

1974-7-9, Sadat, Rixen, Meeting About

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MEMORANDUM OF CONVERSATION

PARTICIPANTS:

President Nixon
 William Simon, Secretary of the Treasury
 Major General Brent Scowcroft, Deputy Assistant
 to the President for National Security Affairs

DATE AND TIME:

Tuesday, July 9, 1974
 10:00 a.m.

SUBJECT:

Secretary Simon's Trip to the Middle East
 and Europe

The President: When do you go?

Secretary Simon: Thursday morning. I am going to the principal countries. State now wants me to go to Abu Dhabi. Then I go to France, Germany, and London on oil prices.

The President: The NSC paper is wrong on Israel. Tell them the train has left the station. Be very hard line. Listen but do nothing. I don't want any pandering to the Israelis.

With Egypt we must be forthcoming without raising expectations too high. We must explore what they want and need and how to implement their economic programs. Be forthcoming within our limited means . . . PL-480.

With Faisal, I have raised it privately, and you can, that the oil prices can't go on. We want to explore what might be done, but they can do little if the Shah holds up the prices. Kuwait the same.

With the Europeans, be cordial. We want economic cooperation, but we will jeopardize our military security program if we don't get economic cooperation. Find out what they want. They will figure you are coming with a bag full of money, which you aren't.

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Speak glowingly to Sadat of our reception. He is coming here this fall. With Israel be firm.

Secretary Simon: I had thought of discussing this with the Finance Minister and Schmidt . . .

The President: Try to see D'Estaing. The Secretary of State is not the only one who should be able to see him. Also see Wilson.

Secretary Simon: Those three are tentatively on my schedule. Schmidt is a good friend. I wanted to elicit some cooperation from them and the companies with respect to the action. This is one approach -- there are other more stringent things we could do.

The President: Who are you taking?

Secretary Simon: An assistant for monetary matters. Another assistant I will leave in Saudi Arabia to work things out.

The President: We usually have trouble getting specifics from them.
Secretary Simon: I can total the aid to \$1.25 billion if they will restructure themselves adequately (from all sources).

The President: The new tune with the Arabs is Arab-American friendship. We haven't promised the moon but we want hard action.

Secretary Simon: Yamani spent the weekend with me. I told him they are strengthening their enemies -- the high price now helps the others, not them.

The President: It gives us incentive to develop alternatives. Tell them Project Independence doesn't mean we don't care about them, but it is important now to get prices under some control.

Secretary Simon: I will try to get a commitment from them to put their funds in long and short term securities.

The President: When you talk about long term Israeli assistance, fuzz it up. It is ridiculous to give \$6 billion to them and then a little dribble more to the Arabs, especially with the Israeli attitude on negotiations.

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You stay out of this, say we have a special relationship, but stay hard line and stay away from figures. Say that, of course, we are talking with the Arabs, but that is better for Israel too.

You are not going to Syria?

General Scowcroft: No.

The President: Tell the Arabs we are interested in the whole Arab world -- we're not just tied to the Israelis. This oil thing is very touchy -- getting prices down must be done very privately. Do it quietly, explain our situation and attitudes. Tell them we need a more healthy situation.

Secretary Simon: Is it possible to put pressure on the Shah?

The President: You're not going there?

Secretary Simon: No. We thought we would let them sweat a bit while the others get the goodies.

The President: He is our best friend.

Secretary Simon: He is the ringleader on oil -- with Venezuela. Otherwise the prices would be down.

The President: Let them know they have a friend here. The Kuwaitis, for example, would be welcome.

Secretary Simon: Should I informally extend an invitation on your behalf?

The President: Yes, say I would look forward to seeing them at a mutually convenient time.

Secretary Simon: Kuwait is large. If they cut production it could be tough. The Shah could be right behind. It could be the same as an embargo except that storage is full. With all the states with money and nowhere to spend it, the banks and financial markets are in trouble.

Oil prices have created great instability in the international financial markets.

The President: How about the stock market?

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Secretary Simon: There is fear borrowing going on.

The President: Why?

Secretary Simon: They are afraid of future inconvertibility moves and interest hikes. I talked to Lasker last night. The financial markets are close to panic. There are major corporations which are unable to borrow.

The President: What's the answer?

Secretary Simon: Mine is the same -- fiscal policy. Demand restraint. Taxes cut.

The President: You shouldn't even talk taxes.

Secretary Simon: I am sure the budget is a fight. Social Security is growing at a horrendous rate. With this size budget we can find swings. Take \$5 billion out of Social Security. Send a bill up, say government spending has gone on long enough. Send up five bills like that. The slippage in the budget is about \$10 billion, so we may be looking at \$315 rather than \$305. It is getting very serious and now is the time to say this is it. And it is popular -- it helped Giscard and Schmidt to win.

The President: I don't mind sending up cuts.

Secretary Simon: If you sent up nine or eleven cuts and let us go up to fight for them, at least you will have tried. The alternative is inflation -- a tax on us all. In the last five years 65% of the budget is welfare. And the benefits compound each year. It wouldn't be easy.

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