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meeting - Saturday, 3/11/78

THE WHITE HOUSE
WASHINGTON

Consequences of peace

Permanent & moderate Arabs

242

Settlements

Political - Military re W Bank

Begin credit = Sinai = Sharm el Sheik
Self rule/cantonments

Public US statement

Future US/Israel treaty

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

Q
/

March 11, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze

CLS

Subject: Effect of the Coal Strike and Weather on
First-Quarter GNP

Real GNP growth in the first quarter is being adversely affected by both the coal strike and adverse weather. This memo provides estimates of those effects. Necessarily, such estimates are very approximate.

Effects of the Coal Strike

The assessment of the effects of the coal strike is made with two different sets of assumptions:

- . A best-guess case, which assumes that coal deliveries into the ECAR region continue to rise gradually, as they have been doing since mid-February.
- . A pessimistic case, which assumes that coal deliveries revert to the average level in mid-February.

Judging by developments of the past three weeks, the best-guess case has the higher probability.

The Best-Guess Case

Deliveries in the ECAR region remained about 300 thousand tons per week through the second week of February, but have picked up to 900 thousand and 1.2 million tons in the last 2 weeks, respectively. It is assumed that deliveries rise gradually to 1-1/2 million tons per week, one-half of normal, by late March.

In this case, coal stocks in the East Central (ECAR) region as a whole would dip to just under 40 days supply, at normal rates of use, by late in March. At that point curtailments of electricity averaging 10 percent (15 percent to industries) would be expected in the ECAR region. This would cut into the region's output in March by roughly 1 percent and generate

layoffs of about 100 thousand by the end of the month. However, knowledge that coal deliveries were building would mean that some planned curtailments for a 40 day coal stock might be cancelled, so that the output and employment effects might be somewhat less than that amount.

A cut of 1 percent in the output of the impacted region in March would reduce the annual growth rate of real GNP for the U. S. during the first quarter by about 0.2 percent. The reduction in coal inventories would also decrease the annual growth rate of real GNP in the first quarter by about 0.9 percent. The total effect would be a 1.1 percent reduction in the first quarter growth rate.

Effects on employment in this case would be confined mainly to the striking mine workers and about 20 thousand railroad and public utility employees. Since these workers would lose their source of income during this period, their consumption would also be reduced somewhat. But the amount would be too small to show up in national economic aggregates.

If the effects on first quarter real GNP do not go beyond this magnitude, it is unlikely that there will be any permanent loss of output due to the strike. Assuming full production of coal resumes in April, depleted coal inventories will be rebuilt to normal levels during the second and third quarters. The snapback of coal production will raise GNP growth in these two quarters above earlier expectations -- particularly so in the second quarter. By summer, the economy would be back on its pre-strike track.

The Pessimistic Case

The effects of the coal strike on first quarter GNP might turn out to be more adverse for several reasons. The most important consideration is the rate of coal deliveries into the ECAR region. To estimate the possible effects under very pessimistic conditions, we assume that coal deliveries into the impacted region drop back immediately to 300,000 tons a week -- the mid-February level -- and remain there over the rest of March. This might occur if there were violence or sabotage of transportation or utility facilities.

Under this assumption, curtailments of usage of electric power will multiply rapidly in coming weeks, since the danger of exhaustion of stocks would motivate more drastic curtailments of electric power use in the affected states.

By the end of this month, total electric power consumption would be reduced by about 35 percent and by about 50 percent for industrial uses.

As noted in the February 21 memo by Bill Nordhaus and me, reductions in output would be considerably smaller than the decline in use of electric power. Moreover, the depressing effect on real GNP in the first quarter as a whole would be much less than the ongoing effect by late March. As a rough estimate, we would expect these production losses to reduce the annual growth rate of real GNP in the first quarter by about 2-1/4 percent. (This estimate makes no allowance for secondary effects on production that could result from shortages of supplies other than power. Such secondary effects are likely to be minimal in the first quarter.) Taking into account also the decline in coal inventories, the total effect on real output growth in the first quarter would be a little more than 3 percent.

Effects on the average levels of employment and unemployment for the quarter as a whole would be small. By late March, however, the effects would be substantial. Total employment would be down about 1-1/4 million and would decline further in April.

We are inclined to put a low probability on the assumption that deliveries in the ECAR region will drop abruptly to 300,000 tons per week. The evidence available at this time suggests that deliveries are much more likely to persist in the vicinity of 1 million tons recorded in the past two weeks, if not increased further. Thus, the curtailments of electricity in the ECAR region are unlikely to exceed 10 percent (15 percent for industry) over the next few weeks.

Effects of Adverse Weather

First quarter GNP growth is also likely to be held down somewhat by adverse weather. In January:

- Aggregate hours worked fell sharply (by 1.6 percent in manufacturing).
- Partly reflecting the drop in hours worked, industrial production fell 0.7 percent.
- Retail sales dropped 3.1 percent.
- Housing starts plummeted nearly 30 percent.

In all cases, the declines are as large or larger than those that occurred in January 1977, when the economy was also affected adversely by weather conditions.

A year ago, GNP statistics showed little evidence of the effects of cold weather on first quarter performance -- apart from the construction industry. This year, the effects may be somewhat more substantial, because adverse weather continued well into February in many parts of the country. February employment statistics indicate continuation of short work weeks for a number of workers. But based on last year's experience, it would seem that any effect of weather conditions on real GNP growth in the first quarter would be small -- perhaps on the order of 1/2 percent.

Guesses on First-Quarter GNP

Our original estimates were for an annual growth rate of real GNP of around 5 to 5-1/2 percent in the first quarter. Assuming a gradual increase in deliveries of coal into the ECAR region -- our best-guess assumption -- we would reduce that estimate by about 1-1/2 percent -- about 1 percent for the coal strike and 1/2 percent for cold weather. Real GNP this quarter would then rise at an annual rate of around 3-1/2 to 4 percent -- just a little less than in the fourth quarter. In the unlikely event that coal deliveries fall back immediately to levels prevailing in mid-February, the GNP growth estimate would be reduced more sharply, to a range of 1-1/2 to 2 percent.

As noted earlier, if coal production continues to pick up before the beginning of the second quarter, we can be reasonably confident that virtually all of the loss of output in the first quarter will be subsequently made up -- most of it in the second quarter. The more pessimistic assumptions about coal deliveries would increase the risk that some of the first quarter loss of real output would be permanent, and that GNP for the year 1978 as a whole would be affected.

DATE: 13 MAR 78

FOR ACTION:

INFO ONLY:	THE VICE PRESIDENT	STU EIZENSTAT
	HAMILTON JORDAN	BOB LIPSHUTZ
	JODY POWELL	JACK WATSON

SUBJECT: SCHULTZE MEMO RE EFFECT OF COAL STRIKE AND WEATHER ON
FIRST-QUARTER GNP

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

+ BY: +

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ACTION REQUESTED: FOR YOUR INFORMATION

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

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE
WASHINGTON
March 11, 1978

Jim Fallows

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

Rick Hutcheson

cc: Stu Eizenstat
Jody Powell
Tim Kraft

RE: CRIME REDUCTION REMARKS

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
/		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
/		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		GAMMILL

/		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN

*Fallows -
See me Monday
J*

THE WHITE HOUSE

WASHINGTON

March 10, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Crime Reduction Remarks

You indicated, on a recent memo from Peter Bourne, that you would like to make some brief remarks in Savannah on the reduction in the crime rate. I recommend that you reconsider, and select a different topic for your remarks.

As I indicated in my comments on Peter's memo, I think there are real dangers in attempting to take credit for the rate reduction: (1) We are not really responsible for the reduction (to a large extent demographic factors are the cause), (2) Public opinion surveys indicate that a relatively small percentage of the American people believe the Federal government can reduce crime (the responsibility is perceived to be a state and local one), and (3) We do not want to risk being so closely associated with the rate's changes that we must take the blame for a future increase.

I have met with Peter, and he agrees that these problems exist, but he believes your remarks could simply take note of the rate reduction and then discuss other crime-related subjects. However, he is neutral as to whether you should even make such remarks in Savannah.

I agree that the rate reduction issue probably could be addressed, but feel for two other reasons that you should reconsider your decision:

- (1) The forum, I understand from Fran, is really not one conducive to a serious issues presentation. I would recommend light remarks at the beginning of your talk and then perhaps a brief overview of current Administration activities.

(2) I will very soon send you a memo, with Judge Bell's support, recommending that you make your major statement on crime-related issues in a Law Day (May 1) speech. The speech would focus on justice issues, both criminal and civil and would allow you to present your overall philosophy as well as a presentation of the Administration's record and plans. The speech would be on the fourth anniversary of your well-known Law Day Address at the University of Georgia.

I strongly recommend that you save your comments on crime-related matters until that speech. Any discussion that you might want of the rate reduction could easily be woven into such a speech. Prior remarks about crime in Savannah could pre-empt your Law Day speech.

_____ Approve not making
crime-related remarks
in Savannah

_____ Disapprove

_____ Other

TOAST:

"I would now like to propose a toast to our guest: a man of extraordinary depth and experience; a man who has risen to the pinnacle to world prominence; a man who, with courage and determination, has struggled to preserve his country's independence; and a man who has sought to improve the prospects for international peace and understanding. I also toast the nation he represents: a people proud of their diverse traditions and united in their love of independence."

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COAL
PAWANA
SALT
ENERGY
MID EAST
HORN
INFLATION - \$
UNEMP - URBAN - FARM

GRIDIRON 3/11/78

30 POINTS
STRAUSS BUS CONF - 300

~~BAR OF TRADE - VALUE OF \$~~
ADVISE PRINC TRADE RIVALRY
HOME - TOKYO - BERLIN AXIS

CIVIL SERVICE - INCOMPETENT

DOLE ENLIGHTENED, CONSTRUCTIVE
ROLE = BOLD, EFFECTIVE
LEADERSHIP OF ARNOLD MILLER
AUTO LICENSE PLATES
~~EXPLAT 2 ITEMS~~

~~CROWN ST STEPHEN - CROWN~~

~~GIVE THEM AWAY~~

EBIG JETS TO BOTH SIDES

LONG - LEAD NATION - SOUTH

POURER - KUIT

POLYESTER - ENDANGERED

~~30 POINTS~~

THE WHITE HOUSE

WASHINGTON

GRIDIRON DINNER

SATURDAY - MARCH 11, 1978

Capital Hilton Hotel

Attire: WHITE TIE

From: Tim Kraft

SEQUENCE

9:45 p.m.

You and Mrs. Carter board motorcade on South Grounds and depart en route Capital Hilton Hotel.

9:50 p.m.

Arrive Capital Hilton Hotel where you will be met by:

Bob Boyd, Vice President of the Gridiron Club, Knight Ridder Bureau Chief
John "Jack" Cleland, Houston Chronicle
Barron Hilton, President, Hilton Hotels
Helmut Knipp, Capital Hilton Manager

Escorted by Bob Boyd and Jack Cleland, you and Mrs. Carter proceed to Mezzanine Level via stairway.

9:53 p.m.

Arrive Mezzanine Level.

Announcement by Allen Cromley,
President of the Gridiron Club.

You and Mrs. Carter proceed inside Grand Ballroom and take your seats at the Head Table.

ATTENDANCE: 550

10:00 p.m.

Democratic skit.

10:25 p.m.

Response by Amb. Bob Strauss.

10:35 p.m.

Dessert and coffee are served.

10:50 p.m.

Song.

2.

10:55 p.m.	Toast to you by Allen Cromley.
10:57 p.m.	PRESIDENTIAL REMARKS.
11:02 p.m.	Remarks conclude.
11:03 p.m.	Auld Lang Syne.
11:05 p.m.	Program concludes.
	Escorted by Allen Cromley, you and Mrs. Carter depart Grand Ballroom en route motorcade for boarding.
11:10 p.m.	Motorcade departs Capital Hilton Hotel en route South Grounds.
11:15 p.m.	Arrive South Grounds.

TALKING POINTS

THE WHITE HOUSE
WASHINGTON

3.10.78

Memo to the President

From Jim Fallows *JL*

Here is a first installment of jokes for the Gridiron dinner tomorrow night. The tradition is that you need speak only briefly-- four or five minutes. We will have another installment tomorrow morning, from outside contributors we're calling now.

THE PRESIDENT'S OFFICE

THE WHITE HOUSE

WASHINGTON

March 11, 1978

MEMORANDUM FOR THE PRESIDENT

FROM:

FRANK MOORE *F.M. / Dole*

SUBJECT:

Senate Action on Farm Legislation --
Administration Strategy

On Monday the Senate Agriculture Committee begins marking up emergency farm legislation. Senator Talmadge's bill providing for a 31 million acre land diversion program and Senator Dole's bill providing for flexible parity are the two major competing measures. Of the two, Talmadge's approach is less objectionable.

All farm state Senators are under intense pressure to act, and the atmosphere on Monday will be explosive due to the presence of radical, striking farmers who are in Washington for a week of demonstrations and lobbying. The strikers have denounced the Talmadge bill and, as a result, many on the Hill perceive that the Chairman's future ability to lead the Committee depends on his beating the efforts of Dole, who is both courting the farmers' favor and trying to embarrass the Administration. While many in the Administration feel that the Committee is caving in unnecessarily to the demands of radical farmers, most Democrats in Congress are disappointed and disgusted with us for not taking administrative action to relieve legitimate farm needs and to head off the growing demands for legislation.

We have talked with Secretary Bergland who feels that the best result we can reasonably hope for is Senate passage of the Talmadge bill. While we cannot support Talmadge's measure, we should not oppose it as strongly as the Dole proposal. The Secretary will personally appear before the Committee on Monday to make clear that legislative action is unwise and unnecessary, that we have reservations about the Talmadge bill, and that we are unalterably opposed to the Dole bill. Unless we are somewhat softer in our opposition

to Talmadge's land diversion approach, the Committee will probably adopt Dole's flexible parity bill in the belief that if both measures are certain to be vetoed, they have nothing to lose by voting for the more irresponsible proposal.