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10:30 AM

THE WHITE HOUSE

WASHINGTON

MEETING WITH STATE CHAIRS AND VICE CHAIRS

December 18, 1979
Roosevelt Room
10:30 a.m. (15 Minutes)

From: Sarah Weddington SW

I. PURPOSE:

Introduction to new State Chairs and update all attendees on recent Administration efforts and accomplishments.

II. BACKGROUND, PARTICIPANTS, PRESS:

A. Background: This is another in a continuing series of briefings conducted by members of the Senior Staff to give State Chairs and other Democratic activists insights into Administration policies and legislative initiatives. Many of today's attendees have been to the White House before for state briefings or other meetings. All are supportive of or strongly leaning toward support of the reelection campaign.

B. Participants:

Bob Cobb, State Chair, Kentucky (new)
Mrs. Robert Cobb, Kentucky (guest)
Marie Turner, Kentucky (former State Chair)
Kathy Vick, Vice Chair, Louisiana
Howard Thomas, Vice Chair, Maryland
Richard Coffee, State Chair, New Jersey
Gary Blakely, New Mexico (representing Brad Hays)
Russell Walker, State Chair, North Carolina (new)
Jennie Dalessandro, Vice Chair, Ohio
Robert Kerr, Vice Chair, Oklahoma
Alex Debreczeni, State Chair, Pennsylvania
Rocco Quattrochi, State Chair, Rhode Island
Betty Lewis, Tennessee, Member of Executive Committee
Richard Davis, State Chair, Virginia
Martha Davis, Virginia (guest)
Robert Watson, Virginia, Executive Director
John White, DNC Chairman
Ann Fishman, DNC
Morley Winograd (guest)
Sarah Weddington, Assistant to the President
Bill Albers, Assistant to Sarah Weddington

C. Press: White House photo

III. TALKING POINTS:

Brief greeting and photo; thanks for their interest and involvement in policies of the Administration; urge them to speak out and to give Administration their input.

Jimmy Carter's Moral Presidency

Even if Carter fails to win re-election, those who supported him on ethical grounds need have no regrets.

RICHARD G. HUTCHESON, JR.

✦ THE UPS AND DOWNS of public-opinion polls on the Carter presidency have been the object of a great deal of media attention. Currently the trend appears to be up, as the president begins to be matched against real rather than phantom challengers in his campaign for re-election, and in the wake of his impressive victory in the Florida noncontest which was billed as the opening round. Throughout much of Carter's presidency, however, his standing in the polls has been far down. Yet whenever polltakers bother to ask, respondents express a remarkably high level of confidence in the president's character, his integrity and his morality.

This "high morality but low standing" syndrome appears at a curious time; this is, after all, the post-Watergate era, when presumably the public cares greatly about the qualities of honesty, integrity and moral judgment. The syndrome appears in a society with a high level of nostalgia for the "moral values" that we believe characterized our past. And it appears in the "most religious country in the world," where the level of church membership and attendance is strikingly higher than anywhere else in the West, and where that religious population is in firm agreement that religious beliefs ought to affect public life. Why the contradiction?

The conventional wisdom holds that while Jimmy Carter is, indeed, a moral man, he is not a leader. This viewpoint faults him for "not getting his act together" — for listening to the opinions of advisers who disagree with each other and allowing them to express their disagreements in public. It faults him for not giving "firm leadership" at critical

Dr. Hutcheson is chairperson of the office of review and evaluation of the Presbyterian Church, U.S. (Southern).

To Rick & Dr. Hutcheson -
I read it, liked it,
& gave it to
Rosalynn & others to
read - all before
I knew who the
author was -
Jimmy Carter
12-79

THE WHITE HOUSE

WASHINGTON

C

December 17, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD N. CUTLER LNC

SUBJECT: SALT

Senators Nunn and Warner held a joint press conference today to address your weekend SALT correspondence with the nineteen senators (attached).

Nunn called your response "positive" and looked forward to further discussions with the Administration. He said he was not advocating delay unless the alternative were defeat due to insufficient votes either to strengthen or to ratify the Treaty. He thought there was room for a constructive approach without changing the Treaty, and his comments focused on such non-Treaty aspects as defense posture, intelligence capabilities and Soviet behavior.

Warner said he would not vote for SALT in its present form, but he thought it could be "fixed." He later denied saying there could not be a Treaty without changes, adding that flaws and ambiguities could be fixed if we work together.

cc: Jody Powell
Zbigniew Brzezinski
Cyrus Vance
Harold Brown

THE WHITE HOUSE

WASHINGTON

December 17, 1979

To Sam Nunn

Thank you for your letter concerning the Senate's view of the SALT II agreement. I welcome your commendation of the statements Secretary Brown and I have made relating to the Five Year Defense Program.

I have also noted your comments about certain aspects of SALT II's terms and about the shift in the comparative military positions of the Soviet Union and the United States, and your views on a number of further considerations bearing on various aspects of the Soviet-American relationship.

The issues you raise have been probed in depth during the hearings before the Senate committees, and will be further examined in preparing for the floor debate and in the course of the debate itself. I therefore share your interest in discussing these matters in detail with me and members of my Administration.

I also share your desire to achieve a bipartisan consensus on these issues of long-range national security strategy and arms control, and to that end we should begin these meetings at an early date. I am confident we can find the common ground on which the prompt ratification of this treaty, so important to our own national security and the peace of the world, will be achieved.

Sincerely,

Jimmy Carter

Senator Sam Nunn
United States Senate
Washington, D.C. 20510

United States Senate

WASHINGTON, D.C. 20510

December 17, 1979

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

For some months now the Senate Foreign Relations Committee, the Armed Services Committee, and the Intelligence Committee have been carefully examining the SALT II agreement to determine if it meets our nation's national security interests. Public hearings on the Treaty have been accompanied by numerous private meetings among Senators of both parties, Administration officials, and other individuals possessing experience and expertise in arms control and related matters.

From the hearings and from those individual meetings, a number of important issues have emerged regarding both the proposed SALT II Treaty and the state of our nation's defense posture.

With respect to the Treaty, we as individual Senators are deeply concerned over certain provisions of, and omissions from, the Treaty. We hope that during the course of Senate deliberations our concerns can be met. We are concerned over the Protocol terms and their precedential effect. We are also concerned over the Treaty provisions relating to "heavy" missiles, verification, limitations on potential basing modes for the MX missile, the threat posed to the United States by the Backfire and other Soviet weapons not limited by the Treaty, and other issues. We are hopeful that these problem areas can be resolved in a manner that strengthens the SALT Treaty and improves the SALT process.

In addition to these Treaty issues, we are also concerned over the ongoing slippage in America's comparative military position, awareness of which has been accentuated by the Senate's deliberations on SALT and by recent international events. In the last decade, the Soviet Union has attained at the very least essential equivalence in strategic weapons, has eliminated NATO's longstanding superiority in theater nuclear forces, and has expanded an already preponderant advantage in ground forces and civil defense capability. Furthermore, the Soviets are reducing our qualitative edge in tactical air forces and have constructed a navy that, for the first time in modern history, threatens traditional Western supremacy on the high seas. These trends have been accompanied by a growing Soviet and Soviet-sponsored threat to the West's sources of energy and raw materials.

The erosion that has taken place in the East-West military balance can be principally attributed to the failure of the U.S. and our Allies to compete effectively with Moscow in the military arena in the past 15 years. While diverting substantial conventional forces to the conflict in Southeast Asia in the 1960's and early 1970's, we remained, in the category of nuclear arms, basically content to live off of capital invested in the 1950's and early 1960's. In so doing, we provided the Soviet Union the opportunity to steal a massive military march on the West. That the Soviets took advantage of that opportunity is no longer questioned.

During the period 1970-1978, the Soviet Union invested a total of $104 billion more than the United States in military equipment and facilities, and $40 billion more in research and development. According to the CIA, the Soviet Union is still militarily outspending the United States overall by at least 40 percent annually; in the critical categories of investment in weapons procurement and research and development, they are outspending us by a 2:1 ratio.

We do not believe that the SALT II agreement currently before the Senate can be held directly responsible for this erosion in America's military position. However, during the seven years that the agreement was in negotiation, the hopes for significant arms control did influence our force planning and the support for defense initiatives. Thus, efforts which may have been needed to counter the mounting Soviet threat were delayed, curtailed, or even abandoned. Ratification of a SALT II Treaty will not reverse trends in the military balance adverse to the United States.

We applaud the statements by both you and Secretary of Defense Harold Brown relating to the Five-Year Defense Program. We reserve the right to examine the submittal in detail, but it does represent a positive step in acknowledging the Soviet buildup and in committing to real increases in defense spending and capability.

We have ourselves met on several occasions to discuss those considerations that will be foremost on our minds as the Senate approaches its full floor debate on the Treaty. All of us are agreed that the Treaty issues mentioned above are important and that the manner in which they are resolved will influence our final decision on Treaty ratification.

We are also agreed that the SALT II Treaty cannot be judged in a vacuum. In our view, the Treaty represents but one facet of a much broader East-West relationship that encompasses political and economic, as well as military dimensions. Our final judgment on the Treaty will therefore not be confined solely to the merits or flaws of the Treaty alone. We regard the following considerations as crucial:

1. The absence of definitive Administration proposals designed to narrow the strategic nuclear window of vulnerability which will occur during the early and mid-1980's.

2. The longstanding adverse trends in our own defense posture, and the extent to which the Administration's proposed Fiscal 1981 Defense Budget and Five-Year Defense Plan establishes a firm foundation for reversing those trends, in both conventional and nuclear forces. We believe that an objective review must be made in the immediate future as to our manpower procurement problems.

3. The plans and programs envisioned by the Administration to improve our intelligence capabilities, with particular emphasis on investment in high-technology collection systems and professional analytic resources. The need is also apparent to reconstitute our sensitive operational intelligence capabilities.

4. The impact of the SALT II Treaty on our ability in concert with our NATO allies, to modernize European-based nuclear and conventional forces. We are particularly interested in the Administration plans as to the deployment date for ground-launched cruise missiles.

5. The global military and political climate, particularly the increasingly aggressive activities in the Third World of the Soviet Union and its proxies. We are interested in the Administration plans to deter and counter such behavior over the coming decade. We regard such behavior as inconsistent with the underlying spirit of the SALT process.

6. The effect of the Treaty on long-term prospects for meaningful arms control, with respect not only to the

attainment in SALT III of "deep cuts" in existing levels of strategic armaments, but also to significant progress in our other arms control efforts such as the negotiations on Mutual and Balanced Force Reductions in Europe. The SALT process so far has failed to restrain the momentum of the Soviet Union's ongoing military buildup.

We believe that the Salt II debate will provide a unique opportunity not only to examine the Treaty itself, but also to seek a bipartisan consensus on long-range national security strategy and arms control.

Further, we attach great value to the pursuit of arms control, provided it enhances our nation's security. Should circumstances arise in which there are insufficient votes either to strengthen or to ratify the Treaty, we believe that serious consideration should be given to postponement. In view of the unforeseen delays in the Senate debate, persistent worldwide tensions, and national political considerations, any such postponement should be effective through the Presidential and Senatorial elections of 1980. As we have indicated, we regard an effective SALT process as being in our nation's interest.

Each of the undersigned, of course, gives different weight to these individual items but this letter expresses our general concerns. Because of our concerns, largely covered by this letter, we are uncommitted as to how we will cast our votes on the SALT II Treaty and proposed changes.

We look forward to discussing these issues in detail with you and members of your Administration.

Sincerely,

Sam Nunn | John W. Warner

Lawton Chiles | Henry Bellmon

John C. Danforth | Rudy Boschwitz

Harrison Schmitt

Edward Zorinsky

David Boren

Lloyd Bentsen

J J Exon

Dennis DeConcini

[illegible]

Pete V Domenici

John Heinz

Richard (Dick) Stone

S. I. Hayakawa

Larry Pressler

[illegible]

1:40 PM

THE WHITE HOUSE

WASHINGTON

December 17, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: LANDON BUTLER

SUBJECT: MEETING WITH SIDELL AND KONYHA

DATE: DECEMBER 18, 1979 (TUESDAY)

TIME: 1:40 p.m.

LOCATION: OVAL OFFICE

PURPOSE:

To meet William Konhya, the incoming General President of the United Brotherhood of Carpenters and Joiners of America (Carpenters).

BACKGROUND:

The Carpenters Union has a membership of approximately 800,000.

Bill Sidell, the outgoing President, requested the meeting to introduce Mr. Konyha. Sidell has served as the General President for the past eight years. Bill did not seek reelection to the office; he is planning to retire in San Diego. Sidell is a close friend of Marty Ward, President, United Association, Plumbing and Pipe Fitting Industry. As you recall, the Plumbers recently endorsed your reelection. Last week, you approved Sidell to serve as a member of the Panama Canal Commission. Sidell is aware of the appointment. As you may know, the Carpenters is part of the Building and Construction Trades unions, and you spoke briefly with Sidell at their October convention in San Diego.

Bill Konhya has held the number two position--1st General Vice President--of the Carpenters since 1973. He assumes the General Presidency on January 1.

PARTICIPANTS:

Bill Sidell, Bill Konyha and Landon Butler

PRESS PLAN:

White House photographer only.

TALKING POINTS:

-- Wish Sidell well in his retirement.

-- Let Konyha know that you look forward to working with him in the future.

THE WHITE HOUSE

WASHINGTON

December 17, 1979

C

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD CUTLER LNC

SUBJECT: INTERNATIONAL COURT OF JUSTICE

You inquired whether it is necessary to be a lawyer to be appointed a judge of the International Court of Justice.

Article II of the Statutes of the Court states that the judges must "possess the qualifications required in their respective countries for appointment to the highest judicial offices."

In the United States, at least, it is not necessary to be a lawyer in order to be appointed to the Supreme Court. Accordingly, a non-lawyer could be appointed as a judge of the International Court of Justice. However, the United States has never nominated a non-lawyer to the International Court of Justice.

As you will recall from sad experience, the President does not have the right to appoint the United States judge on the Court. The members are elected by the General Assembly and the Security Council of the United Nations from a list of persons nominated by the national groups in the Permanent Court of Arbitration. The United Nations election is routine for the United States members and the real decision is made by the United States national group in the Permanent Court of Arbitration. The United States national group consists of four members, appointed by the President or the Secretary of State (the Treaty does not specify who shall make the appointment and Senate confirmation is not required), for six year terms. You have appointed two of the four members currently serving in the United States national group. The terms of the other two members expire on June 26, 1981.

Richard Baxter is presently serving in the first year of the nine year term to which he was elected as the United States judge. Accordingly, it will be eight years before another opportunity for electing a United States judge arises, unless Judge Baxter resigns or is otherwise disabled.

THE WHITE HOUSE
WASHINGTON

December 17, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Al McDonald
Rick Hertzberg
Achsah Nesmith

SUBJECT: Secret Service/EPS
Talking Points

Attached are talking points for the subject event.

Clearance:

Hugh Carter

3:30 PM

THE WHITE HOUSE

WASHINGTON

December 14, 1979

MEMORANDUM FOR THE PRESIDENT

From: Alonzo McDonald
Rick Hertzberg
Achsah Nesmith AN

Subject: Family Party for Secret Service--
Executive Protection Service
December 18

1. This is truly a family party, not just because you have brought your wives and husbands and children, but because those of you who serve in the Secret Service and the Executive Protection Service are so much a part of our family's daily lives.

2. It took some getting used to, as you know. I grew up on an isolated farm and in a town so small it was no trick to throw a softball from one end to the other. When you went out the back door of almost any building you were only a few steps from a field or woods.

We all knew each other and everyone's Daddy and Granddaddy and Great Aunt and third cousin. Being alone in such a world was no great problem. Nobody locked doors.

Many of you have grown more familiar with the streets and backdoors of Plains than you probably care to be. All of you have worried, at times, about the habits left over from those days when I walked alone and slept unguarded behind unlocked doors and noboby imagined radioing ahead to alert anyone that I was approaching.

3. We all prefer not to acknowledge in our daily rounds what you are here for. But I want you to know, I want your families to know, how much Rosalynn and I appreciate what you do.

The Bible says that, "Greater love hath no man than this, that a man lay down his life for his friends." (John 15:13) Yet the men and women who serve us here in the Secret Service and EPS are sworn to protect not only us, but all the officials and foreign dignitaries who come within your areas, to risk your lives for strangers at the slightest hint of danger.

You have stood before mobs that screamed "kill" in towns and cities all over this country for more than two years, until what once seemed impossible has become strangely routine. We know that your loyalty goes beyond us as individuals -- that it is to the office and to our country and the principles of freedom that this office represents.

4. Yet we also know that this service must be performed by flesh and blood men and women who have headaches and heartaches, tired feet and personal obligations and interests. We appreciate your dedication, the nights and weekends and holidays you spend away from your families and friends quietly doing your duty.

5. We appreciate, too, your respect for our privacy, our need to have some moments when we can feel alone with each other and our children, even though those moments are possible only because you are there.

6. It's good to have all of you here tonight as guests in this House that you spend so much of your time and energy keeping safe. Merry Christmas, Happy Hanukah, and may the new year bring us all peace and joy.

# # #

Nesmith
12/14/79
A-1 1:45

FOCUS ON YOUTH
for taping December 18

The decade of the 1970s was a time of often painful growth and challenge for our nation. We emerged from a divisive war and the disillusionment of Watergate to celebrate our 200th anniversary with a renewed awareness that the true source of our strength ~~lay~~ lies in our commitment to truth, justice, freedom and opportunity.

As we enter the 1980s, there are new ~~dilemmas~~ questions and new challenges. Problems of energy and inflation, pollution and privacy, ~~desperate~~ hunger and ~~devastating~~ disease, as well as the overriding danger of nuclear destruction, require both immediate and long-term actions. Tyrants and terrorists sometimes threaten the peace we seek.

Yet we come to this new decade as a strong nation with a unity and a fresh sense of who we are. Despite the sobering realities, we have the capacity as never before to feed the hungry, heal the sick, explore the secrets of nature and the universe, broaden the horizons and the opportunities of people everywhere.

We here in America have a special responsibility, not only because of our power and wealth, but because of our historic commitment to freedom of conscience and freedom of ideas. We have the technical tools to make mankind's most cherished dreams come true, and ~~I believe we have~~ and the will.

I look forward to meeting these challenges with you.

# # #

MEMORANDUM FOR THE PRESIDENT AND FIRST LADY

FROM: HAMILTON JORDAN H.J.

SUBJECT: LUNCHEON TODAY, TUESDAY, DECEMBER 18, 1979
12:00 Noon
Family Dining Room, Residence

Your guests today are all from Oklahoma. They will gather in the Map Room 45 minutes prior to the luncheon for a briefing on foreign and domestic policy. The guests are:

HARVEY GARDNER	a leader of the American Agricultural movement, known as one of the more reasonable members a farmer from Hydro; uncommitted as of now
JIM CLARK	President of Clark Casket & Vault Company, Tulsa. Was active in Governor Nigh's campaign. Uncommitted as of now, leaning toward you.
JEAN SINCLAIR	Political activist from Tulsa County. Former Democratic Party official; has worked in a number of statewide and local campaigns. Very liberal for Oklahoma. Volunteered full time for you in '76.
BILL DAWSON	Oklahoma Corporation Commissioner; former state senator; from Seminole County. Known for taking consumer oriented positions. Uncommitted, but leaning toward you.

RUBY SPAULDING	Official on Muskogee Labor Council; Affiliated with CWA. Volunteered for you in '76.
WAYNE CHESS	Chairman of the School of Social Work, University of Oklahoma in Norman, where he is highly respected throughout the community. Uncommitted as of now.
J. D. HELMS	Attorney, Oklahoma City. Co-chaired Carter/Mondale fundraiser on December 5th. Very close to Governor Nigh.

AN ADDITION TO LUNCHEON TODAY:

ROBERT KERR (pronounced "Kurr")

Vice Chair, State Party
Agricultural leader from Jackson County, Oklahoma

Uncommitted

THE WHITE HOUSE
WASHINGTON

18 Dec 79

Jack Watson

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

11:55 AM

THE WHITE HOUSE

WASHINGTON

December 17, 1979

C

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON Jack

SUBJECT: Brief Greeting with Mayor George Athanson of Hartford, Connecticut 11:55 a.m. Tuesday

Purpose: The purpose of this greeting is to have Mayor Athanson in the Oval Office for his first private visit with you. You recently called him to ask for his support and he said he wanted to visit you here.

Participants. The President, Mayor Athanson, Jack Watson.

Press. White House photographer only.

Background. Hartford has a Council/Manager form of government, but there is a movement underway to change it to a strong mayor government. Athanson was recently re-elected by a large majority and soundly defeated Nick Carbone in the primary. Nick's close and visible ties with the White House have caused Athanson to feel alienated from us. The significance of his endorsement would be a signal that these various factions are banding together to support the President. Athanson has close ties with the Greek Orthodox Church and attended one of our Greek events here earlier this year. You saw the Mayor when you went to Hartford in September.

Talking Points.

Thank the Mayor for coming down to meet with you.

Ask the Mayor for his help and support in the months ahead.

Energy--the low income assistance legislation is very important to Hartford since 62% of the homes are heated by oil.

He will support

J

THE WHITE HOUSE
WASHINGTON

18 Dec 79

FOR THE RECORD

THE VICE PRESIDENT, LANDON BUTLER AND SARAH WEDDINGTON HAVE COPIES OF THE ATTACHED.

MS. NAME SAM CHURCH

 131

TITLE President
United Mine Workers of America

CITY/STATE Denver, Colorado

Requested by Landon Butler

Date of Request 12/14/79

Call today if possible. If not prior to 12/20.

Phone Number--Home ( )

Work (303) 623-4285 behind convention stage.

Other (303) 825-6388 (main convention number)

INFORMATION (Continued on back if necessary)

The UMWA Convention is being held in Denver. I recommend that you call Sam Church, President, today. The Convention adjourns on December 20.

Sam Church was recently appointed President of the UMWA--replacing Arnold Miller, who resigned due to ill health. In contrast to Miller, Church is an Administration supporter. (over)

NOTES: (Date of Call 12-18)

Friendly - Has telegram fm V.P. to read to Convention - Everything under Control -

-- Thank Sam for the telegram (attached) advising you of the resolution, unanimously adopted by the delegates, supporting you in the Iranian crisis and pledging to follow your "leadership and counsel."

-- Tell Sam you are sorry that due to the crisis you were unable to address the Convention, as requested.

-- Compliment him on the favorable press he has been receiving since the Convention convened on December 10. (Delegates voted to allow Church to appoint his own VP, rather than conducting an election; and he won a dues increase vote.)

Ray Marshall was scheduled to speak on the 12th, but because of an unanticipated roll call vote on the dues' increase, Ray had to leave the Convention before he was able to speak. Bill Hobgood, Assistant Secretary of Labor, addressed the Convention yesterday on behalf of Marshall. Also, Senator Kennedy spoke several hours after Hobgood.

2:00 PM

CABINET ECONOMIC POLICY GROUP

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 17, 1979

C

MEMORANDUM FOR THE PRESIDENT

From: G. William Miller
Chairman, Economic Policy Group

Bill

Subject: Background for Meeting on Tuesday, December 18, 1979, 2:00 - 3:30 p.m.

I. SUMMARY: AN ENERGY AND ECONOMIC PROGRAM

A. Introduction

The Economic Policy Group has been reviewing the state of the economy and energy and has been considering the policy options for the coming year. To augment these policy discussions with a broad view of likely public reactions, Hamilton Jordan organized a series of consultations with key political advisers to insert some of their ideas early. This memorandum outlines an overall conceptual plan as well as the individual options contained in a long-term economic and energy program.

From a policy and public perception viewpoint, a consensus has developed that the Administration must articulate a comprehensive energy and economic program. This program should include a long-term energy policy which takes into account and puts in perspective recent important developments. These developments include not only the impending passage, with some modifications, of the energy program proposed in July, but also the recent negative developments of the oil price rises and the halting of American purchases of oil from Iran.

The integrated program should also include a major economic component which addresses the fundamental priorities of our economy, including today's unacceptably high levels of inflation and our nation's lack of progress in productivity.

On the energy side, this program should not rely on any rapid or measured action by Congress. Congress has gone about as far as it can in making the hard decisions on energy. Therefore, further action should be as much as possible based on the authority under existing law or the measures currently in final stages of enactment.

B. Conceptual Overview of the Integrated Energy/Economic Program

Energy Program

The energy program should include:

1. A standby mechanism for fulfilling our international commitment on oil imports worked out in Tokyo last summer.

2. A combination of energy conservation measures shy of the extremes of rationing.

3. A series of programs to promote the accelerated development of alternate fuels.

4. The prompt implementation of the new elements of the energy program as quickly as approved by Congress.

Economic Program

On the economic side, the hard fight against inflation must remain the primary focus. A fiscal stimulus package is not needed now due to the continued strength of the economy, but the Administration will continually monitor unemployment levels, real growth, and other economic indicators and will be ready to move if necessary with a temporary, supplemental stimulus program. Such a program, however, would be designed as a separate effort not to interfere with the long term economic steps being taken to correct the structure of our economy.

Elements of the long term economic program would follow these themes:

1. A steady but firm continuation of existing economic policies with no major tax changes and no immediate stimulus proposals.

2. Strong efforts at continued budgetary discipline to provide further progress toward a balanced budget. This should help reduce long term inflationary trends as well as help maintain the stability of the dollar overseas.

3. Revitalization of productivity and capital investment base of our society. This could well include capital investment, technological innovation, and personal savings incentives.

4. Reinforcement of the quality of our human resources and employment opportunities. These steps will range from youth employment programs through training or retraining efforts to educational activities for the least advantaged members of our society.

The general themes of the energy and economic proposals, and the detailed options which follow could form a final package that would reflect this overall concept.

II. ADDITIONAL OIL CONSUMPTION RESTRAINT MEASURES -- THE MOTOR FUELS CHARGE

U.S. oil imports are projected to range from 7.4 - 7.8 million barrels per day in 1980, assuming no additions to the Strategic Petroleum reserve are made. Although there is little likelihood that oil imports will exceed the 8.5 mmb/d goal, additional oil consumption restraint measures may be desirable. EPG has narrowed the range of possible oil consumption restraint measures to a single major option developed by DOE called the "Motor Fuels Charge" or MFC. In developing this option great weight was given to the difficulties of obtaining prompt Congressional approval of new initiatives. Under the Basic MFC Option,

- Presidential authority under Section 232(b) of the Trade Expansion Act to impose a fee on oil imports would be invoked;
- A mechanism similar to the current entitlements program would be used to direct the price impacts of the import fee to gasoline refining;
- The amount of the oil import fee would be set so as to result in an increase in the price of motor fuel in accordance with the following schedule:

July 1, 1980	10 cents per gallon
January 1, 1981	20 cents per gallon
July 1, 1981	30 cents per gallon

There are a number of positive aspects to the MFC proposal:

- Makes it more difficult for OPEC to sustain higher prices and thereby moderates further wealth transfers from U.S. to OPEC.

- Strengthens U.S. balance of payments position and the position of the U.S. in the world economy.

- Helps the U.S. take leadership among other consuming countries in a joint process to lower the demand for oil, thereby reducing the choices of further upward pressure on spot market and OPEC prices.

- Additional oil import reductions (assuming the schedule of fees on prior page) as follows:

Year end	
	1980: 50,000 bbl/day
	1981: 350,000 bbl/day
	1982: 650,000 bbl/day

- Provides greater assurance of fulfillment of pledge to hold U.S. imports below 8.5 million barrels per day.

- Demonstrates maximum national and international leadership in overcoming dependence on foreign oil.

On the other hand,

- Substantial progress has already been made by the United States, and projected oil imports are substantially below the 8.5 mmb/d level committed to at Tokyo and on July 15, 1979. In particular, imports will be down to about 7.8 mmb/d for 1979, with further reductions almost certain for 1980.

- Unilateral action by the United States would occur at a time when other IEA countries have not fulfilled even their earlier commitments.

- MFC will result in increase in the consumer price index (CPI) of about 0.6 to 1.2 percent for each 10 cent increase in gasoline prices. This will be over and above increases that will result from probable OPEC Caracas action.

- The burden of MFC is likely to fall disproportionately on the poor. (Recycling measures will be designed to moderate impact on the poor, but such measures will require legislation.)

- MFC could precipitate Congressional criticism that the Trade Expansion Act was not intended to authorize a tax and that such use of the legislation is an attempted usurpation of the Congress' authority to tax.

- Relying on the entitlements system to transform the import fee into a gasoline tax has two important drawbacks:

  (1) The legislative authority for the entitlements system expires in 1981, so that new legislation would be required next year;

  (2) The entitlements system has caused a number of "horror stories" as it has aged and acquired loopholes.

Contingent or Discretionary MFC Option

The Basic MFC Option can be modified to provide that the scheduled increase in the charge on January 1, 1981 and July 1, 1981 will occur only if specified motor fuel consumption targets are exceeded. Instead of specifying actual consumption targets, the charge could be triggered only if "satisfactory progress" (perhaps defined in a way to provide broad discretion) toward reduced gasoline consumption is not made by the country as a whole. The initial July 1, 1980 increase might itself be conditioned on a consumption target or a general assessment of the progress the country has made in reducing motor fuel consumption.

Points to Consider on Contingent or Discretionary MFC Option:

- Indicates readiness to take action.

- Provides the American people an opportunity to reduce their usage of gasoline and other motor fuel voluntarily.

- Potentially avoids the increases in the consumer price index which would occur under Basic MFC Option.
- Retains greater bargaining position vis-a-vis other IEA countries.
- Less likely to arouse political controversy.

But

- Contingent MFC Option may be viewed as failure if motor fuel consumption targets are not met.
- It is difficult to specify in advance what motor fuel consumption should be, because of the great range of factors, e.g. economic growth, weather, and demographic shifts, which affect motor fuel consumption.
- Tying future increments of the MFC to contingent events makes planning for recycling the proceeds extremely difficult.

General Administrative Problems under Both Options

In both the Basic MFC Option or the Contingent MFC Option, there are a number of significant design issues and administrative problems yet to be solved. Chief among them is the question of how to treat diesel fuel used in highway vehicles.

An exemption for diesel fuel is not attractive

- Exemption of diesel fuel would discriminate against truckers using gasoline, largely local versus long distance hauling.
- Exemption of diesel fuel would create a large advantage for the purchase of diesel cars; in the short run, productive capacity for diesels is limited. Some people would postpone new car puchases until they could get diesels, thereby hurting the auto market and postponing the introduction of fuel-efficient new cars into the fleet.

But subjecting diesel fuel to the charge also poses problems.

- Truckers generally will strongly oppose imposition of charge on diesel fuel and may add to the controversy over the proposal.

- Diesel fuel is chemically identical to No. 2 heating oil, and a charge on diesel fuel will be difficult to enforce.

- If diesel fuel is not exempted, jet fuel should also be subject to the charge. Otherwise trucking would be placed at a competitive disadvantage.

<u>Recycling of Revenues from the MFC</u>

The MFC Options generate significant amounts of revenue which should be returned back to the economy. EPG recommends that revenues be recycled back to the economy through:

.. Individual income tax relief

.. Low income assistance

- A low income assistance program is an element of the recycling program in order to mitigate the adverse impact of the MFC on the poor.

- Additional amounts are returned to the economy directly through individual income tax cuts to mitigate the impact of higher gasoline prices on people's real incomes and prevent excessive build up of fiscal drag.

- The same recycling mechanisms employed for the Basic MFC Option will be employed for the Contingent MFC Option, with the following modifications:

  .. Amount recycled will be scaled down to amounts of revenues generated in order to maintain the same fiscal posture.

  .. Because it will be difficult to predict amounts of revenues to be generated under the Contingent MFC Option, adoption of additional recycling measures would be predicated on the triggering of additional increments of the MFC.

III. TAX AND BUDGET ISSUES

CEA's forecast summary is included in the set of briefing materials for our meeting. Modifications to the forecast may be required by the OPEC pricing decision, and these will be discussed at the meeting.

There are two basic policy options at the present time, although there are a number of significant decisions to be made on the shape of each of the options.

Option A: No tax incentives for long term economic goals but steady progress toward budget balance, unless a recession is actually underway.

General Background Points:

- There is little confirming evidence at this time of a recession.
- Tax cuts would add substantially to the deficit.
- Soundings with Congress indicate a substantial majority in favor of no tax cuts.
- January messages should in any event indicate that, if the economy softens, the Administration will be prepared to recommend additional budgetary actions. (An EPG Task Force led by CEA is currently evaluating various countercyclical programs, and an inventory of options will be ready in early January.)

Option B: Modest addition to the budget deficit for long term economic goals.

- Whether or not MFC is elected, you may wish to provide for modest additions to the deficit in order to raise investment, productivity, growth, and living standards through business tax relief and programs to enhance human capital.
- The following possible items could be included in any such long term program:

.. Social Security (payroll tax relief) (Estimated FY 1981 Cost could range from $16 billion)

.. Simplification and liberalization of tax rules for depreciation of plant and equipment through a new "Constant Rate Depreciation System" (Program can be scaled to cost from $4 billion to $9 billion in FY 1981)

.. Savings incentives (Estimated FY 1981 Cost $0.2 billion and FY 1982 Cost $2.5 billion)

.. Research and development program or university based tax credit (Estimated FY 1981 Cost less than $0.1 billion)

.. Programs to enhance human capital (Estimated FY 1981 Costs $2-$5 billion)

- The specifications of possible tax initiatives -- Social Security, depreciation, savings, and research and development -- are summarized on the separate papers attached. A separate package describing in greater detail the range of human capital initiatives which can be added as part of a long term program will be forwarded later this week.

- Tax and spending initiatives can be combined in different ways depending upon the priorities you establish. Table 1 shows the impact on budget of three possible combinations. Table 2 shows the impact on calendar year tax liabilities.

PAYROLL TAX RELIEF
(SOCIAL SECURITY)

The social security tax rate for 1981 could be reduced to 5.8 percent for employers and employees from its scheduled 6.65 percent rate (and its current 6.13 percent rate). The HI tax rate would be eliminated while the OASDI rate would be increased from the scheduled 5.25 to 5.8 percent. This would mean that all of hospital insurance would be financed with general revenues. Such a proposal would involve basic restructuring of the social security system and would be controversial.

SAVINGS INCENTIVES

It is unlikely that any incentives to individual savers for interest (and/or dividend income) of the scale currently under consideration -- in the range of $2.5 billion per year by FY 1982 -- would lead to much if any additional savings. Yet the political pressures for such an incentive may be irresistible. It is even possible that the windfall profits tax bill will contain an exclusion to $200 of interest and dividend income for a single return, $400 for a joint return. If a savings incentive is enacted now, EPG recommends that the Administration not make an additional proposal next year.

If the Administration does make a proposal, it should have the following characteristics:

1. The incentive should be provided to as broad a class of capital income as possible to prevent taxpayers from shifting from one form of asset to another in order to make maximum use of the tax benefit. Thus, a tax benefit for interest and dividends combined is preferable to one provided only for interest.

2. The incentive should be provided only to interest and dividend income <u>net</u> of interest expense in order to limit the potential of gaming the tax system by simultaneous borrowing and lending transactions.

A savings incentive proposal generating a revenue loss of roughly $2.5 billion in 1981 can be provided under either a net or gross exclusion. The gross exclusion of interest and dividends would be $250 for a single return, and $500 for a joint return. The exclusion would be $300 for a single return and $600 for a joint if netting of interest expense were required. In both cases the $100 taxpayer dividend exclusion under current law would be repealed. Tables 1 and 2 assume that a net interest and dividend exclusion of $300 (single return) and $600 (joint return) is proposed.

CONSTANT RATE DEPRECIATION SYSTEM

Appropriate depreciation allowances can help to expand the economy's capacity, to reduce production costs, and to promote productivity.

EPG has analyzed a wide range of depreciation plans to develop a depreciation system that is simple, effective, and fair. There is strong support in the business community for the Conable-Jones or the 10-5-3 depreciation proposal which involves a massive increase in the budget deficit. The options EPG has considered would have a much smaller budgetary impact, particularly in the outlying years. Also, the depreciation options EPG has considered could be scaled to fit budgetary objectives. Three options are shown in the table below. The largest option is favored by Treasury and CEA, and it would in the long run cost less than half of the amount of the Conable-Jones proposal.

Revenue Impact of Alternative Acceleration of Tax Depreciation

	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985
	$ billions				
Option I depreciation	-3.8	-5.0	-7.4	-9.6	-11.3
Option II depreciation	-6.2	-8.5	-12.0	-14.7	-17.0
Option III depreciation	-9.1	-12.6	-16.8	-20.1	-22.6
10-5-3 depreciation	-8.2	-14.8	-27.3	-42.4	-58.5

TAX CREDIT FOR UNIVERSITY RESEARCH AND DEVELOPMENT

During the development of the proposals for industrial innovation, a number of tax incentives were considered and rejected. A proposal, with a very modest cost, would be a 10 percent credit for contributions to research-oriented, nonprofit institutions, including universities, for the conduct of research, as long as the results are available to the public.

Basic research is primarily centered in universities and other nonprofit institutions. Basic research is of great importance to the quality of innovation. Without a flow of new, basic research, ideas are not available to be exploited for commerical application.

A 10 percent tax credit for independent research facilities, such as universities, would increase the funding of research by perhaps as must as $50 million at a cost to the Treasury of $15 - $25 million. This proposal was rejected last Fall in favor of expanding an NSF program of grants for university and industry research. Outlays will be increased from $4 million in FY 1979 to $20 million in FY 1981. A goal of similar activities by other agencies of $150 million was also set.

There is considerable uncertainty about how much this credit would actually increase the amount of research going on. The Treasury Department recommends that a direct expenditure program should be considered before adopting another tax credit. NSF and Commerce could reimburse corporations for 10 percent of the funds provided in support of university research. These agencies would have more expertise in identifying eligible expenditures than would the IRS.

Table 1

Estimated Effects of the Proposed Motor Fuel Based Oil Import Fee and Alternative Recycling Options on Fiscal Year Unified Budget Totals

($ billions)

Option packages	1980	1981	1982	1983	1984	1985
	Fiscal Years					
Basic Plan:						
Motor fuel based oil import fee 1/	2.6	24.5	37.6	36.5	36.1	36.2
Income tax rate reductions 2/ 6/		-19.3	-34.3	-40.7	-47.8	-55.6
Transfer payments to the poor		-1.0	-2.0	-2.5	-2.5	-2.5
Total	2.6	4.2	1.3	-6.7	-14.2	-21.9
Additional options:						
1. Reduce social security tax rates to 5.8 percent 2/ 3/ 6/		-15.5	-24.3	-27.7	-31.1	-45.0
2. Constant rate depreciation 4/		-9.1	-12.6	-16.8	-20.1	-22.6
3. $300/$600 savings incentive 5/		-0.2	-2.5	-2.7	-2.8	-3.0
4. Tax credit for university-based R&D		-*	-*	-*	-*	-*
5. Targeted spending (preliminary)		-2.5	-3.0	-3.0	-3.0	-3.0
Option packages:						
A. Basic Plan with social security option	2.6	-11.3	-23.0	-34.4	-45.3	-66.9
B. Basic Plan with investment and productivity options	2.6	-5.1	-13.8	-26.2	-37.1	-47.5
C. Basic Plan with targeted spending option	2.6	1.7	-1.7	-9.7	-17.2	-24.9

Office of the Secretary of the Treasury
Office of Tax Analysis

December 17, 1979
6:00 p.m.

1/ Oil import fees based on motor fuel refined, and designed to achieve a 10 cent per gallon price increase July 1, 1980, 20 cents January 1, 1981, and 30 cents July 1, 1981 and thereafter. Estimates assume (1) diesel fuel and jet fuel (except for military and international flights) are not exempt, (2) constant consumption in absence of the fees, and (3) pretax price increases of 9 percent during 1980 and 11-1/2 percent per year thereafter.

2/ Estimates are based on economic assumptions underlying the Presidential Fall Budget Overview.

3/ The FICA rate would be 5.80 percent through 1985. The SECA rate would be 8.7 percent.

4/ Less costly alternatives are possible.

5/ Taxpayers would be allowed an exclusion for dividends and interest (net of interest paid) equal to $300 ($600 on a joint return).

6/ Estimates assume enactment of the President's cash management proposals.

Table 2

Estimated Effects of a Proposed Motor Fuel Based Oil Import Fee and Alternative Recycling Options on Calendar Year Tax Liabilities and Spending

($ billions)

Option packages	Calendar Years 1980	1981	1982	1983	1984	1985
Basic Plan:						
Motor fuel based oil import fee 1/	6.6	32.1	37.2	36.3	36.1	36.3
Income tax rate reductions 2/		-30.7	-36.5	-43.1	-50.5	-58.6
Transfer payments to the poor		-1.4	-2.5	-2.5	-2.5	-2.5
Total	6.6	--	-1.8	-9.3	-16.9	-24.8
Additional options:						
1. Reduce social security tax rates to 5.8 percent 2/ 3/		-21.3	-25.4	-28.6	-32.0	-49.8
2. Constant rate depreciation 4/	-4.9	-10.5	-15.2	-18.7	-21.5	-24.1
3. $300/$600 savings incentive 5/		-2.5	-2.7	-2.8	-3.0	-3.2
4. Tax credit for university-based R&D		-*	-*	-*	-*	-*
5. Targeted spending (preliminary)		-3.0	-3.0	-3.0	-3.0	-3.0
Option packages:						
A. Basic Plan with social security option	6.6	-21.3	-27.2	-37.9	-48.9	-74.6
B. Basic Plan with investment and productivity options	1.7	-13.0	-19.7	-30.8	-41.4	-52.1
C. Basic Plan with targeted spending option ...	6.6	-3.0	-4.8	-12.3	-19.9	-27.8

Office of the Secretary of the Treasury
Office of Tax Analysis

December 17, 1979
6:00 p.m.

1/ Oil import fees based on motor fuel refined, and designed to achieve a 10 cent per gallon price increase July 1, 1980, 20 cents January 1, 1981, and 30 cents July 1, 1981 and thereafter. Estimates assume (1) diesel fuel and jet fuel (except for military and international flights) are not exempt, (2) constant consumption in absence of the fees, and (3) pretax price increases of 9 percent during 1980 and 11-1/2 percent per year thereafter.
2/ Estimates are based on economic assumptions underlying the Presidential Fall Budget Overview.
3/ The FICA rate would be 5.80 percent through 1985. The SECA rate would be 8.7 percent.
4/ Less costly alternatives are possible.
5/ Taxpayers would be allowed an exclusion for dividends and interest (net of interest paid) equal to $300 ($600 on a joint return).

A

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 17, 1979

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: The Economic Assumptions to be Published in the Budget

In view of the uncertainty of the economic outlook and the failure of recession to appear as yet in overall economic measures, CEA and OMB have agreed to use for budget purposes economic assumptions which are close to the more optimistic projections of the three major outside forecasting firms. These assumptions would be published in the Budget and Economic Report.

The forecast for the consumer price index would have to be raised if a decision were made to impose a motor fuel charge. Otherwise, we see no reason to change the new forecast on the basis of any of the decisions you are now being asked to make.

Economic Assumptions

	1979	1980	1981
Real GNP growth (4Q/4Q)	0.6	-0.8	2.8
CPI change (Dec/Dec)	13.0	10.4	8.6
Unemployment rate (4Q)	6.0	7.5	7.3

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 13, 1979

MEMORANDUM FOR THE ECONOMIC POLICY GROUP

From: Charlie Schultze CLS

Subject: Forecast Summary

Our economy has displayed surprising resistance to recession. You are familiar with the recent statistics showing retail sales, business investment and employment to be holding up well so far in the face of substantial downward pressure. In the case of investment, signals are mixed. A survey of business plans for early 1980 shows a continued increase in investment; but actual new orders and contracts for plant and equipment have been declining in recent months.

The economy is not, and will not in 1980 be immune from the forces now acting to depress it:

- A year ago we predicted GNP to grow by 2-1/4 percent in 1979; it will actually grow by only 1/2 to 3/4 percent; the drop in economic growth is just about what one would expect from the oil price "drag" that we have suffered; recession has so far been avoided, but the economy has slowed sharply;

- Under "normal" circumstances, the small 1979 GNP rise would be associated with an increase in unemployment to 6-3/4 - 7 percent; surprisingly bad productivity performance, while raising costs and prices, also kept unemployment low; had productivity behaved normally, we probably would not be talking so much about resistance to recession;

- Housing starts will, almost surely, show a sharp drop in the months ahead; auto sales are already down by 13 percent.

The 1979 oil price increases created a $52 billion drag on consumer purchasing power, part of which has not yet worked its way through the economy. With imported oil prices (excluding transport costs) assumed to rise to $29/bbl by the end of 1980 and $32/bbl by the end of 1981, the oil drag will increase to some $80 billion over the next two years.

The details of the economic outlook, prepared by the interagency forecasting group (CEA, OMB, Treasury, Commerce and Labor) are shown in the attached Table 1.

Forecast for 1980

- The forecast agrees with most outside forecasters in predicting a moderate recession with a mild recovery beginning in late 1980.

- Real GNP will decline for two or three quarters and then begin to recover slowly in the fourth quarter of 1980. The fourth quarter 1980 GNP will still be 1-1/4 percent below the fourth quarter of 1979. The unemployment rate reaches 7-3/4 percent at year end.

- The growing oil price drag and rising effective tax rates (the "fiscal drag") will depress consumer purchasing power. The savings rate is already so low (4-1/2 percent) that further reductions in it should not be expected. Consumer spending, therefore, is likely to decline. This in turn should lead to a decline in business plans for fixed capital spending.

- Interest rate levels resulting from the Federal Reserve Board's policy are likely to lead to a decline in housing starts and auto sales and curtailed inventory accumulation. We already see declines in auto sales and inventory investment. Because of the exchange value of the dollar, the fall in interest rates during the recession may be less than normally occurs.

Forecast for 1981

- The interagency forecast for 1981, as set forth in the table, is more pessimistic than three major outside forecasters. The differences are the cumulative results of moderate differences in assumptions about the level of spending in business investment, residential construction, and state and local sectors. Neither the forecasts of the interagency group nor those of the outside institutions can be shown to be implausible.

- The interagency 1981 forecast is for growth in real GNP of only 1.0 percent. Unemployment at the end of 1981 is predicted to be 8-3/4 percent (a full percentage point above the 1980 year-end level). In contrast, the average of the outside forecasts is real GNP growth of 3.3 percent and a year-end unemployment rate of about 8 percent.

General Comments on the Forecast

- Inflation will slow slightly but not dramatically. Energy price increases will continue and will work their way through the economy. A great deal depends on the success of the guidelines program in preventing the spillover of these increases into wages and prices.

- If the other forecasters are completely right and the economy is growing at 3-1/2 percent in 1981, social security and depreciation tax cuts would yield a growth rate which might border on the excessive (4-1/2 - 4-3/4 percent).

- There is one development which lends added plausibility to a 1981 outlook somewhat less optimistic than that of the outside forecasters. The projected deterioration of the economy tends to hold up the deficit and hide the huge increase in fiscal drag in 1981. As actually projected, the budget deficit falls only modestly in 1981 and is still a relatively large $26 billion. But if budget receipts and expenditures are calculated with the economy at a constant 6 percent unemployment rate, in order to show what the budget itself is doing in the absence of economic fluctuations, a very large swing into surplus is generated. In other words, the $26 billion deficit in 1981 does not result from a "loose" budget, but from the impact of low economic growth on a budget that itself is quite austere. In 1981, the real growth in Federal spending is minimal, while inflation, the windfall profits tax, and the 1981 social security tax increase would boost revenues very sharply in the absence of economic weakness.

Budget Surplus (+) or Deficit (-)
(Fiscal years, billions of $)

	1979	1980	1981
Forecasted	-28	-36	-26
Calculated at a constant 6% unemployment rate	-32	-18	+28

Over the next week we will be adjusting the forecast to take account of:

- the oil price changes set in Caracas on Monday;
- a preliminary (unpublished) estimate of 4Q 1979 GNP, available next week;
- a few additional statistics.

Since the major outside forecasting institutions project 1981 more optimistically than our interagency group, it would not make good policy sense to publish a budget based on the more pessimistic internal forecast. The "no tax cut" budget deficit for 1981, estimating at $26 billion under the interagency forecast, would be lower -- perhaps $18 to $20 billion -- under a revised forecast.

Table 1

The Economic Forecast

	1979	1980	1981
Percentage Change, Q_4/Q_4			
Real GNP	0.6	-1.3	1.0
Personal Consumption Expenditures	0.8	-0.3	0.3
Business Fixed Investment	4.3	-4.7	-1.7
Residential Construction	-10.0	-10.0	13.2
Federal Purchases	2.9	2.1	1.8
State and Local Purchases	-1.3	-1.6	-1.3
Prices and Costs			
GNP Deflator	8.9	9.0	9.3
Deflator for Domestic Expenditures 1/	9.4	9.3	9.4
CPI	12.9	10.9	9.5
Compensation Per Hour	9.1	9.6	9.7
Output Per Hour	-1.2	-0.6	0.5
Unit Labor Costs	10.4	10.3	9.2
Fourth Quarter Level:			
Unemployment Rate (%)	6.1	7.8	8.7
Housing Starts (Millions of Units, Annual Rate)	1560	1630	1810
Saving Rate (%)	4.4	4.8	4.4

1/ This is the deflator for the sum of personal consumption expenditures, gross private domestic investment and government purchases. It increases more rapidly than the GNP deflator because the latter measure is influenced negatively by the effects of rising imported oil prices.

IMPLICATIONS OF THE OUTLOOK, AND ITS UNCERTAINTIES FOR 1981 BUDGET POLICY

1. When final decisions are made on the budget before Christmas, we probably will have little confirming evidence of a recession (except perhaps a large drop in November housing starts). Our soundings with the Congress have indicated a substantial majority in favor of <u>no</u> tax cuts, and progress toward budget balance, unless a recession is actually underway. A $25 billion tax cut package would add substantially to the deficit with no recession "excuse".

2. Moreover, if 1981 should turn out as "good" as the outside forecasters think, a $25 billion tax reduction package effective at the beginning of the year might conceivably stretch the limits of what would be desirable, even realizing that we would start from relatively high unemployment.

3. Therefore, one might reasonably argue that we should keep our powder dry, propose a budget with no tax cuts, but state openly that if the economy does deteriorate, we are prepared to recommend additional budgetary actions.

<u>But</u>

4. If we submit a standpat budget, what do we have for a long-run program to reduce inflation, raise investment and productivity, and increase real living standards? The President would have <u>no</u> economic program to propose, in the context of a relatively dismal outlook. A <u>modest</u> depreciation liberalization could be proposed at only a small cost to the deficit, but I believe it would not be realistic to propose such a business tax cut without something for individuals.

5. A mild 1980 recession is almost certain. We are likely to see substantial evidence of it very shortly after the budget is submitted. Even the mildest recession would raise the unemployment rate substantially in 1980. At this point a lot of those who now want <u>no</u> stimulus would be clamoring for something -- probably some spending programs. (The Speaker, for example, urged that no tax cut be submitted in January, but said that "in a crisis, if unemployment goes to 6-1/2 percent or so, we can get a stimulus package through fast"!)

6. For all sorts of reasons -- including the control of inflationary expectations -- a social security and depreciation tax cut should be portrayed as a long-term structural reform <u>not</u> as a short-term economic stimulus. But if we explicitly made the submission of such a package contingent upon a later finding that economic stimulus was necessary, then -- by our own admission -- our tax proposals are equated with an economic stimulus program.

<u>As a consequence</u>, we appear to be faced with three major options each with both advantages and disadvantages.

7. Before any actual signs of recession are visible, we can submit a social security and depreciation tax cut, and a budget deficit in the $40 to $45 billion range, in the face of strong Congressional views that we should not ask for tax cuts in the absence of a clear recessionary situation.

8. Or, we can submit a budget with no major tax measures, and no attack on long-run inflation, with a budget deficit still in the $20 to $25 billion range, but with the distinct possibility that sometime in 1980 we will have to appear to reverse our budget austerity program and submit our long-term tax measures as part of a stimulus package.

9. Or, finally, we can handle the above dilemma with a <u>phased-in</u> gasoline tax or import fee (passed on via the entitlement program in higher gasoline prices) that allows us to propose social security and depreciation tax cuts without a large addition to the budget deficit, and take a major step to save oil imports. But, the gasoline tax may be difficult to pass while the Presidentially imposed import fee/gasoline tax may generate a Congressional backlash.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

PERSONAL

December 18, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr. Jim

SUBJECT: This Afternoon's Meeting on Economic Policy Options

I believe you should consider an alternative approach to economic policy which is not included among the options in the EPG memorandum for this afternoon's meeting. This approach would allow you to avoid premature commitment to changes in economic and energy policy in a political and economic environment which is not yet ready for those changes. At the same time, it would allow you to exercise a strong leadership role in making clear the uncertainties and outlining the policies through which you would lead the Nation if and when circumstances change.

The broad outline of this policy would be:

1. Propose a budget committed to fiscal restraint with a deficit in the $10 to $15 billion range. You would announce that because inflation is still the number one problem that fiscal policy changes, including any countercyclical spending increases, would be premature at this time.

2. You announce the extraordinary legislative achievements you have already made in energy supply and conservation, and your continued resolve to meet the oil import target you announced in July.

3. You announce that should the energy situation change and that oil import target or lower targets negotiated later in conjunction with other oil importers be threatened, you will exercise your authority under the Trade Expansion Act to impose a

motor fuel charge on gasoline of the type described in the EPG memorandum. You would state that the exercise of that authority is a fundamental responsibility of your leadership and that, if the Congress attempts to take away that authority, you will request enactment of a gasoline tax instead.

4. You announce that, should the economy weaken substantially, you will immediately request tax reductions for individuals and business, financial support for the housing industry through the Brooke-Cranston authority, and other countercyclical measures as appropriate.

5. You emphasize that, as the Nation's leader, you will decide when the correct time has arrived to make these policy changes, and that you have determined that it is premature to propose them in January.

This program would avoid several major difficulties in the options presented in the EPG memorandum. I do not feel these options offer you much. They offer an energy policy certain to draw political fire, but without major energy savings. They offer a less restrained budget, but without major economic policy initiatives. Your appropriate posture now should be to defer these major policy initiatives until the right time, not to "split the difference" between major initiatives and fiscal restraint.

1. A decision now to propose a motor fuels charge would be premature:

   -- The present economic and political environment is unfavorable. There are no compelling circumstances at the moment which would persuade the American people that further increases in gasoline prices are necessary on top of what OPEC will have done.

   -- The legal considerations with regard to the motor fuels charge have not yet been fully worked out. Nor has Congress been adequately consulted. Time is required to do this.

   -- A unilateral motor fuels charge will surrender a major bargaining chip which we should retain for the International Energy Agency negotiations with other oil importers during the next several months.

2. A decision now to expand the budget deficit would be premature and counter-productive:

-- It would put you in the position of backing off from a policy of fiscal restraint. You would give up the clear political advantages of proposing a deficit in the $10 to $15 billion range, which you could argue effectively balanced the budget.

-- At the same time a larger deficit, in the $15 to $25 billion range, would not constitute a genuine or adequate fiscal policy response to an impending recession. You would probably have to expand the deficit further with a supplemental request in March. Additional spending items which would be effective for your long term economic policy should be deferred until you determine, in the spring, that a policy change is required, as outlined in my proposal above.

private luncheon december 18, 1979
(second floor private dining room)

THE WHITE HOUSE
WASHINGTON

Pol lunch - Okla 12-18-79

Harvey Gardner - A&M - Hydro ?

Jim Clark - Casket - Nigh - Tulsa L+

Jean Sinclair - full time '76 - Tulsa +

Bill Dawson - ex Sen - Consumer L+

Ruby Spalding - CWA +'76

Wayne Chess - Univ Okla ?

JD Helms - Fundraiser +

Bob Kerr V.C. Demo party ?

Coal = inflation = jobs = implement new legis = deficit =

housing, interest, energy =

THE WHITE HOUSE
WASHINGTON

12/18/79 meeting with energy/economic counselors

Ec/En mtg 12-18-79

~~?~~

> oil -> coal
autos
weatherization
temperature controls
decontrol
OPEC price increases
State restraints

Gasoline prices

12/78	.38	12/79	.22	12/80
72		1.10		1.32

Good program c̄ or c̄out a fee
Entitlement auth expires 9/81
Recycled - payroll tax = asst → poor
productivity ↗
savings ↗
depreciation - tax Δ
youth empl, training
leave Soc Sec as is

THE WHITE HOUSE
WASHINGTON

investment, saving, productivity

Imp. politically

deficit cut 50% $1 Bil
Coal increase — % (budget)
inflation
jobs targeted
energy cut imports, conserve
defense - strong

Pickle - Gibbons - Jones - Cotter ok

breakfast with democratic onressional
leaders december 18, 1979

THE WHITE HOUSE
WASHINGTON

Cong L'ship 12-18-79

WPT $300 b → $275 b → $175 b.
1/1 decontrol accelerate conferees?

EMB - Pres involve? Xmas

ESC - Wright - jurisdictional

Chrysler - Sen/Thurs

Countercycle - Jan

EDA Conf deadlock

Iran
Rhodesia
SALT

House majority favor indep exemption
NoB - Miller - decontrol

Moakley 78-32

12/18

To: Mr. O'Neill
From: Ari

1. Windfall Profits Tax: We are prepared to appoint conferees promptly.*

2. Housing and Community Development Act: Conference report has been filed. Senate acts first.

3. Chrysler: Scheduled for floor action today. There are no current plans to move an appropriation, although the Committee could act quickly.

4. Countercyclical Revenue Sharing: In light of a Republican fillibuster, and with the consent of Ben Rosenthal and Peter Rodino, this measure has been put over until January.

5. Energy Mobilization Board:(fast track) Conferees are hopeful that all issues can be resolved this week. Action by both Houses on a conference report may still be possible.

6. Energy Security Corporation: The conferees have reached basic agreement on Title I, the synthetic fuels title. Some details remain to be worked out. There has been no significant progress on other Titles despite staff work.

7. E.D.A.(Economic Development Administration) Appears to be deadlocked in conference.

8. Mortgage Bonds:Floor action next year. The House will have to choose between the Committee's looser restrictions on mortgage bonds, and the Moore position combining tighter restrictions on mortgage bonds with a tax break on interest from savings.

9. Budget Limitation Measure: Before consideration of the first budget resolution next year, we will vote on an amendment to the Budget Act limiting government spending. The Rules Committee will hold hearings on the recommendations that have been advanced. Bob Giaimo, for example, has a proposal to limit the budget, tax expenditures, and loan guarantees as a percent of GNP.

*In connection with the motion to go to conference, Conable is likely to seek to instruct conferees to accept the Senate provision repealing the previously enacted reforms of carryover basis. Despite opposition from Joe Fisher, Jim Jones, and the liberals, Conable is likely to prevail.

THE WHITE HOUSE
WASHINGTON

adults displaced
CETA pay 100%
How guarantee training?
schooling?
16-18 require school attendance
Competition among schools?
? $2b/800m vs $500/50m
? Vo Ed component
Age for summer youth

THE WHITE HOUSE
WASHINGTON

12/18/79

Lloyd Cutler

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Frank Moore/Ev Small
Zbig Brzezinski/M. Albright

United States Senate
SELECT COMMITTEE ON INTELLIGENCE
(PURSUANT TO S. RES. 400, 94TH CONGRESS)
WASHINGTON, D.C. 20510

December 12, 1979

cc: Lloyd = Have reply drafted - let me sign
J

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Since the Senate Select Committee on Intelligence issued its report on U.S. capabilities to monitor the SALT II Treaty, I have been considering the difficult question of whether those capabilities are sufficient. To the extent that the Committee's principal findings were optimistic, this optimism was based upon the assumption of substantial budgetary support for the intelligence community.

The Select Committee's finding on "Providing the Necessary Resources for the United States Monitoring System" notes the fragility of some components of our reconnaissance system and cites the need for sufficient back-up and redundancy in these systems. This is especially important in light of the need to maintain our monitoring capabilities throughout the six years that SALT II would remain in force.

The Committee's finding on resources ends with the following points:

> "In order to provide these resources a very high budget priority must be given to the intelligence collection systems, as well as to processing and analysis functions.
> "The Committee finds that continued improvement and investment will be required during this period to ensure that United States monitoring systems keep pace with the monitoring tasks they must perform. Arbitrary resource constraints must not curtail these needed improvements and investment.

"The Committee also recommends that increased analytic attention to SALT monitoring should be accompanied by the intelligence community's full and careful attention to other areas of Soviet military, political and economic activity and to military, political, social and economic developments in other countries."

As you know, these points are far more than glittering generalities. They are rooted both in two years of studying the SALT monitoring question and in the Committee's annual consideration of the intelligence budget, in which I have participated actively as a member of the Subcommittee on Budget Authorization.

Senators Bayh and Goldwater, Chairman and Vice Chairman of the Select Committee on Intelligence, wrote to you in October regarding the need for increased investment in U.S. intelligence for a variety of reasons, including the increasing importance of international political and economic issues, such as energy and other scarce natural resources. Your recent reply, that "[i]ntelligence, like national defense, is and must remain, at the top of our priorities," is a welcome affirmation of our shared sense of the importance of the U.S. intelligence system. It remains unclear, however, to what extent you share our belief that short-term budgetary constraints must not be allowed to inhibit needed improvements in this system.

I strongly urge you to submit to Congress an FY 1981 intelligence budget which demonstrates the commitment to excellence that the Intelligence Committee's report on SALT monitoring calls for. Specific assurances that you accept the need for increased funding which that report stresses would go a long way toward easing my own doubts regarding the verifiability of SALT II.

Sincerely,

Dave Durenberger

Dave Durenberger
United States Senator