

THE WHITE HOUSE

WASHINGTON

February 19, 1982

MEMORANDUM FOR KENNETH CRIBB

FROM: Jim Cicconi 

SUBJECT: Honoring an Unknown Soldier from the Vietnam War

Per our conversation, and at JAB's request, would you please see if Meese has any problem with further exploring the attached idea.

If okay, would suggest you return to me for preliminary check with Elizabeth Dole. After that, I would suggest the following sequence of actions for EM comment:

1. Craig Fuller would request a detailed proposal and comments from DOD; then the proposal would be circulated for comment to VA and other affected agencies.
2. If reaction is positive from the agencies, Elizabeth Dole should then consult with veterans and other private groups.
3. Proposal would then be circulated to WH staff for comment; at the same time, Ken Duberstein would consult with the appropriate congressional figures.
4. Decision on proposal.

If reaction to the proposal is positive, and a decision is made to go forward, suggest that Memorial Day, May 30, might be an appropriate date for announcement.

Dole

THE WHITE HOUSE

WASHINGTON

February 16, 1982

MEMORANDUM FOR JAMES A. BAKER III  
ASSISTANT TO THE PRESIDENT

FROM: FRED F. FIELDING

I recommend for your consideration that we review the pros and cons of dedicating an "unknown" for the Vietnam conflict to add to the crypts at Arlington Cemetery. We should get the views of DOD, VA, Veteran's groups, Congress, private groups, etc., so we have developed a position when this issue is raised or if it appears to be a worthwhile initiative.

Fuller?

EM's have  
problem?

check w/  
him. If study idea  
OK, then check w/  
Dole.

THE WHITE HOUSE  
WASHINGTON

February 23, 1982

MEMORANDUM FOR DICK DARMAN

FROM: Jim Cicconi   
SUBJECT: S.J. Res. 122 - National  
Construction Industry Week

I hope we are not planning to introduce our tax loophole bill the same week, or even right before this National Construction Industry Week.

The bill will eliminate the completed contract method, and most people would concede this will have a negative impact on the construction industry.

THE WHITE HOUSE  
WASHINGTON

## WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/23/82 ACTION/CONCURRENCE/COMMENT DUE BY: 2/25/82

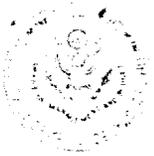
SUBJECT: S.J. RES. 122 - NATIONAL CONSTRUCTION INDUSTRY WEEK

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	GERGEN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HARPER	<input type="checkbox"/>	<input type="checkbox"/>
<u>BAKER</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	JENKINS	<input type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input type="checkbox"/>	<input type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input type="checkbox"/>
ANDERSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROLLINS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CANZERI	<input type="checkbox"/>	<input type="checkbox"/>	WILLIAMSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CLARK	<input type="checkbox"/>	<input type="checkbox"/>	WEIDENBAUM	<input type="checkbox"/>	<input type="checkbox"/>
DARMAN	<input type="checkbox"/> P	<input checked="" type="checkbox"/> SS	BRADY/SPEAKES	<input type="checkbox"/>	<input type="checkbox"/>
DOLE	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>
DUBERSTEIN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<u>Livingston</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
FULLER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

Remarks:

Please provide any comments on this bill and proclamation by 2/25.  
Thank you.

Richard G. Darman  
Assistant to the President  
and  
Deputy to the Chief of Staff  
(x-2702)



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

FEB 23 1982

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill S. J. Res. 122 - National Construction Industry Week  
Sponsor - Senator Hatch (R) Utah and 22 others

Last Day for Action

Purpose

Designates February 28, 1982, through March 6, 1982, as "National Construction Industry Week."

Agency Recommendation

Office of Management and Budget

Approval

Department of Commerce

Approval

Department of Labor

No objection (Informally)

Discussion

S. J. Res. 122 authorizes and requests the President to issue a proclamation designating February 28, 1982, through March 6, 1982, as "National Construction Industry Week" and calling upon Government agencies and the people of the United States to observe the week with appropriate programs, ceremonies, and activities.

The statement issued by Senator Hatch when he introduced this resolution notes that the construction industry is one of the largest sectors of the U.S. economy, employing one in every twenty persons in the Nation's workforce. The statement also observes that because of the industry's size and sensitivity to financial conditions, it has always been the first major sector of the economy to respond to monetary policies. It concludes with the declaration, "In these times of record high interest rates, declines in housing starts, and increased construction layoffs and bankruptcies, it is more important than ever that we

join together in an effort to demonstrate we have not forgotten the construction industry nor the undeniable importance construction plays in our lives."

S. J. Res. 122 passed the House and Senate by voice votes. Attached is a draft proclamation submitted by the Department of Commerce.

(Signed) James M. Frey

Assistant Director for  
Legislative Reference

Enclosures

NATIONAL CONSTRUCTION INDUSTRY WEEK

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BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

The construction industry is one of the largest sectors of the economy, providing jobs for five percent of the workforce. Over the decades it has played a vital role in providing us with homes, schools, hospitals, roads, subways, factories and recreation facilities. The American construction industry also provides us with the highest quality craftsmanship in the world -- something we tend to forget because it is so commonplace.

Because of its nature, however, the construction industry is also severely affected by downturns in the economy. In recognition of the vital role the construction industry plays in our economy, it is entirely appropriate to demonstrate our commitment to revitalize the construction industry. The Congress has, by Senate Joint Resolution 122, demonstrated its commitment by requesting me to designate February 28 through March 6, 1982 as National Construction Industry Week.

NOW THEREFORE, I, RONALD REAGAN, President of the United States of America, do hereby proclaim February 28 through March 6, 1982, as National Construction Industry Week. I call upon the people of the United States and all Government agencies to observe the week with appropriate programs, ceremonies, and activities.

IN WITNESS WHEREOF, I have hereby set my hand this \_\_\_\_ day of February in the year of our Lord-nineteen hundred and eight-two, and of the Independence of the United States of America the two hundred and sixth.

THE WHITE HOUSE  
WASHINGTON

February 24, 1982

TO: JAB III

RE: Formaldehyde Insulation

This decision to ban use by the Consumer Product Safety Commission was featured on the front page of yesterday's Post.

Nancy Steorts, the chairman, called to make sure you understood their reasons for deciding on a ban, as opposed to labeling requirements, etc. From what she said, and what I read in the papers, this was simply a question of clear-cut danger.

She said they have received positive comments from almost all quarters except the insulation installers (who are raising a fuss, and trying to stir up the Right). I confirmed this with Red Cavaney, who also mentioned that the Post had commented favorably on the ruling in an editorial. Not much chance of right-wing ruckus on this, Red says. All in all, I think this ruling is good for us. It demonstrates that where there is a clear-cut danger to human health, we are not reluctant to take strong steps.

JC

THE WHITE HOUSE  
WASHINGTON

February 26, 1982

TO: JAB III

RE: CCEA Meeting

Just wanted you to know that CCEA will recommend that the Commodity Futures Trading Commission be extended.

However, they will recommend there be a time limit so that a type of "sunset" review could occur within a set number of years.

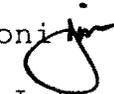
Sentiment was that some type of regulation had to continue in this area.

JC

THE WHITE HOUSE  
WASHINGTON

March 2, 1982

MEMORANDUM FOR MURRAY WEIDENBAUM

FROM: Jim Cicconi   
SUBJECT: Attached Letter from William C. Smith

I would appreciate it if you (or someone at CEA) could respond to the attached letter from Mr. William C. Smith. His main arguments center on the flow of U.S. capital out of this country, the financing of foreign deficits and foreign industrial expansion, etc.

Mr. Smith is not an economist, though he has reportedly served on an economic advisory board to the Republican National Committee. He is a major GOP contributor.

Mr. Smith, in several phone conversations with myself and others, has said he does not feel the President has been made aware of the points he is raising.

LAW OFFICES  
**WILLIAM CLANEY SMITH**  
7800 PERRY HIGHWAY  
PITTSBURGH, PA 15237

412-364-4411

February 18, 1982

James W. Cicconi, Esq.  
West Wing 1st Floor  
White House  
Washington, D.C. 20500

Dear Jim:

The error of assumption in the Economic Recovery Program is that the increased savings generated by tax reduction will be invested in the United States.

Our Wall Street Brokers and Money Center Banks are exporting U.S. Savings at a faster rate than savings are increasing. These savings are being transferred to the benefit of other economies and to the detriment of the U.S. Economy.

I.R.A. accounts and tax free pension funds are being utilized as sources of funds to fund foreign deficits, foreign plant expansion and foreign take-over of U.S. businesses. The intermediaries are U.S. and Foreign Money Center Banks, Money Market Funds, and Wall Street Brokers, e.g. Goldman-Sachs, Salomon Bros., and Merrill Lynch.

I have enclosed a capsul summary of the effect and the mechanisms involved. Also enclosed are examples: a Goldman Sachs ad; Syndicated Loan to Sweden; and prospectus of Money Market Funds.

We have gone from a domestic monetary market for U.S. savings to an international monetary market for U.S. savings in which the deficits of Foreign Governments and Foreign Business Loans are as significant as the U.S. deficit in crowding out the U.S. businessman and consumer.

It is my hope that at some stage the President may become aware of this problem. My suggested solutions are incorporated in the summary which I have enclosed. If adopted I believe these two pieces of legislation would turn the economy around in less than 60 days.

Very truly yours,

W. C. Smith

Enclosures

HOUSING IS COMPETING IN AN INTERNATIONAL  
MONETARY MARKET FOR A LIMITED SUPPLY OF  
U. S. SAVINGS.

Housing is competing in an international monetary market for a limited supply of U.S. Savings. This is what is keeping interest rates high and funds for residential mortgages unavailable.

The President's Economic Recovery Program is not working and cannot work when the savings being generated by tax benefits are being marketed to foreign governments, and foreign investors, by Money Center Banks and Wall Street Securities Dealers.

This was acknowledged in a dialogue between W. C. Smith and Chairman Paul Voelker on January 25, 1982. He acknowledged that the consumer of shelter in the United States is now competing for U.S. Savings in a world market for these savings. A market that did not exist in this magnitude before the advent of wire transfer and money market funds.

Thus the funding of the deficits of foreign governments and foreign capital investments through tapping the pool of U.S. Savings has become as significant as the size of U.S. deficits.

Examples would be the funding of \$2 billion of the deficit of Sweden through 1.2 billion in bonds issued by Salomon Brothers and 8 hundred million syndicated U.S. bank loan that literally tapped pass book savings. (Mr. Niskanen of The Council Of Economic Advisors, appearing at the AEI Conference recognized that "Government deficits crowd out private borrowers somewhere in the world, not necessarily in the countries that run the deficits.")

The principal purchasers of foreign government bonds, and foreign notes in the United States are tax exempt pension

funds. These funds have recently purchased also 10 billion dollars in foreign equities instead of investing these tax free funds in the United States.

Savings and loans have been purchasing Japanese Bank C.D.s at the recommendation of employees of the Federal Home Loan Bank. These C.D.s of U.S. branches are valid investments insured by the F.S.L.I.C.

Foreign takeovers of U.S. businesses are being funded by C.D.s issued to Money Market Funds, which dollars are then used to purchase existing businesses rather than create new employment, or new plant and equipment.

We are even funding the British Post Office and French Government owned companies through foreign Commercial Paper issued in New York and purchased by Money Market Funds. (Oppenheimer Money Market Fund, Inc. present assets 1.5 Billion)

The Money Market Funds which are qualified investments for tax deferred I.R.A. accounts have thus become the vehicle for transfer of the benefits of the President's Economic Recovery Program to foreign economies.

Sixty-five percent of the I.R.A. Funds (or more) raised by Citicorp are being used for foreign loans. Citicorp and other Money Center Banks also issue notes marketed by Goldman Sachs and other brokers to tap the tax free pension funds for loans to foreign governments.

U.S. Corporate Treasurers have been making their deposits in United Kingdom Branches of U.S. Banks to be used for foreign loans at a CD rate of 1 to 1½% higher than in the U.S.

The net result is that foreign demand for U.S. savings has had an adverse impact on the supply of funds available for investment in the U.S. Economy, while keeping interest rates high, and thus defeating the strategy of the Economic

Recovery Act.

There are remedies for this situation which can immediately turn the economy around while the Federal Reserve Board maintains its present monetary restrictions.

The least palatable is the strategy adopted by Japan, which prohibits Japanese banks from lending Yen outside Japan. This, thus assures the investment of domestic Japanese savings in the Japanese economy and provides a 7% prime rate. (Meanwhile the Japanese Banks take dollar deposits in the U.S., and the U.K. and lend them throughout the world.)

The most practical and effective strategy is a tax policy which targets U.S. savings to investments in the U.S. economy, while maintaining current monetary policy.

This could be achieved simply by two amendments to the Internal Revenue Code:

1. Limit tax free privileges of the earnings of pension funds to prudent investments made in the U.S.
2. Adoption of H.R.1005/S.701; tax free treatment of interest earned on savings deposits used for residential mortgages; (a) not limited to individuals; (b) not limited in amount; (c) not limited as to rate; (d) not limited as to time.

This would save the Thrift Institutions, forever solve the affordability problem of housing, reduce unemployment by over 2%, produce net positive budget impacts in 1983 of 16 billion; 1984 of 26 billion; 1985 of 39 billion, with a positive impact on the whole economy.

Unless the savings and the increased savings resulting from tax reduction are targeted into the U.S. economy the Economic Recovery Act cannot succeed. The changes in the logistics of assembling and marketing U.S. savings have resulted in these savings being marketed outside of the U.S.

for a higher rate of return by Money Center Banks and by Wall Street Brokerage firms.

Unless currency controls are initiated or in the alternative tax devices are utilized to target these benefits into the U.S. economy, then the deficits of foreign governments and their extensive social programs will be transferred to the savers and taxpayers of the United States resulting in the demise of the U.S. economy.

W. C. Smith  
7800 Perry Highway  
Pittsburgh, PA 15237  
412-364-4411

THE WHITE HOUSE  
WASHINGTON

March 9, 1982

TO: JAB III

You first raised the subject of tuition tax credits at breakfast on January 26. (This was right after we met with Tom Melady.)

You first raised the subject of busing in connection with abortion and school prayer on January 27. This was when we were formulating a strategy on social issues. I wrote my memo arguing for high profile treatment of busing on February 6, and on February 8 you began raising it regularly at breakfast.

JC

Re Balanced Budget Amendment, you first asked me to check on it Feb. 22-- after you were asked about it on Face the Nation. No note that you raised it at breakfast until March 2, but I know you discussed it during the previous week as result of my finding that no one was really on top of it.

JC

for memos

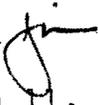


THE WHITE HOUSE

WASHINGTON

March 11, 1982

MEMORANDUM FOR JAMES A. BAKER, III

FROM: Jim Cicconi   
SUBJECT: CCEA, March 11, 1982

Below is a sampling of comments from this morning's CCEA session on the economy. The exchange occurred after a presentation by Murray Weidenbaum.

1. Baldrige:
  - We're not going to hit the 3% GNP Growth figure (4th quarter to 4th quarter).
  - MW agrees.
  - Does not share MW's optimism - Dien Bien Phu remark.
  - Deficits - have to do something about this-- MW is down-playing this too much.
    - Nothing will happen unless we show we're getting deficits under control.
    - "Crowding out" is valid.
    - If we don't get this under control, we will badly miss our recovery projections; if that happens, we will get into an even worse situation.
    - Companies are cutting their capital investment plans substantially.
  
2. DS:
  - Rundown of prior forecasts:
    - (a) Last Feb.--sluggish, but recover by Fall.
    - (b) By Fall, wrong--now "typical business cycle"--out by Winter.
      - no change except delay in recovery.
    - (c) Now clear that fundamental corrections going on in economy--wringing out non-competitive; inflation is radically dropping.
  
  - Basic challenge to all our prior forecasts, and by implication the current one, too.
  
3. Regan:
  - Why are we in the deficit picture? Not because of tax cuts--that's only a small part of picture.
  - Root cause: over-spending; this side needs to be attacked strongly--spending still out of control.

Memorandum for James A. Baker, III  
March 11, 1982  
Page 2 of 2

4. Baldrige: --We have to get some figures that are believable; nothing we have now is believable.
5. Kudlow: --Unwinding of inflation has cost us much in revenue.  
--Stock market--does give hint of future outlook for profits - gloomy.  
--Decline rates at this stage of recession (in interest rates) are the weakest in post-war experience.
6. Weidenbaum: --Deliberately tried to avoid doom and gloom presentation.

THE WHITE HOUSE

WASHINGTON

March 15, 1982

MEMORANDUM FOR THE RECORD

FROM: Jim Cicconi *JC*

SUBJECT: EPA Sanctions Against Non-Attainment Areas

On Friday, March 12, I met with Ann Gorsuch and John Daniel of EPA. This was a follow-up discussion to matters raised by Mrs. Gorsuch at an earlier meeting which she had requested. The particular matter discussed involved the imposition of sanctions prescribed by the Clean Air Act against non-attainment areas. Such sanctions would involve loss of federal funds (including highway funds) and a requirement of mandatory inspection and maintenance programs for automobiles in a number of states and localities.

At the onset of the conversation, I mentioned that I understood the matter to be entirely within the discretion of the agency and did not wish for our conversation to be interpreted as in any way attempting to influence the Administrator's decision as to the imposition of sanctions. The discussion was designed to provide further information as to the intentions of EPA on this matter. I repeated such a statement at the close of the conversation.

The discussion itself lasted 15 minutes. The Administrator stressed her view that imposition of sanctions was unavoidable. I asked about actions taken by the previous Administration (Costle in 1979) which made certain regulatory changes largely, it was felt, to avoid imposing such stringent sanctions; I was told that the timetable set up by law provided much more discretion to the administrator at that time. I also inquired as to whether certain administrative procedures would be set up to, for example, give notice of intent to impose sanctions, provide states with an opportunity to contest the decision, inform appropriate Congressional committees, etc. I was told that such procedures would, indeed, be formulated and I asked to be forwarded a copy on their completion.

Due to the fact that this discussion involved a regulatory agency, I verbally conveyed the above to Fred Fielding after the meeting.

THE WHITE HOUSE

WASHINGTON

March 17, 1982

MEMORANDUM FOR JAMES A. BAKER, III

FROM: Jim Cicconi *[Signature]*  
SUBJECT: Senior Staff Meeting Attendees

The number of people attending the 8 a.m. senior staff meeting has been increasing to the point where some steps must be taken. Reasons for some sort of attendance cutback include the following (some of which overlap):

1. frank discussion is inhibited due to increased chance of leaks;
2. several offices "double cover" the meeting;
3. note-takers now predominate over participants;
4. a number of attendees have only the most remote connection with the actual business of the meeting;
5. the capacity of the room itself is now strained (in its "normal" setting, the Roosevelt Room seats 26; during the senior staff meeting it has to hold 34).

The first senior staff meeting in January, 1981, included 20 people (see attached memo listing attendees). Those attending were Baker, Meese, Deaver; designated persons of their respective choice; and all Assistants to the President. Later, for understandable reasons, the Vice President's office, OMB and CEA were added. The problems began, though, within a month or so after the first meeting when the list of "designated persons" was expanded on a case by case basis.

At today's meeting, 34 people were in attendance. Excluding Assistants to the President, instances of double or multiple coverage by various WH offices now include:

<u>OFFICE</u>	<u>ATTENDEES</u>	
Counselor	<u>Cribb</u> Beal	<i>UP</i> <i>OMB</i> <i>CEA</i>
Chief of Staff	<u>Cicconi</u>	
Deputy Chief of Staff	Rosebush, <u>Sittmann</u> Fischer	
Communications	Small	
NSC	Tyson	
OPD	Gray, Porter	
Personnel	von Damm	
Press	Speakes, Roussel, Allin (on occasion)	
Vice President's Office	Murphy, Fred Bush (on occasion)	

Probably the best solution is to return, with some added restrictions, to the original "Assistants to the President plus Baker, Meese, Deaver designees only" rules of attendance for this meeting. The rationale was outlined in a memo from Dick Darman dated January 15, 1981 (attached). The added restriction would be that Baker, Meese and Deaver, due to their "special managerial and coordinative responsibilities," would each be allowed to designate only one person below Assistant to the President rank to attend. With those three exceptions, deputies could not attend except in place of an Assistant to the President. Joe Wright, Murray Weidenbaum and Dan Murphy would represent their respective separate offices.

In all probability, Ed Meese will designate Ken Cribb. Mike Deaver would probably have to choose between several persons (Rosebush, Sittmann, Fischer), though an argument can be made for attendance by the First Lady's chief of staff in his own right.

Such a policy would exclude the following from regular attendance:

- |              |              |                 |
|--------------|--------------|-----------------|
| Mort Allin   | Roger Porter | Rich Beal       |
| Pete Roussel | Fred Bush    | Karna Small     |
| Ed Gray      | Chuck Tyson  | Helene von Damm |
- Plus Rosebush, Sittmann or Fischer, depending on Deaver's choice.

DECISIONS

Several questions thus occur which should be decided with Meese/Deaver concurrence:

1. Should senior staff attendance be restricted to Assistants to the President, one designee each for Baker-Meese-Deaver, and one person from OMB, CEA, and the Vice President's office?

YES JAB NO \_\_\_\_\_ DISCUSS \_\_\_\_\_

If "no", suggest that the alternative is to pare attendance on an individual, case-by-case basis.

2. If "yes" above, should Jim Rosebush (a Deputy Assistant) attend as an exception (that is, not as Deaver's designee but on his own)?

YES \_\_\_\_\_ NO JAB DISCUSS \_\_\_\_\_

3. Should Ed Hickey (an Assistant to the President) attend due to his rank, or be excluded due to responsibilities which only rarely relate to the purpose of the senior staff meeting? (He is the only Assistant to the President whose need to attend could be legitimately questioned.)

ATTEND JAB EXCLUDE \_\_\_\_\_

4. If "yes" to #1, and given the decision on Jim Rosebush, who are the designees for Baker-Meese-Deaver?

BAKER Cicami MEESE Cribb DEAVER Sittman

I would suggest that those excluded be informed on an individual basis by either their line manager, or by Baker-Meese-Deaver as appropriate, with reasons explained.

Depending on your decisions, I will compile a new list of senior staff meeting attendees for circulation to Baker-Meese-Deaver.

*Effective*

Senior Staff

Allin	Em	Fisher
Specker	Jenkins	<u>Fitzman</u>
Gerger	<u>Griff</u>	Horst
Small		McManis

Harper  
Porter

Gray  
Kevin Hopkins

Wright  
Weidenbaum  

---

VP: Murphy  
F. Bush

Ju DeBurstin  
Rollins

call KD  
Pres reached Dan Coates  
Coates d

*Chron*

THE WHITE HOUSE

WASHINGTON

January 21, 1981

MEMORANDUM FOR: Edwin Meese III ✓  
Michael K. Deaver ✓  
Richard V. Allen ✓  
Martin Anderson ✓  
James Brady ✓  
Elizabeth Dole ✓  
Max L. Friedersdorf ✓  
David R. Gergen ✓  
Edward L. Harper ✓  
E. Pendleton James ✓  
Franklin C. Nofziger ✓  
Peter McPherson ✓  
Robert M. Garrick ✓  
Joseph Canzeri ✓  
Richard Darman ✓  
Craig Fuller ✓  
Frank Hodson ✓  
Edwin Thomas ✓  
Richard Williamson ✓

There will be a meeting of the Senior White House Staff at 8:00 a.m. on Thursday, January 22, 1981. It will be held in the Roosevelt Room.

James A. Baker III

FOR DISCUSSION W. ED MEESE -- 1/15

Attendance at Senior Staff Meetings

You will recall that our meeting tentatively concluded that you should do here what you did re portal-to portal: provide special treatment for you, Meese, and Deaver only.

That is, the rule would be: only principals (or their substitute) -- with the exception of Meese, Baker, Deaver who, because of their special managerial and coordinative responsibilities may bring their deputies (except where the functional responsibilities do not call for attendance).

~~XXXXXXXXXX~~ Alternatives to the MBD rule (above) are: none other than principals (which would be too restrictive); all deputies (which would be too many); and case-by-case determination (which would tend to degenerate, and be hard to administer).

We've not had a chance to discuss this further among ourselves. But the MBD rule seems to me to be compelling. It would mean: Principals plus FSMH, RGD, RW (Baker) plus Garrick, Fuller, and Thomas or Stanley (Meese) plus Canzeri and McCoy (Deaver).

Darman

THE WHITE HOUSE

WASHINGTON

March 22, 1982

MEMORANDUM FOR DAVE GERGEN

FROM: Jim Cicconi *je*

SUBJECT: South Bronx Development Grant

Attached is a copy of the memorandum prepared by HUD concerning the South Bronx Development Office, Inc.'s request for \$1 million to continue its programs in the South Bronx. The federal funds would be "matched" by \$1.5 million from the State of New York.

Secretary Pierce personally assured me this morning that he was going to approve the request, though he has not yet actually signed it, and that the President or WH could announce that fact in any way we wished. He simply asked that you let him know how you decide to use the information in order that he can be prepared for any necessary follow-up.

We have proposed another approach to handling the other basic housing problem, that of poor quality. This program, called the "Rental Rehabilitation Initiative," will provide funds to local governments for rehabilitation and will be used in conjunction with the modified Section 8 Existing Housing Program.

The modified certificate and rental rehabilitation programs, taken together, address the two housing problems of the poor--affordability and housing quality--in a straightforward and efficient way. The Administration's plan makes good housing sense, and good budget sense.

3. RENT CONTROL.

The President's Commission on Housing has proposed withholding Federal funds to cities which impose rent control. Secretary Pierce has said that rent control is a local issue and that the Federal Government should not intervene.

4. SOUTH BRONX.

In a campaign appearance, candidate Reagan said that he couldn't help the South Bronx if he wasn't elected. In 1981, HUD assistance to the South Bronx totalled \$101,951,000--an \$11 million dollar increase over 1980.

There is, though, a \$1 million contract renewal application for the South Bronx Development Organization. Secretary Pierce is currently reviewing the application. This SDBO request has received considerable media and political attention. (Briefing paper attached.)

*Excerpt from HUD cover memo for NYC trip.*

## ABSTRACT OF SECRETARIAL CORRESPONDENCE

Action By: \_\_\_\_\_

Date March 17, 1982

Control No. \_\_\_\_\_

TO	<input checked="" type="checkbox"/>	The Secretary		The Under Secretary
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*Jack R. St. Louis*  
 FROM: ~~Stephen J. Bollinger~~, Assistant Secretary for Community Planning  
 and Development, C

SUBJECT: Background on the South Bronx Technical Assistance Program

ISSUE

The South Bronx Development Office, Inc. (SBDO) has been operating a technical assistance program in the South Bronx for 2 years at a cost of \$3.7 million. The program will expire on March 31, 1982. SBDO has submitted a request to HUD for \$1 million to continue the program.

DISCUSSIONHistory

SBDO was officially established in 1979 as a result of the perceived need within the Carter Administration for high-profile commitment to the area after a visit by President Carter. The purpose of SBDO was to act as a quick and efficient conduit for assistance to the South Bronx by circumventing the supposedly inefficient New York City bureaucracy. During 1981, funding for SBDO was provided by HUD (\$1,000,000 from the Secretary's Discretionary Fund), New York State (\$1,500,000), and New York City (\$500,000 of in-kind services, principally office space). The Executive Director, Ed Logue, receives a salary of \$120,000 per year and maintains offices in both the South Bronx and mid-town Manhattan.

Under the HUD contract, SBDO has written and processed requests for Federal assistance and has produced extensive planning documents based on these requests. Prior to the phaseout of Section 8 deep subsidy, SBDO spent much of its staff time processing these applications and contracts. In addition, SBDO makes recommendations to the City regarding their Community Development Block Grant funding allocation to the area and seeks private sources of development money.

Accomplishments to Date:

The \$3.7 million expended by the SBDO has resulted in the following accomplishments:

- \* SBDO has completed a land use and program plan for the development of the South Bronx;
- \* economic development activities have resulted in construction of a 58,000 square foot industrial building on a 21.5 acre site, involving 225 jobs; planned construction of a \$2,160,000 retail and office building involving a \$500,000 Urban Development Action Grant plus funds from the State and private sources; establishment of a \$217,000 revolving loan fund for local merchants funded by a City grant;

- \* employment training activities have resulted in 475 jobs for former welfare recipients (funded by DOL funds) and creation of a South Bronx Job Corps Center funded by \$3.8 million from DOL and the City's Community Development Block Grant employing 100 South Bronx residents;
- \* the housing activities have resulted in starting construction on 293 single-family homes, funded by HUD's Section 235 program, and the substantial rehabilitation of several buildings under HUD's Section 8 program; additionally, the homeownership assistance program has resulted in improvements to 38 units of housing;
- \* human services activities have resulted in \$500,000 in foundation funds to increase the cost-effectiveness of Federally-financed community health centers, and a new community-based consortium of four local organizations.

Additional activities involve land revitalization efforts and a special \$2 million effort by the Local Initiatives Support Corporation.

#### Funding Request and Alternatives

The South Bronx Development Office, Inc. seeks a \$1 million agreement with the Department to continue its activities for another year. These funds would be matched by the State of New York at a level of \$1.5 million. The request is supported by Mayor Koch and Congressman Robert Garcia.

#### The major proposed activities are:

- \* design and financing packaging of housing, commercial, and industrial projects in the South Bronx;
- \* consultation with neighborhood groups;
- \* maintenance or enhancement of social, health, and recreational services.

#### The Department's Options are:

- a. to make the Technical Assistance Grant either to the City of New York to operate itself through the local agency/organization of its choice or directly to SBDO.
- b. to fund this request again in an amount up to \$1 million.

THE WHITE HOUSE  
WASHINGTON

March 23, 1982

TO: JAB III

RE: Textile Negotiations

Since you'll see Carroll Campbell tonight, I thought you'd want an update on textiles.

Textile people were unhappy that some less important bilaterals (Colombia, Brazil, & Pakistan) were not drawn as strictly as they'd hoped. Some, including Campbell, wrote us asking that we "hang tough" in the more important bilaterals like Hong Kong.

Our promise, you'll recall was to "more closely relate import growth to the growth in the domestic market."

The Hong Kong bilateral was just concluded. According to Amb. Murphy, there will be a standstill at 1981 levels for 6 years. He said the newspaper erroneously reported we had agreed to 2% growth per year. Murphy said the textile people are satisfied, but not ecstatic.

You will be hit tonight with lobbying re the next big bilateral-- China.

JC

NOTE:

ISTR is preparing draft response to Campbell's letter.

THE WHITE HOUSE  
WASHINGTON

March 23, 1982

TO: JAB III

RE: Haitians

This issue will not go away-- today there is a large story in the Washington Post about detention facility conditions.

Also, the other day, the President got a letter from Toby Moffett expressing concern re conditions after he visited the camps. (President wanted to make sure INS was aware of his impressions.)

I had thought this was to be slated for early discussion (along with our entire immigration/detention policy) in the new Cabinet Council on Legal Policy.

A couple months has gone by, and the Haitian situation has not changed.

I feel this will be more of an issue as the summer approaches. Therefore, some push is probably needed.

  
JC

THE WHITE HOUSE  
WASHINGTON

3/28

JC:

I didn't get  
this done. CF  
handled.

March 23, 1982

TO: JAB III

RE: Phone Call

REMINDER-- call Ray Donovan.

Purpose:

1. Thanks for your thoughts on problems with Title V cuts in Older Americans Act job programs. We discussed this morning.
2. OMB is taking a look at your ideas now. Not sure if we can do what you suggested, but you're right that it is causing us problems and we need to look to solutions. We'll let you know (or Craig will).
3. Also, thanks very much for helping out by doing the ARCO dinner (with mayors group) in Philadelphia at end of month. We were in a bind on that, and I know Judge Clark appreciates it too. (He rescheduled a trip to Detroit because I said it was a personal request from JAB.)

FYI-- Fuller expects some sort of preliminary analysis from OMB by end of day.

JC

f JC memo

THE WHITE HOUSE  
WASHINGTON

March 23, 1982

TO: JAB III  
RE: Steel Stretchout

JC: 3/28  
President.  
Keep me  
posted please.  
Can I tell RR  
anything with  
week? Think  
by  
JAB

You may recall that this is the issue  
the President inquired about after  
reading a piece in Business Week.

NOTE  
sent to  
JAB.  
JC

An ad hoc group is looking into the  
respective positions of DOJ and EPA  
on the issue. I asked that Fred  
Fielding and Craig Fuller put something  
together per your statement that President  
wanted more of a look taken on this.

We will meet to discuss this afternoon.  
DOJ, EPA, OPD, Fuller, Fielding and  
myself are involved.

Jim  
JC

JAB

This is a sticky issue legally, so  
hope should not be raised one way or  
the other. Business Week was right on  
one key point: all players agree denial of  
stretchout would do severe harm to the  
steel industry. JAC

*15th memo*

THE WHITE HOUSE  
WASHINGTON

March 24, 1982

JAB--

For you info:

Jack Fields wanted you to know he thought you did "a heckuva job" of handling the situation with the House freshman.

Also FYI, I asked him over for lunch with me next week. He's becoming very well tied in with the ultra-conservatives in the Congress... thus, he'd be a good barometer for us from a different angle than Pauken is.

*3/28*

*gc:*

*Jagme - but we really should try & have more sessions with JC personally  
JAB - the ~~one~~ ones we can talk to JAB*

✓ I'm convinced about all we can do w/ the "Right" is to try to get a few people like Pauken who will defend us from the inside. That's tough enough to do; more than that is probably impossible, and is just damage control thru communication.  
*Jim*

THE WHITE HOUSE  
WASHINGTON

March 24, 1982

JAB--

Concerning Cong. Jim Leach's letter about Radio Marti possibly causing WHO in Des Moines to be jammed, I talked with Bud McFarlane at NSC and asked him to run the points about possible alternatives thru USICA to see if they'd considered them. I asked that he then get the views back to you along with NSC's thoughts.

He was happy to help.

Note-- this was the "proper" way to handle this, since NSC is liaison with USICA. Also, Wick and Clark were both copied on the same letter.

We should hear back soon.

3/28 *Prant* *JAB* *Jim*  
TC

file memo

3/28

THE WHITE HOUSE  
WASHINGTON

March 26, 1982

J.C.  
This is very helpful  
to me. Keep 'em coming.  
Thank.  
JAB III

MEMORANDUM FOR JAMES A. BAKER, III

FROM: Jim Cicconi *J.C.*

SUBJECT: Update on Cabinet Council Activity

Though we have not had much time recently for sit-down briefings on Cabinet Council issues, I thought the following brief status report on several of the issues would suffice. Additional information is available on the items if you designate a particular interest.

1. Thrift Industry: Conditions continue to deteriorate; CCEA studied a list of options for assistance, but rejected each for different reasons. Though some members support assistance, others are still gun-shy after last year's failure of "All Savers Certificates" to live up to advance billing. I see no consensus for bailout forming at this time; indeed, some members feel a "shake out" of the non-competitive thrifts is in the industry's long-term best interest. Immediate decisions were that no Presidential statement is needed at this time, and that the account differential (of 1/4%) for thrifts be retained.
2. Transportation User Fees (aka gasoline tax): DOT and Drew Lewis are very committed to this. They feel it is necessary and in keeping with the President's philosophy. CCEA, as a whole, does not share this enthusiasm. Perhaps it is best left as it now stands, i.e., without Presidential imprimatur, but with active testing of the waters in Congress by DOT. Lewis may push this to the President, however.
3. Impact of Defense Expenditures: This is one of the more divisive of CCEA issues. Secretary Weinberger personally sat in on the last discussion (Carlucci had previously handled). Issue per se revolves around whether the economy can (a) physically supply the quantity of defense-related goods the buildup will demand and, (b) if so, whether it can be done without creating inflationary pressures. A DOC report was recently done arguing that the defense buildup, and its priority in the economy, could hamper achievement of the Administration's general economic goals. Weinberger took the report to task, and concluded by asking that it be withheld from any further circulation.

✓ ||

The larger issue here, of course, is the desire on the part of many CCEA members to see some cuts in the Defense budget. They view analyses questioning whether the economy can absorb such a buildup as a means of achieving that goal. DOD senses that, and is resisting strongly.

Memorandum for James A. Baker, III  
March 26, 1982  
Page 2 of 2

4. Auto Industry: Status report on conditions in the industry was gloomy with little prospect for improvement in 1982. Major domestics are looking at sharply negative cash flows again. One action: DOC has established an Office of Auto Industry Affairs to coordinate interagency assistance efforts.

cc: Richard Darman

*f JC memos*

THE WHITE HOUSE  
WASHINGTON

March 26, 1982

MEMORANDUM FOR ED ROLLINS  
KEN DUBERSTEIN

FROM: Jim Cicconi

SUBJECT: Attached

Per JAB request, please examine the attached. He needs your advice as to whether this should be done now.

Thanks.

JUDD GREGG  
2D DISTRICT, NEW HAMPSHIRE

COMMITTEES:  
SCIENCE AND TECHNOLOGY  
GOVERNMENT OPERATIONS  
SELECT COMMITTEE ON AGING  
REPUBLICAN POLICY COMMITTEE

VICE CHAIRMAN:  
TASK FORCE ON CONGRESSIONAL AND  
REGULATORY REFORM

**Congress of the United States**  
**House of Representatives**  
**Washington, D.C. 20515**

WASHINGTON OFFICE:  
503 CANNON BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-5206

DISTRICT OFFICES:  
N.H. HIGHWAY HOTEL  
FORT EDDY ROAD  
CONCORD, NEW HAMPSHIRE 03301  
TEL: 228-0315

1 SPRING STREET  
NASHUA, NEW HAMPSHIRE 03060  
TEL: 883-0800

March 5, 1982

MEMO TO: JAMES BAKER  
FROM: Judd Gregg  
RE: Follow-up to our telephone conversation

As a follow-up to our telephone conversation, should you decide to have a meeting with the 97th Class Officers, some of the suggestions which I would make that might go towards helping morale would be the following:

1. That you set up a procedure whereby initial contacts would continue to be made through proper White House channels, but in the case of an extraordinary situation it would be understood that the President of the Class could on behalf of a Class Member, directly access yourself. It would be up to the President of the Class, obviously to screen and limit the use of this route.
2. If another Class meeting could be scheduled, this time to be held at the White House with the President being available for a few minutes and yourself available for a greater period of time, this might go a long way towards putting aside concerns. This would, of course, be a large meeting to which all 54 Members of the Class would be invited.
3. If a letter from yourself to all new Members, individually addressed, could be sent out which would outline items 1 and 2 and simply, again, express the teamwork aspect. First, it would show the level of interest at the White House and it would respond to some of the concerns raised at the prior Class meeting. Secondly, it would address the other issue which we talked about on the phone. At the risk of seeming presumptuous, I have enclosed, simply for the purpose of making my point clear, a draft which reflects how I would perceive such a letter--it seemed like the most effective way to express my thoughts.

Again, I greatly appreciate your taking the time to call back. Good luck; keep up the good work.

**JUDD GREGG**  
2D DISTRICT, NEW HAMPSHIRE

COMMITTEES:  
SCIENCE AND TECHNOLOGY  
GOVERNMENT OPERATIONS  
SELECT COMMITTEE ON AGING  
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DRAFT - PROPOSED LETTER TO NEW MEMBERS

MARCH 8, 1982

Dear:

Recently, I had the pleasure of meeting with the 97th Class Officers. This was a good opportunity to discuss the issues of communications between the White House and your Class. As a result of the meeting, a number of worthwhile suggestions were made. They include the following:

1. We intend to set up a system whereby, Tom Hartnett, a/k/a "The Shaw of the South," the President of the Class, will communicate directly with me should an individual situation arise with a Class Member which is not receiving what the Class deems to be proper attention from any level of the Administration.
2. We would like to have another meeting of the Class in order to continue to discuss the concerns and issues with which the Class is involved as a group. It is our hope, although of course we cannot guarantee it, that the President will be able to stop by for a few minutes, as he wishes to personally thank you for your strong support.

We are committed to working with you as a team in order to accomplish the goal of turning this country and the government around and improving the lifestyle of the American people. We thank you very much for your past support.

Sincerely,

for memos



THE WHITE HOUSE  
WASHINGTON

March 29, 1982

TO: JAB III

RE: Steel Stretchout

You asked if there was anything yet that you could tell the President on this.

Fred has another meeting set for today, and intends to wind up the matter (to the extent he can) by Wednesday.

Good. Thus, you will probably be able to tell the President something by Thursday morn.

Fred says that DOJ had a very well-documented case on this, and that EPA was in general agreement with their conclusion that the problem could only be cured by legislation.

Fred thinks that we will end up by having to propose a bill to correct the problem.

Je:  
Pls give me a report for him then.

JC

JMB Told FF.  
3/31

THE WHITE HOUSE  
WASHINGTON

March 29, 1982

MEMORANDUM FOR DAVID GERGEN

FROM: Jim Cicconi

SUBJECT: Attached

The attached article appeared in the  
Viewpoint in Saturday's Washington Post.

I think it is a good explanation of what  
is really being done in the area of  
student loans.

Perhaps it might be worth saving for use  
in one of the President's radio talks.

The Reagan administration has a federal commitment next fall to student higher education aid of nearly \$14 billion—the highest point in American history. We expect federally supported student aid to post-secondary students will actually increase by 2 percent in FY 1983 above the FY 1982 revised budget level. Denis Doyle's recent op-ed article on "Draconian cuts" in taxpayer aid to college students, and Carl Rowan's column on "millions of American youngsters who won't go to college next fall" ignore these facts.

What's Draconian about a \$14 billion federal government commitment to student financial aid? What's so Draconian about providing federal assistance to nearly 5 million students? How do we "eliminate" students who, by demonstration of need, could become eligible for more than \$4,000 per year in assistance before their family pays a penny?

College enrollment growth is down from levels caused by the baby boom. This flattening of the enrollment figures, to an average yearly increase of 4.4 percent between 1973 and 1979, comes when federal financial involvement is exploding—increasing by an average annual rate of 58 percent. College costs have increased about 6 to 9 percent annually during this period. Between 1981 and 1991, the number of college-bound high school graduates is projected to actually decrease by 25 percent.

We're experiencing an unprecedented dramatic shift toward responsibility for financing individual college educations through taxpayers' funds, begun by Congress back when everyone was lobbying for a slice of the mythical "Vietnam Peace Dividend." Remember? The swing began then away from traditional family support through saving, and away from student self-help contributions from summer or part-time work.

Total family incomes increased 30 percent between 1978 and 1981, but family contributions to their children's educations actually decreased by over 6 percent during the same period. This occurred while college costs relative to median family income remained basically constant. And today fully 40 percent of the 12½ million students enrolled in degree programs are attending part-time.

Consequently, college student aid, designed to assist students who could not otherwise afford a college education and costing \$40 million in 1960, turned into a subsidy-for-nearly-everyone-regardless-of-family-income program in 1983, providing \$4.3 billion. This is over a 10,000 percent increase.

What's President Reagan actually proposing? Specifically, every year (1) an undergraduate student who demonstrates financial need will continue to be eligible for up to a \$1,600 grant, (2) up to a \$2,500 guaranteed loan and (3) can receive work-study support averaging \$700; (4) a parent, regardless of wealth, will continue to be able to borrow up to an additional \$3,000; and (5) a graduate student, under the Auxiliary Loan Program, will continue to be able to borrow up to \$8,000. In addition, (6) traditional sources of aid, such as state, institutional and private foundation support as well as other federal programs, remain available.

In essence, the mandate for student financial assistance cannot rest principally with the federal government. This administration's policies ensure access to higher education to any student who demonstrates need, and to assert otherwise is—at the very least—inaccurate.

—Gary L. Jones

*The writer is undersecretary of education for planning, budget and evaluation.*

THE WHITE HOUSE  
WASHINGTON

March 29, 1982

TO: JAB III

RE: The Economy

Please see the attached memo to the President from Murray Weidenbaum. The news remains bad.

Last week, in a presentation to CCEA, Larry Kudlow cited financial market indicators as showing the Recovery to be between 2 and 6 months off (between June 1 and October 1).

However, Kudlow said that any departure from the forecast (which has happened consistently to our forecasts) would be on the "down side", and might mean a Recovery less strong and slower in coming than we now expect.

Kudlow also said that some indicators point to the Recovery being as far off as 6 to 9 months (October to January), though he does not feel them persuasive at this time.

JC 

**WHITE HOUSE STAFFING MEMORANDUM**

DATE: 3/29/82 ACTION/CONCURRENCE/COMMENT DUE BY: ----

SUBJECT: WEIDENBAUM MEMO OF 3/29/82 RE ECONOMY IN LATE MARCH

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	GERGEN	<input type="checkbox"/>	<input checked="" type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	HARPER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
BAKER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	JAMES	<input type="checkbox"/>	<input type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input type="checkbox"/>	JENKINS	<input type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input type="checkbox"/>
CLARK	<input type="checkbox"/>	<input type="checkbox"/>	ROLLINS	<input type="checkbox"/>	<input type="checkbox"/>
DARMAN	<input type="checkbox"/> P	<input checked="" type="checkbox"/> SS	WILLIAMSON	<input type="checkbox"/>	<input type="checkbox"/>
DOLE	<input type="checkbox"/>	<input type="checkbox"/>	WEIDENBAUM	<input type="checkbox"/>	<input type="checkbox"/>
DUBERSTEIN	<input type="checkbox"/>	<input type="checkbox"/>	BRADY/SPEAKES	<input type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>
FULLER	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

Remarks:

The attached is being forwarded to the President.

Richard G. Darman  
Assistant to the President  
(x2702)

Response:

THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON, D.C. 20506  
March 29, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: MURRAY L. WEIDENBAUM *MLW*  
Subject: The Economy in Late March

The odds are that the economy has touched bottom. However, there is no convincing evidence that a rebound is yet underway. Inflation continues to ease, bringing relief to all Americans, but posing a problem to those who have over-borrowed and counted on rising prices to bail them out.

The Recession.

The bulk of business forecasters - myself included - believe that the first quarter will go down as the trough of the current business cycle, although there are important dissenters to this view. After allowing for inflation and inventory liquidation, final sales in the first quarter were probably unchanged from the last quarter of 1981, an encouraging sign.

Housing starts continue to suggest a modest recovery and some indicators of consumer spending are showing a slight upwards trend. An important exception has been softer auto sales in March, after encouraging strength in January and February. Following a sharp jump after October's tax cut, personal saving has eased, helping to keep spending up but resulting in lower saving rates.

Business sentiment and capital spending, both lagging indicators of overall business conditions, have weakened in recent months.

Inflation.

Progress on inflation continues at a rapid pace. Since last August, the CPI has increased at an annual rate of just 6.0%. This trend of declining inflation was underway well before the start of the recession. Your policies have undoubtedly played an important part -- especially cutting the growth in government spending, supporting the Federal Reserve's monetary policy targets, not intervening in industry-labor disputes, and firm handling of the air traffic controllers' strike.

In the past, when the going got rough, the public was led to expect government actions that increased inflationary pressures and encouraged the Federal Reserve to follow easy money policies. Your program to date provides little basis for maintaining these expectations.

With prices softening (most significantly in housing and agriculture) and interest rates remaining high, individuals and companies that have borrowed heavily in the past are encountering increasing difficulty. While such a development is normal at this stage of the business cycle, it is of greater dimensions than usual.

Interest Rates.

High interest rates remain the chief threat to recovery. The timing, speed, strength, and duration of any upturn will be heavily influenced by the course of rates. Although some decline in the weeks ahead is likely as the "inflation premium" is reduced, smaller budget deficits could make a major contribution to getting "real" interest rates down. As you can see in the following table (especially the last line), despite substantial progress on inflation since November, on balance we have made very little progress getting interest rates down.

Recent Trends in the CPI and Selected Interest Rates

	<u>12-Month Change in the CPI</u>	<u>Prime Rate</u>	<u>Aaa Bonds</u>
November	9.6%	16.84%	14.22%
December	8.9%	15.75%	14.23%
January	8.4%	15.75%	15.18%
February	7.7%	16.56%	15.18%
Last Week in March	N.A.	16.50%	14.51%
Progress since November	-1.9	-0.34	+0.29

As shown at the bottom of the table, inflation has eased 1.9 points while the prime has fallen a scant 0.34 and long-term rates have actually moved up.

While I am reasonably confident that the economy has touched bottom, it is premature to signal an upturn. The odds are that, helped by the July 1 tax cut, the second half will be such a period. But first we have to have that fall in interest rates.

THE WHITE HOUSE

WASHINGTON

March 30, 1982



MEMORANDUM FOR JAMES A. BAKER, III

FROM: Jim Cicconi   
SUBJECT: Update on Cabinet Council Issues

Following is a summary of recent Cabinet Council discussions:

1. Reciprocity: CCCT met with the President to lay out various options for responding to recent Congressional calls for reciprocity. The Council recommended that the President not support any of the bills requiring reciprocal trade measures. Instead, they recommended that legislative proposals be drawn that would give the President discretionary authority to impose such measures on the theory that this would strengthen our hand in negotiations.

The President agreed that our own "reciprocity" legislation be drawn along the above lines, and instructed that no formal position be conveyed until he reviews the draft.

2. Taxpayer Compliance Improvement Act: CCEA discussed this bill (by Dole, I believe) designed to get at tax revenues now lost through the "underground economy." Discussion focused on the bill's requirement that securities and commodities brokers report their customers' transactions, and whether this was possible to administer.

Decision was that Treasury would testify in support of several provisions in the bill, but would take no position on the broker reporting requirement.

3. Urban Policy Statement: The idea for a Presidential Statement on urban policy grew out of the requirement that HUD submit an urban policy report to Congress. The latter is a highly technical document, while the former would be a political/policy statement.

After much discussion about the Statement's wording, the key question was asked: why issue it at all, since it consisted largely of the philosophical basis for reducing the federal role and turning responsibility over to others. Since there is no real political benefit to

such a statement, it was put aside in favor of developing a paper detailing Administration support of programs benefiting urban areas (enterprise zones, UDAG, CDBG, etc.). This is really the best decision: we would have been laying out a basis for harsh criticism if we had gone with the Statement originally proposed.

- Done* |
4. Tuition Tax Credits: CCEA and the Budget Review Board still need to discuss several issues (such as an income "cap" for obtaining the credit) before the matter goes back to the President for decision. Speed is important since we are now hearing reports in the Catholic community that the President is "fudging" on his commitment. Also, I think it important for you to be present when this issue goes back to the President to make the political arguments for a cap--and especially for a cap low enough (say \$40,000 to \$50,000) that it will be obvious the break will not go to "the rich."

As you asked, I sent a note to Harper and Fuller indicating your feelings on the necessity of a cap. When the fiscal implications of this proposal are discussed in the Budget Review Board, you may have a chance to address the issue (along with the level of benefit and phase-in).

5. Pro-Competition Health Care: A decision by the President is on hold until after consultations with Congress. The main concern here is the proposed requirement that a Medicare beneficiary pay an additional cost of about \$15 per hospital day up to a \$2,500 limit. Currently, a beneficiary pays the deductible of \$260, then has no cost until his 61st hospital day. This requirement, while designed to provide an incentive for lower medical costs, poses severe political problems because it will cost the elderly more money out-of-pocket for health care. Duberstein's report on consultations (if it has not already been made) will no doubt reflect this political concern.

cc: Richard Darman