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THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: The President's Meeting with Chancellor Franz Vranitzky of Austria (U)

PARTICIPANTS: U.S.
The President
Brent Scowcroft, Assistant to the President for National Security Affairs
Robert M. Gates, Assistant to the President and Deputy for National Security Affairs
Robert Kimmitt, Undersecretary of State
James Dobbins, Deputy Assistant Secretary of State for European and Canadian Affairs
Robert L. Hutchings, Director for European Political Affairs, NSC Staff (notetaker)

Austria
Franz Vranitzky, Chancellor
Eva Nowotny, Foreign Policy Advisor to the Chancellor
Friedrich Hoess, Ambassador

DATE, TIME February 20, 1990, 3:10 - 3:40 p.m.
AND PLACE: The Oval Office

The President: I was impressed with Havel and the wonder of it all. A year ago he was in prison.... How do you see all these developments? (U)

Chancellor Vranitzky: First, I see each East European country individually, not as a bloc. One of our neighbors, Hungary, is preparing for general elections. No one has a feeling for what the outcome might be. Economically, they have facilitated joint ventures by changing their legislation and allowing for the repatriation of profits. In the political field, we are pursuing party-to-party contacts, helping them learn how to organize and run a campaign. This is not done on an ideological basis; the Christian Democrats as well as the Social Democrats are involved. (U)

A second remark: Hungary, Poland, and Czechoslovakia might be doing better than Yugoslavia, where the situation is very bad; but the Hungarian Prime Minister told me in basic industries they would have to lay off thousands of people. They have an outmoded

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infrastructure in the steel industry and other sectors and will therefore be facing more unemployment. Yugoslavia has three-digit inflation. I spoke with the managing director of the IMF. Even optimistically, we must expect problems with debt rescheduling, requests for an IMF standby, reduction of trade barriers, and so on. (Ø)

It is an active time, and we must be careful to act as wisely as possible. This is also true for our own people, who are apprehensive about taking on so many economic problems. And our German friends have their hands full with refugees, from the GDR and elsewhere. (Ø)

The President: There is still not a full realization here that the refugees keep flowing. That gets us to the topic of unification. Is it a big topic in Vienna? (Ø)

Chancellor Vranitzky: Most in our country look at it not as something to scare us to death. Events are moving fast, but we have sufficient experience in democracy not to fear unification on those terms. (Ø)

The President: How do you respond publicly when asked about unification? (Ø)

Chancellor Vranitzky: I draw a parallel with Austria, which was also divided after the war. And Vienna was divided, like Berlin. But with the help of the Allies, and the strong help of the United States, we united and developed well. For these reasons, I have a kind of understanding. When we united in 1955, we wouldn't have been enthusiastic about outsiders telling us how to go. (Ø)

The President: There is a kind of historical conditioning, especially in Europe, that when the Germans get together they will be aggressive. This is largely unspoken, but it is there. My view is that Germans coming together is what they want. The Soviets have moved rather dramatically recently to remove a roadblock to unification. The question now is how to stabilize the situation and build a stable Europe. (Ø)

Chancellor Vranitzky: This cannot happen without your Government continuing to pave the way for continued stability in Europe. For that reason, I bring the best wishes from my country. I also want to let you know that we rely on the continuation of the policy you have taken. (Ø)

The President: We are under some pressure, particularly economic pressure. There is some sentiment to bring the boys home. If someone convinced us that our troops weren't wanted, we would bring them home. That would be the easy thing for me to do, but that is not what we want. We are wanted and needed, and we have

a role in stabilizing the situation. What I see is NATO with a more political role and a stronger role for CSCE, too. Havel talked about "historic irreversibility" but "without earthquakes." So I see a role for the U.S. -- not to stand in the way of change but to try to help the fledgling democracies through economic contacts and with the stabilizing presence of U.S. forces, albeit at lower levels. (Ø)

Chancellor Vranitzky: This is quite definite: getting rid of American troops is not a desire that is shared by many. This is definitely not the case. You mentioned avoiding earthquakes. One candidate is Yugoslavia. Only today the federal government sent more troops into the area [i.e. Kosovo]. (Ø)

The President: Is this because of ethnic strife or a democracy movement? (Ø)

Chancellor Vranitzky: It is more than just ethnic strife. There could be reactions in, for example, Slovenia, that would be very damaging to the federal government. Separating from the federation would raise the question of where to go. There are two neighbors who really care: Italy and Austria. We would face the question of whether to side with those who want to separate or with the central government. (Ø)

The President: I must confess that we have spent less time worrying about Yugoslavia, because of all the changes elsewhere. We have people who know a good deal about the situation -- Larry Eagleburger and General Scowcroft -- and we know it could become unpleasant. When the Yugoslav President was here we talked about financial help. (Ø)

We've tried to manage all these changes without a lot of flamboyant statements. Some were urging me to climb up on top of the Berlin Wall and declare victory, but we are trying not to send the wrong signals to the Soviets. We are committed to freedom, democracy, and self-determination, and that won't change. We are concerned with the Baltic states. We haven't changed our position, but we try not to paint Gorbachev into a corner. We don't want any of the earthquakes Havel talked about. (Ø)

Chancellor Vranitzky: We are relying on intensifying and improving CSCE. We are also preparing for a meeting at the highest level later this year. (Ø)

The President: We would like this hooked into the conclusion of the CFE talks and make this a kind of beacon to get CFE done. We have made that clear to the Soviets, and there is no reason it can't be done. (Ø)

Chancellor Vranitzky: We should also consider some institutionalization of CSCE for the future, so the process won't be just talk. We have extended an invitation to governments. In case there is a CSCE summit, we would be delighted to host it in Vienna. I can give you assurances that the program and protocol will be according to your wishes. (Ø)

The President: I understand that remark and appreciate it very much. Our relationship with Austria is about as good as it can be. I am delighted we have discussions like this. Who would have thought a year ago that we would be discussing these things? (Ø)

Chancellor Vranitzky: Would your Government be in favor of a European Bank? Let me make a personal confession, not a position of my Government. I worry about the proliferation of organizations. It is hard to commit to every noble idea. As to this Bank, we have expressed a strong interest. The advantage is not just a channeling of money West to East but a coordination of activities. It is a free-for-all today, with Western countries and the EC competing. This could add to a more systematic approach. (Ø)

The President: There is one worry we have. I hope it is clear that we want Gorbachev to succeed and want perestroika to succeed, but at Malta I was alarmed at how far apart we are. The Soviet economy is in rubble. They have no idea about pricing, privatization, or the "ruble overhang." It was alarming to me. With all his qualities, and I'm an admirer, economics is not one of them. If this Bank thinks it can do anything more than brief relief, it is not wise. The Soviets want to change, but they have tremendous problems. If the Bank grants loans over there -- unlike Czechoslovakia or Hungary -- it is making a mistake. (Ø)

Chancellor Vranitzky: I agree. The Soviet Union also lacks the manpower to transform ideas about a market economy into real life. Unlike the smaller East European countries, I am not sure the Soviet leaders have transformed their thinking about ownership. (Ø)

The President: I agree. He doesn't recognize that shares equal ownership. He thinks of Henry Ford owning the Ford Motor Company or Carnegie owning steel. He doesn't understand part ownership. He doesn't understand share-holding. There isn't enough capital in the world to help unless they make major changes. Their distribution is screwed up, and their incentive system is weak. They have a long way to go, yet we are trying to find ways to cooperate. They are showing great interest in the legal and financial areas. Our Attorney General and Alan Greenspan were just there. But our people all come back and tell me the Soviets have along way to go. (Ø)

Chancellor Vranitzky: Ryzhkov was in my country. It was a nice day like this, and he visited some private Austrian farmers. He asked about the land, and a farmer said that he owned it. Ryzhkov asked what he meant by "owned." "How can a private person own land?" he asked. "This is the land of the Republic of Austria." (Ø)

The President: This was manifested in a speech he gave on the economy recently. It is not a reason to leave them struggling, but help should be geared to making them more productive. (Ø)

Chancellor Vranitzky: We also expressed our candidacy for the Bank. I had talks with Secretary Brady. He was hesitant, for domestic reasons, about how U.S. money might be funneled to the other superpower. We do need to work on the Charter. (Ø)

The President: Brady is saying the same thing as I am, adding the political dimension. I keep coming back to my pitch. The best we can do for economic vitality is to keep our economy from burdening others, so that we do not draw capital away from them. Given all that's happening in Europe, I would love to be President without this huge budget deficit. So this worries us: how to help in a fiscally sound way. (Ø)

Chancellor Vranitzky: We have had very good economic performance in 1989 and will have again in 1990. It has been one of our best years. Many East Europeans come to learn from us, partly because Austria has not huge industries but small and medium-sized ones. But our people do not want to get the impression that their Government focuses only on Hungary and Czechoslovakia, not Austria. We must be careful and wise. (Ø)

The President: There was a big article about me in U.S. News and World Report that said Bush was running around the world, but what about us in Youngstown, Ohio? I'm told I must rush off. (Ø)

Chancellor Vranitzky: I am looking forward to a new Ambassador to us. (Ø)

-- End of Conversation --