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memo w/att	<p>James T. McIntyre, Jr. to the President Re: 1980 and 1981 Budget Increases for PL 480. (22 pp.)</p> <p><i>2 pp. declassified per RAC NLC-126-20-11-1-6 12/11/13</i></p> <p><i>7 pp. declassified per RAC NLC-126-20-11-2-5 12/11/13</i></p>	no date	A

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THE WHITE HOUSE

WASHINGTON

January 18, 1980

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
LYNN DAFT *Lynn*

SUBJECT: Response to ILA Refusal
to Load Soviet Grain

As you know, the Longshoremen have refused to comply with our request to load the remainder of the 8 million metric tons (mmt) of grain destined for the Soviet Union. This will halt shipments on about 2.5 mmt of grain that we had assumed would be exported. The USDA estimates that it might be possible to ship as much as 0.5 mmt of this if dockworkers at ports outside ILA control continue to load grain destined for the Soviet Union. Also, if the injunctions we expect the grain exporters will now file are successful, it is possible that the entire 2.5 mmt will eventually be shipped. However, we believe the chances of this occurring are slim.

The ILA refusal will have two undesirable effects. First, it will add to the economic cost of our action. It will do this by increasing the pressure on us to take whatever actions are necessary to avoid interrupting the recovery of farm prices. Second, their refusal will complicate the task of eliminating congestion in the transportation/marketing system.

To offset the market depressing effects of the ILA refusal, we recommend that the Administration announce the following:

- o We remain absolutely committed to protecting farm prices from the effects of the Soviet suspension and we will continue to work toward that end through the measures we have already announced. We will purchase all unshipped wheat and set it aside for use in our international food assistance programs. For corn, we will purchase contracts for whatever quantity of the unshipped amount is necessary until farm price is above the level immediately prior to your January 4 announcement. We will accept delivery of grain for those contracts we cannot sell at the necessary price.

- o To alleviate congestion in the pipeline, we will first seek to arrange for grain that cannot be shipped to the Soviet Union to be diverted to other markets, in exchange for grain elsewhere in the system. When such trades cannot be made, however, we stand ready to take ownership of the grain and to arrange for storage at locations where the system is least congested. We believe this approach holds greatest promise for relieving the congestion as quickly as possible.

- o Finally, we will offer to purchase corn at the local level as necessary to relieve congestion in local markets. Although we do not propose to publicly state a quantity, we will administratively limit the initial purchase to 1 million tons. If it becomes necessary to purchase above this limit, we will check with you before doing so. We will offer to buy this corn at local market prices and will target our purchases in those locations experiencing most severe congestion. The mechanisms for making these purchases are complex and remain to be worked out. At this point, we are not certain whether the purchases will be from individual farmers or from local country elevators. Total cost for the purchase of 1 mmt will approximate \$100 million, including storage for one year. We do not believe these purchases will take us beyond the \$2.5 to \$3.0 billion budget cost we initially estimated for FY 1980 and 1981 since some of the other actions will likely cost less than we had thought.

We are quite pleased with the way in which the grain market has responded to our actions to isolate the unshipped Soviet grain. As you know, wheat and soybeans have performed particularly well this week and corn has recovered part of its loss. The actions proposed here are designed to ensure that the momentum of this recovery is maintained, despite the absence of cooperation from the ILA.

We have consulted with USDA, OMB, CEA, DOL, Lloyd Cutler, Al McDonald, and the Vice President and they are in support of this recommendation. If you approve, we will make an announcement to the press on Saturday.

DECISION

Approve

Disapprove

6/12
I Called Lloyd
J

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR THE PRESIDENT January 18, 1980
FROM: LLOYD N. CUTLER
SUBJECT: REPORT TO CONGRESS ON GRAIN EMBARGO

Attached is a draft transmittal letter and report to Congress on the grain embargo as required by the Export Administration Act of 1979.

The report states that you have acted both in the national security and foreign policy interests of the United States and makes the national security finding required by the statute (page 2 of the report, second full paragraph).

No report to Congress is required for a control imposed on national security grounds, and no such control is subject to congressional veto. A report is required for a control imposed on foreign policy grounds, and such a control is subject to a two-House veto. The report is therefore required because the action was taken on national security and on foreign policy grounds. While the foreign policy ground is technically subject to veto, a successful veto would be futile because you also relied on the national security ground. For this reason, we hope that reliance on both grounds will diminish the chances of a serious effort to veto.

State, Defense, Commerce, Agriculture and Justice have all cleared the attached drafts. While several would prefer that you act on foreign policy grounds alone, they all accept your legal power to make the required national security finding as well. No department is appealing from our recommendation that you rely on both grounds.

The report should be sent to both Houses on Monday.

We will have the signature counterpart (one for each House) as soon as you clear the drafts).

THE WHITE HOUSE

WASHINGTON

Dear Mr. Speaker:

The Soviet invasion of Afghanistan and the installation of a puppet government is an extremely serious threat to peace. It threatens vital U.S. security and foreign policy interests:

- It places the Soviets within aircraft striking range of the vital oil resources of the Persian Gulf;
- It threatens a strategically located country, Pakistan;
- It poses the prospect of increased Soviet pressure on Iran and on other nations in the Middle East;
- Above all, it shows that the Soviets will use force to take over a neighboring country.

The Soviet invasion requires a firm and vigorous response by the United States. We must make clear to the Soviet Union that it cannot trample on the independence of other states and at the same time carry on business as usual with the rest of the world.

I have therefore taken several measures. I have directed the Secretary of Commerce to restrict exports and re-exports of identified agricultural commodities from the United States to the U.S.S.R., except for exports of wheat and corn authorized under Article I of the Agreement on the Supply of Grain of October 20, 1975. These restrictions became effective January 7, 1980 under regulations issued by the Department of Commerce. The restrictions were initially made applicable to a broadly described group of agricultural commodities and products as a means of quickly achieving the objective of stopping exports of any items which are significant in terms of the grounds on which I acted. The Department of Commerce is revising the list to eliminate items for which controls are not warranted.

I have acted in the national security and foreign policy interests of the United States under the authority of the Export Administration Act of 1979. I transmit herewith my report pursuant to Sections 6(e) and 7(g)(3) of the Act.

I have recognized that other countries are major exporters of agricultural commodities. At my direction, United States officials promptly began consultations with other major agricultural exporters to seek their cooperation in restricting exports in harmony with our actions. These consultations and negotiations have been fruitful and will continue. We have also consulted with U.S. farm organizations and trading companies, and these consultations have contributed valuable information concerning the domestic impact of these export restrictions, their adverse impact on the Soviet Union, and the availability of identified items from foreign sources. I have considered the possibility that some of the agricultural commodities involved might be obtained by the Soviet Union from other countries. I have also assessed the threat to our national security and foreign policy posed by the Soviet aggression and the consequences of a failure to take prompt and decisive action. I have determined pursuant to Section 4(c) of the Act that the absence of such controls would prove detrimental to the foreign policy and national security interests of the United States.

Pursuant to Section 6(d) of the Act, I have determined that although reasonable efforts have been made to achieve the purposes of these controls through alternative means, available alternatives would not comparably advance the foreign policy and national security interests of the United States.

I have also directed that the Secretary of Commerce, in consultation with the Secretary of Defense and other appropriate officials, review and revise our policy with respect to the export of high technology and other strategic items to the Soviet Union. This review is to proceed with the utmost urgency. Effective January 11, 1980 the Department of Commerce suspended all outstanding licenses and authorizations for exports to the Soviet Union and announced that it has suspended the issuance of new licenses and authorizations. The review I have directed will also consider what our policy should be on future applications for licenses, whether existing special licenses should be amended or revoked, and whether validated licenses should be required for any other exports currently permitted to the Soviet Union under general license. The Secretary of Commerce announced on January 11, 1980 his denial on national security grounds of eight license applications for export of high technology items to the Soviet Union.

When the review and revision of our policy on high technology and other strategic items is completed, I will submit a further report to the Congress concerning any additional controls that may be imposed.

Sincerely,

The Honorable Thomas P. O'Neill, Jr.
Speaker of the
U.S. House of Representatives
Washington, D.C. 20515

RESTRICTIONS ON AGRICULTURAL COMMODITY EXPORTS TO THE USSR:
REPORT TO THE CONGRESS PURSUANT TO THE
EXPORT ADMINISTRATION ACT OF 1979

Acting pursuant to a Presidential directive issued on January 7, 1980 under the authority of the Export Administration Act of 1979, the Department of Commerce has issued rules effective p.m. January 7, 1980, restricting the export of identified agricultural commodities and products to the Soviet Union. (45 Fed. Reg. 1883, Jan. 9, 1980). This is the Report required by Sections 6(e) and 7(g) (3) of the Act with respect to the imposition of these export controls.

These Restrictions Further Significantly U.S. National
Security and Foreign Policy Interests

The Soviet invasion of Afghanistan and the installation of a puppet government is an extraordinary and grave act of aggression which threatens vital U.S. security and foreign policy interests. This invasion is an extremely serious threat to peace.

- It places the Soviets within aircraft striking range of the vital oil resources of the Persian Gulf;
- It threatens a strategically located country, Pakistan;

- It poses the prospect of increased Soviet pressure on Iran and on other nations of the Middle East;
- Above all, it is the first Soviet invasion of a previously independent and unoccupied nation since World War II.

These extraordinary circumstances demand prompt and forceful response by the United States. We must show the Soviet Union that it cannot expect to continue to do business as usual with the United States while it is invading and occupying an independent nation. Accordingly, restrictions have been placed on agricultural exports to the USSR. These exports make a substantial contribution to Soviet strength. U.S. security interests are affected when that strength is devoted to the military invasion of previously independent nations. Curtailment of these exports is a critical element in our efforts to demonstrate to the USSR in tangible ways that it cannot engage in armed aggression with impunity and without cost to itself.

As President and Commander-in-Chief of the Armed Forces of the United States, I find that the exports being curtailed by this action make a significant contribution to the military potential of the Soviet Union that is detrimental to the national security of the United States.

Probability of Success. The restrictions can reasonably be expected to bring home to the Soviet leaders that they cannot act as they have in Afghanistan without paying a significant

price. The controls are expected to have a significant impact on the Soviet economy. They will impress upon the Soviet people the consequences of their government's actions. Absent substitutes from other sources, the restrictions will mean the loss of up to half of projected grain imports for FY 1980. Combined with the 48 million ton shortfall from planned 1979 production, the effect will be a major reduction in the availability of livestock feed, the slaughter of livestock that cannot be fed, and in due course a significant reduction in USSR meat production below planned levels. Moreover, contacts with the governments of other major grain supplier countries indicate that there will be substantial cooperation in limiting the Soviet Union's ability to replace the curtailed U.S. shipments with imports from other sources.

Compatibility with Foreign Policy. The controls are essential to achieve U.S. national security and foreign policy objectives and are compatible with overall U.S. policy toward the USSR, for the reasons given above.

Foreign Reaction. Many countries have expressed support for these actions by the United States, and United States officials are urgently consulting with other suppliers to seek complementary actions.

Economic Impact of Controls. The most significant effect of the control on U.S. exports relates to the 17 million tons of grain previously authorized for the Soviet Union, valued at about \$2.3 billion. In FY 1978 U.S. exports of all

agricultural commodities to the USSR were \$1.9 billion, and in FY 1979 \$2.2 billion. These exports constituted 6.8% of total U.S. agricultural exports in FY 1978 and 6.9% in FY 1979. Grain exports accounted for about 80% of the value of U.S. agricultural exports to the USSR in FY 1979. Soybeans accounted for another 15%. The U.S. provided 65.1% of Soviet grain imports in FY 1978 and 77.8% in FY 1979.

Total Soviet grain utilization is estimated at 231 million metric tons from July, 1978 to June, 1979, and -- before imposition of these restrictions -- was projected to be 228 million tons for July, 1979 to June, 1980. U.S. grain exports (11.1 million tons) accounted for 4.8% of the 1978/1979 Soviet use. Before these restrictions, U.S. exports were projected to provide 11.2% (25.5 million tons) of the Soviets' projected 1979/1980 utilization (228 million tons).

The United States is the world's largest exporter of wheat and corn and will remain so even after the suspension of most agricultural commodity exports to the Soviet Union. The United States has been undertaking consultations with other governments to reduce the possibility that other suppliers would take advantage of U.S. action to build up their own competitive position at U.S. expense. Because the export restriction has been imposed on agricultural commodities destined to the USSR in response to a Soviet act of aggression and on the basis of fundamental U.S. national security and foreign policy interests, it is unlikely that such action will diminish the overall reputation of the United States as a reliable supplier.

With respect to foreign availability of wheat and corn, the United States is the major supplier of these commodities in world trade. At this time, it appears that additional supplies available in the world market are limited. With respect to soybeans and soybean products, there is substantially greater foreign availability. The availability of these commodities to the Soviet Union will depend therefore, in part, upon the cooperation of foreign suppliers.

In the absence of offsetting domestic policies the restriction on agricultural exports to the USSR would have an economic impact primarily on grain farmers, on firms and employees in the grain sector, on certain rail and barge lines, and on communities in grain producing areas.

Absent offsetting action, it is estimated that the restrictions on the export of agricultural commodities to the Soviet Union would reduce 1980 farm income by approximately \$3.0 billion.

The Secretary of Agriculture has been directed to take a number of actions, using authorities already available under current law, to ensure that the suspension of exports to the USSR will not fall unfairly on farmers and on grain marketing systems. To assure that it does not, he has taken the following actions:

To prevent immediate market congestion

The Department of Agriculture:

- o has requested that future trading in wheat and corn be suspended for the market days, January 7 and January 8;

- o has announced that it will purchase up to 4 million tons (150 million bushels) of wheat, including the assumption of the contractual obligations on up to 3.7 million tons (135 million bushels) that will not be shipped to the Soviet Union;
- o is preparing to assume the contractual obligation on up to 10.0 million tons (395 million bushels) of corn.

None of these grain purchases will be resold on the domestic market until it can be done without adversely affecting market prices. All contractual assumptions will be made at prices that will protect against losses, but will not guarantee profits. To fully offset the intermediate term impacts of the suspension of sales to the USSR

The Department of Agriculture has taken action to:

- o increase the wheat loan price to \$2.50 a bushel;
- o increase the corn loan price to \$2.10 a bushel, with comparable increases in loan prices for the other feed grains;
- o increase the reserve release price to \$3.75 a bushel for wheat -- representing 150 percent of the new loan price;
- o increase the reserve call price to \$4.63 a bushel for wheat -- representing 185 percent of the new loan price;
- o increase the reserve release price to \$2.63 a bushel for corn -- representing 125 percent of the new loan price;

- o increase the reserve call price to \$3.05 a bushel for corn -- representing 145 percent of the new loan;
- o make comparable increases in reserve release and call prices for the other feed grains;
- o waive first-year interest costs for the next 13 million tons of corn (corn only) entering the reserve;
- o increase reserve storage payments from 25 to 26-1/2 cents a bushel for all reserve commodities except oats, which is increased from 19 to 20 cents a bushel.

To facilitate long-term supply and demand adjustments

The Department of Agriculture is now evaluating:

- o increased commercial grain exports, and increased food donations under P.L. 480 where appropriate;
- o increased production of fuel alcohols from grain and other agricultural commodities;
- o acreage diversion programs.

These steps are intended to offset the reduction in farm income and, assuming a suspension through 1980, will limit the reduction in value of agricultural exports to approximately \$2.0 to \$2.25 billion (instead of \$3 billion). It is anticipated that these actions will result in increased budgetary costs of \$2.5 to \$3.0 billion during FY 1980 and 1981. Most of the increase in budget outlays will be associated with removal of wheat and corn from the market and, therefore, the

budget impact will be lessened when these commodities move back into the market and loans are repaid or sales proceeds are obtained.

Enforcement

No unusual problem is anticipated in enforcing the control on United States direct sales of agricultural products. With respect to reexports from third countries to the USSR, the fungible nature of the commodities makes it somewhat difficult to control their ultimate destination. The Department of Commerce and other agencies will watch this situation closely and will take enforcement action in case of violations.

Foreign Policy Consequences of Not Imposing Controls

If this and other measures which have immediate and practical effect had not been imposed, United States reactions to Soviet aggression would have been limited largely to words. Vigorous and far-reaching action was required to confirm to the Soviets that they cannot with impunity engage in acts of aggression that threaten the foreign policy and national security interests of the United States.

THE WHITE HOUSE
WASHINGTON

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January 17, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD CUTLER *LNC / snd*
JOE ONEK

SUBJECT: OLYMPICS

1. Although you are the Honorary President of the U.S. Olympic Committee (USOC), you have no legal authority over it. Indeed, the rules of the International Olympic Committee (IOC) state that National Olympic Committees "must be autonomous and must resist all pressures of any kind whatsoever, whether of a political, religious, or economic nature." The USOC does not ordinarily receive any federal financial support. Your 1981 budget provides it with a one-time \$4 million grant for development activities unrelated to the Olympic Games themselves.

2. You do not have any legal authority to prevent American athletes or spectators from attending the Olympic Games in Moscow, unless you invoke the International Economic Emergency Controls Act. To do this, you would have to declare a national emergency (as you did because of the events in Iran) arising out of the Soviet invasion of Afghanistan, and then forbid any transaction between American travellers to the Soviet Union and any person or entity in the Soviet Union.

3. The USOC strongly opposes a U.S. boycott or any similar activity which would undermine the Olympics tradition (see attached letter). However, the Committee has indicated that it would support any request you might make to transfer or withdraw from the Games. The President and Executive Director of the Committee will meet with Administration officials on Friday afternoon.

4. If the USOC withdraws from the Olympics, no individual American athlete would be recognized as a participant under IOC rules.

5. If you decide to urge the USOC to request an alternative site for the Olympics from the IOC, the following facts are significant:

- a. The USOC is scheduled to meet from January 25-27. This would be the most appropriate time for them to consider your request.
- b. The next scheduled Session of the IOC is February 9. By IOC rules, any agenda item must be sent to the members at least a month in advance. It would require the approval of Lord Killanin, President of the IOC, to waive the one-month notice request. Lord Killanin has strongly stated his opposition to considering changing the site of the Olympics.
- c. In addition, neither a postal vote nor an Executive Board meeting to consider the issue can be conducted without the approval of the President of the IOC.
- d. To convene an extraordinary Session of the IOC without Presidential approval would require a majority vote of the entire IOC.
- e. Under present rules (which require amendment by two-thirds vote), the Olympics cannot be held in cities in more than one country.
- f. Also, under present rules, the Games must be held during this calendar year.
- g. Finally, it is unclear, under the IOC statement of principles and rules, what grounds the Committee could cite for redesignating the host city.

6. The Red Smith article stated that IOC rules forbid holding the Olympics in any nation that discriminates against citizens for racial, religious or political reasons. This does not appear to be so. Rule 58 states that "every kind of demonstration or propaganda, whether religious, political or racial is forbidden in Olympic areas." There is also a rule for candidate cities stating that participants "shall be admitted without discrimination on grounds of religious, racial or political affiliation." There is no evidence yet that the Soviets intend to violate these rules.

Options

1. Make no decision at this time and continue to hold out the threat of an American boycott.
2. Announce that you will ask the USOC not to participate in the Moscow Olympics unless there is a prompt (to be defined later) Soviet troop withdrawal from Afghanistan, but make no effort to transfer the site of the Olympics, organize alternative Games, or organize a broader boycott.
3. Announce that you will ask the USOC not to participate in the Moscow Olympics unless there is a prompt Soviet troop withdrawal from Afghanistan, and
 seek IOC approval for a change of site, or
 organize alternative Games if IOC rejects a site transfer, or
 organize a broader boycott.

Options 2 and 3 could be supplemented by a proposal that all nations join in financing a permanent home for the Olympics in Greece, beginning in 1984 or 1988, in order to reduce the political aspects of the competition among nations to serve as hosts to the Games. This would reaffirm your support for preserving truly non-political Olympic Games. (To further emphasize this point, you could say that, if Greece cannot host the Games as early as 1984, you would consider asking the USOC and the IOC to transfer the Games from Los Angeles to a non-aligned nation, such as Mexico.)

Discussion

An immediate announcement that you request the USOC not to send the U.S. team to Moscow unless the Soviets promptly withdraw their forces from Afghanistan would make a major impression on Soviet leaders and would, on balance, be popular at home. Without such an announcement, there is no chance that the USOC will itself take such an initiative or ask the IOC to change the site. There is a possibility, however, that an announcement before the Lake Placid Games could trigger a Soviet bloc boycott of these Games.

Our actual withdrawal from the Moscow Olympics could have other adverse impacts. It could place the 1984 Los Angeles Olympic Games in jeopardy (the Soviet bloc would almost certainly withdraw) and even lead to the end of the modern-day Olympics. Moreover, many sports officials around the world would criticize us for further politicizing the Olympics. Some African nations might renew their criticism of our failure to support their Olympic boycott in 1976 over the apartheid issue.

Even if the USOC makes such a request, there is little likelihood that the IOC would favorably consider moving the Games out of Moscow at this late date, especially since the Soviet bloc could not be expected to attend if the Games are moved from Moscow to another location. The IOC is a self-perpetuating body, whose members do not represent the views of their governments and are strong proponents of preserving the traditional Olympics. The IOC would be likely to reject any proposal by a large margin. Nevertheless, the effort should probably be made in order to give the IOC every chance to preserve the Olympics.

Assuming the rejection by the IOC, the United States could seek to organize an "Independence Games" to be held in July 1980 among athletes of countries who join us in declining to go to Moscow. We are exploring whether it would be logistically and financially possible to organize and conduct Games this year in Montreal, Munich,* Mexico City, Los Angeles, or in a combination of these and other cities. The State Department is currently making an assessment of how much support there would be for such alternative Games. (It is possible that some countries would compete in alternative Games if they could also compete in the Olympics, but not otherwise.)

It is possible that there would be greater support for a boycott than for alternative Games, particularly among the non-aligned countries. These nations may wish to protest Soviet aggression but not associate themselves with what they might perceive as a Western-dominated political event.

We will provide you with further information and recommendations tomorrow, after we have consulted with USOC officials and have a clearer sense of the positions of other nations.

* Warren Christopher reports that the Germans say Munich is not feasible, although they tentatively support not going to Moscow. The Canadians are willing to consider Montreal.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

*See
Owen
Memo
J*

MEMORANDUM FOR: THE PRESIDENT
FROM: James T. McIntyre, Jr. *JT*
SUBJECT: 1980 and 1981 Budget Increases for PL 480

In the attached memorandum (Tab B) Secretary Vance and Acting Secretary Williams and IDCA Administrator Ehrlich request an increase of \$150 million in the 1980 budget for PL 480 and \$200 million for 1981. In a separate memorandum, Williams also requests \$390 million in additional CCC short term agricultural export credit. (Tab C) They believe that these increases can lead to domestic economic, foreign policy and developmental benefits in the wake of the Russian grain sale suspension. Henry Owen is generally supportive of their objectives for the PL 480 program but believes that increases of \$100 million each year will be adequate and more consistent with budget constraints. (Tab A) I do not believe any increase is needed.

At the time of the embargo decision, two major steps were taken to carry out your desire to "increase amounts of grains devoted to the alleviation of hunger in poor countries". The first was to seek the creation of a four million ton (wheat) food security reserve to permit continuation of PL 480 shipments during periods of tight world supply, which would insulate the PL 480 program from supply cutoffs which have hurt its past effectiveness (Tab D). Second, it was decided to press for fast congressional approval of a pending \$97 million 1980 supplemental for PL 480, which is in serious difficulty because of congressional budget limits on spending for international affairs. These steps meet our most important food aid objectives and together with major grain price support actions appear to have stabilized the grain markets for wheat and corn.

Nonetheless, the interested agencies and others have resurrected a number of the PL 480 and CCC export credit proposals which were rejected in the budget reviews, citing possible domestic and foreign policy benefits. I do not believe that any of the purported benefits are significant and I see major drawbacks to the proposals.

- The PL 480 increments are simply too small to further support grain prices, especially in view of the food security proposal and the domestic price support actions.

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BY: LKS NARA DATE 12/4/13

- Although USDA is still unable to accurately estimate the cost of their proposals, they would probably increase the budget deficit by about \$350 million in 1980 and \$125 million in 1981.
- Adding still another foreign aid supplemental at this time would certainly complicate passage of the pending foreign aid appropriations bill, which is snarled in the congressional budget process, and it might even jeopardize the urgent Pakistan supplemental. Also, higher PL 480 appropriations could force offsetting reductions in appropriations for other high priority development aid programs.
- We should be able to meet all priority requirements for additional PL 480 from the \$138 million in 1980 and \$238 million in 1981 that have been held in reserve and are still available for allocation; we no longer need to hold these reserves as a hedge against future price increases.
- Reverting to the old practice of using the PL 480 program to dump surplus commodities would undermine our efforts to improve the program's effectiveness as a developmental tool by attaching meaningful self-help conditions to it.
- Finally, USDA has not made a persuasive case that additional CCC credits will advance either our domestic or our export objectives. Furthermore, even if increases were warranted, I believe they should be provided through guarantees rather than direct loans in order to minimize the budget impact.

Recommendation

I believe as firmly as anyone that we should take the steps necessary to fulfill our commitment to agriculture that it would not bear the full burden of your embargo decision. But I do believe firmly that these steps should (1) be as programmatically intelligent as possible, and (2) not simply be excuses to reraise issues we decided in the budget process. I disagree with the issues posed to you by Secretary Vance, Director Ehrlich, Acting Secretary Williams, and Henry Owen on both grounds.

I further think that a sense of catastrophe is not necessary in this situation. The grain prices appear to have stabilized and have recovered to preembargo levels. Yesterday, cash corn prices closed at \$2.57 per bushel, up seven cents from the previous day, and more importantly, one cent above the preembargo price. (See attached table). This does not argue for doing nothing -- indeed you have already done a great deal -- but it does say that we need not be rushed into anything.

~~CONFIDENTIAL~~

UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
Washington, D.C. 20523

January 17, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: Cyrus Vance *CV*
Jim Williams *JW*
for Thomas Ehrlich *Harey, Kepland*

SUBJECT: Request for Additional PL 480 Food Assistance (U)

We propose that you increase by \$160 million the pending PL 480 supplemental for FY 1980 and that you add \$200 million to the PL 480 program for FY 1981. The proposals provide an additional 800,000 tons of commodities in each year. This would raise the quantities of food provided in each year from approximately 6 million tons to 6.8 million tons. (U)

Our proposal will use a small portion of the 17 million tons of grain made surplus by the suspension of shipments to the USSR. For long-term developmental, foreign policy, and marketing reasons, the attainment of the Administration's legislative proposal for a 4-million ton Food Security Reserve should be the highest priority use of this grain. Use of some of the surplus also to expand food aid would serve the same objectives.(U)

In calculating how much additional grain might be effectively used, we have taken several factors into account:

- Our program decisions should not jeopardize our relations with other exporters whose cooperation is required to make effective the suspension of grain shipments against the Soviet Union. For this reason we recommend a total tonnage that does not significantly exceed recent levels, i.e., 6.8 million tons.(U)

(Review January 17, 1986)

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- Normal developmental criteria should, as much as possible, continue to apply, i.e., increases for individual countries must not be so great as to serve as a disincentive either to their agricultural production or to sensible economic policies. (U)
- We have resisted initiating new programs that cannot be sustained, because of the political sensitivity of cutting off food aid once a program has been started and because this could be viewed by other suppliers as disrupting normal commercial transactions. We have restricted proposed increases in on-going programs for the same reason. (U)
- Your recent decision on aid to India and Bangladesh argues against allocation now of more food aid to either country, although continued drought in South Asia may create a serious need for increased imports. (C)
- Emergency food requirements, particularly for refugees and displaced people in Kampuchea, Africa, and Pakistan, are unusually high this year and seem likely to continue, possibly at even higher levels. (U)
- The desirability of encouraging developing countries to increase their own grain stocks has also been taken into account. (U)

Although at this time the Department of Agriculture is continuing to analyze the budget implications of the suspension of grain shipments and various options to deal with possible domestic price adjustments, it appears that none of the following options for FY 1980 or 1981 would have a significant impact on the domestic agricultural budget of the Department. However, additional PL 480 shipments might increase USDA's ability to roll-over existing corn contracts and thus reduce quantities of corn that may have to be taken over by the Commodity Credit Corporation. (U)

I. Fiscal Year 1980

The following lists indicate our suggested priority uses of various levels of increase. Precise program levels should be established in the light of events. (U)

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(a) Option 1, basic package of 800,000 tons (\$160 million)

- Title II: To provide an additional 200,000 tons of food for the Title II emergency feeding programs. Much of this amount would be used for rapidly increasing Somali, Kampuchean, and Afghan refugee requirements. Such feeding programs generally do not displace commercial sales and hence do not take markets from other exporters. (U)

- Egypt: To provide Egypt 200,000 tons of corn, through Title I, as a further response to President Sadat's request of last summer. (This was discussed in our memorandum of January 14.) If you approve the recommended increase for the total program, this 200,000 tons of corn would not increase Egypt's share of Title I resources. (C)

- Pakistan: To provide additional Title I support of \$10 - \$20 million to Pakistan in accordance with your recent decisions on overall assistance to that country. At present we would plan to provide 15,000 tons of vegetable oil to Pakistan; however, these funds could provide wheat depending on the outcome of Pakistan's own crop. (U)

- Korea: To expedite Title I shipments in FY 1980 to Korea to complete the United States long-standing commitment to that country. This would supply an additional \$27 million (230,000 tons of corn) that had been planned for FY 1981. (U)

- Africa and Latin America: To provide modest Title I increases for a number of other poor countries in Africa and Latin America, e.g. Somalia, Sudan, Kenya and Nicaragua where we have special foreign policy interests. These countries would receive an estimated additional 155,000 tons of grain. (U)

(b) Option 2, enhanced package of 1.3 million tons (\$280 million)

A number of other programs might be considered to increase the PL 480 level to 7.3 million tons. Some increases might displace commercial sales of other exporters and increase the risk of additional sales by them to the USSR. However, to the

extent this additional tonnage is corn rather than wheat, this difficulty might be lessened. Therefore, should you wish to increase PL 480 volumes above the 800,000 tons we recommend in Option 1, we could add the following: (U)

- Pakistan: To provide an additional \$20 million of food assistance to Pakistan bringing the total for the year to \$80 million. This would provide an additional 15,000 tons of oil above Option 1. It is possible that by the end of the year Pakistan may be able to absorb additional quantities of wheat and oil. (U)

- Africa and Latin America: To provide additional resources of about 235,000 tons above Option 1 to some countries in these regions. (U)

- South Asia: To provide 250,000 tons of grain under Title I to meet possible needs in South Asia, including Bangladesh and India should conditions warrant it. If justified and feasible such a contingency reserve might also support stock building in poor countries, possibly in conjunction with the FAO. (U)

(c) Option 3, Israel (\$75 million)

The 7.3 million ton level in Option 2 does not provide for resumption of large PL 480 sales to Israel. Israeli Ambassador Evron requested of Stu Eizenstat that Israel receive part of any additional PL 480. We recommend against increasing this program. Increasing PL 480 would not increase U.S. grain exports but would merely replace U.S. commercial sales. It would also create an expectation in Israel that this assistance would continue well into the future. Finally, it is likely to inspire Jordan to ask for a large PL 480 program in lieu of its Arab-oil financed purchases of grain. We assume that the Israelis have at least a \$75 million program in mind. (e)

Options for decision, FY 1980:

- (a) Basic package of 800,000 tons (\$160 million)

_____ Approve _____ Disapprove

(b) Enhanced package of 1.3 million tons (\$280 million)

_____ Approve _____ Disapprove

(c) Israel (about \$75 million)

_____ Approve _____ Disapprove

II. Fiscal Year 1981

We have also identified priority uses for next year of any increased PL 480 resources; these allocations are subject to change as country needs change. We are therefore not seeking your approval of the specific examples. (U)

(a) Option 1, basic package of 800,000 tons (\$200 million)

The PL 480 budget level you approved this past December included a Title I reserve sufficiently large to meet unexpected commodity needs in many of the smaller developing countries. The principal additions in FY 1981 would be for the Title II emergency reserve and for Title I programs in several countries of foreign policy priority that could not be met within the current budget level of \$1.6 billion. Most significant among these are: (U)

- Egypt: To provide an additional 200,000 tons of corn for Egypt, the same as proposed for FY 1980; (U)
- Portugal: To provide continuation of a Title I program in Portugal at the \$40 million level that has been typical of recent years. We would thus continue the Portuguese program in FY 1981 and therefore delay the termination of the program until FY 1982. Our proposal could provide up to 300,000 tons of corn plus some wheat to this important country. (U)
- Indonesia: To continue a Title I program in Indonesia at a \$50 million level to provide an estimated 300,000 tons of grain, approximately half the dollar level of such programs in FYs 1979 and 1980. This will allow a gradual phase-out, rather than an abrupt termination of this program. (U)

~~CONFIDENTIAL~~

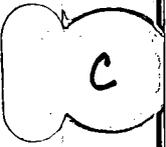
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- Pakistan: To increase the Title I program in Pakistan from \$40 to \$60 million to provide either vegetable oil or wheat depending upon the import needs of Pakistan. At present we expect to supply 30,000 tons of oil. (U)
 - Title II: To increase by 150,000 tons of food the Title II reserve to assure U.S. ability to meet refugee and other emergency needs. This will build on the Title II reserve of 300,000 tons included in your earlier PL 480 budget decisions for FY 1981. (U)
- (b) Option 2, Enhanced package of 1.5 million tons (\$350 million)

As in 1980, additional amounts could be shipped beyond those we recommend and could increase the program by as much as 700,000 tons, that is to a total of 7.5 million tons. This high volume could put at risk exporter cooperation for our suspension of shipments of grain to USSR. This option could include the following, subject to reprogramming in response to changing situations. (U)

- Egypt: In response to a past Egyptian request, we would add 100,000 tons of corn bringing the total additional program under Title I to 300,000 tons. Such programming would have no development justification and would probably displace United States or other exporters' commercial sales. It would also raise Egyptian expectations that would be difficult, if not impossible, to fulfill in future years. It would have to be clear that this allocation to Egypt would be a one-time event and not a new commitment. To the extent possible, we would make such additional resources conditional upon some economic reforms and that the shipments do not simply replace commercial U.S. sales to Egypt. (U)
- Pakistan: Additional support to Pakistan, possibly up to \$80 million would be provided. Such support would be a political statement not related to developmental objectives. The commodity needs of Pakistan could change, but at present we would expect to supply an additional 30,000 tons of oil in this option. (U)

~~CONFIDENTIAL~~



THE WHITE HOUSE

WASHINGTON

January 18, 1980

4:15 p.m.

MEMORANDUM FOR THE PRESIDENT

FROM : AL MCDONALD *AM*

SUBJECT : Grains Markets

Following yesterday's sharp increases, the markets closed slightly lower on Friday but well within normal trading margins. Corn futures were down 3 to 4¢, and cash corn was down 4¢. Wheat futures were down 1 to 3¢, while cash wheat was unchanged. Soybean futures were down 6 to 8¢, and cash beans were down 6¢.

At the end of the first full trading week after your January 4 announcement, the markets appear to have stabilized. Cash prices and futures prices of all grains are up on the week, leaving them within normal trading ranges of their January 4 closes.

In three telephone conversations near closing time, market officials were relaxed, confident and complimentary of the way the Administration has executed your embargo decision. The new President of the Chicago Board of Trade said, "The markets have behaved remarkably well. They are definitely back to normal." His predecessor said the Administration has "handled the situation well and made an excellent effort to monitor developments and understand the practical problems" at every level from the farmers through the logistical system to the exporter.

The only problem is at local cash markets in certain higher production areas. Full elevators there reflect the clogged distribution system downstream, and these elevator operators are not buying until they can start shipping again. A decision for the CCC to begin buying selectively in limited quantities at the local level to relieve the strain seems timely. Until the system can begin flowing regularly again this kind of action would likely be viewed as a logical and practical next step.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

16 JAN 1980

INFORMATION MEMORANDUM FOR THE PRESIDENT

FROM : Jim Williams
Acting Secretary *fw*

SUBJECT: Food Security Reserve

The Food Security Act of 1979 proposed by the Administration and pending before Congress (H.R. 4489) would authorize the establishment of a reserve stock of wheat of up to 4 million metric tons (150 million bushels). Stocks would be acquired either through direct purchases or by designation of CCC-owned stocks. Reserve stocks would be held off the market in the reserve for use only during periods when U.S. supplies are so limited that they could not be determined available under the P.L. 480 Section 401(a) criteria. A small portion of the reserve (300,000 tons) could be used in any fiscal year to meet urgent humanitarian relief requirements resulting from major disasters if commodities could not be made available quickly enough through the reallocation of existing resources or through supplemental funding.

In announcing actions being taken to assure that the burden of the Soviet grain shipment suspension does not fall unfairly on farmers, both Secretary Bergland and Vice President Mondale have stated that the Department of Agriculture will purchase the 4 million metric tons of unshipped wheat. The wheat removed from the market will be designated as the food security reserve once authorizing legislation is passed.

The Administration proposed similar legislation during the last Congress which was not acted upon. At that time, and earlier this year, there was little support among farm groups for a food security reserve because of their dislike of government held reserves. However, recent contacts with farm group representatives indicate that their position against the food security reserve may have softened due to the present supply situation.

Meetings with concerned agencies to discuss appropriate strategies to pursue passage of the Food Security Act have already been scheduled.

THE WHITE HOUSE

WASHINGTON

January 18, 1980

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MEMORANDUM FOR THE PRESIDENT

FROM: BILL CABLE
DAN TATE

SUBJECT: WPT Conference

Yesterday the WPT conferees met and made three decisions involving Tier I and Tier II oil. These decisions were significant more because they were made (indicating that the conference was moving) than because of their substance.

Two important developments should be noted:

(1) Congressmen Jones and Moore floated their compromise which takes the form of an across-the-board, single rate severance tax. Their idea should not be seriously considered on the merits, but we will have to keep a close eye on it simply because Jim Jones is associated with it.

(2) At one point in the middle of the afternoon, the conferees examined the sixteen options developed by the staff. These options represent various ways of distributing the tax between majors and independents while raising the \$225-235 billion in taxes agreed to by the conferees before they recessed for the holidays. They focused on the burden on the independents and, in keeping with the traditional conference philosophy of splitting the difference between the House and Senate bills, seem to be enamored of the \$29 billion figure which is roughly half-way between the tax the independents would pay under the House bill (\$57 B) and the tax they would pay under the Senate bill (\$1 B).

Dan Tate talked with Russell Long last evening and the Senator indicated that he hoped (1) the conferees will have rapped up the tax aspects of the bill by the time you give the State of the Union speech on Wednesday and (2) the conference will impose a minimum tax of 30-35% on new, incremental tertiary, and heavy oil in keeping with your request of him. He said he could not promise that he could deliver on point #2 but that he would bend his efforts toward that end fully.

THE WHITE HOUSE

WASHINGTON

January 17, 1980
4:20 p.m.

MEMORANDUM FOR THE PRESIDENT

FROM : AL MCDONALD *AM*
SUBJECT : Grains Markets

The grain markets had all good news for us today with wheat, corn and soybeans closing sharply higher. Most significant, cash corn rose 7¢ to \$2.57 taking it 1¢ above the January 4 closing of \$2.56. We have immediately relayed that news to the Vice President.

On the futures market, corn closed up 7¢, at \$2.77 for March delivery. Wheat futures were up 15 to 19¢, and cash wheat was up 7¢. Soybean futures were up 22 to 23¢, and cash beans were up 22¢.

Cash wheat is only 4¢ below the January 4 level (\$4.35 vs. \$4.39), and cash beans are 27¢ above their January 4 close (\$6.42 vs. \$6.15).

THE WHITE HOUSE
WASHINGTON

1/19/80

Mr. President:

John Denver called for you
friday. Al McDonald took the
call. John was following up
on your request for ideas on
World Hunger Commission. He
passed on suggestions in line
with Linowitz's report, nothing
really new. Al has them if
you are interested.

Phil

THE WHITE HOUSE

WASHINGTON

January 18, 1980

MEMORANDUM FOR THE PRESIDENT

FROM : AL MCDONALD *AM*

SUBJECT: Telephone Call from John Denver

Late Thursday John Denver telephoned to pass along a message to you. He said he had received a New Year's Day call from you which he appreciated very much, and was invited by you then to telephone with any ideas.

His suggestions build on the report from the World and Domestic Hunger Commission, chaired by Sol Linowitz, of which Denver is a member. His three points were:

1. The Hunger Commission has recently reminded us that we must broaden our definition of national security; a hungry, ignorant world is a threat to all of us.

2. In this regard, the Commission has suggested that as we embargo grain from Russia, we ask those other nations who are joining us in the embargo to meet with us on how to best use the food, at home and abroad, to alleviate hunger.

3. Despite aggressive conditions in the world today, a continued concern over such basic human needs as the alleviation of hunger is very much in our interest, and we must learn more about it and educate our citizens about this important matter.

Denver suggested these ideas might be included in your State of the Union Message.

I have sent him a letter thanking him for his call.

ID 800446

THE WHITE HOUSE

WASHINGTON

DATE: 21 JAN 80

FOR ACTION: LLOYD CUTLER *LC*

STU EIZENSTAT *amcu*

ZBIG BRZEZINSKI *amcu*

REUBIN ASKEW *amcu*

INFO ONLY: THE VICE PRESIDENT

AL MCDONALD

JACK WATSON

JIM MCINTYRE

CHARLIE SCHUTLZE ~~CS~~ *HC*

SUBJECT: KLUTZNICK MEMO RE RESUMPTION OF EXPORTS OF CERTAIN
AGRICULTURAL PRODUCTS TO THE USSR

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: ~~Tuesday~~ +

+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

amcu

-2-

- The USOC leaders indicated that further Soviet expansion (e.g. into Iran or Pakistan) would cause them to re-examine their own position and result in a decision not to send a team to Moscow. To preserve their sports purity, they would pull out because of jeopardy to the safety of American athletes, not because of political considerations. At this time, however, they do not feel that there would be a threat to the safety of American athletes in Moscow and point out that American sports teams continue to participate in Russia without any difficulty.

With regard to the suggestion of a permanent home for the Summer Games in Greece, they pointed out that the IOC has rejected that suggestion in the past on the grounds that the Games "belong to the people of the World", and that many Third World nations aspire to become host nations for the Games.

When asked if the USOC would comply with a Presidential request not to send a team to Moscow, Mr. Kane said that if you urged the U.S.O.C. to "boycott" the Games, he believes that the USOC would support their President, but that he would personally feel compelled to resign his position. (He said he has not made a resignation threat publicly.) We made clear that a whole range of proposals was under consideration, and that he should not assume that a flat "boycott" was most likely.

After the meeting, the USOC issued a statement indicating that if you make a proposal to the USOC, its decision would be based on the sentiments of the athletes who would comprise the U.S. team. They believe the athletes favor attending, but recognize that public sentiment is "70-30" against attending. They also requested that if you do make a proposal to the USOC, you send a representative to their meeting in Colorado Springs next week-end.

THE WHITE HOUSE

WASHINGTON

January 19, 1980

ok
J

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
SUBJECT: State of the Union Message

Attached are the two signatory copies of the State of the Union Message. In the previous two years you have not read the Message, and I strongly recommend that you not do so again.

The Message represents a comprehensive discussion of your domestic and foreign policy legislative goals. It also contains within each of the areas discussed a brief review of your accomplishments in that area. As a result, this document, in whole or in its separate parts, should be useful in the coming months to those who are interested in knowing your record and your current position on most issues. For that reason, we will be widely distributing in booklet form the Message and your Address.

I have prepared the domestic part of the Message, and it has been cleared by OMB and CEA for substance and the Speechwriters for style. Zbig prepared the foreign policy section, and it has been cleared by State and Defense.

The Message contains no commitments or decisions you have not already made. It should not produce any flaps or problems. In the domestic area, many of the sections will be well appreciated by key Members and interest group leaders, since you will be officially and favorably mentioning subjects of great interest to them in your State of the Union Message.

Once you approve the Message, we will send it to Congress Monday by noon. We will then brief the press on the Message.

**Electrostatic Copy Made
for Preservation Purposes**

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT January 19, 1980

FROM: LLOYD N. CUTLER

SUBJECT: Summary of January 18 Meeting with leadership
of the United States Olympic Committee

Participants: Robert Kane, President, USOC
F. Dan Miller, Executive Director, USOC
Secretary Vance
Lloyd N. Cutler
Joseph Onek, Deputy Counsel
Robert Berenson, Assistant Director, DPS

Secretary Vance set forth the United States' position on the Soviet invasion of Afghanistan. The USOC leaders said they understood the gravity of the situation. But they reaffirmed their strong belief that a boycott of the Moscow Games would be a vehicle for international politics and would likely result in the end of the modern Olympics. They emphasized their concern about becoming isolated from the International Olympic Committee (IOC) as a result of their commitment to a government-imposed boycott. In arguing against a boycott, they made the following major points:

- The USOC could be more effective within the forum of the IOC if they had not previously committed to a boycott. Working within the IOC structure, the USOC might be able to affect some change in plans for the Moscow Games. They admitted, however, that the IOC would be very unlikely to either cancel, move, or postpone the Games. The IOC Executive Board has agreed to hear USOC views on the Moscow Games at its February 10 meeting.
- Based on discussions with Lord Killanin, President of the IOC, and other national Olympic Committees, the USOC leaders feel that there would be very little support by national Olympic Committees or IOC members for a boycott of the Moscow Games. A unilateral action on the part of the U.S., without general support, could result in a propaganda win for the Soviet Union.
- At the same time, however, they argue that U.S. leadership in defying the IOC would splinter the IOC and kill the Olympic movement.
- The continued threat of a U.S. pullout from Moscow could be an effective deterrent to further Soviet aggression.
- An early announcement of U.S. non-participation in Moscow would likely result in a Soviet bloc boycott of the Lake Placid Games.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 18, 1980

*ok.
J called Jim
J*

MEMORANDUM FOR THE PRESIDENT

FROM: JIM McINTYRE *Jim*
SUBJECT: 1981 Budget Message

This is a final draft of your budget message--
subject only to your comments. Your other senior
advisors have already given us theirs.

As I mentioned earlier this week, I would like to
have it back from you by Monday to adhere to our
schedule.

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

This budget for 1981 is prudent and responsible. It continues the strategy of restraint that I proposed, and the Congress accepted, for the 1980 budget. At the same time it proposes selected, essential increases in areas of high priority and great national concern. In this way it seeks a balance between our needs for budgetary restraint and our needs for specific expenditures. I expect the Congress to support it.

Total outlays for 1981 proposed by this budget are \$615.8 billion, an increase of 9%. After allowing for inflation, this budget is virtually level with 1980 spending. Total receipts for 1981 are estimated to be \$600 billion. In view of current economic conditions, the only major revenue proposal included in the budget is my windfall profit tax now before the Congress.

THE BUDGET TOTALS
(In billions of dollars)

	1979 actual	1980 estimate	1981 estimate	1982 estimate	1983 estimate
Budget receipts..	466	524	600	691	799
Budget outlays...	494	564	616	686	774
Surplus or deficit (-).....	-28 =====	-40 =====	-16 =====	+5 =====	+25 =====
Budget authority..	557	654	696	775	868

Thus, I am proposing a deficit of \$15.8 billion, the lowest in 7 years. This reduces the deficit by 60% in comparison to 1980. More significantly, it is \$50 billion less than when I first ran for the Presidency. As a percentage of the budget, and of the gross national product, the 1981 deficit is the second lowest of the last decade.

Economic projections deeply affect this budget. It appears today that the long economic recovery occurring throughout my first term may falter this year. I have therefore assumed that there will be some decline in GNP during the course of 1980, followed by renewed but moderate growth in 1981. As a result, budget receipts will be reduced and certain expenditures will increase automatically. This is why the 1981 budget is in deficit. If, contrary to our assumptions, the economy were to perform strongly enough to keep the unemployment rate at its current level, the 1981 budget would be in surplus.

We must monitor the economic outlook carefully. If the economy begins to deteriorate significantly, I will consider tax reductions and temporary spending programs for job creation targeted toward particular sectors of economic stress. But I believe current economic conditions argue for restraint.

I believe that this judgment and this budget recognize that equitable budget restraint is essential in our efforts to control inflation; that the unemployed should not bear the costs of our anti-inflation efforts; and most importantly, that we continue to pursue the goals of full-employment, price stability, and balanced growth. The fiscal and program policies in this budget

are essential, I believe, if we are to move rapidly toward these goals in the 1980's.

Indeed, the restraint proposed in this budget is essential to achieve these goals. The unacceptably high inflation now prevailing is clearly due to many, deeply imbedded, long-term forces. Countering this inflation involves sustained action across a wide spectrum.

- We must reduce our dependence upon foreign oil.
- We must enhance our economy's productivity.
- We must continue our efforts to foster competition and innovation through further deregulation.
- We must sustain compliance with the administration's wage and price guidelines.

But none of these efforts can succeed unless Federal spending is controlled. By continuing a clear and consistent policy of restraint, the 1981 budget ensures that the Federal budget will not be an inflationary force in the economy.

Although I have kept spending in this budget from rising in real terms, I have found it necessary to increase funds in a ~~very~~ few critical areas. The most important of these are defense, energy, basic research, and the training and employment of our Nation's young people.

Defense

The long decline in real spending for defense that began in 1969 has ~~finally~~ ^{been} reversed. The uncertain and sometimes hostile world we live in requires that we continue to re-build our defense forces. [[]Two years ago, in the 1979 budget, I announced a policy of real increases in the defense budget.] The

United States seeks peaceful means to settle international disputes. But I cannot ignore the major increases in Soviet military spending that have taken place inexorably over the past 20 years. I cannot ignore our commitment to our NATO allies for mutual real increases in our investment in national defense. I cannot ignore the implications of terrorism in Iran or Soviet aggression in Afghanistan.

Therefore, my budget proposes a defense program in 1981 of \$158.2 billion in budget authority, an increase of over 5% in real terms. Outlays for defense will be \$142.7 billion, a real increase of over 3%.

Moreover, I am committed as a matter of fundamental policy to continued real increases in defense; and I plan increases in my defense budgets through 1985. Over the period 1981-1985, I am proposing that the defense program level of the United States increase by \$90 billion.

Energy

This budget reflects the important progress made by my administration toward a broad and practical program dealing with the energy problems the Nation will face in the next decade. I am confident, and the 1981 budget assumes, that early in the 1980 session the Congress will pass the crucial measures I proposed last year: the windfall profit tax, the Energy Security Corporation, the conservation measures and the Energy Mobilization Board.

With this budget we will have put into place an energy program composed of the following elements:

(1) Realistic pricing and fair taxes. My decontrol decision of last April is now in effect. It is painful, and no one can pretend otherwise. But we cannot have an energy program that maintains illusions. Energy is not cheap, and we must accept that fact.

My windfall profit tax, to be passed early this year, retains a portion of the profits from energy price increases for the public. This will ensure that increased energy prices will lead to new public investment in energy production. It will ensure also that the burdens of higher energy costs are fairly shared.

(2) Conservation. The 1981 budget allocates new resources both for tax incentives, low-interest subsidized loans and other measures to stimulate more conservation. Conservation is the quickest and cheapest step we can take to confront our energy problem.

(3) Production. This budget anticipates the creation of the Energy Security Corporation to facilitate the development of synthetic fuels and a major new gasohol program. It also supports continued new investments in those energy initiatives begun in the last two budgets. We are significantly increasing our expenditures on fossil fuels, on solar energy, and on nuclear fusion. The nuclear fission program, on the other hand, declines but places greater emphasis on solving the current problems of nuclear power.

(4) Protection. As we adjust to the new energy realities, we must continue to protect those who are most vulnerable. The 1981 budget continues to provide funds for

the poor to weatherize their homes; funds to enable the most disadvantaged Americans to cope with the rising cost of energy; and funds for energy crisis assistance.

My energy program is, of necessity, a long-term one. But if it is sustained through the new decade, we will reduce consumption, increase production from domestic sources, and promote alternate forms of energy. We will significantly reduce our dangerous reliance upon foreign oil. We will remove a major source of inflation. Our economy and our Nation will emerge from the 1980's stronger than they are now.

Basic Research

In the long run, economic growth depends critically on technological development. For many years, this country has led the world in producing new technology. We are in danger of losing this leadership. The 1981 budget continues my long-standing commitment to reverse the trends of the past two decades and provide for major and sustained increases -- above the rate of inflation -- for research and development programs. Obligations for research and development will increase by 13.6%; for basic research by 11.8%. Since 1978, obligations for basic research will have increased by 40%. I believe that these are among the most important expenditures we can make. The payoff, particularly for basic research, is long-term but immense. We benefit today -- in new industries, in millions of jobs, in lives saved, and in lives protected -- from the investments in science decades ago. We must continue such investments today to reap similar returns tomorrow.

inflation -- for research and development programs. Obligations for research and development will increase by 13.6%; for basic research by 11.8%. Since 1978, obligations for basic research will have increased by 40%. I believe that these are among the most important expenditures we can make. The payoff, particularly for basic research, is long-term but immense. We benefit today -- in new industries, in millions of jobs, in lives saved, and in lives protected -- from the investments in science decades ago. We must continue such investments today to reap similar returns tomorrow.

Human Resources

My budget, restrained as it is, provides needed support to those Americans who are most in need. Most of the increase in the 1981 budget over 1980 is due to the automatic cost-of-living increases in entitlement programs that provide income to the poor and the elderly. I have continued and improved these programs. In addition, I have proposed discretionary increases in a wide range of programs affecting those in our society who are the most disadvantaged.

The budget includes \$687 million for proposals to expand health services to the poor and the underserved, including \$403 million to provide medicaid eligibility for 2 million additional low-income children and approximately 100,000 pregnant women. The budget also includes a 24% increase in subsidized housing programs and a 24% increase in elementary and secondary education programs for the disadvantaged. Overall, I am proposing an increase of \$7 billion in aid to the poor, to protect them against the effects of inflation.

At the same time, I am proposing a major initiative that will enable our Nation's disadvantaged youth to receive a strong basic education, to find and keep a job. This is a critically important time for this initiative. In the 1980's, the number of youths entering the labor market will fall. If the young people of the 1980's are prepared, they will be able to find good jobs and build productive lives. My initiative will make this preparation possible. It will couple a strong emphasis on basic education with significant employment opportunity. For those young people who participate, the programs will be tough and challenging. But they will be extremely worthwhile. Those who complete them will have a major advantage where it counts -- in the permanent job market. I consider this investment in human resources for the 1980's to be as important as the investments I am proposing for basic research. It is an investment in our most precious resource -- the energies and talents of America's young people.

Agriculture

Because of the aggression by the Soviet Union against Afghanistan, I concluded that we could not now permit that country to benefit from our productive agriculture. On January 4, I announced the suspension of shipments of grain, soybeans and their by-products to the Soviet Union. This budget reflects the steps necessary to avoid the devastating effects such action could have had on our farmers and grain shippers. Specifically, the Secretary of Agriculture will:

- Purchase contracts entered into with the Soviet Union at prices at or above those prevailing on January 4.

- If necessary, take title to the grain intended for export to the Soviet Union and isolate it from the market.
- Purchase up to 4 million metric tons of wheat for an international food aid reserve.
- Increase the loan level for feed grains and wheat by 10 and 15 cents per bushel, respectively.
- Modify the farmer-owned grain reserve to encourage farmers to place additional grain in the reserve.

I stand ready to take further steps if these actions prove insufficient.

Other Commitments

In other important areas, the 1981 budget reflects the reorganization accomplishments of the administration; continues the significant progress already experienced in urban and community development; expresses my commitments to welfare reform and a national health plan, programs that will begin in future budget years; and reaffirms my dedication to improved Federal budgeting and management.

The budget anticipates that my welfare reform proposals will take effect in 1982, and my national health plan proposal in 1983. Taken together, these programs provide income support and assured health care to all Americans in need. My national health plan -- which will be phased into operation prudently, consistent with the state of our economy -- minimizes direct governmental control over health care, restrains the growth of government, and provides maximum individual choice. I am continuing to seek enactment of my hospital cost containment proposal, which I

believe is an essential part of any national health plan. When fully enacted, these two proposals -- welfare reform and the national health plan -- will significantly and permanently improve the lives and prospects of all Americans.

The 1981 budget includes a \$15.5 billion allocation for the new Department of Education, which the Congress has approved. The establishment of this department will require a great deal of effort in the short run, but it will give our system of education the consistent attention and high priority it deserves.

This budget also continues the improvement in the budget process I promised 4 years ago. In the 1979 budget we introduced zero-base budgeting, a system we have now used in three budgets to assure the allocation of our scarce public resources to the most critical areas. Last year, in the 1980 budget, we moved to multi-year budgeting. My budget again this year shows not only decisions for 1981, but the effect of those decisions -- in detail -- for 1982 and 1983. To the extent feasible, the multi-year budget projects also the future costs of programs such as the national health plan, welfare reform, defense, energy, and research and development.

This year I have installed a central system to control the use of Federal credit. In the past, too much has escaped the normal discipline of the budget. This system, which is now in place, recommends specific credit limitations for most credit programs.

THE CREDIT BUDGET TOTALS
(In billions of dollars)

	1979 actual	1980 estimate	1981 estimate
New direct loan obligations.....	51.4	59.7	60.7
New loan guarantee commitments.....	74.7	75.2	81.4
	<hr/>	<hr/>	<hr/>
Total.....	126.1	134.9	142.1

The new system of credit control will permit both the administration and the Congress to improve their understanding of the credit programs, to measure their important effects, and to determine appropriate levels of credit activity.

This budget reflects continued efforts to improve financial management in government and to stop illegal or improper use of taxpayers' money. We are achieving major savings from better cash management and stronger internal auditing in Federal agencies.

Conclusions

Proposing a responsible Federal budget is a fundamental task of public leadership. The budget must reconcile a broad range of legitimate claims for resources with the needs of the economy and the burdens on the taxpayer. Simultaneously, it must:

- respect past commitments in its allocations to social security, to veterans, and to the elderly;
- meet the needs of the present for defense, unemployment benefits, and health services; and
- invest in the future through research and development, energy programs, and education.

The budget must do all of these things specifically and in detail. A budget rests on specific proposals related to specific costs, not on rhetoric.

A budget also rests on policy. And this budget contains important policy decisions -- major departures, new initiatives, larger and longer-term commitments. Each stands on its own merit. Yet taken together all of the proposals in this budget can also be characterized in a more general way. They reflect the maturing of the administration's basic, consistent underlying policy themes: restraint in budgeting the taxpayers' dollars; the strengthening of our defense; providing energy for the future; improving opportunities for the Nation's youth; and making government work better.

Ours is a great and complex nation. The existing arrangements in our society are the result of complex, not always consistent decisions of the past, emerging from a democratic people. Change is sometimes slow because it rests on consent. But intelligent, consistent leadership, persistently applied, can bring about change in policies, and further the well-being of our society and of its people. I believe that this budget, and those I have submitted in the past, support the fundamental policies that will prepare America for the new decade.

JIMMY CARTER

JANUARY 28, 1980

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 17, 1980

*etc -
I called
Schultze
J*

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CLS*

Subject: The Economic Report of the President

Attached is a draft of the 1980 Economic Report of the President. It incorporates comments from Treasury and OMB, and a copy was sent to Stu yesterday.

I have marked in red passages for your particular attention.

Given our printing timetable, I would appreciate your comments by Monday morning.

Attachment

ECONOMIC REPORT OF THE PRESIDENT

Last year world oil prices more than doubled. The increase will add some \$150 billion to the bill for imported oil paid by consuming nations. Higher oil prices were the major reason for the worldwide speedup in inflation during 1979 and the dimming of growth prospects for 1980.

The United States was severely affected, as were other oil importing countries. Our share of the additional oil bill will come to some \$40 billion. Partly, but not solely because of higher oil prices, inflation accelerated sharply. The consumer price index rose by 13 percent. The Nation's output of goods and services, which had been predicted in last year's Economic Report to grow by 2-1/4 percent over the four quarters of 1979, rose by less than 1 percent.

Although growth slowed, our economy offered strong resistance to the forces of recession. Despite virtually universal forecasts of imminent recession, output continued to grow throughout the second half of last year. Housing sales and construction held up better than expected until late in the year. Consumers maintained their spending in the face of the multi-billion dollar drain of purchasing power from higher oil prices by reducing their savings. Because business inventories have been kept remarkably lean, declines in sales did not lead to major inventory corrections. More generally, the economic recovery of recent years has been free of the distortions which, in the past, made the economy sensitive to recessionary forces.

Employment growth held up even better than output, and unemployment remained under 6 percent all year. Unfortunately, the strength of employment gains reflected a sharp decline in productivity -- 2 percent over the year. This fall in productivity added to costs, and thus bore a share of the responsibility for higher inflation.

While inflation worsened in 1979, a large part of the acceleration was concentrated in a few areas -- energy, home-ownership and finance, and early in the year, farm and food products. Elsewhere, consumer price inflation was more moderate, as prices rose by ___ percent over the year. Wage gains were no higher than in 1978, despite the speedup of inflation. The government's voluntary wage and price standards were widely observed and limited sharply the extent to which inflation spread from oil and a few other troubled sectors to the rest of the economy.

The Importance of Reducing Inflation

It is my strong conviction that inflation remains the Nation's number one economic problem. Energy and housing prices are still moving up rapidly, adding directly to inflation and continuing to threaten a new price-wage spiral in the rest of the economy. Disappointing productivity performance is adding to business costs. Even apart from these special problem sectors, the underlying rate of inflation is now running at an 8 to 9 percent rate, compared to 6 or 6-1/2 percent several years ago.

Our immediate objective for 1980 must be to prevent the spread of double-digit price increases from oil and other problem

sectors to the rest of the economy. My budget and economic policies have that as their primary goal. We share that same urgent goal with virtually every other oil importing country. Halting the spread of inflation is not enough, however. We must take steps to reduce it.

Each new round of inflation since the 1960s has left our country with a higher underlying inflation rate. Without long-term policies to pull down the current 8 to 9 percent underlying rate, our Nation will remain vulnerable to still further increases. Another sharp rise in oil prices or a worldwide crop shortage could provide the next turn of the ratchet. Failure to lower inflation, after the latest episode, would strengthen long-run inflationary expectations and erode resistance to even larger wage and price increases. Over the longer term, we will either bring inflation down or it will assuredly get worse.

A Strategy for Dealing with Inflation

To fight inflation I propose that we act along four lines. The first and most immediate of these is fiscal and monetary restraint:

- o Under the economic conditions that now confront us we must concentrate on reducing the budget deficit, by holding down Federal spending and foregoing tax reductions. We cannot afford a permissive economic environment in which

the oil-led inflation of 1979 gives rise to a widespread acceleration of wage and price increases in 1980 and 1981.

- o To reduce inflation in subsequent years, the Federal budget will have to stay tight for the foreseeable future. That does not mean that it should fail to respond to changing economic circumstances or that taxes can never be reduced. But compared to an earlier era of little or no inflation, the room for budgetary maneuver has substantially shrunk.
- o Monetary policy must support these objectives.

The second line of action is restraint by the private sector in its wage and price decisions. We are now engaged, cooperatively with business and labor, in updating and improving the voluntary wage and price standards.

delete [Controlling inflation is the Nation's top economic priority, but it is not the only one.] As a third line of action we must pursue measures to encourage productivity growth, adapt our economy rapidly to the fact of scarcer oil supplies, and improve our competitive standing in the world economy. By dealing with these fundamental aspects of economic performance, we can reduce inflationary pressures from the cost side. Even more importantly, we can seek to assure that the long-term monetary and fiscal restraints needed to curb inflation go hand-in-hand with a healthy growth in output, employment and living standards.

Recent history has driven home the lesson that events outside our country -- such as worldwide crop shortages or sudden increases in OPEC oil prices -- can have major inflationary effects on the domestic economy. The fourth line of action, therefore, must be the use of measures, in the fields of energy and food, to reduce our vulnerability to outside inflationary shocks.

The Short-Term Economic Outlook

We face a difficult economic transition in the next year or two. According to my economic advisers, our economy is likely to undergo a mild recession early this year. Most private forecasters share this view. Consumer purchasing power is being drained away by rising energy prices; moreover, construction of new homes may decline somewhat further because of limited supplies of mortgage credit and high mortgage interest rates.

Since economic growth in recent years has been well-balanced, there are no serious distortions in our economy to intensify the forces of recession. An economic downturn, if it occurs, should therefore be brief and mild. By year end our economy should be growing again, and the pace of expansion is likely to increase in 1981.

Unemployment will probably rise moderately this year. Next year, a stronger pace of economic expansion will create more new jobs, and unemployment will begin to come down again.

Inflation has been building in our country for a decade and a half, and it will take many years of persistent effort

to bring it back down. This year energy prices will still go up faster than other prices but less so than in 1979. Some of the other special factors that contributed to inflation last year should do so to a smaller degree, or not at all, in 1980. Enactment of the budget I have recommended and continued exercise of reasonable restraint by business and labor in their wage and price decisions should make it possible to lower the rate of inflation from 13 percent in 1979 to something in the neighborhood of 10 percent in 1980, and to a range of 8 to 9 percent in 1981. But that accomplishment will still leave inflation running at an entirely unacceptable pace. We cannot, and will not, rest until reasonable price stability has been achieved.

Budget Policies

My budget proposals will reduce the fiscal 1981 Federal deficit by more than half to ___ billion. Accomplishing this reduction, despite the effect of slower economic growth on Federal tax revenues, has required severe restraint on Federal spending. Outlays will increase from \$564 billion this year to \$616 billion in fiscal 1981. Although real defense spending will rise, total Federal outlays, adjusted for inflation, will remain virtually constant. I propose to reduce inflation-adjusted spending, outside of defense, despite the inevitable growth of a number of large programs, like social security, whose benefits are automatically indexed to consumer prices.

My 1981 budgetary policies are based squarely on the premise that bringing an end to inflation must remain the top priority of

economic policy. Not only are budget expenditures held to the minimum level consistent with urgent national needs, but tax reductions are foregone. This austere budget policy, accompanied by supportive policies of monetary restraint, is a necessary condition for controlling inflation.

Citizens all across our country are facing rising tax burdens because of increased social security taxes and because inflation pushes individuals into higher income tax brackets. They want, and deserve, tax reductions when they can be granted within the framework of a prudent budgetary policy. Businesses need greater incentives to invest in the new and modern plant and equipment that is essential to growth in our productive capacity and to long-run improvement in economic efficiency. If we continue to keep the growth of Federal expenditures under tight rein, tax reductions will be forthcoming. But I could not and did not recommend tax relief this year.

I am aware that a mild recession is widely forecast. Indeed the estimates of revenues and expenditures in my budget assume its occurrence. But forecasts are necessarily uncertain. Our economy has shown impressive strength to date, and there is no evidence that a recession is currently underway. Under those circumstances, to have recommended a tax reduction and a much larger budget deficit would have been a signal that we were not serious in our fight against inflation. It would have increased inflationary expectations, weakened the value of the dollar in exchange markets, and risked the translation of last year's oil-led inflation into a new and

higher wage-price spiral in 1980. In recognition of these realities, my budget proposals concentrate on reducing the deficit.

In this uncertain period, of course, economic policy cannot be fixed in place and then forgotten. If economic conditions and prospects should significantly worsen, I will be prepared to recommend to the Congress additional fiscal measures to support output and employment, in ways and under circumstances that are consistent with a continued fight against inflation.

Restraint in the 1981 budget has been accomplished while still moving forward with Federal programs and expenditures that address our Nation's critical needs.

- o Outlays for defense will increase by over 3 percent in real terms. Both strategic and conventional forces will be strengthened. Our commitment to our NATO allies will be met, and our ability to deploy forces rapidly anywhere in the world will be improved. Recent events in Southwest Asia have underlined the necessity for these actions.
- o Expenditures will be raised to expand domestic energy supplies, increase energy conservation, and provide assistance to low-income families least able to pay higher energy prices.
- o Our educational system will be improved. The budget for fiscal 1981 includes a \$15.5 billion request for the Department of Education, an increase of 11-1/2 percent over 1980.

- o Support for basic research, enlarged in the past three fiscal years, will be further expanded to a total of \$5.1 billion in 1981. Sustained commitment to basic research will assure continued American scientific and technical preeminence.
- o A major new initiative, for which \$1.2 billion in budget authority is requested, addresses the serious problem of unemployment among disadvantaged youth.

These programs were made possible within the framework of a tight budget by pruning less essential programs, increasing administrative efficiencies, and reducing fraud and abuse. Legislative proposals to reduce Federal spending will save \$5-1/2 billion in fiscal 1981, and even more in subsequent years.

Pay and Price Standards

A little more than a year ago, I asked business and labor to join with me in the fight against inflation by complying with voluntary standards for pay and prices. Cooperation with my request was extensive. Last year's acceleration of inflation did not represent a breakdown of the pay and price standards. Skyrocketing energy prices, large increases in prices of farm products and internationally-traded raw materials, and rising costs of home purchase and finance lay behind the substantial worsening of inflation. Declining productivity also added to business costs and prices.

The pay and price standards, in fact, have served the Nation well. The rise in prices of goods and services excluding food,

energy, and housing, to which the pay standards largely did not apply, accelerated little during the first year of the program. Wage increases were no larger than in 1978, even though workers experienced significant reductions in real income because of inflation. Increases in energy prices did not spill over into wages and the broad range of industrial and service prices.

On September 28, 1979, my Administration and leaders of the labor movement reached a National Accord. We agreed that our anti-inflation policies must be both effective and equitable, and that in fighting inflation we will not abandon our effort to pursue the goals of full employment and balanced growth.

As an outgrowth of that Accord, I have appointed a Pay Advisory Committee to work together with my Administration to review the pay standards and to modify them as necessary to keep them effective and equitable. A Price Advisory Committee was established to make recommendations with respect to the price standards. These two Committees are going about their task thoughtfully and carefully because they recognize the seriousness of our inflation problem and the important role that voluntary standards for wages and prices play in our struggle to regain price stability.

The most immediate problem in 1980 is to ensure that last year's sharp increase in energy prices does not result in a new spiral of price and wage increases that would worsen the underlying inflation rate for many years to come. Understandably, workers, business managers, and other groups want to make up for last year's loss of real income, and they

may seek to do so by asking for larger increases in wage rates, salaries and other forms of income. Such efforts will not restore real incomes that have been reduced by rising world oil prices and declining productivity, but they would intensify inflation. Improvements in our living standards can only be achieved by increasing the efficiency of our economy and by decreasing our dependence on imported oil.

Voluntary standards for wages and prices, together with disciplined fiscal and monetary policies, are key ingredients in my Administration's strategy for reducing inflation. During the years immediately ahead, monetary and fiscal policies will seek to achieve a gradual but steady lowering of inflation. By itself, restraint on borrowing and spending would mean relatively slow economic growth and somewhat higher unemployment and idle capacity. Effective standards for moderating wage and price increases will mean greater progress in lowering inflation, and will thereby reduce the burden on monetary and fiscal policies and provide scope for faster economic growth and increased jobs.

Long-Term Economic Goals

When my Administration took office in January 1977 the overall unemployment rate was still close to 8 percent. For blacks and other minorities, the rate was over 13 percent and had shown little improvement since the recovery began in early 1975.

Since then increases in employment have been extraordinarily large, averaging nearly 3-1/2 percent per year. The growth for

women was twice as large as for men. For blacks and other minority groups, the percentage rise in employment was half again as large as for whites. Aided by a strongly expanded Federal jobs programs for youth, employment among black teenagers grew by 15 percent. Employment among Hispanic-Americans rose by over 20 percent.

Unemployment rates have come down substantially, and most demographic groups have shared in the decline. Unemployment among black teenagers, however, has not declined and remains distressingly high.

To address the very serious problem of unemployment among disadvantaged youth, my Administration has substantially expanded funds for youth employment and training programs over the past three years. My 1981 budget includes an important new initiative to increase the skills, earning power, and employability of disadvantaged young people.

In 1979, the number of youth who were

Since the end of 1978, however, huge OPEC oil price increases have made the outlook for economic growth much worse, and at the same time have sharply increased inflation. The economic policies I have recommended for the next 2 years will help the economy adjust to the impact of the OPEC oil price increases. But no policies can change the realities which they impose.

I have therefore been forced to conclude that the goals of a 4 percent unemployment rate and 3 percent inflation by 1983 are no longer practicable. Reduction of the unemployment rate to 4 percent by 1983, starting from the level now expected in 1981, would require an extraordinarily high economic growth rate. Efforts to stimulate the economy to achieve so high a growth rate would be counterproductive. The immediate result would be extremely strong upward pressure on wage rates, costs, and prices. This would undercut the basis for sustained economic expansion and postpone still further the date at which we could reasonably expect a return to a 4 percent unemployment rate.

Reducing inflation from the 10 percent expected in 1980 to 3 percent by 1983 would be an equally unrealistic expectation. Recent experience indicates that the momentum of inflation built up over the past 15 years is extremely strong. A practical goal for reducing inflation must take this fact into account.

Because of these economic realities, I have used the authority provided to me in the Humphrey-Hawkins Act to extend the timetable for achieving a 4 percent unemployment rate and 3 percent inflation. The target year for achieving 4 percent unemployment is now 1985, a 2-year deferment. The target year for lowering inflation to 3 percent has been postponed until 3 years after that.

MEASURES TO IMPROVE ECONOMIC PERFORMANCE

Achieving satisfactory economic growth, reducing unemployment and at the same time making steady progress in curbing inflation constitutes an enormous challenge to economic policy.

To lower inflation, we will have to persist in the painful steps needed to restrain demand. But demand restraint alone is not enough. We must work to improve the supply side of our economy -- speed its adjustment to an era of scarcer energy, increase its efficiency, improve the workings of its labor markets and expand its capital stock. We must take measures to reduce our vulnerability to inflationary events that occur outside our own economy. Only an approach that deals with both demand and supply can enable the Nation to combine economic growth with price stability.

Long-Run Energy Policies

Over the past 3 years I have devoted a large part of my own efforts and those of my Administration toward putting in place a long-term energy policy for this Nation. With the cooperation of the Congress much has already been accomplished and much stands on the threshold of final enactment.

The phased decontrol of natural gas and domestic crude oil prices will provide strong, unambiguous signals encouraging energy conservation and stimulating the development of domestic energy supplies. But decontrol of oil, in the face of very high OPEC prices, inevitably generates substantial windfall profits. The windfall profits tax I have proposed will capture a significant portion of these windfalls for public use.

The increased Federal revenues from this tax will make it possible to cushion the poor from the effects of higher oil prices, to accelerate our investment in mass transit, and to support programs of accelerated replacement of oil-fired electricity generation facilities and increased residential and commercial energy conservation. I have also proposed incentives for the development of energy from solar and biomass sources, and have asked the Congress for authority to create an Energy Security Corporation to provide incentives and assistance on a business-like basis for the accelerated development of synthetic fuels. Other legislation that I have proposed, which

is now before a Conference Committee of the Congress, would create an Energy Mobilization Board to cut the red tape and speed the development of essential energy projects. I urge the Congress to take the final steps toward enacting a satisfactory windfall profits tax and the enabling legislation for the other initiatives.

These policies will sharply increase the efficiency with which our Nation uses energy and widen the range of economically feasible energy sources. In so doing, they will help make our economy less inflation prone. They will also drastically cut our reliance on imported oil. And that will contribute toward a less inflationary economy by making our Nation less vulnerable to inflationary shocks from sudden increases in world oil prices.

By the end of this decade, we will be well on the way to completing the transition toward the new world of scarcer oil supplies. In the interim, however, our country still remains dangerously exposed to the vagaries of the world oil market. And so I am pursuing measures to deal with this transitional problem.

Together with other major oil consuming countries in the International Energy Agency we are working to devise improved means of matching any future cuts in oil supplies with joint action to reduce oil demand. By avoiding a competitive scramble for scarce oil, we can reduce the chances of further large price increases.

[Last year I pledged that our country would never again import more oil than we did in 1977 -- 8.5 million barrels a day. This year I am establishing a tighter target limit on imports of 8.2 million barrels a day. I am prepared to reduce that target in the event that discussions within the International Energy Agency produce a fair and equitable agreement that requires still lower imports.]

While international cooperation is essential, so are measures we can take on our own. Over the past year the Administration developed a standby motor fuel rationing plan in accordance with legislation enacted last year to deal with major supply interruptions, defined to be a shortfall in supply of 20 percent or more. This plan will be submitted to Congress in early February. But even smaller supply interruptions can cause severe economic problems. We are therefore preparing proposals for standby measures to be applied if lesser but still significant disruptions occur. The Strategic Petroleum Reserve (SPR) can cushion the impact of an abrupt cutoff in supplies. My budget provides funds for resuming SPR purchases this year if conditions permit.

Improving Labor Markets

The persistence of high unemployment among some groups of workers, while jobs go begging and unemployment is low elsewhere, is not only a major social problem but a waste of national resources. The lack of skills, the imperfections of the labor market, and in some cases, the discrimination that gives

rise to this situation, reduce national productivity and contribute to inflation.

Although our labor market currently works quite well for most people, it does not work well for disadvantaged and minority youth. In recognition of this fact, I have recently sent to the Congress proposals designed to deal with teenage unemployment.

The goals of my proposals are:

- o to teach basic skills in the secondary schools to those youths who did not master them in elementary school and who need special help;
- o to provide part-time employment and training to dropouts if they participate in long-term training to develop skills that will improve their prospects; and
- o to provide intensive long-term training aimed at achieving unsubsidized private sector placements for older youths out of school.

The funds will go largely to poor rural areas and central cities, where the problems of a lack of basic skills and high youth unemployment are most serious and where local resources are inadequate.

Another segment of the labor force needing special assistance is the working poor. The welfare reforms which I have sent to the

Congress would provide training, help in seeking jobs, and work opportunities for poor but employable persons.

Reforming Regulation

Regulation has joined taxation, defense, and the provision of social services as one of the principal activities of the government. Unneeded regulations, or necessary regulations that impose undue burdens, lower efficiency and raise costs.

For the past 3 years I have vigorously promoted a basic approach to regulatory reform: Unnecessary regulation, however rooted in tradition, should be dismantled; necessary regulation should be made effective in promoting its social objectives, but do so at minimum cost.

Working with the Congress we have deregulated the airline industry. We are now cooperating with Congressional Committees to complete work on fair and effective legislation that eliminates costly elements of regulation in the trucking, railroad, communications, and financial industries.

Within the Executive Branch, we are improving the quality and lowering the cost of regulations. The Regulatory Council, which I established a year ago, is helping us to comprehend the full scope of Federal regulatory activities and how these activities, taken together, affect individual industries and sectors. Finally, a number of regulatory agencies are experimenting with new regulatory techniques which promise to achieve regulatory goals at substantially lower costs.

Increasing Investment and Encouraging
Research and Development

We do not know all of the causes of the slowdown in productivity growth that has characterized our economy in recent years. But we do know that investment and research and development will have to play an important role in reversing the trend.

To meet the Nation's sharply increased requirement for investment in energy production and conservation, to fulfill its commitment to cleaner air and water and improved health and safety in the workplace, and at the same time to provide more and better tools for a growing American workforce, our Nation in the coming decade will have to increase the share of its resources devoted to capital investment.

We took one step in this direction in the Revenue Act of 1978, which provided a much larger than normal share of the tax reduction for investment incentives. Passage of my pending energy legislation will make available major new incentives and financial assistance for investment in the production and conservation of energy. When economic conditions become appropriate for further tax reduction, I believe we must direct an important part of it to the provision of further incentives for capital investment generally.

One of the most important factors in assuring strong productivity growth is a continuing flow of new product and process ideas from industry. This flow depends in the first instance on a strong base

of scientific knowledge. The most important source of such knowledge is basic research and development, the bulk of which is federally funded.

Between 1968 and 1975, Federal spending for basic research, measured in constant dollars, actually fell. But since that latter year, and especially during the years of my Administration, Federal support for basic research has increased sharply. In spite of the generally tight economic situation, the 1981 budget I am submitting to Congress calls for yet another substantial increase in real Federal support for basic research. Even during a period of economic difficulties we cannot afford to cut back on the basis for our future prosperity.

Agriculture

As the worldwide demand for food has continued to grow, the primary problem facing the government in agriculture is no longer preventing overproduction. Government policies now seek to encourage full production, while cushioning the American economy and the American farmer from the sharp swings in prices and incomes to which the farm sector is often subject. Over the past several years, my Administration has created a system of farmer-owned grain reserves to supplement the loan and target price approach to farm income stabilization. In periods of low prices and plentiful supplies, incentives are provided to place grain in the reserves, thereby helping to support farm income. The incentives also work to hold the grain in reserve until prices rise significantly, at which

time it begins to move out into the market, helping to avoid or to moderate the inflationary consequences of a poor crop.

Over this last year, the reserve has been tested twice. When fears of poor world harvests threatened to drive grain prices to extraordinarily high levels last spring and summer, farmers sold grain from the reserve, capping the price rise. Since I suspended grain shipments to the Soviet Union this month in response to that country's brutal invasion of Afghanistan, increased incentives to place grain in reserve have been serving as one of our main defenses to protect farmers from precipitous declines in prices.

The International Economy

Other countries besides our own suffered important setbacks in 1979 from the dramatic increase in oil prices. Growth prospects worsened, inflation increased, and balance of payments deficits rose. In such difficult times economic cooperation between nations is especially important. Joint action among oil consuming countries is needed to reduce the pressure of demand on supply and to restore order in world petroleum markets. Cooperation is necessary to protect the stability of international financial markets from the potential disruptions caused by the need to finance massively increased payments for oil. And cooperation is also necessary to prevent a destructive round of protectionism.

Because the dollar is the major international store of value and medium of exchange, the stability of international financial markets is closely linked to the dollar's strength. The actions taken in November 1978 by the United States and our allies to strengthen and stabilize the dollar worked well during the past year. That the dollar did well despite accelerating domestic inflation is due in part to a significant improvement in our current account balance during 1979. U.S. exports grew rapidly and thus helped to offset rising payments for oil. During the fall of 1979, however, the dollar came under downward pressure. The October actions of the Federal Reserve Board to change the techniques of monetary policy helped moderate inflationary expectations which had been partly responsible for the pressure on the dollar. As a Nation we must recognize the importance of a stable dollar not just to the United States but to the world economy as a whole, and our responsibility to pursue policies that contribute to this stability.

The Multilateral Trade Negotiations of the Tokyo Round were successfully completed and became law in the United States during 1979. These trade agreements are a major achievement for the international economy. By lowering tariff barriers both in the United States and abroad, they will help increase our exports and provide Americans with access to foreign goods at lower prices. Perhaps more important, these agreements will limit

restrictive and unfair trade practices and provide clearer remedies where there is abuse. They cannot, by themselves, assure smooth resolution of all trade issues. Indeed, the real test is yet to come as we begin to carry them out. Nevertheless the agreements reached last year do represent a clear commitment to the preservation and enhancement of an open system of world trade.

Conclusion

The 1970s were a decade of economic turmoil. World oil prices rose more than tenfold, helping to set off two major bouts of inflation, and the worst recession in 40 years. The international monetary system had to make a difficult transition from fixed to floating exchange rates. In agriculture a chronic situation of oversupply changed to one which alternates between periods of short and ample supplies.

It was an inflationary decade. It also brought increased uncertainty into business and consumer plans for the future.

We are now making the adjustment to the realities of the economic world that the 1970s brought into being. It is in many ways a more difficult world than the one which preceded it. Yet the problems it poses are not insuperable.

There are no economic miracles waiting to be performed. But with patience and self-discipline, combined with some ingenuity and care, we can deal successfully with the new world. We can make the 1980s a decade of significant progress toward price stability and economic growth.

CQ

CONGRESSIONAL QUARTERLY

Weekly Report

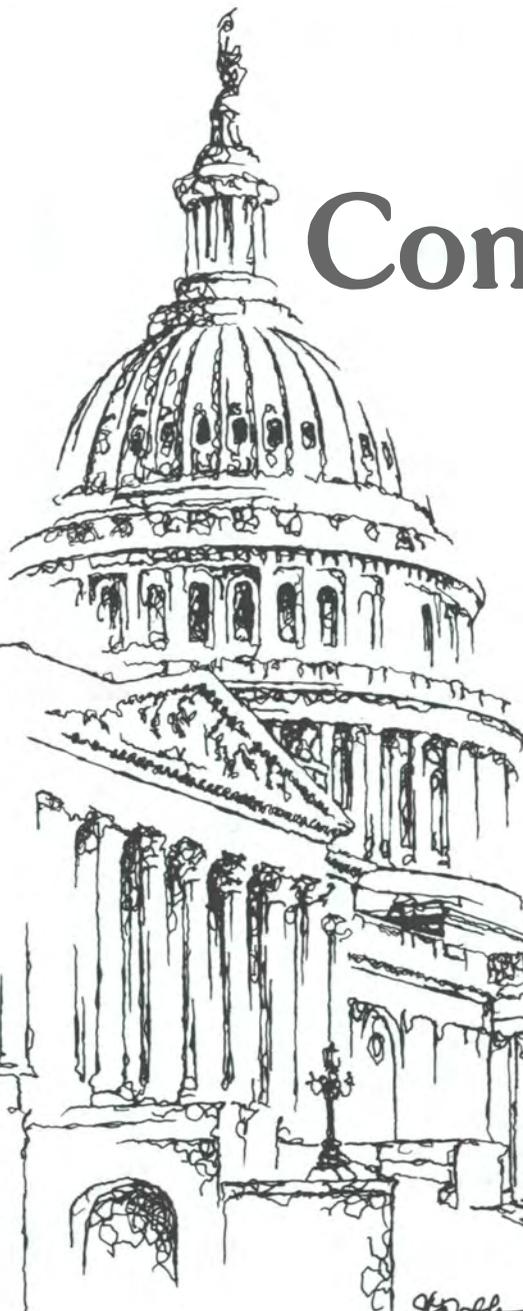
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Jan. 19, 1980



Congress Faces Uncertain Agenda

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CONGRESSIONAL QUARTERLY
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Partisanship in Congress in 1979 increased significantly over 1978 with a majority of Democrats voting against a majority of Republicans on 47 percent of the recorded votes. The jump was especially noticeable in the House where militant young Republicans have sought to draw clearer lines between their party and the Democrats.

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A new water projects authorization bill is about to come to the House floor. Critics say it reflects the same old "pork barrel" politics of the past but advocates contend the measure is needed to meet urgent needs. In any event, there is no question the bill rejects virtually all of President Carter's proposed water policy reforms.

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