**5/31/80**

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THE WHITE HOUSE

WASHINGTON

May 30, 1980

MEMORANDUM FOR THE PRESIDENT

FROM : AL MCDONALD

SUBJECT: Public Posture on Budget Resolution, Some Suggestions

The weekend television interviews provide excellent opportunities for you to reiterate forcefully that you are more than willing to stand and fight with the Congress over questions of principle as the budget and appropriations process continues. Your aims are clear:

1. You stand firm behind the relative order of priorities as outlined in your speech of March 14. This reflects an appropriate balance in budget authorities for coming years between domestic social programs and defense needs;

2. You must have adequate flexibility to deal with the difficult economic period we are passing through. You have reminded the Congress that you and they must retain adequate latitude to deal with whatever arises and be prepared to respond in a pragmatic and compassionate way if unemployment moves up intolerably.

Your position reflects a carefully developed common understanding with the leadership of Congress worked out over many hard days and nights. You are consistently sticking with the careful balance worked out with the leadership. This result permits (1) a balanced budget, reflecting discipline in spending, (2) a strong defense budget with a 4 percent real increase per year and adequate funds for military pay increases as you have proposed (your priorities being far more on readiness than on more costly hardware commitments), and (3) solid support for domestic social programs without sacrificing any of them. You have accepted some trimming of amounts or stretching out of plans to achieve the discipline in spending required to fight inflation. At the same time, you have vigorously opposed the axing of programs or indiscriminate further reductions on the domestic side to inflate the defense budget beyond the real growth levels you advocated in your defense speech in December.

As for the budget resolution, the House vote to recommit the report to the conference committee was a clear victory in support of your position. That showed their common conviction with you that programs for social justice cannot be sacrificed indiscriminately for unwarranted increases in military hardware commitments.

You will continue to push for the closest possible figures to your March 14 program. The Congress has received full notice that you will not accept a reordering of priorities and this is a fight you plan to continue right through the year.

The budget resolution represents only the first round in a long struggle. This round is now in the hands of Congress to complete. It is probable that the conference committee will still come up with inadequate levels, but it should move a notch closer to your positions. You will then continue to press for further rebalancing in line with the priorities you have established as the process moves to the appropriations committees.

If you had not challenged the conference committee report, they would have assumed your acquiescence with their change in priorities. This would have been a false signal to the Congress and to the public. It would have hampered your ability to fight at the appropriations level later. It would have undermined the programs you believe are essential for our country's wellbeing during our current economic difficulties and the balance that reflects our proper priorities over the next several years.

THE WHITE HOUSE
WASHINGTON

5/30/80

Jody Powell
Stu Eizenstat
Frank Moore
Jim McIntyre

The attached is forwarded to you for your information.

Bill Simon

3138 5/31

THE WHITE HOUSE

WASHINGTON

May 30, 1980

MEMORANDUM FOR THE PRESIDENT

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 30, 1980

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: How deep is the recession likely to be, and what should we say about it.

I am attaching two suggested Qs and As for your use on this subject. The first one, on the economic outlook, makes three points:

- o the recession to date has been steeper than expected and unemployment is likely to go above our latest official forecast;
- o corrective factors (lower interest rates and lower inflation) are at work to slow the recession and bring on recovery later;
- o but, forecasts are uncertain and we will be continually reviewing the evidence to see if our judgements about the recession are correct.

Background

The economic decline in April was very severe. May will also be a bad month. Given two conditions, spelled out below, the recession could be quite steep but recovery (albeit modest recovery) could begin by or before the end of the year:

- -- housing starts may hit their low point in May or June and start back up moderately in late summer;
- -- auto sales may recover part of their recent losses, as credit is eased (full recovery may take several years, as new small car capacity is built);
- -- exports should continue to rise.

But the two conditions mentioned below must hold, for this outcome to occur:

1. Business firms do not sharply revise their investment plans downward. So far the evidence is mixed, but on balance is hopeful.

2. Consumers observing some of their neighbors on layoff, do not cut their spending by large amounts.

On both counts I think we may be O.K. But it will take some time before we can be sure.

In the meantime I think we should be calm and reasonably confident, but admit the inevitable uncertainty and not dig ourselves into an immovable position.

Implications

Right now we do not want to open the door for any level of stimulative action. But, if things should go sour later, the best response would be to advance the effective date of the kinds of tax cuts we would otherwise propose next year. If the recession looks as if it is getting out of control, this would mean asking the Congress for a tax cut before it goes home, to take effect January 1, 1981.

Given such a contingency we should be very careful how we handle any discussion of a tax cut. On the one hand we want to make it clear that now is not the time for a tax cut. But we also need to leave an "out" in case the recession should become very severe.

The second Q and A attempts to handle the dilemma by conditioning the tax cut on:

1. getting spending reductions enacted;

2. making sure that the budgetary and economic conditions are such that the tax cut is not inflationary.

This gets away from conditioning the tax cut on having a balanced budget -- if the recession gets severe enough, we may have to propose a cut even if the budget is in deficit.

Q. How high do you expect unemployment to go?

A. My Administration will not issue a new official forecast until next month (July). In March, we forecast an unemployment rate of 7-1/4 percent during the last quarter of 1980 and some increase above that in early 1981. On the basis of statistics for the past few months, it is likely that unemployment will go above that point. I am very concerned about this increase. We do have a number of government programs which to some extent alleviate the distress of unemployment. But most importantly, rapidly falling interest rates and lower inflation are already operating to moderate recession and bring on recovery. The results won't show up at once, and we may have some difficult months ahead, but there are fundamental forces at work to bring on recovery.

We can never, of course, be sure about economic forecasts. So we will be continually reviewing the evidence and monitoring the course of the economy to see if our judgement about the severity of the recession needs to be changed. On the basis of the current evidence, however, I do think the falling interest rates and lower inflation should be successful in slowing the recession and in leading to economic growth later on.

Q. How do you respond to Governor Reagan's charge that you will ultimately be proposing a tax cut before the election. Will you flatly rule that out now?

A. I have already stated my intention to propose tax cuts for next year _if_ -- and I underline if -- we are successful in reducing Federal spending along the lines I have proposed.

But it would be premature to propose such tax cuts now before action has been completed on the budget and before we have made certain that inflation is indeed declining. Recent signs are encouraging -- the rate of increase of the consumer price index in April was only about two-thirds the rate of increase for the first three months of this year, and we expect the rate of inflation to fall further in the second half of the year. But we are not yet out of the woods. We need tax reductions, among other things, to promote productivity growth. But we must cut them only when we have made sure that our actions will not rekindle inflationary pressures.

What is at issue, therefore, is not whether we should have tax cuts but only when and on what conditions. I will carefully monitor budgetary and economic conditions and will not wait any longer than I think is necessary to propose responsible tax reductions.

THE WHITE HOUSE

WASHINGTON

May 13, 1980

TO: The President

FROM: Phil Phil

RE: Amy's Violin Recitals

You had previously approved attending Amy's recital over the Memorial Day Weekend - i.e. Sunday, May 25, at Wolf Trap.

Today we have learned that Amy is participating in another recital this coming Sunday, May 18, at 3:00 p.m., at St. Patrick's. Amy is to give a solo performance at this recital; on May 25 she will perform within a group.

With this information, we thought you may wish to reconsider.

✓ attend May 18 recital

? attend May 25 recital

J

Director WAGNER
JACQUES BAILLY

55 YEARS 108
newspapers

ELUCUBRATE - work/
express by studious effort

8 mil -> 1000's

All but one did not win

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DR BAKER ~12,000
ATTENTION

Gov't / newspaper

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THE WHITE HOUSE

WASHINGTON

May 30, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER Anne
AL MCDONALD

SUBJECT: INFLATION ACTIVITIES --- WEEK OF MAY 26, 1980

Attached for your information are this week's summary of activities and Inflation Report.

# SUMMARY OF ANTI-INFLATION ACTIVITIES

## Week of May 26, 1980

### Congress

First Budget Resolution - The House voted to recommit the budget conference report on the first budget resolution. This action came after the President indicated that he would oppose the conference compromise because of its reordering of his spending priorities. The conference report shifted spending money from the domestic social functions to the defense functions for FY 1981. The House also defeated an amendment to split off supplementals for FY 80 spending from the FY 81 budget resolution.

Oil import Fee - On May 30, the House agreed to amend the rule for the debt limit extension bill to allow an oil import fee repealer amendment. On Friday, a temporary (5-day) debt limit extension was passed without amendment, and the vote on the import fee was deferred until June 4.

### Outreach

Anti-inflation activities were included in most White House briefings - 6 briefings, covering approximately 400 people, 2 with Presidential participation.

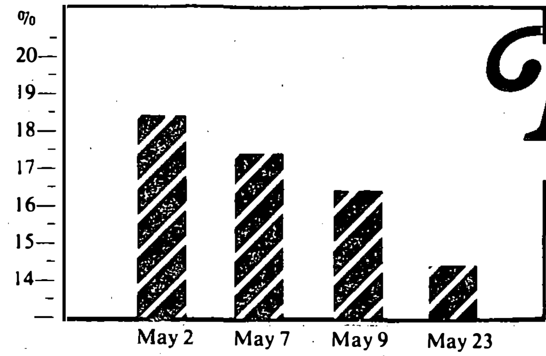
### Continuing Actions

Compliance Actions - The Council on Wage and Price Stability announced that Kerr-McGee Corporation has agreed to forego $19.5 million in revenues this year in order to remain in compliance with the anti-inflation standards. In a separate action, COWPS cited Burlington Air Freight out of compliance with the voluntary price standards. The Council also added the names of five West Coast contractors' associations to the official list of noncompliers. All five associations were cited for granting pay increases that exceeded the first year pay standard.

### Credit

The Federal Reserve reduced the discount rate from 13 percent to 12 percent this week. This reduction follows a broad-based decline in all key, short term interest rates of 6 to 10 percentage points since March 14.

Prime Interest Rate Charged by Banks on Short-Term Business Loans




# Inflation Report

No. 6 | The White House Press Office | May 29, 1980

# House Sends Budget Compromise Back to Conference

## Comparison of Proposed Budgets for Fiscal Year 1981

*(in billions of dollars)*

| Program | | Administration (March Revision) | Budget Committee Conference |
|---|---|---|---|
| Defense | Budget Authority | 164.5 | 171.3 |
| | Outlays | 150.5 | 153.7 |
| International | Budget Authority[1] | 18.2 | 23.6 |
| | Outlays | 10.1 | 9.5 |
| Domestic Programs | Budget Authority | 465.1 | 454.8 |
| | Outlays | 407.4 | 402.6 |
| Interest | Budget Authority | 68.4 | 72.2 |
| | Outlays | 68.4 | 72.2 |
| Offsetting receipts | Budget Authority | -24.9 | -24.7 |
| | Outlays | -24.9 | -24.7 |
| TOTAL | Budget Authority | 691.3 | 697.2 |
| | Outlays | 611.5 | 613.3 |

[1] The difference between the Administration's proposal and that of the Conference Report is largely a technical difference, not a programmatic one.

### Administration and Congressional Estimates of 1981 Budget Authority and Outlays

*(in billions of dollars)*

| Function | Budget Authority: Administration[1] | Budget Authority: Conference | Budget Authority: Difference | Outlays: Administration[1] | Outlays: Conference | Outlays: Difference |
|---|---|---|---|---|---|---|
| National defense | 164.5 | 171.3 | 6.8 | 150.5 | 153.7 | 3.2 |
| International affairs[2] | 18.2 | 23.6 | 5.4 | 10.1 | 9.5 | -.6 |
| General science, space, and technology | 6.6 | 6.5 | -.1 | 6.2 | 6.1 | -.1 |
| Energy | 6.9 | 6.6 | -.3 | 6.9 | 6.8 | -.1 |
| Natural resources and environment | 12.5 | 11.7 | -.8 | 12.5 | 12.1 | -.4 |
| Agriculture | 5.4 | 5.5 | .1 | 2.0 | 2.3 | .3 |
| Commerce and housing credit | 5.6 | 5.1 | -.5 | .4 | — | -.4 |
| Transportation | 23.4 | 22.0 | -1.4 | 19.0 | 18.65 | -.35 |
| Community and regional development | 9.0 | 8.8 | -.2 | 8.5 | 9.2 | .7 |
| Education, training, employment and social services | 33.0 | 31.5 | -1.5 | 30.6 | 29.5 | -1.1 |
| Health | 71.1 | 71.1 | — | 61.9 | 61.7 | -.2 |
| Income security | 251.6 | 249.3 | -2.3 | 220.1 | 219.35 | -.75 |
| Veterans benefits and services | 22.5 | 21.7 | -.8 | 21.4 | 21.2 | -.2 |
| Administration of justice | 4.3 | 4.2 | -.1 | 4.6 | 4.6 | — |
| General government | 4.9 | 4.6 | -.3 | 4.8 | 4.3 | -.5 |
| General purpose fiscal assistance | 6.8 | 6.2 | -.6 | 7.4 | 6.8 | -.6 |
| Interest | 68.4 | 72.2 | 3.8 | 68.4 | 72.2 | 3.8 |
| Allowances | 1.7 | — | -1.7 | 1.4 | — | -1.4 |
| Undistributed offsetting receipts | -24.9 | -24.7 | .2 | -24.9 | -24.7 | .2 |
| TOTAL | 691.3 | 697.2 | 5.9 | 611.5 | 613.3 | 1.8 |

[1] March update.
[2] The difference in budget authority is largely a technical difference, not a programmatic one.

The House of Representatives has rejected a compromise budget resolution, sending it back to conference with the Senate. A second vote taken after about 100 members had left the floor instructed conferees to maintain the defense spending figure. However, the instructions are not binding on House conferees.

President Carter had announced he opposed the budget compromise.

"We are committed to a balanced budget," he said yesterday. "Within that budget, there must be a proper allotment of resources between defense and domestic programs."

Speaking at an out-of-town editors briefing, the President said, "We cannot afford to cheat the American people on domestic programs with an unnecessary allocation of funds from domestic programs to defense expenditures."

**Congress' budget** compromise calls for $613.3 billion in spending for Fiscal Year 1981 and $613.8 billion in revenues. The President's revised balanced budget proposal submitted last March calls for outlays of $611.5 billion and base revenues of $612 billion, for a surplus of $500 million.

The Congress' compromise proposes $153.7 billion in outlays for defense. The President requested $150.5 billion in defense outlays. The higher amounts for defense are offset by lower amounts than the President proposed in virtually all remaining functions.

"**On our defense** program, which I put to the Congress back in November and have committed to continue now for five years, we have built into it a 4% real growth in appropriations each year for five years," he told the editors.

"That's above and beyond the inflation rate. It's adequate; it's approved by the Joint Chiefs of Staff, the Secretary of Defense, and others.

"The Congress, however, has added on top of that additional spending at the expense of domestic programs...We really need to have programs designed to keep Americans at work and to meet the needs of education, training, and the prevention of deterioration in our most severely impacted cities and communities around the nation."

**Said the President:** "A final judgment is being made to an unprecedented degree by the first budget resolution as to what the Congress can do in the remainder of this year in preparing the 1981 fiscal year budget."

# Petroleum Refiner Agrees to Comply with Standards

Kerr-McGee Corporation, a large petroleum refiner with nuclear operations, has agreed to forego $19 million in allowable profits in order to come back into compliance with the price standards.

It will take its corrective action during the second program year which ends September 30.

In addition, the Council on Wage and Price Stability has found Burlington Northern Air Freight, a subsidiary of Burlington Northern, Inc., in noncompliance with the price standards.

The Council also has announced several other wage and price actions as part of its voluntary program to hold down pay and price increases within anti-inflation standards.

Mobil Oil has announced it will cut its prices for gasoline and jet fuel by 2¢ a gallon and its prices for heating oil and diesel fuel by 3¢ a gallon.

Union Oil of California also has cut its prices for gasoline by 6¢ a gallon and its prices for heating oil and diesel fuel by 7¢ a gallon.

Both companies said the actions were taken to ensure their compliance with the anti-inflation standards.

The Council also said that Diamond Shamrock Corporation, a chemical/oil and coal company, has agreed to take corrective pricing action to come back into compliance with the program. Under that plan, the company will forego $9.6 million in allowable revenues during the second program year.

In addition, the chemical operation of U.S. Steel Corporation says it will forego $4 million in profits during the same period in order to remain in compliance with the anti-inflation program.

The two actions followed a recent meeting between the President and leaders of the chemicals industry.

In other action, Hyatt Hotels has been listed as a noncomplier with the Office of Federal Procurement Policy. The Council has found Hyatt out of compliance with its price standard. As a listed noncomplier, Hyatt will be ineligible to bid on Federal contracts of $5 million or more.

Hyatt was issued a noncompliance decision at the end of April and had until May 13 to appeal that decision before being listed as a noncomplier.

# FTC, Food Stamps Measures Signed Into Law

The President has signed the Food Stamp Act Amendments of 1980 containing many Administration proposals to reduce fraud and costs in the program. The modifications are expected to save $600 million in Fiscal Year 1981.

He also signed the Federal Trade Commission Improvements Act of 1980, which means that for the first time in three years there will be a specific authorization statute in effect for the Commission.

The law incorporates many of the President's regulatory reform proposals designed to assure that FTC rules are based on sound economic analysis and that the agency finds the least burdensome way of achieving its goals. It also provides for an Administration-opposed two-house Congressional veto of FTC final rules.

The food stamps law modifies the program by changing the semi-annual adjustment of the food stamp allotment and standard deduction for eligibility. Many post-secondary students also are eliminated from the program, except for those who are under 18, over 60, or disabled, or who already are working at least half-time but who still meet income requirements, or who have dependents.

The new law also calculates the poverty line once a year, rather than at midyear. It drops the assets limit for most households to $1,500, except for households of two or more with an elderly person, where the limit would remain at $3,000. In addition, the law reduces the error rate by imposing sanctions on States having above-average error rates.

# House Committee OKs Trucking Deregulation

The House Public Works Committee has approved a bill that would partially deregulate the trucking industry, making it easier for firms to enter the trucking business and increasing competition in the industry.

The Senate has passed its own trucking deregulation bill, and if the House passes its bill, the two houses would have to iron out differences between the two measures.

The House measure makes entry into an area easier for trucking firms by requiring companies opposing new entries to prove that the Interstate Commerce Commission should not grant rights to those new firms. Presently, new entrants must show why they should receive those rights. It also permits companies to raise or lower rates 10% a year without ICC approval.

The bill also makes it easier for unregulated owner-operator truckers to carry processed foods.

# Holding the Line on Inflation...

**Additional firms** and government entities have signed on to participate in the National Energy Conservation Program to cut gasoline use and U.S. oil imports.

More than 135 organizations thus far have agreed to meet the President's goal of getting each participating group to inform employes, customers, and the general public about efficient route planning, proper car maintenance, and more economic driving habits. The Administration hopes to improve fuel economy by 10% to 20% through better driver efficiency.

The groups also agreed to get at least 20% of their employes to rideshare or use public transit. If a group already has met that goal, it will increase its ridesharing to 40%. The groups also will take steps to improve the fuel efficiency of their motor vehicle fleets by 10% this year.

President Carter has pledged the Federal government to the same goals.

The additional firms, listed with the numbers of members or employes they represent (when available), are:

Allied Chemical (33,400)
Citibank, N.A.
Tennessee Valley Authority
American Trucking Associations, Inc. (51)
Raytheon Company
Sears Roebuck and Company (460,000)
National Rural Electric Cooperative Association
W. R. Grace & Company
IC Industries, Inc. (43,000)
Rockwell International Corporation (115,000)
General Motors Corporation (797,000)
National Air Transportation Association (800)
3M
Texaco, Inc. (70,600)
The Aluminum Association, Inc.
Association Brokers of Tennessee, Inc.
Cape Food Service, Inc., Hyannis, MA
Big H Auto Auction, Houston, TX
Southern New England Telephone Company
Oglethorpe Power Corporation
Bristol-Myers Company (31,000)
Bethlehem Steel Corporation (100,000)
Southern California Edison Company
Pullman Incorporated
Union Oil Company of California (16,500)
United States Steel Corporation (165,000)
The Firestone Tire & Rubber Company (115,000)
American Association of Motor Vehicle Administrators (130)
Pennsylvania Transportation Committee, Harrisburg, PA
Burroughs Corporation
Farmers Union Central Exchange, Inc., South St. Paul, MN
Motorola, Inc. (60,000)
Owens-Illinois, Inc. (82,000)
The Chase Manhattan Bank, N.A. (26,900)
The Johns Hopkins University Applied Physics Laboratory

## Energy, Food Improvements Lead CPI Slowdown in April

The Consumer Price Index grew in April by .9%, the smallest increase since January, 1979. This is an annual rate of 11.6%.

The reduction in the growth of the CPI was due primarily to a slowdown in the rates of increase for energy and food. Energy prices rose .9%, the smallest increase since November, 1978. Food prices rose .5%, compared with 1% in March.

Excluding food, energy, and home purchase and finance, April's growth was about 8.4%—compared with 12% during the previous three months.

In addition, because mortgage interest rates show up in the CPI on a one-month lag, April's rate did not reflect recent declines in those rates. The lower rates will show up in subsequent months.

o o o

**The U.S. trade** deficit fell to $1.9 billion in April from $3.2 billion in March. This was down from $5.6 billion in February.

April's trade deficit was the smallest since May, 1977.

The decline was led by a sharp drop in oil imports.

THE WHITE HOUSE
WASHINGTON

May 31, 1980

To Jim McIntyre

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

Rick Hutcheson

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

gle
J

May 29, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: Jim McIntyre Ji

SUBJECT: Your public statements on the Budget Resolution

I wanted to call to your attention two particularly sensitive points about your statements on opposing the First Budget Resolution:

1. A compromise, revised conference report can be expected to contain only relatively small increases in domestic spending levels. You may have to choose to support such a limited compromise. Therefore, I would urge you to be careful not to raise expectations about what it may contain.

2. The effects of the reconciliation language in the Resolution will have two effects on future actions by the Congress:

   a) It will push the authorizing committees to report legislative savings, most of which will be consistent with your budget. We have strongly supported this feature.

   b) It will push the Ways and Means and Finance Committees to report over $4 billion of revenue increases, such as withholding of interest and dividends and cash management changes.

   However, the reconciliation language will not have much effect on the Appropriations Committees in 1981. They will still have the authority to adjust funds within their total committee allocations to reflect differing priorities from the Budget Committees. The Appropriations Committees could, for example, transfer Defense funds to jobs programs.

   Consequently, I suggest that you <u>not</u> cite the reconciliation language as a reason for opposing the Resolution.

1:15 pm
6/4/80

THE WHITE HOUSE
WASHINGTON

5/30/80

Mr. President:

Amb. Watson will be in DC next week and has requested a meeting with you. He contacted Hamilton about this. Shall I schedule?

✓ yes ___ no

Phil

J

3352

THE WHITE HOUSE

WASHINGTON

SCHEDULE PROPOSAL
DATE: June 2, 1980
FROM: Zbigniew Brzezinski
VIA: Phil Wise

| | |
|---|---|
| MEETING: | Call on you by Thomas J. Watson, Ambassador to the Soviet Union. |
| DATE: | Afternoon of Wednesday, June 4 or any time on Thursday, June 5. |
| PURPOSE: | To discuss current and future US policy toward the Soviet Union. |
| FORMAT: | Oval Office; Dr. Brzezinski, Marshall Brement (NSC Staff); Fifteen minutes. |
| CABINET PARTICIPATION: | Secretary Muskie, Dr. Brzezinski. |
| SPEECH MATERIAL: | Talking points to be provided by NSC. |
| PRESS COVERAGE: | Meeting to be announced; Photo opportunity. |
| STAFF: | Dr. Brzezinski. |
| RECOMMEND: | Recommended by State Department and Dr. Brzezinski. |
| OPPOSED: | None. |
| PREVIOUS PARTICIPATION: | You last met Watson on December 12 for a review of US-Soviet relations. |
| BACKGROUND: | Watson will testify before the Senate Foreign Relations Committee in Executive session at 10:30 on June 4. This will be the first occasion for you to discuss US-Soviet relations with him since the Soviet invasion of Afghanistan. It will provide a good opportunity for you to make clear how you see US-Soviet relations developing over the next months, and to get Watson's impression of the current thinking in the Kremlin. |

__________ Approve __________ Disapprove