**Collection:** Reagan, Ronald: 1980 Campaign Papers, 1965-80

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FOREIGN POLICY

## FOREIGN POLICY -- THE RECORD

Mr. Carter's foreign policy has:

- Vacillated and produced an impression of inconsistency and incoherence.
- Pursued a course of conciliation and appeasement toward the Soviet Union.
- Ignored, until lately, the expansion of the Soviet Union and its surrogates throughout the Third World.
- Undermined our alliance system and the United States' credibility as spokesman for the free world.
- Confused the world as to the practical application of "human rights" policy.
- Emasculated our intelligence capabilities.
- Failed to stem the expansion of terrorist tactics throughout the world.

## FOREIGN POLICY: ANALYSIS

To be fair, any evaluation of Mr. Carter's record on foreign policy must take into account that he warned us ahead of time that, *"I don't claim to be an expert on foreign affairs."* (Chicago Sun Times, October 19, 1975) What he didn't warn the American electorate about is that his management of foreign affairs would be incompetent and his policies inconsistent, incomprehensible and, at times, non-existent. Under Mr. Carter, the United States has pursued a reactive foreign policy, improvising responses to international events rather than seeking to influence their course. Mr. Carter fails to provide even a comprehensible world view, let alone a strategy within which individual issues can be evaluated in terms of our own legitimate interests and these interests pursued in a coherent fashion. Instead, he bases his reactions on vague and unrelated perceptions and misperceptions of how the world is and ought to be. The result has been a foreign policy characterized by its vacillation and contradictions -- a policy that has led even our staunchest allies to question whether the United States can any longer legitimately claim to speak for the free world.

### LACK OF COORDINATION

During his campaign, Mr. Carter promised to ensure better coordination within the government in dealing with foreign countries and to minimize disharmonies among the different agencies. (National Journal interview, July 17, 1976) He also said he wanted to be sure that when he or other foreign policy officials spoke it would be *"the absolute truth,"* that other countries would know if the U.S. made *"a commitment it will be honored,"* and that we would convey *"the same message to all countries so there is never any sense of being misled."* (Speech to Department of State employees, February 24, 1977) What he did, however, was to ensure that the Administration spoke in many tongues on questions of foreign policy. The dispute between then Secretary of State Cyrus Vance and National Security Adviser Zbigniew Brzezinski over whether or not to pursue a policy of linkage vis-a-vis the Soviet Union became embarrassingly public in the spring of 1978 with the staffers from the National Security Council (NSC) and Foggy Bottom hurling accusations at each other. The dispute was so disruptive that the House International Relations Committee was forced to write a letter to Mr. Carter requesting clarification of the Administration's policy. The explanations and retractions necessitated by Andy Young's gaffes were inexcusable. But the ludicrous examples of terming Sweden a "racist" nation, the Cubans in Africa a "stabilizing force," and the Ayatollah a "saint" were comic relief compared to the U.N. Ambassador's unauthorized meeting with representatives of the P.L.O., in direct contradiction of official U.S. policy. Nor was consistency of policy restored with Mr. Young's resignation. Just this March the United States cast a vote in the United Nations Security Council supporting a resolution condemning Israeli settlement policy and then repudiated it as a foul up and a failure of communication. In short, Mr. Carter has failed to preserve even the facade of agreement on fundamental policy questions among his own advisers. No more dramatic proof exists than the abrupt resignation of Vance, not because of our failed rescue attempt in Iran, but because he could not support the decision to take the action in the first place. Nor does it appear that Mr. Carter has learned any lessons from the past three years. In introducing his new choice for Secretary of State he said he saw *"Ed Muskie as being a much stronger and more evocative spokeman for our nation's policy."* (Speech to the Philadelphia World Affairs Council, May 9, 1980) It appears that there will continue to be a conflict between assumptions and policies pushed through the national security adviser's office and those promoted from Foggy Bottom.

## THE THREATENING NO-THREAT

After only four short months in office, Mr. Carter freed us from our *"inordinate fear of communism."* (Speech at Notre Dame, May 22, 1977) Thus liberated, United States' policies toward the Soviet Union were based on the firm belief that the Cold War is over. Mr. Carter told us that the Soviets' increase in naval strength didn't mean *"a commitment towards belligerency"* but rather that they had decided *"their emphasis should be on influence through peaceful means."* (Readers Digest, October 1976) He asserted his *"deep belief"* that *"Mr. Brezhnev...wants peace and wants to have a better friendship"* and that our pursuit of *"peace as an overwhelming sense of our goals with the Soviet Union"* was *"shared in good faith by President Brezhnev."* (News Conference, June 26, 1978) Carter's policies sought to convey to the Soviets that the U.S. posed no threat, assuming that the Kremlin would then be freed from traditional insecurities and paranoia, cease it's expansionist behavior and assume a responsible position in the world community. The search for arms control agreements was expanded and pursued with religious fervor with SALT II becoming the litmus test of U.S.-Soviet relations. At the same time, the Administration cancelled, cut-back and delayed military programs and weapons systems at breakneck speed. (see Defense section) The unilateral disarmament policy that was pursued undermined any chance for gaining meaningful or comparable concessions or reductions from the Soviet Union. It did succeed, however, in achieving one of its objectives: to convince the Soviet Union that the United States not only doesn't pose a threat but that it lacks the will and the means to promote it's own legitimate national security interests. If the Kremlin had not reached this conclusion earlier in the Administration's term, it certainly must have been pushed in that direction by the convoluted logic that wished the Soviet brigade in Cuba out of existence. First Mr. Carter told us that the brigade's presence was *"a very serious matter"* and that the *"status quo is not acceptable."* (Washington Star, September 8, 1979) Three weeks later he told us that we were trying through diplomacy to eliminate *"the combat nature"* of Soviet presence and that if diplomacy didn't succeed we would *"take appropriate action to change the status quo."* (St. Louis Post-Dispatch, September 26, 1979) Then, just a week later, the unacceptable status quo became a benign presence because it was *"not a large force, nor an assault force"* and therefore *"presents no direct threat to us."* For this reason the issue was *"certainly no reason for a return to the cold war."* (Televised Address to the Nation, October 1, 1979)

## A SUDDEN REVELATION

Mr. Carter's conversion following the brutal invasion of Afghanistan is transparently shallow. His "tough" rhetoric seems to have resulted more from pollster's conclusions about the mood of the country than from any genuine conversion. A few days after the invasion he said that

> *the action of the Soviets has made a more dramatic change in my opinion of what the Soviets' ultimate goals are than anything they've done in the previous time that I've been in office.* (Interview with Frank Reynolds, ABC, December 31, 1979)

Later he tried to disavow this shocking revelation, telling Meg Greenfield to check her quotes and that he *"didn't insinuate or say that my assessment of the Soviet policy or ultimate goals had been changed at all."* (Interview with Meg Greenfield, Washington Post, March 29, 1980)

ALL TALK...

His tough talk about sanctions is not matched by his actions. Initially he waffled on the issue of an Olympic boycott saying first that *"the United States would prefer not to withdraw from the Olympic games"* (Televised Address to the Nation, January, 1980) and then three weeks later urged *"the United States Olympic Committee (USOC) and...other like-minded nations not to participate in the Moscow games"* in order *"to help secure the peace of the world at this critical time."* (Letter to Robert J. Kane, President of the USOC, January 21, 1980) The announcement surprised our allies and elicited only half-hearted support; 29 countries declined to participate, 27 failed to reply to the invitation. (Washington Post, May 28, 1980) In announcing *"stiff economic penalties on the Soviet Union,"* Mr. Carter told us that *"neither the United States nor any other nation which is committed to world peace can continue to do business as usual"* with the invading nation. (State of the Union, January 23, 1980) He announced his determination *"to minimize any adverse impact on American farmers from his grain embargo"* (Televised Address to the Nation, January 4, 1980) but succeeded in damaging them more than the Soviet Union which managed to fulfill five-sixths of their needs through other markets. His embargo of trade in high technology came reluctantly and belatedly after three years of ignoring pleas for just such action by concerned legislators and experts. (See for instance, "Selling them the Rope: Business and the Soviets," Carl Gershman, Commentary, April 1979)

...NO ACTION

At the same time, Mr. Carter refuses to support measures that might have a chance of deterring further Soviet expansionism. He has done nothing to reverse the alarming trends toward military inferiority in both the conventional and strategic realm. In fact, he fights Congressional efforts to force him to do so. (See Defense Section) On January 4, he asked the Senate to *"defer further consideration of the SALT II treaty"* (Televised Address to the Nation, January 4, 1980) but then only three weeks later announced that since *"preventing nuclear war is the foremost responsibility of the two superpowers...observing the mutual constraints imposed by the terms"* of SALT II is *"in the best interest of both countries."* (State of the Union, January 23, 1980) Mr. Carter, therefore, continues to comply with limitations imposed by an inequitable and unratified treaty. He does so, moreover, without any assurance, without any effort to gain assurance, and without any reason to believe that the Soviet Union will follow suit.

Mr. Carter still does not understand that the Soviet Union will be deterred from taking advantage of opportunities to expand its influence and domination only by a United States with the will and the means to impose higher than acceptable costs for doing so. He continues to question Soviet motives, saying that *"we cannot know with certainty the motivations of the Soviet move into Afghanistan -- whether Afghanistan is the purpose or the prelude."* (News Conference, April 10, 1980) The Soviets' answer to him is to mass troops along their border with Iran, similar to their moves prior to Afghanistan.

AN UNRELIABLE ALLY

Candidate Carter asserted his understanding of *"the vital importance of our relationship with our allies,"* saying that they must know *"that we will keep our promises"* and that *"they will be reassured not by promises but by tangible actions and regular consultations."* (Address to members of the American Chamber of Commerce, Tokyo, Japan, May 28, 1975) Incumbent Carter claims to *"have helped to strengthen NATO and our other alliances."* (State of the Union Address, January 23, 1980) But what has he done to sustain such claims? He achieved agreement among the alliance members to increase defense spending by three percent per year after inflation. But neither the U.S. nor its allies have come anywhere close to achieving that kind of real growth. After much arm-twisting he elicited a statement of support from West German Chancellor Schmidt for deploying neutron weapons on German territory. ("Bonn Backs Producing Neutron Arms," Walter Pincus, Washington Post, April 5, 1978) But after Mr. Schmidt had placed himself out on that political limb, Mr. Carter abruptly and embarrassingly changed his position and decided not to decide on that particular weapons system for awhile. ("President Decides to Defer Production of Neutron Arms," Walter Pincus, Washington Post, April 7, 1978) He created concern within NATO countries during the SALT II negotiations regarding concessions on weapons systems of importance to them, particularly ground- and sea-launched cruise missiles by not keeping them fully informed of our position. He managed to achieve some diluted support from NATO members on sanctions against Iran, but only after an erratic six months of constantly changing positions that must have left our allies questioning exactly what it was they were being asked to support and whether in fact the position might change again tomorrow. Most of our allies are sending teams to the Olympics and little cooperation has been forthcoming on other economic sanctions against the Soviet Union. Despite his pronouncement that

> *there is a fundamental difference between informing governments after the fact and actually including them in the process of joint policy making,* (Foreign Policy Association, New York)

he announced his plan to withdraw U.S. ground forces from South Korea, informing rather than consulting with those most concerned -- Japan and South Korea itself. (Congressional Quarterly, July 4 and 7, 1977) He unilaterally terminated our mutual defense pact with Taiwan, leaving allies throughout the world wondering whether he would not see fit to do the same with other alliance agreements.

Mr. Carter has failed to demonstrate to our allies that the United States can be counted on to stand firm on its decisions and to maintain its commitments. Faced with an increasingly powerful Soviet Union so close to their own borders, our staunchest allies have been forced to question whether they can bear the costs of requests from an Administration that may change course the next day. The Soviet Union has never ceased its efforts to weaken ties between the U.S. and its European allies and is now presented with growing opportunities to drive a wedge in one of our most vital alliances. Their "peace offensive" following the Afghanistan invasion has been mixed with thinly veiled threats regarding the price of solidarity with the United States. Just four months after their tanks violated the Afghan border, the Soviet ambassador to Paris felt free to warn European leaders against moving ahead with plans to deploy modernized nuclear missiles on their own territory. (Speech by Soviet Ambassador Stephen V. Chervonenko to the International Diplomatic Academy, Paris, April 5, 1980) Capitalizing on the confusion following the failed Iranian rescue mission, Pravda told Europe it would never be consulted on the use of such weapons and warned against "appeasing the United States." (Anthony Austin, "Soviet Expands Attack on Iran Raid," New York Times, April 28, 1980) With his vacillating policy positions and his wrong-headed assumptions regarding the goals and tactics of the Soviet Union, Mr. Carter has seriously undermined alliance unity by failing to provide a credible counterweight to the Kremlin.

## HUMAN RIGHTS INCONSISTENCIES

During the campaign and the initial months in office, Mr. Carter loudly proclaimed his commitment to the promotion of human rights, making it a *"fundamental tenet"* of his foreign policy. (Speech at Notre Dame University, May 22, 1977) Rejecting the role of policeman for the world, he gave us the role of preacher to the world, seeking to judge each nation as worthy or unworthy of our aid and friendship based on criteria of Western civil liberties, regardless of the social, cultural or historical position of that country. In practice, his policies were highly selective and inconsistent. Mr. Carter bullied countries traditionally friendly to the United States, cutting back on military and economic aid and issuing report cards on their human rights practices, while pressing ahead vigorously for normalization of relations with Vietnam and Cuba. Initial attacks on the Soviet Union for its brutal repression of religious and ethnic minorities were blunted and virtually eliminated from official rhetoric in the interests of detente and the SALT II treaty. He has been less than outspoken in denouncing the Vietnamese for the genocide practiced against Cambodians, the Chinese for repression in their society, or Cuba for its holding of thousand of political prisoners. The opening of emigration rights to thousands of Cubans, while obviously an attempt by Castro to turn a bad situation into political gain, gave Mr. Carter a chance to give meaning to his pronounced commitment. But he dawdled for weeks, finally announced that we would welcome the refugees with *"an open heart and open arms,"* (Questions and Answers with the League of Women Voters, May 5, 1980) and then 10 days later ordered a halt, threatening penalties on those assisting the refugees and saying that *"we will not permit our country to be used as a dumping ground for criminals who represent a danger to our society."* (Washington Post, May 15, 1980)

In line with his unilateral termination of the Cold War and his embrace of *"human rights,"* Mr. Carter also rejected *"balance of power politics,"* saying that the strategy of *"maneuver and manipulation"* is *"not in keeping with the character of the American people, or with the world as it is today."* Assuming that *"in the near future...issues of war and peace will be more a function of economic and social problems than of military security"* he opts instead for *"world order politics."* (Chicago Council on Foreign Relations Speech, March 15, 1976) This assumption allows him to ignore Soviet use of proxy forces altogether or accept his U.N. ambassador's advice that they are merely serving to stabilize countries beset with social and economic difficulties. Mr. Carter once declared that the U.S. *"should make it clear that detente requires that the Soviets...refrain from irresponsible intervention in other countries."* He went on to say that *"the Russians have no more business in Angola than we have."* (Chicago Council on Foreign Relations Speech, March 15, 1976) But 20,000 Cuban troops in Angola have been quite acceptable over the last three years. In fact, a doubling of the Cuban presence throughout Africa -- to over 40,000 troops -- has been accepted for the last three years. The almost total lack of concern over this expansion is incomprehensible in terms of the Administration's professed concern about human rights and civil liberties. It is even more disturbing when U.S. dependence on mineral resources from that continent to run our businesses and build our weapons systems is taken into account. But in a world free of "balance of power politics" Soviet and Soviet proxy aims apparently have nothing to do with gaining control over our access to such necessities.

## NO CONCEPTION OF REAL AMERICAN INTERESTS

The consequences of Mr. Carter's lack of a clear conception of legitimate American interests and policies to promote them are not limited to Africa. In Central America and the Caribbean a virtual lack of any response to Cuban training, arming and sponsorship of revolutionaries has led to strongly anti-American shifts and the proliferation of new and potential Marxist governments throughout our own continent -- regimes that will continue to take direction from their original tutors. The previously strongly pro-American Nicaragua is now dominated by a party that not only refuses to condemn the Soviet invasion of Afghanistan but sends a telegram to the puppet regime in that country congratulating it on being saved by the Soviet Union.

Mr. Carter declared three years ago that *"the Soviets have moved toward a much more balanced position"* in the Middle East and that *"the desire"* throughout the world for peace in that region was *"so great...that the Soviets will follow along and take advantage of any constructive step toward peace."* (News Conference, November 30, 1977) Thus, he initially invited them to participate once again in a negotiated settlement. Later, he pursued a separate approach through the Camp David accords. But the unpredictable course of U.S. foreign policy over the last three and one-half years has brought us to the point where it is necessary for the President of the United States to go before the American people and the world to declare the obvious -- that the Middle East *"is of great strategic importance."* Mr. Carter, therefore, declares that *"an attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States"* and that it *"will be repelled by any means necessary, including military force."* (State of the Union Address, January 23, 1980) This "Carter Doctrine," enuciated without prior consultation with major allies, was quickly modified with the qualification that we don't *"expect to have enough military strength and enough military presence there to defend the region unilaterally,"* without the cooperation of the allies we didn't consult. (Question and Answer Session with Editors and News Directors, January 29, 1980)

Mr. Carter has compounded the failures of his foreign policy with his early and vigorous support for a process begun by the Democrat Congress -- the emasculation of our intelligence capabilities. Congruent with his notion that the Cold War is over, Mr. Carter entered office with the belief that in this new environment of detente and *"world order politics,"* covert activities were no longer necessary. He said he wanted to have the CIA *"perform its functions effectively and efficiently and legally for a change."* ("Meet the Press," July 11, 1976) In order to do so he initially sought to install a long-time critic of the intelligence system, Theodore C. Sorenson, as CIA chief but was dissuaded from this effort by the Senate's refusal to confirm a fox to guard the hen house. (Rowland Evans and Robert Novak, "Innocence Abroad: Jimmy Carter's Four Misconceptions," Readers Digest, May 1980, p. 106) The current director, Stansfield Turner, undertook radical agency reorganization. Just a few months after assuming the position, he terminated 816 operations directors, men and women with invaluable experience. (Washington Post, December 4, 1977) Among the casualties were the agency's top experts in Iran, the People's Republic of China, the Soviet power structure and the Middle East. Mr. Carter proposed a comprehensive intelligence charter during his second year in office -- legislation that was drafted by a small group of individuals who seemed more bent on an old anti-CIA crusade than in creating an effective intelligence community. (Statement of Republican National Committee Advisory Council, Subcommittee on Intelligence, August 6, 1979) There is more truth than humor to Senator Daniel Patrick Moynihan's suggestion that the only remaining functions left to the CIA are those of analysis that might just as well be left to the Library of Congress' research service. (Rowland Evans and Robert Novak, "Innocence Abroad: Jimmy Carter's Four Misconceptions," Readers Digest, May 1980, p. 106) Mr. Carter has consciously aided a process of so reducing our capabilities that the United States cannot perform the intelligence functions necessary to promote our own interests, assist our allies and compete with the Soviet Union. It is no wonder that Mr. Carter seems continually surprised by events. In December of 1978 he announced that he *"fully expect(ed) the Shah to maintain power in Iran"* and *"the present problems in Iran to be resolved."* (New York Times, December 31, 1978) Less than a month later he virtually shrugged off events, saying that *"it's impossible for anyone to anticipate all future political events."* (New York Times, January 18, 1979)

## NO STRATEGY

But Iran is not merely an example of failed intelligence. In fact, given Mr. Carter's inclinations, a detailed prediction of events in that country might very well have gone unnoticed. Iran is, above all, an example of the consequences of a failed foreign policy. And it is only the latest example. The policies pursued in the present hostage crisis dramatically illustrate the pattern of the last three and one half years. There is no plan or strategy for dealing with the various Iranian authorities. Mr. Carter simply reacts and improvises. When the hostages were first taken, Mr. Carter announced that he would impose sanctions and ask allies to join with us in those efforts. In fact, the implementation of these sanctions was only half-hearted. The United States imported more oil from Iran in January 1980 than it had in the same month the year before. Some 11,000 Iranians were admitted to the United States from November 4, 1979 through March 1980. In April, Mr. Carter announced that he would announce additional sanctions. But then the "moderate" Iranian president said that maybe he could arrange for the transfer of U.S. citizens from one set of captors to another. Mr. Carter delayed the announcement of sanctions and went on television, fortuitously on the morning of a primary (April 1), to announce the positive signs of progress. But the "progress" was only another jerking of the string by the multi-headed Iranian government.

Mr. Carter eventually announced a new set of sanctions (April 7) and elicited statements of support and promises of cooperation in the effort from our allies. Their support was largely the result of his indications that this would forestall more assertive measures, presumably some form of military action. But then he pulled the rug out from under them once again with his attempted rescue mission. Failure to consult as to the specifics of such an attempt is conceivably proper, but the timing of the raid so soon after the pressure for allied cooperation could only leave our allies wondering if they had been purposefully deceived.

## THE REACTIONARY PRESIDENT

For months, the president who promised *"to take steps to crush"* international terrorism and to *"eliminate"* it *"once and for all"* (American Legion Convention Speech, Seattle, Washington, August 24, 1976) has watched as 53 U.S. citizens are held hostage. For months he has allowed one country, run by a religious fanatic virulently anti-American, to dominate our entire foreign policy. He has reacted to Iranian leaders' every twist and turn with some new improvisation but with no clear notion of what effect it might have. For months Mr. Carter sequestered himself in the Rose Garden, refusing to campaign or debate the issues, hiding behind the understandable and generous American impulse to stand behind their president in a time of crisis.

But after the failed rescue mission, Mr. Carter emerged from the White House telling us that he could once again campaign because *"times change and a lot of the responsibilities that have been on my shoulders have been alleviated."* (Washington Post, May 1, 1980) He does not explain how this miraculous transformation took place but, as usual, is compelled shortly thereafter to tell the American public what it already knows, that he doesn't "*think the hostage question is anymore manageable than it was before.*" (Address to the Philadelphia World Affairs Council, May 9, 1980)

Once again Mr. Carter deals with a crisis as if it was an isolated incident, unrelated to other events in the world. The State Department, in its press briefings, mentions that the Soviet Union has massed military units of combat strength along its border with Iran in much the same manner as its actions prior to the invasion of Afghanistan. But what has Mr. Carter had to say about this? Nothing. What does Mr. Carter intend to do about this? Nothing. Nothing, that is, unless he is forced once again to react.

In the post-Afghansitan setting, Mr. Carter's rhetoric has taken a turn toward the tough. "Human rights" has been replaced by "U.S. vital interests" in the vocabulary of his speech writers. But the same transformation is not evident in actual policies. The record over the last few months indicates that we can only expect more of the same from Mr. Carter.

# A P P E N D I X

*"I don't claim to be an expert on foreign affairs."*

--Chicago Sun Times
October 19, 1975

*"I want to be sure that when Cy Vance speaks or when I speak that it's the absolute truth. I want over a period of time other nations to know that if our country makes a commitment, it will be honored. And I want us to tell the Saudi Arabians and the Syrians and the Egyptians and the Lebanese and the Jordanians and the Israelis the same thing, so that there never is any sense of being misled. These are the kinds of hopes that I have, that I believe can be realized."*

--Speech to the Department of State Employees
February 24, 1977

*"My hope is that with Ed Muskie coming on Board as part of our team...that he will play a somewhat different role than the one Secretary Vance played because of a difference in background and temperament and attitude...I see Ed Muskie as being a much stronger and more statesmanlike senior citizen figure who will be a more evocative spokesman for our nation's policy."*

--Speech to the Philadelphia World
Affairs Council
May 9, 1980

*"Being confident of our own future, we are now free of that inordinate fear of Communism which once led us to embrace any dictator who joined us in that fear."*

--Speech at Notre Dame
May 22, 1977

*"The Soviets have made an extraordinary increase in naval strength in order to extend their influence throughout the world. But I don't think it necessarily means a commitment towards belligerency. It may be that they have decided that, in the absence of war, their emphasis should be on influence through peaceful means and the assertion of military strength."*

--Readers Digest
October 1976

*"But I have a deep belief that the underlying relationship between ourselves and the Soviets is stable and that Mr. Brezhnev, along with myself, wants peace and wants to have better friendship."*

*"We try to pursue peace as the overwhelming sense of our goals with the Soviet Union, and I think that's shared in good faith by President Brezhnev."*

--News Conference
June 26, 1978

*"The presence of a Soviet combat brigade in Cuba is a very serious matter. This status quo is not acceptable."*

--Washington Star
September 7, 1979

*"We are not trying through diplomacy to get the Soviets to eliminate the combat nature of this troop. And I don't know yet whether we will succeed. If we do not succeed, we will take appropriate action to change the status quo."*

--St. Louis Post-Dispatch
September 26, 1979

*"This is not a large force, nor an assault force. It presents no direct threat to us. I have concluded that the brigade issue is certainly no reason for a return to the cold war."*

--Televised Address to the Nation
October 1, 1979

*"My opinion of the Russians has changed most dramatically in the last week (after the Russian invasion of Afghanistan) than even the previous two and one-half years before that...The action of the Soviets has made a more dramatic change in my opinion of what the Soviets' ultimate goals are than anything they've done in the previous time that I've been in office."*

--Interview with Frank Reynolds
ABC
December 31, 1979

*"It would be good to go back and read the quote to see if you have it accurate. I didn't insinuate or say that my assessment of the Soviet policy or ultimate goals had been changed at all."*

--Interview with Meg Greenfield
Washington Post
March 29, 1980

*"Although the United States would prefer not to withdraw from the Olympic games scheduled in Moscow this summer, the Soviet Union must realize that its continued aggressive actions will endanger both the participation of athletes and the travel to Moscow by spectators who would normally wish to attend the Olympic games."*

--Televised Address to the Nation
January 4, 1980

*"But verbal condemnation is not enough. The Soviet Union must pay a concrete price for their aggression. While this invasion continues, we and the other nations cannot conduct business as usual with the Soviet Union."*

--State of the Union
January 23, 1980

*"...That is why the United States has imposed stiff economic penalties on the Soviet Union."*

--State of the Union
January 23, 1980

*"I am determined to minimize any adverse impact on the American farmer from this action. The undelivered grain will be removed from the market through shortage and price support programs and through purchases at market prices..."*

--Televised Address to the Nation
January 4, 1980

*"The successful negotiation of the SALT II treaty has been a major goal and a major achievement of this Administration -- and we Americans, the people of the Soviet Union, and indeed the entire world will benefit from the successful control of strategic nuclear weapons through the implementation of this carefully negotiated treaty."*

*"However, because of the Soviet aggression, I have asked the United States Senate to defer further consideration of the SALT II treaty so that the Congress and I can assess Soviet actions and intentions and devote our primary attention to the legislative and other measures required to respond to this crisis."*

--Televised Address to the Nation
January 4, 1980

*"Preventing nuclear war is the foremost responsibility of the two superpowers. That is why we have negotiated the strategic arms limitation treaties -- SALT I and SALT II. Especially now, in a time of great tension, observing the mutual constraints imposed by the terms of these treaties will be in the best interest of both countries, and will help to preserve world peace. I will consult very closely with the Congress on this matter as we strive to control nuclear weapons. That effort to control nuclear weapons will not be abandoned."*

--State of the Union Address
January 23, 1980

*"...We cannot know with certainty the motivations of the Soviet move into Afghanistan -- whether Afghanistan is the purpose or the prelude."*

--News Conference4
April 10, 1980

*"We understand the vital importance of our relationship with our allies. Our friends in Japan, Western Europe and Israel must know that we will keep our promises; yet, they will be reassured not by promises but by tangible actions and regular consultations."*

--Address to Members of the American
Chamber of Commerce
Tokyo, Japan
May 28, 1975

*"We have helped to strengthen NATO and our other alliances and recently we and other NATO members have decided to develop and to deploy modernized intermediate range nuclear forces to meet an unwarranted and increased threat from the nuclear weapons of the Soviet Union."*

--State of the Union
January 23, 1980

*"...There is a fundamental difference between informing governments after the fact and actually including them in the process of joint policy making..."*

--Foreign Policy Association
New York

*"...we have reaffirmed America's commitment to human rights as a fundamental tenet of our foreign policy."*

--Speech at Notre Dame Univeristy
May 22, 1977

*"But we'll continue to provide an open heart and open arms to refugees seeking freedom from Communist domination and from economic deprivation, brought about primarily by Fidel Castro and his government."*

--Questions and Answers with the
League of Women Voters
May 5, 1980

*"We will not permit our country to be used as a dumping ground for criminals who represent a danger to our society."*

--Washington Post
May 15, 1980

*"For too long, our foreign policy has consisted almost entirely of maneuver and manipulation, based on the assumption that the world is a jungle of competing national antagonisms, where military supremacy and economic muscle are the only things that work and where rival powers are balanced against each other to keep the peace....Exclusive reliance on this strategy is not in keeping with the character of the American people, or with the world as it is today. Balance of power politics may have worked in 1815, or even 1945, but it has a much less significant role in today's world. Of course, there are rivalries -- racial, religious, national, some of them bitter. But the need for cooperation, even between rivals, goes deeper than all of them."*

*"...in the near future...issues of war and peace will be more a function of economic and social problems than of military security..."*

*"That is why we must replace balance of power politics with world order politics."*

*"We should make it clear that detente requires that the Soviets, as well as the United States, refrain from irresponsible intervention in other countries. The Russians have no more business in Angola than we have."*

--Chicago Council on Foreign Relations Speech
March 15, 1976

*"My own feeling is that in recent months the Soviets have moved toward a much more balanced position [in the Middle East]."*

--News Conference
November 30, 1977

*"My belief is that the desire of the whole world is so great for peace in the Middle East that the Soviets will follow along and take advantage of any constructive step toward peace."*

--News Conference
November 30, 1977

*"The region which is now threatened by Soviet troops in Afghanistan is of great strategic importance....Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assualt on the vital interests of the United States of America -- and such an assault will be repelled by any means necessary, including military force."*

--State of the Union Address
January 23, 1980

*"I don't think it would be accurate for me to claim that at this time or in the future we expect to have enough military strength and enough military presence there to defend the region unilaterally."*

--Question and Answer Session
Editors and News Directors
January 29, 1980

*"I think the proper role of the CIA is the role that was spelled out in the original legislation that set up the CIA as a source of information and intelligence. And I would try to have the CIA perform its functions effectively and efficiently and legally for a change, and I would be responsible to the American people for that performance."*

--"Meet the Press"
July 11, 1976

*"I fully expect the Shah to maintain power in Iran and for the present problems in Iran to be resolved...I think the predictions of gloom and disaster which come from sources have certainly not been realized at all. The Shah has our support and he has our confidence."*

--New York Times
December 31, 1978

*"Well, it's impossible for anyone to anticipate all future political events."*

--New York Times
January 18, 1979

*"If I become President, I intend to recommend strong multinational sanctions against guilty nations as a necessary and productive means of crushing this intolerable threat to international law and peace. International terrorism must be stopped once and for all!"*

--American Legion Convention Speech
August 24, 1976

*"I have stayed in the White House under extraordinary circumstances. But times change and a lot of the responsibilities that have been on my shoulders have been alleviated."*

--Washington Post
May 1, 1980

*"I don't want to mislead anyone...I do not think the hostage question is anymore manageable than it was before."*

--Address to the Philadelphia World Affairs Council
May 9, 1980

*"I urge the USOC and the Olympic Committees of other like-minded not to participate in the Moscow games.*

*"The course I am urging is necessary to help secure the peace of the world at this critical time."*

--Letter to Robert J. Kane
President, USOC
January 21, 1980

HEALTH

# HEALTH CARE -- THE RECORD

- Despite his campaign pledge to implement a national health insurance plan, Mr. Carter has failed to carry out this ill-advised promise. Originally an advocate of a comprehensive, federally-financed, universal and mandatory national health insurance, Mr. Carter finally opted for a modified catastrophic coverage proposal that is yet to be enacted. (Source: Congressional Quarterly Weekly Report, March 8, 1980)

- Since Mr. Carter took office, health care costs have risen 44 percent overall, with hospital costs rising 43.3 percent; physician fees, 43.9 percent, and prescription drugs, 31.4 percent. (Source: Department of Health and Human Services -- Health Care Finance Administration)

- Failure to eliminate fraud, waste, and abuse from government health programs, particularly in the Medicare and Medicaid programs, cost the American taxpayer $8 billion in 1979 alone. Millions more have been wasted due to poor management and administration. (Source: United States General Accounting Office, Washington, D.C.)

- Fraud committed by health care practitioners virtually continues unabated. Only 54 investigators were assigned to the Health and Human Services Department's fraud unit in Fiscal Year 1980; only 21 indictments were executed by that unit in 1979 while the number of actual convictions totaled only 17. (Source: Department of Health and Human Services, Office of the Inspector General, Annual Report, March 1980)

## MEDICARE/MEDICAID FRAUD AND ABUSE: ANALYSIS

Despite Carter's posturing, Medicare/Medicaid fraud and abuse still run rampant. Throughout his campaign and the first months of his Presidency, Mr. Carter launched a major attack on waste, fraud and mismanagement which characterized the Medicare/Medicaid programs. Speaking to the Student National Medical Association, Mr. Carter said:

> *Medicaid has become a national scandal. It is being bilked of millions of dollars by Charlatans...*(National Health Policy Speech, Student National Medical Association, Washington, D.C., April 16, 1976)

In August 1976, he continued by stating that under his leadership things would be different:

> *I am anti-waste in government. I don't believe in give-away programs. I don't believe in wasting money. I believe in tough, competent management...* (Faith in Government Address, Town Hall Forum, Los Angeles, California, August 23, 1976)

In September 1976, he placed Medicare/Medicaid reform among his highest priorities,

> *The first thing is to make Medicaid and Medicare delivery systems work...*(Press Conference, Plains, Georgia, September 3, 1976)

At the same press conference he declared,

> *...whereas something goes wrong with management in the government, whether it involves the FBI or the CIA, or the Medicaid program, nobody's responsible. I think the President ought to be responsible, and, as such, I will be responsible.* (Press Conference, Plains, Georgia, September 3, 1976)

Six days later, Mr. Carter continued his attack:

> *Only last week we learned that as much as $7.5 billion of Medicaid is wasted or stolen every year.* (Statement issued at Columbus, Ohio, September 9, 1976)

Eight months into his Administration, on August 6, 1977, Mr. Carter made his first and only legislative announcement concerning Medicare and Medicaid:

> *We will ensure that the Department of Health, Education, and Welfare will vigorously root out abuses and fraud in our special programs.... We will work for passage of current legislation*

> *designed to crack down on fraud and abuse in our Medicaid and Medicare program...*(Welfare Reform Message to Congress, August 6, 1977)

With those remarks, Mr. Carter sent his Medicare-Medicaid Anti-Fraud and Abuse Amendments to Congress. The amendments constitute the Administration's one and only effort to clean up the Medicare/Medicaid programs. At the bill signing ceremony, Mr. Carter said:

> *This bill will go a long way to eliminating fraud in the administration of the health care programs of our country. It will shift to heavier penalties for those who are convicted of false claims...prohibiting those who are convicted of this crime from delivering any services in the future...*

Yet despite the Administration's efforts there is still fraud, abuse, and mismanagement within the Medicare/Medicaid programs. The reason for this is not so much a failure within the amendments, but a failure on the Administration's part to fight for vigorous enforcement. Additionally, major problems still exist within the administrative structure at the Department of Health and Human Services (formally HEW).

Consider the following:

1.) In a December 1979 report, the General Accounting Office (GAO) cited "questionable organizational" practices and "system design deficiencies" as contributions to an annual waste of over $8 billion in HEW cash advance programs inclusive of the Medicare/Medicaid programs. (See also U.S. News and World Report, June 6, 1979)

2.) In a November 1979 report, GAO cited further failing in Medicare/Medicaid program administration. Moreover, the report faulted HEW for not implementing specific recommendations made by GAO and stated the HEW's refusal resulted in the waste of "millions of dollars."

3.) The Washington Post stated HEW revealed that doctors cited for felony abuse by HEW were, instead of being prosecuted, were "quietly being let back in" the system. (Washington Post, November 12, 1979)

4.) In a February 1980 article, the New York Times stated that in Florida alone, $5.5 million had been bilked in improper nursing home claims under Medicaid. (New York Times, February 14, 1980)

5.) The Los Angeles Times in a March 1980 article reported a waste of $7 million under the California Medicaid program (Medi-Cal). (Los Angeles Times, March 6, 1980)

Waste and fraud in Medicare and Medicaid are particularly serious given the size and rate of growth within the programs.

Medicare and Medicaid spending has increased rapidly and now constitues one of the largest items in the federal budget.

| FY | Medicare | Medicaid | Fed. Share of Medicaid |
|---|---|---|---|
| 1981 | $32.5 billion | $24.2 billion | $13.5 billion |
| 1980 | 30.0 billion | 20.5 billion | 11.5 billion |
| 1979 | 30.0 billion | 20.0 billion | 11.0 billion |
| 1978 | 25.5 billion | 19.1 billion | 11.0 billion |
| 1977 | 21.5 billion | 17.1 billion | 9.9 billion |
| 1975 | 14.8 billion | 12.6 billion | 6.8 billion |
| 1970 | 7.1 billion | 4.7 billion | 2.6 billion |

(Source: Division of National Cost Estimates, Health Care Finance Administration)

The Carter Administration's efforts to clean up the Medicare/Medicaid system have been "cosmetic" rather than "effective." In 1977, the Carter Administration reorganized HEW by creating the Health Care Finance Administration (HCFA). This new agency is responsible for oversight, policy control, and policing of the Medicare and Medicaid programs. The Medicare/Medicaid Anti-Fraud and Abuse Amendments passed that same year were to:

1.) upgrade most existing misdemeanors for fraud to felonies with commensurate upgrading of penalties.

2.) establish federal funding (90 percent) for states to establish special Medicaid fraud units.

3.) place increased reliance on existing Professional Standard Review Organizations (PSRO's) to aid policing individual practitioners.

The Administration fails to understand that one must not only pass laws, one must vigorously move to enforce those laws. Former Secretary of HEW Joseph Califano said in a news article shortly after leaving his HEW position, that massive fraud still plagues our federal health and welfare programs. (Victor Riesel, "Enough Billions Stolen from Welfare Annually to Finance Synthetic Fuel Production," Field Newspaper Syndicate, July 20, 1979) In numerous reports, the GAO cited HEW for deficient management and policing. This coupled with the point that many convicted under the upgraded anti-fraud and abuse laws were being let go to return to private practice.

If the Administration's commitment can be measured by results, consider the following:

1.) As of the end of 1979, the number of HEW investigators assigned to Medicare/Medicaid fraud totaled 54. The Insector General of HEW stated that the investigations staff for Medicare/Medicaid fraud is "inadequate" and their investigations are limited to a "handful of cases."

2.) As of the end of 1979, the number of indictments achieved by HEW for Medicare/Medicaid fraud was 21. The number of convictions was 17. (Department of HEW, Office of the Inspector General, Annual Report, March 31, 1980)

Six months into 1980, the rampant waste and fraud continue. At a little noticed congressional hearing in May held by the House Select Committee on Aging's subcommittee on Health and Long Term Care, Frances Mullen, an official with the Federal Bureau of Investigation, testified that "corruption has permeated virtually every area of the Medicare/Medicaid health care industry." ("Medicare, Medicaid Riddled by Fraud, Abuse, FBI Says," Elizabeth Wehr, Congressional Quarterly Weekly Report, June 21, 1980)

Mullen continued by stating that undercover FBI agents have found that fraud and kickbacks are a "way of life" within the system and that "no section of the country -- and no segment of the health industry -- is free from illegal financial arrangements."

This report came ony two months after Carter's Health and Human Services Secretary Patricia Harris told congressional committees that estimates of problems or the two programs exaggerated. Secretary Harris stated that "reducing fraud and program misuse will not produce major savings." Harris continued her testimony before the House Appropriations Labor-HEW Subcommittee by asserting that it "is ridiculous to assume that the department [Health and Human Services] can discover and implement systems changes that will produce savings."

Mullen maintained that FBI investigations have proven that Secretary Harris and the Carter Administration are wrong. The FBI reports that fraud and abuse are not only continuing but "are becoming more widespread." The Bureau states that dishonest doctors, hospitals, laboratories and private clinics "have absolutely no fear of being caught" and that the "swindlers believe that even if they are apprehended, their only penalty will be having to pay back their ill-gotten gains." Both FBI officials and veterans of Medicare/Medicaid investigations in the General Accounting Office feel that crime has flourished in the programs because "Health and Human Services' oversight has not been rigorous."

A major point to note is that fraud and abuse is being committed by the practitioners in the programs, not the target population, that is, those in need of medical services. In the end it is their people who really suffer. Fraud diverts funds from those who need assistance. Fraud also gives these programs a bad name and causes a reluctance among both the government and the public to support continued funding. A reformed Medicare/Medicaid system would not only benefit the government through savings but would also better serve those it serves.

At this time it also seems that some success in policing the system has come from states. The remedy at the state level has been rigorous investigation and prosecution. Commenting on state actions, a GAO investigator stated that some states are simply "putting doctors in the slammer. It's a good deterrent."

What Mr. Carter has forwarded as a vigorous effort to root out fraud and abuse is in reality a half-hearted and virtually ineffectual effort. To claim otherwise is misleading and dishonest. If he feels he is eliminating fraud and abuse he is being naive. Yet naivety has marked his efforts in this area all along. For instance, realizing that any effort to police this system requires passing judgement on the medical decisions of health care providers, the Administration's 1977 proposals called for the increased use of the already existing Professional Standards Review Organizations (PSRO's). These local units, made up of health care professionals, would be charged with policing their peers and colleagues regarding the Medicaid system. The truth is that medical professionals are very reluctant to publicly judge their peers. The use of PSRO's as a Medicaid policing board is totally ineffectual. A National Journal article appearing in the May 3, 1980 issue cites a Congressional Budget Office report that concurs. The CBO report is also quoted as stating that in all, the PSRO's (which are federally subsidized) "cost the government more than they save."

Yet at the very same time that his Administration is failing to come to grips with waste and fraud in existing federal health programs, Mr. Carter is even now advocating the institution of even more massive federal health programs. An example is his vision of a comprehensive national health insurance program, where the potential for fraud and abuse, especially when compared to the Medicare and Medicaid programs, is overwhelming.

## HEALTH CARE COSTS: ANALYSIS

Mr. Carter's thinking on the cost of health care during the 1976 Presidential Campaign seemed to be limited to one observation: that health care costs are going up at an alarming rate. He made references then that health care must be made affordable to all Americans and that his yet unspecified health care plan would address that.

> *Any comprehensive health policy must bring care within the reach as well as the means of all our people....We must have strong and clear built-in cost and quality controls...* (National Health Policy Speech, annual meeting of the Student National Medical Association, Washington, D.C., April 16, 1976)

Four months later Mr. Carter again touched on the subject of costs. In a speech before the General Board of the AFL-CIO, Mr. Carter attacked the Ford Administration for its handling of health care inflation. However, the attack was unjustified and highlights Mr. Carter's reliance on rhetoric rather than fact. According to Mr. Carter,

> *We've heard a lot of tough talk from the Administration on inflation, and we're going to hear a lot more during the campaign...Campaign talk cannot disguise the 60 percent jump in health costs...*(AFL-CIO Speech, August 31, 1976)

Unfortunately for Mr. Carter, health care cost inflation under President Ford was only 4.5 percent. Further, during the last year of the Ford Administration it averaged only 3.5 percent (a figure below the annual inflation rate of 4.8 percent). (Congressional Budget Office: Controlling Rising Hospital Costs, September 1979)

Early in his Administration, Mr. Carter began to re-evaluate his campaign pledge for mandatory, comprehensive national health insurance: the most significant factor in this re-evaluation was the consideration of costs. Throughout his 1976 campaign, Mr. Carter had failed to discuss, and by his own admission, failed to consider the cost involved in the type of national health insurance program he was advocating. This became evident in an exchange between Mr. Carter and columnist Robert Novak which took place on CBS' March 14, 1976 "Face the Nation." In response to a direct question from Novak about both the funding and cost of his national health care system, Mr. Carter simply replied:

> *Well, I don't know the answer yet...*

What became apparent to Mr. Carter early in 1977 is that with major inflation occurring in the health care sector, the viability of any health insurance program was linked directly to its costs. This is especially so considering that the plan Mr. Carter would call for includes universal coverage. In 1977, 8.8 percent of the GNP was accounted for by health care expenditures, up from 4.5 percent in 1950. Further, federal funds from existing programs were already accounting for 42.1 percent of all health care dollars spent.

Through his campaign, Mr. Carter noted that Americans face increased problems affording the cost of health care. Yet throughout that period, the question of cost was assumed to be controllable through an overall, yet unspecific, health care plan. By the first months of his Administration, Mr. Carter divorced the issue of costs from his national health insurance package and forwarded it as a separate proposal.

On April 25, 1977, Carter introduced his first effort aimed at controlling the costs of health care, the Hospital Cost Containment Act of 1977. This program was to lay the groundwork for the health insurance proposal to come.

In Mr. Carter's words, Americans will be in a better position to address broader health concerns *"if we can limit the increase in soaring medical costs."* (Health Care Legislation, Message to Congress, April 25, 1977, Presidential Documents, 1977)

Despite Mr. Carter's contention that *"this legislation is not a wage-price control program,"* the legislation essentially was a wage-price control program. Although it did not specify individual fees for salaries and services, it did limit hospital growth to nine percent per year leaving actual cost determination to the hospital. Further it allowed wages to be passed through, thereby exempting a component that makes up 34 percent of the annual cost increases within hospitals.

This proposal failed to pass Congress, a rejection totally justified. The Carter approach was, and continues to be, simplistic and it shows neither an appreciation of the components of health care inflation nor an understanding of the changing nature of health care as a consumer product.

The Carter approach was best summed up by the May 18, 1977 edition of the Wall Street Journal which devoted its lead editorial to criticizing the misguided approach of the Carter Administration.

> President Carter's proposals for controlling hospital costs probably aren't going far in Congress and that is just as well: they're the wrong medicine....the Carter proposals fail to address the underlying cause of rising hospital costs....Mr. Carter is falling back on the last resort of failing government policies, direct controls...

Mr. Carter simply failed to see that in the end a ceiling on hospital expenditures would translate into a cutback of services by hospitals desperately trying to stay within the regulated spending limit.

With the defeat of his first cost control bill, Mr. Carter began plans to re-introduce similar legislation. His thinking on the matter showed little development. He continually stated the mandatory controls were the only viable mechanisms.

> *One of my main legislative goals for the year is the Hospital Cost Containment Bill. That bill...is our principle weapon in the effort to decrease health care costs which now double every five years.* (State of the Union Address, January 19, 1978)

It wasn't, however, until early 1979 that a modified cost containment bill was forthcoming. This time, however, Mr. Carter tried to broaden appeal for his program by stating that it was not just a bill to hold down inflation in the health care sector, but in the entire economy as well.

> *Today I am submitting to the Congress one of the most critical anti-inflation legislative proposals that the Congress will ever consider, the Hospital Cost Containment Act of 1979.* (Presidential Documents, March 6, 1979)

The Administration failed to learn its lesson. Though modified from the earlier bill, this also was a cost control bill. The measure would establish a national hospital cost containment program which would set voluntary limits on annual increases in hospital expenditures yet at the same time provide for mandatory controls if the voluntary limits do not prove effective. Like the first bill, this one also allowed exemptions for wage increases -- again passing through a component which accounted for 34 percent of cost increases.

This bill was also rejected by the House. In its place a bill calling for the continuation of a voluntary effort was passed as well as for the establishment of a commission to study in more detail the nature of health care inflation.

The following points about health care cost inflation should be noted:

- Both the Carter Administration and the Democrat Congress have been unable to deal with this issue. Democrats in Congress, unable to form a consensus among themselves, have deferred to Administration initiatives.

- The Carter Administration has avoided dealing with the underlying causes of health care inflation. Instead, it has opted for a strategy of mandatory cost ceilings, and government regulation. President Carter has designated hospital cost control as key to his anti-inflation plans and sees it as the prerequisite for his multi-phase plan to establish a comprehensive national health plan.

- The Carter Administration's short term plan for controlling hospital costs was embodied in its Hospital Cost Containment Act of 1979 (H.R. 2626). This bill, although encouraging the continuation of the voluntary efforts on the part of hospitals, stipulated mandatory federal controls and regulations for any hospital whose expenditures exceeded the bill's growth limit.

- Republican opponents to H.R. 2626 scored a victory when the House of Representatives passed the bill in revised form. The revision deleted all provisions for mandatory controls and federal regulation. It encouraged the continuation of the voluntary efforts and established a study group to determine the root causes of health care cost inflation. Republicans called the President's cost containment bill a simplistic solution based on a wholly mistaken understanding of health care cost inflation.

- The health care industry is presently the third largest industry in the United States accounting for spending of $162.6 billion a year and employing 4.6 million people. Hospitals receive about 40 cents of every health dollar spent. Presently the federal government pays 55 percent of the U.S. hospital bill either through public insurance or through the Medicare or Medicaid programs in direct grants to hospitals. It is estimated by 1980 that Americans will be spending $229 billion on health care. ("Inside our Hospitals," U.S. News and World Report, March 5, 1979)

## HEALTH CARE EXPENDITURES DURING CARTER ADMINISTRATION
(in billions)

| | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| TOTAL (OVERALL) | 170.0 | 192.4 | 212.0 | 245.0 |
| HOSPITAL COSTS | 67.9 | 76.0 | 85.9 | 97.3 |
| DRUG COSTS | 13.8 | 15.0 | 16.6 | 18.1 |
| PHYSICIAN COSTS | 31.2 | 35.2 | 39.8 | 44.9 |

**Source: Health Care Finance Administration

There is a general recognition that hospital expenditures have been increasing faster than the Consumer Price Index. There is a difference of opinion why this is happening and specifically what to do about it.

The Carter Administration through its support of the "Hospital Cost Containment Act of 1979" believes that hospital costs have been increasing because of a variety of factors including inefficiency by hospitals, excessive expenditures on unnecessary equipment, poor management procedures, etc. The Administration proposal seeks to "control" these costs by a set of "voluntary" guidelines with the prospect of mandatory controls. It seeks to isolate the hospital industry to limit cost increases. The President, and spokesmen for the Administration, have made it clear that they seek this hospital cost containment program as essential to control costs in order to prepare the way for the implementation of a national health insurance program.

Opponents of the proposed federal effort for hospital cost containment point out that the reasons for the increases in hospital costs are complex ones and cannot be resolved by passing more federal rules and regulations. In fact, they point out that a large part of the problem of increasing costs have been excessive federal government rules and regulations. They object to the fact that the Carter Administration approach is to isolate one factor of a multi-dimensional economy (e.g. hospital costs) in order to apply mandatory controls while no rules or restrictions of a similar nature are included on those parts of the economy with which hospitals must deal (e.g. wages, cost of certain goods and services, etc.). The proposal attempts a blanket approach to hospital cost controls with little consideration for the previous state efforts and especially the operation of the voluntary effort. Further, opponents maintain that the proposed legislation, if adopted, could impose such controls that could easily result in hospitals cutting back on services to patients or "rationing" health care in order to meet the goals. Additionally, it shows little understanding for causes of health care inflation or the nature of health care as a consumer product.

The confrontation over hospital cost containment is a classic one between advocates of more federal rules and regulations to resolve a problem (one for which the federal government bears a significant responsibility) and the efforts of those who see a problem resolved with voluntary efforts and a minimum of federal controls, rules, and restrictions. Mr. Carter believes the federal government's role is to step in to "protect" the consumer (patient) from rising hospital costs through federal controls. However, the only result of such "protection" will be more federal controls over the market place, no reasonable expectation that such a program will in the long run control costs, and that the consumer (patient) will suffer by having essential services cut back, accessibility of health facilities limited, and eventually a "rationing" of health services available based on dollar amount rather than the need of the consumer (patient). These controls, if adopted, will be another major step for more federal control over the U.S. health system via the adoption of a national health insurance program.

An understanding of the hospital cost containment issue requires a discussion of the reasons for increasing health care costs for hospitals. The magazine Private Practice, the official publication of the Congress of County Medical Societies, listed inflation as the major reason medical and other prices continue to rise. It pointed out some additional factors why medical costs have risen faster than the Consumer Price Index; (1) the higher cost of medical technology and the people to operate new medical technology; (2) extensive wage increases for hospital employees because of unionization and the application of minimum wage laws to hospital employers; (3) widespread use of expensive health screening tests for people who appear in good health; (4) a tenfold or more increase in malpractice liability insurance premiums for hospitals and doctors; (5) twenty percent increase in demand under Medicare and Medicaid especially as additional people seek medical treatment because the price barrier has been lowered; (6) onerous OSHA requirements for hospitals as well as new fire safety codes; (7) unemployment insurance benefits for hospital employees added during the 1970's; (8) the enormous costs of meeting the regulations of at least 50 federal agencies; and (9) the cost of care for the dying patient who once was cared for at home but is mostly cared for in hospitals. The article noted that additional paperwork imposed by federal regulations continue to add to costs. (Private Practice, June 1977)

During testimony before the Senate Subcommittee (March 9, 1979), John McMahon, president of AHA, observed that besides inflation, increases in expenditures for hospitals included increases in the costs of goods and services a hospital must purchase, increases which result from a larger and older population, and increases resulting from improvements in medical technologies and extension of services. He stated that these other factors along with inflation account for the rise of hospital expenditures and therefore it is "misleading and incorrect to compare changes in hospital expenditures to the rate of inflation in the general economy."

Besides the rise in inflation, McMahon estimated that overall, hospitals will face cost increases of about 14 percent in 1979. The costs of necessary goods and services will constitute a 9.1 percent increase. There is an estimated 1.1 percent increase resulting from the growth of population and a relatively large increase in elderly patients. (It should be noted that individuals sixty-five years of age or older, while constituting 11 percent of the total population, represent 26 percent total hospital admissions; this group utilizes 38 percent of total inpatient days; they have a higher incidence of chronic conditions and multiple medical problems requiring both long and more frequent hospital stays; the cost of senior citizens on a per capita basis is 3.5 times greater than for the younger population.) There is an estimated 3.8 percent increase in services resulting from the technological improvements in medical care. These include new and expensive devices to diagnose and treat illnesses effectively.

They have generally added about four percent per year to the overall hospital expenditures -- resulting from new and better equipment to treat patients. (He added that considering all these factors the goal for 1979 of the voluntary program of 11.6 percent would be difficult but attempts would be made to do so through improved management, planning, and productivity. The 9.7 percent level would not be realistic.)

The same basic error in the Carter Administration proposal -- comparing how rising costs in hospital care exceed recent rises in the consumer price index -- was pointed out in an editorial in The Washington Star ("Mandating Hospital Costs," March 19, 1979). It noted that the comparison was misleading since costs include but are not limited to rising prices. Although it notes that the Carter proposal allows a basic adjustment for inflation, it observes that the problem in health care costs is elsewhere -- (1) the projected growth of the treated population and (2) the growth in the so-called "service intensive" costs including the capital investment in diagnostic and remedial equipment. The Star editorial also observed that the voluntary effort revealed real progress (e.g. reductions from 15 percent in 1977 to 12.6 percent in 1978 and with the hope of knocking another percentage point or two off in 1979) in cost containment and proved that hospital cost inflation can be curbed by a voluntary effort.

Franklin P. Iams of the Fairfax Hospital Association noted that the growth in Northern Virginia would make it impossible to stay within the Carter Administration's 9.7 percent. He added:

> We'll have to eliminate services in Northern Virginia if we are going to continue to take care of people... We just want to make sure the people know what is being talked about at the national level because it is rationing.

Additionally, a study completed in 1979 by the prestigious economic consulting firm, Data Resources, Inc., quashes the argument that the Carter proposal is one way of fighting not just health care cost inflation but general inflation as well. According to the report:

> The major effects of the Administration's program will not materially reduce the rate of inflation... This program cannot be categorized as having a meaningful anti-inflationary impact. Its apparent scope and purpose are intended to redirect resources away from the hospital-care sector specifically and health care generally...(Cincinatti Inquirer, November 4, 1979, Page A-8)

In the end, Mr. Carter's approach to the question of health care cost inflation is as misguided as his other policies. It is simplistic and shallow. It is based on faulty assumptions and shows little comprehension and understanding of the basic problem. What is worse, however, is that Mr. Carter's misguided thinking on this subject has remained unchanged for nearly four years, and is clearly dangerous to the health of Americans.

What is painfully apparent is that the only viable option Mr. Carter can offer the American people in regard to health care inflation is his continual advocacy of federal price controls and heavy regulation of a sector already knee deep in regulation. This is not only indicative of shallow and narrow thinking, but is particularly ironic for a man who campaigned on the promise of less government and less regulation. On August 6, 1976, in an address before the Association for Cooperation in Engineering, Mr. Carter stated:

> *There is no doubt that a few federal regulatory programs produce few real benefits to the public exacting a cost to the economy...Too often the rules are hard to interpret, government policy is too unpredictable and unstable, compliance is indifferently enforced. The most serious shortcoming of regulation is that it often fails to relate the social and economic costs of the goals to objective measures of benefits.*

## NATIONAL HEALTH INSURANCE: ANALYSIS

Ill-advised, President Carter promised in his 1976 presidential campaign that national health insurance would be one of the capstones of his Administration. However, through both his presidential campaign and through the first three and one-half years of his Presidency, Mr. Carter's position on health care, particularly national health insurance, has never had a clear focal point. Mr. Carter's pronouncements on the subject of national health insurance move from advocating a major comprehensive program based on universal coverage and federal funding; to a modest program of incremental change to address targeted needs; to a hybrid program of piecemeal incrementalism with the potential for a comprehensive program at a future time. Mr. Carter's time-table has been equally erratic. During the 1976 campaign, Mr. Carter talked of implementing a national health insurance program within the first six months of his administration. Early into those six months, Carter re-evaluated his estimates and pushed his time-table back one year. In 1978, the re-evaluation and delay were repeated until in mid-1979 a Carter National Health Insurance program emerged. Yet the program proposed was a far different breed of animal than originally suggested three years earlier.

The Carter zig-zags on national health insurance should come as no surprise to observers of the Carter style of presidential leadership. The Carter policy on national health insurance has earned it the description of being a "merry-go-round" that "has visible flaws" and in the end "is more pious and prayerful than useful." (George Silver, "The Health Care Merry-Go-Round," Saturday Review, February 16, 1980, p. 15)

Too often, Mr. Carter's statements on health care policy are more reflective of a weak centrist leader desperately hoping to appeal to, and thus hold within his fold, constituencies crucial to his political lilfe, than of a leader with a clear goal of improving the nation's health care. This observation was made by the Los Angeles Times in the Spring of 1977 when it described Mr. Carter's return to the fold of universal and comprehensive national health insurance advocates as a response to liberal critics, particularly Senator Edward Kennedy and the United Auto Workers. (Harry Bernstein, "Carter Pledges Action on Health Insurance," Los Angeles Times, May 18, 1977)

What is very apparent is that Mr. Carter's thinking on national health insurance has never been clear in his own mind.

In his initial zeal for the Democratic nomination, Mr. Carter embraced the traditional liberal view that the state of health insurance coverage in the United States is so deplorable that the only alternative is a universal and comprehensive government program. Once he embraced this position he gave little thought to the costs of such a program and the impact it would have on the federal budget. This position was characterized by his remarks to the United Auto Workers convention in May of 1977, when he stated that "Cutting back programs that really help people is not the way to balance a budget." His third problem was his failure to understand how the type of program he was talking about would be structured and positioned in the existing health care system.

These three points -- the zealous advocacy of a massive government health care program, little conception of costs, and little conception of implementation and structure -- can be said to characterize the first phase of the Carter thinking on national health insurance. This phase lasted from the announcement of his candidacy through approximately the middle of 1977.

During the 1976 campaign, on a "Face the Nation" interview, the shallowness of thought given by candidate Carter to the question of national health insurance began to show. In his question to Mr. Carter, Robert Novak stated that although Mr. Carter had constantly stated in his campaign that he was in favor of national, comprehensive, mandatory health insurance, he had not addressed the question of either funding or cost. In response to Mr. Novak's question as to whether or not Mr. Carter could talk on these two critical points, Mr. Carter replied:

> *Well, I don't know the answer yet...*

One month later, on April 16, 1976, in an address to the Student National Medical Association's annual convention in Washington, D.C., Mr. Carter's zeal for major and immediate reform of the nation's health care system began to show its first signs of slippage. While still stressing his litany of charges, inclusive of universal and mandatory national health insurance, Mr. Carter for the first time began to include qualifiers which were prophetic of the policy switches to come. In this, a major health address of his 1976 campaign, Mr. Carter no longer specified a time frame for his program. Instead he simply stated:

> *The accomplishment of comprehensive national health insurance will not be quick or easy.* (National Health Policy Speech, The 1976 Annual Convention of the Student National Medical Association, Washington, D.C., April 16, 1976)

Throughout the campaign, there was an ambiguity as to the type of national health care program Mr. Carter had in mind. As noted above, Mr. Carter failed to even discuss specifics of funding and costs. Additionally, the nature of the program was continually a point of speculation. By October of 1976, Mr. Carter's "national, comprehensive, mandatory national health insurance program" has acquired one additional adjective. That adjective was "phased-in." As quoted in the October, 1976 issue of The Nation's Health, Mr. Carter stated:

> *I support the enactment of a phased-in, comprehensive national health insurance program. I think the public wants such a program and I intend to work vigorously to get it.*

Mr. Carter was silent on the issue of national health insurance through most of the Fall of 1976 and into the first months of his presidency. In his February 2, 1977 broadcast to the American people in which he outlined his presidential agenda, the issue of national health insurance and health care in general was conspicuous only by its lack of attention. What Mr. Carter once referred to as a major goal of his Administration was found buried with a list of other domestic issues at the end of his remarks. Mr. Carter stated:

> *There are many other areas of domestic policy -- housing, health, crime, education, agriculture, and other -- that will concern me as president but which I do not have time to address tonight.* (Report to the American People, February 2, 1977)

At this time, Mr. Carter began to hint at the fact that his beliefs about the American health care system and the reforms he had been proposing were in need of adjustment. He stated that his plans for a comprehensive health care program were contingent on addressing the major problem of fraud and abuse in the Medicare/Medicaid programs and the overriding question of health care cost inflation.

This was followed on April 25, 1977 with a hospital cost control bill. (The Hospital Cost Containment Act of 1977 was introduced on April 25, 1977 and failed to pass Congress. Subsequently, the President reintroduced similar bills in 1978 and 1979. Both of these failed.) This bill was seen as a crucial first step in Mr. Carter's health reform program in that it was seen as making a major health program affordable.

Yet, as noted earlier, Mr. Carter's liberal constituencies saw this as a policy reversal and claimed he had abandoned the goal of a major national health insurance program. Mr. Carter responded on May 17, 1977 in an address to the annual convention of the United Auto Workers by saying:

> *I am committed to the phasing in of a workable national health insurance program.*

Again it should be stressed that Mr. Carter placed a national health insurance program above budgetary considerations. Mr. Carter added:

> *It's not legitimate spending on human needs that causes our deficits -- it is principally the inadequate revenues from a sluggish economy...Cutting back programs that really help people is not the way to balance a budget.* (Los Angeles Times, "Carter Pledges Action on Health Insurance," Harry Bernstein, May 18, 1977)

In conclusion, Mr. Carter promised a national health insurance program by 1978.

By mid 1977, Mr. Carter seemed to understand that he had taken on more than was feasible. Yet, he appeared unclear as to the direction he wished to move. What is clear is that:

1.) Mr. Carter failed to deliver on his campaign promise to get moving on a national health insurance program by January 1, 1977.

2.) That he failed in his promise that a program would be presented within the first six months of his term.

3.) Mr. Carter had abandoned his hopes for a *"comprehensive, mandatory health insurance program."*

The second phase of Mr. Carter's health care thinking was one of drift and indecision. This began mid-1977 and lasted through June of 1979. During this time, Mr. Carter repeatedly stated his support for comprehensive national health insurance yet insisted that its success was dependent upon the successful passage of his hospital cost containment bill, and the reduction of fraud in the existing Medicare and Medicaid programs.

By June of 1979, Mr. Carter entered the third phase of his health care policy development by announcing not a major comprehensive national insurance program but a modified catastrophic program.

Mr. Carter was quick to note that the program as introduced was envisioned as the first part of a more comprehensive program.

To expand the national health plan beyond the initial step, Mr. Carter would add benefits and lower deductibles. The Administration would also increase federal regulation by placing a nation-wide limit on capital expenditures and by expanding utilization review throughout the country. Additionally, it would continue to encourage the development of health maintenance organizations (HMO's).

The Carter National Health Plan, as introduced in Spring of 1979, would become effective in Fiscal Year 1983. Costs for the program in the first year, based on Fiscal Year 1980 dollars and population, are estimated by the Department of Health and Human Services (formerly HEW) to total \$24.3 billion (\$18.2 billion in additional federal costs, \$6.1 billion in additional employer-employee costs, and \$.6 billion in lost tax revenues resulting from different deductions taken by employers and employees.) Further, Mr. Carter proposes a change in the federal income tax law that would allow personal income tax deductions only if premium and medical expenses exceed 10 percent of gross adjusted income (instead of three percent as in current law).

Mr. Carter is blithely promising the American people dramatically increased benefits -- and for fewer dollars than we are now spending! He proposes to accomplish this by creation of a mammoth regulatory bureaucracy, one which would review and certify every insurance plan in the nation, determine eligibility standards for every citizen in the country, and set provider reimbursement rules for hospitals and doctors throughout the land.

Does the Administration really believe more government regulation, a prime cause of increased health care costs, can successfully provide the changes needed in the health care system? Again it contradicts itself when it admits the real answer to controlling costs lies not in more regulation but in a change in the underlying incentives motivating consumers to buy more and more expensive care.

The Administration correctly concludes: The importance of correcting the underlying causes of runaway health costs -- an absence of market forces and the ability of providers to determine the type and quantity of service purchased -- cannot be overemphasized. It is this absence of market forces that has made the doctor and patient oblivious to the cost of demanding a more complex and sophisticated package of services. If cost savings are to be achieved through the Administration's regulatory route -- without correcting the doctor and patient's lack of motivation to make cost effective decisions -- then it is the package of services that the Administration will have to arbitrarily cut. And an arbitrary reduction of services in essence means a reduction in the quality of care obtained. The Administration constantly claims it can "cut the fat" out of hospital costs but it fails to acknowledge such cutbacks will inevitably lead to the elimination of numerous diagnostic and therapeutic treatments and a closing down of hospital services.

The Administration only pays lip service to its statement supporting competition, maintaining it could effectively foster needed competition through the development of health maintenance organizations (HMO's). These HMO's, however, would operate in the highly regulated system envisioned by Mr. Carter. Their presence alone could not bring about the health care system reforms necessary to restore cost-consciousness to this industry.

Most economists today agree the demand for better health care is a result of the relatively recent growth in insurance coverage among Americans. This third-party coverage has removed the consumer from feeling the direct impact of his health care purchases. Indeed, because an increasingly large percentage of the patient's medical bill is covered by insurance, the consumer has the perverse incentive to demand more and more care -- regardless of its need, effectiveness, or cost. This situation is further exacerbated by the fact that tax laws have encouraged employers to purchase for their employees more and more coverage for routine medical expenses, despite the fact that in many cases it is uneconomical to do so. For instance, it generally is not economically wise to purchase insurance to cover a routine automobile expense such as a tune-up; it's less expensive, in the long run, to pay such expenses directly.

As economist Martin Feldstein of Harvard ("Cutting Health Care Cost -- Why Not Let the Market Decide?", Linda E. Demkovich, National Journal, October 27, 1979) points out, it is prior actions of government -- such as these loosely constructed tax incentives -- that led to a loss of competition in this industry. Future government actions, he and others conclude, must restore incentives for the doctor and patient to care about rising health costs, to feel more directly the impact of their decisions, to have a stake in weeding out inefficient and ineffective medical care. Government regulatory schemes, they point out, have not worked in the past in inducing such cost-consciousness; there is no reason to believe a national price control program like the hospital cost containment bill could work effectively in the future to control the soaring demand accompanying massive benefit changes.

Not only would Mr. Carter's regulatory scheme fail to control the demand accompanying expanding insurance coverage but also the new program would be forced into major cost overruns as a result of the failure of regulation. Under the proposal, the government would subsidize any employer whose costs on a mandated plan amounted to more than five percent of its payroll costs. The government would then have to provide health care coverage at a premium rate equal to five percent of payroll or grant the equivalent subsidy to aid in the purchasing of a private plan. As increased demand caused insurance policy costs to rise, more and more firms across the nation would become eligible for federal subsidies. The federal government would soon be in the business of funding health insurance for Exxon, General Motors, and other businesses throughout the country.

Another economic impact -- that of requiring employers and employees to fund over $6 billion of the cost of this health care plan -- has been downplayed by the Administration. The Administraton minimizes the effect of requiring employers on the average to pay a premium rate of $450 per employee in order to avoid penalties under law. Additionally, HEW staff makes light of the fact that over 50,000 jobs would be lost if the program were implemented today. It attempts to dismiss the same probable impact of such costs upon employers in 1983 by claiming they should be able to "make adjustments" in their wage and fringe benefit packages by that time.

Mr. Carter argues that his national health plan (Phase I) in its first full year of operation would cost $21.4 billion less than the overall additional cost of Senator Kennedy's recently released Health Care for All Americans Act. Both of these plans however, in all likelihood, would cost considerably more than their proponents now admit -- not only are these costs based on 1980 dollars for a 1983 implementation date, but they both also make a number of subjective assumptions -- assumptions which in past experiences have proven unreliable and deceptively low. Additionally, both plans are based on the assumption that heavy regulation of the health care industry is the only course that will work, that the government is a better judge of how to deliver quality medical care, and that federal involvement in every aspect of health care delivery assures a high standard of medical care.

Another major failing in the Carter approach -- as well as that of Senator Kennedy -- is the unfounded and irrational belief that the current state of health care protection within the United States is deplorable. This simply is not so. Further, the perpetuation of that myth is a disservice to the American people and utilizes fear of economic catastrophe for personal political gain.

Current figures based on data compiled by the Bureau of Labor Statistics for 1980 show that 216 million Americans (93.5 percent of the population based on a population of 231 million) have some form of health insurance coverage. Of these, 116 million (50.2 percent) are insured against any and all types of medical costs, that is, have coverage as good if not better than that which would be provided by the Carter or even Kennedy proposals. Additionally, there are 115 million Americans (49.7 percent) who although they have health insurance coverage are considered underprotected -- that is, have either inadequate basic coverage from private firms; have coverage limited solely to Medicaid or Medicare; or have basic coverage but lack major medical coverage for catastrophic expense. Additionally, 15 million Americans (6.4 percent) have no health insurance coverage at all.

In terms of policy, a national health program should concentrate on finding ways to:

1.) provide coverage for those 15 million who have none whatsoever

2.) upgrading coverage for those 115 million who are in some way underprotected.

What should be stressed is that the mechanisms for doing this are not restricted solely to a governmental program. The key, however, is to first gain an appreciation for this target group.

Who are these people caught in the nation's health insurance gaps? They are the seasonal or temporarily unemployed, or laid-off. They are part-time employees, ineligible for fringe plans. They work for small businesses or farms that offer no coverage. Particularly of concern are those who are effectively uninsurable at any affordable premium -- because they already are chronically ill with a heart condition, or diabetes, or cancer or whatever. Finally, there are the elderly whose Medicare is limited and who get no Medicaid assistance unless they sell their assets and "spend-down" their life savings until they have only $1000 left, plus their home of actual residence.

Yet the Carter program and incentives fail to isolate these pockets of need and in doing so are mandating insurance for many who are already covered. It is based on false assumptions regarding need. It further is wrongly assuming that the federal government can reduce overall costs by assuming a clearing-house function. There is no basis for this. The Carter proposals are duplicative, wasteful, and costly to both the public and to employers. They needlessly regulate the insurance sector to the point of federalizing it and in the end would be harmful to the American health care system.

These failings are not lost on Republicans in Congress. As of early 1980, the Carter proposal was trapped in House and Senate committee hearings. It is not likely that it will clear either committee this year.

# APPENDIX

*"Medicaid has become a national scandal. It is being bilked of millions of dollars by Charlatans..."*

--National Health Policy Speech
Student National Medical Association
Washington, D.C.
April 16, 1976

*"I am anti-waste in government. I don't believe in give-away programs. I don't believe in wasting money. I believe in tough, competent management..."*

--Faith in Government Address
Town Hall Forum
Los Angeles, California
August 23, 1976

*"The first thing is to make Medicaid and Medicare delivery systems work..."*

--Press Conference
Plains, Georgia
September 3, 1976

*"...[W]hereas something goes wrong with management in the government, whether it involves the FBI or the CIA, or the Medicaid program, nobody's responsible. I think the President ought to be responsible, and, as such, I will be responsible."*

--Press Conference
Plains, Georgia
September 3, 1976

*"Only last week we learned that as much as $7.5 billion of Medicaid is wasted or stolen every year."*

--Statement Issued at Columbus, Ohio
September 9, 1976

*"We will ensure that the Department of Health, Education, and Welfare will vigorously root out abuses and fraud in our special programs....We will work for passage of current legislation designed to crack down on fraud and abuse in our Medicaid and Medicare program..."*

--Welfare Reform Message to Congress
August 6, 1977

*"This bill will go a long way to eliminating fraud in the administration of the health care programs of our country. It will shift to heavier penalties for those who are convicted of false claims...prohibiting those who are convicted of this crime from delivering any services in the future..."*

*"Any comprehensive health policy must bring care within the reach as well as the means of all our people....We must have a strong and clear built-in cost and quality control...."*

--National Health Policy Speech
Student National Medical Association
Washington, D.C.
April 16, 1976

*"We've heard a lot of tough talk from the Administration on inflation, and we're going to hear a lot more during the campaign...Campaign talk cannot disguise the 60 percent jump in health costs..."*

--AFL-CIO Speech
August 31, 1976

"Novak. Governor, in line with this question of wishy-washiness and indeterminant positions, you have said constantly in your campaign that you're in favor of national, comprehensive, mandatory health insurance, but you don't tell how it would be financed, how much it would cost, and whether it would be under private or public auspices. Are you prepared to say that today, or do you think the public doesn't need to know your answers to that question?

*"Carter. Well, I don't know the answer yet..."*

--"Face the Nation"
March 14, 1976

*"One of my main legislative goals for the year is the Hospital Cost Containment Bill. That bill...is our principle weapon in the effort to decrease health care costs which now double every five years."*

--State of the Union Address
January 19, 1978

*"Today I am submitting to the Congress one of the most critical anti-inflation legislative proposals that the Congress will ever consider, the Hospital Cost Containment Act of 1979."*

--Presidential Documents
March 6, 1979

*"There is no doubt that a few federal regulatory programs produce few real benefits to the public exacting a cost to the economy...Too often the rules are hard to interpret, government policy is too unpredictable and unstable, compliance is indifferently enforced. The most serious shortcoming of regulation is that it often fails to relate the social and economic costs of the goals to objective measures of benefits."*

--Address Before the Association for
Cooperation in Engineering
August 6, 1976

*"The accomplishment of comprehensive national health insurance will not be quick or easy."*

--National Health Policy Speech
Student National Medical Association
Washington, D.C.
April 16, 1976

*"I support the enactment of a phased-in, comprehensive national health insurance program. I think the public wants such a program and I intend to work vigorously to get it."*

--The Nation's Health
October 1976

*"There are many other areas of domestic policy -- housing, health, crime, education, agriculture, and other -- that will concern me as president but which I do not have time to address tonight."*

--Report to the American People
February 2, 1977

*"I am committed to the phasing in of a workable national health insurance program."*

--Annual Convention of the United Auto Workers
May 17, 1977

*"It's not legitimate spending on human needs that causes our deficits -- it is principally the inadequate revenues from a sluggish economy...Cutting back programs that really help people is not the way to balance the budget."*

--Los Angeles Times
"Carter Pledges Action on Health Insurance"
Harry Bernstein
May 18, 1977

HOME OWNERSHIP

## HOME OWNERSHIP -- THE RECORD

- The number of American families who can afford to buy a home dropped from 27.5 percent in January 1977 to less than five percent in April 1980. (Source: Senate Committee on Banking, Housing, and Urban Affairs)

- Interest rates on conventional home mortgages nearly doubled, jumping from 9.01 percent in January 1977 to 16.93 percent in April 1980. (Source: Federal Home Loan Bank Board, Office of Economic Statistics)

- The median price of a new home has increased 49.32 percent.
  In January 1977, the median price of a new home was $44,200. In May, 1980, the same home cost $66,000. (Source: Senate Committee on Banking, Housing, and Urban Affairs)

- Housing starts have dropped 49 percent.
  Since January 1977, housing starts fell from an annual rate of two million to 1.02 million in April 1980. (Source: U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division)

- Building permits issued fell 35.7 percent.
  Some 1,400,000 building permits were issued in 1977 while only 950,000 permits are estimated to be issued in 1980. From January 1979 to April 1980 alone, building permits issued declined 52 percent, dropping from two million to 950,000. (Source: U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division)

- The housing industry unemployment rate reached 15 percent.
  The U.S. Department of Labor projects this rate will hit 24 percent in Fall 1980, with 1.6 million construction workers out of jobs.

- House sales declined 22.4 percent.
  Houses sold in 1977 numbered 3,547,000 while 2,750,000 are estimated to be sold in 1980. From April 1979 to April 1980 alone, housing sales dropped 25 percent. (Source: Senate Committee on Banking, Housing and Urban Affairs)

- Construction of rental multi-family housing has declined 15.2 percent, from 446,000 units in 1977 to 378,000 in May 1980. (Source: U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division)
  The Joint Economic Committee has projected that close to 9.4 million rental units will be required in the 1980s to meet the American people's housing needs.

7/23/80

# HOME OWNERSHIP: ANALYSIS

As a candidate, Mr. Carter was a self-proclaimed friend of both the American home builder and the American home buyer. He committed himself to the promise of universal home ownership and of helping Americans achieve the "American Dream." He singled out the home building industry as the means of reaching that goal and designated it the most vital economic sector in the nation. He embraced both the buyers and builders of homes and let it be known that the fulfillment of their common interest was to the basic good of the nation.

"*I think there is no industry that I can think of in the country,*" Mr. Carter stated on July 22, 1976, "*that would have a more greatly magnified beneficial effect on employment and general stimulus of the country than housing.*"

In the same address, Mr. Carter said that the home building industry and the prospects for families to own their own homes were in grave trouble. He continued:

> *...we have suffered because of an inadequate commitment on the part of the federal government to constraints and a predictable housing policy....We have got developers who would like to build homes, and 600,000 construction workers who want to go back to work, and lenders who want to lend money for better housing. But I think last year we only completed about one million housing units...* (Hearst Newspaper Task Force, Interview, New York, New York, July 22, 1976)

Less than two months later, he laid the blame for the housing debacle squarely at the foot of the Republican Party. Addressing a meeting of the AFL-CIO, Mr. Carter stated:

> *The Republicans say that housing is one of their campaign issues. But they have plunged the construction industry into a depression. The cost of a new house has increased by more than 50 percent, from an average of $30,000 in 1968 to an average of $46,000 in 1976. Interest rates are also up 50 percent. When Lyndon Johnson left office more than half the families in this country could afford their own homes. Eight years later less than a third of our families can.* (Address to the AFL-CIO, Dearborn, Michigan, September 15, 1976)

What Mr. Carter failed to realize is that under the eight years of Republican administration (1968-1976), housing starts had peaked at a decade high of approximately 3.0 million, and were still doing well for a cyclical industry when Republicans left the White House. This is especially significant when one considers that many of the policies which adversely impact the housing sector -- such as taxing and spending policies -- were still being fostered by a Democrat-controlled Congress.

More significant is that nearly four years after Carter's New York and Dearborn statements, it is the Carter economic policies that brought both the home building industry and the American family's dream of home ownership to collapse.

## WHO CAN AFFORD IT?

Despite Mr. Carter's promise of universal home ownership, the number of American families who could afford to purchase a home since Mr. Carter took office has declined sharply. When Mr. Carter took office, 27.5 percent of all American families could afford to purchase a new home. In the early months of 1980, with mortgage rates pushing 17 percent, that percentage dropped to below five percent. Even if mortgage rates "drop" to between 12 percent and 13 percent as some predict, home affordability will still be limited to less than ten percent of all American families. (National Association of Home Builders, Washington, D.C.)

## COSTS OF HOME-BUYING HAVE SKYROCKETED

Upon taking office, Mr. Carter committed himself to provide a steady supply of credit to encourage home buying and to protect the housing industry from its "boom and bust" cycles. By 1980, Mr. Carter's monetary policies had totally dried up mortgage money and driven the housing industry into its worst depression in 30 years. Under the Carter Administration, mortgage interest rates soared by 88 percent from 9.01 percent in January 1977 to a high of 16.93 percent in early 1980. With that came a virtual halt in home purchases and new home construction. (Federal Home Loan Bank Board, Washington, D.C.)

Since Mr. Carter took office, the median price of a new home has increased by 49.32 percent. When Mr. Carter took office, the median price of a new home was listed as $44,200. As of May 1980, that same home was selling for $66,000. In many areas of the country, particularly urban metropolitan areas, the median price of a new home is in excess of $100,000. (National Association of Home Builders, Washington, D.C.)

## HOUSE-BUILDING PLUNGES

Despite Mr. Carter's national commitment to building 2.5 million housing units per year, Mr. Carter's Administration has seen the number of both housing starts and building permits issued drop to record lows. Since 1977, housing starts have fallen from an annual rate of 2.2 million to 1.02 million in April of 1980. Similarly, the number of building permits issued have dropped from an annual rate of two million to approximately 950,000 in the Spring of 1980. A stark example of this is that in the year ending March 1980, the issuance of building permits in the Pittsburgh Metropolitan Area dropped by over 62 percent. (Source: National Association of Home Builders, Washington, D.C.)

## HOUSING WORK FORCE SUFFERS/SALES DROP

By 1980, Mr. Carter's economic policies had pushed the unemployment rate in the housing industry to 15 percent. Economic projections by the U.S. Department of Labor place unemployment in that sector at 24 percent by the Fall of 1980, with over 1.6 million workers out of jobs. Further, housing sales are down by over 25 percent in the past year alone. Similarly, there is a major spillover effect in related industries. There is a major rise in unemployment and general decline in related industries such as timber, appliances, insurance, building material suppliers, surveyors, and sub-contractors. An April 20, 1980 article in the Chicago Tribune quotes Federal Reserve Board Chairman Paul Volcker as stating "he won't be satisfied until the last buzz saw is silenced." (U.S. News and World Report, May 5, 1980, and the Chicago Tribune, April 20, 1980)

## RENTAL CRISIS

The same Carter economic policies that have brought havoc to both home building and home ownership have also created a crisis in the area of rental housing. The Joint Economic Committee has projected that for the decade of the 80's close to 9.4 million rental units will be required if the housing needs of the American people are to be met. This figure is more than likely an underestimation, given the collapse of the single-family home market. Since Mr. Carter took office, the construction of multi-family rental units has dropped from 446,000 in 1977 to 378,000 in May of 1980. This represents a decrease of 15.2 percent. At the present time, rental vacancy rates are also at an all-time low. The average nationwide vacancy rate is currently five percent, with the average in metropolitan areas under two percent.

## THE REASONS

Central to the failure in the housing sector has been the Carter Administration's inability to come to grips with inflation. A particular outcome of the Carter economics has been: (1) a major decline in the rate of saving (now down to a rate of three percent) and (2) a surge in the price of borrowing money.

As the rate of savings declines, the amount of money available for lending decreases. As available money declines, the price of borrowing (i.e. interest rates) increases. As noted earlier, interest rates under the Carter Administration have increased by over 88 percent. Simply put, buyers can't afford to borrow and neither can builders. Most analysts have placed the reasons for the decline in savings as (1) a tax system which taxes (penalizes) savings and thus serves as a disincentive and (2) inflation itself, which leaves less and less money for wage earners to save.

Additionally, Mr. Carter has consistently submitted budgets which have put the government into deficit. Even his fiscal year 1981 budget, which he claims will be balanced, is now expected to run in the red. The bottom line is that, as the government goes into deficit, it is forced to borrow money to meet spending commitments, operating costs, and debt service charges on previous borrowing. Each year the government has had to borrow more and more, putting it into direct competition with private sector borrowers in the money market. The end result: less available money and higher interest rates. Again, this contributed to the death blow to the housing sector, especially since the housing sector, unlike many other sectors, is particularly sensitive to fluctuations in interest rates.

Another major factor in the housing problem is the costly impact of federal over-regulation, which has grown worse in the past four years, despite Administration rhetoric. The economic impact of these regulations is tremendous. The Council of Economic Advisors has estimated that overall the cost of regulations is \$130 billion annually, or \$2,000 per family per year. As early as 1971, the HUD Task Force on Housing Costs noted: "Regulations by all levels of government are a major factor in increased housing costs, through both substantive and procedural delays." In 1977, a Rutgers University survey indicated that excessive regulations added 20 percent, or about \$9,884, to the price of an average home, (Murray Weidenbaum, Center for Urban Policy Research, Rutgers University), a figure that undoubtedly has gone up. When that extra \$10,000 is paid for through a 30-year mortgage at 12 to 15 percent, it costs the consumer an extra \$103 to \$126 per month for government regulation.

A prime example of unneeded, costly, and inflationary government regulation is the Department of Energy's Building Energy Performance Standards (BEPS), which add increased costs due to paperwork and time delays due to inspections. While improved energy efficiency is a laudable national goal, Republicans believe the marketplace, rather than a bureaucratic quagmire, is the best means of reaching that objective. Since 1974, the housing industry -- by its own initiative -- has increased the energy efficiency of homes by an average of 30 percent. (Senate Committee on Banking, Housing and Urban Affairs)

Additionally, the Carter Administration is even now proposing programs and changes that will further aggravate the housing sector and hamper Americans' ability to purchase a home. For example:

- The Carter Administration has proposed the elimination of the tax-exempt status of Mortgage Revenue Bonds. These bonds, which were sold by cities and municipalities, provided an important source of mortgage money at a rate below the price of a conventional mortgage. The result of this Administration proposal would be to lessen even further the amount of money available to potential home buyers for mortgage money.

- The Carter Administration's proposal for withholding taxes on interest and dividends will also cut in on available money by creating another major disincentive for Americans to save and invest. Similarly, it will encourage spending and thus fuel inflation.

Contrary to its earlier commitments to home builders and home buyers, the Carter Administration has seemed to do everything in its power to hinder both.

The Carter Administration's failures seem endless. Chief among them is its inability to handle inflation. Additionally, the litany includes pursuing spending policies that have forced the government to borrow and thus dry up money that would otherwise be available for private sector investment; pursuing tax policies which create undue burdens for buyers and builders; pursuing policies that create disincentives for savings and investment and thus hinder capital formation, which is fundamental to the nation's economic well-being; and pursuing regulatory policies which are costly hindrances which do little more than needlessly consume time and millions of dollars.

Mr. Carter has truly destroyed both the American dream of home ownership and the home building sector which helps American families realize that dream. His policies leave us with the question: "Where will Americans live?"

## APPENDIX

*"I think there is no industry that I can think of in the country that would have a more greatly magnified beneficial effect on employment and general stimulus of the country than housing."*

--Hearst Newspaper Task Force, Interview
New York, New York
July 22, 1976

*"Here we have suffered because of an inadequate commitment on the part of the federal government to constraints and a predictable housing policy.... We have got developers who would like to build homes, and 600,000 construction workers who want to go back to work, and lenders who want to lend money for better housing. But I think last year we only completed about one million housing units..."*

--Hearst Newspaper Task Force, Interview
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July 22, 1976

*"The Republicans say that housing is one of their campaign issues. But they have plunged the construction industry into a depression. The cost of a new house has increased by more than 50 percent, from an average of $30,000 in 1968 to an average of $46,000 in 1976. Interest rates are also up 50 percent. When Lyndon Johnson left office more than half the families in this country could afford their own homes. Eight years later less than a third of our families can."*

--Address to the AFL-CIO
Dearborn, Michigan
September 15, 1976

INFLATION

## INFLATION -- THE RECORD

Despite Mr. Carter's promise to strive for an inflation rate of four percent or less by the end of the first term, since 1976 to the end of the first half of 1980:

- Inflation, as measured by the Consumer Price Index, rose from an annual rate of 4.8 percent to 18.2 percent in the first quarter and 14.3 percent in the second. (Source: Bureau of Labor Statistics)

- All consumer goods and services have risen by 45.2 percent.
  It now costs $1.45 to buy the same quantity of goods and services that $1.00 could buy in 1976. (Source: Bureau of Labor Statistics)

- Food prices have risen by 39.3 percent. (Source: Bureau of Labor Statistics)

Other indicators show that:

- Productivity growth has fallen from 3.5 percent in 1976, to 1.9 percent in 1977, 0.5 percent in 1978, 0.9 percent in 1979, an anemic 0.6 percent in the first quarter of 1980. (Source: Bureau of Labor Statistics)

- Real GNP growth fell from 5.9 percent in 1976, to 5.3 percent in 1977, 4.4 percent in 1978, and 2.3 percent in 1979. In the first quarter of 1980, it dropped even lower to an annual rate of 1.1 percent. (Source: Bureau of Labor Statistics)

- Savings from after tax incomes have fallen from an annual rate of 5.8 percent in 1976 to 3.4 percent in the first quarter of 1980.
  This rate of savings is one of the lowest of Western industrialized nations. (Source: United States Department of Commerce, Bureau of Economic Analysis)

- Farm income (as measured in 1967 dollars) has fallen 20.3 percent. (Source: United States Department of Agriculture)

- Interest rates, as measured by the prime rate, rose from 6.8 percent in 1976 to a high of 20 percent in mid-April 1980.
  This is nearly three times higher than the rate when Mr. Carter took office. The prime rate charged to small business rose even higher to about 22 to 23 percent. (Source: United States Department of the Treasury)

- Real Purchasing Power of the average worker in the private non-agricultural sector is five percent lower today than it was in 1967.
  In the first quarter of 1980, the average worker saw his purchasing power shrink 6.5 percent per month. (Source: Bureau of Labor Statistics)

## INFLATION: ANALYSIS

As a candidate, Mr. Carter promised to strive for a four percent rate of inflation by the end of his first term. In 1976 this indeed was a plausible goal, for, after all, his Republican predecessor brought the rate of inflation down from over 12 percent to 4.8 percent. By the end of his first year in office, inflation rose to 6.8 percent. This was followed by a nine percent leap in 1978. Last year, it lurched forward at an annual rate of 13.3 percent. By the end of the first quarter of 1980 inflation exploded to an annual rate of 18.2 percent.

Mr. Carter has tried to convince the public that the current inflation is a result of forces beyond his control, the most important of which is rising energy costs. In doing so, Mr. Carter has tried to shift the focus of the debate away from his own inadequacies to other causes. He has taken the easy route in ascribing the blame to OPEC and the oil companies.

In his 1980 State of the Union Address, Mr. Carter stated:

> *The biggest single factor in the inflation rate increase was from one cause: the skyrocketing world oil prices.*

By this statement, Mr. Carter reenforced a point he had made the previous Sunday when he said,

> *...all the increase for practical purposes of inflation rates since I have been in office have been directly attributable to increases in OPEC oil prices.* ("Meet the Press," January 20, 1980)

Yet just six months earlier he conceded:

> *We figure that by the end of 1980, this (the OPEC decisions to raise oil prices) might cost us...maybe two to two and one-half percent in the inflation rate.* (Presidential Documents, July 1, 1979)

This bright moment of candor came very close to the mark. For although inflation rose by 13.3 percent in 1979, only 2.2 percent of that rate could be attributed to domestic and foreign energy prices leaving 11.1 percent of the inflation rate attributable to non-energy related factors.

A comparison with other countries will show the fallacy of Mr. Carter's logic in blaming OPEC. Japan imports almost 100 percent of its oil, yet its rate of inflation in 1979 was 4.2 percent. (Federal Reserve Board, Washington, D.C.) West Germany imports nearly all its oil, yet its rate of inflation during that same year was 5.7 percent. (Federal Reserve Board, Washington, D.C.)

Mr. Carter's economic policies are characterized by their inconsistent zig-zag, as they shift from one direction to another. His economic policies are greeted with skepticism at home and bewilderment by the rest of the world. The Wall Street Journal (March 14, 1980) best summed up Carter's economic policies:

> ...inconsistency and a lack of follow through are the hallmarks of the Carter brand of leadership... this basic pattern has eroded Mr. Carter's credibility to influence events and achieve his goals...

Carter's economic policies react to events rather than anticipate them. They lack coherence and direction. New York Times financial columnist Steve Rattner observed:

> ...even in the context of the times, the record of the Carter Administration is disappointing. (New York Times, March 23, 1980)

The only thing consistent about Carter's economic policies is their predictable inconsistencies.

As a candidate, Mr. Carter endorsed standby authority to impose wage and price controls. After he won the general election, Mr. Carter was forced to reverse himself as the business community became apprehensive about its future inability to cover costs. The fear was that such a policy would accelerate, rather than contain, rapid price increases.

On January 27, 1977, a week after the inauguration, Mr. Carter declared the economy stagnant and proposed a $31.2 billion package of stimulative spending. The cornerstone of this program was a $50 per taxpayer tax rebate. The Carter proposal was clearly inflationary, as it came at a time when the economy was continuing in its recovery from the 1974-76 recession. This program set the tenor of the new Administration, indicating that it was not serious about inflation and that it would maintain the big spending programs of the 1960s.

Less than a month later, in the face of widespread congressional opposition, Mr. Carter was forced to abandon his program, citing that inflation was now the principal menace. It its place, he proposed the first of four anti-inflation programs.

A year later, Mr. Carter again asked for a $24 billion stimulative tax cut. Again, inflationary pressures forced him to scale it back and delay its enactment. Nevertheless, this was viewed as another indication that the Administration was not convinced of the seriousness of inflation.

Inflationary tax cuts of the variety Mr. Carter proposed have the effect of merely stimulating spending and do not call forth more output at levels of higher productivity. Policies which require that tax rates be cut at the margin tend to increase the after tax return on savings, investment and work. Ultimately, marginal tax cuts can serve as a strong incentive to call forth higher levels of productivity and non-inflationary growth. When the effect of the tax cut works its way through the economy, people are left with a higher standard of living. It is the latter type that the Administration has consistently opposed. Instead, it has stuck to the inflationary fiscal themes set forth by the now discredited New Deal.

As inflation took off in 1978, Mr. Carter offered his second and third anti-inflation programs. The latter included a series of quasi-mandatory wage and price standards which, in the opinion of many economists, set a floor rather than a ceiling on wage and price increases.

In any event, these guidelines proved to be an ineffectual means of countering inflation. Within a week of his third anti-inflation program, judgement was in. The dollar collapsed on the world markets, and the stockmarket plummeted. In the absence of an effective policy of his own, Mr. Carter turned to the Federal Reserve, which was forced to increase interest rates sharply.

Since then, Mr. Carter has made much rhetorical noise about the effectiveness of his wage and price guidelines. Yet, from their inception, the guidelines policy was destined to fail. The New Republic (TRB, February 23, 1980) hardly a bastion of conservative politics, noted:

> To the extent that guidelines work, they create the same problems as controls; to the extent they avoid those problems, they don't work.

The guidelines policy itself served to accelerate inflation. The New Republic editorial continued:

> The Carter inflation corps ultimately adopted a mountain to Mohammed strategy: instead of trying to bring down inflation to meet (the) guidelines, they fiddled with the guidelines to bring them into line with inflation.

Within a year after imposition of the guidelines, inflation surged forward at an annual rate of 13.3 percent. By now it was clear that inflation was this nation's number one problem. On January 28, 1980, Mr. Carter submitted his Fiscal Year 1981 budget. In it he called for the highest tax collections and spending levels in history; at a time of rampant inflation, he further proposed a $16 billion deficit. In an Orwellian exercise of "newspeak," the President called his budget *"prudent and responsible,"* one that *"continued the strategy of restraint."*

Within days of its submission, Mr. Carter was jolted by an "exploding" inflation rate of 18.2 percent.

By late February, Mr. Carter was forced to face the harsh truth. His *"prudent and responsible"* budget had once again confirmed that the Administration was not seriously facing up to inflation. In the words of the Wall Street Journal, (March 14, 1980), "...his economic plan was contributing to the problem rather than to the solutions."

Confusion and vacillation marked the first two months of 1980. On February 25, 1980, the day after Mr. Carter had summoned his economic advisors to an emergency meeting on inflation, he conceded to a group of editors that inflation had reached the *"crisis stage."* Later in the same discussion, Mr. Carter reversed himself and declared *"the basic policies that we now have suit me fine."* Thus, while Mr. Carter was publicly decrying the need to control inflation in private, however, he believed that those very policies that brought about an 18 percent inflation were suitable. Ultimately, Mr. Carter revised his budget estimates, increased taxes and spending, and abdicated his Administration's role in the battle against inflation.

Mr. Carter proposed a new budget which proposed a spending level of $611.5 billion and taxes amounting to $628 billion. Mr. Carter's game plan for fighting inflation was to raise spending by $47.9 billion and taxes by $104.2 billion from his Fiscal Year 1980 budget. And, programmed into all his assumptions now was the expectation that unemployment would increase from 5.9 percent in 1979 to 7.2 percent in Fiscal Year 1980. (Fiscal Year 1981 Budget Revisions: The Office of Management and Budget, March 1980)

The results of his new budget proposal were disastrous; they precipitated a recession. Inflation continued at an 18 percent clip, the prime rate rose to 20 percent, the automotive and housing industries were ravaged, and unemployment shot up to seven percent, the highest level in more than two years. At the end of February 1980, average weekly real earnings in non-agricultural industries fell to a level which was almost $4 less per week than that which was earned over 13 years ago.

The Carter Administration has failed to develop an effective fiscal policy with which to fight inflation. Instead, it has abdicated that responsibility to the Federal Reserve. Mr. Carter's first appointment to the position of chairman of the Fed was G. William Miller, now serving as Secretary of the Treasury. Mr. Miller's appointment did not result in a more effective and judicious management of this nation's monetary policy; instead, his presence was that of a loyal and pliable ally whose disposition was to meet the needs of the Administration. The consequence of Mr. Miller's tenure was an acceleration in the rate of growth of the money supply, which resulted in an explosive surge in interest rates and more inflation. These conditions, in turn, forced the collapse of the bond market, wiping out an estimated $500 billion in accumulated savings and pensions, caused the most severe downturn in the housing and automotive industries in almost 50 years, and produced rising unemployment. Under the chairmanship of Mr. Miller, as inflation increased, so too did the Fed's easy money policy. In the words of Henry Kaufman, Chief Economist for Solomon Brothers, "The Fed did not perceive the credit-creation momentum in the system."

Barry P. Bosworth, the Administration's former director of the Council on Wage and Price Stability, noted that the Carter economic policy was too weak for the task it was designed to confront and was implemented without clear goals and direction. Bosworth said:

> Each time the policy was too weak for the problem that appeared. We had no overall framework of what are the things we stand for and what are our priorities.

The late Arthur M. Okun, chairman of the Council of Economic Advisers under President Johnson, said:

> Until December 1978, you just couldn't find evidence that the Administration saw inflation as a serious problem.

Mr. Carter's inability to control inflation without resorting to the excessively severe remedy of recession became evident in the OMB Mid-Session Economic Review (July 21, 1980). In it the Administration was forced to concede a $60.9 billion deficit for this current fiscal year with a $29.8 billion deficit envisioned for next year. Unemployment, it projected, would rise from 5.8 percent in 1979 to 8.5 percent in both the current and prospective fiscal years. As the economy plunged even further into recession, inflation was now projected to average 12 percent in 1980 and 9.8 percent in 1981. It must be remembered that these are official Administration sources who are trying to put the best light on a recessionary situation, with a proven tendency to understate bad news.

In the past three and one-half years, Mr. Carter has further added to the inflation problem by supporting a host of legislative initiatives whose passage into law would result in higher prices. The following list highlights some of these actions:

Milk Price Supports: Mr. Carter supported milk price legislation in 1979 that resulted in an increase in the price of milk of five cents per gallon this spring. Through government purchases, an artificial shortage was created, resulting in higher prices faced by consumers. (Congressional Quarterly, October 6, 1979)

Soviet Grain Embargo: Mr. Carter initiated this action which will result in direct costs of $2.25 billion for American taxpayers. This action was taken to support grain prices in the face of large surpluses created by the embargo. (Congressional Quarterly, January 12, 1980)

Oil Import Fee: Mr. Carter proposed this action under the guise of oil conservation and independence. This action does neither, but results in an artificial increase of ten cents per gallon faced by consumers at the pump. Such an act will add an additional 0.5 percent to one percent to the annual inflation rate. (Congressional Quarterly, May 24, 1980)

With-holding Tax on Interest and Dividends: Mr. Carter proposed this action in order to retrieve revenues more quickly in a desperate attempt to balance the Fiscal Year 1981 budget. This action will cost the taxpayer, especially the elderly, undue burden and the expense of increased bureaucratic red tape, needed to co-ordinate this monumental task. (Congressional Quarterly, March 22, 1980)

Windfall Profits Tax: Mr. Carter's action against oil refiner profits will result in a loss of 1.7 million barrels per day in domestic production by the end of the decade. The tax is inflationary because of the disincentives created for refiners to produce more, search for other sources of energy and new oil reserves. (Congressional Quarterly, September 22, 1979)

Sugar Price Supports: Mr. Carter supported this action, which results in maximum government outlays of $50,000 per producer. The measure has been regarded as inflationary by consumer groups because of the artificially high sugar prices it supports and because of minimum wage provisions for sugar workers included in the proposal. (Congressional Quarterly, March 15, 1980)

The failure of Mr. Carter's economic policies are not by chance. Rather, their ineffectiveness was foreshadowed by a policymaking process which, from its inception, guaranteed inadequate results. The Administration has failed to recognize that many of its goals conflict with each other. The Administration strives to satisfy every constituency. In short, it tries to be everything to everybody. The inconsistencies in economic policies was particularly evident during the 1977-78 recovery when the Administration sought to overstimulate the economy, and balance the budget as it proposed a raft of new spending initiatives to stimulate high levels of consumer demand. At the same time, however, it glossed over the effects of rising inflation and high taxes which were sapping the vitality from the economy.

The economic crisis we face today represents the logical culmination of Carter politics. The current recession represents, in a perverse way, the success rather than the failure of this Administration's economic program. The high inflation, interest, and unemployment rates the economy suffers are not the result of unknown and incomprehensible forces. On the contrary, they were preordained by an Administration bereft of leadership and planning.

Mr. Carter lacks a credible economic policy. The only policy he has now and has always had is a re-election policy.

# APPENDIX

*"The biggest single factor in the inflation rate increase was from one cause: the skyrocketing world oil prices."*

--State of the Union Address
January 23, 1980

*"As a matter of fact, all the increase for practical purposes of inflation rates since I have been in office have been directly attributable to increases in OPEC oil prices."*

--"Meet the Press"
January 20, 1980

*"We figure that by the end of 1980, this [the OPEC decisions to raise oil prices] might cost us two or two and one-half percent in our gross national product increase, and maybe two to two and one-half percent in the inflation rate."*

--Presidential Documents
July 1, 1979

*"Domestically, the most significant challenge that I face is a high inflation rate, which is attributable in a major degree to the fact that after all these years we still do not have a comprehensive energy policy. And even after we have reached a crisis stage in energy supplies and inflation, the three major bills that will help to resolve the issues are still languishing in Congressional conference committees."*

--New York Times
February 26, 1980

*"So, I don't see any possibility of my supporting any move toward mandatory wage and price controls. There are other things that we can do. We are assessing a wide gamut of possibilities, and we're doing it very carefully and very cautiously. I would like to point out that the basic principles that we've espoused and the basic policies that we've espoused suit me fine; the tuning of those and the enhancement of those is something that we intend to do."*

--Presidential Documents
February 26, 1980

SMALL BUSINESS

## SMALL BUSINESS -- THE RECORD

- Small business bankruptcies have increased 48 percent since October 1979. ("Small Business Bankruptcies Rise After Credit-Tightening," Washington Post, May 15, 1980)

- An estimated 666,000 small businesses will fail in 1980. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

- Small businesses have been forced to borrow money at rates upward of 22 to 23 percent, a 220 percent increase since January 1977. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

- Small business faces a 3.2 million job and $228 billion sales loss in 1980. ("The Impact of Inflation on Small Business," Small Business Administration)

- Although small business is responsible for 43 percent of the nation's gross national product, small companies received only 22.2 percent of federal procurement monies in 1979. ("America's Small Business Economy: Agenda for Action," Small Business Administration)

- Small business is now receiving less than 3.5 percent of federal research and development dollars. ("America's Small Business Economy: Agenda for Action," Small Business Administration)

- Federal regulations cost small businesses $12.7 billion a year above and beyond their normal operating costs. ("Agency Says Government Paper Work Costs Small Business $12.7 billion a Year," Los Angeles Times, January 4, 1980)

## SMALL BUSINESS: ANALYSIS

During his campaign, Mr. Carter assured small business it would have a friend in the White House when he was elected.

> *If elected, I will be the first small businessman since Harry Truman to serve as President. I have a deep and sincere concern for the future of America's nine million small businessmen and women and the 40 million Americans who work for small business concerns.* (Position Paper, Small Business, October 11, 1976)

After more than three years of Mr. Carter's presidency, however, small business owners and operators fear for the future as never before. A survey commissioned by the Chemical Bank of New York found that more than half of the respondents believed the role of small business in our economy is declining at an alarming rate and more than 40 percent saw a decline in entrepreneurial spirit in America. (Chemical Bank of New York, "Looking Toward the 80's," November 1979)

### SMALL BUSINESS SHARE OF GROSS NATIONAL PRODUCT IS DECLINING

"The share of our gross national product being produced by firms with less than 500 employees is declining at a rate of approximately 0.4 percent a year." If this number is projected to the year 2000, small business will produce only 32 percent of our GNP, compared to 43 percent today. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

Almost all of the decline in the share of production of GNP is occurring in businesses with up to 19 employees. If the present trend continues, these very small businesses, so vital to the creation of jobs and technological innovation, will produce only nine percent of our GNP in the year 2000, compared to 17.1 percent in 1976 and an estimated 15.9 percent in 1980. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

It is no wonder that a recent study by the National Center for Economic Alternatives called small business "an endangered species in America." ("Study Says U.S. Policies Imperiling Small Business," Washington Post, January 13, 1980)

### SMALL BUSINESS HIT HARD BY INFLATION

Mr. Carter's misjudgement of, and failure to control, inflation has placed our nation's small businesses in greater jeopardy than at any time since the Great Depression of the 1930's.

At a press conference early in his presidency, Mr. Carter said,

> *My own guess is that the inflationary pressures will continue at about the level that they have historically the last couple of years, around six or a little better percent.* (Jimmy Carter, press conference, March 24, 1977)

The recent runaway inflation, three times what Mr. Carter had anticipated, has placed small business in a terrible bind. Small firms must pay more for raw materials and supplies, but risk loss of business if they raise prices. Inflation has compelled small firms to borrow more, increased the cost of borrowing, and devaluled the purchasing power of funds spent.

"Raw materials and industrial commodity prices have been increasing at a rate of some 20 percent. For firms trying to increase their productivity by adding to capital stock, the cost of machinery and equipment went up an annual rate of almost 15 percent in the first quarter of 1980." ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

These price increases mean that small businesses have been forced to increase their prices to consumers. According to a Purdue University survey of January 1980, 46 percent of small firms were forced to plan price hikes -- a record percentage in the University's seven year history of conducting surveys. Twenty-four percent of the firms reported they would have to raise prices five percent or more, a jump of 11 percent from the January 1979 survey. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

Since "small businesses are normally concentrated in the most competitive sector of the nation's economy," inflation-induced cost escalations put small firms at a greater disadvantage than large businesses. According to a survey conducted by the half million member National Federation of Independent Business (NFIB), 35 percent of their membership listed inflation as the most serious problem. NFIB members rated inflation as 2.2 times more serious than raising necessary capital, 2.3 times more serious than facing high taxes, and 3.9 times more serious than complying with burdensome regulation. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

## UNREASONABLE INTEREST RATES

When President Ford left office, the prime interest rate was 6.84 percent. Yet Mr. Carter, in his campaign, felt compelled to say,

> *This Republican Administration...has given business and the consumer the highest interest rates since the Civil War. As President, my economic policy will be designed to stimulate growth and maintain an adequate capital supply for the small businessman and woman at reasonable interest rates.*
> (Position Paper, Small Business, October 11, 1976)

Under Mr. Carter's Democratic Administration, the prime rate has risen as high as 20 percent. Since small businesses must pay interest at a rate of two to three percent above the prime rate, they have had to borrow at rates upward of 22 to 23 percent, an increase of 220 percent under Mr. Carter. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980 )

## INADEQUATE SUPPLY OF CAPITAL AND CREDIT

"The cost of capital and credit went up by over 26 percent in 1979. For the first four months of 1980, the cost of both long-term capital and bank credit had increased at an annual rate of over 70 percent." ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

The cost of Mr. Carter's decision to use monetary policy as the primary tool to control inflation is falling most heavily on the smaller firms who can least afford it.

As a result of Mr. Carter's credit policies begun in October 1979, it is estimated that 666,000 small businesses will fail this year. These credit policies alone will cost small businesses 3.2 million jobs and $228 billion in sales. ("Small Business Bankruptcies Rise After Credit-Tightening," Washington Post, May 15, 1980)

The disproportionate impact of Mr. Carter's monetary policies on small business is evidenced by the fact that the debt-equity ratio for small manufacturing corporations is five times larger than for the largest firms and, in construction, the smallest firms have a debt-equity ratio of almost three and one-half times that of the largest firms. ("The Impact of Inflation on Small Business," Small Business Administration, May 1980)

## BURDENSOME TAXES

U.S. tax laws continue to benefit large companies, forcing small businesses to drain working capital in order to pay a disproportionately large share of the nation's rapidly increasing tax bill.

In his campaign, Mr. Carter promised

> *As President, I will endorse legislation which will simplify our tax structure to make it fair and will work to reduce the current burden placed on small business.* (Position Paper, Small Business, October 11, 1976)

Despite the promise, Mr. Carter's 1978 "tax reform" package completely ignored the calls of small business for better capital gains breaks.

Today, companies with more than $1 billion in sales are able to claim investment tax credits and foreign tax credits equal to 61.1 percent of their tax liability while those with $1 million to $5 million in sales are claiming credits equal to only 6.5 percent of their tax liability. ("America's Small Business Economy: Agenda fo Action," White House Commission on Small Business, April 1980)

Mr. Carter's huge Social Security tax increases have hit small business particularly hard by substantially raising the cost of labor. The wage base for tax calculations increased from $17,900 to $22,900 in 1979, an increase of 29 percent. At the same time, the tax rate went from 6.05 percent to 6.13 percent, a 1.3 percent increase. In 1980, the Social Security tax base increased again to $25,900, an additional 13 percent increase.

Businesses, of course, must match the Social Security tax payment of each employee. Because small firms tend to be more labor intensive than larger firms, they are affected to a far greater degree by Mr. Carter's Social Security tax policies than larger companies. In addition, small firms are more competitive and cannot pass on the increased costs to consumers as readily as large firms, so they must either absorb the additional costs or maintain fewer workers.

## NO FAIR FEDERAL SHARE OF FEDERAL PROCUREMENT DOLLARS

Although small business accounts for 43 percent of the nation's gross national product, small companies received only 22.2 percent of federal procurement monies in 1979, down from 24.4 percent in 1978. ("America's Small Business Economy: Agenda for Action," White House Commission on Small Business, April 1980)

This, despite Mr.Carter's campaign promise to,

> *...endorse a policy which assures that small business receives a fair share of the federal procurement dollar.* (Position Paper, Small Business, October 11, 1976)

To make matters worse Mr. Carter pledged, in negotiations for the Geneva multinational trade agreement, to relax long standing restrictions in federal procurement policies that have required key agencies to grant special preferences to domestic small and minority businesses. According to the Administration's own figures, the new policies would affect approximately $9 billion of the $18 billion in federal procurement contracts awarded to small businesses. ("U.S. Would Relax Preference to Small and Minority Firms," Washington Post, March 14, 1979)

LACK OF SUPPORT

A study by the Office of Management and Budget shows that more than half of the major technological advances in this century originated from individual inventors and small businesses. ("America's Small Business Economy: Agenda for Action," White House Commission on Small Business, April 1980)

A Deputy Secretary of Defense has testified that "small business...probably give us more for our (research and development) money than large businesses do." ("...And is Small Ignored," Boston Globe, January 14, 1979)

Even Mr. Carter recognized small business as *"a critical, essential ingredient in the creation and implementation of new technology"* (Position Paper, October 11, 1976) and promised to *"endorse the implementation of new programs which will encourage technological innovation..."* (Position Paper, Small Business, October 11, 1976)

Yet, since Mr. Carter took office, small businesses have received less than 3.5 percent of federal research and development dollars. Experimentation in solar energy devices, for example, is almost the exclusive province of small companies and individual inventors. But only 1.6 percent of federal funds for solar energy development went to small businesses in 1979. ("America's Small Business Economy: Agenda for Action," White House Commission on Small Business, April 1980)

THE BANE OF REGULATION

After more than three years of Mr. Carter's presidency, small businesses remain saddled with myriad federal regulations and the overwhelming, often incomprehensible, reporting requirements that go with them, despite Mr. Carter's promise to:

> *...allow the small businessman and woman to get back to running their business by completely reforming our federal regulatory agencies [and] their reporting requirements.* (Position Paper, Small Business, October 11, 1976)

Government paperwork costs small business $12.7 billion a year as more than 305 million reports containing 7.3 billion questions are submitted annually by small businesses to 103 federal agencies. ("Agency Says Government Paper Work Costs Small Business $12.7 Billion a Year," Los Angeles Times, January 4, 1980)

The recent Chilton/Weidenbaum study entitled "Small Business in the Regulated Economy" reports "One of the most serious threats to the continued existence of small firms is the requirement for major capital expenditures to meet [certain federal regulatory] standards. ("America's Small Business Economy: Agenda for Action," White House Commission on Small Business, January 1980)

# APPENDIX

*"If elected, I will be the first small businessman since Harry Truman to serve as President. I have a deep and sincere concern for the future of America's nine million small businessmen and women and the 40 million Americans who work for small business concerns."*

--Position Paper
Small Business
October 11, 1976

*"My own guess is that the inflationary pressures will continue at about the level that they have historically the last couple of years, around six or a little better percent."*

--Press Conference
March 24, 1977

*"This Republican Administration through its tight money policies has given business and the consumer the highest interest rates since the Civil War. As President, my economic policy will be designed to stimulate growth and maintain an adequate capital supply for the small businessman and woman at reasonable interest rates."*

--Position Paper
Small Business
October 11, 1976

*"As President, I will endorse legislation which will simplify our tax structure to make it fair and will work to reduce the current burden placed on small business."*

--Position Paper
Small Business
October 11, 1976

*"I will endorse a policy which assures that small business receives a fair share of the federal procurement dollar."*

--Position Paper
Small Business
October 11, 1976

*"Inasmuch as small business is a critical, essential ingredient in the creation and implementation of new technology, as President, I will recognize this fact and will endorse the implementation of new programs which will encourage technological innovation and thus get the American economy rolling again."*

--Position Paper
Small Business
October 11, 1976

*"As a former businessman, I pledge to allow the small businessman and woman to get back to running their business by completely reforming our federal regulatory agencies, their reporting requirements, and tax laws to get the government off his back."*

--Position Paper
Small Business
October 11, 1976

SOCIAL SECURITY

## SOCIAL SECURITY -- THE RECORD

- The 1977 Social Security Amendments provided the American taxpayer with the largest peacetime tax increase in history. ("Congress Clears Social Security Tax Increase," Congressional Quarterly, December 17, 1977)
- The Social Security System now faces a long-term deficit of nearly $800 billion. (House Ways and Means Committee)
- The Old Age and Survivors Insurance Fund, the largest of the Social Security Trust funds, will run short of money to meet benefit demands sometime in 1981, barring Congressional action. (House Ways and Means Committee)
- "The maximum Social Security payroll tax on employees will have risen from $965 in 1977 to $1,975 in 1981, a leap of 105 percent in just four years." ("Social Security: Will it be There When You Need It?", U.S. News and World Report, April 30, 1979)
- Self-employed businessmen, professional people, and farmers face even steeper Social Security tax rises. By 1981, their maximum tax bite will have jumped 112 percent in four years. (Source: "Social Security: Will it be There When You Need It?", U.S. News and World Report, April 30, 1979)
- Payroll taxes would have to exceed 20 percent of payroll by early in the next century to continue the present financing system for Social Security. (Source: "The Social Security Deficit," Wall Street Journal, December 6, 1979)
- Mr. Carter has failed to live up to his promise to end Social Security benefit discrimination against women.

# SOCIAL SECURITY: ANALYSIS

Social Security, the backbone of our nation's income support program for the elderly, has been one of the most popular programs ever enacted by the U.S. government. Since 1937, it has paid an estimated $1 trillion to millions of elderly, widowed, orphaned, sick and disabled persons. One-seventh of all elderly couples and one-third of all elderly individuals depend entirely on Social Security for their support, and almost nine-tenths of all persons over age 65 receive Social Security benefits. Millions of Americans would be in poverty without the Social Security system. (House Ways and Means Committee)

## SYSTEM IN FINANCIAL CRISIS

Despite Mr. Carter's promise to *"completely restore the financial integrity of the Social Security system"* (Position Paper, "The Elderly," September 22, 1976), Social Security is now facing its greatest financial crisis in the history of the program.

His answer to the system's financial problems was simply to raise taxes, rather than institute meaningful reform. The 1977 Social Security Amendments, for which Mr. Carter took credit, gave the American taxpayer the largest peacetime tax increase in history. Yet the system faces serious deficit, both in the short and long term. The Old Age and Survivors Insurance Fund (OASI), the largest of the three Social Security trust funds, is expected to have insufficient money to make benefit payments at some point in 1981, barring Congressional action. (House Ways and Means Committee)

Although the smaller Social Security trust funds, the Disability Insurance Fund (DI) and the Hospital Insurance Fund (HI), are in relatively better financial condition, any reserve cushion they may have will not be enough to offset the OASI deficit through the early 1980s. (House Ways and Means Committee) Yet Mr. Carter's latest proposal to ease Social Security's financial crisis is to borrow money from the smaller two funds to offset the short-term cash flow problems of OASI. ("Carter Will Propose Accounting Change For Social Security," Wall Street Journal, January 21, 1980) The net result of such a step would provide only stop-gap relief for OASI, rather than long-term stability.

The Social Security system's long-range actuarial deficit is truly astounding, $800 billion in current dollars -- larger than the privately held national debt. (House Ways and Means Committee and "The Social Security Deficit," Wall Street Journal, December 6, 1979)

It is estimated that payroll taxes would have to exceed 20 percent of payroll by early in the next century to continue the present method of financing Social Security ("The Social Security Deficit," Wall Street Journal, December 6, 1979)

## PUBLIC SKEPTICISM

Upon signing the 1977 Social Security Amendments into law, Mr. Carter stated that the bill *"assures today's workers that the hard-earned taxes they are paying into the system today will be available upon their retirement."* (Jimmy Carter, Statement on Signing S. 305 Into Law, December 20, 1977)

Today's workers, however, are not so sure. A survey cited in U.S. News and World Report, has shown that four out of five workers have less than full confidence in the program. Among workers under age 35, nearly half have "hardly any confidence at all" that their benefits will be paid when they fall due. ("Social Security: Will it be There When You Need It?", U.S. News and World Report, April 30, 1979)

Indeed, given current and future trust fund shortfalls, Mr. Carter has allowed public confidence to falter in one of our nation's oldest and most successful programs.

## FLIP-FLOP ON USE OF GENERAL REVENUES

When campaigning for the presidency, Mr. Carter, in response to a question as to how he planned to restore the financial integrity of the Social Security system, said, *"The U.S. should do as much as possible to avoid general revenue contributors to the Social Security Fund."* (Boston Globe, September 5, 1976) However, in his 1977 Social Security proposals, Mr. Carter called for dipping into general revenue funds to finance Social Security when unemployment reached six percent.

Congress rejected Mr. Carter's proposal and, upon signing the bill, he said, *"We thought...that general funds should be used and triggered for those transient times."* (Jimmy Carter, Statement on Signing S. 305 Into Law, December 20, 1977)

Again, he was offering a stop-gap solution rather than meaningful reform. To draw upon general revenues to finance Social Security would be, in the words of Senate Finance Committee Chairman Russell Long (D.-La.), like "telling the Federal Reserve to print the money." ("Senate Panel Rejects Using General Funds for Social Security," Washington Post, July 28, 1977)

## SOARING SOCIAL SECURITY PAYROLL TAXES

Under the formulas set forth in the 1977 Social Security tax bill, payroll taxes will have more than doubled for most middle and upper income families by 1981.

"The maximum tax on employees will have risen from $965 in 1977 to $1,975 in 1981, a leap of $1,010, or 105 percent in just four years. These taxes, which must be matched by employers, will go still higher" in the 1980s, to nearly $3,200 by 1987. ("Social Security: Will it be There When You Need It?", U.S. News and World Report, April 30, 1979)

"Even steeper rises are in store for self-employed businessmen, professional people, and farmers. Their maximum Social Security tax in 1977 came to $1,304. By 1981, the bite will be $2,762, a jump of 112 percent." The increase in 1981 alone will be $664, a single-year increase of nearly a third. ("Social Security: Will it be There When You Need It?", U.S. News and World Report, April 30, 1979)

Yearly increases are built into the Social Security payroll tax system through the middle of the next century, with the biggest jumps affecting middle and upper income workers. These huge increases have been accomplished by raising both the wage base and contribution rate for computing payroll taxes.

The contribution rate will rise steadily from the 6.05 percent level of 1977 to 7.65 percent by 1990. Yet Mr. Carter, in 1976, took the position that *"Raising the contribution rate...would put an even greater burden on the average wage earner without insuring comparably greater benefits."* (Position Paper, "The Elderly," September 22, 1976) He was certainly correct.

## BROKEN PROMISES

Mr. Carter's performance in the area of Social Security benefits is no more credible than the financial integrity of the system itself.

While campaigning in 1976, Mr. Carter stated, *"The cost of living adjustment mechanism should be made more responsive during periods of rapid inflation so that beneficiaries do not have to wait a full year for catchup increases."* (Position Paper, "The Elderly," September 22, 1976)

But, not only has Mr. Carter made no move to pay cost of living adjustment increases more frequently than once a year, the Administration has also talked about cutting those increases. (House Ways and Means Committee)

Mr. Carter, in 1976, said, *"We need to change the ridiculous Social Security regulation that prevents many elderly men and women from being married."* (Speech on the American Family, Manchester, N.H., August 3, 1976)

Yet, Mr. Carter did not include provision to allow elderly citizens to remarry without loss of Social Security benefits in his 1977 Social Security proposals, and then tried to claim credit when Republican-sponsored legislation to this effect was included in the final 1977 Social Security Amendments bill passed by Congress. (House Ways and Means Committee)

Despite Mr. Carter's pledge that *"Workers should be guaranteed that, when they retire, Social Security benefits will bear the same relationship to their recent earnings as is true for those retiring today,"* (Position Paper, Social Security, 1976), such a provision has not been made. Mr. Carter did attempt to tie Social Security benefits to general revenue funding but this proposal, as mentioned, was rejected out of hand by Congress. ("Social Security Financing Proposals," HEW News, May 9, 1977)

Although Mr. Carter promised that *"consideration should be given to liberalization of the earnings test"* (Postion Paper, The Elderly, September 22, 1976), he did not include such a proposal in his 1977 Social Security proposals. When the House of Representatives voted to ease the means test, Mr. Carter threatened to veto the legislation. (Baltimore Sun, December 1, 1977)

Finally, Mr. Carter pledged to *"end discrimination against women in the Social Security system"* (Jimmy Carter, press release, June 13, 1976), but no reference to this promise was included in the 1977 Social Security proposals. The final Social Security Amendments signed by Mr. Carter merely mandated, on the initiative of Congress, a HEW study in consultation with the Justice Department's Task Force on Sex Discrimination. The final report only set forth options, none of which have been endorsed by Mr. Carter.

# APPENDIX

*"If I am elected President, I intend to completely restore the financial integrity of the Social Security system."*

--Position Paper
"The Elderly"
September 22, 1976

*"Most importantly it [S. 305] assures today's workers that the hard-earned taxes they are paying into the system today will be available upon their retirement."*

--Statement on Signing S. 305 into Law
December 20, 1977

*"The U.S. should do as much as possible to avoid general revenue contributors to the Social Security Fund."*

--Boston Globe
September 5, 1976

*"We thought that there ought to be some shift of funds from one social security reserve fund to another when needed, and that when the inflation rate and the unemployment rate had an exceptionally high drain on the social security system, that general funds should be used and triggered for those transient times."*

--Statement on Signing S. 305 into Law
December 20, 1977

*"Ford's plan [raising the contribution rate] would put an even greater burden on the average wage earner without insuring comparably greater benefits."*

--Position Paper
"The Elderly"
September 22, 1976

*"The cost of living adjustment mechanism should be made more responsive during periods of rapid inflation so that beneficiaries do not have to wait a full year for catchup increases."*

--Position Paper
"The Elderly"
September 22, 1976

*"We need to change the ridiculous Social Security regulation that prevents many elderly men and women from being married."*

--Speech on the American Family
Manchester, N.H.
August 3, 1976

*"Workers should be guaranteed that, when they retire, Social Security benefits will bear the same relationship to their recent earnings as is true for those retiring today."*

--Position Paper
"Social Security," 1976

*"In addition, consideration should be given to liberalization of the earnings test, which currently penalizes retirees who earn more than $3,280 per year."*

--Position Paper
"The Elderly"
September 22, 1976

*"I will act to end discrimination against women in the Social Security system."*

--Press Release
June 13, 1976