> See Document 297.

<sup>3</sup> The International Development Cooperation Act of 1979, which Carter signed into law on August 14, authorized establishment of the Institute for Scientific and Technological Cooperation. Executive Order 12163, issued on September 29, set out the organization and functions of the ISTC. For the text of Executive Order 12163, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1979*, Book II, pp. 1792-1800.

<sup>4</sup> Tab B, attached but not printed, is an undated paper entitled "Summary Agenda Paper for PRC Meeting July 23, 1979."

- Agenda Item #1 (Tab B) PRM 33. The PRC is asked to note the conclusions of the study,<sup>5</sup> and to direct the follow-on actions resulting from the study.
- Agenda Item #2 (Tab B) UNCSTD. The PRC is asked to review and comment on the programs and initiatives that have been proposed for presentation and discussion at UNCSTD.
- Agenda Item #3 (Tab B) Presidential Directive. The PRC is requested to approve a directive which would direct USG technical agencies to devote increased attention to enhancing the international benefits from their technical programs.
- Agenda Item #4 (Tab B) Funding of USG International S&T Activities. The PRC is asked to direct the completion of a study on funding procedures for PRC review by February 1, 1980.

*Agenda Item #1 PRM 33—S&T for Developing Countries*  
(Agenda Item #1, Tabs B & C)<sup>6</sup>

State's inability to bring the PRM 33 study to a close has been a source of quiet embarrassment, as many within the Executive Branch, Congress, and the public have awaited PRC consideration of the PRM findings for a clearer understanding of Administration policy. Although its usefulness has diminished somewhat, there are several residual action items to be dispensed.

The PRC is asked to: (1) simply note, the conclusions (pages 2 & 3 of Tab C), and (2) to direct three recommended follow-on actions resulting from the study. Although the actions appear to be minor, they could provoke considerable disagreement between OMB and State over the actual conclusions of the study. OMB has contended that the PRM 33 was not conclusive, because many of the recommendations were not substantiated with adequate analysis; with strongest disagreement on specific "policy, (Tab J for Summary of PRM 33)<sup>7</sup> directions" (pages 3–6, Tab C).

*Recommended Action.* The PRC is asked to note the conclusions of the PRM. The PRC should avoid getting bogged-down in a dispute on

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<sup>5</sup> The August 8, 1978, study prepared in response to PRM 33 is in the Carter Library, National Security Council, Institutional Files, Box 47, PRM/NSC-33 (1).

<sup>6</sup> Tab C, attached but not printed, is an undated paper entitled "Agenda Item #1, PRM-33—Science and Technology for Developing Countries: Conclusions and Action Plan."

<sup>7</sup> Tab J, attached but not printed, is an "Action Summary" of the study prepared in response to PRM 33.

policy. You should try to minimize any such discussion. If the PRC appears unlikely to agree on this matter you should oppose any moves to recommit the policy issues for another interagency study by noting that the policy directions contained in the ISTC legislative mandate (pages 26–27, Tab L),<sup>8</sup> and in the President's S&T message provides adequate guidance.

*Agenda Item #1.2*

The second PRC action is to endorse and direct the plan for follow-on actions from the PRM (page 3–6, Tab C, and Tab J) which could produce proposals for the FY 82 budget cycle.

The possible follow-on actions are:

*Item #1.2.a.* Instruct AID missions to assist host governments in building indigenous S&T capacity.

This would be a new program authority for AID, which would overlap with the ISTC mandate. Consideration should be given to whether new AID involvement in capacity building will require new legislative authority. Discussions are being held regarding the delineation of the AID role versus the ISTC role in capacity building and in other program mandate areas. AID will probably oppose this recommendation because of the uncertainty regarding the availability of budget resources.

We should be careful not to load ISTC with all responsibility for capacity building also. ISTC will, particularly in the early years, have a limited budgetary capability for undertaking bilateral capacity building programs.

*Recommended Action.* Disapprove the PRM recommendation and leave this decision for the IDCA Administrator.

*Item #1.2.b.* Direct interagency preparation of specific proposals consistent with U.S. interests, for facilitating LDC access to private technology. The PRM did not undertake a definitive analysis of the issue, a study would be useful.

*Recommended Action.* Approve and ensure that the terms of reference for the study should be linked to UNCSTD and UNCTAD issues.

*Item #1.2.c.* Review of U.S. R&D activities to ascertain where developing country needs can be given greater weight in the areas of energy, which was not included in the PRM recommendation—but deserves attention, world population, international health, and world food and nutrition.

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<sup>8</sup> Tab L, attached but not printed, is the text of the legislation establishing the Institute for Scientific and Technological Cooperation.

*Recommended Action.* This assignment should go to the IDCA Administrator.

*Agenda Item #2 UNCSTD—Proposals for U.S. Presentation*  
(Agenda Item #2, Tab B; Tabs D & I)<sup>9</sup>

The PRC is asked to review and comment on the proposed U.S. initiatives for UNCSTD; and to direct State to (1) promptly send to NSC and OMB, under standard procedures regarding future international program commitments a request for Presidential approval of any program requiring such commitment; and (2) to note that the scope paper and position paper will be submitted to interested agencies for clearance.

The PRC will not be asked to review the U.S. position on all issues to be discussed at UNCSTD; however presentation of those issues is contained under Tab G.<sup>10</sup>

The major issues at UNCSTD and the general U.S. positions for the UNCSTD have both been worked out slowly and grudgingly. There has been much concern both within the Executive Branch and specifically within the Congress about the state of preparedness of the U.S. for the UNCSTD Conference. The most contentious issues facing the conference are (Tab G): (1) new financial mechanisms; (2) restructuring of the United Nations system for science and technology; (3) restructuring of the international system for transfer of technology; and (4) a global information system for science and technology. These issues have emerged from five preparatory committee meetings which have preceded the UNCSTD; many of the issues still do not have resolution and will require further discussion at Vienna before the conference can consider them.

The major U.S. initiatives at UNCSTD will be the ISTC, the ongoing programs primarily contained within AID (contained in Annex B, Tab H),<sup>11</sup> and the proposed new initiatives (contained in Annex C, Tab I). The proposed new initiatives are important from the standpoint of assuring an adequate damage limiting response by the U.S. to the Conference. There is general USG consensus that the Conference contains several very contentious issues which are not and would not be sufficiently responded to by the U.S. if we only presented the ISTC and the ongoing programs. If the Conference is to avoid a total collapse the

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<sup>9</sup> Tab D, attached but not printed, is an undated paper entitled "Agenda Item #2, UNCSTD: Scope and Proposed U.S. Program Presentations." Tab I, attached but not printed, is a paper entitled "Annex C: Proposed Programs and Proposals for Discussion."

<sup>10</sup> Tab G, attached but not printed, is a paper entitled "Annex A: UNCSTD Scope Paper."

<sup>11</sup> Tab H, attached but not printed, is a paper entitled "Annex B: Funded programs (AID Activities in S&T)."

US must be prepared to respond to the contentious issues in a moderate fashion. There are seven proposals which the PRC will be asked to consider. These must be judged against their ability to defuse the political rhetoric of the Conference and to assure that the Conference attains at least the minimum acceptable level of success.

Most of the proposals would be targeted for the FY 82 budget cycle. State has agreed to support the proposal for UNDP funding (Item 1, Tab I). OMB would probably question the need for any new funding at this point.

*Recommended Action.* All proposals deserve serious consideration and you should support a prompt request from State for a Presidential decision. We can make our final determination on each initiative (taking the PRC discussion into account) when State's memo is received. You should ask Christopher to state that adequate backstopping will be provided in Washington during the time of the conference proceedings.

#### *Agenda Item #3 Presidential Directive*

Strengthening U.S. International Science and Technology Programs (Agenda Item #3, Tabs B & E).<sup>12</sup> The PRC is asked to approve the draft directive and recommend that the President sign it. The statement indicates that as a result of the PRM 33 and in furtherance of the Title V objectives the President has determined that it is the policy of the U.S. Government to engage in a broad range of S&T activities with other countries. This would include both developed and developing countries.

The Presidential Directive would state that both domestic and foreign policy agencies should devote increased attention to how their R&D programs can contribute to the broadest range of international objectives, including strengthening U.S. economic competitiveness, promoting closer ties with other countries, improving the capabilities of developing countries, and utilizing finite global resources more effectively. There are many unresolved questions regarding the implementation of such a directive and the specific criteria for various international S&T programs.

The major concerns regarding the Presidential directive relate to the technical implementation and the timing of such a directive. The guidelines for this are yet undefined. They are being worked out within the Executive Order for Title V (Tab K) and within the CISET funding

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<sup>12</sup> Tab E, attached but not printed, is an undated paper entitled "Agenda Item #3, Draft Presidential Directive: Strengthening U.S. International Science & Technology Programs."



study (Tab F).<sup>13</sup> The draft PD is not ready for transmittal to the President. The PD might be useful after a PRC review of recommendations of the funding study (see Tab D).

State may argue the need for the PD to serve two functions:

(1) It would allow for presentation at UNCSTD; where the U.S. would point to the broad openness of U.S. Government agencies toward international cooperation and (2) it would be an explicit policy statement regarding international S&T activity which is still somewhat undefined.

*Recommended Action:* Defer preparation of a PD until PRC review of the Funding Study. The PRC could approve a broad statement of support for technical agency consideration of LDC R&D priorities and recommend that the Presidential Message to UNCSTD include a reference to such support. The statement to be noted could be drawn from the draft PD, as follows:

To this end, domestic and foreign policy agencies of the Government should devote increased attention to how their research and development programs can contribute more effectively to our major international objectives such as strengthening U.S. economic competitiveness, promoting closer ties with other countries, improving the capabilities of developing countries and utilizing finite global resources more effectively.

*Agenda Item #4 Funding of USG International S&T Activities*  
(Tab F)

The PRC is asked to: (1) take note of the Committee on International Science, Engineering and Technology (CISSET) initiated funding study and direct agencies to cooperate in its preparation; and (2) to direct the chairman of CISSET through the chairman of the Federal Coordinating Council for Science, Engineering, and Technology (FCCSET) to provide the results of the study with recommendations for their implementation to the PRC by February 1, 1980.

*Recommended Action.* Support the recommendation that the PRC direct the completion of this study and submit it for PRC consideration by February 1, 1980.

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<sup>13</sup> Tab K, attached but not printed, is a paper providing "Instructions on Executive Order to Implement Title V." Tab F, attached but not printed, is an undated paper entitled "Agenda Item #4, Funding of U.S. International S&T Activities."

### 332. Summary of Conclusions of a Policy Review Committee Meeting<sup>1</sup>

Washington, July 23, 1979, 10–11:30 a.m.

#### SUBJECT

PRM-33, Science and Technology and Development

#### PARTICIPANTS

##### *State*

Warren Christopher (Chairman)  
 Lucy Benson, Under Secretary for  
 Security Assistance, Science,  
 and Technology  
 Thomas Pickering, Asst Secretary,  
 Bureau of Oceans and  
 International Environment  
 and Scientific Affairs  
 Amb Jean Wilkowski, Coordinator  
 for UN Conference on  
 Science and Technology  
 for Development

##### *Labor*

Secretary Ray Marshall  
 Howard Samuel, Deputy Under  
 Secretary

##### *Treasury*

Deputy Secretary Robert Carswell  
 George Miller, Exec. Asst to  
 Secretary for Economic Policy

##### *NASA*

Administrator Robert Frosch  
 Staff Allen Lovelace, Deputy  
 Administrator

##### *AID*

Robert Nooter, Acting  
 Administrator

##### *HEW*

Peter Bell, Acting Director, Office  
 of International Affairs

##### *NSF*

George Pimental, Acting Director  
 Bodo Bartocha, Director, Division  
 of International Affairs

##### *White House*

Henry Owen  
 NSC  
 Rutherford Poats  
 Benjamin Huberman

##### *OSTP*

Frank Press  
 Nate Fields

##### *OMB*

John White  
 Randy Jayne

##### *Domestic Policy Staff*

Al Stern

##### *CEA*

George Eads

##### *IDCA*

Thomas Ehrlich, Director

##### *Commerce*

Luther Hodges, Under Secretary

##### *Agriculture*

Quenton West, Sp Asst,  
 International Scientific and  
 Technological Cooperation

##### *ISTC*

Ralph Smuckler, Director,  
 Planning Office

##### *ACDA*

Barry Blechman, Asst Director,  
 Weapons Evaluation and  
 Control

##### *DCI*

John Thomas, Asst NIO for  
 Special Projects

<sup>1</sup> Source: Carter Library, National Security Council, Institutional Files, Box 65, PRC 038, 9/22/77, North/South Issues—PRM 8. Confidential. The meeting took place in Room 305 of the Old Executive Office Building.

*Energy*

Sarah Jackson, Deputy Assistant  
Secretary, International  
Policy Development

*OSD*

Lt. Col Carl Groth, Acting  
Director, International  
Economic Affairs

*HUD*

Donna Shalala, Asst Sec,  
Policy Development and  
Research

*JCS*

Col Robert A. Witter, Chief,  
General Policy Branch

## SUMMARY OF CONCLUSIONS

The purpose of the meeting was to review the conclusions of PRM 33 on Science and Technology and Development, and to review U.S. preparations for the U.N. Conference on Science and Technology for Development. PRC action was taken on four items. (C)

1. *PRM 33 Conclusions and Follow-up.* The PRC noted the conclusions of PRM 33 without discussion. (OMB noted it would send a memo to Christopher outlining its concerns with the analysis done for PRM 33.) The PRC agreed on several follow-up activities: (a) IDCA would organize and coordinate an integrated bilateral program to strengthen S&T capacity in developing countries; (b) an interagency group, jointly-chaired by State and IDCA, would prepare proposals for facilitating LDC access to private technology; and (c) the ISTC would undertake an overall assessment of R&D activities within USG agencies to determine their usefulness to developing countries. (C)

2. *UNCSTD—U.S. Proposal.* In reviewing the US preparations for the UNCSTD, the PRC endorsed US support for several multilateral initiatives to be raised at the Conference. The PRC noted that the U.S. should support the UNDP proposal to establish a special S&T fund to be administered by UNDP which would target LDC needs in capacity building and education and training; State proposed, but most other agencies opposed, making a specific funding commitment at the conference in view of the limited time to analyze the plan and hold congressional consultation. The PRC also agreed that the following proposals merited US support at UNCSTD: (a) a Council for Mobilization of World Science and Technology, preferably as a function of the UNDP, (b) a generalization of the Tokyo Summit agreement on energy for LDCs,<sup>2</sup> (c) doubling of support (in nominal terms) over 5 years for CGIAR agricultural research centers, and (d) remote sensing discussions with satellite operators and users. It was agreed that US bilateral proposals for an S&T information access center and the space shuttle sensor for geothermal exploration require further development. The PRC noted that proposals to be presented or supported by the US at

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<sup>2</sup> See Document 222.

UNCSTD should be promptly sent to NSC and OMB for staffing to the President. (C)

3. *Presidential Directive—Strengthening US International S&T Programs.* Agreeing that a Presidential Directive was desirable, the PRC endorsed the drafting of a directive which would serve to strengthen US international science and technology programs by directing domestic and foreign affairs agencies to examine ways to broaden contributions of their R&D programs to US international objectives. The PRC noted that analysis of the budgetary implications of such a directive should be factored into the PD and that State will seek agency views prior to submitting the PD for Presidential approval. (C)

4. *Funding of USG International S&T Activities.* The PRC directed the completion of the State-led (CISET) study on this subject and its submission for PRC action by February 1, 1980. (U)

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### 333. Memorandum From Secretary of State Vance to President Carter<sup>1</sup>

Washington, August 2, 1979

#### SUBJECT

S&T Cooperation with Developing Countries

This memorandum asks you to make certain decisions regarding U.S. positions for the UN Conference on Science and Technology for Development (UNCSTD) which begins August 20, 1979 at Vienna. The primary focus of the U.S. presentation at this Conference will be the proposed U.S. Institute for Scientific and Technological Cooperation (ISTC), which has now been approved by the House and Senate. Three other issues, which were reviewed by a PRC on July 23,<sup>2</sup> require decisions by you.

1. Bradford Morse, head of the UN Development Program, has suggested that the UNDP create a special \$250 million two-year fund to provide scientific and technological aid to developing countries. (This would be an alternative to the developing countries' more grandiose proposal for a \$2 billion UN science and technology fund.) The PRC

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 141, 8/7/79. Confidential.

<sup>2</sup> See Document 332.

consensus was that the U.S. Delegation should support the UNDP proposal in principle, provided that the new program focuses on training and other S&T activities that do not duplicate or overlap with ISTC's programs. However, the PRC did not reach a decision on the level of U.S. financial support for such a program. Hence, the U.S. delegation is not now in a position to make a commitment at UNCSTD on a U.S. contribution to the fund.

After further consideration of the funding issue, I believe that it would be preferable for the U.S. delegation to be able to state at the Conference that the U.S. would be prepared to contribute up to \$25 million to the fund annually for two years, provided certain conditions were met and subject to the approval of our Congress. The U.S. contribution would in any event not exceed 20% of whatever total was agreed upon for the fund.

I recommend that you authorize the U.S. delegation to indicate at UNCSTD that the U.S. would contribute up to \$25 million annually for two years to a UNDP special fund for science and technology provided that the following conditions are met:

—The fund's activities would not duplicate ISTC, UNDP or other multilateral assistance efforts in science and technology, and would meet a legitimate need.

—The other donor states, including members of OPEC, contribute a fair and reasonable share; and

—Consultation with key members of the Appropriations Committees indicates a generally favorable Congressional reaction.

These provisos will ensure that the U.S. does not commit itself until it is clear that the fund will be of genuine value to the LDC's. At the same time being able to support the initiative will greatly strengthen the hand of the U.S. delegation in shaping the nature of the fund and inducing other nations to contribute their full share. Father Ted Hesburgh, who will lead the U.S. delegation at Vienna, strongly agrees with supporting the UNDP initiative; he wants the U.S. delegation to be well equipped to exercise real leadership at the Conference. Clem Zablocki, who will be a member of the delegation (which includes 20 Congressmen and 1 Senator) favors a specific U.S. commitment to the fund and also counsels prior consultations with the Appropriations Committees. With a favorable decision from you we can consult with key members and go forward if the Congressional reaction is receptive.<sup>3</sup>

2. The PRC consensus was that the U.S. should propose that the UN Conference call, as the seven heads-of-government did at the Tokyo Summit, for:

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<sup>3</sup> Carter did not indicate his preference with respect to this recommendation.

—an increase in bilateral S&T aid to help LDCs expand their energy production; and  
—the World Bank to coordinate these national aid activities, so that they will add up to a coherent and concerted program.<sup>4</sup>

3. The PRC consensus was that the U.S. should urge the UN Conference to call for greatly expanded national and multilateral aid for agricultural research in LDCs, as agreed at Tokyo. To this end, the Chairman of the Consultative Group on International Agriculture Research should be asked to develop plans for a significant increase in real terms over five years in the support provided by the Group to the highly effective International Agricultural Research Centers. In these plans the Chairman would be asked to give particular attention to promoting the application of research results in developing countries. The U.S. would not commit itself, at this time, to a specific increase in its CGIAR contribution. The FY 1979 U.S. contribution to the CGIAR is \$26 million. In the future this contribution will come from the budget of the ISTC.<sup>5</sup>

I intend to submit to you next week a proposed Presidential Directive to U.S. agencies to maximize their LDC-oriented S&T,<sup>6</sup> which could be cited by our delegation at the Vienna Conference as further evidence of our commitment to doing more for the developing countries in this area.

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<sup>4</sup> Carter indicated his approval of this recommendation.

<sup>5</sup> Carter indicated his approval of this recommendation.

<sup>6</sup> Not found. No Presidential Directive on science and technology was issued.

**334. Memorandum From the Director of the Office of Management and Budget (McIntyre), the Director of the Office of Science and Technology Policy (Press), and the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, August 3, 1979

SUBJECT

S&T Cooperation with Developing Countries (U)

Cy Vance has sent you his recommendations on the US position at the August 20–31 UN Conference on Science and Technology for Development.<sup>2</sup> On two of his proposals there was agreement in the PRC: increased and coordinated aid to developing nations in energy development and, similarly, in agricultural research; both of these positions were agreed at the Tokyo Summit. There also is agreement that we should stress our creation of the Institute for Scientific and Technological Cooperation (ISTC). (C)

There is disagreement on Cy's proposal that the US delegation, led by Father Hesburgh, announce support for creation of a special fund of up to \$250 million in the UN Development Program and commit a US contribution of up to \$25 million annually in FY 1981 and 1982. This commitment would be subject to a favorable pre-conference canvass of key members of congressional appropriations committees and assurance that the fund's program would not duplicate ISTC. (C)

Press, Owen and Tom Ehrlich believe that the industrial countries should support, in principle, a modest alternative to the developing countries' demand for a \$2–\$4 billion UN S&T fund. They believe, however, that we should not make a commitment to a specific US contribution until we can see how the fall budgetary situation stacks up, what other donors are willing to do, and whether other countries will accept our condition that the UNDP fund not duplicate our ISTC program. They would notify other countries of the US position and express a hope that they will take the same view, but refrain from spending political capital in persuading our allies to support the fund. They recommend that, with your approval and, if necessary, after notifying the chairmen of the two relevant appropriations subcommittees, the US delegation be authorized to say:

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 116, Scientific Matters: 1979. Confidential. Sent for action. Carter initialed "C" at the top of the page.

<sup>2</sup> See Document 333.

The US supports the proposal in principle, provided the Fund's functions are defined in ways that do not duplicate ISTC programs. A US contribution of up to \$25 million annually, or 20% of a two-year fund of up to \$250 million, will be considered in US budget planning this fall for FY 1981 and 1982, but before making a firm commitment we must know more about the size of the whole US aid budget, other donors' plans, and Congressional sentiment. (C)

OMB opposes both the Vance and the Press-Owen-Ehrlich proposals. OMB recommends that the US delegation be instructed to avoid creating expectations of US contributions to such a fund because there is a strong probability that it will be found this fall to be a marginal claimant on a tight aid budget for FY 1981. A modest UNDP fund, OMB believes, is unlikely to satisfy the developing countries, whose demands include mandatory technology transfer, control of transnational corporations, and a vastly larger S&T fund. Several other OECD countries have taken a hard line in preparatory meetings against significant new aid commitments at this conference, and we have higher priority aid issues on which we must press them. OMB also fears that agreement to a special fund at this conference will encourage similar proposals at subsequent special purpose meetings. (C)

OMB recommends that the US delegation be instructed to give no encouragement of US support of the proposed UNDP fund but, instead, stress our contributions in the formation of the ISTC, our present spending of \$200 million annually in AID S&T activities, and your commitment to double our development aid budget by 1983. (C)

Father Hesburgh urges approval of the Vance proposal or at least the Press-Owen-Ehrlich statement. Otherwise, he says he and his delegation (including 21 Congressmen) will have an inadequate US position. Zablocki shares this view, but he would stop short of a flat commitment without assurance of support by the appropriations committees. Such assurance is difficult to obtain through consultations during the Congressional recess, which is one reason that OMB, Press, Owen, and Ehrlich do not favor a firm commitment to a specific US contribution now. (C)

Alternative A: Specific commitment (Vance)

Alternative B: No commitment (OMB)

Alternative C: Conditional support (Press, Owen, Ehrlich) (NSC, CL)<sup>3</sup>

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<sup>3</sup> Carter did not indicate approval of any of the three alternatives. In the margin next to the alternatives, he wrote: "Get Approp. Committee sentiment. My own first preference is to emphasize ISTC, but if Cong commits, I'll go with Alt (C)." The UNCSTD was held in Vienna August 20-31. For the opening and closing remarks by Hesburgh, head of the U.S. delegation, and Carter's message to the conference, see the Department of State *Bulletin*, November 1979, pp. 51-54.



**335. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Miller<sup>1</sup>**

Washington, November 9, 1979

## SUBJECT

IDA VI—Completing the Negotiations

*The Issue*

Negotiations for the Sixth Replenishment of IDA are nearing a conclusion. When they began eighteen months ago, the Bank proposed a \$15 billion replenishment with a U.S. share of 31 percent—implying \$1.6 billion a year in appropriations for FY 1981–83. When the President initially reviewed the issue, in June 1978,<sup>2</sup> he approved a range of \$1.2–1.6 billion per year for the U.S. contribution as a key part of his (then) effort to double U.S. concessional aid by FY 1982.

During the long series of negotiations, during which we have made no money commitment, we have successfully argued that the Bank's proposal was too ambitious regarding both size and U.S. share. A consensus has now emerged among the other donors on a \$12 billion replenishment. This amount would represent 5 percent real growth over IDA V, thus fulfilling a Bonn Summit commitment.

At the same time, in response to a sense of the Congress resolution attached to last year's appropriation bill,<sup>3</sup> we have made it clear that our share cannot exceed 27 percent. Other donors are reconciled to accept this decline from our 31.4 percent share of IDA V. We have also made it clear that we are not yet in a position to agree to the \$12 billion level.

The negotiations must now be wrapped up by mid-December so that we, and other donors, can include the first installment of IDA VI contributions in budgets for FY 81. It appears that the deal can be concluded at the next IDA Deputies Meeting on December 12–13, if the

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<sup>1</sup> Source: Department of the Treasury, Office of the Secretary, Executive Secretariat, 1979 Files, 56–83–70. No classification marking. Sent for action. Sent through Solomon. Drafted by Department of the Treasury staff member Steven Tvardek. Reviewed by Department of the Treasury staff members Joseph Winder, King (not further identified), and Eva Meigher and Nachmanoff. Also reviewed by the Department of the Treasury Executive Secretariat on November 12.

<sup>2</sup> Not found.

<sup>3</sup> In October 1978, Congress passed and Carter signed into law the Foreign Assistance and Related Programs Appropriations Act (P.L. 95–481). Attached to the legislation was a sense of Congress resolution asserting that the United States' IFI contributions should henceforth be below various set percentages.

United States is ready—which, because of our own budget timing, we must be.

*Proposed Position*

I think we should support a \$12 billion replenishment and a U.S. share of 27 percent. This would result in an average annual contribution of \$1,080 million which represents real growth of less than one percent over our IDA V contribution. State, the White House and all other agencies support this figure.<sup>4</sup>

This level is far less than the President initially approved (\$1.2–1.6 billion annually, with a preference for the \$1.4 billion midpoint). It is less than the \$1.2 billion figure in the spring budget review. It is far lower than the Bank requested and the State Department thought was appropriate. It is less than Congress appropriated for IDA in each of the last two years (\$1,258 million for FY 79 and apparently \$1,072–\$1,092 million for FY 80, though each of those numbers included IDA IV arrearages as well as IDA V current payments).

In response to the expressed concern of Congressman Obey that the IDA figure be kept below \$1 billion in politically difficult 1980, we have negotiated an arrangement to staircase our actual payments. The FY 81 total figure would thus be about \$980 million. OMB would greatly appreciate stairstepping, as it would help relieve the intense budget pressure for next year.

*Hill Considerations*

We have carried out Congressional consultations on IDA VI, and it is these—plus the difficulties of this year's Hill battle and the overall budget tightness—which have led us to cut back the proposed numbers so sharply. The Hill reactions have ranged from cool to hostile, and some of our leading supporters—including Senator Javits and Congressman McHugh—counsel that we support the international consensus but frankly tell the other contributors that we may not come up with our full payments on time. There has, however, particularly in the Senate, been strong support for our success in negotiating the sharp reduction in the U.S. share.

We have deliberately left Representative Obey, the most important House member, until last—although we have had extensive discussions with him on the subject earlier, and know that he has concern about our numbers. We simply cannot risk consulting with him on IDA VI until the current conference is completed, but will do so immediately thereafter.

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<sup>4</sup> Miller underlined this sentence and put a checkmark in the adjacent margin.

You have suggested a meeting with McNamara and key Congressmen prior to the final IDA negotiating session. We will try to set up such a meeting, probably for the first week of December, although it may be difficult in light of meshing everyone's schedules.<sup>5</sup> In any event, we will convey our intentions to all key members with adequate time to get their reactions prior to final action.

*Conclusion*

IDA is the centerpiece of U.S. North/South strategy. It is also the largest source of concessional assistance to Black Africa. At a time when the U.S. is being criticized internationally for its relatively low level of foreign aid, we will be able to take credit for a successful conclusion to the IDA negotiations at very little increase in budgetary cost. Indeed, almost all the real growth in IDA will come from other donors.

I therefore recommend a U.S. position of 27 percent of a \$12 billion IDA VI replenishment, as the basis for final Congressional consultations and inclusion in the FY 81 budget.

Approve<sup>6</sup> \_\_\_\_\_

Disapprove \_\_\_\_\_

Let's meet \_\_\_\_\_

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<sup>5</sup> Miller put two checkmarks in the margin adjacent to the first two sentences of this paragraph.

<sup>6</sup> Miller indicated his approval of this recommendation and wrote: "Bill, 11/15/79." On January 17, 1980, the IDA announced the successful negotiation of its sixth replenishment in the amount of \$12 billion. The United States' contribution was to be \$3.24 billion, or 27 percent of the total replenishment. (Hobart Rowan, "World Bank's Affiliate Gets Expanded Funding," *The Washington Post*, January 18, 1980, p. F2)

**336. Memorandum From Secretary of State Vance to President Carter<sup>1</sup>**

Washington, November 10, 1979

## SUBJECT

Statutory Constraints on Foreign Assistance Which May Impede U.S. Efforts to Counter Soviet-Cuban Adventurism

In response to your question on this subject, let me first briefly review our accomplishments and setbacks on the "legislative constraints" front since my memorandum to you on this issue last year (attached).<sup>2</sup>

Working closely with Henry Owen and AID, we have succeeded in getting Congress to eliminate outright or ease a number of constraints on our use of development and security assistance in areas where Soviet and Cuban activity is growing. These include:

—repeal of the prohibition on furnishing long-term development assistance *and* short-term economic support (security supporting assistance) to any country in a single fiscal year (Sec. 115 of the Foreign Assistance Act of 1961, as amended—the FAA);

—authorization for the President to draw on Defense Department stocks for emergency military assistance needs involving vital U.S. security interests, *without* the former requirement for appropriation act language each year before this authority is actually available to the President (Sec. 506 of the FAA);

—repeal of the \$40 million ceiling on aggregate military assistance and foreign military sale (FMS) financing that can be provided to African countries in a single fiscal year (Sec. 33 of the Arms Export Control Act);

—removal of limits on the amount of military assistance and FMS sales and financing for Turkey in a single fiscal year (although the President must still first certify that defense articles provided are necessary for Turkey to meet its NATO defense responsibilities) (Sec. 620(x) and 620(C) of the FAA);

—expansion of the President's authority to transfer funds from the Economic Support Fund account under the FAA to the Peacekeeping account, and to use Peacekeeping funds to pay for Defense Department expenses incurred in supporting UN activities.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 25, Foreign Assistance: 6-11/79. Secret. Carter initialed "C" at the top of the page. The memorandum was sent to Carter under cover of a December 3 memorandum from Owen, who indicated his agreement "with Cy's case-by-case approach to the removal of constraints and will work with him, Tom Ehrlich, and others on a strategy for 1980." Owen also wrote: "This is an uphill battle but our achievements thus far show that some headway can be made." Carter initialed Owen's memorandum. (Ibid.)

<sup>2</sup> Printed as Tab A to Document 305.

For FY 81, we hope to have established a \$50 million Contingency Fund. This is the single most significant new initiative in which we will be engaged with the Congress to provide you with broader flexibility to respond to rapidly developing threats to peace and security around the world.

There are still a large number of statutory provisions which limit executive flexibility. Some of these have been enacted in the past year. They include:

—prohibitions in the FY 80 economic and security assistance legislation on various forms of assistance, respectively, to Panama, Jordan, Syria, and Afghanistan,<sup>3</sup> in each case waivable under certain conditions;

—a tightening of constraints on providing assistance to countries in default on U.S. Government loans; and

—requirements for Presidential certifications before security assistance may be proposed for Greece and Turkey, or before major FMS sales may be made to those countries.

The FY 80 foreign assistance appropriations legislation, now in conference, may contain further constraints, the most serious being a prohibition on “indirect” assistance to certain designated countries. We are continuing our efforts to defeat these.<sup>4</sup>

Our experience in working with Congress to reduce or eliminate legislative constraints indicates that:

—we have been most effective to date in arguing, not against constraints per se, but that particular constraints are undesirable on their own practical or policy merits;

—Congressional concern over real and perceived past abuses of Executive authority in foreign assistance and other areas is likely to continue to be reflected in a strong Congressional desire for close scrutiny or limitation of contemplated foreign policy actions by the Executive;

—many in Congress believe the need for “Executive flexibility” is adequately addressed by existing waiver authority in many individual prohibitions and by general Presidential authority to waive most prohibitions against programs under the FAA.

Tom Ehrlich is leading an interagency study that will have as one of its primary subjects of focus how to simplify U.S. development assistance programs.<sup>5</sup> I believe this should include a further review of

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<sup>3</sup> Carter underlined the words “Panama,” “Jordan,” “Syria,” and “Afghanistan.”

<sup>4</sup> Carter highlighted this paragraph.

<sup>5</sup> On October 18, Vance asked Ehrlich “to take the lead” on reviews of three issues: “whether our bilateral or our multilateral assistance is most effective in the long run;” “what can be done to eliminate restrictive legislative provisions and to simplify administrative practices with a view to improving the quality and flexibility of our aid;” and whether the Carter administration had “been as effective as it should be in building Congressional support for our foreign assistance programs, and particularly for our contribu-

how we should approach Congress in an effort to minimize statutory constraints in this area. Everyone involved, including Henry Owen, agrees that the issues must be thoroughly reviewed within the Executive Branch before we broach any proposals for wide-ranging reform with the Congress. As this study proceeds, we will continue our efforts to eliminate specific existing constraints and resist the imposition of new ones.

For the immediate future, any constraints which stand in the way of initiatives we may contemplate taking to counter specific threatening acts of the Soviets and/or Cubans should, I believe, be addressed on a case by case basis. We should consider making maximum use of the broad waiver authority you already have with regard to many prohibitions and be prepared to take our case to the Congress on specific non-waivable prohibitions where we believe a good possibility exists for sympathetic Congressional action.

Tom and I will provide you with periodic reports on the progress of the IDCA-led study and ensure that it proceeds on a priority basis.

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tions to the multilateral development banks (MDBs) and UN organizations." Vance's October 18 letter to Ehrlich and Ehrlich's October 29 reply are in the National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977-January 1981, Lot 82D298, Box 5, S/P-Lake Papers—10/16-31/79.

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**337. Memorandum From the Vice President's Assistant for  
National Security Affairs (Clift) to Vice President Mondale<sup>1</sup>**

Washington, December 17, 1979

SUBJECT

Preliminary Recommendations of the Presidential Commission on World Hunger

The following is forwarded in response to your request for a brief review of the preliminary recommendations of the Presidential Com-

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<sup>1</sup> Source: Carter Library, Donated Material, Papers of Walter F. Mondale, National Security Issues, Box 87, National Security Issues—World Food [6/30/1977-12/17/1979]. No classification marking. Sent for information.

mission on World Hunger.<sup>2</sup> In its preliminary report, the Commission presents only recommendations affecting the organization of the U.S. Government, levels of development assistance, alleviation of famine caused by war, and domestic feeding programs.

The Commission's preliminary recommendations are that:

—The United States make the elimination of hunger the primary focus of its relationships with the developing countries, beginning with the decade of the 1980s.

—The Director of the International Development Cooperation Agency be accorded Cabinet-level status, so that the objectives of equitable economic development can be more effectively integrated into U.S. national security policy and planning.<sup>3</sup>

—The United States move as rapidly as possible toward the United Nations' goal of 0.7<sup>4</sup> percent of Gross National Product as this nation's net disbursement of concessional economic assistance. The Commission further recommends that this increase be limited to development (not security or military) assistance, targeted selectively at poor nations strongly committed to meeting basic human needs and rights through self-reliant development, and that appropriations for this purpose be funded on a multi-year basis, and "untied" from domestic economic or political interests. In order to reach the target of 0.7 percent GNP as quickly as possible, the Administration must propose a substantial increase in its next fiscal year submission, with the intent of doubling<sup>5</sup> economic development assistance within a few years. The Congress must be prepared to approve the request for increased funding. The Commission emphasizes that the increase must focus on the economic and technical aspects of development assistance and not on security assistance.

—The United States Senate ratify the Additional Protocols to the 1949 Geneva Convention, adopted by the International Conference on Humanitarian Law in Armed Conflict.<sup>6</sup>

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<sup>2</sup> Linowitz submitted the Commission's preliminary report to Carter under cover of a December 6 letter. (Ibid.) Substantial portions of the preliminary report are printed in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs, Document 263. It was released to the public on December 10. (Seth S. King, "U.S. Panel Asks Doubling of Aid to Food-Short Lands," *The New York Times*, December 11, 1979, p. A11)

<sup>3</sup> Mondale wrote "No" in the margin adjacent to this point.

<sup>4</sup> Mondale underlined the number "0.7."

<sup>5</sup> Mondale underlined the word "doubling."

<sup>6</sup> Meeting in Geneva in June 1977, the Conference reached agreement on adding two protocols to the 1949 Geneva Convention, one pertaining to foreign conflicts and the other to domestic conflicts. ("Meeting on Revising Rules of War Ends in Geneva After Four Years," *The New York Times*, June 11, 1977, p. 5)

—The Commission recommends that increased resources be provided to those domestic hunger programs which have a demonstrated record of success, and that a systematic effort to assess the nutritional status of Americans be undertaken. Congress and the Department of Agriculture will have to take steps to assure that food assistance programs, particularly food stamps, respond to increases in inflation and unemployment.

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### 338. Paper Prepared by the Department of State<sup>1</sup>

Washington, undated

#### Scope Paper on the First Phase of Global Negotiations

#### The Preparatory Work in the UNGA Committee of the Whole

##### *Introduction*

Preparatory work on “global negotiations” formally begins in the UNGA Committee of the Whole (COW) January 14–16. This will primarily be an organizational meeting, although formal statements will probably be made. A U.S. statement is now being drafted which reflects the strategy in this paper. The first substantive work session of the COW will be March 31 to April 11. This will follow a Ministerial Meeting of the Group of 77 in mid to late March. This Ministerial Meeting is expected to fix the G-77 negotiating position for the preparatory phase of the COW. Further COW meetings are planned for early May and late June. We expect a contact group to work between formal sessions. The UNGA resolution designates five broad areas of concern from which issues will be selected: energy, development, trade, raw materials, and money and finance.<sup>2</sup>

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977–January 1981, Lot 82D298, Box 6, S/P-Lake Papers—1/1–15/80. Confidential. Sent to Vance under cover of a January 7, 1980, memorandum from Hinton, Maynes, and Lake. (Ibid.)

<sup>2</sup> UN General Assembly Resolution 34/138, approved on December 14, 1979, initiated “a round of global and sustained negotiations on international economic co-operation for development” that would include “major issues in the field of raw materials, energy, trade, development, money and finance.” For the text of the resolution, see *Yearbook of the United Nations*, 1979, p. 468. Telegram 334161 to all diplomatic posts, December 30, 1979, distributed the text of both resolutions. (National Archives, RG 59, Central Foreign Policy File, D800003–0197)



*United States Objectives*

Our objectives for the global negotiations are twofold: 1) to prevent them from undermining the effectiveness of the international system which in general has served the world well for the past thirty years, and 2) to strengthen the system by adapting it to the evolving needs of a larger and more interdependent global economic order.

Regarding the first point, we want to prevent:

—global negotiations from weakening existing international institutions such as the IMF, the GATT, or the multilateral development banks;

—a deterioration of the political atmosphere surrounding the preparatory phase and global negotiations which damages other U.S. multilateral, regional, and bilateral interests; and

—global negotiations from being seen as an automatic court of last resort for the resolution of difficult issues under negotiation elsewhere (this could either freeze constructive negotiations or put more pressure on the U.S. to make concessions).

Despite the difficulties apparent in the economic setting and the expected characteristics of the forum, we will try to structure the global negotiations so that they can contribute to the resolution of major economic problems facing the international community in the 1980's:

—an increasing dependence on high priced and potentially unstable supplies of imported energy,

—a growing potential food shortage, and

—an expanding number of balance of payments problems associated with increasing import costs and declining growth in export earnings.

We are under no illusion that global negotiations can by themselves solve these problems. Moreover, we recognize that unless the major participants can agree to establish priorities or focus on a few subjects, the outcome will be less productive than CIEC or the COW. But there is a chance—and we will strive to realize it—that we can use the global negotiations to:

1. increase pressure on the oil exporting nations to follow more responsible pricing and production policies, on the consuming countries to enhance conservation efforts and accelerate the development of new energy, and on the world community to increase funding of energy development;

2. stimulate greater domestic and international efforts to increase food production, improve food distribution, and strengthen international food security;

3. increase understanding of the urgent need to reduce protectionist barriers in all countries, LDCs as well as DCs; and,

4. examine the measures necessary to sustain reasonable levels of economic growth in countries faced with balance of payments deficits, especially the very poor countries.

*Tactics Toward the Preparatory Process*

To maximize the probability of achieving our objectives, the U.S. needs to do the following:

—Significantly improve coordination among industrialized countries in New York to the end of adopting common strategy for the preparatory talks and the negotiations.

—Strive to have the actual global negotiations decentralized, i.e. take place as much as possible in the appropriate UN specialized forum. Decentralization will make it more difficult to link progress on one issue to progress on another (the lesson of CIEC); it provides better expertise in the diplomatic corps and the relevant secretariat that will service the negotiation; it will minimize disruption or duplication of present negotiations; and most importantly, it reinforces the mandate of present organizations in the UN system.

—Third, the U.S. should stress the global rather than North-South nature of these negotiations, i.e. that the problems before the group should be seen as global problems involving mutual commitment and responsibilities from the global community.

—Fourth, to counter the standard G-77 practice of putting forward a long list of NIEO demands, we need to identify early a limited number of areas where we and other industrialized countries believe consensus is possible, advise the G-77 leadership of our thinking, and be prepared to insist that the final agenda is conducive to progress in these areas (we would, of course, identify general areas for work—not specific outcomes).

**339. Memorandum From the President's Assistant for National Security Affairs (Brzezinski) and the Director of the Office of Management and Budget (McIntyre) to President Carter<sup>1</sup>**

Washington, January 9, 1980

## SUBJECT

Foreign Policy and Country Aid Allocations (S)

This memorandum responds to your request that we review proposed aid allocations to countries in light of their attitudes toward primary US foreign policy objectives, especially in the current Iranian and Afghan situations.<sup>2</sup> (S)

An NSC staff analysis last week found a high correlation between recent trends in allocations of aid among countries and their support of, or opposition to, major US foreign policy interests.<sup>3</sup> (C)

We have considered whether reductions in aid to unhelpful countries would be likely to improve their political behavior or influence other aid recipients to be more helpful. (S)

## I. Security Assistance

This type of assistance is geared primarily to support of short-term foreign policy purposes, and so changes in it to take account of the recipients' changing foreign policy attitudes are not only appropriate but desirable. (U)

In security assistance, negative political factors were found in the cases of three recipients: Zambia, Syria, and Mozambique, and inconsistency between low aid allocations and high political support ratings was noted in the cases of Oman, Morocco, and Lebanon. (U)

Of the three countries frequently at odds with US policy, only Syria has been particularly unhelpful in the current crises. On *Iran*, while the Syrians have indicated the possibility of their playing a mediator's role, their public pronouncements have been strongly pro-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 25, Foreign Assistance: 1–10/80. Secret. Sent for action. Carter initialed "C" at the top of the page.

<sup>2</sup> In a January 8 handwritten note to Brzezinski and McIntyre, Carter requested: "Advise me what changes we should make in foreign aid pkg—today." (Ibid.) In November 1979, Iranian Islamic militants overran the U.S. Embassy in Tehran and took the U.S. personnel as hostages. In December 1979, the Soviet Union invaded Afghanistan.

<sup>3</sup> Reference is to a January 5 memorandum from NSC Staff members Rutherford Poats and Robert Kimmitt to Brzezinski entitled "Correlation of Aid Levels and Support of US Objectives." (Carter Library, National Security Affairs, Staff Material, Office, Outside the System File, Box 60, Chron: 1/81)

Khomeini and pro-revolution. On *Afghanistan*, Syria has endorsed the Soviet action and has issued statements of support for the new government in Kabul. We find the accumulation of Syrian actions contrary to US interests unacceptable in a recipient of security assistance. (S)

No other current recipient of US aid has taken a stance on the Afghanistan issue comparable to Syria's. (C)

If action were to be taken against Syria on this account, we would favor sharply reducing its FY 1981 \$15 million ESF program, leaving \$5 million to continue our educational scholarship and training projects, which may be useful ultimately in gaining Syrian political cooperation. We believe that the Congress is likely to cut out all aid to Syria if a large program is proposed. The reduced proposal contrasts with our requests of \$60 million in FY 1980 and \$90 million in FY 1979. (S)

We would propose applying the \$10 million "saving" to ESF aid to a more supportive country or countries, such as Lebanon. It is too late in the budget process to shift the funds to the FMS account. They could be added to the Contingency Fund proposal, but this might simply increase the Congressional cut of this controversial account. (S)

#### *Options*

—Leave Syrian ESF program at \$15 million. (C)

—Reduce the Syrian program to \$5 million and apply the \$10 million to a more supportive country or countries. (Our recommendation; State concurs)<sup>4</sup> (C)

## II. Development Aid

Development assistance is, by its nature and legislative history, geared more to long-term goals than to influencing immediate political behavior. The Congress made clear, in amending your aid reorganization plan last year and in previous amendments to the Foreign Assistance Act, that development aid should be insulated from short-term political considerations. The Nixon Administration was strongly criticized by the Congressional and private constituencies (especially church leaders) on which we rely for support of development aid for moving in the opposite direction. (It reportedly had a "hit list" of countries which were to be punished for their UN votes, and which was kept up to date in the State Department by White House direction.) (U)

In development assistance, the NSC staff study found some divergence between development aid allocations and recent political attitudes—notably in the cases of India and Mali. (C)

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<sup>4</sup> Carter indicated his approval of this option and initialed "J."

We believe *Mali* can be set aside for the present as inconsequential. Our development aid of \$16 million is an integral part of the multi-country Sahel recovery program. Mali's pro-Soviet tendencies don't seem likely to be contagious in Africa or troublesome in international organizations. (C)

*India* has deplored the taking of US hostages in *Iran*, but the interim government has not been as outspoken and active as we wished in working for their release. Both that government and candidate Gandhi have criticized Soviet military intervention in *Afghanistan*.<sup>5</sup> After first being quoted in an Indian newspaper as seeing some merit in Moscow's excuses for its action, Mrs. Gandhi made a forthright statement of criticism of Soviet aggression yesterday: "There is no excuse for Soviet troops to go into Afghanistan . . ." (C)

As you know, India is a unique case: practitioner of a peculiar brand of non-alignment that sometimes is biased toward Soviet interests (such as in Kampuchea), the central theater in the war on hunger (along with Bangladesh and Pakistan), and increasingly effective in agricultural development. (U)

India's positions on the current crises and its longer-term political posture do not, in our judgment, warrant a punitive reduction of presently programmed aid. (S)

That aid consists of a constant program of PL-480 Title-II food grants for voluntary agency feeding projects and a rising program of AID development loans, primarily to support food production through fertilizer imports. (U)

In the reprogramming caused by Congressional cuts in the overall AID appropriations, our FY 1980 AID program in India has been reduced from \$135 to \$112 million (compared to \$90 million in FY 1979). For FY 1981 if the entire AID appropriation requested were granted, India would receive \$170 million—high in absolute terms but among the lowest (30 cents) in per capita terms among AID recipients. As in FY 1980, a substantial reduction in this figure will occur in the reprogramming that will follow Congressional cuts. (We can take account of what India does between now and then in reprogramming, without the disadvantages cited below that would attend a change now.) (C)

Our current efforts to build resistance to Soviet-sponsored destabilization of Pakistan would be greatly aided by India's cooperation, even if tacit. Conversely, heightened Indian hostility toward Pakistan could undermine our efforts. India's sensitivity to the resumption of US

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<sup>5</sup> Charan Singh was the Indian Prime Minister from July 28, 1979, until January 14, 1980. Indira Gandhi was the Congress Party candidate for Prime Minister in the January election.

arms aid to Pakistan could be inflamed if that resumption were coupled with a simultaneous reduction in the projected economic aid program for India, whose general growth course is known to that government. This is the more true since the \$170 million figure is now widely known and an order to change draft Congressional presentation papers at the last moment might well leak. (S)

Such a change would cut across the signal that we are trying to give India by our action on Tarapur and our intended discussions of Pakistani arms aid with the Gandhi government. It would seem to be directed at Mrs. Gandhi, starting our relationship with her on a sour note and making it more difficult to establish tacit cooperation on security in the subcontinent. (S)

A cut in projected aid for India, following your endorsement of the Hunger Commission's call for commitment of our development aid to overcoming world hunger without regard to political considerations, would be criticized by the Commission and other pro-aid and anti-hunger citizen groups. As Sol Linowitz wrote to you, India—with about half the population of the less-developed nations, dire poverty, and a very serious food problem—epitomizes the need the Commission was addressing.<sup>6</sup> Finally, if we desire to substantially increase PL-480 as a response to the grain embargo,<sup>7</sup> India is one of the most likely candidates for large increases.

On the other hand, if Mrs. Gandhi makes frequent strong anti-US statements or reinstates her previous repressive policies, Congressional hostility to India and pressures for cutting aid to India will revive. (C)

### *Options*

—Stick with the India aid level in your pending FY 1981 budget (\$170 million AID, \$152 million PL-480, Title II), but make sure that these figures bear at least their fair share of likely Congressional cuts; reconsider whether even deeper cuts<sup>8</sup> should be made then in light of intervening events. (Our recommendation; State and IDCA concur)<sup>9</sup> (C)

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<sup>6</sup> Linowitz's letter was not found.

<sup>7</sup> On January 4, Carter announced an embargo on grain sales to the Soviet Union in response to the Soviet invasion of Afghanistan. For the text of Carter's announcement, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980-81*, Book I, pp. 21-24. For the texts of Carter's January 7 memoranda to the Secretaries of Commerce and Agriculture effecting the embargo, see *ibid.*, p. 32.

<sup>8</sup> Carter underlined the phrase "even deeper cuts."

<sup>9</sup> Carter indicated his approval of this option and wrote "But cut if warranted" in the adjacent margin. A note in an unknown hand in the opposite adjacent margin reads: "[illegible] both India programs per the P's instructions to ZB."

—Cut the AID program for India in FY 1981 back to the FY 1980 request level (\$135 million).<sup>10</sup> (C)

*Bangladesh*, currently a member of the Security Council, supported the resolution demanding withdrawal of foreign troops from *Afghanistan* and abstained—as did the other Moslem member, *Kuwait*—on the *Iran* sanctions vote.<sup>11</sup> It took this decision in the face of very strong US pleas to act differently. Otherwise its policy has been moderate in North-South forums and independent of communist powers. (C)

This Islamic nation of 87 million is at the depths of poverty, and our aid there is very important to human survival and nutrition. The planned FY 1981 program consists of \$117 million in AID projects, and \$102 million in PL-480, both focused on food production. (C)

A reduction at this stage in the process of drafting the Congressional presentation papers could only be explained on grounds of Bangladesh's abstention on the *Iran* sanctions vote. Such a decision might leak and provoke a sharp reaction from supporters of the war on hunger and from third world countries on which we rely for support in the present crisis. They would cite such a decision—basing long-term development aid on a recipient's UN vote of abstention—as evidence of hypocrisy in our policy statements on North-South development cooperation. (C)

We understand that Cy Vance *may* be sending you a memorandum recommending that we reduce our development assistance below the presently planned FY 1981 level while allowing a moderate increase. (C)

### *Options*

—Stick with the presently planned FY 1981 Bangladesh program (\$117 million AID and \$102 million PL-480). (Our recommendation; IDCA concurs.)<sup>12</sup> (C)

—Cut Bangladesh back to the FY 1980 AID request level of \$105 million, without altering the planned PL-480 program.<sup>13</sup> (C)

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<sup>10</sup> Brzezinski wrote "I lean this way" and initialed in the margin adjacent to this option.

<sup>11</sup> The UN Security Council met January 5–9 to consider the Soviet invasion of Afghanistan. The Soviet Union vetoed a resolution condemning the invasion. The Security Council also met on January 11 and 13 to consider the situation in Iran. A U.S.-sponsored draft resolution calling on member states to impose sanctions on Iran pending the safe release of the hostages was not approved.

<sup>12</sup> Ehrlich discussed his opposition to a reduction in assistance for Bangladesh in a January 10 memorandum to Owen. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 25, Foreign Assistance: 1-10/80)

<sup>13</sup> Brzezinski wrote "I lean this way" and initialed in the margin adjacent to this option. Carter indicated his approval of the option and wrote "& refuse FMS request" in the adjacent margin.

*Other Countries*

The other non-communist country which has been pro-Soviet with its comments on Afghanistan is *Ethiopia*. It will receive no US aid in 1980 and is scheduled to receive \$3 million in the humanitarian PL-480 Title-II program in 1981. We recommend no change at this time.<sup>14</sup> (C)

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<sup>14</sup> Brzezinski wrote "I would cut" and initialed in the margin adjacent to this option. Carter indicated his approval of the option and initialed "J."

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**340. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, January 10, 1980

## SUBJECT

Foreign Policy Aid Allocations (U)

Attached are State's comments on yesterday's joint memorandum from Zbig Brzezinski and Jim McIntyre to you on this subject.<sup>2</sup> These comments have been reviewed and altered by Cy Vance to reflect his personal views. (C)

1. Cy favors a cut in ESF aid to Syria, as recommended in the joint memo.

2. Like the joint memo, he opposes a cut in aid to India despite its unhelpful policies in the present crisis, "in view of the election of a new government in India and our interest in dampening Indian concerns about our approach to Pakistan. . . ." To cut back planned aid programs for India at this time would get us off on the wrong foot immediately with the new government, negate any benefit from settling the Tarapur license issue and, most seriously, be a double blow when coming on top of our increased arms assistance for Pakistan. (S)

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 25, Foreign Assistance: 1-10/80. Secret. Sent for information. Both Carter and Brzezinski initialed at the top of the page.

<sup>2</sup> Attached but not printed is a January 10 memorandum from Tarnoff to Owen on "Reconsidering Aid Levels for Countries Not Supporting the U.S. on Iran and Afghanistan." The joint memorandum from Brzezinski and McIntyre is Document 339.



3. He favors cutting Bangladesh's FY 1981 AID level from \$117 million back to the FY 1980 request level of \$105 million, and refusing their request for FMS aid. (S)

This last recommendation, the arms supply sanction, was a specific threat in Cy's message to Zia;<sup>3</sup> its fulfillment would make the punishment fit the crime; and it would not alienate our domestic aid constituency—e.g., the church leaders whom you called to the White House to lobby for development aid a year ago,<sup>4</sup> the Hunger Commission, and others who believe that we will insulate development aid from short-term political purposes (and whom we will be calling to the White House again in a few months to help us if the aid bill is in trouble). (S)

State also opposes cuts in projected aid to Zambia and Mozambique and suggests how funds freed by aid cuts to Syria and Bangladesh could be used. Such alternative uses can be accomplished through reprogramming and do not require Presidential approval. (S)

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<sup>3</sup> Not found.

<sup>4</sup> Not further identified.

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### 341. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, January 11, 1980

SUBJECT

Aid Review (C)

An additional last minute fact that you should be aware of in reviewing aid allocations to specific countries: We have just launched an inter-agency exercise to see whether large additional amounts of grain (up to 1 million tons) could be moved quickly as PL-480 shipments

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 25, Foreign Assistance: 1–10/80. Confidential. Sent for information. In an undated note to Brzezinski, under cover of which he sent the memorandum for forwarding to Carter, Owen wrote that he was "hopeful we can come up with large increases in PL 480 for both FY 80 + FY 81, which will help to calm farmers' fears. But OMB is far from persuaded." (Ibid.)

overseas, in light of recent events. Agriculture says that this would help reassure farmers. (C)

I don't know what recommendations will emerge, since there are some arguments against such a program, but I do know that it would be impossible to move this additional amount of PL-480 grain without very large additional shipments going to India and Bangladesh, as well as other countries. South Asia is where most of the hungry people are. (C)

If we do go forward with additional PL-480 shipments to India and Bangladesh, and if we also cut back programmed AID development assistance to these countries, we will seem to be increasing their food shipments and decreasing aid to help them grow food at the same time. I suppose we could figure out how to answer questions from the media and the Congress as to why we were moving in these seemingly contradictory directions, but it would be hard. (C)

The problem would be less difficult if we made any development aid cuts after the Congressional appropriations reductions later in the year—when the announcement of additional PL-480 (if there is to be one) will have faded from peoples' minds. (C)

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**342. Memorandum From the Acting Assistant Secretary of the Treasury for International Affairs (Nachmanoff) to Secretary of the Treasury Miller<sup>1</sup>**

Washington, January 15, 1980

SUBJECT

U.S. Policy on Debt Relief

In light of recent discussions of debt relief for Pakistan, Fred Bergsten suggested we give you a background paper on current U.S. Government policy.

A decade ago, there was no coherent U.S. policy on debt relief. Since then, partly in response to Congressional concerns and partly in the context of North/South negotiations, a fairly elaborate policy has

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<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977-1980, Chronological File, Box 7, 1/1/80-1/18/80. No classification marking. Drafted on January 14 by Alexis Rieffel (IDN) and reviewed by Robert Pelikan (IDN). Sent through Solomon, and this copy bears his stamped initials.

emerged. It is designed to ensure that debt relief is a financial policy instrument with enough flexibility to be supportive of our broad foreign policy objectives. Flexibility requires that Congressional constraints on the use of debt relief be minimized. Key elements of our policy—which are strongly supported by OMB—include the following:

1. Debt relief should not be used as development aid.

If extended as aid, debt relief encourages disregard for contractual repayment obligations. Also, debt-relief is “no strings” aid compared to project and program aid which give us some continuing leverage on policies and administration.

There is also a compelling practical argument. The Executive Branch has the authority to extend debt relief without prior Congressional approval even though it decreases federal receipts and therefore has a clear budget impact. If the Executive Branch uses this authority too freely, Congress is likely to take it away. Congressional constraints progressively imposed on our authority include: (a) requiring that loan repayments return to Treasury instead of allowing the creditor agencies to reprogram them; (b) prior notification of debt-rescheduling negotiations; (c) a 30-day waiting period for possible Congressional action before rescheduling agreements go into effect; and (d) an annual report to Congress on debt relief operations. (See Tab A for further details.)<sup>2</sup>

2. Debt relief should only be extended in a situation of default or imminent default.

Otherwise, debt relief will be requested by every country we aid whenever it wants larger assistance flows. While we do have some flexibility in determining when a default situation exists, we have not extended debt relief except where it is clear that payments due in the near term will not be made.

3. The effective implementation of a comprehensive economic stabilization program is a precondition for debt relief.

This is designed to ensure that debt relief restores the debtor country’s creditworthiness as quickly as possible so it can resume scheduled debt-service payments and normal borrowing activities. An IMF standby arrangement is usually the test for meeting the precondition.

4. Debt relief should only be provided on a multilateral basis in a creditor-group operation (e.g., the “Paris Club”).<sup>3</sup>

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<sup>2</sup> Tab A, attached but not printed, is an undated paper entitled “Recent Legislation on Foreign Debts.”

<sup>3</sup> The Paris Club, an informal and voluntary consortium of creditor countries that develops coordinated policies to help countries having trouble repaying their debts, first convened in 1956.

This has been a key issue in North/South negotiations. LDCs have sought a new international mechanism that would provide debt relief "on demand" in effect. This element was reaffirmed in discussions leading up to a PRC meeting in February 1978 on U.S. debt policies.<sup>4</sup>

5. The terms of debt relief are determined on a case-by-case basis.

The case-by-case approach provides another important source of flexibility. It is possible to show more generosity when the political stakes are large (e.g., Indonesia in 1970, Chile in 1974, Nicaragua under discussion).

6. Private creditors (e.g., banks) should extend comparable relief.

Three years ago, during the hearings on U.S. participation in the IMF's Supplementary Financing Facility, concern was expressed (especially by Congressman Cavanaugh) that governments would "bail out" banks that were heavily exposed abroad. The most formal statement of our policy on debt relief dates to that time when we made "comparable treatment" an explicit part of our policy. (See attached NAC Action at Tab B.)<sup>5</sup>

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<sup>4</sup> See Document 300.

<sup>5</sup> Tab B, attached but not printed, is a January 6, 1978, National Advisory Council paper on "Proposed Policy Statement on Debt Reorganization."

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### 343. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>

Washington, January 17, 1980

SUBJECT

International Program Uses of Excess Grain (U)

1. *Introduction.* In your speech announcing the cutback in Soviet grain purchases, you said that "we will also increase amounts of grain devoted to the alleviation of hunger in poor countries". To fulfill this

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<sup>1</sup> Source: Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 166, 1/21/80 [2]. Confidential. Sent for action. Brzezinski wrote at the top of the page: "I concur. ZB."

pledge Cy Vance, Jim Williams,<sup>2</sup> and Tom Ehrlich recommend, as do I, an increase in PL-480.<sup>3</sup> OMB is opposed. (C)

They also recommend, as do all your advisers, pressing ahead with our existing proposal to establish the Food Security Reserve, an earmarked four million ton portion of CCC holdings of wheat, for restricted use in meeting severe food supply shortages under our PL-480 food aid program. (C)

Agriculture recommends, in addition, increasing commercial term export sales under the CCC credit program. (C)

Memoranda from Vance, Williams, and Ehrlich on the PL-480 proposals and from Williams on the Food Security Reserve and CCC credit sales proposals are at Tabs A, B, and C, respectively.<sup>4</sup> Jim McIntyre is submitting an analysis of the budget implications.<sup>5</sup> (C)

If you approve any of these recommendations, we would like to announce on Saturday.<sup>6</sup> (U)

2. *Food Security Reserve*. All of your advisers believe that we should try to use the present situation to reinforce our previous request to the Congress to establish the Food Security Reserve. It would not increase the federal budget. It is a long-sought assurance of US readiness to respond to food crises and to maintain our food aid to needy countries when there is a short US grain crop. The Reserve will not work to depress US wheat prices because releases from it are restricted to situations of severe shortages. (C)

Establishment of this reserve will not generally be seen as fulfilling your pledge to “increase amounts of grain devoted to alleviation of hunger in poor countries”; it would simply assure that we will be able to meet our minimum food aid commitments, whatever may be agricultural conditions. (C)

3. *PL-480*. All of the agencies concerned, except OMB, agree that increased PL-480 food aid should be part of our disposition of the

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<sup>2</sup> James Williams was the Deputy Secretary of Agriculture.

<sup>3</sup> Documentation on the Food Security Reserve is in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs.

<sup>4</sup> Annexes A–C are attached but not printed. Annex A is a January 17 memorandum from Vance to Carter entitled “PL 480 Allocations.” Annex B is a January 17 memorandum from Vance, Williams, and Ehrlich to Carter entitled “Request for Additional PL 480 Food Assistance.” Annex C is an undated memorandum from Williams (as the Acting Secretary of Agriculture) to Carter entitled “Options for Using CCC Credit and Credit Guarantees to Expand Exports and Help Offset Effect of the Soviet Sales Suspension.” A January 18 memorandum from Eizenstat to Carter entitled “P.L. 480—Food Assistance” is also attached but not printed.

<sup>5</sup> An undated memorandum from McIntyre to Carter entitled “1980 and 1981 Budget Increases for PL 480” is in the Carter Library, Records of the Office of the Staff Secretary, Presidential File, Box 166, 1/21/80 [2].

<sup>6</sup> January 19.

excess grain. It is important that this not be seen as reversion to the discarded policies of using PL-480 as a dumping ground; therefore the increment should be limited to clear cases of need, especially humanitarian programs and food imports that will not displace domestic production in developing countries. In order to avoid displacing grain exports by other countries whose cooperation we need in implementing the Soviet embargo, the increase in PL-480 should not radically exceed recent levels of about 6.8 million tons. Any PL-480 increase should be largely in food other than wheat, because wheat is the primary grain export of these other countries. (C)

I believe that the 800,000 ton add-on proposed by the agencies, which would get us back to the recent level of 6.8 million tons, meets these criteria. Most of it is corn. Such an expanded program can be managed without sacrificing the PL-480 emphasis on development that you have directed. It is true that sizeable PL-480 reserves already are planned, but these reserves are for unforeseen emergencies, not for programmed needs such as proposed by the agencies. (C)

The agencies illustrate the possible uses of this additional 800,000 tons for FY 1980 (\$160 million) and FY 1981 (\$200 million) by listing specific possible Title I and II FY 1980 and 1981 programs; they also suggest an FY 1981 effort to help LDCs build up national stocks, which I believe makes good sense. (C)

The agencies' attached memorandum lists two other options which none of them recommends: PL-480 aid for Israel, which would displace commercial sales and lead to Israeli expectations of continuing PL-480 aid in future years; and increasing existing PL-480 programs by 1.3 (FY 1980) and 1.5 (FY 1981) million tons, instead of 800,000 tons, including a mention of possible needs in India and Bangladesh. Cy notes his objection to such an allocation; in fact, no one recommends this. (C)

To the extent that increased PL-480 exports are additional to otherwise likely US commercial exports, they strengthen US prices and thus reduce CCC's net grain acquisitions and outlays. I believe that at least two-thirds of the proposed add-on in FY 1980 and FY 1981 meet this additionality test: all of the Title II add-on, most of the Title I increase for poor African and Latin American countries, and the increased vegetable oil for Pakistan. Shipments for overseas food stocks in FY 1981 would also meet the additionality test. Thus the *real* cost of 800,000 additional tons would be very small—perhaps \$50-\$75 million annually; the rest of the nominal cost would be offset by reduced CCC outlays. Unfortunately, OMB concludes that it cannot show an offsetting reduction in the CCC outlays and therefore must score 100% of any PL-480 increase as an additional overall budget outlay. This means that the course recommended by the agencies would add nominally \$150 million to the FY 1980 budget and \$200 million to the FY 1981 budget. (C)

These budgetary constraints, plus the desirability of minimizing use of wheat, suggest an additional option below the agencies' recommendation, that is, an increase of \$100 million in FY 1980 and the same in FY 1981, or 450,000 additional tons annually (instead of 800,000 tons). Another reason for this more modest option is to avoid overloading the international affairs account, thus prejudicing rapid Congressional action on foreign aid, including Pakistan. *This is my recommendation and Bob Beckel's.*<sup>7</sup> (C)

4. *CCC Export Credits.* Some of the same international considerations apply to expanding CCC credit sales as to PL-480. Budget analysis of USDA's options here is more complex. From a foreign policy perspective, the USDA proposal contains assurances that avoid serious disadvantages. Your decision on this can be based on other considerations. (C)

## RECOMMENDATIONS

### 1. *Food Security Reserve*

That you reiterate your strong support for this long-standing Administration proposal and seek its early enactment. Suggested by all the agencies concerned.<sup>8</sup> (C)

### 2. *PL-480.* OMB disapproves of the recommendations below.

a. That you approve an increase of approximately 450,000 tons, \$100 million, in the FY 1980 PL-480 request for such uses as those indicated in the State-IDCA-USDA memorandum, with priority for programs likely to increase US grain exports. (This is my recommendation.)<sup>9</sup> (C)

*Alternative:* That you approve the State-USDA-IDCA proposal to increase the FY 1980 program from 6 million tons to 6.8 million tons. This, too, would use commodities other than wheat, where possible. (C)

b. That you approve an increase of approximately 450,000 tons, \$100 million, in the FY 1981 PL-480 budget request, for such uses as those indicated in the State-USDA-IDCA memorandum, with priority for the emergency feeding program and the building of stocks in developing nations if feasible stocking programs can be arranged. (This is my recommendation.)<sup>10</sup> (C)

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<sup>7</sup> Robert Beckel was Carter's Special Assistant for Congressional Liaison.

<sup>8</sup> Carter indicated his approval of this recommendation.

<sup>9</sup> Carter indicated his approval of this recommendation and his disapproval of the alternative below.

<sup>10</sup> Carter indicated his approval of this recommendation and his disapproval of the alternative below.

*Alternative:* That you increase the FY 1981 program by 800,000 tons, \$200 million, as proposed by State-USDA-IDCA.

c. That you not now pass on the allocation of PL-480 among specific countries, but require that all such proposed allocations be reviewed by the Executive Office (OMB, NSC, and me), with any differences of view being brought to you, if necessary, for resolution then.<sup>11</sup> (C)

### 3. CCC Credit Sales

a. Continue with current CCC credit program for FY 1980 as planned. (Recommended by OMB.)<sup>12</sup> (C)

b. Provide additional direct CCC financing for additional exports to Korea and selected other countries: \$150 million. (Recommended by Agriculture and opposed by OMB.)<sup>13</sup> (C)

c. Be prepared to offer additional direct credit for financing of additional corn exports to China if this turns out to be necessary to consummate additional sales: \$240 million. (Recommended by Agriculture and opposed by OMB.) (C)

### 4. Announcement

That you authorize us to announce on Friday any decisions you make on the basis of this memorandum.<sup>14</sup> (U)

Bob Beckel, Congressional Liaison, supports my recommendations.

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<sup>11</sup> Carter indicated his approval of this recommendation.

<sup>12</sup> Carter indicated his approval of this recommendation.

<sup>13</sup> Carter did not indicate his preference with respect to recommendations b and c.

<sup>14</sup> Carter wrote "Sat." above the word "Friday" and indicated his approval of this recommendation. On the January 19 White House announcement see, for example, Robert Reinhold, "U.S. Will Purchase Much of Grain Owed to Soviet but Halted at Docks," *The New York Times*, January 20, 1980, p. 1, and J.P. Smith, "U.S. Will Buy Grain Union Refuses to Load," *The Washington Post*, January 20, 1980, p. A-4.



**344. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Vance<sup>1</sup>**

Washington, February 18, 1980

## Preparations for Global Negotiations

Over the past two months we have been preparing actively for the COW preparatory talks March 31 to April 11 on Global Negotiations. There is more work to be done, however, to develop further our positions and to map out tactics.

*Strategy and Positions*

Our strategy for the Global Negotiations is to use them as a means of making progress on a few specific issues which we believe are of global concern while working to prevent their undercutting ongoing negotiations in specialized fora. To that end, we have selected three specific issues—trade policy (protectionism), energy, and food and agriculture—on which we believe progress can be made in a framework that, despite our efforts, will inherently be highly politicized.

Through a discussion of trade policy, we want to see steady pressure brought to bear on all nations to resist protectionist forces, recognizing that industrial countries in particular have a responsibility for keeping their markets open. We would like to encourage stronger positive adjustment policies, and urge LDCs to participate more actively in the GATT.

In the area of energy, we would like to see discussion of the impact of oil price increases on world economic growth, promotion of measures to conserve energy, and agreement on measures to increase energy production, particularly in oil importing LDCs.

With respect to food policy, we would like to emphasize the need for LDCs to develop food sector strategies, discuss the establishment of food aid reserves by all donors, and push for increased assistance, especially by OPEC, for food aid and agricultural development.

We will urge that the sessions in New York negotiate general resolutions on these issues, but then pass responsibility for negotiating specific technical agreements to the appropriate forum. In the case of energy, we may urge a new forum be created.

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 7, E—Memoranda of Conversations, Jan. 1980–June 1980. Confidential. Drafted by Cooper's Special Assistant, Barney Rush. A typed notation at the top of the page reads: "(Not reviewed by Mr. Cooper)." Rush initialed the memorandum on Cooper's behalf.

*Tactics*

We are aware that the G-77 have not yet themselves formulated a precise strategy or developed specific positions, and that tension between oil-importing LDCs and OPEC on the energy issue will exacerbate G-77 difficulties in developing a unified position. All we know is that they would generally like to discuss a certain number of issues under each of the five categories listed in the resolution: energy, trade, raw materials, money and finance, and development. It is our intent to take advantage of the disarray within the G-77 by stating early on our views toward Global Negotiations, in the hope this will influence them to steer a more moderate and pragmatic course.

At the first COW preparatory session in January, we gave a brief speech outlining our views and listing the three issues in which we hope to make progress.<sup>2</sup> Since then, we have made demarches in major LDC capitals that elaborated our position. We wanted these made prior to the LDC meeting of experts on February 18 and the March 14-18 LDC Ministerial meeting, now scheduled to be held in New York. We will shortly be sending out an additional message specifically to the moderates—both in capitals and in New York—discussing our concern over the collapse of the UNIDO Conference<sup>3</sup> and stating that a less rhetorical approach will be necessary if the Global Negotiations are to be successful.<sup>4</sup>

On Monday, February 25, the Ad Hoc Group B meeting on North-South issues will be held in Paris, just prior to the XCSS. At that time we will present position papers on our three issues, and one on tactics over the short term, and plan to receive the views of our colleagues. (The EC intends to speak with one voice during this exercise, much as they did during CIEC.) There will be another *Ad Hoc* meeting prior to the COW preparatory session, and we will be pushing to have a unified Group B position at that time.

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<sup>2</sup> Telegram 195 from USUN, January 17, transmitted the text of the U.S. statement to the Committee of the Whole organizational session. (National Archives, RG 59, Central Foreign Policy File, D800034-0356)

<sup>3</sup> At the UNIDO III Conference, which took place in New Delhi January 21-February 9, OECD and G-77 countries divided over the establishment of a global industrial development fund. Telegram 2834 from New Delhi, February 11, which transmitted the U.S. delegation's summary report on the conference, asserted that "speculation that radicals in the G-77 (Algeria, Cuba, Iran, Mexico) were pushing for a UNIDO III blow-up was confirmed a few hours before the close of the conference when the Mexican delegate told the US rep he was pleased with the confrontational conclusion they had achieved because they wanted to use this failure as a means of pressuring the West to be more forthcoming during the Global Negotiations." (National Archives, RG 59, Central Foreign Policy File, D800073-0188)

<sup>4</sup> Telegram 56459 to Belgrade, Brasilia, Jakarta, Nairobi, New Delhi, Abidjan, Bangkok, Manila, and Colombo, March 1, is entitled "Global Negotiations—Lessons of UNIDO III." (National Archives, RG 59, Central Foreign Policy File, D800106-0976)

*USG Coordination*

I have twice chaired meetings of an interagency group that includes Henry Owen, Tom Ehrlich, Fred Bergsten and Bob Hormats, as well as Don McHenry, Bill van den Heuvel,<sup>5</sup> Tony Lake, Bill Maynes and Deane Hinton. I am using this group to establish interagency agreement on our general policy. We have scheduled a third meeting for March 6. Meanwhile, a working group has been formed under Chuck Meissner, EB Deputy Assistant Secretary, that includes counterparts from IDCA, Treasury, STR, and from within State, IO and S/P. This group is responsible for the specific position papers, although on energy, DOE will also be involved. In addition, Tony Lake and Tom Ehrlich will be putting together a list of possible additional initiatives, and may also suggest health and population measures as a fourth area that we might raise in the negotiations.

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<sup>5</sup> William vanden Heuvel was the Deputy U.S. Representative to the United Nations.

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**345. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Miller<sup>1</sup>**

Washington, February 25, 1980

SUBJECT

Brandt Commission Report

The Willy Brandt Commission (officially, the Independent Commission on International Development Issues), which was established to take a fresh look at development issues and North/South relations, has released its final report. The Report is wide-ranging, making some eighty recommendations on the whole spectrum of development, eco-

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<sup>1</sup> Source: Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 8, 2/14/80–2/29/80. No classification marking. Sent through Solomon. Drafted on February 19 by J. Fox (IDP) and reviewed by Leddy on February 19 and John Hartzell (IDP) and Nachmanoff (ID) on February 20.

conomic and financial issues. It was adopted unanimously by its members, including Pete Peterson and Katherine Graham.<sup>2</sup>

The Report's main conclusion is that there is a crisis in North/South relations, and that both developed and developing countries have a mutual interest in finding ways to restructure the international economy to end the crisis. The main thrust of the recommendations is on transferring additional resources to LDCs.

A compilation of the recommendations in the Report is at Tab A.<sup>3</sup> Major proposals include:

- an increase in industrial country concessional aid to 0.7 percent of their GNP by 1985, from 0.3 percent at present;
- an international energy package, including commitments on oil supply and price, and new investment in new energy sources;
- introduction of some form of "automatic" international taxes (e.g., on trade and tourism) to finance development;
- a doubling of the legal borrowing-to-capital ratio for the IBRD, to take place *in addition* to the just-negotiated General Capital Increase,<sup>4</sup> to allow it to lend up to \$160 billion compared with the present ceiling of \$40 billion;
- consideration of creation of a World Development Fund that would fill the alleged gaps—particularly for program lending—in programs of the existing institutions (IMF, IBRD);
- an SDR/aid link;
- use of the IMF gold stock as collateral for loans to middle-income LDCs;
- an international summit meeting of 25 or so heads of government to launch the program

The Report could improve the public and Congressional climate for foreign assistance to developing countries. On the other hand—by endorsing numerous demands of the developing countries that there is no realistic expectation of meeting—the Report may create false expectations which will lead to future disappointments. Most likely, it will have little or no effect on public opinion in this country and marginal effect in a few places abroad (Germany, U.K.).

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<sup>2</sup> Peter G. Peterson was President Nixon's Assistant for International Economic Affairs from 1971 until 1972. Katherine Graham was the Chairman of the Board of The Washington Post Company. The book-length report of the Brandt Commission is entitled "North-South: A Programme for Survival."

<sup>3</sup> Tab A, attached but not printed, is an undated paper entitled "Annex I, Summary of Recommendations."

<sup>4</sup> Bergsten discussed the U.S. position on the IBRD General Capital Increase in a February 5 memorandum to Miller. (Carter Library, Anthony Solomon Collection, 1977-1980, Chronological File, Box 8, 2/1/80-2/14/80)

*U.S. Government Reaction*

We are reacting cautiously to the report, emphasizing that the U.S. Government was not involved in its preparation, that we have just received it, and that review and analysis of its many recommendations will require some time.<sup>5</sup> We will have to formulate a position for preliminary discussion of the Report at the Development Committee meeting in Hamburg in late April.<sup>6</sup>

I will convene an interagency discussion in the NAC on the monetary and financial issues. IDCA plans to coordinate an interagency study of all the recommendations and prepare a U.S. position on the development aspects of the Report.

*Background*

The Brandt Commission was established in 1977 at the request of IBRD President McNamara to provide a new assessment of the possibilities for progress on North/South issues. Brandt chose 16 commissioners with a wide diversity of backgrounds and nationalities to assist him, including Peter Peterson and Katherine Graham of the United States. Other notables on the Commission include Edward Heath, Olof Palme and Eduardo Frei.<sup>7</sup>

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<sup>5</sup> In his February 14 Evening Report to Carter, Vance noted that he had “had a useful meeting this morning with Willy Brandt. His report is interesting and has a number of stimulating and prodding proposals.” Vance explained to Brandt “the very real problems we face in raising our aid levels and told him 7 percent is simply not a realistic figure. Brandt probably will not press the point with you.” Carter initialed Vance’s memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 22, Evening Reports (State): 2/80) Carter met with Brandt on February 15 from 9:45 until 10:05 a.m. in the Oval Office. (Carter Library, Presidential Materials, President’s Daily Diary) No memorandum of conversation of this meeting was found.

<sup>6</sup> The IMF/IBRD Development Committee met in Hamburg on April 24.

<sup>7</sup> Edward Heath was the U.K. Prime Minister from 1970 until 1974, Olof Palme was the Swedish Prime Minister from 1969 until 1976, and Eduardo Frei was the President of Chile from 1964 until 1970.

346. **Memorandum From Acting Secretary of State Christopher to President Carter**<sup>1</sup>

Washington, June 27, 1980

[Omitted here is discussion unrelated to the Common Fund.]

7. *Common Fund*. Developed and developing country negotiators in Geneva are expected to adopt tonight articles of agreement for the Common Fund.<sup>2</sup> The Fund will have two accounts: one to support international commodity stabilization agreements (such as the tin and rubber buffer stocks); and the second to back R&D-type commodity measures. The Common Fund will receive \$470 million in assessed contributions, of which the U.S. share would be \$73.85 million (15.7%). In addition, the second account would seek \$280 million in voluntary contributions. We have said the U.S. will not make a pledge to this account for the foreseeable future.

The agreement will be opened for government signature in October. We have told Congressional leaders, however, that we will not seek ratification or an appropriation until there are an adequate number of commodity arrangements ready to associate with the Fund's buffer stock account (which will probably not occur before FY 82).

[Omitted here is discussion unrelated to the Common Fund.]

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<sup>1</sup> Source: Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 23, Evening Reports (State): 6/80. Secret. Carter initialed "C" at the top of the page.

<sup>2</sup> The initialing ceremony for the Common Fund articles of agreement took place on June 28. (Telegram 9018 from Geneva, June 28; National Archives, RG 59, Central Foreign Policy File, D800311-0290)

**347. Memorandum From the Assistant Secretary of the Treasury for International Affairs (Bergsten) to Secretary of the Treasury Miller<sup>1</sup>**

Washington, July 21, 1980

SUBJECT

Common Fund for Commodities

*Introduction*

Articles of Agreement for a Common Fund for Commodities were concluded on Friday, June 27. These Articles represent the culmination of four years' of international negotiations on an issue which, for a time several years ago, was the centerpiece of LDC demands in the overall "North/South Dialogue." At the behest of the White House and State, Treasury played a key role in the final stages of the negotiations and will be deeply involved in (a) presenting the necessary legislation to the Congress in 1981 and beyond, and (b) managing the institution. This memo describes briefly the purpose, structure and operation of the Common Fund.

*Main Elements*

The Common Fund will be an international financial institution whose aim is to improve the functioning and effectiveness of primary commodity markets. To achieve its purposes, the Common Fund will have two separate accounts. The First Account will assist in the financing of buffer stocking operations undertaken by International Commodity Agreements (ICAs) to stabilize primary commodity prices. The Second Account—to which the United States has indicated it will not contribute—will provide finance for commodity development measures such as research and development, productivity improvements and market promotion.

ICAs which associate with the First Account of the Fund will deposit with the Fund, either immediately or over time, one-third of the estimated cost of their buffer stocking needs in cash and provide guarantees to the Fund from their participants for the remaining two-thirds of this amount. In addition, member countries of the Common Fund will provide \$470 million in direct contributions to the Fund, of which

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<sup>1</sup> Source: Department of the Treasury, Office of the Secretary, Executive Secretariat, 1980 Files, 56–83–05. No classification marking. Drafted by Department of the Treasury staff member Robert Blake on July 17; reviewed by Department of the Treasury staff member Steve Canner (per Blake) on July 17. Printed from a copy that bears Bergsten's stamped initials.

\$370 million will be in the form of paid in shares, and \$100 million will be in the form of "payable" (i.e., callable) capital. This \$370 million of paid in shares is scheduled to be paid in three installments: a \$111 million cash payment upon entry into force, a payment of \$74 million in cash plus \$37 million in promissory notes at the beginning of the second year, and a \$148 million deposit of promissory notes at the beginning of the third year. The payable capital of \$100 million is to be subscribed upon entry into force, but will be called only in a default situation. The U.S. share of direct contributions is \$73.85 million, the first cash installment of which is \$15 million to be paid upon joining. One year later, a payment of \$10 million in cash plus \$5 million in promissory notes would be due, with \$20 million in promissory notes due at the beginning of the third year. The payable capital of \$23.85 million would be subscribed upon joining. The direct contributions will be used to meet the liquidity needs of the Fund, to secure its creditworthiness and to provide revenues to meet administrative expenses.

The First Account will secure resources to finance associated ICAs' buffer stocking needs through the use of the pooled cash deposits of the associated ICAs and by market borrowing on the basis of the government guarantees provided by ICA participants. Pooling of ICA cash deposits permits the use of the cash deposit of an ICA not in a buying phase to meet the buffer stocking needs of another ICA which is. This "pooling effect" will reduce the average level of borrowing the Fund as a whole will need to undertake by comparison with the individual agreements operating alone. The direct contributions, by enhancing the Fund's creditworthiness, will also serve to reduce the interest rate charged the Fund on its borrowings.

In the early 1970s the LDCs (unrealistically) envisaged the Common Fund as a financial institution with sizable resources (several billion dollars) which would finance the creation of ICAs for the individual commodities, end-running the opposition of several DCs (notably the United States) to ICAs and their resultant unwillingness to finance same. This objective was mooted when the Carter Administration indicated its support for ICAs, and subsequently negotiated U.S. participation in (and financing for) several of them—tin, natural rubber, sugar, and coffee. At the same time, we indicated we could *only* accept a Common Fund based on the pooling of the resources of ICAs—a concept which basically survived the final negotiation. Hence the institution which now emerges is a far cry from the original LDC idea, representing only a modest financial backstop to existing ICAs (though also something of a political victory for the "South").

The major carry-over from the original LDC idea of a Common Fund with its "own resources" is the Second Account which will be financed by voluntary contributions. Governments may allocate part of



their direct contributions to the Second Account; \$70 million is expected to be so allocated. In addition, \$280 million in additional voluntary contributions are expected from members. To date, pledges have been already announced for around \$220 million. The U.S. has decided not to contribute to the Second Account, on the view that its activities will duplicate those of existing MDBs.

The Common Fund will have a Governing Council and an Executive Board. The U.S. is assured a seat on both bodies. Votes will be allocated to countries on the basis of an initial schedule based upon universal membership. However, adjustments will be made in the voting system to account for less than universal membership with the aim of securing a voting breakdown in which the developing countries, as a group, will have about 47 percent of the total votes, and the developed countries around 42 percent. The U.S. will have 10–12 percent of the total vote. The most important decisions of a constitutional or financial nature will be subject to a 75 percent majority. The U.S., the UK, the FRG, Canada, and Japan will together account for at least 25 percent of the vote based on the initial schedule. Other decisions, depending on their importance, will require a two-thirds or simple majority.

#### *Next Steps*

The Common Fund will enter into force when at least 90 countries accounting for two-thirds of the direct contributions and half of the \$280 million in voluntary contributions have ratified the agreement. The major developed countries, the U.S., the UK, the FRG, Japan, Canada and probably France, are likely to coordinate their joining the Fund. Even without the French, the major countries acting together will be able to block adverse decisions in the Fund in its initial stages.

Our current thinking is to seek Congressional concurrence in 1981. Our full share of direct contributions will be included in the FY 82 budget. Assuming Congressional acceptance, we would plan to join the Fund after October 1, 1981, when we would have received our appropriation. Treasury and State will play the major roles in seeking Congressional approval as we have in Hill consultations during the extensive process of negotiation. (Our hope is that Foreign Affairs and Foreign Relations will handle the authorizing legislation, but several committees—especially in the House—may seek to assert jurisdiction because of the financial and commodity characteristics of the institution.) Our basic approach is that the modest price tag is justified by the modest economic and major foreign policy benefits of participation. Since the Common Fund is an international financial institution, State and the White House (Henry Owen) have agreed that Treasury should have management responsibility.

*Congressional Outlook*

Although the Administration has sought to take account of Congressional concerns on key issues in negotiating the final package, there is uneasiness in Congress with respect to the Common Fund—and Congressional approval of the Agreement is by no means assured.

In the Senate, Chairman Church<sup>2</sup> has been skeptical that the Common Fund will ever get off the ground because he believes that many of the individual commodity agreements do not want to participate. His position might be to defer consideration of any legislation until after a suitable number of ICAs, say three, indicate their intention to enter the Common Fund. However, his view that commodity agreements will not wish to join the Common Fund does not take account of the political commitments which major commodity-producing countries, e.g., the ASEANs, have made to the Common Fund during both the Common Fund negotiations and negotiation of the recently-ratified Natural Rubber Agreements,<sup>3</sup> which explicitly calls for association with the Common Fund.

Senator Sarbanes has complained that the legislative circuit has become overloaded with international financial institutions in recent years. He does not want to take on added responsibilities as Chairman of the Senate Foreign Relations Subcommittee on Economic Policy when the MDBs and other economic programs are having great difficulties already.

Finally, there is concern that creating the Common Fund will give foreign aid opponents another target to go after, whereas the individual commodity agreements (e.g., rubber, tin, sugar) go through the Congress basically unnoticed except by the industries directly involved. The customary “anti-bureaucracy” argument that we are creating a “modest” agency which will eventually grow to enormous size will also undoubtedly be used against the Common Fund.

On the House side, there are likely to be additional problems because there will probably be many Committees involved (i.e., at least House Foreign Affairs, House Banking and House Appropriations

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<sup>2</sup> Frank Church served as the Chairman of the Senate Foreign Relations Committee from 1979 until 1981.

<sup>3</sup> In October 1979, an international agreement was concluded that was designed to stabilize the price of natural rubber. (Telegram 16376 from Geneva, October 5, 1979; National Archives, RG 59, Central Foreign Policy File, D790457–0638; telegram 16493 from Geneva, October 9, 1979; National Archives, RG 59, Central Foreign Policy File, D790462–0624) In January 1980, the United States signed the International Natural Rubber Agreement; the Senate consented to the agreement’s ratification in May 1980. (Telegram 6518 to multiple posts, January 8; National Archives, RG 59, Central Foreign Policy File, D800017–0222; telegram 135747 to multiple posts, May 23; National Archives, RG 59, Central Foreign Policy File, D800253–0819)

Committees). As with the Senate, our supporters in the House are not anxious to take on another project.

The President made a political commitment in 1977 at the London Summit, reaffirmed at the Bonn Summit, to establish a Common Fund. The negotiating process is now complete. However, if we cannot demonstrate a clear need for creation of the Common Fund and distinct advantages to U.S. interests which will result from the Common Fund legislation, we may well not be able to convince Administration supporters to take up the issue. In short, the burden is on the Administration to convince Congress that the Common Fund will yield substantial foreign policy benefits, along with its more modest economic benefits, in return for a modest budget outlay.

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**348. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Muskie<sup>1</sup>**

Washington, September 8, 1980

Current Crisis in Preparations for Global Negotiations

Don McHenry has cabled you<sup>2</sup> and Secretary Miller has phoned you about the current preparations for global negotiations. There are two issues to be addressed in New York: the procedures under which global negotiations (to begin next January, if they are launched) will take place, and the agenda. Discussion on the agenda has been held up by the G-77 pending agreement on procedures, and that is where the current difficulty lies.

A text now exists that the G-77 indicates it can accept without further change. A full copy of the text is attached.<sup>3</sup> The key troublesome sentences, in my judgment, are summarized as follows:

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 7, E—Memoranda of Conversations, Jan. 1980–June 1980. Confidential. Muskie initiated the memorandum; in addition, a stamped notation reads: “ESM.”

<sup>2</sup> On September 8, McHenry sent a telegram to Muskie and Miller entitled “The Crunch Point on Global Negotiations.” (Telegram 3415 from USUN, September 8; National Archives, RG 59, Central Foreign Policy File, D800426–1249)

<sup>3</sup> Attached but not printed is a paper entitled “Latest Draft Text for Global Negotiations (Result of McHenry–Mishra Breakfast Meeting, September 8, 1980).” Brajesh Chandra Mishra, Indian Representative to the United Nations, was the spokesman for the G-77.

"The conference . . . will be the forum for . . . conducting<sup>4</sup> the negotiations . . . For the purposes of facilitating negotiations, the conference:

- (a) will establish objectives and provide guidance . . . ;
- (b) . . . entrust the detailed negotiations . . . to specialized fora . . . or *ad hoc* groups;<sup>5</sup>
- (c) will receive the results of the detailed negotiations . . . and will take appropriate measures to enable the conference to result in a package agreement."<sup>6</sup>

It will be understood that all important matters, including the features above, will be agreed on only by consensus.<sup>7</sup>

This text poses serious problems for us, because it implies that such issues as the nature of the international monetary system and the rules that govern international trade, now covered by the IMF and GATT respectively, are up for negotiation in New York, in a highly charged political atmosphere. Only "detailed" negotiations are reserved for the specialized bodies themselves. I strongly fear that negotiation of such issues in New York, even under a rule of consensus, may lead us to accept positions which are not wise and, more important, the fact of negotiating such important issues in New York will undermine the integrity of the specialized bodies. It is difficult for an institution to continue to function effectively and creatively if the principal action in its domain is elsewhere.

The G-77 seems unwilling to accept any changes in this text. Britain, France and Germany, contrary to what McHenry says in his cable, do not find the present text acceptable. But, they are stymied in New York by European Community negotiating procedure, whereby the non-members of the European Community are represented by the Presidency, currently Luxembourg, and the European Commission. Since there are divided views within the European Community, the strength of feeling in the major European countries does not get reflected at the negotiating table. We, therefore, have to carry the main burden of negotiating and give the appearance of being isolated.

The decision we now face is as follows:

1. Whether to go forward with a clearly undesirable agreement on procedures, but fight to a stalemate on the agenda, which has not yet been the object of serious discussion;

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<sup>4</sup> Muskie wrote "as appropriate" over the word "conducting."

<sup>5</sup> In the margin adjacent to points (a) and (b), Muskie wrote: "would like to see sentence in."

<sup>6</sup> Muskie underlined the word "appropriate" and highlighted the portion of this point that begins with "negotiations." In the adjacent margin he wrote "strike Canadians."

<sup>7</sup> In the margin below this sentence, Muskie wrote "avoid amendment of results of detailed."

2. Whether to go forward with an undesirable agreement on procedures and with the best deal we can reach on the agenda (which is likely itself to prove troublesome) and to fight out our disagreements with the G-77 on substance next year, if necessary, as it almost certainly will be in many areas, failing to reach agreement at that time;

3. Indicate now that we cannot accept these procedural terms because they threaten the integrity of such important international institutions as the IMF, GATT and the World Bank.

It is an unpleasant choice. While we have the moral substantive support of the key European countries, the onus for a breakdown would fall mainly on the U.S. I believe that the domestic impact of such a breakdown could be managed successfully and even turned into a plus. ("We ought to help developing countries, but not when it goes against our own fundamental interests and threatens valuable institutions . . ." etc.) Moreover, some of the more advanced developing countries, such as Brazil, and most Arab OPEC countries would privately welcome a breakdown with some relief. But it would be unquestionably portrayed around the world as a set back in North-South relations and an attempt would be made to blame the U.S. We could shift some but not all of this onus by insisting now on discussing the agenda even before reaching agreement on procedures, and letting the G-77 bear the burden of declining to discuss the agenda.

On balance, I believe we are better off taking the onus for a breakdown now rather than later and under the circumstances that would be more difficult because of the text that we are asked to agree to—and after thousands of man hours of negotiating actively which, on the experience of the last two weeks, is bound to be not only frustrating but is likely to be fruitless. Bill Miller agrees. Don McHenry, with whom I spoke again this morning, is on the other side of this judgment. He feels it will be difficult to explain a breakdown on procedural issues and that we are bound to experience the pressures and frustrations in the UNGA and elsewhere if the global negotiations do not provide such a forum.

A final consideration in my mind is that there are ways in which we can improve conditions for developing countries, and the lives of real people. We ought to proceed with those in any case. With regard to those, the global negotiations should be a sideshow. If it is made into the main act, under the circumstances (as it now seems) that are extremely inauspicious, it runs the risk of sidetracking or delaying those useful improvements.

We need to get word back to McHenry as soon as possible on whether the proposed text is acceptable. I told him you would have to focus on it personally and might well want to bring the President into this. I would be happy to talk about it whenever you are available.

**349. Memorandum From the Under Secretary of State for Economic Affairs (Cooper) to Secretary of State Muskie<sup>1</sup>**

Washington, September 8, 1980

**IMF and IBRD Reaction to the Chairman's Text on Procedures Governing Global Negotiations**

As you requested I spoke this afternoon to Bob McNamara and Jacques de Larosiere, Managing Director of the IMF, about the draft text on procedures to govern global negotiations.<sup>2</sup>

McNamara indicated that he despaired about global negotiations. If it follows past practice in ECOSOC and elsewhere in the UN, it will lead to rhetoric rather than results. UN and ECOSOC resolutions have not gotten in the way of tangible progress so far, but he did not want it to get in the way in the future. He plans to push ahead with those improvements in the Bank's funding and programs which he considers important. He indicated that a negotiated "package" involving Bank activities would be "impossible" and he relies on the good sense of American officials to keep any attempt to negotiate a package deal in New York from deflecting or delaying desirable changes in the Bank's activities. He indicated that he was not entirely clear what global negotiations would mean for the World Bank, but he would find totally unacceptable any attempt to negotiate on such items as capital increases or the Bank's gearing ratio.

De Larosiere indicated, after having read and reflected on the text, that he does not like it at all. He singled out especially the phrase indicating that the conference would be "the forum for . . . conducting negotiations". He said that for the UN to give instructions to the IMF on matters under its competence, such as disposition of its gold, and SDR link to foreign aid, or modifications in its voting procedures, would disrupt the IMF as a result of conflicting pressures. He acknowledged that formally the IMF is fully protected by its charter but to have such instructions come from the UN would be politically very awkward and disruptive. De Larosiere volunteered that he thought he was not adequately protected by the provision in the text calling for consensus on important matters. He said that the General Assembly would decide by majority vote which matters are important, and this itself would be

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<sup>1</sup> Source: National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977-1980, Lot 81D134, Box 7, E—Memoranda of Conversations, Jan. 1980-June 1980. Confidential; Eyes Only. Copies were sent to Christopher and Secretary of the Treasury Miller.

<sup>2</sup> See Document 348.

come a source of conflict. He urged us to be very cautious about this provision as currently phrased.

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### 350. Editorial Note

In his September 9, 1980, Evening Report, Secretary of State Edmund Muskie reported to President Jimmy Carter on the status of the Global Negotiations issue at the Eleventh Special Session of the UN General Assembly, which was then underway in New York. Noting that the talks were “deadlocked” over the issue of procedure, Muskie reported that Donald McHenry, the U.S. Representative to the United Nations, was “continuing to try for the key changes in the text we believe are necessary to better protect the integrity and independence of the specialized agencies, but he has found no new flexibility in the developing countries’ position. We have also contacted France, Germany, and the UK, all of whom support our position. Their views, however, are not clearly reflected in the negotiations, since the European Community Commission and Luxembourg negotiate on behalf of all EC members. The general atmosphere of the Special Session remains businesslike, but could deteriorate sharply if the deadlock persists.” Carter initialed Muskie’s memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 23, Evening Reports (State): 9/80)

In a September 11 memorandum to Muskie, Under Secretary of State for Economic Affairs Richard Cooper relayed a report from McHenry that UN Secretary General Kurt Waldheim wanted to telephone Muskie “to urge greater flexibility by the U.S. in the current negotiations over procedures to govern the Global Negotiations. Little progress has been made since I spoke to you on Monday [September 8] although a lot of discussion has taken place.” Cooper noted that the U.S. delegation was “close to being isolated in our opposition to the Chairman’s text,” which had been “modified in a few respects, especially to ensure the rule of consensus;” the United Kingdom and the Federal Republic of Germany were also “holding firm” in their opposition. Meanwhile, Cooper continued, “[t]he French are weakening and are likely to accept a slightly modified version of the Chairman’s text, although as far as we are aware they have not caved yet.” Cooper advised instructing McHenry “that our approach is governed by two principles, that those principles are not protected by the slightly modified Chairman’s text, and therefore that we should continue our oppo-

sition to the text." The two principles, according to a draft telegram attached to Cooper's memorandum to Muskie, were that "the US cannot agree to negotiate all issues in the New York conference" and "that the integrity of specialized agencies must be protected; the conference in New York cannot reopen, or renegotiate agreements reached in the specialized fora." (National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard Cooper, 1977-1980, Lot 81 D 134, Box 7, E—Memoranda of Conversations, Jan. 1980-June 1980) No record was found that the draft telegram was sent.

In a September 12 memorandum for the record, the President's Assistant for National Security Affairs, Zbigniew Brzezinski, noted that at that morning's foreign affairs breakfast meeting, Carter indicated that he was "not prepared to permit the international financial and specialized institutions to be subordinated to the UN, and the proposed UN language does not protect our interest, and we must hold the line firmly." (Carter Library, National Security Affairs, Brzezinski Material, Brzezinski Office File, Subject Chron File, Box 93, Foreign Affairs Breakfast: 1977-1981) Later that day, Carter spoke to Waldheim by telephone from 8:11 until 8:30 p.m. (Carter Library, Presidential Materials, President's Daily Diary) A record of their conversation notes: "The President and Waldheim discussed IMF and World Bank loans to third world countries. The President believes the IMF and World Bank should not be subjected to political pressures or UN pressures to make loans. Waldheim and Ambassador McHenry disagree with the President's position. Ambassador McHenry will, of course, follow the President's instructions. The President feels strongly about this. He will talk to Cooper (Treasury) about this in the morning, but the President will not change his mind." (Paper entitled "Gist of President Carter-Secretary General Waldheim Conversation," September 12; Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 38, Memcons: President: 8-11/80) After his telephone conversation with Waldheim, Carter spoke with Cooper by telephone from 8:44 until 8:50 p.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation of this discussion was found; nor was any record of a September 13 conversation between Carter and Cooper found.

On September 12, at Muskie's request, Cooper prepared a memorandum on textual revisions suggested by Waldheim "to break the current deadlock" and on the implications of a collapse of the negotiations. On the latter issue, Cooper asserted that "[i]f the Special Session 'breaks down' over inability to reach a procedural text on global negotiations, there would be some international fallout in terms of souring the atmosphere in the UN and in other North-South fora. However, impact on



bilateral relations would be slight or nonexistent (and perhaps positive with a few key industrial countries). The domestic political impact would be nil, or perhaps even positive (the US refused unreasonable demands by the Third World)." (National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard Cooper, 1977–1980, Lot 81 D 134, Box 7, E—Memoranda of Conversations, Jan. 1980–June 1980)

In his September 16 Evening Report to Carter, Muskie wrote: "As you know, the UNGA Special Session ended yesterday with informal agreement on a new International Development Strategy, but without agreement on procedures for Global Negotiations. The Special Session will report to the upcoming General Assembly that all delegations except three (the UK, West Germany, and the US) agreed with the earlier version of the procedural text that the G-77 had accepted. It is expected the Second Committee of the UNGA will reopen discussions in early November." Carter wrote in the margin next to this paragraph: "Hold firm." (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 23, Evening Reports (State): 9/80)

Attempts over the ensuing months to devise a text acceptable to all parties came to naught. (Cooper discussed one such attempt in a November 21 memorandum to Muskie that is in the National Archives, RG 59, Office of the Secretariat Staff, Records of the Under Secretary of State for Economic Affairs, Richard N. Cooper, 1977–1980, Lot 81D134, Box 7, E—Memoranda of Conversations, Jan. 1980–June 1980.) In his December 16 Evening Report to Carter, Muskie wrote: "Efforts in the UNGA to launch the global negotiations were suspended today without agreement. The U.S. delegation continued to have problems with the UNGA Chairman's latest procedural text, which we felt did not adequately protect the independence of the specialized agencies. The EC, on the other hand, could have accepted the procedural text, but was insisting on a fuller treatment of energy price issues in the agenda. As the G-77 also had serious problems with the Chairman's draft agenda, both the industrialized countries and the G-77 appear to have agreed to end efforts to close the gaps at the current UNGA and resume the negotiations in the new year." Carter initialed Muskie's memorandum. (Carter Library, National Security Affairs, Brzezinski Material, Subject File, Box 24, Evening Reports (State): 12/80)

**351. Memorandum From the Director of the International Development Cooperation Agency (Ehrlich) to President Carter<sup>1</sup>**

Washington, September 16, 1980

SUBJECT

Brandt Commission Report

As you directed, the International Development Cooperation Agency (IDCA) has led an interagency review of the Report of the Independent Commission on International Development Issues chaired by Willy Brandt.<sup>2</sup> A preliminary report on this review was submitted to you before the Venice Summit.<sup>3</sup> The attached memorandum summarizes the conclusions of the interagency review.<sup>4</sup>

Based on the review, we now plan to develop several initiatives for consideration at the start of your next term. These include:

—a program of increased concessional assistance for low-income countries to meet specific food, energy and population objectives.

—A Coal for Peace and Development Program which, in the context of expanded U.S. coal export capacity, would help developing countries increase their use of coal as an alternative to high priced oil.

—New ways to help increase food and agricultural productivity in developing countries and to provide support to help meet rising food import needs over the period required for development efforts to take effect.

—An international population initiative aimed at doubling in the 1980s the availability and use of family planning and related health services in developing countries.

In addition, we are reviewing our position on a new international wheat agreement, and will be considering additional measures that may be needed to promote greater world food security.

We should continue to support actively an increased role for the International Monetary Fund and World Bank in promoting adjustment and growth and seek the changes needed to increase their financing roles.

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Office, Outside the System File, Box 58, Chron: 9/10-20/80. Confidential.

<sup>2</sup> Carter's instructions were not found, but see Document 345.

<sup>3</sup> The preliminary report was not found. The Venice G-7 Summit was held June 22-23.

<sup>4</sup> Attached but not printed is a September 15 IDCA paper entitled "Interagency Review of the Report of the Independent Commission of Development Issues under the Chairmanship of Willy Brandt—Report to the President."

Finally, we should continue to take actions that foster a more open trading system. Thus, in addition to implementing agreements reached in the Multilateral Trade Negotiations, we should consider revision and extension of the Generalized Scheme of Preferences, renegotiation of the Multifiber Arrangement,<sup>5</sup> and a request for new authority from Congress to engage in further bilateral tariff negotiations with individual developing countries after current authority expires in 1981.

Some of the measures being considered—particularly those dealing with change within the international financial institutions and with trade—would not require any substantial new, budgetary outlays on our part. Indeed, in the long-run, trade and financial reforms should contribute to greater U.S. and global economic growth. We cannot hope, however, to make the full amount of progress that is both needed and feasible—in such important areas as food and energy—without taking other actions that will require additional funds. Much of the incremental funding can and should come from OPEC countries, but we and other developed countries will have to provide some additional resources ourselves.

The reports of both your Commission on World Hunger<sup>6</sup> and Task Force on Global Resources and Environment<sup>7</sup> address from different perspectives a number of the same issues explored by the Brandt Commission. The common problems include hunger, population growth, resource depletion, and environmental degradation. A call to eliminate widespread poverty is the central recommendation of all three reports. It is the cause of world hunger and it contributes to the most acute environmental dangers, such as the loss of soil and forests.

All three Reports also emphasize the need for greater public understanding of the long term issues and greater support for foreign assistance. We are closely coordinating our efforts on review of the Brandt Report with the work of the Task Force and with follow-up on the Hunger Report to ensure the presentation to you of a consistent set

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<sup>5</sup> See Document 8.

<sup>6</sup> In March 1980, the Presidential Commission on World Hunger issued its final report, "Overcoming World Hunger: The Challenge Ahead, Report of the Presidential Commission on World Hunger—March 1980." For the text of Carter's April 26 statement on the report, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book I, p. 777. Documentation on the Commission and its report is printed in *Foreign Relations, 1977–1980*, vol. II, Human Rights and Humanitarian Affairs.

<sup>7</sup> On July 24, the Department of State and the Council on Environmental Quality issued a joint report on environmental issues, "Global 2000 Report to the President." Documentation on the report is *ibid.* On that same day, Carter issued a statement on the report and also announced the establishment of a Presidential Task Force on Global Resources and Environment. (*Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 1415–1416) The Presidential Task Force on Global Resources and Environment released its final report, "Global Future: Time to Act," in January 1981. ("Ideas & Trends," *The New York Times*, January 18, 1981, p. E8)

of recommendations. In cooperation with Anne Wexler and various agencies we have also begun a series of public information efforts that stress the importance of our economic relations with the developing world. In association with the White House Press Office, we are working to increase the attention that Administration officials give to foreign assistance in their public speaking activities, as well as the priority given to this subject in the full range of public affairs activities. The effort is a long-term one and we will continue to rely heavily on your interest and public support.

These measures are in the U.S. national interest. Taken together, they should help to shape the world's future, as Willy Brandt has said, "in peace and welfare, in solidarity and dignity."

Thomas Ehrlich<sup>8</sup>

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<sup>8</sup> Ehrlich signed "Tom Ehrlich" above this typed signature.

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### 352. Memorandum From Secretary of the Treasury Miller to President Carter<sup>1</sup>

Washington, November 12, 1980

#### SUBJECT

Pending Legislation for the Multilateral Development Banks (MDBs)

The prospects for final passage of an FY 1981 Appropriations Bill for foreign assistance appear to be very limited during the post-election session of Congress.<sup>2</sup> The various MDBs can be adequately funded under a Continuing Resolution but *only if* the Congress first enacts the "IDA Authorization Bill" (H.R. 6811) during the post-election session. That legislation provides not only authorization for IDA VI<sup>3</sup> but also provides for U.S. membership and entry into the African Development Bank.

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<sup>1</sup> Source: Department of the Treasury, Office of the Secretary, Executive Secretariat, 1980 Files, 56-83-05. No classification marking. Priority.

<sup>2</sup> The 1980 Presidential and Congressional elections took place on November 4.

<sup>3</sup> See footnote 6, Document 335.

The Senate has approved this legislation<sup>4</sup> so only lack of House action now prevents U.S. participation in IDA VI. Lack of Congressional action has already prevented the replenishment from taking effect on October 1, as scheduled, and the “bridge loan agreement” arranged with other donors to minimize disruptions in IDA lending would be undermined by further U.S. delay.

Deferral of finalization until next summer would jeopardize important IDA lending programs (particularly major energy projects) and could be a disaster from a foreign policy viewpoint. It would also be particularly embarrassing when Tom Clausen is assuming the presidency of the World Bank.<sup>5</sup>

Finally, United States membership in the African Development Bank has a relatively modest cost but is important for U.S. bilateral relations with African countries and for our growing strategic and economic stake in the region.

After discussing the situation with Secretary Muskie, we both believe that H.R. 6811 should be given the Administration’s top foreign policy priority in the post-election session. I will be talking to both the Democratic and Republican Congressional Leadership trying to generate bi-partisan support for the legislation. We recommend that you discuss the matter with the House Leadership as well.

**G. William Miller<sup>6</sup>**

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<sup>4</sup> The Senate approved the bill, S.2422, on June 16. (*Congress and the Nation*, vol. V, 1977–1980, p. 88)

<sup>5</sup> Alden Winship “Tom” Clausen served as the President of the World Bank from July 1981 until June 1986.

<sup>6</sup> Miller signed “Bill” above this typed signature.

**353. Memorandum From Secretary of the Treasury Miller to President Carter<sup>1</sup>**

Washington, undated

## SUBJECT

Your Meeting with President-Elect Reagan<sup>2</sup>—Passage of IDA Legislation

Despite major efforts by a number of Republican members of the House, and indications of support from potential members of the Reagan cabinet (particularly Bill Simon and George Shultz), there was insufficient indication of Republican support for the IDA legislation to persuade the Democratic leadership to bring the bill to the floor today. Chairman Reuss of the Banking Committee summarized it succinctly: "With Reagan yes, without Reagan no".

As you will recall, passage of the IDA legislation in this session is critical. Without it, IDA will be out of funds for most of next year and the United States will be blamed (correctly) for a major breach in North-South relations. In addition, it will be very difficult to halt PLO involvement in the institution, and Tom Clausen's nomination, if it proceeds, will do so under a very dark cloud. Pushing the bill into next year would also add substantially to an already full legislative plate in this area (World Bank callable capital, completion of authorization for the regional development banks, the normal appropriation bills, the Common Fund, etc.).

All this suggests that it is clearly in the interest of the President-Elect for the IDA legislation to be passed in the current session. I strongly recommend that you lay out the situation for him and urge him to take a firm position—publicly if possible, perhaps immediately after your meeting—in support of moving ahead on the legislation im-

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<sup>1</sup> Source: Department of the Treasury, Office of the Secretary, Executive Secretariat, 1980 Files, 56-83-05. No classification marking. Sent to Miller for his signature under a November 19 cover memorandum from Bergsten, who wrote: "The attached explains to the President the status of the IDA legislation, concludes that only direct intervention by the President-Elect can save the bill, and recommends that the President seek such action at their meeting tomorrow. Henry Owen has already alerted the President to the possibility that such a step will be needed. You may prefer to call the President rather than send this memo, and Don [not further identified] and I strongly recommend that you do so." Miller wrote on Bergsten's memo: "11/21, Handled by phone call to President on 11/19 and 11/20." (Ibid.) Carter and Miller spoke by telephone on November 19 from 10:19 p.m. until 10:22 p.m. and on November 20 from 10:32 a.m. until 10:37 a.m. (Carter Library, Presidential Materials, President's Daily Diary) No memoranda of conversation of these telephone calls were found.

<sup>2</sup> On November 20, Carter met with Reagan in the Oval Office from 2:07 p.m. until 3:32 p.m. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation of this meeting was found.

mediately. Congressional action could be taken as early as Friday<sup>3</sup> of this week, or certainly during the first week of December before the Congress adjourns.<sup>4</sup>

G. William Miller<sup>5</sup>

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<sup>3</sup> November 21.

<sup>4</sup> The House of Representatives did not pass the bill, H.R. 6811, before the end of the year. According to *Congress and the Nation*: "The House was to have taken up HR 6811—H Rept 96–1015 during the lame-duck session, but proponents of the bill could find no more than 25 to 30 Republicans who would vote for it—not enough to ensure a majority. And C.W. Bill Young (R–Florida), threatened to offer amendments that could have snarled the bill in lengthy floor fights. At that point, the House leadership decided to drop the bill for 1980." (*Congress and the Nation*, vol. V, 1977–1980, p. 88)

<sup>5</sup> Printed from a copy that bears this typed signature.

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#### 354. Paper Prepared by Thomas Thornton of the National Security Council Staff<sup>1</sup>

Washington, undated

##### NORTH-SOUTH AFFAIRS: EVALUATIVE COMMENTS— RETROSPECTIVE AND PROSPECTIVE

The United States was not ready during the past few years for a forward policy across the broad range of North-South affairs. The Carter Administration occurred during a time of tight resources. Had resources been more abundant we could have made more of an impact, but even in a time of plenty it is questionable whether the United States would be willing to devote the kinds of resources required to make a *qualitative* change in North-South relations. And this is a vital consideration:

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<sup>1</sup> Source: Carter Library, Brzezinski Donated Material, Subject File, Box 34, (NSC Accomplishments—North/South Policy: 12/80). No classification marking. On December 5, Thornton sent Brzezinski another paper entitled "The Carter Administration and North/South Issues: The First Year (The View from the NSC)." In his cover memorandum, Thornton wrote that he had "put together a history of the first year of North-South policy in the Carter Administration. This was the formative period and the one where I was most concerned;" he also indicated his uncertainty as to whether "this is exactly what you wanted but it is the most useful thing that I could put together." Thornton concluded his cover memorandum to Brzezinski: "Having been put into a reflective mood by all of this (and, more important, having had time for reflection for the first time in four years) I may also do a shorter, more evaluative piece. If so, I will send you a copy." (Ibid.)

- Resources are key;
- the amounts required to make a qualitative impact are of dimensions that would, even in the best of time, result in some reduction in the growth rate of well-being for significant numbers of Americans. (Even the long range outlook is not clear. The thesis that the LDCs can provide the engine for enhanced growth in the DCs remains necessarily unproven), and
- unless America leads the way on this, the rest of the developed world will not, probably cannot, make the necessary inputs.

Many of us believe that this sacrifice should be made for humanitarian or other reasons but we are probably a very small minority. Americans resist this kind of thinking within their own borders and no doubt have still less sympathy for it when applied to distant parts. Nevertheless, the administration failed to test the proposition since the President was never mobilized to argue the foreign assistance case to the American public in the opening months of the Administration when he had his best chance to make a decisive impact. By the time he recognized the need himself it was too late and there were other priorities. Vance's speech was a case of too little and too late.<sup>2</sup>

The difficulty of finding public support for positive North-South actions is reflected in the fact that even in the political area, where we were most successful, the Administration had to shed inordinate amounts of blood to get the Panama Canal Treaty ratified and to keep the US from doing something harmful in Zimbabwe. The Middle East initiative was readily accepted because it postponed indefinitely the hard part of the bargain for Americans (and Israelis) to swallow—the Palestine issue.

There is also an important psychological problem. Most Americans simply do not see the need to treat LDCs with the same kind of respect that we do our European allies, Japan and even China. We do not take them very seriously and this is painfully evident. Clearly we cannot devote equal attention to 150 countries but among the regional influentials at least, there are several countries (Brazil, India) that simply have to be given the same kind (if not always amount) of attention that we give to the Europeans. If we systematically degrade these countries on even simple protocol matters—to which they are inordinately sensitive—our protestations of concern will not be taken seriously. The President's LDC grand tour<sup>3</sup> was an excellent demonstration of our interest; some of the imperial attitudes of the President's staff during the trip—and even more when visitors come here—undercut much of the benefit.

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<sup>2</sup> See footnote 2, Document 328.

<sup>3</sup> Apparently a reference to Carter's March 28–April 3, 1978, visit to Venezuela, Brazil, Nigeria, and Liberia.



There is little doubt that, ultimately, the United States will have to make a major readjustment to the global south, both psychologically and materially. We have already taken one step in massive resource transfer—but unwillingly and inefficiently through the mechanism of OPEC price gouging. It would obviously be in our advantage to make future readjustments voluntarily and, hence, more on our own terms. There is no prospect that this will happen in the foreseeable future.

There is certainly a strong humanitarian streak in the American people and this can frequently be tapped on an ad hoc basis. What is lacking is a willingness to make a systematic commitment to change and, even more, to accept the fact that the recipient nations (and it is nations, not poor people, with whom we must deal) will have the major voice in determining the use of our largesse. (There are obvious domestic parallels.) The clearest reflection of this attitude was the “basic human needs” policy which was seen as patronizing, if not interventionist, by most of the poorer countries with whom we deal. The BHN policy was also, ultimately, not a convincing rationale for selling a systematic program of foreign assistance to the American people and Congress. Similarly, the liberal desire to funnel funds through the IFIs came up against some hard realities as the Congressional and popular mood began to shift in the opposite direction. Most Americans want their foreign aid to have some visible foreign policy impact and, short of massive resource transfers that would change the basic image of the US in the global south, this can be done only (if at all) through targeted, bilateral, politically-motivated programs.

Our BHN strategy reflected a condescending American attitude and was therefore especially ill-suited to mesh with a key aspect of our North-South strategy—the attempt to cultivate regional influentials. There are plenty of poor people in regionally influential countries but (a) these countries are particularly determined to accept aid only on terms that they see as consistent with their sovereignty, (b) a number of them are, at the macro-economic level, not among the poorest of the poor, and (c) by definition, most of them have relatively large economies so that even very generous US aid programs make only a marginal impact on them—politically or economically. Thus foreign aid was not a significant policy tool in dealing with these countries.

Other aspects of our global policies (human rights, arms transfer, non-proliferation) were also resented by LDCs, particularly the more influential of them who inevitably came more into conflict with us over them.

In addition, of course, the Carter Administration began with the assumption that our political and strategic competition with the Soviet Union was inexorably resolving itself in our favor. The future would be determined by our immensely more attractive economic and moral

assets. Since a major problem in our dealing with the nations of the South had in earlier years been our need to look first to the Soviet relationship—and in the process frequently neglect Southern interests—we thought that we had pretty clear sailing. This estimate regrettably turned out to be wrong. The Soviet challenge, which had been in a quiescent building period, broke forth in full flower in the middle of the Carter years, forcing us to reassess our priorities—not infrequently to the detriment of our Southern interests as we had originally perceived them.

Overall, there is probably no greater impediment to our pursuit of a fruitful North-South policy than the persistent conflict between our global objectives (whether humanitarian or strategic) on the one hand, and the demands of our relations with individual countries or of regional problems. This has weighed on our policies since the mid-1950s. As long as the United States must (or believes it must) assume responsibility for global stability, this tension will continue. (The contrast with the relative success of the Europeans is instructive; the Soviets increasingly face the same problems that we do.)

Inability to interrelate the economic and political aspects of our North-South policy was at the core of our problems at home. In one sense, this happened because of the bureaucratic separation of these factors, not only as between agencies but also within agencies. The economic bureaucracy in State was never really under political control and S/P was never able to coordinate policy effectively. Within the NSC, the bureaucratic arrangements made it very unlikely that a coherent policy could be pursued. Brzezinski never got sufficiently involved in LDC economic affairs to follow up on his ideas. Hence there never was an effective “ground strategy” for North-South affairs.

There is, of course, a more fundamental question—whether a “North-South policy” is viable in the United States. Sweden and the Netherlands, for instance, have a happy combination of public support for significant resource transfer and a lack of responsibility for events in the Third World. They are able to take positions across the economic and political spectrum that are in line with the “Southern” approach; hence, they have a credible and coordinated policy.

The United States lacks that kind of public support and carries responsibility for events elsewhere in the world. At this stage in our history it is probably impossible to take the kinds of policy positions that would be “successful”—in the sense that the Southern countries would see these positions as an adequate response to their concerns.

And, of course, there is no reason to assume that it would be in anybody’s long-term interest for us to take such positions. We have to be the judge of our own actions.

*Conclusion*

About a year into the administration, David Aaron mused that “North-South policy was an idea whose time had not yet come.” If he was wrong, it was only in the confidence that its time in the United States *would* come. To be sure, we will have to adjust to international reality in one form or another—but it is far from certain that this will be the result of conscious policy choices, as opposed to having the situation forced on us (the process that OPEC has begun).

There is a good case to be made for the proposition that the American people, because of historical and geographic peculiarities, will never come to the conclusion that a positive North-South policy, including some short-term sacrifices, makes sense to them. Personally, I do not despair of building that realization, but for the next several years at least—and probably most especially during the Reagan presidency—there will be no effective moves in that direction. We will not be able to make the key politico-economic linkage required for such a strategy. Since these years are likely to be a time of very tight resources, that may not make much difference.

These years can be used for educational purposes within the American public—a task that the government should do but probably won’t. The burden will fall on private organizations as it has in the past. One can only hope that they will be more successful than they have been in the past.

In policy terms, there is not much left beyond handling North-South issues on a case-by-case basis. This is of course how the Carter Administration—and Kissinger before then—handled them. What may be lacking, however, is an overall concept relating these individual cases. Again, neither Carter nor Kissinger was able to construct a compelling single concept; yet there were some useful ideas for the operators to keep in mind. An early task of the Reagan administration should be to enunciate some of its own ideas as a means of minimizing the likely chaos.

At a minimum, we should ensure that we do not slip backwards during this difficult time. Thus policy planning for North-South affairs over the next several years should probably concentrate on developing good defensive strategies, in contrast to the more hopeful but often irrelevant constructs of the early Carter years. Since the operators (Treasury, State/EB) have taken a defensive posture all along, this should be a welcome change to them. The key, however, will be supplying the overall rationale which the operators have lacked and will probably continue to lack.

**355. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, December 6, 1980

## SUBJECT

Your Last Aid Budget (U)

The FY 1982 AID budget will be your legacy in a field in which you have demonstrated effective leadership. This memo deals with the few areas in which I believe that a change in the OMB mark is needed to strengthen this legacy. (U)

1. *Agriculture and Energy.* One of your main accomplishments has been to focus bilateral development aid on helping LDCs produce more food and energy. Increases in our aid for these purposes should be a main feature of your FY 1982 aid budget. These increases are needed to meet urgent problems; they will leave a clear signal to the Congress, the public, and our successors that this is the right direction for the future. There is also a good chance they would be approved by the Congress: Support in America for aid for food production is widespread, spear-headed by your Hunger Commission and explicitly reaffirmed by spokesmen of the new Administration. The benefits of helping LDCs increase energy production are coming increasingly to be recognized on the Hill, as a means of reducing pressure on global prices. (C)

a. *Agriculture.* The AID program for assisting food production within the OMB mark involves an increase of \$74 million over our FY 1981 aid request to the Congress. IDCA's "leadership proposal", supported by State, recommends an additional increase of \$380 million.<sup>2</sup> This commitment would, if continued, significantly reduce the number of malnourished people in the world. It would enable AID to give enough aid to certain key countries, e.g., Bangladesh, to enable them soon to attain food self-sufficiency. I support this proposal. If it is not fiscally feasible to provide the full \$380 million, I propose a more

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 1, Budget Appeals Session 1982: 12/80. Confidential. Sent for information.

<sup>2</sup> On December 4, Muskie sent McIntyre a proposal for "a significant increase in our development assistance programs." In his cover letter, Muskie argued for the proposal, which expanded on a "leadership proposal" advanced by the IDCA, on the basis that it was "essential to protect increasing American interests in the Third World, to capture the initiative for our policies there, and to gain additional efforts by other industrial nations." (National Archives, RG 59, Office of the Secretariat Staff, Official Working Papers of S/P Director Anthony Lake, 1977-January 1981, Lot 82D298, Box 7, S/P-Lake Papers—12/1-15/80)

modest add-on, either of \$140 million for the African part of the program (since Africa is where the food problem is worst) or of the \$80 million that IDCA proposes for increased support of agricultural research in LDCs. Our most important contribution to LDCs since World War II has been the research aid which has enabled these countries to develop new rice and wheat strains; we might achieve equally important breakthroughs for hundreds of millions of poor people by a modest additional effort. (See Frank Press' attached memo.)<sup>3</sup> (C)

b. *Energy*. Within the OMB mark the FY 1982 aid program for helping LDCs produce energy is an increase of \$30 million over FY 1981. IDCA and State propose an additional \$100 million, to carry out the recommendations of an interagency task force chaired by Ed Fried, whom you may remember from Brookings. Ed's report calls for increased bilateral aid in a vital area that will not be adequately addressed by the proposed World Bank energy affiliate: increased production of fuelwood, which is the main energy source for many LDCs. If continued for four years, the \$100 million fuelwood aid program that Fried's task force proposes, coupled with action by other donors, should produce a big increase in LDC energy production, which involves a much more favorable rate of return than projected for most intended energy investments, at home and abroad. Through extensive reforestation, this program will also yield large environmental benefits. (C)

2. *Science and Technology; Population*. In addition to the food and energy, I recommend:

a. \$6 million for the central AID program of *scientific and technological cooperation with LDCs*. The Congress appropriated \$12 million for this program in FY 1981. A 50% increase for FY 1982 seems modest by comparison with the \$35 million we had proposed for the ISTC, whose purposes the Congress instructed us to achieve within AID. (C)

b. Additional funds for *family planning*. IDCA and State propose an increase of \$133 million for family planning over the OMB mark. They point out that FY 1981 is the first year in which demand for US family planning services in LDCs has exceeded supply. They estimate that the proposed extra aid will elicit a comparable increased effort from other donors and LDCs that could mean a billion less people forty years from now. If fiscal considerations preclude such a large add-on, we could fall back to the additional \$55 million OMB wants to add by means of reducing other development programs now proposed by IDCA and State

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<sup>3</sup> Not attached; however, a December 5 memorandum from Press to Carter entitled "Foreign AID Budget: Science and Technology" is in the Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 1, Budget Appeals Session 1982: 12/80.

within the OMB mark. Nothing that has happened in the Third World in the last twelve months justifies such a reduction in these country programs; any increase in aid for family planning should be an add-on to the OMB mark. (C)

*Summary.* The IDCA-State proposals for increased aid (over the OMB mark) for agriculture, energy, and population add up to \$613 million. A more modest package that included \$140 million (Africa) for agriculture, \$100 million for energy, \$55 million for family planning, and \$6 million for science and technology would total \$301 million. This could be reduced to \$241 million by including only research (\$80 million) in the agriculture portion. A cut in the energy program to the amount (\$50 million) needed for Africa would bring the total down further to \$191 million. At this point, however, the add-on would probably be too small to generate increased effort by others. I would argue for at least \$241 million. (C)

3. *PL-480.* OMB is proposing \$1.680 billion for PL-480. This is the mark that you approved this spring, with the understanding that it would be reviewed, as necessary, in light of price increases. It turns out that we would now need \$1.850 billion to secure the 6 million tons that you envisaged in approving the \$1.68 billion figure. State is seeking \$1.8 billion, which would bring us close to the 6 billion ton figure (5.8 MT). To go below this figure would be irresponsible, in light of the very bad world food situation that crop estimates suggest will confront us next year. IDCA wants \$1.875 billion. (C)

4. *Conclusion.* Jim McIntyre said at one of your past aid budget meetings that the hard-core constituency for foreign aid was one person: you. While there is more support for foreign aid than Jim's remark suggests, in a sense he is right: Foreign aid serves the general national interest, rather than specific interests of the local and occupational groups that support domestic programs. McGeorge Bundy<sup>4</sup> voiced the same thought when he said that one can judge how presidential a White House occupant is by how he acts about foreign aid. By this criteria, you have a good record. (C)

This budget will cap and symbolize that record. US interests in the Third World, and in overcoming the global food and energy problems, will be well served if the budget includes an adequate attack on these problems. Whether the budget is cut or accepted by the next Administration, you will be leaving a legacy of which you can be proud. (C)

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<sup>4</sup> McGeorge Bundy, the President's Assistant for National Security Affairs from 1961 until 1966, was the President of the Ford Foundation until 1979.

**356. Memorandum From the Special Representative for Economic Summits (Owen) to President Carter<sup>1</sup>**

Washington, December 16, 1980

## SUBJECT

Foreign Aid—For the Last Time (U)

1. Discussions at the Summit Preparatory meeting in Paris last week<sup>2</sup> lead me to believe that the other Summit countries might well be willing to match modest add-ons to US aid for food and energy production, and for family planning. If such US add-ons are presented as our response to the Venice Summit call for increased bilateral aid by Summit countries in these three fields,<sup>3</sup> the Canadians will urge our allies to join us in forming food, energy, and family planning aid consortia. These consortia would be an important Carter legacy, in a field in which you have a good record. (C)

2. I therefore propose that your FY 82 bilateral development aid request to the Congress include a modest increase over the OMB mark, in response to the Venice Summit. Your budget message would state that this add-on was being proposed in the expectation that it would evoke a comparable increase in other Summit countries' aid for these purposes, and that final Congressional action should hinge on whether such a response seems likely to occur. OMB tells me that such a contingent approach is feasible, and that at least one other item in the FY 82 budget (IFAD replenishment) will be handled in the same way. (C)

3. I propose the following:

a. A \$65 million energy add-on, for increased production of fuel-wood, as proposed by State and IDCA in the "leadership package". According to IDCA, DOE, and World Bank estimates, this expenditure, if continued for several years and matched by others, would reduce LDC oil imports and reverse a growing deterioration in the energy supply available to the world's poor countries.

b. \$40 million for aid to national agricultural research institutes in food deficit countries and \$60 million for food production aid to Africa, half of the amounts proposed for these purposes in the leadership package. Research has the highest pay-off of any agricultural aid; Af-

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<sup>1</sup> Source: Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 1, Chron: 12/10–31/80. Confidential. Sent for information.

<sup>2</sup> See Document 252.

<sup>3</sup> See Document 247.

rica is included because it is the region of greatest interest to our European allies and the area with the greatest need for famine prevention.

c. \$55 million for family planning aid, the additional amount that OMB has approved; but not in lieu of existing country development aid projects, as OMB proposes. (C)

This total proposed add-on would be \$220 million, or \$33 million in FY 82 outlays. It would leave total bilateral development aid still below the \$2 billion mark, and is far below State's compromise package of \$500 million, which is focused on the same three fields. (C)

4. This add-on might well be acceptable on the Hill, and for good reason: Increased LDC food and energy production would reduce pressure on global food and oil prices, which generate inflation in the US. Humanitarian aid to avert starvation and to restrain population growth have traditionally been supported by the Congress. The fact that this add-on package would be conditional on comparable additional effort by other industrial countries would be well received. (C)

5. I know that you are besieged with requests for international affairs budget add-ons. Secretary Muskie said at your December 8 budget meeting that international development aid deserved the highest priority among these appeals.<sup>4</sup> In development assistance, all agencies agree that top priority should go to food, energy, and family planning—because of their importance, their popularity on the Hill, and the likelihood that they would evoke a response from other countries. The program I propose would pave the way for a new phase in foreign aid marked by increased emphasis on aid in these three fields, to be provided through functional consortia among bilateral aid donors. All this for an increased FY 82 outlay of \$33 million seems to me a good bargain, the more so since the increase in real terms over last year's request level would still be only 15% (as compared to about 1% for the OMB mark).<sup>5</sup> (C)

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<sup>4</sup> Carter held a meeting on the FY 1982 budget on December 8 from 1 until 3:49 p.m. in the Cabinet Room. (Carter Library, Presidential Materials, President's Daily Diary) No memorandum of conversation of the meeting was found. Muskie made this point publicly in a January 15, 1981, speech to the American Foreign Policy Association and the World Affairs Council. He discussed, among other things, the importance of North-South issues and foreign aid to the future of U.S. foreign policy. For the text of his speech, see the Department of State *Bulletin*, February 1981, pp. 24–26.

<sup>5</sup> The FY 1982 budget proposal to Congress that Carter sent on January 15, 1981, included a request for a 14 percent real increase in foreign aid over the amount allotted for FY 1981. In his transmittal message, Carter noted that "[t]he bilateral development aid budget includes a U.S. response to the 1980 Venice Summit agreement that the major industrial countries should increase bilateral aid for food production, energy production and conservation, and family planning in the developing countries," a proposal put forth "in the expectation that the other Summit countries will also increase aid in these sectors, in response to the Venice Summit agreement." For the text of the message, see *Public Papers of the Presidents of the United States: Jimmy Carter, 1980–81*, Book II, pp. 2895–2903. (Quotations are on p. 2899.)





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