

1/12/81 [2]

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**U.S. Department of
Transportation**

Office of the Secretary
of Transportation

The U.S. Automobile Industry, 1980

Office of the Assistant
Secretary for Policy and
International Affairs

Transportation
Systems Center

Report to the President from
the Secretary of Transportation

January 1981

THE WHITE HOUSE
WASHINGTON

Phil has
seen

THE WHITE HOUSE
WASHINGTON

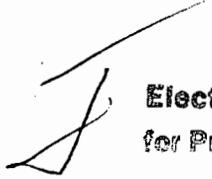
1/12/81

Mr. President:

Pat Cunningham has decided to enter the DNC chair race. Donilon does not give him much of a chance but he has asked to see you today and Donilon recommends a brief meeting. May I arrange?

yes no

Phil

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1/12/81

Gisele:

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

Rick Hutcheson

Proposed Text of Presidential handwritten letter to be
reproduced for campaign supporters

No salutation

Thank you for all your efforts on my behalf over the last
four years. The results last November cannot detract from
my deep appreciation for your unfailing support.

Your friendship is valuable to me. Rosalynn joins me in
sending you our warm best wishes.

S/JC

THE WHITE HOUSE

WASHINGTON

January 7, 1981

MR. PRESIDENT --

MEMORANDUM FOR ~~SUSAN~~ CLOUGH

FROM: MIKE CHANIN *Mike*

SUBJECT: THANK YOU PROGRAM

The original memorandum on expressions of appreciation provided for mass produced letters to cover people who were active in the campaign but could not be covered in the other categories which were much more limited in number. The idea is to reproduce a handwritten note from the President. As you know, this has been done before with excellent results.

Enclosed is a draft which if it is acceptable, should be handwritten on the attached stationary --- only one original needed.

Tom Donilon and Gisele Rountzounis will send it to about 65,000 supporters which is well within the limit of 100,000 approved in the original "thank you" memo.

JIMMY CARTER

January 1981

Thank you for all your efforts on my behalf during the last four years. The election results cannot detract from my deep appreciation for your unfailing support.

Your friendship is very valuable to me. Rosalynn joins me in expressing to you our warm best wishes.

Jimmy Carter

THE WHITE HOUSE

WASHINGTON

December 18, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD CUTLER *LNC*
MICHAEL CARDOZO *MC*

SUBJECT: Interview by the Office of Professional
Responsibility, 11:00 a.m., Friday,
December 19, 1980

Your interview by the Office of Professional Responsibility,
Department of Justice (OPR), will be conducted by:

Richard Rogers, Deputy Counsel, OPR
John Curcio, Assistant Counsel, OPR
David Bobzien, Assistant Counsel, OPR
Delbert Dilbeck, Special Agent, FBI

Special Agent Dilbeck will administer the oath, and a court
reporter will be present to record questions posed by the
Office of Professional Responsibility and your answers.

OPR has advised us that most, if not all, of the questions
will be asked by John Curcio.

THE WHITE HOUSE

WASHINGTON

December 17, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD CUTLER *LNC/jao*
JOE ONEK

SUBJECT: OPR Interview

On Friday, December 19 at 11:00 you are scheduled to be interviewed by attorneys from the Office of Professional Responsibility of the Department of Justice (OPR). OPR has been conducting an investigation of the Billy Carter matter for several months, interviewing officials and reviewing documents. Your interview, we hope, will lead to a rapid completion of its investigation.

Michael Shaheen of OPR has estimated that the interview will take approximately one hour. Shaheen will not be present for the interview. In a memorandum to Lloyd Cutler (attached at Tab A) Shaheen listed the areas that OPR intends to cover.

At Tab B we have prepared Qs and As based on the areas described in Shaheen's memorandum. We have prepared answers to many of the questions. In some instances we have simply provided you with the relevant background information. In a few instances we need your assistance in preparing an answer. After the Qs and As, we are providing several tabs with background information (see attached index).

We are scheduled to review this briefing book with you on Thursday, December 18 at 11:00. We will then have ample time to conduct further research if necessary before the OPR interview.

THE WHITE HOUSE

WASHINGTON

December 19, 1980

MEMORANDUM FOR THE PRESIDENT

THROUGH

AL MCDONALD

FROM:

HUGH CARTER *HC*

SUBJECT:

Annual Progress Report for Fiscal Year 1980

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As requested, you will receive my four-year accomplishments report in a few days. In addition, we have prepared an annual report to complete the sequence of activity summaries that I have been providing you since May, 1979.

A. BUDGET:

Following is the status of the year end budget for fiscal 1980 and the previous three years.

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Net appropriations (\$ millions)	17.20	16.40	17.16	18.94
<u>Actual obligations</u>	<u>16.70</u>	<u>15.80</u>	<u>17.13</u>	<u>18.72</u>
Lapse (unexpended funds)	.50	.60	.03	.22

B. STAFFING:

Staffing Levels as of October 31, 1980 were:

Permanent full-time	349
Temporary full-time, including interns	55
Part-time and intermittent	31
Detailees	105
Consultants on call (primarily advance)	40

C. OPERATING UNITS:1. Correspondence:

Mail activities for the fiscal year, as contrasted with previous years, were as follows:

	<u>Calendar Year</u>			<u>Fiscal</u>
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Year</u>
Total Letters Received	3,684,063	2,652,331	2,540,235	1,730,270
Average Weekly	70,800	51,000	48,850	33,300
Complaint Mail % (a measure of number of persons who thought our response was late or deficient)	.0037	.0030	.0016	.0019
Agency follow-ups % (a measure of how well agencies did in meeting your timely response goals)	33%	67%	75%	78%
Outgoing Mailings	1,487,000	1,485,000	1,888,300	1,889,200

2. Administrative Management

We implemented the Pay Parking System to manage all White House area parking spaces and collect some \$192,000 in revenue to the Federal Government.

We received a perfect report from the GAO on their audit of FY 1979 and, in response to a partisan request this fall, GAO also issued a "no discrepancy" interim report on the procedures used to stay within campaign financing law.

D. DATA PROCESSING:

There are now over 45 computer applications in operation. Among those implemented this year were:

- Automated Personnel Information System that has provided the Staff Director with timely information and saved over 5 man-days per month in clerical effort

- White House to Western Union Computer to Computer Mailgram Interface that eliminates redundant re-entry of names for event RSVP lists and follow-up mailings. In addition, this procedure saves an average of \$2.00 per Mailgram. On an annual basis the White House will save about \$100,000.

E. MILITARY OFFICE

During Fiscal Year 1980:

- o WHCA supported 88 Presidential, 141 Vice Presidential, 69 First Lady and 141 former Presidents' trips. WHCA continues to replace communications equipment with modern equipment that increases efficiency, capability, reliability and equipment performance.
- o There were 184 Presidential missions aboard Marine One. HMX-1 also supported 160 Vice Presidential, 51 heads-of-state and 414 other White House support helicopter missions.
- o The Office of the Physician to the President supported each Presidential and Vice Presidential trip. The Medical Unit also handled a total of 9,108 patient visits.
- o The White House Staff Mess served a total of 62,248 meals to White House Staff and guests. The Staff Mess also supported 33 Presidential visits to Camp David.
- o Camp David supported 33 Presidential visits and visits by a total of 253 other persons. The Camp was in use for a total of 185 days.
- o The White House Garage handled 27,094 trips in support of the White House Office, traveling a total of 303,962 miles.
- o Four Disaster Preparedness Courses were conducted to train a total of 114 students. These courses prepare members of the military support units and Secret Service to fulfill their roles in assigned contingency jobs to support the White House Emergency Plan.

- o The new Dispensary at Camp David has been completed and is now operational.
- o The project to upgrade the White House commercial and emergency power and to replace the shelter air conditioning unit to eliminate water waste was approved and the contract for the work to begin in the Spring of 1981 has been approved.
- o The WHEP was revised and all support units were successfully exercised on a regular basis. In addition, joint exercises with FEMA and DOD were completed and coordination was enhanced.

F. THE EXECUTIVE RESIDENCE

The number of guests and visitors during the period, contrasted to prior periods, were as follows:

	<u>Fiscal Year</u>			
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Guests	24,304	43,759	43,920	74,762
Public Visitors	1,314,171	1,325,241	1,308,038	1,284,678

The Residence also completed installation of donated projection and sound equipment in the Family Theater and completed automation of its inventory records, including expanded historical profiles on the Fine Arts collection. This system is a landmark in modern museum management.

THE WHITE HOUSE
WASHINGTON

January 9, 1981

MEMORANDUM FOR THE PRESIDENT

From: Al McDonald
Rick Hertzberg
Anna Simons

Subject: Presidential Talking
Points: Campaign
Workers Thank-you

Scheduled Delivery:
Mon, Jan 12, 10 a.m.

Your talking points for this event
are attached.

Clearances

Ray Jenkins
Anne Wexler
Gene Eidenberg

[Salutations will be updated
no later than 8 AM Mon by
Tom Donilon x6652]

Anna Simons
A-1; 1/9/81
Scheduled Delivery;
Mon, Jan 12, 10 AM

Campaign Workers

1. WELCOME TO THE WHITE HOUSE. I CAN'T HELP BUT WISH THAT IT WAS AFTER JANUARY 21 THAT I WAS WELCOMING YOU HERE. YOU CERTAINLY DESERVE THAT.
2. YOU TRIED AND I TRIED, AND I THINK WE FOUGHT BRAVELY TOGETHER TO WIN THIS YEAR. IN FACT, I THINK WE ARE STILL FIGHTING. WE MUST FIGHT THE DISAPPOINTMENT AND DASHED HOPE OF THE PAST FEW MONTHS AND THE COMING WEEKS AND RESERVE THAT ENERGY FOR THE FUTURE.
3. HOWEVER, I DON'T WANT TO TURN TO THE FUTURE WITHOUT SAYING A FEW WORDS ABOUT THE PAST.
4. I HAVE A LOT TO BE THANKFUL FOR. I HAVE HAD AN OPPORTUNITY FEW MEN HAVE KNOWN. I HAVE BEEN HONORED WITH AN OFFICE THAT FEW MEN HAVE HELD. AND WHILE IT IS OFTEN A LONELY OFFICE, I HAVE NOT BEEN A LONELY MAN. I HAVE ALWAYS HAD YOU BEHIND ME AND BESIDE ME. YOU ARE WHAT I HAVE MOST TO BE THANKFUL FOR.
5. YOU SUPPORTED ME THIS YEAR AS MANY OF YOU SUPPORTED ME FOUR YEARS AGO, AND WHILE THE OUTCOME OF THIS ELECTION WAS DIFFERENT, THE SPIRIT THAT YOU GAVE WAS JUST AS HEARTFELT AND JUST AS WARM. YOU MADE MANY SACRIFICES TRAVELLING AND WORKING ON BEHALF OF FRITZ MONDALE AND ME DURING THE PAST YEAR AND A HALF. I WILL ALWAYS REMEMBER THAT.
6. I WILL REMEMBER THAT, JUST AS I KNOW YOU WILL REMEMBER THE PRINCIPLES FOR WHICH YOU FOUGHT DURING THIS CAMPAIGN. THEY ARE

THE PRINCIPLES FOR WHICH WE MUST CONTINUE TO FIGHT, AS A PARTY AND AS CONCERNED CITIZENS IN THE YEARS AHEAD -- FOR EQUAL RIGHTS AT HOME AND HUMAN RIGHTS ABROAD, FOR THE CONSERVATION OF OUR ENVIRONMENT, FOR THE SECURITY OF OUR NATION, FOR PEACE THROUGHOUT OUR WORLD.

7. I PLAN TO CONTINUE TO SPEAK OUT ON THESE IMPORTANT ISSUES. I URGE YOU TO JOIN ME. I URGE YOU, TOO, TO JOIN ME IN CONTINUING TO WORK FOR THE DEMOCRATIC PARTY, AND FOR OUR DEMOCRATIC IDEALS.

8. IN THE DAYS AHEAD, WE MUST REMEMBER THAT WE HAVE ACCOMPLISHED MUCH FOR OUR COUNTRY, AND THAT WE ACCOMPLISHED IT TOGETHER.

I THANK YOU FOR THAT.

#

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 6, 1981

*Went over
this w. the
Schultze
by phone
J*

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CLS*
Subject: 1981 Economic Report of the President

Attached are the galleys for your Economic Report.

I have marked in red the sections that are particularly important for your attention. The first 6 pages, while not marked, summarize some of the key economic achievements of your Administration.

The galleys have been circulated to Miller, McIntyre, and Eizenstat. While Miller and McIntyre have made some language suggestions, which we shall seek to accommodate, neither had any policy problems with the draft. Stu has not yet had a chance to return his comments. If he has any policy problems I will let you know.

For reasons that both of us regret, our time schedule for submission of your Economic Report is very tight this year, with no opportunity for slippage. I must send this to the Government Printing Office by Saturday. I also understand you are leaving town Thursday. So I need your reactions before you leave.

Attachment

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Jan. 5, 1981

88055 Name SUDBERRY —Date 1-4-81 —522 —J. 333-540—F. 1-2 —A540A.000

**ECONOMIC REPORT
OF THE PRESIDENT**

ADMINISTRATIVELY CONFIDENTIAL

Jan. 5, 1981

ECONOMIC REPORT OF THE PRESIDENT

To the Congress of the United States:

Over the next few years our country faces several economic challenges that will test the will of our people and the capability of our government. We must find ways to bring down a stubborn inflation without choking off economic growth; we must channel a much larger share of our national output to investment and reverse a decade-long decline in productivity growth; and we must continue to reduce the Nation's dangerous vulnerability to disruptive changes in the world supply and price of oil.

In this *Economic Report* I set forth my views on how we can best meet those problems. The following *Annual Report of the Council of Economic Advisers* discusses the challenges and the policy responses in greater detail. But before turning to the serious problems that do indeed confront us it is well to remind ourselves that in many respects we approach those challenges from a position of strength, with a record of significant economic progress, and the knowledge that over the past 4 years our people and our government have successfully resolved a number of very difficult and potentially divisive economic issues. While it would be folly to close our minds to the stubbornness of some of the problems we face, it would serve the Nation equally ill to underrate our strengths and our proven ability to tackle difficult issues.

JAN 4 1981

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Jan. 5, 1981

No.08050 Name—Frank K. Boggins—Date—1-3-81—5200—J. 333-540—F.3-5
A540A.001

Strengths and Accomplishments

During the economic turmoil that characterized the decade of the 1970s, and especially during the past 4 years, the American economy succeeded in providing additional jobs for its people on a scale unsurpassed in our history. Employment grew by almost 25 percent over the decade and by more than 11 percent in the past 4 years alone. Not only were jobs provided for a sharply rising population of working age but job opportunities were opened up by the millions for new second earners, principally women. No other major country comes even close to the job performance of the American economy in recent years.

Along with employment, real per capita incomes grew during the past 4 years, despite the losses forced on the Nation by the huge increases in world oil prices and the effects of a slowing growth in productivity. As the year 1980 ended per capita income, after taxes and adjusted for inflation, was 8 percent higher than it was in 1976.

We have heard much about American industry losing its competitive edge in international markets and about the "deindustrialization" of America. In fact, during the 3 years prior to the onset of the 1980 recession—and the effects of that recession will be brief—the growth of industrial production in the United States was larger than in Germany, France, the United Kingdom, and any other major industrial country except Japan. The volume of American nonfarm exports rose by ~~A~~ percent between 1977 and the middle of 1980, and the share of U.S. exports in the total exports of industrial countries rose by about 1½ percentage points, reversing a declining trend that had been underway since the 1950s.

Due heavily to its superior export performance America's balance of payments is strong. Despite a massive \$50-billion-drain of funds to pay for the oil price increases of 1979 and 1980, our exports of goods and services now exceed our imports. Unlike the situation in most other oil-importing nations, our country's international transaction on current account have moved into surplus.

The dollar is also strong. After a period of weakness in its value abroad, we took decisive action 2 years ago to stabilize the dollar. Since then, in a world of sharply changing circumstances and disruptions of oil supply, the dollar has remained strong, and has risen in value compared to the German mark and the Japanese yen.

While it is imperative that our country increase the share of its national output devoted to investment, the reason is not that investment has been weak in recent years. Between 1976 and 1980, real business investment grew almost 6 percent a year, substantially faster than GNP as a whole. Because of that rapid growth the share of business investment in GNP during the past 3 years exceeded that of any other 3-year period in the last three decades.

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[Handwritten initials]

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Jan. 5, 1981

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In other areas our Nation has made more progress than we sometimes realize. Quite properly, we have been very concerned to limit the growth in Federal spending. We have voiced our complaints about the waste and inefficiency that often exist in government programs. But we have also accomplished much good with some of those programs. In the early 1960s infant mortality was scandalously high in the United States compared to other countries, given our great wealth and abundant resources. Most of the high mortality was concentrated among the poor. Due importantly to the institution of Medicaid and other programs directly attacking this problem infant mortality has fallen sharply. The access of the poor and the aged to medical care in the United States had traditionally lagged well behind the rest of the population. While problems still exist, Federal health care programs have radically altered that situation in recent years and sharply improved the availability of medical care to those who need it most. In 1964, for example, 28 percent of the low-income population had not seen a doctor within the last 2 years. By 1978 that proportion had fallen to 14 percent, almost the same as for the rest of the population. And among the aged, a major improvement in access took place.

In a similar vein much attention is now focused on how to reduce the costs and ease the burden of Federal regulation in the fields of the environment, health, and safety. Concern with the problem of regulatory costs is surely warranted, and my Administration has taken a number of specific steps to deal with the problem. In focusing attention on the burden of regulatory costs, however, we should not lose sight of the substantial environmental progress that has been made, enriching our lives, improving our health, and beautifying our country. [Data to be supplied.]

Tackling Difficult Issues

During the past 4 years the Nation has taken a series of important and in some cases painful steps to deal with its energy problems. Starting almost 2 years ago we began to phase out controls on domestic oil and natural gas prices. We thus moved to end the very dangerous practice of holding U.S. energy prices below the world market, which tended to subsidize wasteful consumption and perpetuate our excessive dependence on oil imports.

Together the Executive and the Congress also put in place the other principal elements of a comprehensive program to increase energy production and conserve energy use. We levied a windfall profits tax to divert the inevitable windfalls from oil decontrol to pay for the National Energy Program initiatives and to help the poor, who are the most hurt by decontrol.

Partly as a result of these policies we have begun to have dramatic results in both the supply and conservation of energy. There are now 70 percent more drilling rigs in operation than when my Administration took office, and the number of oil and gas wells being drilled has reached a new record. By the end of 1980 the United States was importing about 30 percent less oil than it did 2 years ago and our gasoline use had dropped by more than 10 percent over the same

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Jan. 5, 1981

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period. While some of the reduction was due to the recession, most of it reflects real energy conservation.

What has happened in energy policy over the past 4 years augurs well for our country's future. Decontrolling domestic oil and gas was painful. It pushed up the prices each of us pay for driving and heating our homes, and added to our immediate inflation difficulties. But we showed that we were willing to take such painful steps when they were necessary in our Nation's longer-run interest. Because we are large-scale producers as well as consumers of energy, the energy problem was potentially a highly divisive issue in our country, involving the redistribution of hundreds of billions of dollars, pitting producer against consumer and one region of the Nation against another. But after a major debate, with much rhetoric and some heat, we arrived at an approach that took account of the legitimate concerns of all groups and at the same time furthered the national interest. Dealing with the Nation's remaining economic problems will also require painful measures and the meshing of a number of different interests. Our experience in energy should raise our confidence that we can be successful elsewhere.

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Jan. 5, 1981

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We have had major successes in other fields. After decades of inaction, interspersed with unsuccessful efforts, the past 4 years have seen the elimination of price-propping and competition-deadening regulations from a number of American industries. In these 4 years we have made more progress than at any other time in the century. In the face of great skepticism and initial opposition, the Executive, the Congress, and some of the independent regulatory agencies have deregulated or drastically reduced regulation in the airline, trucking, and railroad industries, and in banking and financial institutions. We have made a promising start in the communications industry. This triad of the transportation, communications, and finance industries encompasses the connections that link the various strands of our economy together. Better performance in these industries should have effects far beyond their own boundaries.

The gains from deregulation will be substantial. Productivity and efficiency will be directly increased as such things as load factors are improved and empty backhauls reduced. One survey of studies estimates \$8 billion in annual cost reductions from trucking reform alone. But even more important will be the longer-run spur to innovation and increased flexibility that comes from opening up these industries to the fresh winds of competition.

Population trends will be working to help the country deal with some of its economic problems in the 1980s, whereas in the late 1960s and 1970s they required some difficult adjustments. The generation of the postwar baby boom began entering the labor market in the 1960s and the influx of new workers continued during the 1970s. The percentage of the population aged 16 to 24 rose sharply. And as birth rates slowed, women entered the labor force in ever increasing numbers. On average the labor force became less experienced, and average productivity per worker suffered. The increased proportion of women and young people in the labor force also contributed to an increase in the average unemployment rate. The transition from school or home to job takes time: youth and women are often counted as unemployed during that search period. In addition, as they try out different career possibilities, new workers tend to change jobs more than experienced workers, often with spells of unemployment between jobs.

Because of the slowdown in birth rates in the past 15 years, the 1980s will see about half as fast a growth in the labor force as in the 1970s. The proportion of experienced workers will rise, contributing to an increase in productivity. The proportion of young people will fall, leading to a drop in unemployment.

There are a number of reasons, therefore, to confront with hope the economic challenges that face us. We have a solid record of achievement. In the fields of energy and deregulation we have already laid the foundations on which the future can build. And there are some favorable trends underway that should help raise productivity and reduce unemployment in the years ahead.

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Jan. 5, 1981

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While recent years saw much progress, they also left us with some serious unsolved problems. An inflation that was already bad, after the 1979 oil price increase became worse. The growth of productivity, which had been declining sporadically for a decade, slowed to a virtual halt in the last several years. And although we have made substantial progress in adapting our economy to a world of higher oil prices, we remain dangerously vulnerable to the possibility of serious supply disruptions originating abroad.

These problems are closely related to each other. Our inflation stems in part from our oil vulnerability and our slowing productivity growth. High and rising inflation, in turn, tends to cause economic reactions that depress productivity. As we make progress in one of these areas, we will also make progress in the others.

None of the problems is so intractable that we cannot deal with it. But all are so deep-seated that progress will come slowly, only with persistence and at the cost of some sacrifice on the part of all of us.

Inflation

In the first half of the 1960s inflation averaged about 1 percent a year, so small as to be virtually unnoticeable. In the past 15 years inflation has sporadically but inexorably risen, until it is now running at about 9 to 10 percent a year.

During those 15 years there have been three major episodes in which the rate of inflation surged upward. The first came in the late 1960s as the Vietnam War and the Great Society were financed for a number of years without a tax increase. The consequent high budget deficits during a period of economic prosperity generated strong inflationary pressures, as total spending or demand in the economy became excessive relative to the Nation's productive capacity. The second episode, which came in the early 1970s, was associated with the first massive oil price increase, a worldwide crop shortage which drove up food prices, and an economy which again became somewhat overheated in 1972 and 1973 as the money supply was expanded very rapidly. The third episode came in 1979 and 1980. It was principally triggered by another massive oil price increase, but a modest part of the inflationary increase may also have been due to excessive overall demands in the economy pressing on available supplies. Finally, throughout the whole period, the slowing growth in productivity has pushed up the increase in business costs, adding its bit to the rise of inflation.

At the end of each of the three inflationary episodes monetary and fiscal restraints were applied. A recession took place, with rising unemployment and idle capacity. Inflation did fall back somewhat in each case. But at the end of each recession it had not declined to the level from which it started. And so the inflationary process has been characterized by ratchet-like behavior: Some set of inflationary causes raises the rate of inflation; when the initiating factors disappear inflation does not recede to its starting position, despite the occurrence of recession; the wage-price spiral then tends to perpetuate itself at a new and higher level. Instead of an occasional 3 percentage point rise in inflation, which disappeared when the initial causes of the inflation were gone, we have had inflation rise first from 1 to 4 per-

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Jan. 5, 1981

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cent, then from 4 to 7 percent, and in this latest episode from 7 to 9 or 10 percent. It is this ratchet-like character of inflation, this downward insensitivity in the face of economic slack, that has given the last 15 years their inflationary bias.

We can draw a number of lessons for economic policy from this history. *First*, excessive demand in the economy fed by an overly large Federal budget deficit or excess growth in the money supply was the major factor in one of the three inflationary episodes, and played a subsidiary role in the other two. *Second*, the tendency for government to stimulate the economy somewhat too freely during recoveries from recession probably played a role in retarding the decline of inflation or renewing its acceleration after each of the first two inflationary episodes. That historical lesson is one of the reasons why I was so insistent that a tax cut designed for quick economic stimulus should not be enacted last year. *Third*, because the rate of increase in wages and prices does not decline very readily in response to the discipline of budgetary and monetary restraint, that restraint results only partly in a reduction of inflation; it also tends to retard the growth of output and employment. *Finally*, massive increases in world oil prices have twice in the past 6 years helped trigger a major inflationary episode. While we cannot eliminate our vulnerability to such shocks, a reduction in that vulnerability will improve our chances of avoiding new inflation in the future.

N.B.

OK? carry

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Jan. 5, 1981

No. 75420 (B-34) Name: Luis A. Ramirez—Date: 1/4/80—522—J. 333-540—F. 17-19—A540A.005

These realities dictate the broad tasks that economic policy must accomplish over the next 5 years:

Our monetary and fiscal policies must apply steady anti-inflationary restraint to the economy in the years ahead. The restraint must be strong and persistent enough to convince those who set wages and prices that the government means to stand by its guns in the anti-inflationary fight. But it must not be so severe or so restrictive as to prohibit even moderate economic growth and recovery, and to collapse under its own political unreality.

We must seek means to achieve inflation reduction at a lower cost in lost output and employment. Policies that increase investment and raise productivity growth fall in that category, since faster productivity growth tends to slow the rise in business costs and prices. Demand restraint will then produce more reduction of inflation and less reduction in output. There are other reasons for economic policy to encourage the growth of investment and productivity—continued improvement in our living standards depends upon it. Measures to reduce regulatory costs and increase

* Last August I outlined an economic revitalization program that would accomplish the tasks set forth above. The specific economic policies I am recommending to the Congress in my 1982 Budget Message and in this Economic Report incorporate the elements of that revitalization program.

year 1981 will be in deficit by \$5— billion, substantially more than I had hoped or planned. In part the size of that deficit reflects the recession-induced loss of revenues from which our economy is now beginning to recover. Had the unemployment rate remained at the 6-percent level where it stood when I first submitted the 1981 budget last year, the deficit would now be less than (\$15) billion.

The size of the 1981 deficit also reflects three major factors which have driven up the estimates of Federal spending in the past 12 months. *First*, higher interest rates since the budget was originally submitted have added about —. *Second*, payments under many Federal programs, such as social security, are indexed to the consumer price index, which has proven in recent years to overstate significantly the actual rise in the cost of living because of the way it treats housing and mortgage interest costs. And *third*, defense spending rose faster than was originally planned, partly in response to deliberate efforts to strengthen our military forces.

originally

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Jan. 5, 1981

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As part of a program of anti-inflation fiscal restraint I am recommending a number of steps that will bring the deficit down sharply to \$~~1~~² billion in the new budget for fiscal year 1982, and reduce it still further to \$~~1~~² in 1983, despite the substantial increases in defense spending which I find it necessary to recommend for those years:

ADMINISTRATIVELY CONFIDENTIAL

Jan. 5, 1981

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- Beyond exerting strict control over requests for new appropriations in ongoing programs, my 1982 budget sets forth a detailed list of requests to the Congress for the legislation needed to pare some \$— billion from FY 1982 and \$— billion from FY 1983 spending. If enacted, these savings would help make possible a reduction in the share of GNP taken by Federal spending from 23.4 percent in 1981 to 22.9 percent in 1982 and — percent in 1983.
- I am asking the Congress to postpone until January 1, 1982, the personal tax reductions which I had earlier proposed be made effective on January 1 of this year.
- I am renewing my request to the Congress for a modest increase in the tax on gasoline; I can think of no better way to provide additional revenues for reducing the budget deficit than a measure which simultaneously reduces our imports of foreign oil.
- ~~Although~~ I still strongly support the welfare reform and national health insurance proposals that I earlier submitted to the Congress, I am recommending their introduction be delayed until more budgetary room is available; the need for budgetary restraint to control inflation must take precedence at the present time.

In order to avoid repetition of the recent situation in which many Federal payments are tied to an index which does not accurately reflect changes in the cost of living, I am recommending to the Congress legislation to allow use of a more representative index. Such an index is already published on an experimental basis by the Bureau of Labor Statistics, and the Commissioner of Labor Statistics assures me that it can quickly be made available on an accurate and timely basis.

Although my 1982 budget emphasizes the need for fiscal restraint, and for reduction of the deficit, is also takes the first major step in a long-term program of tax reductions aimed at increasing capital formation.

While the causes of the productivity slowdown in the United States are many—and some of the causes are still uncertain—a major depressing factor has been the failure of the Nation's capital stock to increase in relation to its labor force in the past 5 or 6 years. Unlike earlier periods, American workers have not been working with increasing amounts of capital. Reversing the downtrend of productivity growth will require restoring the growth of capital per worker.

Higher investment will also be critically required throughout America's energy-using industries to speed up the replacement of older energy-inefficient plant and machinery with newer energy-saving capital. Additional large investment in energy-producing industries—both conventional and nonconventional—will add further to investment needs.

According to estimates made by my council of Economic Advisers, the combined tasks of restoring the earlier growth of capital per worker and meeting the Nation's energy needs call for an increase in the share of investment in GNP from its recent 10½ percent to 12½ or 13 percent during the 1980s. This would require an expansion in investment by more than one-fifth above the level that might normal-

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ly be expected, and will not occur without the introduction of policies to make it happen.

In order to begin this task, my 1982 budget proposes two major changes in tax laws designed to improve incentives and provide increased sources of financing for business investment. The first and most important proposal is a major liberalization of tax allowances for depreciation. Because tax depreciation is now based on the historic cost of an asset, inflation reduces allowable tax deductions relative to the cost of replacing an asset and thus lowers the profitability of investment. Inflation also distorts the tax treatment of assets with different useful lives. I am proposing a new approach to depreciation worked out by the Department of the Treasury which substantially simplifies depreciation accounting and increases the allowable rates of depreciation by about 40 percent. This approach, unlike some other depreciation liberalization proposals that have been introduced in the Congress, tends to avoid major distortions of economic incentives since it provides approximately equal percentage increases in allowable depreciation rates for each industry.

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I also propose that the Congress expand investment incentives by improving the investment tax credit. That credit is now only partially available for short-lived assets; it should be made fully available. Even more importantly, I propose that part of the investment tax credit be made refundable; firms should be able to claim 30 percent of the value of the credit even if they had no tax liabilities for the year. In this way firms with substantial investment needs, but with no current earnings, can be supported in their efforts to rejuvenate and expand capital assets. Among these are younger, smaller firms that are just beginning to grow, and larger industries undergoing transition, such as autos and steel. The latter may temporarily be experiencing depressed profitability but may have major investment needs for retooling or for new industrial facilities.

These two proposals would reduce tax liabilities by \$— billion in calendar year 1981, \$— billion in 1982, and by 1985 the reductions would amount to \$— billion. We estimate that with enactment of these new incentives business investment should increase — percent above its normally expected level in 1982 and by 1984 should be running some — percent higher.

While providing additional incentives for business investment we can also move on a carefully phased basis to reduce other taxes in a way that improves both economic efficiency and tax equity. I have proposed that the Congress enact an income tax credit for both employers and employees that approximately offsets the rise in social security payroll taxes that occurred in January of this year. To make the benefits available to those lower-income workers who have no tax liability, I have proposed an increase in the earned income tax credit. But, as I pointed out earlier in this *Report*, the critical importance of reducing the budget deficit as part of the fight against inflation has led me to recommend that this reduction take effect at the beginning of 1982, by which time the growth of revenues will make such a reduction consistent with overall budgetary objectives.

At the present time one of the major inequities in our tax system is the so-called marriage penalty: Under a wide range of circumstances a husband and wife, each working, will together pay a higher tax than if they were not married. I propose that this penalty be eased by making a tax credit available to the lesser earning spouse. The credit should be introduced in two steps, half in 1982 and the other half in 1983.

I also propose that the Congress enact several important tax reforms: income from interest and dividends should be put on an equal footing with wages and other incomes by withholding taxes at the source; the excessive issuance of several types of tax-exempt bonds should be curtailed; and the use of certain commodity futures transactions as a tax avoidance scheme should be prohibited.

The central feature of the tax policies I am proposing is their emphasis on increasing investment. By 1985, an unusually high — percent of the tax reductions will be directed toward investment incentives. But even this will not itself be sufficient to raise investment to the levels our country will need in the decade ahead in order to improve its productivity growth and deal with its energy problems. Careful control of Federal spending, however, will create the leeway

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N.B. | for additional investment-oriented tax reductions in later years, within the framework of the overall budgetary restraint required to fight inflation. I do not believe that we should commit budgetary resources to large-scale personal tax cuts which will stimulate consumption far more than investment, and thereby foreclose the possibility of meeting the Nation's critical investment requirements. | ok

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No. 29788 Name R. FINELLI —Date 1/4/81 —5200—J. 333-540—F. 26-28 —
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Monetary Policy

Monetary policy is the responsibility of the Federal Reserve System, which is independent of the executive branch. I respect that independence. But there are several broad aspects of monetary policy having to do with public perceptions that do fall within the purview of the President in his role as a national leader.

Sustained restraint in monetary policy is a prerequisite to lowering inflation. The Federal Reserve exercises this restraint principally by keeping a strict limit on the growth of the Nation's money supply. In October 1979 the Federal Reserve modified its earlier policies and operating procedures to increase sharply the emphasis it gives to controlling the money supply. The Federal Reserve each year sets targets for monetary growth and seeks to keep the amount of bank reserves growing at a rate which holds the growth of the money supply within the targets. Increasingly the public in general and the financial community in particular have come to equate the credibility of the Federal Reserve and its determination to fight inflation with its success in keeping money growth continuously within the preannounced targets.

The relationship between the growth of the money supply and the course of prices and output in our economy is not, however, fixed by some immutable law of nature. Because our financial institutions are highly innovative, for example, they periodically develop new ways to conserve on the amount of money needed to finance business and financial transactions, and thus change the relationship between the money supply and GNP. For these and other reasons, it may occasionally be appropriate for the Federal Reserve to modify the targets it had originally set, or to deviate from its announced aim of lowering the targets each year. And temporary fluctuations in monetary conditions, that have little relationship to the fundamental course of economic activity, can sometimes cause the money supply to overrun or underrun the targets for a short period of time.

If the public interprets occasional necessary changes in the longer-run monetary target ranges, or short-run deviations of actual money growth from those targets, as evidence that the Federal Reserve has lessened its determination to fight inflation and as a reason to raise inflationary expectations, the Federal Reserve will be confronted with an untenable choice. If it fails to make the adjustment in the monetary targets that is called for by a major change in economic circumstances, monetary policy may produce unwanted results. If on the other hand it does change the targets, in the face of public misunderstanding, its credibility may be impaired. The same dilemma exists with respect to the question of allowing short-run deviations in money growth from the target ranges.

Only if the public understands the realities, and the complexities, of carrying out an anti-inflationary monetary policy can the Federal Reserve successfully apply the measured restraint necessary to wring out inflation at minimum cost in production and jobs. On the one hand the country must face the fact that in a world with a stubborn 10 percent inflation rate, keeping a tight rein on the growth of the money supply inevitably leads to interest rates that average signifi-

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cantly higher than we had become accustomed to in earlier periods of lower inflation. On the other hand the public and the financial community must not become so obsessed with the mechanics of monetary targeting that any change in targets or any short-run deviation of money growth from those targets is taken as a sign that monetary restraint has been weakened.

Without reasoned and persistent monetary restraint inflation cannot be licked. Perhaps more than in any other area of economic policy, however, achieving success in monetary policy depends on an informed public opinion.

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Incomes Policies

For the past 2 years my Administration has urged business and labor to comply with a set of voluntary pay and price standards. Even though it was first introduced at a very difficult time, just before the oil price explosion of 1979, this voluntary program of wage and price restraint did moderate the pace of inflation. It significantly reduced—although it could not eliminate—the effect of the oil price rise on the underlying inflation rate.

After 2 years of operation there is general agreement that the current pay and price standards would not continue to be effective in their present form and without additional support. For this reason we have carefully examined the possibility of strengthening a voluntary incomes policy by using the tax system to provide incentives to firms and workers to slow the rate of inflation. This approach has been labeled a Tax-Based Incomes Policy (TIP). The detailed results of our review are contained in the accompanying *Annual Report of the Council of Economic Advisers*.

Broadly, we have concluded that an approach which provided a tax reduction to workers in firms whose average pay increase did not exceed some standard, set as part of a voluntary incomes policy, would be feasible and effective in helping to lower inflation. Two major conditions apply, however. *First*, such a policy must be a supplement to, not a substitute for, fiscal and monetary restraint. Without such restraint an incomes policy will produce only fleeting reductions in inflation or none at all. *Second*, a TIP program is likely to be desirable only on a temporary basis. After several years, such a program might cease to be effective and could induce significant distortions into wage relationships throughout the economy. But as an interim device to hasten the reduction in inflation and so shorten the period of reduced output and employment growth, a TIP program could serve the Nation well.

If the growth of Federal spending is restrained, periodic tax reductions will be both feasible and necessary in the years ahead as inflation and economic growth push taxpayers into higher brackets and raise average effective tax rates. Tax-based incomes policies programs are novel, and most people are unfamiliar with either the opportunities they present or the difficulties they pose. It is therefore highly unlikely that a TIP program could gain a consensus in 1981. But it would be useful for the public in general, and the Congress in particular, to begin now to evaluate the pros and cons of TIP programs so that when the time comes for the next round of Federal tax cuts a TIP program will be seriously considered.

Energy

Last March I proposed a modest 10 cent per gallon increase in the Federal gasoline tax as a means of providing an additional incentive to conserve. The Congress refused to pass this tax and overturned my attempt to impose it administratively on an interim basis.

I am resubmitting this legislation because the need for the tax is, if anything, even greater today than 10 months ago. By the end of the first quarter of next year, if the conflict between Iran and Iraq continues, world petroleum stocks will have been drawn down to danger-

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Our ability to deal with a severe oil supply disruption needs to be improved. Our current emergency plan is based on authorities which expire in October of this year. We have had underway for some time an examination of which, if any of these, authorities need to be extended and what additional authorities might be required. This work should be finished as soon as possible.

However, certain actions should not wait. The filling of the Strategic Petroleum Reserve has been resumed. The rate of fill should be as high as can be accommodated without disrupting world oil markets.

The sharp increases in oil prices of the last 2 years have rendered obsolete the assumptions underlying the Natural Gas Act of 1978. The decontrol path for natural gas between now and 1985 that was established in that act assumed a level of world oil prices only half of what they now are. That act needs to be reviewed.

Finally, our entire set of regulations designed to encourage energy conservation needs to be reexamined in the light of current and expected future energy price trends. Now that we have stopped pretending that energy is "cheap," we need to make sure that these regulations are reinforcing market signals in appropriate ways.

Increasing the Flexibility of Our Economy

Energy is not the only area where we must take additional steps to improve the ability of the economy to adjust to the changes that will be demanded of it in the years ahead. To the extent that we can reduce barriers to the flow of labor, capital, and other resources from inefficient to efficient uses, we can reduce inflationary pressures that arise from bottlenecks and economic rigidities and simultaneously speed up the pace of productivity growth.

We should not lose the momentum that has developed over the past 4 years in reducing obsolete and costly economic regulations. The Congress should complete its deliberations and pass legislation similar to that which I suggested last year to complete the task of modernizing our system of telecommunications regulation.

In the broad area of environmental, health and safety regulation, where deregulation is not an appropriate solution, we must expand on the successful beginning that has been made in providing greater flexibility and incentives for firms to meet environmental requirements in more cost-effective ways.

We also must continue our efforts to assure that the Nation's regulatory priorities are sensible. Our Nation can afford a cleaner environment, safer products, and healthier workplaces, but it does not have unlimited resources. Other national goals cry out for attention, and we cannot afford waste in attempting to achieve any of them.

During the period immediately ahead, when many of our most important industries will be facing difficult adjustment pressures, we must avoid taking shortsighted actions to block rather than promote this adjustment. Federal policies should indeed cushion the blow when sharp external shocks force an industry, its workers, and the communities within which it is located, to undergo massive change in a short period of time. The programs of economic development and trade assistance which exist to meet these needs should be humanely

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and effectively administered. But such aid must be aimed at facilitating adjustment to change, not preventing it. While we can and should demand that all nations abide by internationally agreed-upon rules of trade, we must avoid the temptation to use the discretion open to us to avoid propping up weak industries.

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Summing Up: The Need for Balance

In the years immediately ahead our country will be wrestling with two central domestic issues. The first is economic in nature: how can we reduce inflation while maintaining the economic growth that keeps our people employed? The second is even broader: what is the proper role of government in our society as spender of funds and regulator of industry?

I am confident we can successfully come to grips with both of these issues. We would make a costly mistake, however, if we approached these problems with the view that there is some single answer to the economic problem and a single criterion to sort out the role of government. The resolution of both of these great issues demands a balancing of many approaches and many considerations. Indeed the only helpful simple proposition is the one which states that any simple and quick answer is automatically the wrong one.

The approach I have set forth in this *Report* will successfully meet the economic challenge. But it relies on not one but a number of essential elements. To reduce inflation we must be prepared for a period of sustained budgetary and monetary restraint. But since we know that this also tends to depress the growth of output and employment we must not conclude that the greater the restraint the better. We want a degree of restraint that takes into account society's interest in employment and production as well as its concern to lower inflation. We can improve our prospects significantly by introducing investment-oriented tax cuts that increase supply and productivity. But the supply response will not be so quick or so great as to constitute an answer in and of itself. And, in particular, it would be very dangerous to make budgetary policy in the belief that the supply response is so large as to wipe out the need for fiscal prudence and budgetary restraint. We can improve our prospects still further by the use of voluntary incomes policies, strengthened when budgetary resources become available by tax incentives for wage moderation. But, again, incomes policies alone will not do the job. Indeed if we try to rely on them excessively we will do more harm to the economy than good. Only with a balance among the various elements, and with persistence in the realization that sure progress will come only gradually, can we have both lower inflation and better growth.

Sorting out the proper role of government also requires us to strike a balance. Federal spending has indeed been growing too rapidly, and in the past 2 years it grew much faster than originally planned. But the recent growth of Federal spending does not result from the introduction of a host of new government programs by spendthrift politicians or a new surge of profligacy by wasteful bureaucrats. It stems importantly from two sources: *first*, increased military spending to meet national security goals that are overwhelmingly supported by the American people; and *second*, the growth of long-established and broadly accepted social security and social insurance programs that are directly or indirectly indexed against inflation or automatically responsive to an increase in unemployment. In the past 5 years alone Federal spending for retirement programs, medical

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care, and unemployment compensation grew by 85 percent, and virtually all of it was automatic.

There is some waste. There is some abuse. I have instituted a number of reforms to cut it back. I am sure my successors will continue this important effort. But waste and abuse are not the fundamental issues. The essence of the challenge that faces us is how to balance the various benefits that government programs confer on us against their costs in terms of higher taxes, higher deficits, and sometimes higher inflation.

It is my view that we must strike the balance so as to restrict for some years the overall growth of Federal spending to less than the growth of our economy, despite the faster growth of the military component of the budget. As a consequence, in my 1982 budget I have proposed a series of program reductions. I have suggested a delay in the effective date of new programs I believe important. I have recommended improvements in the index we use to adjust Federal programs for inflation.

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I think we will do a better job in striking the right balance over the years ahead if we keep two principles in mind: The first is to recognize *reality*. The choices are in fact difficult, and we should not pretend that all we have to do is find wasteful programs with zero benefits. The second is to act with *compassion*. Some government programs provide special benefits for the poor and the disadvantaged; while these programs must not be immune from review and reform, they should not bear the brunt of the reductions.

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The same general viewpoint is appropriate when we approach the problem of government as regulator, especially in the field of the environment, health, and safety. When we first awoke to the fact of generations of environmental neglect, we rushed to compensate and paid too little attention to problems of cost and effectiveness. Sometimes the laws we passed and the deadlines we set took too little account of economic impact. For 4 years my Administration has been engaged in a major program of finding ways to make regulations more cost-effective and to strike a reasonable balance between environmental concerns and economic costs. A strong foundation has been laid. Much remains to be done. But lasting progress will not come unless we realize that there is a balance to be struck. Those who perceive that virtually all regulation is bad and believe that the best regulation is a dead regulation, come to grips with the real problem no more successfully than the enthusiasts who believe that concern with economic costs is synonymous with lack of concern for the environment.

I believe that the government has indeed overregulated and that regulatory reform must continue to be a major objective of the Federal Government, as it has been during my Administration. But I also believe that true reform involves finding better ways to identify and to give proper consideration to gains as well as costs.

My reading of the distant and the nearby past gives me confidence that the American people can once again meet what are indeed some serious domestic challenges. There are no simple formulas. There will be no quick victories. But an understanding of the diverse forces at work, a pragmatic willingness to bring to bear a varied array of weapons, and persistence in the effort will bring success.

January 17, 1980'

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