

3/10/80 [1]

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Bill Stephens -

Trade M.O. session

Alcohol fuel -

Earlier on budget planning

Monday, March 10, 1980

State Commissioners of Agriculture 3/10/80

State Com of Ag 3-10-80

Welcome -

Pres Bill Stephens NM

Jim Graham

Close to people

Valuable advice - support

Grain shipments to SC

Peace - free mkts - exports

Grain/bean exports + 33% - 15⁵ 6 wk

Other nations coop (710-15 mt)

Inflation - Ag competitive

Energy - Reduce imports

Produce (Alcohol) & Conserve

6x, end of next year

THE WHITE HOUSE
WASHINGTON

Susan:

In the CEA Retail Sales in
Feb. memo, there is a mistake.
The last paragraph, second line
it says of a widening of consumer
spending, it should say of a
weakening consumer spending.

Patti

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 10, 1980

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CS*

Subject: Retail Sales in February

This afternoon (Monday, March 10) at 3:00 o'clock, the Census Bureau will release the preliminary estimate of retail sales in February. Total sales declined 0.7 percent in February, but the increase in January was revised up by one percentage point.

Sales declines in February, although moderate, were widespread among the various categories of consumer goods. Autos were down, and so were sales of other durables. Most categories of non-durables, other than gasoline also decline. Gasoline sales were up, but by less than last month's probable rise in gasoline prices.

Last month's decline in retail sales might be the first sign of a widening of consumer spending, but it is much too early to draw any firm conclusion. February sales are well above their level of late last year; the basic problem is still too much consumer spending, not too little.

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4:00pm

THE WHITE HOUSE

WASHINGTON

March 10, 1980

MEETING WITH CONGRESSIONAL LEADERSHIP

Monday, March 10, 1980

4:00 p.m. (30 minutes)

The Cabinet Room

From: Frank Moore *FM*

I. PURPOSE

Consultation of Hill leadership on foreign policy.

II. PARTICIPANTS AND PRESS PLAN

A. Participants: The President, Secretary Vance, Secretary Brown, Warren Christopher, Hal Saunders, Senator Inouye (representing Senator Byrd), Senator Pell (Senator Church is in Idaho), Senator Javits, Congressmen O'Neill, Wright, Brademas, Rostenkowski, Foley, Zablocki, Bolling, Rhodes, Michel, and Broomfield, Hamilton Jordan, Jody Powell, Frank Moore, and David Aaron.

B. Press Plan: White House photo only

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the christian CENTURY

MARCH 12, 1980

JAMES M. WALL
EDITOR

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C ✓



Donald Coggan, just-retired archbishop of Canterbury, pictured at his 1975 enthronement.

All's Lost, All's Found

Frederick Buechner

Cynics, Martyrs and the Importance of Energy Conservation

Peter Penner

- An Ordinary Archbishop
- Can Blacks Escape the
Mainstream?
- Secularization in
Poland

Electrostatic Copy Made
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NAME Senator J. James Exon (Jim)

1114

TITLE D-Nebraska

CITY/STATE _____

Phone Number--Home (202) 362-4025

Work (202) 224-4224

Other (402) 488-5252 (home in Nebraska)

Pat

Requested by *F.M.* Frank Moore

Date of Request 3/10/80

(Call should be made on
Monday, March 10)

INFORMATION (Continued on back if necessary)

Senator Exon has become a pivotal figure with regard to the trucking deregulation bill, partly due to an irregular voting pattern. He has supported our position on broadening entry and on several other amendments, but voted against us on the two critical issues of agricultural exemption and antitrust immunity. These votes will be reconsidered when the Committee completes markup on Tuesday, March 11. Farm groups believe he did not understand the effect of the agricultural exemption vote and are optimistic that he can be turned around. Secretary Bergland called (cont)

NOTES: (Date of Call 3-10)

*Keep meat under present rep - others
not - agree to Nat. Cattlemen's Asso.
but Antitrust immunity - not inclined to change vote -
but concerned re empty rail hauls, etc.*

Senator Exon last Friday.

Talking Points

The trucking bill is a major priority. We need it to fight inflation, to save fuel, to eliminate unnecessary government regulation, and to increase competition in the trucking industry.

I am asking for your help, particularly on two votes that will come up on Tuesday (March 11):

- The broad exemption for farm products (Senator Stevenson's amendment). This is supported by the Farm Bureau, the National Cattlemen's Association, and virtually all the other major farm groups. It will benefit both farmers and consumers.
- The phasing out of antitrust immunity for single-line rates. The Carnon bill is a moderate, balanced measure. It preserves the rate bureaus' authority to publish tariffs and even preserves antitrust immunity for joint-line rates (i.e., shipments carried by more than one trucker). The elimination of single-line immunity promotes competition, and that is an essential goal of this legislation.

NAME Senator Nancy Kassebaum

1116

TITLE R-Kansas

CITY/STATE _____

Requested by Frank Moore

Phone Number--Home () _____

Date of Request March 10, 1980

Work () 224-4774

Other () _____

INFORMATION (Continued on back if necessary)

The Senate Commerce, Science and Transportation Committee has suggested that you telephone Senator Kassebaum to thank her for her strong support of the trucking deregulation bill. The Committee expects to complete mark-up on Tuesday, March 11. Senator Kassebaum supported our position on both agricultural exemption and antitrust immunity and she is a target of the truckers and teamsters. The Committee is of the opinion that your call to Senator Warner was extremely

NOTES: (Date of Call 3-9)

*"Ironic that it's the Repubs who
are supporting the Pres"*

effective and that Senator Kassebaum is in the same position.

TALKING POINTS

1. I want you to know that I'm aware that you cast some extremely difficult votes last week on the trucking deregulation bill which my Administration supports.
2. This is an important bill and with your support we are making real progress in increasing competition, lowering prices, eliminating unnecessary government regulation, and saving energy in the trucking industry.
3. I know that the pressures must be intense, particularly on the agricultural exemption and antitrust immunity provisions, and I would greatly appreciate your continued support on this critical issue.

3/10/80

Frank Moore

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

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Al McDonald
Stu Eizenstat
Jack Watson

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

March 8, 1980

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

SUBJECT: Weekly Legislative Report

I. DOMESTIC POLICY ISSUES

1. Energy

Energy Security Corporation (ESC)

ESC conferees met on Thursday for the third day in a row and continued to make excellent progress. It now appears that they will complete Title I (synfuels) this week, perhaps as early as Monday. Staffs of both houses are continuing to meet on Titles V and IX (conservation), and rapid agreement is possible on these issues as well. The staffs also hope to begin sessions next week on gasohol and biomass.

Energy Mobilization Board (EMB)

The EMB conference will resume once the energy conferees complete action on ESC. At this point, all minor issues on EMB have been resolved and the results are acceptable to the Administration. In some areas, the actions of the conferees go even further than we had anticipated in satisfying the concerns of environmental groups. The two major areas still to be resolved are the issues of substantive waivers and grandfather provisions.

Utility Oil Reduction Legislation

On Thursday the Administration sent specifications to the Hill. We expect a bill to be written from the specifications and introduced in both Houses this week.

Windfall Profits Tax (WPT)

House floor action on the conference report is expected next week. The Senate will probably take it up after March 19.

2. Fair Housing

The House Judiciary Committee on Tuesday reported the Administration-backed fair housing bill by a vote of 24-5. The committee left intact the administrative enforcement mechanism. It is expected to reach the House floor this month and may be scheduled for Senate committee action within a couple of weeks.

This week we will expand our Administration working group to include people from Anne Wexler's office and the Press Office in an effort to raise the profile of this legislation.

3. Trucking

On Thursday the Senate Commerce Committee began markup of a trucking deregulation bill supported by the Administration (the Cannon-Packwood bill). The votes on the critical issues of entry, restriction removal, and antitrust immunity were extremely close, with the Committee generally preserving the progressive features of the bill and beating back weakening amendments. The Committee plans to complete markup this Tuesday.

Markup of the weaker House bill is expected to begin within two weeks. Our successes on the Senate side make improvement of the House bill a real possibility.

4. Youth Employment Initiative

The youth employment initiative was sent to the Hill on Monday and introduced on the Senate side by Senator Williams and two cosponsors and on the House side by Congressman Perkins with eight cosponsors.

On Wednesday, the Senate Employment, Poverty and Migratory Labor Subcommittee began hearings on the labor title, with Secretary Marshall testifying. Secretary Hufstedler testified on Friday on the education title before Senator Pell's education subcommittee.

On the House side, the Elementary and Secondary Education Subcommittee held four more days of hearings on the education title. The House Employment Opportunities Subcommittee will begin its hearings on the bill this Tuesday.

The hearings generally have gone well, although some Members have expressed concern that the Administration is proposing a new program in the face of possible budget cuts in other CETA programs.

DOL reports that if substantial cuts are proposed by the Administration it will be difficult to persuade the committees to do the work necessary to restructure the existing law. They may opt instead to pass a simple one-year extension of current law.

5. EDA Legislation

Congressman Roe remains intransigent and the conference remains deadlocked. Last week Roe cancelled a meeting with Stu, Bob Hall and Commerce CL.

6. Sugar

House floor consideration of H.R. 6029, the implementing legislation for the International Sugar Agreement is scheduled for Tuesday. Organized opposition to the legislation by the cane refiners and labor wilted mid-week and most observers are now predicting early passage of the measure. A letter of support signed by Esther Peterson greatly helped to remove an anti-consumer prejudice that had frustrated earlier sugar legislation.

Representatives Vanik and Frenzel, who had been persuasive opponents of domestic sugar legislation, also argued the bill was in the best interest of both producers and consumers.

7. Selective Service Registration

Our appropriation request for registration of males appears to be back on track. The House leadership has agreed on a transfer of existing FY '80 spending authority as the appropriate means to obtain funds for the registration program without violating the Budget Act. The House is waiting to proceed on the appropriation request until it receives assurance from the Senate leadership that it agrees with this funding method and that the Senate leadership will act to override a threatened Senate filibuster of the appropriations request. Our vote count in the House Appropriations Committee continues to improve.

The Senate HUD-Independent Agencies Subcommittee of Appropriations will begin hearings Tuesday. The situation there is similar to what we faced in the House in that the subcommittee appears substantially less supportive than the full committee is likely to be. Even so, based on staff-level contacts, we believe we have the votes to get the bill out of subcommittee.

By a vote of 8-1 our proposal to include women in the peacetime registration was tabled by a House Armed Services Military Personnel subcommittee on Thursday. The tabling action allows the issue to be reconsidered at a later date. However, there is no realistic chance that reconsideration would change the outcome.

8. Regulatory Reform

The House Judiciary Subcommittee continued their markup of the Administration's Regulatory reform Bill last week. They have scheduled three days of markup this week and hope to complete consideration of the bill. We still face votes on a number of major issues including legislative veto, a modified "Bumpers" amendment, executive branch oversight and intervenor funding.

The Senate Governmental Affairs Committee has not rescheduled any markups since Senator Ribicoff's "blow-up" two weeks ago. Discussions at the staff level are continuing.

9. Reorganization Authority Extension

On Tuesday, the House Government Operations Committee also approved by voice vote a one-year extension of your reorganization authority. This bill will be taken up on the suspension calendar on Monday.

There has been no movement in the Senate.

II. FOREIGN POLICY ISSUES

1. UN Vote

Tension continued to build all week on the UNSC vote on Israeli settlements. Most troublesome is the House Resolution of Inquiry introduced by Holtzman, Dodd and Fish. The Foreign Affairs Committee, to which it has been referred, has given us until Tuesday to respond. Most of the documents requested by the resolution are the type that would not normally be provided by the Administration. In fact, the demands are so unreasonable that we expect the Committee not to press most of them. But the Committee will press for explanations which they will consider essential to support a move to table the resolution on the House floor at the end of the week.

The Senate Foreign Relations Committee scheduled a hearing for Thursday, but may wait until the following week when Church returns from Idaho. There is considerable turmoil on the Committee as the result of Dick Stone's effort to hold a hearing before Church returns.

Members of both Houses insist that their primary goal is to determine exactly what current policy is concerning the West Bank, Jerusalem and the peace process. But the Resolution of Inquiry and proposed hearing agenda indicate that the decision-making process leading up to the vote is also on their minds. Some of Israel's friends on the Hill are pushing very hard to have Congress challenge and refute the decision.

2. Zimbabwe/Rhodesia

The reaction in the Congress to Mugabe's lopsided victory was cautiously optimistic, although some Hill supporters of the former Smith regime sounded a sour note. Helms attacked the integrity of the electoral process, and Byrd portrayed Mugabe's election as another step toward Communist domination of Africa. Reaction among several House conservatives was similar. Mugabe's performance over the coming weeks will be critical to any plans for U.S. assistance to the new government of Zimbabwe. While a relatively small number of die-hards will oppose any idea of assistance to a Mugabe-led government, most Members will keep an open mind on the issue as they wait to see if Mugabe lives up to his initial promises of moderate and pragmatic policies. We intend to begin a series of briefings on both sides of the Hill early next week to keep the Congress fully informed of developments.

3. FY-80 Foreign Assistance Appropriations Bill

If and when a third budget resolution is considered, we hope either to have included our most urgent spending measures in a single supplemental or to resurrect the foreign aid conference report. The Senate Budget Committee staff is already examining its own list of urgent items in the foreign affairs field, with Nicaragua at the head of the list.

4. Central America Supplemental Authorization

The closing of the "budget window" and the consequent stalling of the FY '80 aid appropriations bill threw a sizable monkey wrench into our efforts to obtain funds for the Central America supplemental.

For now, we plan to leave the bill on the Senate calendar and wait for a more propitious time to get it passed. Our best hope would be Senate approval of the House bill without amendment, thereby avoiding any further votes in the House (which we might well lose if held now).

5. MDB Authorization

Although the bill passed on Thursday, 219-266, the funding levels were cut drastically. The Inter-American Development Bank was cut by almost a half by \$1.1 billion. The Asian Development Bank was cut by 60%.

On the positive side, the African Development Fund was not touched and we did manage to defeat some restrictive amendments.

We hope to make up some of these losses in Conference, but we are not hopeful about timing. There is no sign that the Conference will convene soon.

6. FY '81 Foreign Aid Bill

A full HFAC markup will begin on Tuesday, where we anticipate recommended increases will come under close scrutiny in light of current budgetary pressures. Before final markup the HFAC will want a clearer view of the results of our current budget review including how we intend to fund priority requirements for FY '80 which are now in abeyance because of the budget ceiling problem.

7. Legislative Restrictions

The Zablocki subcommittee of HFAC made good progress toward securing eventual approval of our legislative proposals designed to enhance Presidential flexibility. Approved were proposals relating to increased drawdown authority, simplified notification procedures and third-country transfers. Our proposal to broaden your general waiver authority was also approved, although with the expected extension of a \$250 million world-wide dollar ceiling. The only proposal not approved was to delete some language regarding duties that FMS personnel can perform when a host country becomes engaged in hostilities. This issue raised war power questions which may come into conflict with what Congress perceives as its own powers.

III. MISCELLANEOUS

Economic Policy Consultations

EPG members will be reporting to you over the weekend on the working group sessions.

Early last week EPG members and CL staff from the White House, OMB, Treasury and COWPS held one on one meetings with about 80 members from both parties.

Attached is a copy of a summary of those consultations I prepared for the EPG. Also attached are written reports on the visits which you may wish to page through.

Following is the House schedule for the week of March 10:

Monday, March 10

H.R. 4197	Wool Recycling
H.R. 6585	Presidential Reorganization Act Extension
H.R. 6702	to amend section 603 of Title 18, U.S.C.,
	regarding political contributions
H.R. 6152	Risk Retention Act

Tuesday, March 11

H.R. 6029	Implementation of the 1977 International Sugar Agreement
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Wednesday and Thursday
March 12 and 13

H.R. 3919	Conference Rept.
	Windfall Profits Tax
S. 2222	Extending time for Indian Claims

Friday, March 14

No Legislative Business

ECONOMIC CONSULTATIONS
SUMMARY REPORT

THE WHITE HOUSE

WASHINGTON

March 5, 1980

MEMORANDUM FOR: ECONOMIC POLICY GROUP

FROM: FRANK MOORE

SUBJECT: SUMMARY OF ECONOMIC CONSULTATIONS
WITH MEMBERS OF CONGRESS

Introduction

Over the last three days, EPG members and Congressional Liaison staff from the White House, OMB, Treasury, and COWPS have met with approximately 80 Members of Congress representing both parties, a majority of them drawn from those committees with major influence over economic policy. To date, 53 written memorandums summarizing these visits have been turned in. The purpose of these visits has been to seek out Members' views on how the Administration and the Congress can best address the nation's economic problems. This interim report discusses the common sentiments among Members expressed during these visits and highlights the more provocative issues that were raised.

Cooperation

There is widespread agreement among Members that the Administration must work closely with the Congress if we are to make real progress in solving the nation's economic problems. The Congress is looking to the Administration for strong leadership, but at the same time they want to know that they are being consulted as decisions are made. Several Members stated that the Leadership and the Administration must reach agreement on a package of legislative proposals prior to the package being made public. One Member stated that his colleagues would be unwilling "to take the heat" for voting against budget-busting bills unless they had a good sense prior to the vote that they would come out on the winning side. There was a general feeling that it would be up to the Administration to make the first move on the decisions likely to prove most unpopular with the public, such as cuts in social security or veterans' benefits, for example.

Balancing the Budget

There is widespread support for balancing the budget as a first and highly visible step toward fighting inflation. Many Members remarked that the public believes this to be the surest way to begin slowing the rate of inflation, and therefore balancing the budget is a "politically imperative" step as much as it is a substantive step. One Member pointed

out that we now have an unusually favorable climate to pursue budget-balancing efforts, since many Democrats are campaigning on balance-the-budget platforms. Several Members cautioned that balancing the budget must be seen as only one piece of the economic strategy. Otherwise, "balancing the budget, like wage and price controls, will become an excuse for doing nothing to deal with the underlying causes of inflation."

Across-the-board Cuts

Members stressed that it will be nearly impossible to pass legislation making cuts in popular programs unless such cuts are drawn from all parts of the budget. The Congress will be more willing to support a package of politically sensitive cuts than it will be to voting for such cuts individually. One Member made the point that the "keys" to balancing the budget are "establishing that a vote against any cut in the President's package is a vote against balancing the budget and getting all authorizing committees to understand that they have to take the medicine of cutting the budget in Fiscal 1980."

In 21 of the 53 memorandums there was an expression of the Member's unwillingness to support cuts in social programs unless there were corresponding cuts in the defense budget. One Member said that he would have to reevaluate his support for the President if the defense budget were left intact at the expense of programs that benefit the poor and minorities. Another said, "We can't talk about the kinds of cuts that affect the poor and the elderly without promising to take the fat out of the Defense Department. Everybody knows it's there."

Indexing

There appears to be considerable support for indexing reforms--either changes in the indexing method itself or placing a cap on indexed increases. Members recognize that the federal government's system of indexing is no longer accurate and needs reworking. Several Members suggested that the President propose a less than full indexing of entitlement programs as part of an overall package, but cautioned that if sent to the Hill by itself, such a proposal would create a "tidal wave" of opposition. Another Member suggested that the President propose a temporary reduction in the indexed increase and then take time to work on the reform of the CPI itself.

Specific Recommendations

After cuts in the defense budget, cutting or eliminating the revenue sharing program, particularly the state share, was mentioned most frequently as a cost-cutting measure. The

following were also frequently mentioned as ways of controlling inflation and/or improving the economy:

- o credit controls (particularly on consumer purchases and if tied to reductions in interest rates)
- o export promotion
- o wage and price controls
- o eliminating all new programs in the FY 1981 budget
- o regulatory reform
- o relaxation of environmental standards such as emission controls
- o a youth differential or subminimum wage
- o implementation of user fees
- o cuts in foreign aid programs

It was suggested by one Senator that the President announce several highly visible moves that can be "seen and felt quickly by the average citizen"--such as a freeze on the purchase of new furniture by government agencies. This same Senator feels that there should be "phases" in the anti-inflation effort--some quick and visible steps in the first phase and a second phase that occurs over a longer period of time.

A number of Members stressed the link between the nation's economic problems and its energy problems. As one influential Senator put it, "we cannot get control of inflation without doing a better job on energy, and the Congressional Leadership ought to be told to knock heads and get the job done." There appeared to be considerable support for gas rationing and gas taxes as a means of reducing our dependence on foreign oil imports.

Tax cuts and changes in tax laws drew little support from the Members we've talked to.

ECONOMIC CONSULTATIONS
INDIVIDUAL REPORTS

THE WHITE HOUSE

WASHINGTON

March 3, 1980

*all good
J*

MEMORANDUM FOR: FRANK MOORE
FROM: BOB MAHER
SUBJECT: ECONOMIC CONSULTATIONS WITH MEMBERS

Congressman Don Fuqua

He thinks we need to take some strong action and that the Congress will go along with it. He thinks that despite the fact there is a move within the Science and Technology Committee to add a billion dollars for energy programs (Ottinger for conservation and McCormack for breeder technology), if given the word his people would probably be understanding and supportive. As a point of interest, Fuqua says if we can explain that we are cutting across the entire spectrum, it would go a lot better. He says that because the budget is so high, even defense could be a subject for cuts, if we explain that the cuts would not weaken our defense. As an indication Fuqua decided over the weekend against a more expensive version of a program on Haley's comet because of recent news stories. Fuqua does say that all experts agree that if we do get into synthetic fuels, we have got to crank up training grants for Ph.d's in engineering areas. This is a \$5 million project. Congressman Fuqua said that if and when we have a freeze on federal hiring, we should make sure we prohibit "back dooring" by the use of contracts.

Congressman John Dingell

Dingell was more provincial in his comments. He says we'll be in a heap of trouble because it would mean we would have to refigure DOE's budget. Dingell had more of a hit and miss type of approach, citing such things as lowering petroleum imports, automobile imports, having EPA drop the diesel standards for clean air, knocking out mandatory fuel economy figures which would be replaced with goals instead. He believes that wage and price controls would be the best route, and otherwise we would be vulnerable to Kennedy.

Congressman Charlie Rangel

He was quite upset over reports of the budget cutbacks because he perceives this as going almost toally in the areas of the poor, black, and city constituencies, all of whom he

represents. He wonders whether we were even looking at defense. He very subtly said he would have to come out and oppose us if budget cuts were aimed at just the social programs that benefit the poor and the minorities. He might even have to reevaluate his support for the President. In a 2½ hour town meeting over the weekend, Charlie said his people gave him unshirted hell because they feel that the President is not addressing their problems. When told that indeed the Administration is looking at all the alternatives which include indexing for vets and social security beneficiaries, he said "when you do that come back and I'll talk to you again; otherwise this looks like a strictly political move and I would have to say so." Rangel is aware that liberals are involved in an effort to cut back on the budget. I personally feel that if we make cuts that are defensible over the aegis that everyone is sharing the loan, Charlie might come along.

Congressman Claude Pepper

Pepper says that he has in a tardy fashion just come to the conclusion that we must balance the budget. He fully understands that the direct consequence of this would not solve our economic problems but that the psychological effect is direly needed right now. He cites recent conversations with members of the Savings and Loan community as to what bad shape they are in. His caveat for that is that we try to cut where it will hurt the least; i.e., the elderly, which, of course, is his largest constituency. Pepper also suggested that we might even put a moratorium on all public works projects. He said if we could get close to balancing the budget we should go ahead and do it.

Congressman Bill Nelson

I have a strong feeling that Bill Nelson is gungho. This comes from the fact that when I went to see him during markup, he sat down right in the middle of the ad hoc budget task force working on this project. Nelson thinks that "the panic has set in" for Democrats. He says that if we come out for a reestimated budget for balance, it would greatly help the ad hoc committee's efforts. Nelson cites his working group which includes Simon, Wirth, and three Republicans as an example of the sincere effort being put forth. Nelson said that it would be very hard to cut DOD because of sentiment. But the fact is that they (the ad hoc group) will recommend the same level that we have, but this will mean that we will probably have to cut approximately \$6 billion because of differences in assumptions. He recognizes that everyone will squeal on the overall cuts, but that this should be sold in terms of the national interest. Nelson wants to be included in the next McIntyre briefing.

Congressman Dan Mica

Mica was candid in saying that he feels the House wants the President to do something but hopes that the House won't have to vote on it. He notes that there are approximately 360 bills calling for the budget to be balanced. He thinks the only way this can be accomplished is if it is pointed out that everyone is sharing the burden.



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

March 4, 1980

MEMORANDUM FOR: Frank Moore

FROM: Hubert L. Harris, Jr. *HLH*

SUBJECT: Consultation with House and Senate Leadership
on the Inflation Effort

The following is a summary of the meeting with the House Leadership to discuss the prospective anti-inflation plan. The attendees were Congressmen Jim Wright, Tom Foley, Bob Giaimo, Lud Ashley, Bill Moorhead, Paul Simon, Leon Panetta, Dave Obey, Dick Gephardt, Jim Jones, and Dick Boland. Representing the Administration were six members of the EPG.

The discussion centered around the necessity for acting now. The seriousness of the problem was pointed out by both the EPG and the various Members of Congress. The sense of urgency was apparent and there seemed to be genuine interest in this group to act quickly.

The resolve seemed to be there to accept some tough budget cuts. The necessity for working with the Administration and Congress was apparent and was alluded to often by all who were attending.

The most difficult issue was how to handle indexing. Paul Simon proposes that we deal with it through an administrative change. We disagreed. Everyone in the group agreed to support some modification of indexing. However, Obey and Ashley later indicated some difficulty with these folk.

The key issues brought up were as follows:

1. The necessity for tough budget cuts to balance the budget in 1981.
2. The necessity for doing something to cut 1980 spending.
3. The concept that all elements of the government must share equally in this problem, including defense.

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"DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. SEC. 1.3 AND
ARCHIVISTS MEMO OF MARCH 16, 1983"

4. Some form of credit control should be imposed, if only symbolic.
5. Other methods of raising revenue should be considered, such as gold sales. This, however, was fairly well opposed by Secretary Miller.

In general, the meeting was productive and cohesive. It indicated for the first time in the three years a resolve to do something about inflation and reducing the budget.

The following is a summary of the meeting with the Senate Leadership held on February 28. Attendees were Senators Byrd, Cranston, Bentsen, Muskie, Jackson, Moynihan, Russell Long, Harry Byrd, Stennis, Bumpers, Hart, and Sarbanes. The meeting was opened by the same members of the EPG in attendance and same basic issues pointed out.

Senator Robert Byrd. Senator Byrd pointed out the necessity for taking action. If the Congress does not act, the American people will have a complete breakdown in their confidence in the government to respond to a major problem. He suggested that we move away from the CPI and propose some other method for indexing various programs. He indicated a willingness to take up this issue and pointed out that housing is grossly overstated in our present calculation.

Senator Bentsen. Senator Bentsen echoed Senator Byrd's comments in pointing to the CPI as one of the principal problems. He also notes the necessity for some credit controls and some major budget cuts that are not symbolic. He further urged some consideration of some productivity-oriented tax cuts.

Senator Moynihan. Senator Moynihan, who was probably the most eloquent of all the Senators, pointed out in specifics that we must be prepared to shock the Congress and the nation, but so far he has not seen a willingness on the part of the Administration to make these kinds of tough decisions. He thinks that tough decisions would be beneficial and would be accepted.

Senator Moynihan stated that it is essential that all interest groups be shocked equally, so that no one constituency would benefit at the expense of others.

CONFIDENTIAL

He also suggested credit controls and specifically he referred to credit card abuses. He believes the Administration must move aggressively right away before the financial market get in further disarray.

Senator Jackson. Senator Jackson agreed with the "shock" remarks of Senator Moynihan.

He stated that the financial community is headed for domestic and international financial panic. He pointed out that the FED is limited in its response and that the small savers in this country are moving their money out of the savings institutions into money market certificates, causing severe disintermediation and creating solvency problems for banks, savings institutions and problems for insurance companies. He pointed out the necessity in improving productivity and again urged strong budget cuts.

Senator Harry Byrd. Senator Byrd urged that we take aggressive action and that we work with the Congress to insure that our proposals are passed.

Senator Cranston. Senator Cranston suggested an across-the-board cut.

Senator Sarbanes. Senator Sarbanes' views seemed to be more moderate than the others. He was not sure that we should recommend a CPI adjustment. He liked price and credit controls, but was not sure that a restrained budget would do any good. He was particularly concerned that we also restrain defense programs.

Senator Hart. The Senator indicated his support for the proposals discussed and suggested that Senator Byrd appoint six members of the Senate and negotiate the cuts with the Administration so we can have some general agreement as we go forward.

Senator Muskie. Senator Muskie expressed delight in hearing support from all these Senators for restraint. He pointed out that of the 43 Senators who endorsed the balance the budget concept, had earlier that day voted against proposals to restrict veterans spending.

He opposed accross-the-board cuts and felt that the necessity for specific cuts was obvious.

Senator Stennis. The Senator said that something ought to be done about retirement pay and adjusting CPI, but was not specific.

Senator Bumpers. The Senator urged price controls and gasoline rationing. He felt we should be more aggressive in deferrals and rescissions for 1980.

Senator Long. Senator Long favors a moratorium on all new programs, including health insurance that is presently under consideration in his committee.

* * * * *

In summary, this meeting was the most helpful discussion on budget restraint I have seen in a long time. However, it is not clear the Senators will agree to gut their pet programs.

I recommend that we sit down with a small group to build some consensus, but we must rely on Senator Muskie as our lead. He has demonstrated over a period of time a willingness to make tough decisions and stick with them. He and Senator Bellmon of the Budget Committee have shown a greater and growing ability to move restraint oriented proposals through the Congress.

~~CONFIDENTIAL~~



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

March 5, 1980

MEMORANDUM FOR: Frank Moore
FROM: Hubert L. Harris *Hubert*
SUBJECT: Consultation Visit with Senator Proxmire
Held March 3

Senator Proxmire is enthusiastic about our active efforts on the inflation front. He strongly suggested that we balance the budget and urged that nothing be sacred including defense. He suggested that in the area of defense we strongly consider a 10% reduction in civilian personnel, a challenge to DOD to use its people more effectively, and a policy to quit gold plating equipment purchases. More specifically, he said that if the President could not make specific cuts in defense, he should shift the rhetoric toward telling the American people he was going to force defense to do a better job spending the money in the military, such as mandating efficiency, encouraging competition for procurement contracts, etc.

Senator Proxmire is the Chairman of the Subcommittee of HUD-Independent Agencies and also Chairman of the Banking Committee which has jurisdiction for the authorizing legislation for HUD. He suggested that we definitely do not reactivate the Brooke/Cranston bill, reform the Section 8 programs, and cut back UDAG and EDA grants. He said that much can be done to streamline the VA, and he would try to help.

He felt that getting any change in the indexing would be difficult in Congress, but indicated that he would support us. He said that we should cut out revenue sharing and that we should not worry about the criticism from the Mayors and county officials.

In the area of military construction, he suggested that we cut back on construction of military facilities that are presently underway and delay as much construction as we can.

He felt that education should not be sacred either. For example, we should cap BE~~D~~GS grants at \$1800 and just tell the American people that some of the past government benefits are no longer available. We should cut LEAA entirely.

On other subjects he indicated we should not impose credit controls because they would not work and would probably hurt the industries that we would least like to hurt such as autos and housing.

The Senator indicated that we should do a better job of enforcing the anti-trust laws and give some consideration to disciplining the regulatory agencies regarding inflationary regulations.

He was basically very supportive and indicated the President should be tough and the Congress would follow. He was politically pragmatic in pointing out some of the difficulties that we face, but indicated he felt he could help us.



EXECUTIVE OFFICE OF THE PRESIDENT
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March 5, 1980

MEMORANDUM FOR: Frank Moore
FROM: Hubert L. Harris, *Harris*
SUBJECT: Consultation Visit with Congressman Fowler
and Congressman Jenkins, Held March 4

I met with both Congressmen together and they generally agreed with our proposals.

Congressman Fowler

1. We must go beyond monetary and fiscal policy. The most important thing we can do is to slow down the flow of imported oil into this country now. He urged that we immediately ask for gasoline rationing and that we bring severe and quick credit controls to the American people.
2. We must shock everyone at once and indicate for the next two or three years that everyone will have to sacrifice for the good of the country.
3. Revenue sharing should be cut.
4. We must develop the idea that criticizing the President's anti-inflation program is unpatriotic (as in the Iranian situation).
5. We should balance the budget in 1981 and it should be the centerpiece of the package.
6. He has never liked indexing of any program and would support our efforts to correct it, but his must be done across-the-board (*to all indexed programs*)
7. We should postpone the big defense systems, but continue our efforts in readiness.
8. The Administration should not consider a tax cut at this time.

Congressman Jenkins

1. Propose a balanced budget and indicate to the American people that it will be balanced for the next five years.
2. Implement credit controls.
3. Indicate that if the American people cooperate with the anti-inflation program and work with us on balancing the budget, they can expect interest rates to go down.
4. He favors gasoline rationing over a gasoline tax.
5. The anti-inflation package should include wage and price controls for at least a short period of time.
6. He has always opposed any form of indexing and would support a change in indexing as long as everyone shares equally.
7. He suggested a Federal hiring freeze be implemented right away.
8. The Administration should not consider a tax cut at this time.

THE WHITE HOUSE

WASHINGTON

March 6, 1980

MEMORANDUM FOR: FRANK MOORE
FROM: DAN TATE
SUBJECT: Economic Consultations with
Senators Huddleston, Talmadge and Stewart

Senator Huddleston

Senator Huddleston will support balancing the budget efforts but believes that there will have to be other elements to any economic policy. One possibility that he mentioned was credit controls. Huddleston admitted that he didn't know enough about indexing to make recommendations in this area. He did mention, however, that he will at least support giving cost-of-living adjustments only once a year as opposed to twice a year. Huddleston might also be supportive of taking a look at entitlement programs to see what cuts might be made.

Senator Talmadge

Senator Talmadge says that he will vote for virtually any effort that will help to control inflation and improve the economic picture. He is in favor of giving near dictatorial powers to the President to accomplish what is needed. Talmadge favors a balanced budget and budget cuts if they come in a package approach, since he's up for reelection and can ill afford to take the heat from interest groups who would voice objection to cuts if announced individually. Talmadge is reluctant to support changes in computing the cost of living.

Senator Stewart

The consultation visit with Senator Stewart was inconclusive.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 6, 1980

MEMORANDUM FOR FRANK MOORE

FROM:

Chris Davis *Chris*

SUBJECT:

Consultation with Senator David Boren

I met this morning with Senator Boren to gather his views on the anti-inflation issue. Among his important concerns are:

1. The '81 budget must be balanced. It is good politics and the public demands it as proof that Government means business.
2. Something has to be done about the uncontrollable portion of the budget. "We should knock out all automatic increases in benefits."
3. "I can support cuts everywhere except in defense - no net cuts there."
4. "I have found \$800M in savings in the unemployment area that I had passed when Governor." (see attached letter)
5. Other cuts:
 - state share of revenue sharing
 - overlap in food stamp and school lunch program (\$700M)
 - purchase requirement for top 2/3 of food stamps recipients (\$500M)
 - once yearly pension COLA for federal retirees
 - hold WIC program at current level by imposing lower income restrictions (\$70M)
6. At yesterday's Senate Democratic Caucus he indicated there was unanimous approval for Congressional action to rescind their recent pay raises.



EXECUTIVE OFFICE OF THE PRESIDENT
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WASHINGTON, D.C. 20503

March 5, 1980

MEMORANDUM FOR: Frank Moore
FROM: Hubert L. Harris *HLH*
SUBJECT: Consultation Visit with Congressman Whitten
Held March 3

Congressman Whitten basically repeated the same message that he sent us last week. He suggested that we eliminate burdensome regulations, slow down some of the income transfer programs and not cut back on productive investment. He recommended that we give more thought to delay and deferral as opposed to cuts. Cuts have a negative connotation that is sometimes difficult for even the most fiscally conservative Members to defend.

He indicated a willingness to knock out the revenue sharing and felt the Appropriations Committee would be generally cooperative with us. He urged us to involve the Leadership as best we can in the decision-making process. He was not optimistic about the concept of reducing the indexation, but indicated a willingness to work with us in that regard.



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March 5, 1980

MEMORANDUM FOR: Frank Moore
FROM: Hubert L. Harris *Harris*
SUBJECT: Consultation Visit with Senator Nunn
Held March 4

Senator Nunn suggested that we balance the budget and in so doing provide enough margin to provide a productivity tax cut for business. He felt that the Administration needs a more positive program toward business productivity. He suggested that a Presidential speech highlight the necessity of productivity increases by the American worker.

He indicated he would support cuts in the CPI, and that he would work with us in any way he could. He stated he would support our efforts to annualize the indexing of military pensions. He felt that there was no way the President could cut the 1981 defense budget because it is already under funded due to increases in inflation, but he indicated he would not object to some "cosmetic" cuts (e.g., people cuts, competitive bidding for contracts, etc.). He felt that the implementation of credit controls would be horrible and that an import fee on imported oil would be ok.



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WASHINGTON, D.C. 20503

March 5, 1980

MEMORANDUM FOR: Frank Moore
FROM: Hubert L. Harris *Harris*
SUBJECT: Consultation Visit with Congressman Mel Price
Held March 4

Congressman Price indicated his willingness to work with the President to help us out. He did not feel that any major cuts would be accepted in defense because of the international situation, but did indicate some willingness to support efforts to modify the indexing of the various pension programs. Further, he believes that annualizing the indexation of the pension programs for military people would be accepted, if the same proposals were made for other pension beneficiaries such as civil servants.



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WASHINGTON, D.C. 20503

March 5, 1980

MEMORANDUM FOR: Frank Moore

FROM: Hubert L. Harris, *Harris*

SUBJECT: Consultation Visit with Congressman Mattox
Held March 4

Congressman Mattox felt that we should definitely redefine the CPI and do it administratively and not legislatively. He felt that by such a modification, we would not only help hold down domestic spending, but also help restrain pending labor contracts. He felt that if we did not do a redefinition of CPI, we should move to some percentage of the CPI.

He felt that we could not cut the January Defense budget, but should force DOD to swallow the expense of the fuel adjustment and any cost of the Nunn/Warner amendment. He said that we should not worry too much about FY 1980, but should emphasize 1981. Legislative cost savings should be pushed aggressively and especially pay reform, annualization of COLA and indexing.

We should pressure our allies to pick up more of the costs of our troops overseas as a part of their defense expenses. The Budget Committee will cut out the State portion of revenue sharing, but the local portion will be left in. The Budget Committee will balance the budget honestly.

He urged that any speech by the President emphasize postponements as opposed to cuts. We should develop a concept that all American people will have to give up a little something for a little while to get inflation under control. The American people and the Congress should join together with the President to fight this battle in a unified approach.

Congressman Mattox felt that Chairman Volcker is causing much of the inflation due to high interest. He is concerned that the housing markets are getting ready to drop terribly. He urged us to go to gasoline rationing right away and slow down the flow of imported oil into this country.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 5, 1980

MEMORANDUM FOR FRANK MOORE

FROM:

Hubert Harris *Hubert Harris*

SUBJECT: Consultation with Senator Jim Sasser

I met this morning with Senator Sasser to obtain his views on steps to take on the economy. Among his important concerns were:

1. He favors Congressional action to give the President stand-by authority to impose wage and price guidelines with retroactive effect.
2. He suggested the Administration should back away from supporting high interest rates and rather impose credit controls. He pointed out that banks in his state are indicating the current high rates are already hurting small businesses.
3. In the area of budget cuts, he recommended:
 - . cut CETA back
 - . cut LEAA back
 - . cut the state share of revenue sharing but continue the local share
 - . "forget" the youth initiative
 - . cut \$1B from travel and consultants
 - . cut \$1B from countercyclical aid
 - . cutback local public works
 - . rollback '81 increases for 16 grant-in-aid programs
4. He stated his philosophical opposition to the indexing of federal benefit programs, but felt that it would be very difficult politically to put some controls on these automatic increases. He is not sure he could support such efforts to control indexing.
5. Efforts to cut the budget should focus within the Government, such as pay reform, travel, etc. -- rather than cuts that hurt the private citizen.
6. He is not sure he could support cuts in the defense area; he supports gas rationing but fears imposition of large gas taxes as a conservation tool.

THE WHITE HOUSE

WASHINGTON

March 5, 1980

MEMORANDUM FOR Frank Moore

FROM: Valerie Pinson

SUBJECT: Consultation Visits with Members of Congress

Per your request, the following information is provided on Representatives Addabbo and Hawkins with respect to their views on the inflation problem:

Congressman Addabbo feels one of the best ways to approach the inflation problem is, as a first step, to cut the supplementals and any budget amendments that might be offered. He strongly feels that a constant, ongoing review of the budget rather than budget cuts (at least until after the New York and Pennsylvania primaries) is most desirable. Joe is strongly opposed to cuts in "people programs" (i.e., Social Security, etc.) as simply devastating. If a speech is being drafted, Addabbo thinks that the text should center on reassuring people that the Administration is constantly reviewing alternatives in the budget. He said that it was important that the people understand that their President is in control, and that he can explain to them in simple terms just what a high inflation rate means. In conclusion, he was strongly opposed to any budget cuts at this time (until we see what happens with the supplementals); is especially opposed to any cuts in "people programs" (the strongest voters in his district are the Senior Citizens); and is also against wage and price controls.

Representative Hawkins is against any budget cuts, feeling that the Democrats will then be forced to explain why they are cutting back on their own programs. He feels that we need to have a complete change in our economic policy, especially as it relates to growth and inflation.

cc: Sallie Phillips



EXECUTIVE OFFICE OF THE PRESIDENT
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WASHINGTON, D.C. 20503

March 5, 1980

MEMORANDUM FOR: Frank Moore

FROM: Hubert L. Harris, *HLH*

SUBJECT: Economic and Budget Consultation with
Congressman Del Latta, Ranking Minority
of House Budget Committee

Congressman Latta was delighted to have someone consult with him. He said he is interested in the proposed cuts we have been talking about and supports the concept of fighting inflation by attacking growth in the Federal budget.

He indicated he would support rather substantial cuts and suggests we start with categorical grants to States. He believes it will be very difficult to pass an adjustment in cost-of-living allowance, and we should deal with some of the programs where there are more abuses. Nevertheless, he was open to pursuing the CPI question.

Congressman Latta said the Minority is still thinking of a tax cut, but no final decision has been made. He also stated that the Republicans are absolutely committed to a balanced budget. Del indicated he is interested in working with us and Bob Giaimo, but pointed out the difficulty they are having because of the substantial philosophical differences between House Democrats and House Republicans.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 4, 1980

MEMORANDUM FOR FRANK MOORE

FROM: Bo Cutter/Susy Elfving

SUB: Economic Consultations with Congress:
Representative Norm Mineta



Rep. Mineta had given this subject a great deal of thought because he sees himself as part of the Congressional team to work toward the goal of balancing the budget in FY 1981. He is meeting with Conable, Frenzel, Panetta, Gephardt and Regula to draw up a list of programs to be cut.

Mineta feels strongly that the cuts should be across the board -- including defense. He wants to try to head toward a cost recovery or user fee approach to some programs. He mentioned charges for recreational boat craft, services, highway maintenance, inland waterways and park usage. He believes that an indexing cap should be pursued, but should follow a "spending limit" being implemented.

Mineta noted that his committee is looking at unobligated balances to see if cuts can be made. He advised that tax changes would be politically too difficult now. He suggested that the foreign policy implications needed to be watched carefully with a fee on oil imports.

Mineta expects the Budget Committee Members to be more outspoken on legislation exceeding the budget this year. He personally will be willing to be more active.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 4, 1980

MEMORANDUM FOR FRANK MOORE

FROM: Wayne Granquist *Wayne*
Chris Davis *Chris*

SUBJ: Consultation with Senator David Pryor

We discussed several issues related to the President's proposals to control inflation. Among the most important to Senator Pryor were:

- 1) Budget cuts are necessary and must be administered in an even handed way so no group appears to have been spared or exempted from a new "get tough" approach.
- 2) The President should announce "5 or 6 things that can be seen and felt quickly by the average citizen". He suggested a job freeze and announcing (again) a freeze on purchases of new furniture by government agencies. Such freezes would send messages to both government workers and the private sector that the President was serious and committed to making gains in productivity.
- 3) He will attempt to shape his own personal program to save money in the federal budget and mentioned cutting back on the use of consultants could save at least \$1 B.
- 4) There should be "phases" to our anti-inflation effort with quick and visible steps taken in the 1st phase and a second phase that occurs over a longer period of time -- he conceded that civil service pay reform should probably be in this second phase, though he was not enthusiastic.
- 5) He did not seem to readily grasp the indexing issue but follow up discussions with his staff indicates they recognize the need and are struggling with some approaches in this area. Rather than "cap" or limit CPI-driven increases, they believe it would be better to change the CPI to reflect the reality.



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

March 4, 1980

MEMORANDUM FOR: Frank Moore
FROM: Hubert L. Harris, Jr. *HLH*
SUBJECT: Economic and Budget Consultation with
Chairman Giaimo

Jim McIntyre and I met with Chairman Giaimo on February 27.

Bob strongly urged us to balance the budget, indicating that we need to cut between \$15 and \$20 billion to get there. He plans to start mark-up on the first budget resolution on March 18th. He said he felt that it was absolutely essential that the Administration work with the Congress and the Congressional Leadership to come with an agreement on the overall goals and indicated that he would work to urge the Speaker to accept some of the tough changes.

Congressman Giaimo said that the President should be specific about how to balance the budget. In addition, indexation, a major contributor to inflation, must be changed so that it reduces pressure on total outlays. He did not know which method of changing indexation was best but believed any method would require legislation.

The Chairman thought an across-the-board cut was an absolute mistake and that it should not be considered. He recommended that the Administration withdraw all new initiatives in the 1980 and 1981 budget. The idea of sharing the burden equally on all programs was supported; otherwise we will have a difficult political time. We should include defense cuts and force some absorption of proposed pay supplementals.

Bob believes strongly that we should cut LEAA, reduce food stamps, and force the departments to do a better job in managing the entitlement programs. We should cut low income assistance which has proved to be a bad program and follow-up on the legislative savings proposals that have been in the budget. All of his suggestions seemed agreeable to us, and we expressed an interest in consulting with him again before we transmit our specific recommendations to the Hill.

THE WHITE HOUSE

WASHINGTON

March 5, 1980

MEMORANDUM FOR FRANK MOORE

FROM: JIM COPELAND

SUBJECT: ECONOMIC CONSULTATION WITH CONGRESSMAN TONY COELHO

I met with Congressman Coelho yesterday and he made three points:

1. The budget should be balanced.
2. Any program should be developed jointly by leaders on the Hill and the Administration.
3. Defense should be cut.

In making his last point Tony said, I'm a hawk, but I'll say this in my district. We can't talk about the kinds of cuts that affect the poor and the elderly without promising to take the fat out of the Defense Department. Everybody knows it's there.

THE WHITE HOUSE

WASHINGTON

March 4, 1980

MEMORANDUM FOR: FRANK MOORE
FROM: GAEL SULLIVAN
SUBJECT: CONSULTATION VISIT WITH
CONGRESSMAN JOHN MURTHA

Congressman Murtha (D-PA) feels the greatest problem facing his district, western Pennsylvania, and America, is inflation. While he is not against balancing the budget and would support such action, he feels that the President must develop a plan that will, if not stop inflation, at least slow it down considerably.

Congressman Murtha states that he thinks the most effective tool to stop inflation would be wage and price controls. He also believes that Congress would pass them in fairly short order. He also suggests that the removal of some environmental controls in order to allow utilities to convert to coal is needed. In this vein, he stated that unless the President supports Utility Oil Backout legislation, he will lose western Pennsylvania.

The Congressman would also support oil import fees, rationing, conservation, and any other program that would lessen our dependence on foreign oil.

On the question of indexing, he feels that senior citizens and veterans would raise such a hue and cry that it would be impossible to get this legislation passed.

He reiterated over and over that if inflation is not stemmed the President would be in serious political trouble in western Pennsylvania, as he feels that it is the Number One issue affecting people today.



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

March 4, 1980

MEMORANDUM FOR: SECRETARY MILLER
FRANK MOORE

FROM: Gene E. Godley *GE*
Assistant Secretary (Legislative Affairs)

SUBJECT: Economic Consultations

Eagleton (Godley)--was very supportive in our objectives. He judged that there was a significant change in the attitude up on the Hill; however, he was skeptical that the individual votes in cutting the budget would correspond to the mania for balancing the budget that we would find in the First Budget Resolution. He gave as examples the attempted cut of \$50 million in the special milk fund and \$400 million in child nutrition funds earlier this year, both of which he supported. The measures did not carry, however, cause of the special interest involved.

He felt it was essential that we package our proposals in a comprehensive form so they would not be torn apart one by one by the special interest. He said he would do everything he could to support us including some change in the CPI; however, he was pessimistic that the overall result would be favorable unless we found a good way to do things tactically. He said personally he was beginning to lean back toward impoundments and rescissions realizing although the implications of that maneuver.

Bethune (Godley)--President of the Freshman Republican Class. He was very supportive and is working with the group formed by Congressman Gramm and Stockman to try to formulate a list of items to be cut no matter what the political situation is. He assured me that the younger Republicans were not trying to play a game of entrapping the Democrats in the First Budget Resolution and then trying to embarrass them on the Second Budget Resolution. He said that he felt that the Republicans would give substantial support to balancing the budget and the necessary cuts to do so and he was willing to help us in that regard. He also commented that our major objective was psychological and he felt instead of the hard cuts there were a lot of people that felt maybe we just ought to organize a parade which was bipartisan to proclaim that we were all in favor of cutting inflation.

Brademas (Godley)--^{Majority} Minority Whip. Brademas stated that the prevailing mythology in America is Federal spending and an unbalanced budget.

were the major contributors to inflation; therefore, although he was not wild about the idea he felt it was essential that we balance the budget as a political imperative which would also have substantive implications. He feels as part of the substance involved is the way in which we make our announcement to be sure we have the support of the relevant economic groups.

He basically feels we cannot be assured of getting the help of the Minority such as Rhodes, Michel and Latta and therefore we must proceed as if we had to formulate the majority from Democrats only. He particularly mentioned that we ought to assure ourselves that we have the Black Caucus because without them we will really not have a majority.

He also asked that we clarify our tax policy since we have the challenges from Bentsen and Jones which tend to make us look as if we're a bit rudderless. If indeed there is to be no tax cuts we need to provide our allies with crisp firm analysis as to why we do not need them. He also expressed some interest when prodded in supporting an effort to withhold all dividends and interest. In regard to wage and price or credit controls he wanted to be hopeful as soon as we clarified our position on the latter. He felt we had adequately assured people we would not be promoting wage-price controls.

In regard to Defense, he felt we should hold the line there and make the Defense Department absorb the increased energy cost, although he was not sure the liberals would not go for more cuts. In regard to transportation, he suggested now might be the time to tackle the highway lobby and changing the matching formula from 90-10 to 80-20 and also making sure maintenance and repairs were included. He also raised the question of user fees on transportation.

Jim Jones (Godley)--Jones felt we had to make a choice whether we were going to try to do our cuts item by item or whether we were going to do an across-the-board cut. He is working hard with the budget group to try to find items to cut. He also admits the psychological impact is most important which is why he felt we should go for an approval of a spending limit rather than balancing the budget since that will still preserve some options of the tax cut.

With regard to a balanced budget, he realizes the necessity to send the psychological signals to the dollar market both domestically and foreign and that we needed to take some pressure off the monetary policy with sound fiscal policy.

Jones feels strongly that any program needs bipartisan support with the middle consensus of each parties forsaking the fringes of each party. He thinks to form a coalition with all Democrats will be impossible.

Productivity decline is also uppermost in his mind. Since for every 1% decline in productivity it is generally conceded there is a production of 2% inflation. He again feels that we ought to pursue a modest tax approach in regard to depreciation to promote productivity, although is trying to work on a scheme to make the revenue impact head in 1982 without getting business to hold up investment until that time.

On the energy front while he feels the best route is for a gasoline tax, he realizes it will not happen and therefore urges us as soon as the windfall profits tax is in place to immediately decontrol for both the stimulus effect on the economy as well as the conservation element involved. Jones also urges to consider better export promotion through changes in Section 911 and the Corrupt Practices Act. He also feels we should pay more attention to the youth differential and minimum wage and to do some cuts in defense.

In regard to his spending limit proposal, he feels there should be some flexibility in that so long as any breach of the limit is certified by a vote on the House floor.

Brodhead (Peterson)--is working with DSG head David Obey, will spearhead the DSG effort to develop a balanced FY 1981 budget.

Shannon (Peterson)--wants cuts in the Defense budget and not in social security. He knows that the CPI needs rejiggering but is no point man for it. Has no specific suggestions but suggested that if a moderate tax cut package is necessary we should look at his bill.

Rostenkowski (Peterson)--thinks an across the board spending cut best so that the lobbyists can't bore in. Advises not to depend on independent contractors, cash management proposals for any money.

Lederer (Peterson)--says he wants the FBI budget cut. Willing to see CPI formula changed.

Fisher (Peterson)--wants revenues raised by cutting tax expenditures to the greatest extent possible. Cited capital gains on sales of property by non-resident aliens as an example.

Harold Ford (Peterson)--warned that any revenue cuts better not come out of the programs for the poor or any programs that are part of the "national Democratic constituency," seemed a bit bitter as if he presumed that the cuts would screw the little guy.

Cotter (Peterson)--wants across the board cuts to save taking the heat from lobbyists. But is willing to pinpoint some programs for the axe such as HUD section 8 housing. Is willing to see revenue sharing cut by 20% and while he likes the local share better than the state share, thinks the cuts should be across the board. Thinks the CPI should be changed administratively.

Burton (Frost)--feels that the inflation problem is temporary and will pass. He was evasive on specific cuts and equally vague on what he would support. He expressed concern with regard to indexing CPI as it would affect collective bargaining agreements. He urged consultation with labor leaders. He did not seem to feel that we could achieve the balance by cuts in social programs. He thought defense a more appropriate target.

Rose (Frost)--The political and economic value of a balanced budget is not being overestimated. To balance the budget would greatly increase public confidence, and that is one-half of the ball game. Rose favors across-the-board cuts rather than targeted cuts. He believes "the wisdom has not existed on the Hill to do it any other way." He fears that a comprehensive plan of specific cuts will be sent up and Congress will be unable to act on it with the result that that President will then run against Congress. He thinks this would be a serious political error.

Pickle (Peterson)--indicated he is meeting in a group spear-headed by Phil Gramm and Dave Stockton and at least 15 others to go over possible budget cut areas. While that group is still in the middle of deliberations it would appear worthwhile for specific attention to be given to Gramm et al from high levels in the Administration at the earliest possible time. Pickle indicated that cuts could be made in CETA programs, changing the unemployment insurance trigger, cutting back on social security programs by putting a cap on benefit programs, enacting certain Carter-proposed social security cutbacks such as eliminating the minimum social security benefits program for children. Pickle would knock out at least the states' share and preferably all of revenue sharing. He pointed out that the President's budget already has a lot of phony numbers in it such as savings from hospital cost containment, cash management proposals, independent contractors. Pickle hasn't decided whether any cuts should come out of defense.

Gibbons (Peterson)--strongly wants a balanced budget. He would cut out all funding for foreign aid, the World Bank, International Development Banks. He said we can't cut our programs to help us at home until we have cut out foreign aid. Gibbons strongly opposes all revenue sharing. He is willing to revise the CPI and thinks the cost of living escalator in social security was a mistake and that social security benefits should be residual to private savings. Instead they have caused a disincentive for savings. He wants the independent contractors bill passed as a way to raise more money but warns us never to bring the "business-harassing" cash management proposals before the Committee again. He would accept across the board budget cuts. Defense areas should not be exempt from cuts. Gibbons would support a gas tax and import fees.

Fowler (Peterson)--said that revenue sharing was a good target--probably all of it could be cut but would want to see the impact on his district first before making a final commitment on that program. While Fowler is opposed to indexing of any program, he believes that the CPI should be rejiggered so that it is reflective of actual inflation, even if it means that the social security benefits escalator is slowed down. He said he generally hasn't focused on where cuts should come from. He said he would be willing to cut defense as well as other areas but thought that neither the Administration nor Congress would dare cut in those areas. Herky Harris is meeting with both Fowler and Ed Jenkins for a more detailed report.

Holland (Peterson)--volunteered the states' share of revenue as a good place to start cutting the budget. He said defense should not be cut. Tax expenditures like independent contractors and cash management are all phony revenue raisers and will never pass. Across the board cuts are the best way to proceed, according to Holland.

Vanik (Peterson)--Vanik emphatically points to a tough foreign tax credit proposal as a way to raise revenue. He opposes revenue sharing and would accept cuts in that area. Vanik would accept cuts in agriculture programs and LEAA. He would enthusiastically support cuts in the defense budget. Vanik is less sure about changes in the Consumer Price Index since it would hurt older Americans. Vanik thinks tax expenditure "loopholes" are important areas to explore for revenue.

Stark (Peterson)--would do most of his cutting at the Defense Department. He says that any Department that hasn't been cut for 10 years has a lot of fat in it. He would oppose cuts in revenue sharing because the new Jarvis Gann Son of Proposition 13 proposal would probably pass and lower the State and local tax base. Thus the state and its localities will be even more dependent on revenue sharing.

Heftel (Peterson)--recommended the following: first, he would put a freeze on adopting any new programs and would rescind funding for any new programs just put in place. Second, he would rescind any increases in old programs and leave them at last year's funding levels. Third, he would eliminate such programs as LEAA, revenue sharing (in its entirety) the entire Department of HUD and all its programs, and most agricultural support programs. Fourth, he would remove the housing and interest components from the CPI.

Fisher (Peterson)--expanding on a brief chat with Fisher yesterday, I talked at somewhat greater length with him today. He wants to see entitlement programs as well as direct expenditures and tax expenditures cut. He is not enamored of revenue sharing and would acquiesce in cuts in that area. He would support across the board budget cuts in the neighborhood of 2% as a last resort only if specific programmatic cuts could not be found to sufficiently reduce the deficit. Fisher assumes that defense will get an increase relative to last year but he believes the defense area should not be immune from cuts.

Barnard (Moss)--feels substantial cuts need to be made in the 1981 budget. He spoke in terms of \$30 million; he specifically suggested the following (all of which he could support):

A. Budget cuts

1. Cut countercyclical (est. \$1 billion).
2. Cut state portion of revenue sharing (est. \$2.3 billion).
3. Cut CETA training funds (est. \$3 billion).
4. Cut foodstamp overlap (where school children also participate in school lunch program).
5. Cut by 1/2 amount of unemployment insurance received by students (est. \$1 billion).
6. Cut foreign assistance and Multilateral Development Bank participation (est. \$1 1/2 billion).
7. Cut Federal overhead expenses (est. \$4 1/2 billion):
 - a) Cut 30% of Federal travel & transportation expenses.
 - b) Cut printing and reproduction costs.
 - c) Cut Federal Government public affairs.
 - d) Stop government purchase of new equipment for 1 year.
8. Tax unemployment benefits of those earning over \$10,000.

B. Readjust CPI to consider real inflation; if can't get through Labor committees, consider restriction on fund in appropriations bill.

C. Credit controls should be saved for a later stage, if needed. If imposed, housing should be exempted.

D. Gas rationing should be part of package. He liked the idea of flexible rationing, varying month to month to reflect supplies.

E. Use Executive Orders to make cuts in Executives where possible, e.g., a hiring freeze.

- F. Introduce legislation requiring OMB approval to spend certain funds during last two months of fiscal year. Barnard felt huge amounts of money spend unwisely as agencies spent remaining funds at end of fiscal year so they won't "lose" them and not get budget increase for next year.

Burton, John (Moss)--The President should at least give some consideration to credit controls and a wage and price freeze. The psychology of budget cuts alone won't be enough; "its the psychology of the dollar and a half loaf of bread that counts."

Frenzel (Moss)--"I'm impressed by the first-time Administration efforts to communicate with us. If they keep it up, we might be able to work something out."

Mitchell (Moss)--Eizenstat and Moss will see Congressman Mitchell on Thursday, March 6 at 4:30 p.m.

Mooney, Jim (Majority Whip Staff - Moss)--Mooney's chief concern is with the process. If the premise is that there is going to be a balanced budget, then the President's package has to be one the House leadership can hold (without relying on the GOP). This means there must be a consensus among Democrats prior to making it public. From the House side, he feels strongly that "the political team must be the same as the substantive team, and it must be broadly based." The authorizing committees as well as the money committees must be represented. The White House must focus on the political problems of the package or its content won't matter. House Members must feel that cuts in all programs have been fairly considered. Mooney said we need a "joint markup" between Budget Committee and Administration. Can't just come to the Hill and ask for opinions and then return with written budget. Need give and take and involvement.

Panetta (Moss)--there are a variety of groups of Members on the Hill working on bits and pieces of the budget. Hopefully, the House and Budget Committee leadership will pull them together. At some point the Administration needs to sit down and make sure they are on the same track as the Budget Committee; there will be a budget resolution in two weeks. The Budget Committee is having hearings next week; the tentative schedule is: Monday - Democratic Study Group (Obey); Black Caucus; Stockman/Gramm Group; Congressional Budget Office; Tuesday - Administration. Panetta fears that unless a consensus on cuts is worked out between the Hill and the Administration, an across the board percentage cut might surface.

Ratchford (Moss)--Balancing the budget is an important "symbol," but it won't resolve inflation. Stronger measures may be needed. When we cut, defense must be given a hard and fair look. Can't just cut social programs; there may be a lot of resistance to some social cuts (E.G., E.D.A.). Ratchford is opposed to a gasoline tax or rationing-by-price. Adjusting how the CPI is computed might be considered. Now is not the time for tax cut. There needs to be a close consultation process between Administration and Hill.

Stokes (Moss)--The President can't expect social programs to bear bunt of anti-inflation programs. They have to be spread fairly to defense and the government itself. It is important that the President consult closely with the Budget Committee as well as the various authorizing committees. He must report a reasonable and passable budget.

Waxman (Moss)--A change in the CPI at this time would not be fair; older people and others are relying on what they get. We should take a close look at "fat" in defense budget (but he doesn't want any drastic cuts there). Waxman is opposed to a gasoline tax. He is "close" to rationing but not there yet: "We don't need it yet." The President can't count on hospital cost containment; we probably won't get it.

Wirth (Moss)--The House Budget Committee needs to be plugged into the process; it is not now. Don't want a repeat of the 1980 budget fiasco. The Executive could set an example with Administration cuts in overhead; e.g., Executive Orders to freeze pay, stop equipment purchases, etc. A number of people on the Budget Committee have worked hard at the process over the past few months. ("McIntyre said write our own budget and we did.") They (we) need to be plugged into the process. He would like to see a "jointly announced" budget.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 4, 1980

MEMORANDUM FOR JIM COPELAND

FROM: Ron Garant 

SUBJ: Consultation with Vic Fazio

Given that he has four military bases in his district with quite a few retired military and civil service retired personnel he admitted that it would be difficult to vote for limiting retirement benefits or military/civilian pay raises that are indexed. He would probably vote for such a proposal but only if all indexed programs were treated equally.

He further noted that budget reductions should also be applied equally so that the various interest groups wouldn't try to get special treatment nor claim martyrdom. He would not oppose cuts in defense, but wouldn't want to see what would happen to Harold Brown in the Armed Services Committee if defense real growth is not sustained in the FY 81 budget.

He noted that he has had quite a bit of heat for his vote on the veterans benefits bill that the Senate has just busted the budget on. He is convinced that the vote was correct, but it cost him and will be of no avail if the Senate can not be pressured to reality. I think that the message here is that all 535 should be pressured to step up to the line on a balanced budget and not just the Administration supporters.

He had no real feel for credit control except that it looked like one more cut aimed at the little guy.

cc: H. Harris

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 3, 1980

MEMORANDUM FOR FRANK MOORE

FROM: Herky Harris/Susy Elfving

SUBJECT: Economic Consultations with Congress, Rep. Jake Pickle

Rep. Pickle generally agrees with seriousness of the economic consultations. He is working with the Phil Gramm group to find programs to cut. Significantly, he said he would be the last person to say that we should cut Social Security benefits through any indexing plan. He would have to be convinced that the leadership and the Administration were locked in support of any indexing plan before he would go along with it.

Pickle believes that a major cause of inflation is uncontrolled individual spending so he has no problem with credit controls.

Pickle is very cautious and will follow the leadership if it is in agreement. He does believe that any major actions would only pass Congress if it considered an emergency/temporary action.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 3, 1980

MEMORANDUM FOR FRANK MOORE

FROM: Hubert L. Harris *HLH*

SUBJ: Consultation with Congressman Ray Roberts

Chairman Roberts mentioned three key issues in our discussion of the economy and inflation:

- 1) He recognized the need for budget restraint and volunteered that some progress would be made in his Veterans Committee toward accomplishing some legislative savings items. Another item he proposed was the outright elimination of general revenue sharing.
- 2) He stated that the federal government has paid too much money to those who are able to work but decide to remain on welfare. A new system of public works projects, funded from dollars going to welfare and block grant programs, would go a long way to rebuilding the country and save tax dollars in the years ahead.
- 3) He recognized that the federal government's system for indexing payments is no longer accurate and needed reworking. While agreeing that placing a "cap" on indexed increases would save money, he doubted such a proposal could pass Congress because many members were too sensitive to "single issue group" pressure. He feared too many of these groups would be united against such a proposal. *However, he indicated that he'd already told veterans groups to expect less than 1.5%.*
(At one point he seemed to feel that a limit on indexing in order to cut expenditures would mean a loss of benefits, which is not the case. We should be sensitive to this concern and make every effort to clarify our position is to limit the growth of such benefits.)

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MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 4, 1980

MEMORANDUM TO FRANK MOORE

FROM: Al From *AB?*

SUBJECT: Consultation with Congressman Moorhead

I talked this morning with Congressman Bill Moorhead, who is chairman of the House Subcommittee on Economic Stabilization and has jurisdiction over both the reauthorization of the Council on Wage and Price Stability and Credit Control legislation.

Representative Moorhead made two particularly interesting points:

- o He would like to see some sort of consumer credit controls, particularly on revolving credit, imposed; and
- o While he has not publicly endorsed mandatory controls, he privately feels that any anti-inflation package without controls will be looked at by the public as less than the situation demands.

Moorhead feels that the current sentiment on the Hill in favor of balancing the budget is different than the usual congressional rhetoric. He said the key to reducing the budget deficit is for the President to propose budget cuts across the board that are perceived as being even-handed. He feels, for example, that the President could propose less than full indexing of entitlement programs if it is part of an overall package. But the same proposal would create a tidal wave, he feels, if it were sent to the Hill alone.

Moorhead sees some advantage in an across the board percentage cut, but he doesn't believe that would be workable.

Regarding how to proceed on the indexing question, Moorhead said that the President could propose a temporary reduction in the increases and then take time to work on the reform of the CPI.

In sum, Moorhead said that if the President came out with an emergency program that hit all sectors of the economy equally, he could get congressional support.

The other point he emphasized is that it is important that once the President decides what he wants to do, the Administration officials sit down with key congressional committee and subcommittee chairmen and work out the details. That way, he said, when the President announce the program, the committees could immediately begin to work on it. And we would not have another embarrassment like Real Wage Insurance.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 4, 1980

MEMORANDUM FOR FRANK MOORE

FROM: Al From *Al*

SUBJECT: Consultation with Congressman Jim Blanchard

I talked today with Congressman Jim Blanchard who made the following points:

- o The President should balance the budget for the psychological impact that would have and to provide evidence of our seriousness in fighting inflation.
- o We should ease up on monetary policy in an effort to help the construction and automobile industries.
- o We should impose credit controls on credit card purchases.
- o The President should ask Congress for standby authority to impose wage and price controls.

Blanchard emphasized his point on controls arguing that we need dramatic action. He said he'd rather have shortages, long lines, and distortions than he would 25 percent inflation.

As an alternative to controls, he suggested we consider asking for two COWPS monitors for each Fortune 500 company and renewing our call for real wage insurance. He said, in addition, that he would support requiring companies to notify COWPS in advance to major price increases.

Concerning indexing, he said that increases for entitlement programs could be decouped from the CPI. He also suggested that we cut revenue sharing to the States, and he suggested we use first year revenues from the Windfall Profits Tax to balance the budget.

Concerning energy he said the time has come to consider gas rationing.

Finally, he said that the President, the Vice President, top Administration officials, and Members of Congress should take a salary cut of 1 percent, as symbolic restraint in the inflation fight.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 4, 1980

MEMORANDUM FOR FRANK MOORE

FROM: Al From *Al*

SUBJECT: Hill Consultations

Fred Kahn and I met yesterday with Senator Chiles and Senator Stevenson.

Senator Chiles

Senator Chiles said that we have an unusual opportunity to balance the budget for 1981. He said a lot of the Democrats are running on a balanced budget.

He suggested that we put together a package of cuts so Senators can vote for balancing the budget without necessarily having to support individual cuts. He said the cuts have to be from all parts of the budget, but he did not recommend a percentage across the board cut.

Senator Chiles suggested that we also include cuts in the 1980 budget, and that the President might ask the budget committees to report out a reconciliation bill for 1980 at the same time they report the fiscal 1981 Budget Resolution.

He said the keys to balancing the budget are (1) establishing that a vote against any cut in the President's package is a vote against balancing the budget and (2) getting all the authorizing committees to understand that they have to take the medicine of cutting the budget in Fiscal 1980.

Regarding indexing, Senator Chiles said that he would support a reduction from the full cost of living allowance for entitlement programs if that were part of an overall package and if it were done on a temporary basis. He does not believe we should change the CPI.

He also said that we need some big ticket items to cut, and he would be willing to see the State share of Revenue Sharing go. He further said that we have to get into the uncontrollable part of the budget.

In sum, Senator Chiles said we ought to play the budget like we played the Panama Canal Treaty - decide that we are going to do it and then go out and get the votes.

On other matters, Senator Chiles said:

- o that a gasoline tax might be doable.
- o that he would not support an import fee on oil.
- o that he didn't know what his position would be if such an import fee applied only to gasoline.
- o that Congress will not cut the Defense budget.
- o that we ought to consider ways to speed up revenue collections.
- o that he's not particularly enamored with credit controls, although he might support quantitative credit controls if they were accompanied by lower interest rates.
- o that we ought to expand our regulatory reform effort to analyze regulations already in place.
- o that the President ought to consider asking Congress to delay implementation of regulations now required by law.
- o that the President ought to call on the agencies to reduce paperwork by 20 percent.

Senator Stevenson

Senator Stevenson says that the current inflation is not caused by excessive demand, that budget policy won't do anything to reduce it, and that we can't balance the budget unless we renounce defense spending increases.

Senator Stevenson feels that balancing the budget, like wage and price controls, will become an excuse for doing nothing to deal with the underlying causes of inflation.

He criticized the Chrysler bail out bill by saying that the Japanese look to the future and we bail out Chrysler.

Stevenson made the following suggestions:

- o that we put a fifty-cent a gallon tax on gasoline except for commercial and agricultural uses.
- o that we establish a food policy and end all price support.
- o that we map out an industrial strategy based on adjustment assistance and not bail outs.
- o that we make the Council on Wage and Price Stability an independent agency and give it the authority to require pre-notification of price increases and the power to deferral price and wage increases.
- o that we develop an export strategy.
- o that we work on the international financial situation.
- o that we consider selective tax cut efforts like speeding up accelerated depreciation, more capital gains reductions, and using the Windfall Profits Tax to relieve the Social Security tax.
- o that we consider s subminimum wage for some workers.
- o that we should change the Davis-Bacon Act.

In short, Senator Stevenson said that we ought to take on inflation on every front and, in such circumstances, perhaps a temporary freeze on wages and prices might work.



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

*Red tag
Sallie Phillips*

February 26, 1980

MEMORANDUM FOR: James T. McIntyre, Jr.
Frank Moore ✓

FROM: Hubert L. Harrison ✓ *Hubert L. Harrison*

Following is a summary of consultations with Senators Muskie, Bellmon, Magnuson and Chairman Whitten:

1. Senator Muskie

- The best politics for an economic crisis is to do what is right, after we decide what is right.
- Public confidence is shaken and we are close to a very serious economic situation unless public confidence in our ability to deal with inflation is restored.
- We must find a way to do a better job of implementing the wage and price policies that we have. Senator Muskie did not indicate he would recommend wage and price controls.
- The country is looking for tough leadership. The country wants to rally behind the flag as it has in the Afghan and Iranian situations.
- We can not get control of inflation without doing a better job of energy, and the Congressional Leadership ought to be told to knock heads and get the job done. Mention of gas rationing has a big shock value, but itself is not necessarily a useful option. The alternative gas taxes do not appear to be helpful because the price is going to rise quickly anyway. The only form of gas tax he would suggest would be a small one to replenish the highway trust fund for bridges and secondary roads.
- We must get the 1981 budget balanced because the public believes this to be the surest way to begin slowing the growth of inflation.

The following was some suggestions made regarding FY 1980:

1. The Executive Branch should force higher rate of absorption on the pay raise (up to 50%).

2. They should cut the defense budget in areas such as travel.
3. Send up some rescissions on some of the controllable programs.
4. Withdraw some of the supplementals that are less urgent.
5. Consider modifying some of the supplementals such as food stamps and the grain embargo payments.

For FY '81 Senator Muskie and his staff strongly oppose the concept of across-the-board cuts. They emphasized that this would in effect undo the Budget Act, reflect Nixonian policies, and would not solve the problems that we seek to solve. It was suggested that we withdraw some of our proposed budget recommendations and the President go on national television to make a statement such as:

"Following consultation with Congressional Leaders, I now reassert my original goal of achieving a balanced budget in 1981, and I am directing Jim McIntyre, Director of the Office of Management and Budget to come up with enough cuts in spending to achieve a balanced budget in 1981."

This approach would join together both the Executive and Congress in a joint goal and also would indicate to the public the willingness and ability of the Administration to work with Congress for such an important result. In the speech the President might use graphics to explain some of the specific cuts but not get into much detail.

The general feeling on Muskie's part was that something had to be done about indexing. Either get Congress to redefine the method of calculating CPI, propose legislation that would cap it at a certain rate, or propose legislation that would allow for payment of only a percent of the CPI (60-80%). He urged us to move quickly on this.

2. Senator Bellmon. Senator Bellmon was very positively inclined to reduce the expenditures in both 1980 and 1981. He also thought that limiting indexing was very important, and we should pursue it vigorously. He suggested that we propose 50% of the CPI as an alternative to the present indexing, so that we would settle out at 75% or 80%. He further urged that the President offer specific cuts for FY '81 because Congress must be lead: "We don't have the courage to do it without the President's leadership." He also agreed that we should send 1980 rescissions and withdraw supplementals.

Senator Bellmon specifically suggested that the President say he will balance the 1981 budget and announce the actions suggested above. He seemed to think that such an approach would draw bi-partisan support and with strong leadership by the President could indeed be passed.

He further suggested that the President give some consideration to having two thirty-minute TV programs to explain the situation. The first program would outline in graphic detail the seriousness of the problem and the second program would offer his specific solutions to the problem. He encouraged us to use charts and graphic rather than just a sit down presentation. He further suggested that we go to Senator Byrd right away and ask him if he would consider bringing the proposed COLA legislation directly to the floor and by-passing any committee assignment. Also, Senator Bellmon said the President might consider suggesting that he and his Cabinet would take a cut in pay encouraging others to do the same.

Senator Bellmon seemed to think that credit controls are now viable and that if we impose credit controls we do so only with the explicit understanding that the FED would cut rates.

3. Senator Magnuson. Senator Magnuson was defensive of the problems of the Appropriations Committee, but he did point out that the single issue being used by his opponent against him was the high rate of inflation. He seemed to be less than enthusiastic on the ability to make substantial cuts to the 1980 budget, but indicated he was willing to consider it. He indicated that the reason for inflation was pricing and he supported price and wage controls. He agreed that rescissions might be symbolic, but discounted that net effect of such proposals. He seemed to be inclined to consider modifications of the cost of living adjustment, but was difficult to pin down. His staff proposed a three-point program:

1. Send rescissions for 1980 budget and withdraw supplementals right away.
2. Amend the 1981 budget request to reduce the deficit.
3. Send up legislation to modify the COLA.

If the President sends any of these proposals to the Hill, it must be done after notification and discussion with the Leadership and the appropriate committee chairmen. If it looks like the President is attacking the Congress, this will have a very negative effect and would likely hurt the legislative process. Therefore, all efforts to consult with Congress prior to the submission of the various legislative alternatives would be considered beneficial.

4. Congressman Whitten. Congressman Whitten pointed out that the biggest problem with inflation is the inordinate difficulty we have with regulations. He urges the President to make a positive move to force EPA, DOE and other Executive regulatory units to consciously avoid issuing regulations which hurt the productive capacity of industry.

Mr. Whitten was doubtful of the success of an effort to change the COLA in the House and he suggested that 10% of all COLAs should be put into reserve to be administered by the President. He felt that this was the best alternative that could get through the House, although he had not discussed the prospects of such with any House Members.

cc: Dan Tate
Bill Cable

THE WHITE HOUSE
WASHINGTON

March 10, 1980

TO: The President

FROM: Frank Moore

f.y.i.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Congressional Affairs
Washington, D.C. 20230
(202) 377-3663

2 2nd period
F.g.l.

March 6, 1980

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EYES ONLY

MEMORANDUM FOR: Frank Moore
FROM: *Andrew E. Manatos*

I received a phone call from Congressman William Lehman regarding Secretary Klutznick's speech in the Jewish community in his district on March 5th. As you know, Congressman Lehman is Jewish.

Congressman Lehman said, "Those in the Jewish community who heard Secretary Klutznick's speech are telling me that they should keep their faith in President Carter. Apparently, the President made an honest mistake."

Lehman said to me, "Klutznick has reduced the surge of anti-Carter tide among those in my Jewish community who heard him."

Frank, I thought you would want to hear of Lehman's reaction on this issue as soon as possible.

c.c. H.V.



Municipal Building
New York, N.Y. 10007
James R. Brigham, Jr.
Director

March 7, 1980

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MEMORANDUM

To : Mayor Edward I. Koch
From : James R. Brigham, Jr. *JB*
Subject: Impact of the federal budget
on the City

In preparation for our meeting with the President tomorrow, I thought it would be useful to set out a few pertinent facts with respect to federal aid to the City.

1. The need for "gap closing" aid

- . gap closing aid is needed to provide for the costs of basic City services: police, fire, sanitation, education, and the like
- . in the end, shortfalls in gap closing aid will require the City to cut these basic services, since many of our expenditures, such as welfare, medicaid and debt service, cannot be cut by mandate of state and federal law
- . we are seeking increases in federal gap closing aid of \$100 million in FY 1981 and \$200 million in FY 1982, although these amounts are \$75 million less than the assumptions for federal aid contained in the 1978 financial plan.
- . the City has absorbed shortfalls of \$217 million in federal gap closing aid in fiscal years 1979 and 1980 and still met its statutory budget requirements
- . as I stated in my memorandum of February 20, the types of federal aid that can be used to close our budget gap are limited to the following:
 - increased or new unrestricted aid programs, such as revenue sharing and countercyclical assistance
 - increased federal participation in such formula based grant programs as medicaid or welfare

- greater flexibility to use block grant or categorical funds to supplant City funded expenditures in such areas as foreign dignitary protection, abandoned housing and reimbursement for indirect costs
- . inflation and the costs of mandated programs are growing faster than our revenues

	<u>City Funds Provided in Financial Plan</u> (\$ in millions)		
	<u>Actual</u> 1979	<u>Projected</u> 1982	<u>Increase</u> 1979-1982
Medicaid	\$ 565	\$ 757	\$ 192
Special Education	159	339	180
Energy	201	451	250
Materials, supplies, equipment & other purchases	<u>565</u>	<u>778</u>	<u>213</u>
Total	<u>\$1,490</u>	<u>\$2,325</u>	<u>\$ 835</u>

our total tax collections are projected to increase by \$ 591 million from 1979 to 1982, clearly insufficient to fund even the above increases, let alone to pay for the costs of collective bargaining

- . as you know, the financial plan provides for a 4% annual increase in 1981 and 1982 for collective bargaining; the unions representing the uniformed forces have demanded 16% annually; each additional one percent increase would increase our gap by \$50 million per year.

2. Status of actions to close the gap

- . we have proposed city actions of expenditure reductions and tax increases sufficient to close \$507 million, or 75 percent, of the projected \$677 million gap for 1981; while difficult, these actions are in large part achievable
- . the state is facing a budget gap of its own, but we have assurances from the Governor that the State's commitments will be met
- . to date we have identified less than \$10 million of federal gap closing actions other than those that require legislative action, such as welfare reform, targeted fiscal assistance and countercyclical
- . our ability to balance the budget and achieve a reasonable labor settlement will be set back severely unless federal aid meets at least the reduced goals we have set

3. What can be done

- . the current effort to balance the federal budget is one that broadly we should support; however, the federal actions should be ones that have recurring value and deal with the fundamental federal fiscal problems
- . with respect to the federal budget, you should know that from 1977 to 1981
 - total federal revenues are projected to increase by \$242 billion, an annual rate of increase of 13.8 percent
 - general purpose and other broad based grants to local government are projected to increase by \$27.9 billion, or 8.9 percent annually
 - general revenue sharing to local governments is projected to increase by \$100 million, or 0.4 percent annually
- . the conclusion, of course, is that aid to local governments has not been the cause of the federal budget deficit; the real culprits during the 1977-1981 period are
 - social security, increasing by \$53 billion, or 13.0 percent annually
 - defense, increasing by \$49 billion, or 10.7 percent annually (this rate of growth is less than average for the federal budget and the consensus seems to be that the defense budget should be cut modestly, if at all)
 - interest, increasing by \$29 billion, or 15.3 percent annually (the result of deficit spending and inflation-driven interest rates)
 - other income security (retirement and disability, unemployment compensation and public assistance) increasing by \$29 billion, or 11.3 percent annually
 - health (including medicaid) increasing by \$24 billion, or 12.6 percent annually
- . other than defense, these are the so-called "uncontrollable" entitlement programs that are often indexed to inflation
- . any serious attempt to balance the federal budget must address these programs
- . balancing the federal budget by cutting general revenue sharing and other local assistance without addressing the fundamental problems will be ineffective in the long run and probably viewed as symbolic by the U.S. and international financial markets

- we have prepared a series of budget proposals that would help balance the federal budget in a recurring fashion and provide gap closing aid to the City.

THE WHITE HOUSE

WASHINGTON

March 7, 1980

MEMORANDUM FOR THE PRESIDENT

FROM:

JACK WATSON *Jack*

SUBJECT:

Meeting with Mayor Ed Koch

The lunch with Mayor Koch should clearly be a political discussion rather than a budget review. It is vitally important that the meeting result in having Koch start campaigning aggressively on your behalf (something which he has not yet done).

The meeting will begin with a 10-15 minute briefing for you by the Mayor's Budget Director, James Brigham. I will then leave with Mr. Brigham and you will lunch with the Mayor alone.

New York Political Situation

Now the issues in the New York primary are coming down to (1) the U.N. vote on Israel, and (2) federal aid to New York City. As of today we are on the defensive about both. Kennedy is coming on strong on both issues and we do not have any New Yorker of Koch's popularity or stature responding to these charges.

U.N Issue: This has become not just a problem with Jewish voters, but has spread to the general public in terms of a "credibility" issue. Many people cannot believe it was a "mistake." Koch is said not to believe your statement. Some New York politicians say it would have been better to weather the vote as a policy dispute, than the present problems of "competence."

Because of this, Koch's support for your statement is crucial.

Koch's Political Position: The Mayor feels his own credibility is at stake and that his credibility is tied to the Administration's meeting his assumptions about federal aid. Carey and Moynihan wanted Ed to join forces with them on a strategy of delayed endorsement in order to get more federal aid. We all convinced Koch that your Administration does not respond to such tactics, but rather to friendship and early support. Koch also believes that if he cannot balance his budget because of additional federal cuts, Carter-Mondale will not carry New York in the primary or the general election.

New York Fiscal Issue

The City faces deficits of at least \$670 million in 1981 and \$1.14 billion in 1982. The Mayor is seeking a controversial package of expenditure reductions (13,000 jobs over two years) and tax increases to close these projected gaps. The Mayor's plan assumes that federal "gap closing" aid (most federal assistance falls outside this category) will rise by \$100 million in 1981 and by another \$100 million in 1982. The Mayor makes roughly comparable assumptions about State aid. Assuming no further cuts in the federal budget for FY 1980 and 1981, the City should be able to meet its 1981 budget goals. However, a significant increase in aid is necessary if a financial emergency is to be avoided in the City's fiscal year 1982 (1981 when the Mayor is seeking re-election).

In November, the Mayor gave me and Stu a list of his highest legislative and administrative priorities. The Administration is now either taking favorable administrative action or supporting the necessary legislation to achieve over 90% of the dollar value of this list. In the aggregate, these actions would provide the \$100 million in "gap closing" assistance which the City is seeking in 1981, but would fall far short in 1982.

As a practical matter, however, the Mayor is no longer in a position to rely on our meeting his 1981 \$100 million mark. Probable cutbacks in General Revenue Sharing, countercyclical aid and a delay in welfare reform will almost certainly make the 1981 goal unachievable.

The Mayor's attitude toward this problem is as follows:

- His credibility and the City's viability are contingent upon the Carter Administration's success in meeting his assumptions;
- The assumptions about rising federal aid in the Mayor's original 1978 plan were accepted by the Treasury Department and are viewed by the Mayor as "commitments" by the Administration. In fact, the Administration has always been careful to avoid characterizing the City's assumptions as commitments, and the Mayor's staff is aware of this.
- While federal aid to the City has risen over the past three years, assistance that can be used to close the City's budget gaps has increased far less rapidly than contemplated in the 1978 plan.

TALKING POINTS

U.N. Resolution

- o Tell him what happened and ask for his help.

Fiscal Matters

- o I am absolutely committed to meet the City's needs in a way that avoids either bankruptcy or the need for service cutbacks which would be devastating for the City and for you.
- o The City requires increases in Federal and State aid over the next two years, but you can make it through fiscal 1981 (beginning July 1, 1980) with only modest increases in federal aid. Your real problem is your fiscal 1982, and I understand your wanting to build federal aid levels in the federal fiscal year 1981 to help carry you through the following critical election year. However, my problem is the federal fiscal 1981. The simple fact is that I need your help now; next year you will need, and you will have, mine.
- o I will do what I can for 1981, and will (a) not impose a disproportionate impact on the City, and (b) will seek ways to be responsive to your problems. But inflation and inflationary expectations have created a national emergency, and there is no alternative to greater fiscal restraint. This will involve pain for everyone.
- o Your support of the Administration's record and our commitment to the City is absolutely critical. In the context of the need for fiscal restraint and Congressional resistance to key targetting initiatives, our record is a strong one you can defend. I need your help in making New Yorkers know that I am doing my best under difficult circumstances to meet the City's needs.

Political Situation

- o I will win the nomination. Kennedy cannot.
- o Kennedy can only weaken me now for the fall campaign.
- o You cannot balance your budget, go back to Congress and run for re-election with any Republican in the White House next year.
- o I must have you out there vigorously campaigning now.

What Campaign Needs from Koch

1. His aggressive campaigning with Mondale, Mrs. Carter, and others in New York City.
2. His doing a commercial on Israel.
3. The support of his entire staff. He should meet regularly with Joel.

New York Times 3/8/80

Koch, on Arrival at 7, Finds City Hall Empty

Mayor Koch, eager to get back to work after his two-week trip to China and Japan, arrived at City Hall yesterday at 7 A.M., well before most officials and staffers.

"I knocked on doors, but nobody was here," said the Mayor at an informal news conference in his freshly painted office. He said he had consoled himself by catching up on his mail.

"I left the city in good hands," he said, praising Deputy Mayor Nathan Leventhal, who was Acting Mayor.

Asked for his view on the support by the United States of the United Nations resolution condemning Israeli settlements, he said it was "very upsetting and very distressing."

However, he said, "I'm not going to dump on the President until I get the whole picture."

1:45 PM

THE WHITE HOUSE

WASHINGTON

MEETING WITH MEMBERS OF THE
NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

Monday, March 10, 1980

1:45 p.m. (20 minutes)

Cabinet Room

From: Stu Eizenstat *Stu*
Lynn Daft

I. PURPOSE

This is primarily a courtesy visit. It offers you an opportunity to thank the Commissioners for their past help and to solicit their support on two or three pending policy issues.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: As you know, most State Commissioners of Agriculture are very influential members of their State agricultural communities. They are in Washington for their annual mid-year conference. In the course of their 3-day session, they will be meeting with several Administration representatives including Secretary Bob Bergland, Doug Costle, and Dean Hinton (State).

We have worked very closely with NASDA over the past 2 years and they have given us important support on several occasions. When you met with their Board of Directors (then headed by Jim Graham of North Carolina) last winter (at the same time the American Agriculture Movement was in Washington trying to block traffic and capture headlines), they publicly proclaimed their support for the Administration's farm policy.

They have expressed interest in your discussing three topics in the Monday meeting: the Soviet grain suspension, the economy, and energy. Your talking points are geared to these topics. Once you have completed your remarks, Mr. William Stephens (New Mexico), the President of NASDA, will respond briefly. Although the room will be full (about 50), we suggest you use the remaining time to greet the Commissioners and have their pictures taken with you individually.

B. Participants: List attached. Secretary Bergland will also attend.

C. Press Plan: White House photographer only.

III. TALKING POINTS

Attached.

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

March 7, 1980

MEMORANDUM FOR THE PRESIDENT

From: Al McDonald
Rick Hertzberg
Achsah Nesmith *HN*

Subject: Presidential Talking
Points: Meeting with
State Agricultural
Commissioners

Scheduled delivery:

Mon. March 10, 1980

1:30 P.M.

Cabinet Room

The Presidential Talking Points for
this occasion are attached.

Clearances

Bob Bergland
Stu Eizenstat
Ray Jenkins
Staff for Jack Watson

Achsah Nesmith
A-2; 3/7/80
Scheduled for Delivery:
Mon., March 10, 1:30 P.M.

1:45

Talking Points for the President's Meeting
National Association of State Departments of Agriculture

1. PRESIDENT (WILLIAM) STEPHENS (N.M.), JIM GRAHAM, ~~SECRETARY~~
~~BERGLAND.~~ [Lynn Daft will update names by 9:30 A.M. Monday]

2. I APPRECIATE YOUR COMING BY. THIS IS THE FIRST TIME I HAVE HAD A CHANCE TO MEET WITH ALL OF YOU. YOUR FAMILIARITY WITH ~~THE~~ AGRICULTURE IN YOUR OWN STATES AND WITH THE OPERATION OF FARM PROGRAMS AT CLOSE RANGE MAKES YOUR ADVICE ON FARM POLICY MATTERS PARTICULARLY VALUABLE TO ME. THE OPEN, CONSTRUCTIVE RELATIONSHIP THIS ADMINISTRATION HAS WITH YOUR ORGANIZATION PLEASES ME VERY MUCH. WE HAVE NOT AGREED ON EVERY ISSUE, BUT IN THE MANY AREAS WHERE WE AGREE, YOU HAVE PROVIDED IMPORTANT SUPPORT.

2. I KNOW BOB BERGLAND AND OTHERS HAVE FILLED YOU IN ON A NUMBER OF POLICY ISSUES. THERE ARE JUST TWO OR THREE POINTS THAT I WOULD LIKE TO RAISE WITH YOU. ONE IS MY DECISION ON JANUARY 4 TO SUSPEND GRAIN SHIPMENTS TO THE SOVIET UNION. IT IS IMPORTANT THAT YOU, AS LEADERS OF AMERICAN AGRICULTURE, UNDERSTAND THIS ACTION. I HAVE LONG BEEN COMMITTED TO EXPANDED AGRICULTURAL EXPORTS, AND I STILL AM. I BELIEVE IN FREE MARKETS. I WOULD NOT LIGHTLY INTERFERE WITH THEM, BUT I COULD NOT ALLOW THE SOVIET ARMED INVASION OF A SMALL, DEFENSELESS, INDEPENDENT NATION TO GO UNCHALLENGED. I HAVE SOUGHT PEACE IN EVERY WAY OPEN TO ME AS PRESIDENT. SHORT OF MILITARY CONFRONTATION, ECONOMIC ACTION WAS THE MOST EFFECTIVE RESPONSE.

3. WE WILL NOT LESSEN OUR EFFORTS TO EXPAND EXPORT MARKETS FOR AGRICULTURE. TO THE CONTRARY, WE HAVE INTENSIFIED OUR EFFORTS.

PARTIALLY AS A RESULT, WE WILL ONCE AGAIN SET A NEW RECORD FOR THE EXPORT OF GRAIN THIS YEAR. TOTAL EXPORTS OF ALL GRAINS AND SOYBEANS ARE UP 33 PERCENT OVER THE FIRST SIX WEEKS OF LAST YEAR. I REMAIN FIRMLY OPPOSED TO USING GRAIN EMBARGOES TO CUT DOMESTIC PRICES, AS PAST ADMINISTRATIONS HAVE DONE. I AM DETERMINED TO SEE THAT THE COST OF SUSPENDING GRAIN SALES TO THE SOVIET UNION IS SHARED BY ALL AMERICANS. I WILL DO MY LEVEL BEST TO SEE THAT FARMERS DO NOT SHOULDER AN UNFAIR BURDEN. WE HAVE TAKEN A NUMBER OF ACTIONS TOWARD THIS END. I WILL TAKE MORE IF NECESSARY.

4. MOST OTHER NATIONS HAVE BEEN EXCEEDINGLY COOPERATIVE. THE SOVIET UNION CAN SECURE WHEAT FROM OTHER SOURCES, BUT ITS OPTIONS ARE LIMITED WHEN IT COMES TO FEED GRAINS. THEY WILL FALL SHORT OF THEIR NEEDS BY A SUBSTANTIAL AMOUNT, ABOUT 10 TO 12 MILLION METRIC TONS. WE HIT THEM WHERE IT HURTS.

5. THIS NATION FACES ANOTHER SERIOUS THREAT -- INFLATION. THE ROOT CAUSES OF INFLATION LIE BOTH IN PAST ACTIONS AT HOME AND EVENTS ABROAD, BUT WE MUST ACT NOW. I WILL SOON ANNOUNCE A SERIES OF STRINGENT ACTIONS TO CUT FEDERAL EXPENDITURES TO A BARE-BONES MINIMUM. I AM GOING TO TELL IT TO YOU STRAIGHT -- NO PART OF OUR SOCIETY WILL BE SPARED. THAT INCLUDES AGRICULTURE, BUT FARMERS WILL ALSO GAIN A LOT FROM THE SUCCESS OF THIS EFFORT. AGRICULTURE IS OUR MOST COMPETITIVE INDUSTRY. IT IS ESPECIALLY VULNERABLE TO THE COST-PRICE SQUEEZE. FARMERS CAN SELDOM PASS ON INCREASED COSTS. FEDERAL PROGRAMS CAN HELP SUPPORT FARM PRICES, AS WE HAVE DONE WITH NOTABLE SUCCESS OVER THE PAST THREE YEARS, BUT THAT WILL NOT SUFFICE IF FARMERS' COSTS RISE EVEN FASTER. IF WE DO NOT BEGIN TO GET CONTROL OF INFLATION, LONG-TERM PROSPECTS

ARE OMINOUS. TO DO THAT, I WILL NEED THE SUPPORT AND COOPERATION OF EVERY CITIZEN, EVERY BUSINESS, EVERY ASPECT OF GOVERNMENT.

6. THE THIRD PROBLEM I WOULD LIKE TO TOUCH ON IS ENERGY. IT IS A MAJOR CAUSE OF INFLATION. WE MUST DEVELOP ALTERNATIVE SOURCES OF ENERGY AND REDUCE OUR DEPENDENCE ON IMPORTED OIL. WE ARE BEGINNING TO MAKE PROGRESS, BUT WE STILL HAVE A LONG WAY TO GO. I NEED YOUR HELP TO GET AN EFFECTIVE ENERGY SECURITY CORPORATION AND WINDFALL PROFITS TAX SO WE CAN GET ON WITH THIS TASK.

7. AGRICULTURE IS CRITICAL TO OUR EFFORTS TO CONSERVE ENERGY AND TO DEVELOP ALTERNATIVE FUEL SOURCES. AGRICULTURE IS A MAJOR USER OF ENERGY. IT MUST BECOME A MAJOR CONSERVER OF ENERGY, AS WELL AS A PRODUCER OF ENERGY. THE TRANSITION WILL NOT BE EASY OR CHEAP. FUEL SHORTAGES ARE NOT AN IMMEDIATE PROBLEM, BUT THEY COULD ARISE IN THE FUTURE. SHOULD THAT HAPPEN, I WILL SEE THAT AGRICULTURE HAS A PRIORITY CLAIM ON AVAILABLE FUEL SUPPLIES.

ALTHOUGH IT IS STILL IN THE EARLY STAGES OF DEVELOPMENT, WE ARE ON THE VERGE OF RAPID GROWTH IN ALCOHOL FUEL PRODUCTION. I HAVE SET A TARGET OF 500 MILLION GALLONS OF ALCOHOL PRODUCTION CAPACITY BY THE END OF 1981, A SIX-FOLD INCREASE OVER CURRENT LEVELS. THIS ALONE OBVIOUSLY WILL NOT SOLVE OUR ENERGY PROBLEM, BUT IT WILL MAKE A SIGNIFICANT CONTRIBUTION, AND IT WILL DO SO USING RENEWABLE RESOURCES.

8. THESE NEXT DAYS AND MONTHS ARE NOT GOING TO BE EASY, BUT I BELIEVE AMERICANS CAN MEET THESE CHALLENGES. I AM GOING TO NEED YOUR HELP IN A MAJOR WAY.

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