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4 November 1981

MEMORANDUM FOR: Henry S. Rowen
FROM: NIO/Econ
SUBJECT: Anticipatory Papers--My Views on Implementation

I believe this is an extremely useful exercise. Here are my comments on how some of these proposals might be implemented. I may have comments on other proposals later.

INTERNATIONAL ECONOMICS

A Major Oil Price Decline

I believe this could be done as a NIC memo, based partly on NFAC's analysis of oil market prospects. Although the odds are against an absolute decline in oil prices, they will probably be higher in 1982 than at any time in the foreseeable future. This possibility should also be considered in the Global Economic Estimate.

A Difficult Economic Transition for Mexico

I will discuss this with NFAC. To be useful the paper requires an analysis of potential political divisions as well as of economic problems. I doubt that the NIC has the right person to draft on this subject, but someone should do it.

Britain Pulls out of the Common Market

We should discuss this both with NFAC and with outside experts. The subject is too complicated for a NIC memo.

Persistent OECD Stagflation

I plan to handle this question as one of the main issues in the Global Economic Estimate. To give it focus, I would like to present it as a contingency in which, because of continued high long-term interest rates, US economic recovery is substantially delayed, and the Europeans lose patience with us. Although being severely constrained in their macroeconomic policy options, the Europeans may retaliate against us and the Japanese in the trade field, on East-West matters and in the political/military area. There are two major variants of this problem--(1) The French and Germans work together; and (2) they follow divergent economic policies.

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Implications of Continued Japanese Export Surpluses

This issue should be part of the main line of NFAC analysis and will also be given prominence in the Global Economic Estimate. A NIC memo should be considered only if NFAC does not treat the subject adequately.

Consequences of Another Oil Supply Disruption

The odds on an oil supply disruption which would have a serious impact are extremely low for the next year or two. In the longer term the odds are quite high. This issue is now part of the main line NFAC analysis of prospects for the international oil market. A major paper is being prepared. Once it is completed, we can see whether an NFAC memo should be written to spell out political implications, etc.

OTHER PROPOSALSImplications of Oil Discoveries in West Africa

An NFAC article on this topic has already been written. Additional work should be part of the main stream.

Indonesia When the Well Runs Dry

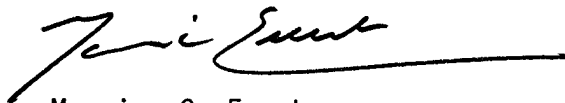
This too should be main stream analysis. The point is that NFAC and others should take a long term look at Indonesia, and I believe this is being done.

Soviet Questions

I believe the Soviet issues should be further sorted out. What we need to do is to lay out the assumptions on Soviet behavior and priorities that underlie our present estimates and then question these assumptions. The most interesting question seems to involve their attitude toward Eastern and Western Europe and their willingness to take chances in trading off objectives in these areas.

Other

More generally, there are too many topics. Many could be merged (e.g., Implications of Diminishing Soviet Control over Eastern Europe and Effects of Persistent Stalemate in Polish Crisis). Others could be focused better (e.g., Permanent Vietnamese Occupation of Kampuchea).



Maurice C. Ernst

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