

# The President's Daily Brief

*June 26, 1975*

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*FOR THE PRESIDENT ONLY*

June 26, 1975

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INDIA

*Prime Minister Gandhi's government, invoking the country's national security act, early this morning declared a state of emergency and arrested scores of opposition politicians. The severity of the crackdown is unprecedented in recent years.*

Among those arrested are J. P. Narayan, Prime Minister Gandhi's foremost critic and leader of the opposition; Raj Narayan, whose suit against Mrs. Gandhi resulted in her recent conviction on charges of corrupt election practices; and Morarji Desai, a former deputy prime minister who broke with the Ruling Congress Party in 1969.

Press accounts indicate that the arrests number over 100 and include communist as well as non-communist politicians and at least one newspaper editor. The arrests reportedly were made in several areas of the country.

The opposition began demanding Mrs. Gandhi's immediate resignation following the Supreme Court justice's ruling on Tuesday that she could remain in office, pending a decision of the full court on an appeal of her conviction. Narayan and Desai participated in a rally calling for her resignation only hours before their arrest. Opposition leaders had been planning a nationwide protest campaign to begin this weekend.

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## OIL

*The decline in production by the members of the Organization of Petroleum Exporting Countries appears to have bottomed out. Demand for oil probably is now running a little above OPEC's production of 26 million barrels a day. The difference is being covered from company stocks.*

We believe that production will continue at the current level for the next month or two and then rise sharply to meet the seasonal upswing in consumption. If temperatures are normal, consumption of the non-communist states will be about 6 million barrels a day higher in the fourth quarter than in the second quarter for seasonal reasons alone. As usual, about half of the increase probably will be met from stocks. OPEC production and exports are likely to rise by 3 million barrels a day by the fourth quarter to help meet seasonal needs. OPEC production should rise still more when economic activity in major developed countries begins to turn up.

The coming surge in oil demand will have an important psychological impact on OPEC countries, since it should be under way by the time they meet to decide on a price increase. At OPEC meetings over the past year, members' price expectations have been tempered by the slump in oil demand arising from the recession in developed countries; a growing market could inflate their price demands.

\* \* \*

OPEC members may now be backtracking on their recent decision to adopt the International Monetary Fund's special drawing rights as the unit of account for oil pricing, starting in the fourth quarter of 1975. Iranian Oil Minister Amouzegar, one of the original proponents of the scheme, has indicated misgivings, because a strengthening of the dollar could result in a revenue loss. He stated, however, that Tehran will not oppose a switch to the new pricing system. Kuwaiti officials have expressed similar reservations about pricing oil in terms of special drawing rights. They, and perhaps the Algerians, probably would prefer to peg oil prices to a group of strong European currencies.

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CHILE

*President Pinochet is holding to a tough line against resumption of any normal political activity. His latest speech indicates that the junta will brook no criticism or opposition from any quarter.*

Pinochet has said publicly that there will be no election and warned that defiance of the ban on political activity will lead the government to abolish the surviving political parties. [redacted]

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Pinochet's main target is former president Frei and the Christian Democratic Party. Frei irritated the government last month by criticizing its economic program.

The sensitivity of government leaders to criticism of their economic measures betrays their fear that problems will worsen as winter intensifies peoples' hardships. [redacted]

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NOTES

*The EC foreign ministers on Tuesday responded with a very qualified "yes" to Soviet party leader Brezhnev's letter last week proposing a summit meeting in Helsinki on July 22 to conclude the European Security Conference.*

The foreign ministers stated that it is "desirable and possible" to hold the summit at the end of July--if a number of outstanding issues can be resolved quickly. If there is to be a summit in July, the delegates in Geneva will be under pressure to resolve the outstanding issues within a few days, given the fact that the Finns have stated that they will require four weeks notice to complete preparations for the meeting.

\* \* \*

*Soviet party secretary Ponomarev's week-long visit to Syria, which ended yesterday, may have been aimed at smoothing over differences between the two countries.*

The Syrians

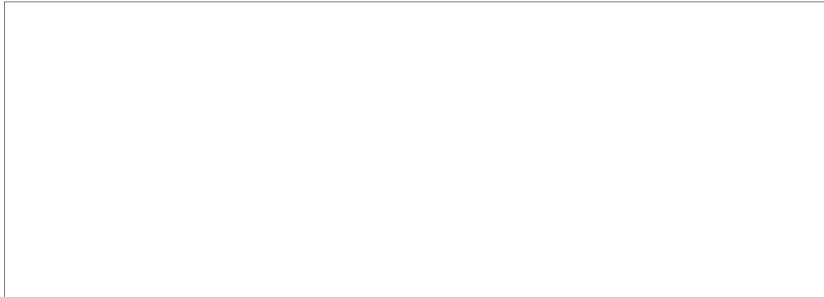
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were dissatisfied with Moscow's inability to find a solution to the Arab-Israeli problem. The Soviets, for their part, probably feel that Syrian President Asad is cooperating too closely with Egyptian President Sadat and that this could lead to a decline in Moscow's influence in Damascus. The USSR is also likely to be uneasy about Syria's recent grant of offshore oil prospecting rights to a US company. The Soviets have not commented on this arrangement, but they are probably concerned that it could lead to further economic liberalization and increased economic dealings with the West.

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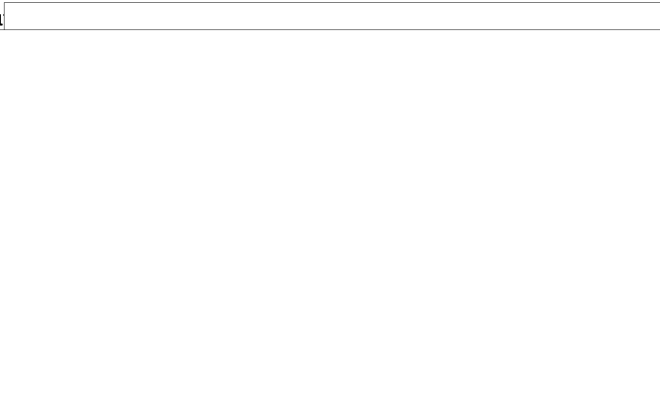
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Peru



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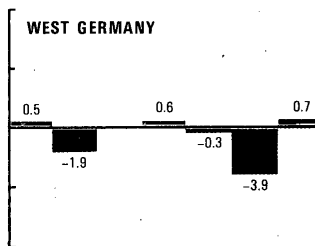
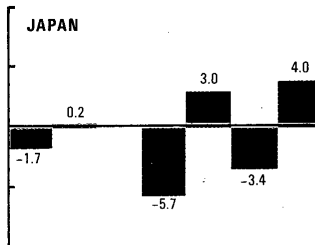
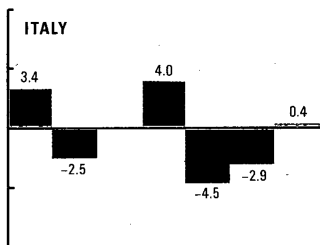
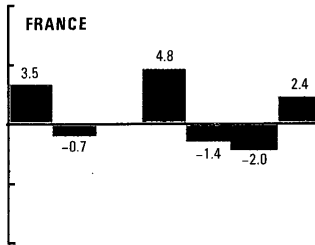
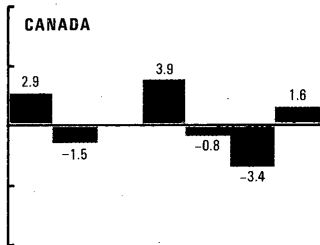
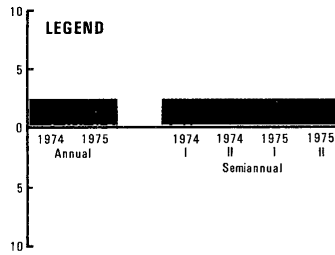
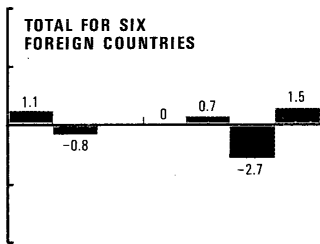
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**Developed Countries: Changes in Real GNP**

*Percent change from previous period  
 Semiannual data at annual rates  
 Seasonally adjusted*



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DEVELOPED COUNTRIES:  
SHORT-TERM GROWTH PROSPECTS

*The six major foreign Western economies--the UK, France, West Germany, Canada, Italy, and Japan--can expect little economic recovery through the end of 1975. Even if the US economy should grow at an annual rate of 5 percent in real terms in the second half of the year, as predicted by the secretariat of the Organization of Economic Cooperation and Development, the resulting rise in US imports will not be enough to spark an upturn abroad.*

*Inflation and payments problems are still inhibiting expansionary action in France, Canada, the UK, and Italy. West Germany and Japan are moving cautiously despite foreign and domestic pressures to reflate.*

We believe that economic activity in the six countries will rise at an average annual rate of 1.5 percent in the second half of 1975, after declining at a 2.5-percent rate in the first half. Japan and France should lead with rates estimated at 4.0 percent and 2.4 percent, respectively. Recovery is likely to be feeble in West Germany and Italy; a sizable drop in the British gross national product is in prospect.

Industrial production plunged in the early months of the year, while domestic demand appears to have been constant. As a result, the excess inventories built up last year probably were cut substantially.

The production decline showed signs of leveling out in the second quarter, suggesting that the worst of the inventory adjustment process had ended. If so, the inching up in demand forecast for the second half of 1975 would be reflected in a mild upturn in production.

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*FOR THE PRESIDENT ONLY*Private Consumption

Consumer spending during the remainder of the year is unlikely to grow any faster than the 2-percent annual rate estimated for the first half. Although real household incomes are rising as higher wage rates and unemployment compensation more than offset inflation and growing unemployment, consumers are holding down their spending because of uncertain job prospects.

Consumer confidence probably will not improve much until unemployment begins to decline. The jobless rate is now about two thirds higher than a year ago. The rise in employment expected in the second half probably will be insufficient even to absorb all new entrants into the labor force.

Government spending, source of one fifth of aggregate demand among the six, should continue to increase at about the same rate in the second half of 1975 as in the first. Some governments, notably the Japanese, have quietly boosted purchases in recent months. Others have made small budgetary adjustments that will add to purchases later this year. If government spending rises at the expected rate of 5 percent, it almost certainly will be the most dynamic component of demand.

Private capital spending, which fell at a 6.5-percent annual rate in the first half, probably will decline again in the second half. Because capacity utilization rates are extremely low, government efforts to stimulate private investment by lowering interest rates and providing tax incentives are having little effect. The decline in business spending on plant and equipment could accelerate in West Germany in the next few months. The 7.5-percent tax credit offered by Bonn in the first half may have prompted some advance spending that otherwise would have taken place after midyear.

The Foreign Component

We expect a slight deterioration in net foreign demand in the second half. Imports, after plunging 12.5 percent in the first half, probably will show little change in the months ahead. Export volume, down 10 percent in the first half, is expected to show a further small decline.

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A 5-percent growth rate in the US would in itself have little effect on exports and economic growth in other major developed countries and even though the West Europeans and Japanese tend to exaggerate the direct effect of US economic recovery on their domestic prospects, tentative signs of a break in the US recession are doing little to improve their confidence. Foreign businessmen are skeptical that a strong pickup in US demand is in the offing. Their willingness to spend and invest will not get a lift until the US recovery clearly is well under way.

Inflation is still viewed as a major threat in most countries. Payments problems pose additional constraints, particularly in Italy and the UK. These considerations still outweigh political pressures stemming from high unemployment rates. Realistically or not, most governments appear to be waiting for others--particularly the US--to initiate expansionary measures that will prod their recovery. The reaction to a rise in foreign demand, once perceived, would vary:

--Tokyo would be more apt to adopt stimulative measures of its own if it felt that the resulting increase in Japanese imports would be offset by a rise in exports.

--Bonn, more concerned about the trade-off between unemployment and inflation, would feel less compelled to take expansionary steps if it perceived that stimulus from abroad would soon help revive the German economy.

--London, Paris, and Rome would welcome the opportunity to deal more comfortably with their "reflation versus inflation" dilemma; on balance, their reaction would resemble Bonn's more than Tokyo's.

Trends

Even if growth accelerates in the first half of 1976, as seems likely, we believe that recovery will be slower than from other recessions since World War II. Underutilization of capacity and low profits will remain an extraordinary drag on investment.

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The foreign component is unlikely to lead these countries out of the recession. The sharp upturn in government purchases or private consumer spending needed to spark a swift recovery is unlikely to occur. Governments will still be balancing conflicting price and employment goals in deciding on additional stimulative action late this year and early next. Price rises should continue to moderate in the months ahead, but most governments fear that strong measures could result in a resurgence of inflation, particularly since firms will try to improve profit margins once given the chance. Disappointing growth in the second half of 1975 probably will tip the scales in favor of cautious additions to government spending this winter.

A strong pickup in private consumer spending would depend heavily on a reversal in psychology.

--Despite an abundance of pent-up demand, the conservative German consumer will hold onto money until employment prospects improve.

--A pronounced revival in spending could come much sooner in Japan, where unemployment probably has already peaked and where the normal attitude tends to be bullish.

--A recovery in demand in France, more consumption-oriented than West Germany, could spur investment spending relatively soon because capacity use has not sunk to the low levels prevalent in other industrial countries.

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