

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,

get health coverage, accrue vacation time -- on a pro rated basis. Seventy-five percent of workers in Holland choose to be employed on a part-time basis. They don't feel pressed by circumstances. I am concerned at the growth in the United States of people employed part-time who don't want to be. But I don't know if Holland's example, as small country, is applicable to the United States or Germany. (C)

Chancellor Schroeder: This depends on the conditionality --- the Dutch social security system, a capital-based one, does not depend on contributions. Then there are family structures -- the traditional Dutch family has one and a half wage earners; the half earner is not necessarily the woman, who may have a better wage than her partner. However, the average income is lower than in Germany -- this masks some of the costs. (C)

I have an international project at the government level going on. You are aware that twelve of 15 EU countries are under social democratic rule -- something different is going on in Europe. With Peter Mandelson still in charge, I asked Hombach, the Dutch and the Swedes, put a paper together on political benchmarking on threshold of the Millennium. But where to go on this third way thought -- will you join in? (C)

The President: I saw Tony Blair in Jordan, where we talked about working together. The same forces brought us all into office. (C)

Chancellor Schroeder: The costs are huge. (C)

The President: The trick is the right balance. How to create jobs without tearing up the fabric of society, expand trade, and put a human face on globalization. If the old options worked, we wouldn't be in office today. (C)

Chancellor Schroeder: I agree, no differences with your position. I intend to look at the rule of Social Democrats in Europe and here. We share the same situation; they trust in us to join organization to social justice. People expect growth, we were called to go into government. My fear is that if we don't cut unemployment noticeably, the cost will be more political change in Europe. I would like to hear from you -- it would be interesting to have you on board. (C)

I also wanted to talk with you about international debt relief -- the money we lent in places like Africa is gone. Do you agree? (C)

The President: I made the same points as you in my State of Union Address -- we are with you. We must help countries whose leaders are capable of doing something about it. Their debt service is so high, that we have no choice but to reschedule. We basically agree. (C)

It is interesting that twelve of the (EU) fifteen are in Social Democratic hands. We should keep our alliance on an honest, substantive endeavor. The headlines when the (UK) Tories came here were that they were working on elections with Republicans. I told Tony (Blair) that there is not only political advantage to be gained from a third way alliance, but economic advantage. The substance affects peoples' lives. We have to bend over backward to create an alliance for social progress, not merely a political alliance. (C)

Chancellor Schroeder: Essentially marrying poetry with facts. (C)

The President: The objective is to stay in power by making a difference. Maybe we should follow up with Blair at the G-8 summit, include Wim Kok. They could all come in and talk about this. But, we should arrange a meeting among our economic advisors to deal with social questions, real ideas. The emphasis is important. If you are asking Tony Blair and me how to create jobs, that's good. This is not about "remaking the world." (C)

Chancellor Schroeder: I am in complete agreement. A tripartite approach to sort out economic, social aspects of globalization. Jim Wolfensohn and his crowd need to help. (C)

The President: You are going to Russia next week? (C)

Chancellor Schroeder: Yes, for the Russia-EU summit. (C)

The President: That's an important trip. Primakov should get a sense of partnership with Germany, that when the chips are down, Germany and the United States will be there. Russia is in dire straits now. The health system has collapsed and life expectancy is dropping. They believe that the Fund is the problem. But that all began when Russia privatized its economy without laws to protect investors -- no security. It was as if they had poured flesh without a skeletal frame to hold it erect. (C)

Over the past three years they could have had investment in energy worth \$30-50 billion, provided the Duma had passed laws to protect new oil and gas wells. The Vice President told me that Primakov was in tears at Davos, crying that he had to have an IMF pledge. I don't want Russia to starve or the IMF to impose draconian conditions. But if they don't change anything, all the money would end up in Swiss bank accounts. (S)

Chancellor Schroeder: Or in Côte d'Azur villas. (S)

The President: Primakov, Russian nationalists, are paranoid. If they want Russia to get money, they must deliver. What do you think about debt? You have a lot of old Soviet debt -- could be symbolic to help. I have included in my budget funds for an expanded threat reduction initiative to fight proliferation, diminish the threat of weapons of mass destruction. I asked the Congress for increase by \$4.5 to \$5 billion over the next five years. This would help put scientists on payroll. (S)

Did you know that they had 40,000 scientists employed in nuclear, biological and chemical warfare projects? Eight thousand are employed now, we could expand that to 20,000 -- we could provide income for 20,000 scientists. They could work with international space station stuff, where the EU is a partner. I got a briefing on it; one problem is that the Russian space scientists haven't been paid in six months. I am reminded that rockets can carry space station parts, or missiles. (S)

We are also going to fund plutonium disposal, dismantling warheads, and other similar things. (S)

Mr. Berger: To a degree, Primakov thinks we are thrusting an alien society upon Russia and is not even taking the minimal steps to succeed in the global economy, including collecting taxes. (S)

The President: Primakov says that "the IMF wants to impose Reaganomics on us." He wants to be like Finland. (S)

Secretary Albright: But Finland collects taxes. (S)

The President: The Finns spend 50 percent on GNP on their society by collecting it. In Russia, they try tax at 50 percent, spend 25 percent, but only collect 10 percent. They have to increase collections. (S)

Secretary Albright: Half of the Russian economy is based on barter, the other half doesn't pay taxes. But Primakov has an answer to everything. (C)

The President: Guys have money there, but they don't pay. Federal taxes are 50 percent, the local city/state taxes are 30 percent. I know one American who still made money from his McDonalds restaurants, but the little restaurants cannot survive like that. He got out, and now consults with others on how to do business. But you cannot pay 50-60 percent more in taxes than your competitors. (C)

Chancellor Schroeder: Let me share my undiplomatic opinion. First, he who banks on Yeltsin is dumb. Second, I believe that Primakov is more than a transitional figure, he is a piece of stability for the medium term. With Yeltsin gone, he has a chance. (C)

Still, one can only trust Primakov from here to there. Once he drives the car into a wall, he thinks that we will pay -- for stability. I received Ivanov last week. We talked about Kosovo and other things. I trust him, but he's not an economist. He said, "look at the IMF program for Korea, \$50 billion; we are talking about \$5 billion. If you gave us the same amount as Korea, we wouldn't have any problems." (C)

You are right that we must add stability to Primakov. We are looking at having some old debts rescheduled, but we are not offering relief all together. You cannot just throw money at them. They have to get their act together, the national economy, EU and IMF backing. Money going to them crops up in the Cote d'Azur, Malaga and Florida. I was in Marbella at Christmas; the menus in the restaurants used to be printed in Spanish, English, French and German. Now they are in Russian, too. There is a reason for this. (C)

We need to say to them, "we'll support you, but only on construction, infrastructure," areas with transparency, not just throw in cash. (C)

The President: Generally, I am in strong agreement with you. Maybe I should have gotten more money in four or five years ago, when Russia was in better shape. Without structural changes, all the money will be gone overnight, forty-eight hours. It will mean increased deposits in Swiss banks. We need some specific investments, money that works it way through the

system. They must change the laws to keep money in circulation. I would be happy to see the IMF give \$50 billion, for Russia to make a big comeback. (C)

I share your feeling about Primakov. I kind of like him; he's strong, honest, sober, shows up to work everyday. He's pretty good. (C)

Chancellor Schroeder: I agree with you. (C)

Mr. Berger: Regarding Primakov, this is a three part problem. One, he is kidding himself. Two, he is kidding us. And, three, he is being misled. We have to look for the day when he goes into the wall; the more we can do now to penetrate the first and second part of the problem, the better. (C)

Secretary Albright: For Primakov to pass laws he needs the Duma, where there is nothing pro-western. He is panicked. He is a Marxist, and has no trust in the West, doesn't know what to do, how to have confidence. He says that we are trying to destroy him and Russia. The problem is in the laws that they pass. (C)

The President: I am thinking, with two years left in office, that our vision is that in ten years Russia will be strong, effective, stable, non-aggressive. However, we have to contend with the Duma's stupid focus on yesterday's issues. They are disinterested in the threat from organized crime -- combining biological warfare scientists, CW and BW stockpiles -- easy to sell to terrorists and narco-traffickers. The Russian mafia has offered the Colombian cartels to act as their investment bankers. These are stateless, rogue cartels. If Russia is not stable, the rest of the world will know misery. (C)

But, if we gave them \$30 billion, it would disappear and we would be finished there. We want Primakov to make it, it is in our interest. This is his only area of intellectual disability -- he should think about long-term reconstruction. Tell him what I said when you see him. (C)

Chancellor Schroeder: Your analogy is one hundred percent on target. Formerly, Russia was too much state-controlled. Now, there is no state left. The problem is that Primakov is holding onto an old-fashioned way of thinking. Even in the old times, the economy was weak, and the political structure strong. Russians perceived themselves as important. If the economy is weak in the longterm, and the political structure is also weak,

we have a problem with a Russia, with its huge geographical size, that perceives itself without a commensurate status -- they are very sensitive. (C)

If Russia isn't consulted daily, praised for its size and greatness, they will feel a loss of importance. Your strategy is correct, and I will tell him what you said about conditionality, slowly changing the situation, starting reform in banking, tax system, and some kind of "state-hood." (C)

Secretary Albright: This is the threat of a weak Russia. You should see the opposition leaders while you are in Moscow; appeal to highly chauvinistic persons on Russia's behalf. (C)

Mr. Steiner: We have committed mistakes on our side, too, which has hurt our credibility. We rushed in Russia, made money quickly; many have left with their profits. The West must work to restore its credibility there. (C)

The President: I am not sure everything I did over the last six years was right. We must help Russia revive its state.

I want to thank you for your commitment of forces for Kosovo. Rambouillet seems to be going well, though it is still early. If we achieve an agreement there, then we will commit NATO forces. It helped that the Russians came along with us in Bosnia. I hope that Milosevic and the Kosovars can make a deal and we can avoid NATO air strikes. (C)

We are having the NATO Summit in the spring, a time when we should celebrate our new members and keep the door open to others. We have difficulties with Chirac on UN authority, out of area mission without prior explicit UN authorization. We cannot allow our hands to be tied, in case something happens that we have to respond to. (C)

Regarding the European Security and Defense Identity (ESDI), we see it residing within NATO. Kosovo is a good example, where European military leaders agreed the United States would come in with four thousand troops, about 14 percent of the total force. The Europeans have the lead and there is a UK commander. This is a good thing. It is important not to set up an institutional structure that severs the partnership -- there are too many things that can go haywire at Europe's periphery. (C)

Germany is in position to make sure that the next fifty years of history are different from the last. The problems are on the

periphery. We never know if our next election produces an administration that is more isolationist; there is a tendency within politics here for that, where Presidents have to resist elements within Congress to be more isolationist. There should be a European defense unit, but an institutional partnership with us. I do not want aid and comfort given to the isolationists within my own country. (C)

Chancellor Schroeder: First, I want to state a fact that in Germany, in a very short time, we have had an utter change in foreign and security policy. The Conservatives were not ready to support intervention in Kosovo. Now we have committed troops to XFOR, in addition to the 500 that we have in Bosnia. There will be 4,000 soldiers in Kosovo. So, we will be there. We are in a difficult domestic situation, but we have proven to be reliable as an Ally. (C)

Second, we are on board for military action in Kosovo. This requires a parliamentary resolution, which we will get, but it is difficult without a UN Security Council Resolution. If Rambouillet goes well, and Slobodan Milosevic accepts ground troops, we would then try to get a UN blessing. (C)

I said, in Munich (at the Wehrkunde Conference), that we'll go in with a UN mandate. But, there may be special cases in the future, where a UN mandate is not at hand, areas where there are legitimate authorities vis-à-vis my constitution. (C)

Third, regarding enlargement, I agree explicitly that the door must remain open, continue the Madrid formula and not specify which countries are next in line. (C)

Mr. Steiner: Regarding a UN Security Council Resolution, if we get it, good, if not, we'll go anyway. (C)

The President: Mr. Milosevic, a good friend of Michael's, is a slippery fellow. We have had a couple of good days in Rambouillet. He will only accept a peace agreement with NATO if he thinks the alternative is air power. An agreement is the better option. He faces two choices: NATO on the ground or bombs in the air. (C)

The G-8 Summit is a great opportunity to move forward on international financial structures. This is a particular chance to keep the lid on the global economy. We can start sending good signals with the Finance Ministers' meeting on February 20, combined with our initiatives on debt.

Chancellor Schroeder: I agree. One subject is bank problems. We need to tidy that up. I have always said that a movement on international financial architecture must move hand-in-hand with the United States. We must make impressive steps. We have on hand the elements. The Finance Ministers on the 20th must come up with tangible ideas, "good food" for the Summit -- debt relief for the highly indebted poor countries (HIPC). We also need to talk about social and ecological development on a global scale. (C)

We have a problem, however, with the representation of the "Euro-zone" for the February 20 meeting. Secretary Rubin is opposed to making the table larger. However, if we are talking about Europe, we need to have the European Central Bank, a representative of the Euro-zone members and a one from the Commission. The Commission person would not have the right to talk or influence the discussion. We also need to give the possibility for a non-G-8 EU member that might hold the chair of the Euro-zone. Please help us with this. (C)

Mr. Steiner: This is the same model as when you meet at your level (Summit), where the Commission President joins. (C)

The President: I'll see what I can do. On environment, the next round of WTO negotiations must be more explicit about environmental standards. Second all export credit agencies should adopt environmental criteria in their decisions. We reached an impasse on climate change. We think it is vital to have joint projects with LDCs, where we and they can share the credit -- in a percentage to be agreed between the industrialized nations and the developing countries. We have an interest in this -- I tried for years to get the G-8 to agree to export credit agency environmental standards. You, Tony and I can agree that there are ways for the LDCs to grow, and still be green. (C)

Chancellor Schroeder: Ok. I agree with you. We should wrap it up in a paper. Thank you for the lunch and your time. (C)

The President: Thank you for coming on such short notice. Let me walk out with you. (U)

-- End of Conversation --