WHORM Subject File Code: CO054-02
(Countries: Germany, Federal Republic of (West))
Case file Number(s): 024000-025999
Box: 75

WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name	WHITE HOUSE OFFICE OF RECORDS MANAGEMENT (WHORM): SUBJECT FILE	**Withdrawer**	DLB 3/22/2010
File Folder	CO054-02 (GERMANY, WEST) (024000-025999)	**FOIA**	S10-306 SYSTEMATIC 408
Box Number	75		

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
88233	MEMCON	RE: EUROPEAN RELATIONS - VICE PRESIDENT BUSH/GERMAN DEFENSE MINSTER HANS APEL, MARCH 25, 1981	2	3/25/1981	B1
		R 10/28/2022 NSC/DEPT. OF STATE WAIVERS			

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]
B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
B-3 Release would violate a Federal statute [(b)(3) of the FOIA]
B-4 Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

UNCLASSIFIED

21 APR 1981

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FG006-12

OFFICE OF THE VICE PRESIDENT

WASHINGTON

WS

April 20, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: Nancy Bearg Dyke NBD

SUBJECT: Memcons

The Vice President prefers that memoranda of conversations not be routinely circulated. Of course, there would be some exceptions.

Attached are several memcons you recently sent, on which I have marked a few small changes. The memos are generally excellent accountings of the meetings.

Attachments:

-- Meeting with FRG Economics Minister Lambsdorff

-- Meeting with Dutch Prime Minister van Agt

-- Meeting with FRG Defense Minister Apel #1551

-- Meeting with former Irish Minister for Foreign Policy Garret Michael FitzGerald

-- Meeting with Turkish Foreign Minister Turkmen

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S) 3/19/10

UNCLASSIFIED
(WITH ~~CONFIDENTIAL~~ ATTACHMENTS)

NSC#8101551

MEMORANDUM

1551

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~ ATTACHMENT

March 28, 1981

ACTION

MEMORANDUM FOR THE VICE PRESIDENT

FROM: RICHARD V. ALLEN

SUBJECT: Memcon of Your Meeting with FRG Defense Minister Apel (March 25, 1981)

Attached is a memorandum covering your conversation of March 25 with FRG Defense Minister Apel. With your permission I would like to distribute copies of the memcon to the Defense and State Departments.

RECOMMENDATION

That you approve distribution of the memcon to

State_____

Defense_____

Disapprove, hold within White House ✓

~~CONFIDENTIAL~~ ATTACHMENT

88233

1551

1

CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: European Relations

PARTICIPANTS: The Vice President
Richard V. Allen, Assistant to the President for National Security Affairs
Richard Perle, Department of Defense
Nancy Berg Dyke, Assistant to the Vice President
Cdr. Dennis C. Blair, National Security Council

German Defense Minister Hans Apel
Peter Hermes, FRG Ambassador to the U.S.
Walter Stuetzle, Assistant Secretary of Defense for Political-Military Affairs

DATE, TIME AND PLACE: March 25, 1981, 8:30 a.m. to 9:00 a.m.
Vice President's Ceremonial Office, Room 274, OEOB

In his opening remarks, Minister Apel said that the U.S. should resume TNF arms control negotiations with the Soviets to prove that such negotiations would not bring quick results. The only way to prove this was to conduct the talks. ~~(C)~~

In response to questions from the Vice President, Minister Apel made the following points about the Siberian Gas Pipeline deal: First, it was not clear if the deal would actually be closed. The Soviets wanted government subsidized or guaranteed loans, which the government was unwilling to do. Interest rates were rising in the private sector. Second, even if the deal were concluded, the 30% natural gas and 5-6% total energy dependence on the USSR was manageable. In the extreme event of a cutoff, the FRG could turn to alternative sources. ~~(C)~~

Ambassador Hermes added that there was a "severe gap" in present positions in the bargaining, one that would take long negotiations to close. ~~(C)~~

The Vice President noted the tense situation in Poland and asked Minister Apel's appraisal of the situation. ~~(U)~~

Minister Apel said that an invasion by the Soviets would have a two-fold effect; first, that world opinion would condemn them, and second, after a fight, they would have to feed Poland and prop up its economy. For these reasons he felt the Soviet Union was not ready to intervene but would hold off hoping for a Polish solution. Meanwhile, the events in Poland amounted to a counter-revolution against the Soviet Union and events could reach a point where the Soviets felt they had no choice. In other words, the Soviets had no good choices. ~~(C)~~

CONFIDENTIAL
Review on March 25, 1987

Mr. Allen pointed out how the members of Solidarity more militant than Lech Walesa were being called "extremists" in the U.S. press. He asked what terminology was being used in the German press for the Afghanistan freedom fighters. (U)

Minister Apel replied that the terminology was the same in the German press. Afghanistan however, rarely appeared in the news. (U)

The Vice President said that although Afghanistan was not front-page U.S. news, it was a "festering sore" of which all Americans were aware. (U)

Returning to Poland, Mr. Allen said that the recent events could be interpreted as a direct result of German Ostpolitik (laughter). (U)

Mr. Allen continued that if Poland had a border with the West there would have been a Soviet intervention by now. (U)

Minister Apel agreed and added that the Helsinki agreements and the general climate in Europe had also restricted Soviet options. (U)

The Vice President pointed out that there were more Poles in Chicago than in Warsaw and that a Soviet invasion would have important domestic recupercussions in the U.S. for this reason. (U)

Minister Apel said that Soviet officials had told him 18 months ago after the Pope's visit that they were furious about his actions. Recently however, they had been praising the moderating influence of the Catholic Church. It was an interesting switch. (C)

The Vice President questioned Minister Apel on the Federal Republic's present relations with East Germany. (U)

Minister Apel replied that with the events in Poland, although there were still contacts, there were few prospects for improvements in relations. He said that East German government had the internal situation under tight control. The government was playing on the traditional anti-Slav sentiments of East Germans, telling the people that East German workers were propping up the Polish economy, while the Poles were holding meetings and strikes. (C)

The Vice President asked for Minister Apel's evaluation of the coordination between Soviet and East German activities overseas. (C)

Minister Apel replied that the East Germans did not take a step without checking with the Russians. (C)

At the end of the conversation, Minister Apel told an anecdote illustrating that the East Germans regarded the ministers of the FRG as more their legitimate representatives than those of the GDR. Last year when he had been Finance Minister, during a visit to East Germany he had been told by East Germans that he was "their minister." (U)

MEMORANDUM

1551

NATIONAL SECURITY COUNCIL

~~CONFIDENTIA~~L ATTACHMENT

ACTION

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S)

March 26, 1981

MEMORANDUM FOR RICHARD V. ALLEN

FROM: DENNIS C. BLAIR

SUBJECT: Memcon of Vice President's Meeting with Minister Apel

Attached for your signature to the Vice President is a memorandum forwarding the memcon of the Vice President's meeting with Minister Apel. The memo recommends that we distribute to both State and Defense.

RECOMMENDATION

That you sign the memorandum to the Vice President at Tab I.

Approve ✓ Disapprove_____

~~CONFIDENTIAL~~ ATTACHMENT

NSC/S PROFILE ~~CONFIDENTIAL~~ ID 8101551

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S) dlb 3/19/10

RECEIVED 27 MAR 81 12

TO ALLEN FROM BLAIR DOCDATE 26 MAR 81

ALLEN 28 MAR 81

KEYWORDS: GERMANY F R AVP APEL, HANS

BUSH, G

SUBJECT: MEMCON OF VP MTG W/ FRG DEFENSE MINISTER ON 25 MAR

ACTION: FOR SIGNATURE DUE: 30 MAR 81 STATUS D FILES WH

FOR ACTION	FOR COMMENT	FOR INFO
ALLEN		TYSON

COMMENTS VP TO MAKE DECISION ON DISTRIBUTION

REF# LOG 8101132 8101400 NSCIFID (D / D)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
	X 3/28	Nance sgd memo to VP for decision		DB CT
	D 3/28	Waiting for VP decision		
	C 4/24	Recd Nyce memo (VP disapproved Recom)		B, CT

DISPATCH done dom 3/28 3:00pm W/ATTCH FILE ____ (C) H.

MEMORANDUM 1693

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FG038
FG006-12

THE WHITE HOUSE

ACTION

WASHINGTON

April 13, 1981

WS

MEMORANDUM FOR THE VICE PRESIDENT

FROM: RICHARD V. ALLEN

SUBJECT: Visit of FRG Chancellor Schmidt Helmut

The State Department has recommended the following participation by you in the Schmidt visit. I concur in their recommendations:

--	May 21	Arrival ceremony at White House
		Morning meeting with the President
		Official dinner at the White House
--	May 22	Return dinner at German Embassy hosted by the Chancellor (President will not attend)

In addition, it would be worthwhile for you to have a separate meeting with Chancellor Schmidt of approximately one hour on either the afternoon of May 21 or the morning of May 22.

RECOMMENDATION

That you approve participation as outlined above.

Approve_____ Disapprove_____

That you schedule a one hour meeting with Chancellor Schmidt

Approve_____ Date and Time_____

Disapprove_____

NSC #8101693

MEMORANDUM

1693

NATIONAL SECURITY COUNCIL

ACTION

April 10, 1981

SIGNED

MEMORANDUM FOR RICHARD V. ALLEN

FROM: DENNIS C. BLAIR

SUBJECT: Vice Presidential Participation in Schmidt Visit

Attached for your signature is a memo to the Vice President forwarding State Department's recommendations (Tab B) concerning the Vice President's participation. What State proposes is sensible and appropriate, and your memo to the Vice President concurs in the recommendation.

RECOMMENDATION

That you sign the memo at Tab A.

Approve ✓ JWN for 4-13-81 Disapprove_____

1693

S/S 8111381

DEPARTMENT OF STATE

Washington, D.C. 20520

April 8, 1981

LIMITED OFFICIAL USE

MEMORANDUM FOR MR. RICHARD V. ALLEN
THE WHITE HOUSE

Subject: Visit of FRG Chancellor Schmidt

We have previously forwarded a request for the Vice President to receive Chancellor Schmidt during his official visit to Washington May 20-23. In addition, we recommend that the Vice President participate in the following events:

May 21

-- Arrival ceremony at the White House
-- Morning meeting with the President

Evening:

-- Official dinner at the White House

May 22

-- Return dinner at the German Embassy hosted by the Chancellor

L. Paul Bremer III
Executive Secretary

LIMITED OFFICIAL USE

1693

8110232

DEPARTMENT OF STATE

Washington, D.C. 20520

March 31, 1981

~~CONFIDENTIAL~~

MEMORANDUM FOR MR. RICHARD V. ALLEN
THE WHITE HOUSE

Subject: Official Visit of FRG Chancellor Schmidt, May 20-23, 1981

The Department recommends that the Vice President receive FRG Chancellor Schmidt for approximately one hour on either the afternoon of May 21st or the morning of May 22nd.

L. Paul Bremer III
Executive Secretary

~~CONFIDENTIAL~~
GDS 3/31/87

NSC/S PROFILE ~~CONFIDENTIAL~~ ID 8101693

UNCLASSIFIED UPON REMOVAL OF CLASSIFIED ENCLOSURE(S) dh 3/15/10

RECEIVED 01 APR 81 09

TO ALLEN FROM BREMER DOCDATE 31 MAR 81

KEYWORDS: GERMANY F R VISIT SCHMIDT, HELMUT

AVP

SUBJECT: STATE RECOMMENDATION THAT VP MEET W/ SCHMIDT ON 21 OR 22 MAY DURING OFFICIAL VISIT

ACTION: PREPARE MEMO FOR ALLEN DUE: 06 APR 81 STATUS S FILES

FOR ACTION FOR COMMENT FOR INFO

RENTSCHLER TYSON

COMMENTS

REF# 8110232 LOG NSCIFID (B /)

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
Allen	X 4/10	for sig to VP	(4/14)	Tyson
	C 4/13	Notice sgl memo to VP		cy, DB

DISPATCH cd 4/13 1325 MTM WATCH FILE WH (C)

TODAY'S DATE: May 18, 1981

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WS ?

RESIDENCE EVENT-PLANNING CHECKLIST

FOR BREAKFASTS/LUNCHEONS/DINNERS/RECEPTIONS/BRIEFINGS

GENERAL INFORMATION

Event Name: STATE DINNER Date of Event: May 21, 1981

Group: Chancellor Helmut Schmidt of the Federal Republic of Germany

# of Guests: 99 dinner 40 alternate 162 after-dinner (approx.) Dress: Black tie Time: 7:30 p.m. Till: 11:30 p.m.

Site: State Dining Room/East Room/State Floor West Garden Room Rain Site:

WHS Contact: Mabel H. Brandon/ Mabel Brandon Tel. No. : X 7064

Outside Contact(s): Tel. No. :

Reimbursable: NO ____ YES X Bill: State Department

FIRST FAMILY PARTICIPATION

Principals: THE PRESIDENT AND MRS. REAGAN

From: 7:15 p.m. Till: 11:00 p.m. Site: Yellow Oval Room, State Dining Room, East Room

Remarks: Yes Time: 9:15 toast 10:45 thanks Receiving Line: NO ___ YES X Time: 7:45 p.m. entertainment

Site: East Room OTHER NOTES:

GUESTS

Entry Gate: Chancellor - NorthWest Gate Guests - SouthWest Gate Exit Gate: SAME

Parking: NO ___ YES X Protocol Alerts:

Platform Participants: East Room entertainment - Julliard String Quartet

Event Date: May 21, 1981

Time: 7:30 p.m.

Event: STATE DINNER FOR FEDERAL REPUBLIC OF GERMANY

TECHNICAL INFORMATION

(Primarily for Usher's Office Use)

Chairs:# 99 -State Dining Room; 40 -West Garden Room; 162 -East (approx.) Type:# Gold Table(s):# 12 Size: round

Platform(s):# 1 East Rm. Size: details to come Riser(s):# Size:

Room Arrangement: State Dining Room - round tables - Eagle lectern in front of fireplace/East Room, stage on East wall, chairs theater style/West Garden Room -

Other Equipment/Props: four round tables.

Booklets/Handouts: NO ___ YES X Location: Programs East Room - Gold Chairs

Name Tags: NO X YES ___ Table Cards: NO ___ YES X

Coat Check: NO ___ YES X Time: 7:00 p.m. Site: Dip Room

Coat Racks: NO X YES ___ # ___ Site: ___

Tour for Group: NO X YES ___ Time: ___ Site: ___

Food/Beverages: See Muffie Brandon

Attach Menu ___ Serving Time: ~~8:15 p.m.~~

WH Photographer: NO ___ YES X TIME: ~~7:00 p.m.~~ General Edit: NO ___ YES X

(NOTE: For media coverage information, attach media coverage form.)

W.H.C.A.

Podium(s): NO ___ YES X Type: Stand-up toast lectern Site: State Dining Room: On East Wall

Mike(s): Yes (PA record) Announcer Mike: NO ___ YES X Location: Cross Hall/East Room

P.A. Other Rooms: NO ___ YES X West Garden Room during toasts Recording: NO ___ YES X

Visual Aid(s): NO X YES ___ Types: ___

MILITARY

Social Aides: NO ___ YES X # All avail. Carriage Call: NO ___ YES X

Door Openers: NO ___ YES X # 2 Honors: NO ___ YES X

Marine Band Orchestra 7:00 p.m. - Main Foyer

Music: Strolling Strings (Army) Time: 9:00 p.m. - State Dining Room

Harpist 7:00 p.m. - Dip Room

Location: String Quartet ~~Technical Requirements:~~ ___

7:00 p.m. - Rose Garden (Cross Hall Rain Site)

Military Dance Band 10:20 p.m. - Main Foyer

V

5/19/81

CHANCELLOR HELMUT SCHMIDT
Background Material

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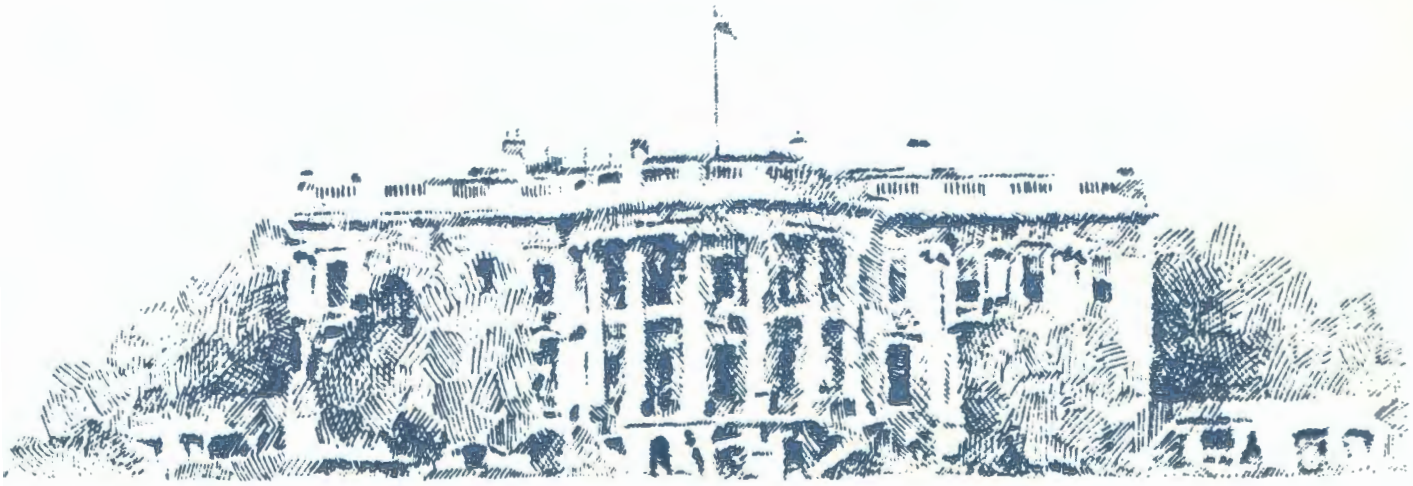
File or toss

Bill?

The White House
and
Executive Office of the President
Information Center



I

2/2/1
1652271
Neutron infighting.
National Review v33 p206(1) March 6 1981 CODEN: NARVB
ARTICLE TYPE: biography
NAMED PEOPLE: Weinberger, Caspar-military policy; Schmidt, Helmut-military policy;
DESCRIPTORS: atomic bomb-Germany, Federal Republic of; military bases, American-Germany, Federal Republic of; Germany, Federal Republic of-military policy
IDENTIFIERS: neutron bomb-Germany, Federal Republic of

2/2/2
1647049
Face-off: Reagan and the world leaders.
Anderson, Jack
50 Plus v21 p56(5) March 1981 CODEN: FIFPDG
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Reagan, Ronald-foreign relations; Qadhafi, Muammar-foreign relations; Mugabe, Robert-foreign relations; Gandhi, Indira-foreign relations; Suzuki, Zenko-foreign relations; Begin, Menachem-foreign relations; Sadat, Anwar-foreign relations; Giscard d'Estaing, Valery-foreign relations; Thatcher, Margaret-foreign relations; Schmidt, Helmut-foreign relations; Deng Xiaoping-foreign relations; Brezhnev, Leonid-foreign relations;
DESCRIPTORS: presidents-foreign relations; United States-foreign relations; Russia-relations with the United States; China, People's Republic of-relations with the United States; Germany, West-relations with the United States; Great Britain-relations with the United States; France-relations with the United States; Egypt-relations with the United States; Israel-relations with the United States; Japan-relations with the United States; India-relations with the United States; Zimbabwe-relations with the United States; Libya-relations with the United States

2/2/3
1645894
Advantage, Mr. Schmidt.
Labreche, Julianne
Macleans v90 p41(1) July 25 1977 CODEN: MCNMB
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-foreign relations;
DESCRIPTORS: Canada-relations with Germany, Federal Republic of; Germany, Federal Republic of-relations with Canada

2/2/4
1642853
Why Haig wants Schmidt to stay in power.
Sanders, Sol W.
Business Week p45(1) March 9 1981 CODEN: BUWEA
ARTICLE TYPE: biography
NAMED PEOPLE: Haig, Alexander-foreign relations; Schmidt, Helmut-foreign relations;
DESCRIPTORS: United States-relations with Germany, Federal Republic of; Germany, Federal Republic of-relations with the United States

2/2/5
1642359
Leftist opposition grows to NATO nuclear force.
Kozicharow, Eugene
Aviation Week v114 p22(3) March 23 1981 CODEN: AWSTA
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-political activity; Den Uyl,

Adel — please get
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Joop-political activity; Lunn, Simon-interviews;
DESCRIPTORS: North Atlantic Treaty Organization-equipment and supplies; guided missiles-foreign public opinion; atomic weapons-foreign public opinion; right and left (political science)-military aspects
IDENTIFIERS: cruise missile-foreign public opinion

2/2/6
1604297
Despite everything we have reason for confidence; we must make demands of ourselves.
Vital Speeches v47 p290(2) Feb 1 1981 CODEN: VISPA
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-addresses, essays, lectures;
DESCRIPTORS: world politics-evaluation; international cooperation-Germany, Federal Republic of; Germany, Federal Republic of-sociological aspects

2/2/7
1603860
Family feud. (Schmidt's leadership challenged)
Time v117 p26(1) Feb 23 1981 CODEN: TYMEA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-economic policy;
DESCRIPTORS: Germany, Federal Republic of-economic conditions; Social Democratic Party (Germany)-political activity

2/2/8
1601963
The left against itself. (Europe)
Newsweek v97 p47(2) Feb 23 1981 CODEN: NSWKA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-political activity; Foot, Michael-political activity; Carrillo, Santiago-political activity; Mitterrand, Francois-political activity;
DESCRIPTORS: Europe-politics and government; socialism-Europe; liberalism-Europe; communist parties-Europe; Social Democratic Party (Germany, Federal Republic of)-political activity; Labour Party (Great Britain)-political activity; Communist Party (Spain)-political activity; Communist Party (France)-political activity

2/2/9
1598130
The superpowers and the Atlantic Alliance.
Quester, George H.
Daedalus v110 p23(18) Wntr 1981 CODEN: DAEDA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Kissinger, Henry-military policy; Schmidt, Helmut-political activity; Carter, Jimmy-political activity;
DESCRIPTORS: United States-relations with Russia; Russia-relations with the United States; national security-United States; Europe-military aspects; North Atlantic Treaty Organization-military policy; military policy-Europe; Helsinki Agreement-analysis; Strategic Arms Limitation Treaty-international aspects

2/2/10
1597488
The scandal in Berlin that could weaken Bonn.
Sanders, Sol W.
Business Week p56(1) Feb 23 1981 CODEN: BUWEA
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-political activity;
DESCRIPTORS: corruption (in politics)-Berlin; public contracts-corruption; elections-Berlin; Germany, Federal Republic of-politics and government; Berlin-elections

? T 2/2/11-30

2/2/11
1589570
World leaders who'll make news in 1981.
US News and World Report v89 p48(2) Dec 29 1980 CODEN: XNWRA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Kania, Stanislaw-political activity; Walesa, Lech-political activity; Khomeini, Ruhollah, Ayatollah-political activity; Begin, Menachem-political activity; Sadat, Anwar-political activity; Brezhnev, Leonid-political activity; Deng Xiaopong-political activity; Schmidt, Helmut-political activity; Giscard d'Estaing, Valery-political activity;
DESCRIPTORS: Poland-politics and government; labor and laboring classes-Poland; hostages-Iran; Iran-politics and government; Israel-relations with Egypt; Egypt-relations with Israel; international relations-Germany, Federal Republic of; Germany, Federal Republic of-foreign relations

2/2/12
1581568
Reagan faces a tough job keeping the Germans in line.
Business Week p45(1) Jan 12 1981 CODEN: BUWEA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Haig, Alexander-foreign relations; Reagan, Ronald-foreign relations; Schmidt, Helmut-foreign relations;
DESCRIPTORS: United States-relations with Germany, Federal Republic of; Germany, Federal Republic of-relations with the United States; international relations-United States; international economic relations-United States; Russia-relations with Germany, Federal Republic of ; World politics-Germany, Federal Republic of

2/2/13
1574306
The chancellor comes calling. (Helmut Schmidt visits Carter)
Time v116 p40(1) Dec 1 1980 CODEN: TYMEA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-foreign relations; Carter, Jimmy-foreign relations;
DESCRIPTORS: Germany, Federal Republic of-relations with the United States; United States-relations with Germany, Federal Republic of; North Atlantic Treaty Organization-defenses

2/2/14 Not returned!
1570836
The ever-widening Atlantic link. (NATO)
* Posner, Michael
Macleans v93 p43(2) Dec 1 1980 CODEN: MCNMB
? illustration
ARTICLE TYPE: biography
ILL NAMED PEOPLE: Schmidt, Helmut-foreign relations;
DESCRIPTORS: North Atlantic Treaty Organization-forecasts; United States-relations with Europe; Europe-relations with the United States; Germany, Federal Republic of-relations with the United States; Russia-foreign public opinion

2/2/15
1565889
With Schmidt in the saddle: Germany's postelection mood.
Salpeter, Eliahu
New Leader v63 p9(2) Oct 20 1980 CODEN: NELDA
illustration
ARTICLE TYPE: biography

NAMED PEOPLE: Schmidt, Helmut-political activity; Strauss, Franz Josef-political activity;
DESCRIPTORS: Germany, Federal Republic of-politics and government; elections-Germany, Federal Republic of; Christian Democratic Party (Germany, Federal Republic of)-political activity; Christian Socialist Party (Germany, Federal Republic of)-political activity; Social Democratic Party (Germany, Federal Republic of)-political activity; political parties-Germany, Federal Republic of; Free Democratic Party (Germany, Federal Republic of)-political activity

2/2/16
1562031
Sweet talk with Reagan. (West Germany)
Newsweek v96 p55(1) Dec 1 1980 CODEN: NSWKA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-political activity; Carter, Jimmy-political activity; Reagan, Ronald-political activity;
DESCRIPTORS: Germany, Federal Republic of-relations with the United States; United States-relations with Germany, Federal Republic of

2/2/17
1559806
The East Germans cool Schmidt's pursuit of detente. (editorial)
Sanders, Sol W.
Business Week p60(2) Nov 3 1980 CODEN: BUWEA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-foreign relations;
DESCRIPTORS: Germany, Federal Republic of-relations with German Democratic Republic; German Democratic Republic-relations with Germany, Federal Republic of; international relations-Europe

2/2/18
1558188
What worries the Germans: an editor ponders the hazards facing Europe's dominant economy. (editor of Die Zeit)
World Press Review v24 p20(4) Jan 1980
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Sommer, Theo-interviews; Schmidt, Helmut-public opinion;
DESCRIPTORS: Germany, Federal Republic of-social conditions; women's rights-Germany, Federal Republic of; abortion-Germany, Federal Republic of; elections-Germany, Federal Republic of; social problems-Germany, Federal Republic of; international relations-Germany, Federal Republic of; terrorism-Germany, Federal Republic of; politics, practical-Germany, Federal Republic of

2/2/19
1553106
The politics of success. (West Germany's politics)
Smith, Stephen; Griggs, Lee; Mader, B. William
Time v116 p60(1) Oct 13 1980 CODEN: TYMEA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-campaigns; Strauss, Franz Josef-campaigns;
DESCRIPTORS: Germany, Federal Republic of-politics and government; Social Democrats (Germany, Federal Republic of)-political aspects; Free Democrats (Germany, Federal Republic of)-political aspects; Christian Democratic (Germany, Federal Republic of)-political aspects; Christian Social Union (Federal Republic of)-political aspects; prime ministers-campaigns

2/2/20
1553083
Business as usual for a big winner. (Schmidt in strong European position)
Time v116 p50(1) Oct 20 1980 CODEN: TYMEA

illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-selection and appointment; Strauss, Franz Joseph-political activity;
DESCRIPTORS: Germany, Federal Republic of-politics and government; political parties-Germany, Federal Republic of

2/2/21
1553051
Praising with faint damns. (foreign leaders reluctantly prefer Carter)
McGrath, Ellie
Time v116 p35(1) Nov 3 1980 CODEN: TYMEA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Thatcher, Margaret-attitudes; Schmidt, Helmut-attitudes; Brezhnev, Leonid-attitudes; Marcos, Ferdinand-attitudes;
DESCRIPTORS: presidents-foreign public opinion; Russia-foreign relations; Europe-foreign relations; Arab Countries-foreign relations; Africa-foreign relations; Asia-foreign relations; Canada-foreign relations; Mexico-foreign relations

2/2/22
1551395
Schmidt rolls to victory.
Newsweek v96 p66(1) Oct 13 1980 CODEN: NSWKA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-political activity; Strauss, Frans Josef-political activity;
DESCRIPTORS: Germany, Federal Republic of-elections

2/2/23
1551382
The chancellor to beat.
Newsweek v96 p64(1) Oct 6 1980 CODEN: NSWKA
illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-political activity; Strauss, Franz Josef-political activity;
DESCRIPTORS: Germany, Federal Republic of-elections

2/2/24
1550061
Confessors dispense political advice with penance in Germany.
Delaney, Robert
National Catholic Reporter v16 p3(2) Oct 17 1980 CODEN: NLCRB
ARTICLE TYPE: biography
NAMED PEOPLE: Strauss, Franz Josef-political activity; Hoeffner, Joseph Cardinal-political activity; Schmidt, Helmut-political activity; Kromschroeder, Gerhard-political activity;
DESCRIPTORS: Catholic Church in Germany, Federal Republic of-political activity; Germany, Federal Republic of-politics and government; Stern (newspaper)-political aspects

2/2/25
1549670
A sailor who stays at the helm. (Helmut Schmidt)
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DESCRIPTORS: Germany, Federal Republic of-elections; prime ministers-elections; elections-Germany, Federal Republic of

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1549664
Roush, but not ready to quit. (Helmut Schmidt)
Lewis, Peter
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illustration
ARTICLE TYPE: biography
NAMED PEOPLE: Schmidt, Helmut-campaigns; Strauss, Franz Josef-campaigns;
DESCRIPTORS: Germany, Federal Republic of-politics and government; heads of state-Germany, Federal Republic of

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NAMED PEOPLE: Schmidt, Helmut-economic policy;
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NAMED PEOPLE: Schmidt, Helmut-foreign relations;
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ARTICLE TYPE: biography
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illustration
ARTICLE TYPE: biography
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THE SCHMIDT FACTOR

Helmut Schmidt entertains French President Giscard d'Estaing at the Chancellor's home in Hamburg. Among their joint ventures: the European Monetary System.

By John Vinocur

One of Helmut Schmidt's old Social Democratic buddies in Hamburg was asked recently to describe the man. He made a list of characteristics: lightning intelligence, vast technical expertise, pragmatism and tirelessness. The accounting also included permanent irritability, a tendency to depression, know-it-allism and arrogance. "Oh, yeah," he said, remembering something. "He's convinced most of the time that he's the only real leader in the Western world. He's also probably right. The problem is he's German."

John Vinocur is the chief of The New York Times bureau in Bonn.

Five years ago, the notion of a West German world leader would have seemed a bit of local boosterism. Now it is a time for taking oneself very seriously in Bonn. A kind of institutionalized awe has set in. It has taken increasing hold over the last three years, a period in which West Germany and Mr. Schmidt, partly through American leadership troubles, partly through their own strengths, have been carried forward into a place where they have a considerable say about how the world is run. The vocabulary of caution that was always the shapeless garment of West German postwar policy seems to be falling away. These days, the summit meeting in Guadeloupe in January 1979, which brought West Germany and Mr. Schmidt into the Western Big Four

At a time when Europe feels grave doubts about U.S. leadership, Bonn's Chancellor is having an ever-greater say about how the world is run.

for the first time, sometimes gets referred to in Government circles in Bonn as the "deflowering" that allowed a German return to the highest levels of international politics. Although the idea still comes wrapped in conditions and provisos and references to the country's Nazi past, Mr. Schmidt began this summer to talk for the first time about West Germany's "leadership role," a phrase that had always been scrupulously avoided.

Last year, Mr. Schmidt insisted in an interview that West Germany really was not an economic giant. Now he says that, with the exception of the United States, his country's financial and commercial strength is the greatest in the world. Without West German leadership, he goes on, the North Atlan-

tic Treaty Organization's nuclear modernization program would never have been approved. He was the prime force behind the creation of the European Monetary System. This summer, Mr. Schmidt claims, his exercise of independent leadership — his insistence on talking to Leonid Brezhnev at a time when the United States was trying to punish the Soviet Union for the invasion of Afghanistan — reintroduced the East-West dialogue and, in his words, pulled the world "back, thank God, from a terrible phase." The time is past, the Chancellor says, when West Germany considers as right everything that the United States wants to accomplish.

But the question is, Where does Mr. Schmidt want to take West Germany and the Europeans who see him as a leader? The man running against him in national elections on Oct. 5, Franz Josef Strauss, says that direction is toward "self-neutralization," away from the United States and away from the Atlantic alliance. A polling organization, which, like all the other public-opinion surveyors in Germany, says that Mr. Schmidt can't lose against Mr. Strauss, also reports that most Social Democrats prefer a course between the two superpowers rather than alongside the United States. Mr. Schmidt continues to proclaim his loyalty to the United States, but the temptation to fill what he considers a leadership vacuum may increase if the next American President, regardless of who wins, continues the policies that have made Europe doubtful of American leadership.

A number of Europeans have encouraged Mr. Schmidt to assert himself. "You've got to do even more leading, Helmut," James Callaghan, the former British Prime Minister, has told him. The same kind of prodding has been heard from Edward Heath, Mr. Callaghan's Conservative predecessor, and from Constantine Caramanlis, the Greek Prime Minister. This advice apparently comes, too, from a long trail of others who sit at the Chancellor's office desk with its miniature statue of Marcus Aurelius, the Roman Emperor and Stoic philosopher, or at the bar in his house on Neubergerweg in Langenhorn, a bland, middle-class Hamburg suburb.

But more international leadership involves taking on new burdens and, until now, Mr. Schmidt's standard answer to such urgings has been a catalogue of West German weaknesses and vulnerabilities. As the Chancellor outlines them, his country is susceptible to blackmail because of Berlin and its long eastern border with the Communist world, and limited in its exercise of power because it refuses to have nuclear weapons and will not send its troops out of the NATO area.

This talk of vulnerability fascinates and sometimes irritates people coming to West Germany for the first time, their heads full of the remarkable statistics of economic yield and production and accomplishment, their eyes skimming from the grass that always seems trimmed to the garbage cans that seem never to lose their covers, along streets where everything seems to function. Even the faces, much like Mr. Schmidt's, look back offering, if no embrace, a willfulness, a readiness to get on with things. But the Germans' conviction about their vulnerability, the fragility of the life they have gotten so attached to, is profound, and their desire not to take risks is equal to it, coloring everything Helmut Schmidt does.

Schmidt refused to impose economic sanctions against Moscow, sought by the U.S. after the invasion of Afghanistan.

The West Germans, and Mr. Schmidt foremost among them, have never really made up their minds about how strong they are, and this makes it very difficult for both to define what they can and want to do. When Mr. Schmidt talked about West Germany's growing leadership role this summer, he quickly added that his country is not a world

The Chancellor is host to Soviet leader Brezhnev during a state visit to Bonn in 1978.

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power and will never become one. "It's in the middle category," he says, not enhancing his reputation for precision. But when Mr. Schmidt is in an expansive mood, or an electioneering one, he likes to remind listeners that West Germany has the world's greatest currency reserves, the second greatest gold reserves, the world's biggest exports per capita and the hardest currency of any major industrial country. During the oil crises and recessions of the last six years, he says West Germany has shown in comparison with other industrial societies that it has "come out relatively well, indeed, the best." West German per capita annual income has climbed to a level where it is ahead of the United States ($9,278 in 1978 compared to $7,572), and its citizens are the world's greatest travelers. When Mr. Schmidt is really rolling, he tells his countrymen they are living in the best, fairest and freest Germany ever. History says he's probably right.

At the same time, it is a rare exchange student, visiting businessman or member of an official delegation who has not heard "Do not ask too much of us, do not overrate us." Up until two years ago, West German foreign-aid contributions in relation to gross national product had been at a very low level, and even now the Government is reluctant to issue a timetable showing how it plans to meet the United Nations' aid target of 0.7 percent for industrial countries. By United States Defense Department measurements, the German armed forces, though undoubtedly the best in Western Europe, have not been developing at the rate NATO set up as a goal to meet Soviet military expansion. When West Germany was pressed once again last winter for additional help to smooth out the Common Market's payments and agricultural problems, the Government's answer was, "We aren't Europe's paymaster." The country's economy is only one-third the size of that of the United States, Mr. Schmidt reminds people when they press him too hard for help, and his aides will stress that West Germany's capacity for expansion is relatively limited, given the high costs of social security to industry and the problems of productivity it faces.

It is possible to argue that this yes-no-yes attitude about itself is a kind of adolescent identity struggle on the road to the country's inevitable consecration as leader of Western Europe and, perhaps, a role as a kind of associate superpower. There are the obvious reservations about pushing too hard because of the past — Mr. Schmidt said last year that "the greater the relative success of Germany, the longer the memory of Auschwitz will last." There is also a resistance to responsibility that comes from the 35-year habit of being able to concentrate on business and on welfare programs at home while the British were dissolving an empire, the French were fighting two colonial wars and dealing with their own left, and the Americans were struggling through race problems and the Vietnam War. And beyond the Germans' personal hesitations, there are aspects of mod-

Chancellor Schmidt and President Carter at a White House dinner last March. 7,39

ern Germany that might give proponents of a greater German leadership role pause.

Mr. Schmidt congratulated himself and the nation for weathering without convulsion the 1976-77 terrorist onslaught, an attempt to shake the state by a group of middle-class young people who, among other things, hated Germany's very palpable materialism and premium on order. But there have been troubling moments for democracy, too. A law was passed that permitted judges to read letters between lawyers and individuals jailed as terrorists, contacts that are privileged under American law. Mr. Schmidt, before he changed his mind, had himself called for legislation that would have allowed magistrates to monitor private conversations between lawyers and suspects, and it was later disclosed that the Government had bugged many such conversations.

West Germany is relatively free of the class afflictions of Britain or France, but the social fabric is not without strain. Sociologists have worked hard trying to figure out why drug addiction is rising rapidly and why a word had to be coined ("*kinderfeindlichkeit*") to describe the dislike of children, a phenomenon painfully acknowledged by members of Mr. Schmidt's Government and underscored by statistics that show West Germany as Europe's leader in auto accidents involving children. Some attribute the attitude to a repressed aggression meted out against something smaller and weaker, others suggest that it reflects a kind of self-centeredness that has contributed to a 50 percent cut in the birth rate since 1964.

At the same time, the birth rate among the foreigners who have come to take menial industrial jobs in Germany is twice that of native Germans. Out of a population of 61 million, there are now about 4.1 million foreigners. A quarter of them are Turks, and most are concentrated in the big cities, so that the foreign population in some places reaches 20 percent. A poll this summer of young foreigners, many of them born in West Germany, showed that two-thirds considered themselves as "unwelcome guests" who had almost nothing to do with Germans of their own age. They are often alienated, unemployed and inadequately schooled. Already this situation is reflected in a high crime rate, and the problem and the potential for immense social tension are only expected to grow.

Even the prospect for Germany's economic performance, which has inspired so much of the admiration for Mr. Schmidt, is less than perfectly secure over the next 10 or 15 years. The Economics Minister, Otto Lambsdorff, suggested this summer that, contrary to what foreigners suppose, the West Germans just may not work hard enough anymore and, compared to the Japanese, may spend too much time on vacation and sick leave. Over the period of a decade, with no one willing to lower his standard of living, West Germany could find itself in a situation like the one already gripping Sweden, where the cost of elaborate and ever-growing welfare programs has cut into industrial competitiveness and made the state a permanent borrower. The pressure on Mr. Schmidt in a second term, particularly from the strengthened left wing of his party, would not be for austerity but for new social reforms.

Because of the country's deep concern with personal financial security — the average German, for example, saves 13 percent of his income compared to 4 percent for the average American — relatively small changes in inflation and unemployment rates can create great public upset. These days, the unemployment rolls are relatively low, though they have been held down, in part, by means of such artifices as Government-subsidized 24-month

In private, the Chancellor has continually criticized Mr. Carter's policies, characterizing his leadership as 'unpredictable.'

training programs for prospective bakery clerks. But Mr. Schmidt must confront the reality of a Government-commissioned report this summer that projects a doubling in the current 3.7 jobless rate by 1985.

The official inflation rate was 5.5 percent in July, what would be a welcome figure in the United States, but the system for computing the rise in consumer prices is different in the two countries. If an opponent of the Chancellor had the credibility to make the accusation stick, and there are experts who support it, he could argue that when the world was admiring West Germany's reported inflation rate of 5.6 percent in February, it would have been registered as 14 percent if the Government had been using American measurements.

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Franz Josef Strauss has had none of that credibility. In spite of his high intelligence, remarkable sense of humor and great speaking skills, he has been unable to shake his decades-old reputation at home as a cold warrior, confrontationist and potential wild man. Mr. Schmidt has played to those feelings in the electorate (describing Mr. Strauss as "unpredictable," the same word he has used in private about Jimmy Carter) while successfully portraying himself as a man of reason and peace.

In an election campaign in which foreign-policy issues have dominated, Mr. Strauss has struck out at the Chancellor again and again as being a poor and reluctant ally of the United States in the year of Afghanistan and Poland, a man who would sell out the Atlantic alliance. The events in Poland, Mr. Strauss said, exposed the folly of the German Government's policy of supporting loans to the Polish authorities and of Mr. Schmidt's personal friendship with the ousted Communist leader, Edward Gierek. Mr. Schmidt was "betting on both a politically and economically bankrupt regime," he insisted.

Mr. Strauss also warned of growing West German indebtedness, domestic budget deficits, a current accounts deficit and the continuing need for foreign borrowing — all of which, he says, will eventually destabilize the country's economic situation.

It seems a distant memory now, in light of the easy victory Mr. Schmidt is expected to win, but it is not insignificant to note, in assessing the Chancellor's strength and possible scope as a world leader, that just four years ago he was a politician in trouble. In the October 1976 elections, for the first time since 1953, his party failed to achieve national gains in the popular vote, and his coalition's lead in seats in the Bundestag fell from 46 to eight. After the election, Mr. Schmidt could not make good on a campaign promise to increase pensions by 10 percent, a bitter personal embarrassment after a race decided totally on domestic issues by voters who consider a platform plank a kind of signed dealer's warranty. The Government just did not have the cash. Almost at the same time, a wave of antinuclear *(Continued on Page 102)*

'After Poland, the time seems less fitting for leadership down new avenues. Rather, it may be a time when Helmut Schmidt's strengths may be best used in tightening the Western alliance.'

demonstrations broke out, and Mr. Schmidt seemed unable to deal with them. When the Bundestag voted on his nomination as Chancellor, two coalition members deserted him, and he passed with just one more vote than the required 249. He appeared grim, drawn and seriously depressed. His Labor Minister resigned. Looking back, an aide acknowledged that the Chancellor was "talking about quitting."

These long months of doubt, indecisiveness and passivity do not figure among the vulnerabilities that Mr. Schmidt finds politically handy, that he manipulates to make domestic policy or to deal with pressure from allies, such as the do-more-for-defense Americans, or from the third world aid-seekers. In any case, such periods of uncertainty provide a curious psychological counterpoint to Mr. Schmidt's sudden moments of flushness. When he was running for election four years ago, Mr. Schmidt was quoted by a friend as saying he thinks he saved New York City, since he believed he talked President Ford into giving it Federal financial aid. This year, he said, again at election time, that West Germany was in better financial order, with fewer debts, than it was under Kaiser Wilhelm in 1913. The talk intrigues some people and provokes others. With the cocky reference to the Kaiser, some editorialists said, it didn't take much of a historian to notice that 1914 was a year of death and disaster.

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Helmut Schmidt was born in Hamburg on Dec. 23, 1918, just about a month after the Kaiser ran out on the Reich to then-neutral Holland. His father, now in his 90's and a resident of an old people's home in a Hamburg suburb, was a schoolteacher, and his paternal grandfather, a stevedore. Mr. Schmidt's coolness and his capacity for hard work are those of his background — a northern port city and the mists between the proletariat and the lower middle class. He is a marvelous actor, able to terrify with his iciness or win over with a look of enraptured attention, and to keep people from coming too close.

He is known to be relatively tight, a non-sufferer of fools who serve no immediate purpose, and his own best public-relations man. In a country whose press, like most in Europe, keeps a respectful distance from its leaders, he has been able to spoon out what he thinks people should know about him — his modest house, his serious tastes in books and music, his attention to business. No pictures are printed of Mr. Schmidt, his jacket off, his waistline thick, his eyes swollen, sitting in his Luftwaffe 707 jetliner after a state visit. And there are no lay psychiatrists on television or in the newspapers to discuss the significance of Mr. Schmidt's nervousness before meetings with other leaders, or to seize upon an admission in an interview that his father, a Prussian type, did not tolerate talking back or crying or any show of feelings and never once offered a word of praise.

His friends admit that his moods can swoop and that he struggles with his anger — calling the country "ungovernable," for example, and then fighting to regain control of himself. The heat of his personality, the pull of his dark moods, his difficulties in keeping control are there, but not spoken of — though he does acknowledge that El Greco, an artist who lived with despair, is his favorite painter. There are no documents on this struggle with himself, only the Chancellor's acknowledged passion for the teachings of Marcus Aurelius and his en-

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dure-and-abjure philosophy of leadership. "Begin each day," Marcus Aurelius writes; "by telling yourself — today I shall be meeting with interference, ingratitude, insolence, disloyalty, ill will and selfishness."

Ah, yes, ingratitude, insolence — they're everywhere. And the Chancellor responds with a kind of insecurity that has resulted in quick telephone calls to the American Ambassador for a Schmidt lecture on world events or in the dressing down of someone who expresses an errant opinion.

The scene is the Chancellor's personal 707, en route to Washington last March for a meeting with President Carter. A group of reporters is called into Mr. Schmidt's compartment to get the word on the next three days. "Where's what's-his-name?" the Chancellor asks, peering around, looking for and then finding an American reporter. He had written an article about West Germany's perception of the United States, and now Mr. Schmidt was reading it out loud. The idea of the story was that sometimes the West German leadership tried to inflict its very structured method for dealing with world events on a superpower that, because of its history of strength and distance from Europe, had an ad hoc, day-to-day approach. The Chancellor scoffed. He knew America, he had been to America 40 or 41 times ("You could check that," he said to an aide) and he knew more Congressmen, diplomats, business leaders and labor chiefs than the reporter did. In fact, more than almost any American he could think of. He grinned in triumph.

Yet, there is also a deep current of compassion in the man. An aide, who loves him dearly, told about a left-wing member of the Chancellor's party who had greatly irritated him with a series of critical comments. Though galling, the arguments were also intelligent, the aide said. The critic fell sick and entered a hospital. By the aide's account, the Chancellor wrote the man an unusually warm and deeply personal letter. "There was no memo on his desk telling him to do it," the aide said. "He just cared. He cares very deeply, he feels very deeply — but he holds it down."

Nobody disputes Mr. Schmidt's quickness of mind, his powers of persuasion. An adviser, whose authority involves areas of immense technical complexity, says the Chancellor has the most "extraordinary range of intelligence I have ever seen."

The Chancellor gave a few peeks at himself by filling in the blanks on a likes-and-dislikes sheet published by a German magazine. His favorite bird, we learn, is a sea parrot. Golda Meir, he says, is his most cherished real-life woman hero. Frankness stands as the quality he seeks most in friends. If Mr. Schmidt is perceived to be a frank man himself, then we will have to believe his assertion that the biggest mistake he ever made was not pushing ahead with his original goal of becoming an architect and city planner.

He got good marks in school in drawing, English and history. He joined the Hitler Youth, advanced to the rank of pack leader and then, he says, was "suspended," apparently because he was considered a bit of a complainer. By 1937, he was in the army, an antiaircraft lieutenant who during the war served in the Soviet Union and in Berlin and fought in the Battle of the Bulge. Eventually he was captured by the British. People who don't like Mr. Schmidt, on both the left and the right, have tried to make something out of his attendance in 1944 at a Nazi show trial of the plotters who tried to kill Hitler. But he has said he was forced to attend, and the British, in any case, found Helmut

Schmidt to be clean and quickly let him out of prison camp in 1945, ruling that he was not a Nazi.

In a moment of ironic bitterness, Herbert Wehner, the party whip in the Bundestag, once said that Mr. Schmidt seemed to have learned his progressive politics in officers' clubs. As soon as the young lieutenant went back to Hamburg and into the university, he became a Social Democratic student leader and got a degree in economics. Other than preparing income tax returns, he never had a job outside politics. He reached Parliament in 1953 and became quickly useful as a clever but abrasive speaker who did much of the verbal softening up for his party. His reputation became that of Schmidt-the-lip, the big mouth, the know-it-all, the knife thrower — a part of his character that as Chancellor he has tried to subdue. The speechmaking brought him national attention, but it took a flood in Hamburg, a near catastrophe, to bring him to real prominence in 1962 as that state's Senator for the Interior who brilliantly organized the rescue efforts, standing alongside squad cars with emergency phone in hand for photographers and telling the confused Mayor to buzz off, that Helmut Schmidt was in charge.

In the 60's, Mr. Schmidt wrote two books on defense policy. They showed his immense seriousness, his strong analytical powers and an ability for making wide-ranging political syntheses. (Never much concerned about being called immodest, Mr. Schmidt announced that his summer reading list this year included his own "Balance of Power," written in 1969.) The books probably widened Mr. Schmidt's public image beyond that of energetic doer; now he was a politician of real intellectual and theoretical competence. He had none of the inspirational force field that seemed to surround Willy Brandt, who was also moving toward power in the mid-60's. But in a less obvious, longer-term way, Mr. Schmidt may have been an easier figure for many young German men to identify with — people who saw themselves as competent and aggressive and were probably convinced that they were smarter and better prepared than the Americans or Englishmen they were doing business with. Unlike Mr. Brandt,

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D.P.A.-Pictorial Parade

Schmidt, while serving as the Minister of Defense, visits a West German military post in 1969.

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Helmut Schmidt was not throwing morals or perfect worlds at them. He stood only 5 feet 6 inches tall, and he had thyroid problems. He had a wife who had been a school teacher and a daughter who works for a bank. Like many of them, he owned a middle-of-the-line car, an Opel, drank Coca-Cola and had a little brick house that he bought from a mass developer. He believed mostly, it seemed, in getting things done. By 1972, Mr. Schmidt had been both Defense Minister and Finance Minister, impressing everyone he met in Washington, London and Paris with his unusual capabilities. When Willy Brandt's better world fell apart in 1974, Helmut Schmidt was there; a man who seemed to have a grip on things.

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The notion of Mr. Schmidt as a world leader is about three years old. It seems to coincide with the dollar's shriveling against the mark, and the month-in, month-out comparison of Mr. Schmidt's policies with those of President Jimmy Carter. Whenever the two men disagreed, the American President did not seem to win and everybody noticed.

A significant pattern seemed to develop during their first meeting at the economic summit of the Western industrial countries in London in the spring of 1977. The United States went to the summit with the notion that the West German economy could stimulate world trade by expanding more, a concept that became known as the locomotive theory. To the Germans, this meant more inflation, and Mr. Schmidt resisted; inflation, he said, was the biggest cause of the world's economic troubles. Next to the inexperience of Mr. Carter, his expertise at the summit meeting, according to the other leaders, seemed brilliant. "We were the first to understand that you cannot cure the world's economic and structural crisis by printing money," Mr. Schmidt bragged. And in the end, he won; talk about the locomotive theory lingered in the mouths of the Carter Administration economists for another eight or nine months, and then drifted away.

Mr. Schmidt soon found out that it was possible to resist American pressure in other areas where he felt West German national interests were at stake. He could win the arguments, either by means of his own doggedness or because of the inconsistency, as he saw it, of the other side, and at the same time increase the esteem he was held in at home. Mr. Schmidt felt that Mr. Carter's human-rights program was too frontally antagonistic to the Soviet Union, and could possibly endanger his own success in bringing hundreds of thousands of ethnic Germans out of countries like Poland, Czechoslovakia and Rumania.

He said so. In time, Mr. Schmidt was able to observe the demise of the human-rights offensive, much as he had seen the locomotive theory disappear.

Mr. Schmidt did not think very much, either, of Carter Administration attempts to tell him to whom he could sell nuclear plants. He went ahead with a controversial deal with Brazil. He also resisted a Carter Administration plan that would have allowed United States airlines to challenge Lufthansa's price-setting role by offering their cheap trans-Atlantic fares to travelers in West Germany.

The sum of the conflicts through 1979 seemed to reinforce Mr. Schmidt's conviction that he could increasingly steer his own course. The European Monetary System he and French President Valéry Giscard d'Estaing devised that year succeeded in large part in immunizing European currencies from the unsettling fluctuations of the dollar and what Mr. Schmidt saw as American monetary irresponsibility. Although Mr. Schmidt has never said it in so many words, he began to see — as it has been relayed by Kurt Becker, a Hamburg journalist with a close relationship to the Chancellor — that he must, when possible with the French, try to fill the leadership vacuum. Perhaps the hardest blow to Mr. Schmidt's confidence in Mr. Carter was the President's shelving of development of the neutron weapon after the Chancellor had coaxed his party into agreeing to allow the deployment of the weapon in West Germany. He had given Mr. Carter what he asked for, but Mr. Carter didn't want it any more.

By the time of the invasion of Afghanistan last winter, Mr. Schmidt felt he could get his own way on vital kinds of East-West matters. The United States, in essence, wanted the Soviet Union to pay a price for the adventure, to isolate the Russians sufficiently so that withdrawal would have been the only logical way to re-establish the détente it counts on for economic viability. But Mr. Schmidt saw things differently: American leadership seemed erratic to him, uninterested in providing the Russians with a means to save face. The proposed sanctions, including interruption of

major industrial contracts, could lead, he feared, to strong political reactions by the Soviet Union against West Germany. It was no way for his country to proceed.

The Chancellor's plan seemed to be that West Germany could offer the Americans an Olympic boycott, a cosmetic kind of solidarity that would wash away as an obstacle to continuing good relations with the Soviet Union by the end of August, at the end of the summer games. At the same time, the Chancellor refused to go along with any of the economic restrictions, and West Germany signed a new trade agreement during his Moscow visit in June. The Christian Democratic opposition called the policy weak-kneed and lacking in solidarity with the United States, but to Mr. Schmidt's eyes, it was protecting peace insofar as it concerned West Germany. His electorate, with the Social Democrats winning an unexpectedly big victory in state elections in May, supported this approach. From the Chancellor's point of view, he had won again and even preserved détente. He may have also convinced himself that, short of a war-within-the-next-week situation, he could increasingly go his own way.

Yet his victories might be considered more a result of Mr. Carter's incoherence than of Mr. Schmidt's own logic. In fact, there were consistent signs of questionable judgment in what Mr. Schmidt was doing, underscoring the limits and fragility that were his own rather than West Germany's.

The most remarkable example was his continual talking down in private of Mr. Carter. It became a feature of Bonn life — every visitor to the Chancellor got a dose. But the attitude spread into semipublic areas as well, and infected much of Mr. Schmidt's party. At two off-the-record seminars, attended by international policy makers, including the United States Ambassador to Bonn, Mr. Schmidt denigrated the American President and his capabilities. Beyond any consideration of whether Mr. Schmidt was right, the attacks seemed ill-considered for the leader of a country still ultimately dependent on the United States for its security. The Chancellor's friends later explained the remarks as a reflection of

his distress about the state of Western leadership in general, but many Germans asked if a bigger, more confident man would have given up so easily in trying to offer wise counsel to the American President.

The seminars in Mr. Carter's weakness eventually stopped, but there were other fragile moments for Mr. Schmidt when his judgment appeared faulty. On a spring weekend this year, he seemed again in one of his deeply pessimistic phases. The world, because of the Afghanistan invasion, had became a very dangerous place, the Chancellor said. He indicated that there seemed to be some points of comparison with the situation in 1914 when Europe was marching inexorably toward war without knowing how to stop. That same weekend, Mr. Schmidt made some ambiguous remarks that suggested he was open to discussion of a freeze involving nuclear weapons in Europe, which would presumably have included the same middle-range missiles that NATO had approved with his urging. If the Russians had taken Mr. Schmidt's speech more seriously, a high American official said later, they could have sought to use it to unravel support for NATO's nuclear modernization program. But Mr. Schmidt soon backpedaled, and the proposal, in which the Chancellor seemed to be trying to make nuclear policy for Europe and NATO without a mandate, was not heard from again.

Mr. Schmidt was accused of seeming to take the Soviet Union's interests into consideration with a bit too much energy. His critics also thought the reference to 1914 was panicky and historically overdone. The United States and the Soviet Union in the spring of 1980 really did not seem out of control or blindly groping toward war. The critics also found another flaw in his policy this year: He resisted the economic sanctions against the Soviet Union urged by the United States, but he had agreed to go along with those called for against Iran. There was also a bit of mechanistic clangor in his constant recommendations on crisis management, including a speech in New York in March at the Foreign Policy Association. The United States, Mr. Schmidt said in substance, must be predictable and make all its intentions known in order to avoid world crisis. Wasn't this a kind of middle-sized, limited, very European view of things in that it ignored the deterrent weight for a super power in not being perfectly predictable?

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In the end, his harshest critics said, it appeared that Mr. Schmidt was happy to continue having American nuclear protection, but mainly in order to gain time; his real goal, they charge, is to win enough independence from the United States so that West Germany and Europe would eventually be more or less exempt from the rivalries and tensions between the superpowers.

Again and again, Mr. Schmidt's closest advisers stress that this is not what the Chancellor wants; indeed, they say, he is heartsick about the lack of strong American leadership and feels he must do all he can to protect peace. He believes, one aide said, that the United States is the world's most vigorous society, with the most unlimited potential. When it comes to Mr. Schmidt's loyalty to the West, Alois Mertes, a leading Christian Democrat expert on defense and foreign policy, who continually questions Mr. Schmidt's assessment of the Soviet Union and occasionally his resolve to deal with them, says, "I'd put my hand in the fire for the man." Rather than turning his back on the United States, said a former adviser to the Chancellor, Mr. Schmidt thinks he could use his friendship with Mr. Giscard so that after the French Presidential elections next spring, the French would be able to move toward some kind of reinforced association with NATO.

But logic does not really point to a sudden reassertion of an American leadership role in a sense that would suit

Mr. Schmidt. A new four-year term for Mr. Carter would carry forward all the ill will and mistrust of the first term, as well as the Chancellor's inclination to save his version of détente by operating at cross purposes with American policy. An aide has suggested that the Chancellor is deeply concerned that if the United States does not control its inflation soon, it will be crippled by it, and increasingly unable to exert its influence. If the Democratic platform, with its emphasis on jobs rather than inflation, is taken seriously, then Mr. Schmidt would have an additional reason for trying to insulate Europe. The Soviet Union, which has sought to exploit the differences between West Germany and the United States, will probably attempt to make it increasingly attractive for Mr. Schmidt to think that he can guarantee West German security, markets and jobs by increased cooperation.

If Ronald Reagan is elected and there is an attempt to implement the Republican plank to return the United States to military superiority, then Mr. Schmidt would be placed in a situation of even deeper concern to him. His whole philosophy of maintaining peace is based on a balance of power between East and West. The Russians, he believes, could never again accept a feeling of military inferiority, and new American arms programs would trigger a Soviet response — an arms race that would crash down on détente, creating a new cold war.

It is in these circumstances that Mr. Schmidt might be pushed to a very hard decision involving his leadership. If détente appeared to be dying, then Mr. Schmidt, according to some of his aides, might attempt to form a broad front of resistance. He would not only try to enlist Western Europe, but the allies of the Soviet Union as well, notably Poland and Hungary, with whom he has established strong ties. None of these Soviet allies want to see a return to the cold war; none want an end to the trade relations developed over the last 10 years that have raised living standards in many places in the East. Such a broad front might be able to dissuade the superpowers from an arms race and to work within Europe to create new disarmament arrangements that would limit the possibility of a Soviet-American conflict — or let Western Europe, at least, steer clear of it.

It has long been assumed that Mr. Schmidt's real gifts, his pragmatism and his ability to judge reality, would counsel him against turning his back on his ultimate protector and trying to convert Western Europe into an independent third force, an arbiter between East and West, which could jump in and out of events where it saw advantage or reason for concern. It also appears that the force of events is likely to hold Mr. Schmidt on course. If he could outflank the implications of Afghanistan, a faraway and somewhat vague issue for Europeans, he has found it difficult to outrun Poland, a problem next door. The recent events in Poland make Mr. Schmidt's assumptions about continuing calm in central Europe much less certain. Any desire to steer a third course, one away from the Russians but also away from the Americans, requires this calm and stability. Without it, perhaps, some of the Helmut-lead-us urging seems a little hasty.

Now Edward Gierek is gone, a man Mr. Schmidt regarded highly, and the person he was counting on in Eastern Europe to anchor, to the extent that he could, what Mr. Schmidt's aides talk about as the effort to hold on to détente. The Polish situation also led to the cancellation of talks with Erich Honecker, the East German leader, and a new hard tone from East Berlin toward Bonn. Mr. Schmidt's hopes of bringing Mr. Honecker into his constellation are now sidetracked. After Poland, the time seems less fitting for leadership down new avenues. Rather, it may be a time when Mr. Schmidt's strengths may be best used in tightening the Western alliance, regardless of his obvious doubts about both Mr. Carter and Mr. Reagan.

Whatever the appeals of striking out in a new direction for West Germany, Mr. Schmidt's intelligence and his ability to read reality point more now toward caution than adventure.

"I have always been doubtful about political leaders who promote visions," he has said. "We have in this country seen at least two periods of, shall we say, 'visionism' in German leaders — Kaiser Wilhelm II and the second one much worse. . . . I'm not a visionary and I'm skeptical of all the visionaries. Germans have an enormous capability for idealism and the perversion of it." ■

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International outlook

By Sol W. Sanders

Why Haig wants Schmidt to stay in power

Secretary of State Alexander M. Haig Jr. is trying to ease the difficulties of Chancellor Helmut Schmidt's West German government, which is under assault from within Schmidt's own Social Democratic Party because of Germany's worsening economic situation and differences over defense and nuclear energy policies. And his efforts are believed to have the endorsement of National Security Adviser Richard V. Allen. Haig's relations with Schmidt during his tour as NATO commander in Brussels were probably more intimate than with any other European leader, and he is obviously giving priority to Germany's role as central to NATO and U. S. strategy in Europe. He is understood to believe that Schmidt's continuation in power as Chancellor and head of the Socialists is the only way to keep the growing activism of the left wing of the party under control (BW—Jan. 12). If Schmidt does not continue to hold power, that argument runs, the leftists are likely to take to the streets. The breakdown of the consensus for supporting the Atlantic Alliance and the growing cleavages among West German political groups, even within the four major parties, remind too many Germans of the Weimar Republic days—named after the city in which it was formed in post-World War I Germany—that preceded Hitler's rise to power. The postwar cliché of German politics, "Bonn is not Weimar," is no longer said with confidence.

The growing political malaise of West Germany was reflected in the reference of East German Communist Party Boss Erich Honecker on Feb. 16 to the possibility of German reunification. Honecker held out that possibility under the unlikely prospect that West Germany should go Communist. But it was the first mention of reunification since Honecker's late predecessor, Walter Ulbricht, talked of "two German nations uniting under one roof" more than a decade ago. And, as Christian Democratic Party (CDU) leader Helmut Kohl estimated, Honecker's reference to reunification—long a bugaboo of the East German Communists and their Soviet masters—is an indication that the East Germans feel confident enough to try to stir up trouble in the West. It was also, probably, a warning to the Polish Communists in the east, who have always felt threatened by any moves toward German unity.

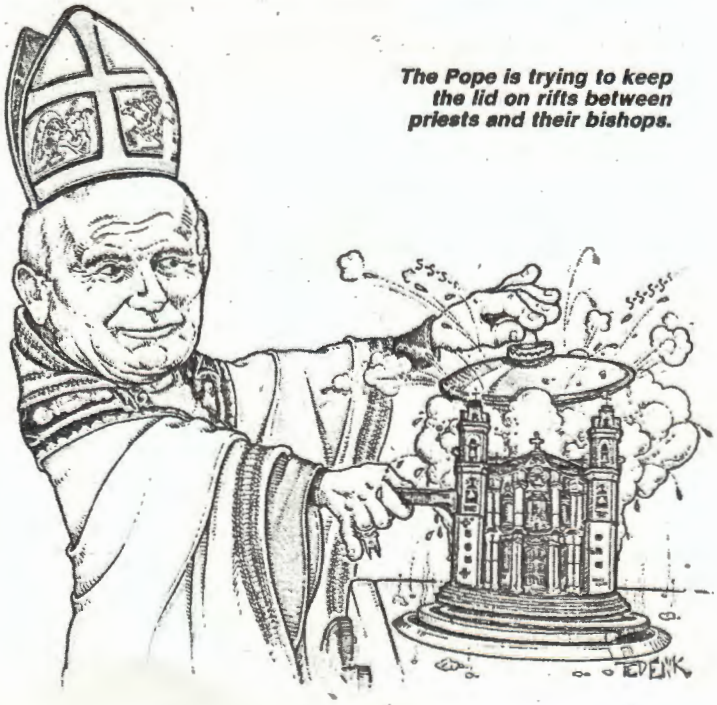
Haig wants to minimize the differences between Washington and Bonn over NATO commitments, and to play down a steady drum beat of criticism from the Pentagon. All this is intended to help Schmidt cope with growing resistance by the left in his party to American pressure for a stronger stand against the Russians. Schmidt, of course, has leverage. The Chancellor's own voter appeal far transcends that of his party. Without him, the party would be out of power, with the CDU probably forming the next coalition. But growing internal dissent could weaken the Bonn government so much that it is no longer able to effectively handle the country's growing list of economic and political problems. ■

The Church's unholy alliance in Latin America

The growing polarization of the Latin American church is becoming a major political problem for Washington. The Reagan Administration is trying to persuade its allies in Europe as well as the Western Hemisphere that Soviet and Cuban sponsorship of Central American rebellions is a major threat that must be halted. But large sections of the Roman Catholic clergy in Central America—particularly in El Salvador, where the issue has produced a world crisis—back the Communists and other leftists in their effort to bring down local governments. And the Vatican appears unlikely to try to discipline such alliances.

Pope John Paul II missed an opportunity to tell the Latin American bishops unequivocally what he wanted them to do at the meeting of the 1979 Episcopal Conference in Puebla, Mexico. Each bishop was able to interpret the message as he saw fit. Another factor is that liberal Latin clerics who push the line of liberation theology that often associates them with Marxists toe the Papal line on other, equally controversial issues. They agree with Rome on divorce, abortion, and birth control—principal elements of church friction in the industrial West.

Priests in power. The Vatican has been able to tailor its stand, for the most part, in each of the major Latin American countries—even in the notoriously anti-clerical Mexico. But Central America has proved more difficult because of the intensity of the polarization of the left and right within the church. The most extreme case is in Nicaragua, where the church was so involved in the revolution against the Somoza dictatorship that five priests now hold high-ranking positions in the Sandinista government. Miguel D'Escoto Brockman, a Maryknoll



The Pope is trying to keep the lid on rifts between priests and their bishops.

By Sol W. Sanders

Reagan faces a tough job keeping the Germans in line

Secretary of State-designate Alexander M. Haig Jr. is already saddled with a "German problem," and it is likely to be the most critical foreign policy issue for the incoming Reagan Administration for some time. Superficially, it revolves around the question of Bonn meeting its NATO commitment to raise its defense expenditures 3% annually in real terms. More fundamental is the attitude that both the U. S. and West Germany—and the alliance—take toward the growing strength of the Soviet military machine and what President-elect Ronald Reagan sees as the need for a firmer line on Moscow. German Chancellor Helmut Schmidt faces growing economic and political problems that make an expansion of German military commitments increasingly difficult. Haig's problem of coordinating policies by negotiating differences is going to be made tougher by a bad start in relations between Reagan and Schmidt during their meeting in Washington in early December. And it will not be helped by aid to leftist insurgents in Central America by the Chancellor's German socialists.

Feeling tricked. Reagan and Schmidt appear to be getting off on the same wrong foot that dogged the Carter-Schmidt relationship. Reagan's foreign policy advisers are furious at what they consider a clever public relations trick. Reagan agreed to meet Schmidt at the Chancellor's insistence while both were in Washington, but only for pleasantries. Instead, Schmidt prolonged the visit with a 40-minute lecture on the state of the world. Then he returned to Germany and told the Bundestag that the two leaders agreed on all issues—including those of disarmament negotiations with the Soviets and Bonn's commitment to NATO. Neither was the case.

Meanwhile, Schmidt assured several senators while in Washington that West Germany would meet the 3% increase in defense spending. The new German budget, however, does not accommodate that figure. And hopes expressed since that supplementary Bundestag appropriations would take care of this shortfall are open to some doubt.

The reason is that Schmidt's domestic political position is weakening. Even though he won an election last October with an increase in the Bundestag seats held by his own German Social Democratic Party (SPD), and his coalition partner, the Free Democrats, achieved an even greater relative increase, it is presumed that he will not run again for Chancellor. Burdened with lame-duck status, he also faces a strengthened position of the left within the SPD. From 50 to 60 seats are held by opponents of Schmidt's tougher Atlantic alliance policies who are also dedicated to no cutback in German social welfare expenditures. (Schmidt's coalition has a majority of only 45 seats.) In fact, the left is calling for an expansion of social welfare and pump-priming to meet the downturn in the German economy. This drives a wedge into the coalition because the Free Democrats are, by and large, committed to tougher fiscal and monetary policies—particularly because the center of gravity inside their party, 10% of the German electorate in the last election, has shifted further to the right. That could eventually bring down the Schmidt coalition.

The flow of capital. The German economic situation is worsened by high U. S. interest rates which, say the Germans, pull capital out of Western Europe and the German economy and have sparked talk of an "interest war."

Hanging over these problems is the general question of relations with the East. Any move by the Soviets to squelch the growing liberalization in Poland would obviously complicate the coordination and integration of Western policies toward the Communist bloc. Socialists in Germany do not want a cutoff of all trade and technological exchange with the Russians even if the Soviets invade. And they want continued

Ted Enik

Making Schmidt accept a stronger NATO role gets harder.

shipments of food to Poland even under a Soviet occupation. They argue that some of the present arrangements are profitable to the West and that "avenues must be kept open" for negotiations. The opinion generally held in Washington that a Soviet invasion would bring a closing of NATO ranks could be wishful thinking. A quick, orderly Russian occupation of Poland, about which the NATO powers could do little but wring their hands, would embolden some elements in Germany that have long called for a new relationship with the Soviet Union. And those forces are not just on the left. Germany holds more than a third of Poland's $24 billion debt to the West. East bloc trade, which is subsidized by German government export financing, is increasingly important to Bonn, whose export markets are drying up elsewhere. Schmidt himself has pushed energy and mineral agreements with the Russians as alternatives to Middle East oil and Southern African sources endangered by precarious political situations.

High priority. Haig and the Reagan foreign policy group, by and large, have seen the answer to these problems in a rebuilding of American military strength and leadership in the world. But doing that, even with a 7% real increase in the U. S. defense budget over a three-year period, as some of the Reagan team have demanded, requires the enhanced cooperation of NATO's strongest European partner, Germany. Haig, who as the former NATO commander-in-chief knows the problem intimately, must find a way to keep the Germans in line with U. S. policies. That will be of the highest priority for any successful Reagan foreign policy. ■

The deadly risk for Iraq's leader if the war drags on

If the current diplomatic offensive for a truce by Iraq President Saddam Hussein drags on—in the same way that his attempt to take Khuzestan by storm failed—Baghdad could be in turmoil. Most Mideast observers are already convinced the war has lasted far longer than Iraq leaders had planned when they launched it. There are signs of popular unrest in Baghdad and the Persian Gulf port of Basra. If there is no negotiated peace between Baghdad and Tehran, Hussein appears more vulnerable to internal dissidence than Iran's Ayatollah Khomeini.

Hussein was not a military man until he was made a field marshal in 1976—but he heads a military regime. He is a northerner and a Sunni in a country where 50% of the population are southern Shiites from the same Islamic sect as the Ayatollah. Despite such seeming weaknesses, Hussein has effectively controlled Iraq for more than a decade. His instrument has been the Baath Arab Socialist Party, the only political organization tolerated in the country. He has ruthlessly manipulated the army through Baathist political commissars, purges, and nepotism: A brother (Intelligence Chief) and brother-in-law (Defense Minister) hold key positions. And his tactics have been brutal—including hanging Communists even though his troops depended on the Soviets for weapons and training.

Chance of revolt. Because of his control of the army, most observers rule out the possibility of a military coup against Hussein, even if the war goes badly. Trouble would be more likely to develop in Iraq's highest authority, the Revolutionary Command Council. Failure to deliver a clear-cut victory to justify the enormous damage to Iraq's source of wealth, its oilfields and refineries, could produce a revolt among council members, perhaps led by Taha Yassin Ramadan, commander of Iraqis paramilitary forces.

The Iraqis have, in fact, won the majority of their encounters with the Iranians. They have nonetheless been surprised by the strength of the opposition, particularly the Iranian air force, and by the poor performance of Iraq's own MiG-23s and Sukhoi fighter-bombers. Middle East observers speculate that Iraq could end up winning the war technically but losing it politically. Such sources point out that something similar occurred in the war between Israel and Egypt in 1973. The Israelis reached the West Bank of the Suez Canal, threatening Cairo, but because the Egyptians had won more international respect, Jerusalem lost the political initiative.

Khomeini's gains. In the present conflict, Hussein's chief aim was to topple Khomeini—or at least to neutralize his religious appeal to Iraq's Shiites. But so far the war has rallied Iranians, and a longer war could strengthen the Ayatollah's claim to an Islamic blessing for his regime and its defense.

The longer the war goes on, the greater the problems become for Hussein. Even victories could cause difficulties—by lengthening supply lines. Hussein has one big advantage, of course: huge funds. But the oil revenues have not lent the country stability, even in a past that was relatively peaceful externally, and they might not paper over major problems arising now. All this seems to mean that Hussein must soon win a diplomatic offensive to consolidate his victory, or he will have to launch a bloody purge to maintain control. Longer term, that could halt the slow but steady drift of the Iraqis away from their Soviet alliance and toward the West. ■

The East Germans cool Schmidt's pursuit of detente

Honecker shatters Schmidt's patiently built edifice.

East German leader Erich Honecker has delivered a shattering blow to Chancellor Helmut Schmidt's attempt to continue his pursuit of detente in Europe. The East German decision to as much as quadruple intra-Berlin currency exchange requirements for visitors from the West, coupled with a biting televised attack on Schmidt, marks a new era. It came only a week after Schmidt's electoral victory against German conservatives, who had criticized his policy of seeking accommodation with the East and of making detente divisible into European and non-European parts to cover up the incongruity of Soviet aggression in Afghanistan (BW—Apr. 21).

Soviet crackdown? The new tough line out of East Germany is seen as three-pronged: It could set the stage for a Soviet crackdown against the Polish free trade union revolt, which has all but broadened into a full-fledged, non-Communist political movement. Honecker has condemned both the activities of the Polish unionists and their moral and financial support from the West.

The East German leader and other hard-liners among the Central European Communist leadership have markedly cut back contacts with Westerners in recent days—probably as part of a campaign to contain what they see as "the Polish virus." Whether this also suggests eventual Soviet military

intervention is a question that has Central European observers divided.

Second, the East Germans may now feel that they are in a position to raise the ante for cooperation between the two Germanys. High on the agenda for next spring is renegotiation of the so-called swing credits from West Germany to the East Germans, which help to finance trade between the two countries and give the slowing East German economy a back door to the Common Market. Major new projects, including $1.1 billion electrification of railways linking West Berlin and West Germany and the $800 million construction program in East Germany of coal-fired power plants, also are up for further negotiation. Although such projects appear more important to the East Germans than to the West, the former have been tougher bargainers in the past. They may now believe that, having helped make detente a key part of Schmidt's political program, Bonn will have to give on terms.

Third, the East Germans have also revived previous political demands. They call for full recognition of the East German regime as though the two nations had never been one. They are also asking that West Germany cease its present practice of granting citizenship to any East German who makes his way there.

Waiting. The new East German line, however, is unlikely to make any immediate impact on the West German political scene. Schmidt's new majority—with an enhanced Free Democrat partnership in the coalition government—is probably not ready now for any dramatic change in its policy toward either East Germany or the Soviets. Bonn is likely to wait on events in Poland and on the development of U. S. policy—with talks on nuclear disarmament between Washington and Moscow again under way in Europe—and the outcome of the American elections. But it seems likely that Schmidt's aggressive courting of the East bloc all last spring and summer is going to be cooled significantly until the results of these developments become clear. ■

An explosive civil war that pits Qadaffi against Sadat

While the world's attention has been riveted on the Iraqi-Iranian war, the chief villain of the Arab world, Libya's Muammer al Qadaffi, has stepped up troublemaking in Saharan Africa. Local sources say he was behind the aerial bombardment that has taken place for the first time in a seven-month-old civil war for control of the Chad, one of Africa's poorest and most isolated nations. The conflict has already cost 3,000 lives and 7,000 wounded. But beyond humanitarian concerns, the West—and particularly France—is worried about Qadaffi's effort to seize control of the state or tear it into an Arab Moslem North and a predominantly black Christian and pagan South.

Chad's pivotal position in Saharan Africa

Targeting on oil. Westerners suspect that the Libyan's ultimate target is influence over the oil-rich African states to the southwest—Cameroon, Nigeria, and Gabon. Africans fear that a possible breakup of Chad would violate a "dogma," hitherto respected in post-independence Africa, that former colonial boundaries must be honored at any cost. If they are not, there is a real risk that many or even all the new states could break up under the stress of their tribal and regional animosities.

If that were not worry enough for the West, there is also growing evidence that Chad may be becoming a surrogate battlefield for Qadaffi and Egypt's Anwar el-Sadat. The latter is allegedly supplying the anti-Libyan forces to protect neighboring Sudan, Egypt's principal ally in the Arab world (BW—Sept. 17, 1979).

There is already danger that the fighting will spill into Cameroon or Nigeria. Twice last month the territory of Cameroon—which is harboring some 100,000 refugees—was violated. Foreign observers believe the violations are part of a stepping up of Libyan participation in the civil struggle—with Qadaffi now sending in Libyan troops.

Qadaffi's role in the Chad war has been complex: Over the years, he has supplied arms to 11 of the dozen or so different groups that are struggling for power there. But his long-term aims have been clear: First, he wants to help put in place a friendly Chadian government that would legitimize his 1973 annexation of the Aozou Strip, a uranium- and manganese-rich area on the Chad-Libyan border. (Southern Chad may also have oil.) Second, Qadaffi wants to formalize his dream of an Islamic Saharan Republic that would incorporate all the Moslem countries of north and central Africa.

Losing by winning. But Libya will not get its way easily in the Chad. True, the French backed off from the conflict by withdrawing the troops with which they had been trying to keep peace in Chad to the nearby Central African Republic and Gabon. But Nigeria, with the largest standing army in Africa and almost half Black Africa's population, would certainly vigorously oppose Qadaffi if he gained control of Chad. The latest attempt at a Chad peace settlement, made through the Organization for African Unity (OAU), apparently has failed. That means that if Qadaffi continues to push, Paris, and perhaps Lagos, might have to move. But as French forces found earlier, nothing less than a large occupation force can put a stop to the free-for-all.

—**Tom Gilroy**

Special correspondent, Douala

Katherine Young

Schmidt: A winning smile, an easy arrogance and a long shadow

WEST GERMANY

Schmidt Rolls to Victory

Helmut Schmidt had never felt better. No postwar Chancellor of West Germany, not even Konrad Adenauer, had ever gone into an election with sunnier prospects of victory. The polls were bullish. The opposition—Franz Josef Strauss, the portly conservative from Bavaria—seemed safely loutish. So, well before re-election, Schmidt confidently called a press conference to outline the shape of his new Administration. He also said he was thinking about the date for a visit to Washington and a call on "whomever" the next American President might be. The familiar arrogance seemed to tickle West Germans. Early this week they lined up at the polls and awarded Schmidt another four-year term in the chancellery.

The election returns promised to make Schmidt the strongest political leader in Western Europe—and perhaps the Western Alliance. A shrewd Social Democrat up from Hamburg's rough-and-tumble school of politics, Schmidt, 61, may now choose to edge away from the traditional, pragmatic diffidence West Germany has displayed in postwar politics. During the campaign, Schmidt laid claim to an "equal" partnership in the Atlantic alliance and vowed to operate as an independent link between Moscow and Washington. And with French President Valéry Giscard d'Estaing facing the toils of re-election next year, British Prime Minister Margaret Thatcher beset by economic problems and neither Jimmy Carter nor Ronald Reagan kindling much warmth anywhere, it seemed certain that Schmidt would assert himself even more freely in the coming months.

The defeat Schmidt administered to Strauss, the candidate of the Christian Democratic Union and Christian Social Union, came at the end of the nastiest campaign West Germans had seen in years. Strauss sought unsuccessfully to cast Schmidt as a political chameleon, muddle headed about economic matters and soft on Communism. Schmidt portrayed Strauss as an emotionally unstable warmonger. In a final, acerbic debate on television, he called Strauss "an unchristian babbler." "And you, sir, are unscrupulous," Strauss shot back. In the end Schmidt's more winning assets were a popular foreign policy and an image for level-headed crisis management at home.

'Sobriety': With Strauss out of the way, what Schmidt would do next remained an intriguing question. He intended to keep his ministers of economics, finance and defense all in place. And it seemed likely that Hans Dietrich Genscher, a Free Democrat, would keep his portfolio as Foreign Minister. "I don't predict any grand, creative policies for Schmidt's third term," said French political analyst Alfred Grosser, one of Europe's shrewdest observer of alliance politics. "What the Germans want is continuity, sobriety, caution in foreign affairs and the feeling that the country is in capable hands."

Schmidt's most difficult problem was manifest: how to cope with heavy and conflicting pressures from the United States and the Soviet Union. "Basically, the priority is to keep the lines open between Moscow and Washington—all else is secondary," said one Schmidt strategist. Schmidt will probably continue to resist U.S. demands for a tougher economic line with the Soviet Union. But he has told aides that because of strain with Moscow over the invasion of Afghanistan, his long-planned meeting with East Germany's Communist Party chief Erich Honecker should remain on the back burner. And he has sent signals to Warsaw that Poland's union crisis must be cleared up before he will get together with the new party boss, Stanislaw Kania.

Vacuum: Schmidt must proceed cautiously in staking out a more independent posture. Europe's memories of the second world war have not faded, and fears of West German revanchism are still alive. "There remains the problem of German identity in the world," says West German political scientist Uwe Nehrlich. "Schmidt of all people will be most careful not to overstep the mark." Still, Schmidt has made no secret of his distaste for Jimmy Carter; he has told aides that Ronald Reagan is not likely to become a better working partner; and he may well be tempted to move into what many West Europeans take to be a yawning leadership vacuum.

Schmidt's disdain for American leadership and his sense of the power curve in alliance politics has already led him to take West Germany into an increasingly closer partnership with France. The friendship between the two ancient enemies has helped smooth West Germany's way back to respectability and to bolster Schmidt's own power. The Franco-German entente cordiale has already given the two nations considerable say in the decisions of the European Economic Community, and that power should grow even stronger if, as expected, Giscard wins his own campaign for re-election next spring.

Tough Tests: The EEC's internal friction is bound to wear heavily on Schmidt. Great Britain is openly suspicious of his partnership with Giscard. The recent fall of Prime Minister Francesco Cossiga's government in Italy, normally a reliable ally, has also complicated his possibilities. His first tough test may come over the deployment of a new generation of nuclear missiles in Western Europe. Many European nations want to negotiate with Moscow to stabilize or reduce the numbers of weapons in Europe before deciding to deploy more advanced missiles. "If negotiations fail . . . the Belgians and the Dutch are going to back out, the Cossiga card is gone and Germany will be left holding the baby," said one Western diplomat in Bonn. But even as baby-sitter, Schmidt should cast the longest political shadow in Western Europe.

PETER WEBB with PAUL MARTIN in Bonn

though they have been making small cars for years. By contrast, both U. S. and Japanese auto makers believe that the U. S. industry's basic troubles will be over by 1985, when Detroit will have completed its $80-billion product overhaul program. That prospect is a cause for some apprehension in Japan, where the U. S. auto industry, according to the Japanese observer, is still regarded as "fiercely competitive." ■

No help from Germany for Europe's slump

Any chance that West Germany might reflate to ease the economic chill gripping Europe was probably eliminated in a surprising show of election strength by the Free Democratic Party (FDP), junior partner in the coalition government of Chancellor Helmut Schmidt. The Schmidt government and the German central bank have been under increasing pressure to act in the face of rising unemployment and skidding production in such key sectors as autos, steel, and chemicals. Much of the pressure comes from Schmidt's own Social Democratic

The centrists' show of strength cuts chances of any reflation moves

Party (SPD), which has strong union ties. But the SPD barely held its own, with 42.9% of the Oct. 5 vote, while the centrist FDP jumped to 10.6% from 7.9% in the 1976 elections.

Germany's biggest loser was the Christian Democrat-Christian Social Union coalition headed by Bavarian Premier Franz Josef Strauss, which dropped from 48.6% to 44.5% of the vote. Many CDU-CSU voters apparently switched to the FDP or split their ballots. The FDP is not expected to demand major policy changes or even additional portfolios in the new Schmidt Cabinet. It already holds the important Foreign and Economics Ministries and generally backs Schmidt on international issues. But many observers believe that the FDP's new power will force Schmidt to keep to a conservative course in domestic economic policy.

Public concern. Germany is not yet in a full-fledged recession. While growth turned negative in the second quarter after a first-quarter boom, most economists figure gross national product has now leveled off. Herbert Wolf, chief economist of Commerz Bank, sees the stagnation stretching into the middle of 1981 "with nothing dramatic in the business cycle." But that outlook could worsen if the U. S. economy stalls again—or if fiscal and monetary policy in Germany stays tight too long.

Even before the resurgence of the FDP, Schmidt's fiscal policy options were limited. For one thing, Strauss's campaign attacks on deficit spending—by calling up images of painful currency devaluations—created widespread concern about the growth of public debt. Germany's combined federal, state, and local deficit is likely to hit $30 billion this year, instead of a planned $26 billion, and Westdeutsche Landesbank in Düsseldorf predicts that the total could rise to $36 billion next year. While Germany's public debt of $250 billion is low compared with other industrial countries, it is too high for most Germans. "People are so sensitized now that no government could increase the debt," says economist Eberhard Dettweiler of the Bank für Gemeinwirtschaft in Frankfurt.

Some bankers, however, feel that the FDP's bigger say in economic policy may encourage Germany's central bank, the Bundesbank, to relax its tight monetary policy. One close observer of the money markets in Frankfurt looks for the Bundesbank to cut its discount rate by the end of October. But the loosening is likely to come in small steps that allow the Bundesbank to watch for signs that money is flowing out of the country again, as it did early this year when U. S. interest rates soared. With the U. S. prime rate at 13.5% to 14%, Paris-based economist J. Paul Horne of Smith Barney, Harris Upham & Co. notes that "the pressure on the Bundesbank is coming straight from Washington."

Problems on the left? Schmidt is unlikely to launch any massive new government programs, but many observers expect him to become more aggressive now in tackling the serious problems Germany faces in the 1980s. On energy, for example, Schmidt is expected to push his stalled nuclear power program and to propose new taxes or incentives to promote energy conservation. "Energy," says one Bonn observer, "is one field where the election may have been an inhibiting factor."

While Schmidt also will be expected to try new initiatives aimed at curing Germany's growing unemployment, which has been stuck above 3% for several years, budget considerations will keep such programs small. Thus, as Schmidt is forced to pursue a series of cautious initiatives, rather than bold strokes, he may encounter growing problems with the unions and with his party's left wing. Remarked one FDP politician in the midst of an election night celebration: "It will probably be tougher this time than last for the coalition." ■

METALS

Why the trigger price omits specialty steel

In reviving the trigger price system to protect the U. S. steel industry from cheaper foreign products, President Carter omitted one key segment of the industry: the $6 billion specialty steel business that makes stainless steel, tool steel, and high-alloy products. The large number of such products makes a trigger price system hard to administer, and specialty producers, unlike carbon steelmakers, have not protested foreign competition under U. S. fair-trade laws.

John L. Alexandrowicz

Steelmaker Knoell warns that importers may "flood the specialty market."

The Administration acknowledges that the U. S. Specialty Steel industry is not in good shape. Domestic business is so weak that unemployment in the industry is close to 30%. And although all major producers claim to have made a profit in the first half of this year, at least one is rumored to be in such financial difficulty that it is seeking a buyer.

But with products that number in the thousands, "a specialty trigger price mechanism has always looked like an administrative nightmare," says Frederick T. Knickerbocker, Commerce Dept. deputy assistant secretary for industry policy. Moreover, the specialty producers have not yet sought protection under the toughened Trade Agreements Act of 1979, which went into effect last Jan. 2.

Schmidt's Summitry

Two important summit meetings within two weeks have won West German Chancellor Helmut Schmidt generally good marks in the European press. Leading newspapers credit him with standing up to the Soviet leadership in his Moscow meeting and for forging even closer ties with France as a result of President Valéry Giscard d'Estaing's visit to Bonn.

"The Chancellor's visit to the Kremlin turned out differently than the Politburo wanted," the liberal weekly *Die Zeit* of Hamburg [July 4] says. "The main theme wasn't German-Soviet trade; it was the crisis over Afghanistan and the conflict over medium-range missiles in Europe."

The same newspaper [July 11] sees Giscard's talks with Schmidt as an impulse for Franco-German leadership to restore Europe's world role. The conservative *Frankfurter Allgemeine Zeitung* of Frankfurt [July 12] stresses the military requirements of such leadership and comments, "It was the first time in the course of the continuing consultations that German-French cooperation placed so much importance on defense." This, the conservative *Neue Zürcher Zeitung* of Zurich [July 13] concludes, linked the two summits: "In the final phase of the talks, with the Soviet invasion of Afghanistan in the background, defense and security issues moved into the spotlight."

Trouble in Turin

Fiat, Italy's largest automobile maker, is due for a managerial shakeup to cope with losses in world marketplaces and low productivity. Paul Betts of the independent *Financial Times* of London [June 18] reports that 1978 profits gave way to red ink in 1979 and as a result "profound, if so far largely unnoticed, changes are taking place in the top management thinking of Fiat . . . a significant reversal of some of the key management policies both Signor [Giovanni] Agnelli and his younger brother, Umberto . . . embarked upon."

Fiat has more than the standard industry woes such as Japanese competition and worker disputes. "Fiat makes cars with one hand and fights a guerrilla war with the other," as company president Giovanni Agnelli puts it. His reference is to three Fiat executives killed and seventeen employees wounded by terrorists.

"Last October Fiat made the unprecedented decision to dismiss sixty-one car workers for industrial violence," says Betts. "Equally controversial [was] the decision to put some 78,000 car workers on short-time this summer."

Corriere della Sera/Milan

If these and other steps fail, the report concludes, Fiat may "end up in the State subsidized economy. This would have dire repercussions . . . . It is generally acknowledged, even by the Communist Party, that for the Italian economy to prosper Fiat needs to prosper, too."

Fleet Street Blues

Britain's oldest Sunday newspaper, the independent *Observer*, in July announced its intention to cease publication in October unless its wage dispute with the powerful printers' union can be resolved. The latest crisis focuses attention anew on the malaise of London's newspaper street, squeezed by the recession, declining readership, and union demands. As the weekly *U.K. Press Gazette* of London [July 14] points out, it is not the $9 difference between management and labor, but "the fear and the certainty of the knockdown effect of too-expensive settlements" that is at stake.

The American-owned *Observer* and other London papers faced with deficits or closure are in no position to fight back, according to the newsmagazine *The Economist* of London [July 12]: "The inability of Fleet Street to act in concert on almost any aspect of its costs or investment, while its unions act in concert daily, has turned it into . . . an oligopoly competing within itself to buy exorbitantly expensive production from a monopoly supplier."

For a time, hopes for a reprieve of the *Observer*'s death sentence rose, but among others the independent *Financial Times* of London [July 11] warned that the problems extend beyond the confrontation at one newspaper: "Within the foreseeable future, the national press in Britain will find its costs, its work practices, its parochialism, and its cynicism assaulted as never before by . . . the electronic revolution. This is a desperately short time scale in which to put its house in order."

Clouds Over the Eiffel

The Eiffel Tower, according to Paris Deputy Mayor Bernard Rocher, "is not in a bad state of preservation for an old lady of ninety, but she needs a facelift." Plans for the rejuvenation, however, have angered the tower's restaurateur, Roger Grass, and legal action impends because the Deputy Mayor wants to close the restaurant to carry out structural inspections. This, Grass told Charles Hargrove of the independent *Times* of London [July 7], "amounts to destroying a house to see if there are rats in the cellar . . . . The tower is solid, very solid."

"Although the tower was never meant to remain a permanent part of the Paris landscape," says the *Times* report, "it was built to last. The visible parts of the metalwork are sound."

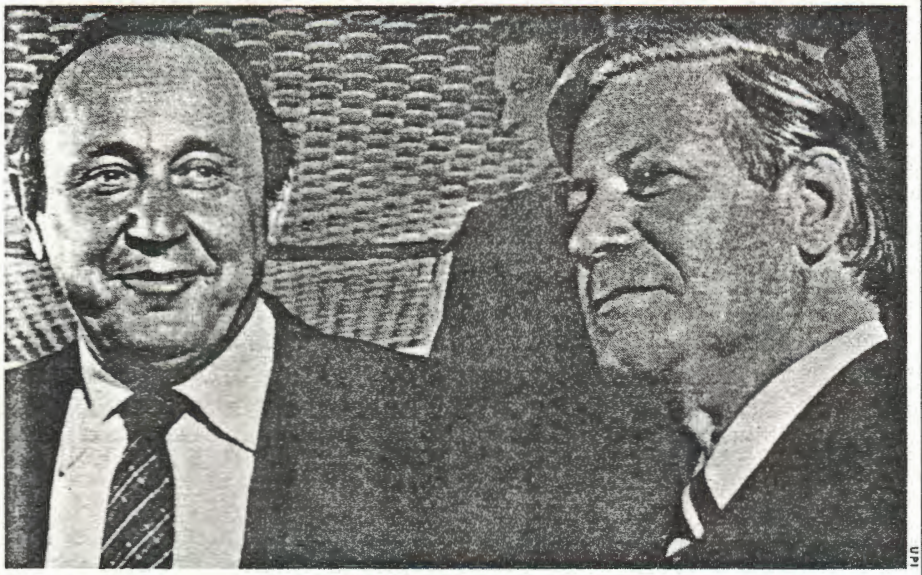
Holmes' New Adventure

British copyright law places a fifty-year limit on literary property, and the limit is up for the Sherlock Holmes mysteries of Sir Arthur Conan Doyle, who died in 1930. Dame Jean Conan Doyle, the author's daughter, and Grey Murray, his publisher, worry about "literary muggers, filmic assassins, and merchandising cowboys," the columnist Mandrake reports in the conservative *Sunday Telegraph* of London [July 6]. With Holmes and Doctor Watson in the public domain, publisher Murray says, "merchandising of Sherlockian artifacts may develop," ersatz Holmes books may appear, and Conan Doyle's stories "will no longer be protected from alteration."

Travels with Amy

For Europeans who wonder why President and Mrs. Carter always take along Amy on their travels, the independent *Die Presse* of Vienna [June 25] offers this explanation: "Taking children along is common practice in America . . . . The country's history and the method of building houses [meant] settlers as a rule could not risk leaving their children unattended at home. Even today most houses are wooden frame construction, and they can catch fire easily. You read every day about whole families burning to death." ■

—DONALD R. SHANOR



UPI

F.D.P. Leader Genscher and Schmidt in a jovial mood after their victory

WEST GERMANY

Business as Usual for a Big Winner

Schmidt settles into Europe's strongest political position

The campaign had been marred by smears and name-calling; the election aftermath was marked by recriminations and a few gloomy second thoughts. "We suffered a heavy defeat," acknowledged Helmut Kohl, chairman of the Christian Democratic Union (C.D.U.). "The results are disappointing," said Hans-Jürgen Wischnewski, deputy chairman of the winning Social Democratic Party (S.P.D.). But not, clearly, to Wischnewski's boss, Chancellor Helmut Schmidt. Three days after the election he strode briskly to his chancellery office, and in an impatient, business-as-usual manner, presided over a meeting of his newly reappointed Cabinet as if nothing had happened.

In fact Schmidt's considerable triumph in the Oct. 5 national elections left him in the strongest political position of any Western European leader. France's President Valéry Giscard d'Estaing was bracing for a spring election that could reduce his standing with the voters. In Britain, Prime Minister Margaret Thatcher faced sharp criticism for her monetarist program. But Schmidt, 61, overseer of the Continent's healthiest major economy (5.1% inflation and 3.5% unemployment) had a new mandate to govern for another four years, probably without serious challenge.

The final tally of 38.2 million votes showed that Schmidt's coalition of his own S.P.D. and the Free Democratic Party (F.D.P.) won 53.8%, a gain of more than 3% compared with the 1976 election. The conservative coalition of the C.D.U. and the Bavarian-based Christian Social Union (C.S.U.) fell to 44.5%, a drop of more than 4%. Schmidt thus quadrupled his majority in the Bundestag to a more-than-comfortable 45 seats. The new lineup in the 497-seat lower house will give the S.P.D. 218 seats, the F.D.P. 53 and the C.D.U.-C.S.U. 226.

Some of Schmidt's colleagues were disappointed that the S.P.D. had gained so little, an increase of only .3% in the popular vote, to 42.9%. In fact, Schmidt had done little to dispel the impression that he never wanted his own party to win an absolute majority, lest its obstreperous left wing get out of control.

The coalition's strong margin of victory was provided by the moderate Free Democrats, who made their best national election showing in 20 years: 10.6% of the popular vote, and 14 new seats. Many voters evidently turned to the F.D.P. out of fear of extremists in the other camps. Chairman Hans-Dietrich Genscher, who is Schmidt's Vice Chancellor and Foreign Minister, said that his party would not ask for more than the four key ministries it already has. Instead, the F.D.P. planned to exert more influence in policymaking, and thus strengthen Schmidt's hand in resisting the demands of radicals in his own party for more socialist welfare programs and a more pliant stance toward Moscow.

As for the C.D.U.-C.S.U. opposition, it was already beset by internal squabbles. No wonder. The alliance dropped from 48.6% of the popular vote to 44.5%, and lost 17 seats in the Bundestag. Though Conservative Challenger Franz Joseph Strauss insisted that he might try again in the future, many party regulars were convinced that they had probably seen the 65-year-old Bavarian politician's last hurrah as a candidate for Chancellor. "Yes, I made mistakes," Strauss acknowledged last week. "There is only one German political figure who thinks he never made a mistake: Helmut Schmidt." ■

BRITAIN

Crowing Tories

A reprieve for the Iron Lady

For Prime Minister Margaret Thatcher, the vicious struggle between left and right that erupted at the Labor Party's annual conference in Blackpool could not have been better timed. The growing discontent within her own party and even her own Cabinet was muted as the Tories, meeting last week in the seaside resort of Brighton, closed ranks to crow over their bitterly divided opposition. Exhorted Thatcher: "Let Labor's Orwellian nightmare of the left be a spur for us to rebuild the fortunes of this free nation."

Still, beneath the well-orchestrated harmony and smooth avoidance of controversial votes, pressures were mounting on Thatcher to soften her rigid monetarism as Britain slips deeper into recession. After 17 months in office, the Thatcher government's economic policies were being sharply attacked, not just by trade-union leaders but by industrial managers as well.

Britain's economic statistics are grim. Unemployment is above 2 million, roughly 8.4% of the work force, and rising sharply. More than 7,000 firms are expected to go under this year. Inflation, while slowing down from a 1980 high of 21% in July, stands at 16.3%. Manufacturing output is down, interest rates are at 16%, and the money supply, crucial to the monetarist creed, has exceeded targeted limits by more than a third. "The government's entire economic strategy faces a crisis of credibility," charged the London *Times*. "The private sector, which

KEYSTONE

Thatcher with gift of apples at Brighton

Closing ranks against a divided opposition.

~~CONFIDENTIAL~~

The President has seen____

THE SECRETARY OF THE TREASURY

WASHINGTON

May 19, 1981

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Chancellor Schmidt Visit -- Report on My Meeting with Finance Minister Matthoefer

I had a very useful meeting with German Finance Minister Matthoefer during my May 15 stopover in Frankfurt en route to Saudi Arabia. Matthoefer -- who studied in the U.S. and is considered to be pro-American -- will not be with Chancellor Schmidt when he visits Washington, but we discussed the issues the Chancellor is likely to raise with you.

Chancellor Schmidt will almost certainly complain that Germany's economic problems have been worsened by the fact that he succumbed to President Carter's pressures at the Bonn Summit in 1978 to increase the German budget deficit at that time. (Since then, German growth has slowed and inflation has increased, although many other factors are involved.) I assured him that we would not be pressuring the Germans to run a deficit in the future.

Both Matthoefer and Bundesbank President Poehl expressed concern about the problems that high U.S. interest rates are causing for the Germans, and Chancellor Schmidt can also be expected to bring this up. The problem essentially is that the Germans feel that they must maintain high interest rates as long as ours are high in order to prevent capital from flowing out of Germany, thereby putting further downward pressure on the Deutschemark. There is a differential of some 8 percentage points between DM and U.S. dollar interest rates, and real German interest rates are now at an all time high even though their money supply is well within their target range. They argued that they must maintain these high rates for international reasons and expressed the hope that any competitive fixing of rates should be avoided.

The Germans stressed, however, that they were not criticizing U.S. interest rate policy as such, but wanted the U.S. to be aware of their problem. We may want to remind Chancellor Schmidt of a meeting in Hamburg in September 1979 when he turned down a U.S. request for heavy foreign exchange market intervention and instead pressed the U.S. to raise its interest rates. Matthoefer stated

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Review for Declassification
on May 19, 1987

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that the Chancellor would not criticize U.S. policy, but that he would ask if we could change our policy mix, by deferring tax cuts. I indicated that we well understood their problems, but that it was essential for the Administration to continue its current policy proposals to break inflationary expectations. Matthoefer and Poehl agreed that breaking inflationary expectations was critical. I explained to him why we must have a combination of tight monetary policy, expenditure cuts and tax cuts in order to stimulate the economy while dampening inflation.

In response to the concerns which Chancellor Schmidt may raise, I suggest you make the following points:

-- Indicate that we will not pressure the Germans in the future to initiate fiscal programs that increase their deficit.

-- State that we are now pursuing an active anti-inflationary policy, which is what he had recommended, and plan to maintain this policy stance as it is essential to break inflationary expectations in the U.S. Any other policy would damage both the U.S. and Germany buy further fuelling inflation, causing still higher interest rates.

-- Indicate that "real" interest rates (market rates minus inflation) are at historic highs not only in Germany, but also in the United States and are having similar restraining effects on the U.S. economy as they are on the German economy.

-- Assure that we understand their concern and expect that there will be some slackening of interest rates fairly soon.

-- Explain that expenditure programs have been reduced to the extent feasible for the present, but that a substantial and credible program of tax reductions remains necessary. Such tax measures are an integral element of a successful program to change basic incentives and expectations in the economy.

As background for your discussions with the Chancellor, I would also call your attention to two additional points I discussed with Mattheofer and Poehl:

-- Exchange Market Intervention Policy. As you know, the French franc has been under heavy pressure since their elections. There has been considerable intervention by the Europeans to support the franc. We have cooperated by intervening for the Germans in New York with their funds, at their request, but have not felt that it was necessary or appropriate for the U.S. to intervene on our account. The Germans generally agreed with our approach, although they probably would prefer a more active U.S. role. We agreed to stay in close touch on intervention policy.

In response to a question concerning whether we would be willing to intervene to support the French franc, I indicated that we had not been requested by the French to do so and that it does not appear that the French Government will make such a request. I promised the Germans that we would be in touch with them in the event of a French request for intervention.

-- PLO Observer Status in the IMF/World Bank. I made clear to them our position that it was simply not acceptable to have the PLO as an observer in these institutions. Matthoefer responded that this was a question on which Germany just had to duck. It is not certain that they will vote with us in the Executive Boards of the Bank and the IMF.

Donald T. Regan

Donald T. Regan