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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Brian Mulroney, Prime Minister of Canada

PARTICIPANTS: The President
Barry F. Lowenkron, Director for European Affairs, NSC (notetaker)

Prime Minister Mulroney
James Judd, Assistant Secretary to the Cabinet for Foreign and Defense Policy, Office of the Privy Council

DATE, TIME AND PLACE: February 5, 1993, 11:45 a.m. - 12:15 p.m.
Oval Office

The President: Well, I'm glad you came down to Washington. (U)

Prime Minister Mulroney: I'm delighted to be here, and glad that you could take the time to see me, given your heavy work load. (U)

The President: Actually, the Congress is going home on a ten day recess. It's curious, they come into town for a few weeks, then take a break. It's more for the Republicans; they have a lot of dinners and events tied to Lincoln's birthday. The break in the summer is more to accommodate the Democrats. (C)

Prime Minister Mulroney: But, you signed a big bill today. (U)

The President: Yes, its something that Democrats and even Republicans can claim credit for when they go back to their states as evidence that they're getting over Washington gridlock and are working together. (C)

Prime Minister Mulroney: Yes, and it's great that it was a real "people" bill. (U)

There are two things I wanted to take up with you. But before I begin, I just talked to Barbara McDougall who met with Yeltsin about an hour ago. She tells me that Yeltsin is really in trouble. I told Christopher this and he suggested I raise it with you as well. Maybe we can talk about that later on. (C)

I don't expect any hard and fast decisions coming out of our meeting today. I don't want to put you in the soup. This is a get acquainted session. But, I do have some experiences I'd like to share with you based on my nearly nine years in office -- the

politics, the personalities, the failures and the successes that I've been involved in -- I've been involved in every major international failure and a few successes as well. (C)

Of the two things I want to raise, the first is the issue of gays in the military. Get Stephanopoulos to get a reporter to ask me about gays in the Canadian military. You know, I head a progressive conservative party, not a socialist one. Yet, we tackled the question just like you're doing, although you're delaying a final decision by six months. I've got to tell you, there hasn't been a peep since we did it. Only the U.S. and China have big armies. Still, we have an army, a navy and an air force, and our people are North American, not all that different from Americans. Well, we introduced this gay policy and there hasn't been one peep. The Chairman of our JCS is our new Ambassador here, de Chastelain -- you'll be meeting him at lunch, and if you'd like to, you can ask him about it. If there's any value in it, I'll be happy to tell the press my views. I'll be interviewed by Bierbauer later today and it should be on CNN Saturday or Sunday. This is nutty. It's a human rights issue. Canada is not Paris, but we did it. (C)

The President: I think it would be very valuable, if not at our press conference, than later. I'd like to think it over with my advisors during our fifteen minute break; either we could do it at the press conference, or you could do it on CNN. I didn't know how Canada handled it. I can tell you its been awful here. (C)

Prime Minister Mulroney: I had thought about calling you, but I decided not to bother you. In retrospect I should have called. You know, the issue came to a head when we were sued by a lesbian. I told our military to collapse the case -- the military police was involved in bugging, spying -- it was a disgrace. We've had no problems, and Canada is a conservative country, this is not downtown Paris. (C)

A second point I want to raise is this. You're looking at a guy who had to do everything. When I was sworn in, the government was spending $1.33 for every $1.00 it took in. Now we're spending 96 cents for every dollar. I know you're working on your budget. I want to share with you my experience -- the pain, the political stupidity, and the things that you can do and shouldn't do. (C)

There's no question that you got it right when you said the number one problem is the deficit. Our deficit as a percentage of GDP has been cut 50 percent. The rate of spending on programs under Trudeau was 14 percent over the inflation rate for 15 years. Now it is four percent. This year it will be one percent. We've eliminated the operational deficit of the Canadian government. It's operating in the black for the first time since World War II. At your conference in Little Rock, you talked of American debt servicing being 15 cents to the dollar. Under 15 years of Trudeau it was 35 cents to the dollar. I got it down to 32 cents, and it'll come down five cents next year and

five cents the year after that. The average among the G-7 countries is 20 cents to the dollar. (C)

That number is the most important number in your budget. That's why I was impressed with your conference at Little Rock. You have a country that thinks it's entitled to more money -- they're spoiled, just like Canadians. They'll blame you for the pain, and your support could shift quickly. (C)

You don't have to do so much so quickly. Your debt service costs are lower. You have more room to maneuver than your competitors -- you can raise revenues with sin taxes: alcohol, tobacco. I'm a reformed smoker. Cigarettes go for about $5.00 a pack in Canada. (C)

The President: How much of that is in taxes? (U)

Mr. Judd: Quite a lot. (U)

The President: Arkansas has the second highest cigarette tax in the nation: the average is 25 cents, second, Arkansas is up to around 28 cents. (C)

Prime Minister Mulroney: You can increase cigarette tax and justify it on the grounds of health. (C)

You know, when I started cutting the deficit, my support was down to my immediate family. Canadians didn't understand that 25 cents out of every dollar had to go to debt servicing. If I hadn't touched it, it would have been 68 cents today, and Canada would be out of business -- run by the IMF. So, the biggest worry is the exponential growth in debt servicing. (C)

The President: Yes, we've got to fight this through, along with health care this year. In 1990 the Congress and President Bush agreed in good faith on a tax package. It didn't work for two reasons: first, the recession lasted longer than anyone expected, cutting into the revenue base. Second, health care costs went up 24 percent. We spot every country in the world five or six cents to the dollar on heath care. We'll be facing 23 cents per dollar on debt servicing unless we wrestle health care costs. (C)

Prime Minister Mulroney: There's also the issue of sovereignty. When the United States does not have the flexibility regarding discretionary spending you lose power. Your money is going to people who are holding your bonds. (C)

I agree with you 100 percent on the importance of dealing with the health care issue. You know, we've had a lot of experience with national health care. We'd like to invite Mrs. Clinton to come to Ottawa. I can pull together a bipartisan or a non-partisan group of leading experts from across the country for a full day's worth of briefings on development, administration, costs. Canadian health care is not perfect -- I think the German system is better. But we cover everyone. It's not socialized

medicine. The doctors are independent. In 1971 the United States and Canada paid about the same in administrating health care. Your costs have skyrocketed, while ours have stayed the same. I don't recommend you adopt our system, or Germany's, but that you look at some of our changes. I'd like to leave with you for Mrs. Clinton a two page sheet that outlines the ups and downs of our system. I understand she has a 100 day timetable, and we'd be happy to have her come up to Ottawa or send some people down here. We'd take her through our failings. Your system is the best in the world -- the best technology, and the best hospitals -- but you've got too much of that, while there are still 40 million people not covered which becomes a moral issue. (C)

We also have had a leave bill for 17 years. (U)

The President: Seventy two countries have a leave bill. Our country is too reactionary. (C)

Prime Minister Mulroney: On the budget, we were spending blindly when I became Prime Minister. When I submitted my budget all hell broke loose and I had to backtrack. You know, if you compromise in business that's considered fine. But, in politics, you're attacked as weak -- this just about flattened me. Budgets are all political. You've got to build a constituency. I like the fact you're going to Detroit. My advise is to cut spending broadly, not just selectively, so no one stands out like a sore thumb. You'd have to be a goofball to think you can cut the deficit and not raise any taxes. Raise taxes on alcohol. Cut entitlements, but protect the poor. In 1985 I said we'd de-index old age pensions. It was a mistake -- it was the mother of all mistakes. It was politically stupid. I was naive. We were accused of being blackhearted accountants -- me, of all people! My Dad was an electrician. We were a family of six kids. We were dirt poor. (C)

My advice is to have Stephanopoulos go through everything you said, every promise you made, to make sure no one has you on tape saying something then doing the opposite. I did it, and I looked so stupid. They'll ruin you with it. (C)

In Canada everyone gets old age security. Tax old age security benefits and tax family allowances. I make $156,000 a year with four kids and I qualify for an allowance! But below a certain income level, no one is touched. (C)

A final point, there's no question that you'll have a consumption tax in the US. I could have implemented it smoothly had I gotten all ten provinces on board. (C)

The President: Did you have mechanical difficulties implementing a VAT? (C)

Prime Minister Mulroney: Yes, politically it's awful. (C)

The President: Because of the provinces? (C)

Prime Minister Mulroney: Yes. When I became Prime Minister I eliminated the 13.5 percent secret manufacturing tax and put in a 7 percent goods and services tax. Because I couldn't sell it to all the provinces, the tax is visible. If all ten provinces had agreed, it could have been folded into the purchasing price. But now, everyone says, this part of the price is for Mulroney. If you put it into the purchase price, you're home free. These are some of the lessons I've learned. (C)

The President: I know the Republicans don't really want to cut cost of living increases to the poor, but we have to deal with the social security cost of living differential and tax benefits at upper levels. You and I know its an entitlement reduction, but Congress will call it a tax. Republicans will vote for it but attack me for raising taxes. (C)

We've got to shave more of the budget: entitlements, health care, the military. We are giving up a lot of our sovereignty. If we had discretionary spending we could move on retraining and defense conversion, but the investment budget of the Federal government is smaller than it was in 1980. We've had no guts in this country toward tackling health care, taxes, entitlements. There are also political and functional limits as to how big you can draw down the military. (C)

Prime Minister Mulroney: Canadians would elect me forever if I cut the equivalent of $875 billion in taxes -- I told Reagan he could do it, because he could afford it, once or twice. (C)

The President: We could afford it when we paid for it. Now with interest payments and increases in the costs for health care we can't afford it. (C)

Prime Minister Mulroney: The key is to live with an interest debt servicing of around 10 percent. I'd love to have that -- even at 15 percent. (C)

The President: We have to change health care and increase investment. (C)

On what I have to do to get the deficit down, I don't want the contracting impact felt until one to one and a half years later, and in the context of more global growth. I don't want to put obstacles on global economic recovery. Germany is going to have to deal with the magnitude of its problem in its Eastern part of the country, and Japan is going to have to tackle the issue of its surpluses. (C)

Prime Minister Mulroney: Get the political support. (C)

The President: Well, we're being signalled that it's time for lunch. (U)