

THE WHITE HOUSE
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MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with the President and Chancellor
Gerhard Schroeder of Germany (U)

PARTICIPANTS: The President
Madeleine Albright, Secretary of State
Samuel Berger, Assistant to the President
for National Security Affairs
Antony Blinken, Special Assistant to the
President and Senior Director for European
Affairs, NSC (Notetaker)
Gisela Marcuse, Interpreter

Chancellor Gerhard Schroeder
Michael Steiner, Diplomatic Advisor
Lena Hasslinger-Leis, Interpreter

DATE, TIME February 11, 1999, 12:50 - 1:25 p.m.
AND PLACE: Oval Office

The President: So tell me, how are you doing? How have the first few months in office been? (U)

Chancellor Schroeder: Well, we are having some difficulties at the moment. There is an interesting constellation. We have a so-called red/green coalition. The process of translating into reality what is feasible is not easy. Maybe the surprise has been that when it comes to foreign policy, things are going smoothly and we are working well together within the coalition. The real trouble is with domestic policy. As you know, we just lost a Federal State election in Hesse. The issue is immigration. I know that it is not popular but we want to change the law, to be more comparable with other countries, to move away from blood-based citizenship, to be more like the American system. That was an opening for the opposition and they played off of xenophobia. (U)

The President: You took the right position. But I know how difficult this is politically. You need to look at the longer

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people where borders are getting more and more open, and of course, people want others to do work that they themselves are not willing to do. It is hard to say no when these people want to stay. I think maybe you just need to adopt a more gradual strategy. (S)

Chancellor Schroeder: Yes, we will have to change our approach. We will have to adjust our initiative. We need to show people that holding two passports is not a privilege. The general problem is that even our own supporters think we are just looking after foreigners and ignoring our own people, the difficult issues we face. One other point: to be truthful, I am not totally sad about this loss. It gives me an opportunity to say to my party and to the coalition, "well we would like to move forward on some things, but some things just can't be done now." (S)

The President: Economic and social insecurity are the underlying issues here. Will you have the support you need to pass an economic program in parliament to fight unemployment and promote jobs? (S)

Chancellor Schroeder: There is no problem there. We have the solid majority of the lower house. The issue of economic reform does not require the Bundesrat. (S)

The President: Tell me a little bit about your plans. (U)

Chancellor Schroeder: There are several things we want to change. First, we have an alliance for work and jobs. We have representatives of the state, unions and employers together working on developing a consensus for the problems that are faced in each sector. At the end of the process, we hope to develop a consensus that can be brought to parliament to be passed into law. Second, we have a problem with low paying jobs and social benefits. How do we get people into jobs and plus up wages to an appropriate level? Third, we have the issue of qualifications in the workforce. Tomorrow, we can employ 70,000 people in the information technology sector, there are that many vacancies. But the unemployed are unqualified for these jobs. Fourth, we are looking at combined state and corporate programs for vocational training and placement for young people just entering the labor market. We are already hitting our targets. But what we are trying to do is match vocational training with schools and in the work place to corporate needs. (S)

I think a lot of this comes down to the issues of qualifications, especially in the information technology area. It's the key to unlocking the stuck door in our labor markets. And of course, all of this takes time, you can't expect to solve the problems in one-half year. (C)

The President: Can your employers retrain your existing workforce or do they need new people? We have similar problems in the United States. Just look at the District of Columbia, the unemployment problem here and yet the surrounding areas have about 40,000 openings, again mostly in the high tech sector. We need to develop a training ladder. As people move up that opens up other places for those below them. (U)

Chancellor Schroeder: The large companies are already doing this with ongoing training. But many of the high tech job openings are in small and medium enterprises. These companies don't have the means to do ongoing training. So we need a combined State/corporate partnership. Two-thirds of German jobs are in small and medium size businesses, that is businesses that employ fewer than 500 people. (C)

The President: What percentage of the jobs are in manufacturing? (U)

Chancellor Schroeder: There are substantial regional variations. But between 50 and 75 percent of job placement is not in manufacturing. In urban areas two-thirds are non-manufacturing industries, so the problem is increasing. So-called "intelligent" jobs and services are replacing manufacturing. (U)

The President: As of four years ago, I believed Germany had a higher percentage of manufacturing employees than Japan. You have dealt with this by creating substantial government protection for workers but avoiding protectionism. As to the training system, I studied this as governor. I wonder whether it could be adapted more to technology-based industries so that you target training to the unemployed. On low wage jobs, this is a problem everywhere. We give special tax breaks to employers if they hire the unemployed and we let the unemployed keep certain benefits. We need to show them that they are better off at work than on public assistance. If we can get reasonable growth and make it more profitable to work than to be on the dole, then unemployment will go down. (C)

Chancellor Schroeder: We are trying to adapt the same system. So is Blair. Even the French, though they are still much more attached to the State. We have to subsidize wages up to a decent level. Either through negative tax incentives or benefits to employees. We need to go further, and focus on qualifications to move people out of low paying jobs and into better ones. We are still at the start of this process. Then of course, we also need people to assume responsibility. (U)

The President: Yes, we have to do that. That's what we have been doing here in America. (U)

Chancellor Schroeder: We are beginning to see that. We are looking at incentives and sanctions if they don't take jobs that are available. But we haven't developed this yet. It is still too bureaucratic and people are not responding. They prefer to be on the dole and have a black market job on the side. (U)

The President: Besides training, we need growth. This is something we need to talk about at the G8 in Cologne. Especially in the context of another WTO round on trade and reforming the International Financial Architecture. Without the U.S. and the EU leading a new round of global growth, we will have a real problem. France still has these huge structural barriers. If you lose your job, you get benefits for two years. The cost is incredible. They have had 3 percent growth for years, but the unemployment rate is still high. In the United States, unemployment goes down when we have growth at 2-1/2 percent or more. Of course, with the problems in Asia, the United States and Europe have to keep growth strong and promote it. This year, we have absorbed the largest trade deficit in history to help keep our friends going. Because we were in a position to do so; that was our contribution in a time of crisis. But we need a strategy for the future. All the programs in Japan and Europe need a chance to work in a more successful atmosphere. (U)

Chancellor Schroeder: For the United States, I have seen studies showing that unemployment starts to go down with growth as low as .7 to 1 percent. The difference really is structural. It is harder for us to resolve. In the United States, you have one cultural language. In Europe, we don't, so that makes it harder to. We are also thinking about the Euro zone in generating growth. There has to be a balance between budgetary policy and member states and financial policy by the European Central Bank and they need to solve structural questions in the labor markets. This requires going beyond national policies.

We have to work within Euro Zone and of course within the European Union. (U)

The President: Chancellor maybe we can continue this discussion over lunch. (U)

Chancellor Schroeder: Yes, I would like to do that very much. (U)

Informal Lunch with German Federal Chancellor Gerhard Schroeder

PARTICIPANTS: The President
 Madeleine Albright, Secretary of State
 Samuel Berger, Assistant to the President
 for National Security Affairs
 Lawrence Butler, Director for European
 Affairs, NSC staff (notetaker)
 Gisela Marcuse, Interpreter

 Chancellor Gerhard Schroeder
 Michael Steiner, Diplomatic Advisor
 Lena Hasslinger-Leis, Interpreter

DATE, TIME February 11, 1999, 1:26 - 2:40 p.m.
AND PLACE: West Wing, Oval Dining Room

The President: (continuing a conversation that started in a meeting in the Oval Office and carried on while walking to the Oval Dining Room) Gerhard, have you looked at the Dutch experience in part-time employment in connection with Germany? (C)

Chancellor Schroeder: We have looked at the "Polder Model" that the Dutch adopted with success in 1982. They achieved substantial success via part-time employment, which helped buffer the social impact of economic changes -- no impact on pensions. Part-time employment is obviously a possible approach to increasing overall employment. Since part-time work is traditionally characterized as a "female" thing, disruptive to the biographies of a working resume, the Polder model gives an entitlement, allows participants to take a break and come back to work. (C)

The President: This is an issue we are working here. I understand the Dutch earn retirement credit from part-time work,