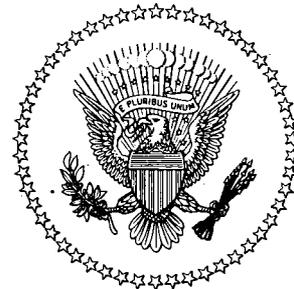


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# The Export Imperative

**Report to the President  
Submitted by  
The President's  
Export Council**

*December 1980  
Washington, D.C.*

**VOLUME II**

December 19, 1980

MEMORANDUM FOR THE PRESIDENT

From: Al McDonald  
Rick Hertzberg  
Bob Rackleff

Subject: Presidential Talking  
Points: Meeting  
with President's  
Export Council

Scheduled delivery:  
Mon, Dec 22, 11 a.m.  
Cabinet Room

Your talking points for this meeting  
are attached.

Clearances

DPS  
Ray Jenkins

11:00 Am

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THE WHITE HOUSE  
WASHINGTON

MEETING WITH THE PRESIDENT'S EXPORT COUNCIL  
THE CABINET ROOM

11:00 A.M.

MONDAY, DECEMBER 22, 1980

FROM: Anne Wexler *Ann*

I. PURPOSE. To receive the report of the President's Export Council and make brief remarks expressing your appreciation for the work of the Council.

II. BACKGROUND, PARTICIPANTS AND AGENDA.

A. Background: The President's Export Council (PEC), created in 1973, was reconstituted by you in May, 1979, to include representatives from federal, state and local governments, business, industry, labor and agriculture. The Council makes recommendations to you on programs and policies to increase U.S. exports. Reg Jones, Chairman of General Electric, is chairman of the PEC and Secretary Klutznick is the principal Administration representative. At today's meeting Mr. Jones will present the PEC final report, "The Export Imperative," which summarizes PEC activities for the last year and a half and sets forth the final recommendations.

Your talking points do not deal directly with the PEC recommendations, some of which are not consistent with current policy. In addition, Secretary Klutznick has recommended that the PEC be continued beyond the end of the current Executive Order which expires on December 31. OMB advises that an Executive Order continuing the PEC will be forwarded to you through the normal channels with a recommendation for approval. Your talking points contain language announcing that you will extend the PEC.

The PEC recommendations emphasize the need to promote a greater national export consciousness. On reducing export disincentives, they recommend reducing taxation on foreign earned income of Americans working overseas; modifying the policy of extraterritorial application of U.S. antitrust laws; harmonizing U.S. anti-boycott laws being enforced by several agencies; and relaxing export controls. On improving export

incentives, they recommend increasing loan authorizations for Eximbank and agricultural credits; removing Eximbank from the foreign assistance budget; establishing trading companies; and retaining and enhancing tax programs like DISC that encourage foreign investment by U.S. firms. They also stress the importance of improving overall U.S. industrial competitiveness.

- B. Participants: Participating will be the PEC members, as well as senior officials of General Electric and the Department of Commerce who have been active with the Council. Senator Roth (R-Delaware) is not a PEC member, but will be chairman of the relevant Senate committee next year and will attend. All of the Congressional PEC members of the Council will be represented by their senior staff members. See attached list.

The principal persons whom you should acknowledge are: Reg Jones and Secretary Klutznick. We will ask Governor Busbee and Secretary Muskie to stand next to you during the ceremony.

- C. Agenda: When you enter the room, Secretary Klutznick and Reg Jones will be standing at the microphones at the center of the Cabinet table. Reg Jones should start the meeting with brief remarks presenting you the PEC report. You should reserve your remarks to respond to Mr. Jones' presentation.

### III. PRESS PLAN.

White House press and selected foreign trade press.

### IV. TALKING POINTS.

Talking points have been prepared by your speech writers in consultation with the Commerce Department and the Domestic Policy Staff and are being submitted separately.

THE PRESIDENT'S EXPORT COUNCIL

PRIVATE SECTOR ATTENDEES

Council Chairman Reginald H. Jones, Chairman and Chief Executive Officer, General Electric Company, Fairfield, CT

Tom Barnum, President, Consolidated Foods, Inc., Chicago, IL

John W. Barringer, Assistant to the President, L.T. Barringer & Company, Memphis, TN

Morris M. Bryan, Jr., President, Jefferson Mills, Jefferson, GA

Governor Geroge D. Busbee, Atlanta, GA

Emile R. Bussier, Attorney at Law, Manchester, NH

D.L. Commons, Chief Executive Officer, Natomas Company, San Francisco, CA

Robert Dickey III, Chairman and President, Dravo Corporation, Pittsburgh, PA

Frank Drozak, President, Seafarers International Union of North America, Washington, D.C.

John Norman Efferson, Chancellor, Center for Agricultural Sciences and Rural Development, Louisiana State University, Baton Rouge, LA

Kenneth Allen Gibson, Mayor, Newark, NJ

Harry E. Gould, Jr., Chairman of the Board and Chief Executive Officer, Gould Paper Corporation, NY

Roger Gettys Hill, President, Gettys Manufacturing Company, Inc. Racine, WI

Edward M. Lee, President, Information Handling Services, Englewood, CO

P. Scott Linder, Chief Executive Officer, Linder Industrial Machinery Company, Lakeland, FL

J. Paul Lyet, Chairman of the Board, Sperry Corporation New York, NY

Joyce Dannen Miller, Vice President, ACTWU, New York, NY

Jun Mori, Attorney at Law, Mori and Ota, Los Angeles, CA

Helen Ewing Nelson, President, Consumer Research Foundation, Mill Valley, CA

Tony G. Reyes, President and Chairman, A-M Cargo International, Inc., Houston, TX

Ruth Schueler, President, Schueler and Company, San Francisco, CA

Maurice Sonnenberg, Investment Consultant, New York, NY

Richard Suisman, Chairman, Constitutional Communications Corporation, Hartford, CT

Rosemary Tomich, Chief Executive Officer, Hope Castle Company, Chino, CA

C. William Verity, Jr., Chairman and Chief Executive Officer, Armco, Inc., Middletown, OH

Robert B. Washington, Jr., Attorney at Law, Danzanisky, Dickey, Tydings, Quint and Gordon, Washington, D.C.

CONGRESSIONAL ATTENDEES

\*\* Senator William V. Roth, Jr.

\* Martin James, Legislative Assistant to Congressman Bill Alexander

\* David Brown, Legislative Assistant to Congressman Thomas S. Foley

\* Bob Russell, Legislative Assistant to Senator Adlai E. Stevenson

\* Peter Clark, Legislative Assistant to Senator Jacob K. Javits

\* Edward Czadowski, Legislative Assistant to Congressman Dan Rostenkowski

ADMINISTRATION ATTENDEES

Edmund Muskie, Secretary of State

Philip Klutznick, Secretary of Commerce

\* Dr. Dale Hathaway, Under Secretary of International Affairs, Department of Agriculture

\* Dean K. Clowes, Deputy Under Secretary for International Affairs, Department of Labor

\* Tony Friedman, Vice President of Public Affairs, Export-Import Bank of the United States

\* Ambassador Robert Hormatz, Deputy United States Trade Representative

\* C. Fred Bergsten, Assistant Secretary for International Affairs, Department of Treasury

\* Substitute

\*\* Not a PEC member

// am

President's Export Council Meeting

1. REG JONES, PHIL KLUTZNICK, MEMBERS OF THE EXPORT COUNCIL, AND SENATOR BILL ROTH: THIS IS MY LAST MEETING WITH YOU, AND I WANT FIRST TO EXTEND MY DEEPEST THANKS FOR A JOB WELL DONE.

2. WE HAVE DONE MUCH TOGETHER, BOTH IN THIS COUNCIL AND IN OTHER CAPACITIES, TO PROMOTE EXPORTS FROM THIS COUNTRY. THE PROGRESS WE HAVE MADE IS GRATIFYING:

¶ WE COMPLETED THE LANDMARK MULTILATERAL TRADE AGREEMENTS AFTER YEARS OF STALEMATE. ALREADY WE ARE REAPING ITS BENEFITS.

¶ EARLIER THIS YEAR, WE NORMALIZED TRADE RELATIONS WITH CHINA, THE WORLD'S LARGEST COUNTRY AND POTENTIALLY OUR LARGEST TRADING PARTNER.

¶ THE REORGANIZATION OF THE GOVERNMENT'S TRADE FUNCTIONS IS NOW IN PLACE, AND WE HAVE A MUCH STRONGER MECHANISM TO PROMOTE EXPANDED TRADE.

¶ ALONG WITH THAT, WE HAVE UPGRADED THE PRIORITY THAT GOVERNMENT GIVES TO ASSISTING EXPORTERS.

¶ PERHAPS MOST IMPORTANT, AMERICAN BUSINESS, LABOR, AND THE PUBLIC HAVE RARELY BEEN MORE EXPORT-MINDED. WE HAVE SUCCEEDED IN EDUCATING THE PEOPLE OF THIS COUNTRY ABOUT THE CRITICAL ROLE EXPORTS PLAY IN INCREASING OUR PROSPERITY AND THE PROSPERITY OF THE WORLD.

3. I ALSO APPRECIATED YOUR SUPPORT IN OUR EFFORTS FOR LEGISLATION TO ESTABLISH U.S. EXPORT TRADING COMPANIES, FOR YOUR HELP IN MY REPORT TO CONGRESS ON EXPORT PROMOTION, AND FOR TAX LEGISLATION TO HELP AMERICANS WORKING ABROAD.

4. THERE IS MUCH LEFT TO DO, AND THE COUNCIL'S FINAL REPORT HAS CHARTED AN AMBITIOUS COURSE FOR THE FUTURE OF GOVERNMENT EXPORT POLICIES. TO HELP ENSURE THAT, I CAN TELL YOU THAT I INTEND SOON TO SIGN AN EXECUTIVE ORDER TO EXTEND THE LIFE OF THIS COUNCIL. AGAIN, I THANK YOU FOR YOUR INVALUABLE CONTRIBUTION TO OUR COUNTRY'S FUTURE.

# # #

WHITE HOUSE  
WASHINGTON

12/22/80

The Vice President  
Lloyd Cutler  
Anne Wexler  
Stu Eizenstat  
Gene Eidenberg  
Sarah Weddington  
Frank Moore  
Jack Watson  
Al McDonald  
Jody Powell  
Jim McIntyre  
Charlie Schultze

The attached was returned in the  
President's outbox, and is for-  
warded to you for your information.

Rick Hutcheson



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

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The Secretary

400 Seventh St., S.W.  
Washington, D.C. 20590

December 19, 1980

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MEMORANDUM FOR THE PRESIDENT

THROUGH: Rick Hutcheson, Staff Secretary

FROM : William J. Beckham, Jr., Acting Secretary

SUBJECT: Significant Issues for the Week of December 15

Legislative review - The Administration had marked success with its transportation legislation in the Second Session of the 96th Congress, passing its two priority--and historic--initiatives: trucking and rail regulatory reform bills.

The record on other high priority items is:

Transportation funding from Windfall Profits Tax - The windfall profits tax act committed fifteen percent of funds to purposes including transportation, but required individual authorizations and appropriations.

Transit authorization - A 5-year authorization intended as the first installment of the 10-year program envisioned in your Energy Transportation Initiative passed the House but was filibustered to death by Republicans in the last days of the Congress. Not only does this leave funding uncertain, it prevented changes in the formula for allocating operating subsidies to encourage local service and cost-coverage efforts and blocked a compromise solution to the controversy over requirements for handicapped access to public transportation.

Auto-use management legislation - Another portion of your Energy Transportation Initiative, first year money was appropriated without an authorization passing.

Cooperative Automotive Research Program - Also part of your Energy Initiative, this too was funded without an explicit authorization.

- Financial aid to railroads - The proposal to change and increase our aid programs for railroads to emphasize restructuring rather than subsidy of marginal lines was partially incorporated in the rail deregulation bill. Funding levels, however, were kept low.
- Airport and airway development - Reauthorization of this basic program failed over a dispute on removing larger airports from the program entirely, which we oppose, and the level of the Federal ticket tax which funds the program.
- Highway Traffic Safety authorization - Last minute efforts to reach agreement on an air bag provision failed and the bill died at adjournment.
- Superfund for oil and hazardous waste cleanup - A chemical waste cleanup bill passed only after the House agreed to drop the oil spill title which is of primary interest to DOT. Tacit agreement was reached, however, that the Senate will take up an oil spill bill next year.
- Northeast Corridor project - Our bill to redirect the Northeast Corridor high-speed rail project in order to meet basic objectives within a more realistic time schedule and budget passed.
- International marine pollution protocol - The Senate ratified the international marine pollution protocol initiated in 1978.
- Rock Island labor protection - Legislation to facilitate private sector transactions to restructure the bankrupt Rock Island railroad through providing financial assistance to displaced employees passed.
- Aviation noise - Legislation to resolve local disputes over airport noise in urban areas passed.
- International aviation - Legislation to extend the Administration's pro-competitive stance on commercial aviation to the international arena passed.
- Household goods movers - Legislation to provide consumer protection and cut red tape for customers of household goods movers passed.
- Fuel economy amendments - Legislation to give auto makers flexibility in meeting overall fuel economy requirements passed.
- Conrail labor protection - Incorporated in the rail deregulation bill was our proposal to modify some of the costlier provisions of the program which provides financial assistance to Conrail employees who lose their jobs.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410

December 19, 1980

C

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MEMORANDUM FOR: The President  
Attention: Rick Hutcheson, Staff Secretary

SUBJECT: Weekly Report of Major Departmental Activities

Housing Report Issued. Housing Our Families, a report on the housing needs and problems of American families with children, was issued this week. The report shows housing conditions have improved steadily in recent years and most American families are well housed, although many minority families, female-headed households, and large families still live in inadequate housing.

HUD/HHS Demonstration Program. A demonstration program to assist residents of public housing who are victims of domestic violence will be initiated following the signing of a Memorandum of Agreement between HUD and HHS. Workshops will be held in selected cities to increase awareness of domestic violence among public housing residents.

Announcement of Funding for GNMA Tandem Program. On December 18 GNMA sent notices to all FHA mortgagees, GNMA seller/servicers and HUD field offices announcing the availability of \$1.335 billion in additional mortgage purchase authority for GNMA's FY 1981 Tandem programs.

A handwritten signature in cursive script that reads "Moon".

Moon Landrieu



THE SECRETARY  
WASHINGTON, D.C. 20202

DEC 19 1980

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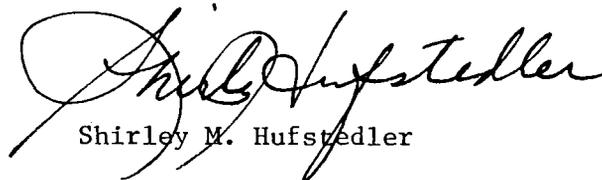
MEMORANDUM TO THE PRESIDENT

SUBJECT: Weekly Report of ED Major Activities

LEGISLATION

On December 16, the Congress approved House Joint Resolution 644, the second FY 1981 Continuing Resolution. The funding level for ED programs set by the resolution is the same as that established by the House-passed Labor/HHS/ED appropriations bill, H.R. 7998. The resolution, which expires June 5, includes provisions barring ED from preventing voluntary school prayer and prohibits the Department from publishing final Lau regulations until June 1, 1981.

There were no other major items of interest to report this week.

  
Shirley M. Hufstедler

THE SECRETARY OF COMMERCE  
WASHINGTON, D.C. 20230

December 19, 1980

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FYI

REPORT TO THE PRESIDENT

Economic Condition: I am deeply concerned that at their current level, interest rates may be having the unintended effect of fueling rather than dampening the rate of inflation. In addition, they may be having a long-term debilitating impact on key industrial sectors. As a consequence you may want to consider a reiteration, either by you or the Secretary of the Treasury, of your concern for such high rates of interest.

At my periodic meeting with the Department's Economic Advisory Board this week I confronted as expected, considerable division of opinion among senior economists as to the appropriate measures for addressing our economic problems. The myriad of possible actions were discussed including the merit of wage and price controls and a declaration of economic emergency. With regard to the latter, I am personally concerned that such a declaration would have so negative a psychological effect on the Nation as to feed the problem rather than marshal the Nation's energy to address it realistically.

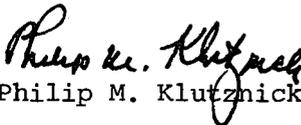
Transition: Considerable time and attention is being devoted to the day-to-day work required to guarantee a smooth transition as well as to address the personal and personnel effects of the change of Administration. I have met with Malcolm Baldrige, Secretary of Commerce designate, and have established a good working relationship with him.

Special Issues: Two significant issues are being intensively studied to determine what appropriate action, if any, should be taken at this time. The first concerns the proposed reconfiguration of the Maritime subsidies through the establishment of a per diem subsidy program. This proposal would be very cost effective to the government and provide significantly greater flexibility to the ship operators in the long term. It could, however, be potentially disruptive to the industry in the near term. The second issue concerns the disposition of the antitrust action pending against AT&T. Ongoing economic and technology analyses indicate that the characteristics of the communications industry are changing so rapidly as to suggest that the case could be moot with respect to the crucial relief aspect by the time it is brought to a conclusion at considerable expense to all. While we have only a substantive interest in the matter due to our responsibilities in the telecommunications area, consideration is being given to bringing these arguments for an expedited settlement to the attention of the Attorney General.

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The Census: Vincent Barabba, Director, Bureau of the Census, has announced that the Census Bureau intends no adjustment of the 1980 Census unless so directed by the court. This decision is based on the fact that given the coverage achieved, any adjustment would, in their view, be unnecessary and statistically indefensible as it would cause greater error than whatever error may be associated with the actual count. The 1980 Census, simply stated, is the best count conducted in modern history.

Current Account Surplus: The U.S. current account surplus was \$4.9 billion in the third quarter, the first surplus in a year, and nearly as large as the \$5.1 billion record in the second quarter of 1975. A substantial reduction in the merchandise trade deficit and a further increase in the services (also called "invisibles") surplus accounted for this improvement. It now seems virtually certain that 1980 will be a surplus year.

  
Philip M. Klutznick



THE SECRETARY OF ENERGY  
WASHINGTON, D.C. 20585

C

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December 19, 1980

MEMORANDUM FOR: THE PRESIDENT  
FROM: CHARLES W. DUNCAN, JR.  
SUBJECT: Weekly Activity Report  
Week of December 13 - 19, 1980

1. West Germany and the Solvent Refined Coal II Plant: The West German cabinet met this week to debate and to decide on its FY 81 budget, which takes effect January 1. Severe German financial problems have caused strong pressure to reduce the German's 25 percent commitment to the costs of the SRC-II plant, to be built in Morgantown, West Virginia. The German government issued a statement on Thursday that said it may be difficult to keep its participation at the agreed upon level. The statement noted, however, that the cabinet will decide this specific issue in January. We are following this matter closely, along with the State Department.
2. Fast Flux Test Facility: The fast flux test facility reached the highest power level ever achieved by a fast breeder reactor in the United States. As part of its on-going tests, it produced 300 thermal megawatts, or 75 percent of its planned full power. The continued good progress of the facility in these tests means it should achieve full power by December 23.
3. Great Plains Coal Gasification Project: We are studying ways to overcome a recent decision by the United States Court of Appeals for the District of Columbia Circuit that the Federal Energy Regulatory Commission had exceeded its authority by assuming jurisdiction over the output from this planned synthetic gas plant and approving a tariff that places the risk of project failure after startup on the ratepayers. Financing for the project was thrown into very serious doubt. We are working closely with the project sponsors to consider financing alternatives as well as possible legislative changes that could be sought in the 97th Congress.
4. Travel: I will be in Washington until December 23 and will return January 5. Lynn Coleman will be in Washington during most of that period. On behalf of the Department, I would like to wish you and your family a joyous Christmas.
5. Transition: In the past week the members of the Reagan transition team have met with Lynn Coleman and with me on two occasions to seek our views on management and policy issues. Contrary to press reports, the transition team has been highly complimentary of the management and organization of the Department and the quality of the key personnel, many of whom they are recommending for retention.



THE SECRETARY OF THE TREASURY  
WASHINGTON

December 19, 1980

C

MEMORANDUM FOR THE PRESIDENT

Subject: Highlights of Treasury Activities

1. <u>THE MARKETS AND THE DOLLAR</u>	<u>Today's Close</u>	<u>Change Since 12/12</u>
Dow Jones Industrial Average	937.20	+20.05
NYSE Composite Index	76.86	+ 2.70
Prime Rate	21-1/2%	+ 1-1/2%
Gold (London)	587.50	+26.50
Silver (COMEX)	16.15	+ .92

- . Interest rates moved sharply lower this past week as "peak fever" returned to the credit markets. The expectation that rates had reached their cyclical highs was enhanced by news that President-elect Reagan is planning an economic emergency package and by unconfirmed rumors that past money supply data might be revised substantially downward. Although Treasury set a 15-1/8 percent coupon record at its 2-year note auction on Tuesday, by week's end both short-term and long-term rates were well below last week's highs.
- . Citibank raised its prime rate to 21-1/2 percent.
- . The dollar in London slipped on profit-taking. It declined slightly against the German mark, the Swiss franc, and the Japanese yen.

2. CHRYSLER

- . The Loan Guarantee Board met on December 15 and 18 to review Chrysler's situation and the likelihood of an application for additional loan guarantees. Today, I met with Chairman Iacocca, who reviewed Chrysler's attempts to obtain additional concessions from its employees, lenders, and suppliers.

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- Some progress in obtaining these concessions would be necessary before the Board could provide additional guarantees. At this point, the timing of a new guarantee request cannot be predicted.

3. IMF

- Congress has approved the increase in the United States' IMF quota. The increase of SDR 4.2 billion brings the total U.S. quota to SDR 12.6 billion.



G. William Miller

THE WHITE HOUSE  
WASHINGTON

17 dec 80

The Vice President Anne Wexler  
Gene Eidenberg  
Stu Eizenstat  
Frank Moore  
Jack Watson

The attached was received in  
our office and is forwarded  
to you for your information.

Rick Hutcheson



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DEC 17 1980

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: Jim McIntyre (Signed) Jim

SUBJECT: Budget Appeals - Domestic Agencies

This lists for your decision appeal items involving policy matters discussed during the meetings of December 10 and 11.

On Thursday, we will discuss with you a ranked list of budget level issues. Several of the more significant budget level issues are also noted here.

For decision

Education:

Overseas Dependent's Schools.--The issue is whether the 1982 budget request for the Overseas Dependent's Schools should appear in the Defense or Education Department's budget.

- Transfer to Education immediately (Education recommendation)
- Defer the transfer (OMB recommendation)

Housing and Urban Development:

Subsidized Housing-Program Level.--Shall the number of additional subsidized housing units to be supported in 1982 equal (1) the same number of units supported in 1981 (currently estimated to be about 260,000 units), (2) the 1981 program level adjusted downward for the congressional reallocation of 1981 resources proposed for other uses by the Administration (this adjustment yields an estimated program level of about 250,000 units), or (3) the 1981 program level adjusted upward slightly for small differences in other uses of subsidized housing resources (this upward adjustment yields an estimated program level of about 265,000 units)?

- Maintain same number of subsidized housing units in 1982 and in 1981 (about 260,000) (at 50/50 mix, BA \$26,370 million)
- Adjust 1982 unit program level downward to about 250,000 units. (OMB recommendation) (at 50/50 mix, BA \$25,449 million)
- Adjust 1982 unit program level upward to about 265,000 units. (HUD recommendation) (at 53/47 mix, BA \$27,224 million)

Subsidized Housing Unit Mix.--Shall we propose a 50/50 mix between new and existing subsidized housing units, as indicated by the dollar limitations established by the Congress in the Housing and Community Development Act of 1980, P.L. 96-399, or propose a higher mix (53/47) of more costly new units which would be more reflective of local government priorities based on their housing assistance plans?

Propose a 50/50 new/existing unit mix. (OMB recommendation)

Propose a 53/47 new/existing unit mix. (HUD recommendation)

Interior:

Rangelands.--Should \$10 million be added to fund at maximum level authorized by law the program for improving conditions of the public rangelands? Base provides average annual increment necessary to more than double the forage production by year 2000 per Interior plan, and is a 78 percent increase in BA over your 1979 budget for this purpose.

Add \$10 million. (Interior recommendation)

Do not add \$10 million. (OMB recommendation)

Garrison Diversion Irrigation Project.

Should all carryover funds mandated by Congress to be spent be allocated to a separable free-standing feature of the Garrison project that is useful whether or not the main project is built? (OMB recommendation)

Should a portion of the funds be reserved for spending on the main project assuming Canadian negotiations are successful, and additional funds be requested for the separable feature? (Interior recommendation)

Agree with OMB recommendation (\$4 million)

Agree with Interior recommendation (\$11 million)

Labor:

Advance Appropriations.--Should Labor propose in the 1982 budget advance appropriations of \$5.6 billion for certain CETA programs in 1983?

Approve advance appropriations. (Labor recommendation)

Disapprove advance appropriations. (OMB recommendation)

Transportation:

Fuel taxes.--Shall we propose to index the fuel taxes going into the Highway Trust Fund beginning in 1982? Indexation would finance future program increases automatically, without Presidential or Congressional action.

Index the fuel taxes. (DOT recommendation)

Do not index the fuel taxes. (OMB recommendation)

Basis for Highway Trust Fund Financing.--Shall we change the basis for financing the Highway Trust Fund from the current practice (revenues and expenditures must be balanced over the life of the Trust Fund) to a permanent, cash-based operation permitting a drawdown of the current cash balances earmarked to finance existing obligations?

Hold to current concept. (OMB recommendation)

Change to permanent, cash basis. (DOT recommendation)

Significant funding items for your consideration (These will be on list for your review on Thursday):

Education-Student Loans: The Department of Education's request to expand (by nearly \$900 million in both 1981 and 1982) the National Direct Student Loan program (NDSL) and the continued rapid growth of the Guaranteed Student Loan (GSL) program (which now includes loans to parents) could lead to the Federal Government's domination of the educational loan market. Existing college and consortium loan plans available to students and parents (which now charge an effective rate of about 18 percent) could disappear since they will be unable to compete with federally subsidized interest rate charges (4 percent in NDSL; up to 9 percent in GSL). Only at the most costly schools where federally subsidized parent and student borrowing is insufficient to cover annual costs is it likely that any substantial non-subsidized private borrowing would occur. Expanding these loan programs will also increase the portion of the loan market that is insensitive to changes in the interest rates since a constant interest rate is charged to the federally subsidized borrowers.

Health and Human Services-Health Care Cost Control: This issue was discussed with you at the HHS budget appeal session. You decided against imposition of a 223 anti-inflation cap on Medicare/Medicaid hospital reimbursements which OMB was recommending as an approach to achieve \$1.3 billion of savings in 1982. HHS was proposing to achieve the same amount of savings by relying solely on the hospital industry's volunteer effort approach which we did not find realistic. Pending resolution with HHS of a more credible approach to 1982 cost savings, we have adjusted our estimates upward by \$1.3 billion for HHS.

The issue of health care cost control is also tied to your final decision on how to reflect the National Health Plan in the 1982 budget, which will also be discussed on Thursday.

Housing and Urban Development-Tenant Rent Burden: OMB proposes to require a gradual increase in rent charges to tenants from 25 percent of income to 30 percent. Currently, 47 percent of all tenants pay more than 25 percent of their income for rent, and the annual savings would grow from \$178 million in FY 1982 reaching \$956 million by FY 1986. HUD argues that the Administration should not raise rents for the poor who are already suffering the most from inflation.

Labor:

Economic Revitalization: The Secretary of Labor believes that this Administration should include in the 1982 budget the entire Economic Revitalization program, as announced last August. He is convinced that the proposals make sound economic sense and if adopted would lead to a sustainable economic advance. This particular Labor appeal is therefore more encompassing and raises broader issues than the \$275 million increase for the Department of Labor would suggest.

CETA Title VI - Public Service Employment: The OMB recommendation not only reduces the DOL 1982 request by about \$1 billion but would phase out this counter-cyclical program by the end of 1982.



THE SECRETARY OF THE TREASURY  
WASHINGTON

December 19, 1980

cc: secret 12/23/80

~~PRIVATE~~

MILLER

McIntyre

J

MEMORANDUM FOR THE PRESIDENT

FROM: G. William Miller *Bill*  
Chairman, Economic Policy Group

SUBJECT: Scaling Back Tax Reductions to Improve the  
Fiscal Year 1982 Deficit

You asked the EPG to consider possible ways to scale back tax reductions to improve the fiscal year 1982 deficit.

There were only four big ticket items in that August tax program:

- Constant rate depreciation
- The 8 percent social security credit
- Refundable investment tax credit
- Marriage penalty

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With effective dates originally announced, these four proposals accounted for \$36.9 billion of the \$38.7 billion cost in fiscal year 1982.

As shown on the attached table, EPG decisions to delay the social security credit until October 1, 1981 and to delay and phase in marriage penalty relief, beginning January 1, 1982, have already reduced the fiscal year 1982 cost of the August program by \$11.7 billion (from \$38.7 billion to \$26.9 billion).

A modest \$4 billion of further budget savings could be achieved by delaying the effective dates for the 8 percent social security credit and the earned income credit until January 1, 1982 (Option A).

	(\$ billions)	
		Option A
	Fiscal Year 1981	Fiscal Year 1982
Delay social security credit ....	--	+3.2
Delay earned income credit .....	*	+0.8
Total Option A .....	*	+4.0



**Changes in Fiscal Year 1982 Receipts and Outlays  
Resulting from the August Tax Reductions  
and Possible Scaled-back Reductions**

(\$ billions)

Major Provision	:Original: :program	: After : EPG : decisions	: After further cutbacks : Option A
Constant rate depreciation .....	-8.9	-8.9	-8.9
Refundable investment tax credit .....	-2.4	-2.4	-2.4
Targeted investment tax credit .....	-0.6	-0.6 <u>1/</u>	-0.6
Section 911/913 hardship relief .....	-0.3	-0.3	-0.3
Social security credit .....	-19.4	-13.5	-10.2
Marriage penalty credit .....	-6.3	-0.4	-0.4
Earned income credit .....	-0.8	-0.8	--
<b>Total .....</b>	<b>-38.7</b>	<b>-26.9</b>	<b>-22.9</b>
Budget savings compared with August program .	n.a.	+11.7	+15.8
Budget savings compared with EPG decisions ..	n.a.	n.a.	+4.0

Office of the Secretary of the Treasury  
Office of Tax Analysis

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1/ The Economic Policy Group did not reach a firm decision as to whether or not the targeted investment tax credit proposal should be deleted.

Note: Details may not add to totals due to rounding.