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The Foundation To Rebuild America

National Headquarters: 758 Mast Road, Goffstown, NH 03045 603-668-6400

January 10, 1982

Fred F. Fielding
Counsel to the President
The White House
Washington, D. C.

Dear Mr. Fielding:

With regard to your recent request that we discontinue mailing the Foundation's letter concerning child pornography, I would like to inform you that this has already been done.

You may recall that, in June of last year, you wrote us expressing your concern about a prayer & fasting letter we were mailing. We discontinued that letter at your request and, at the same time, also stopped mailing the letter concerning child pornography.

You might also like to know that we only mailed a small test of the letter and it has been out of circulation since early summer.

We appreciate your concern and hope this will resolve the matter.

Sincerely,

Tony

Tony Campaigne
President

TC:mk

See ID 115619 CU & 089186 CU

Copy to S. Studwell 12-1-83 m

M. Larsen 6-27-85

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. . . and a Take-Charge Guy

There is a worrisome disarray at the top of the Reagan administration, which, in the face of deepening recession and soaring budget deficits, hasn't been able to get its economic act together.

With the deficit for fiscal 1984 expected to exceed $200 billion, the president is being pressured by some aides to reduce planned increases in defense spending, by others to raise taxes, and by still others to let the burden of deficit-shaving rest on the welfare side of the budget.

The reality is that some combination of all these measures will be needed, if not in fiscal 1984, later on. But the last thing President Reagan wants to talk about now is another tax increase. He made that clear in an unprecedented public rebuke to Treasury Secretary Donald Regan, who had leaked his own preference for a new tax hike.

All Reagan's advisers agree, in principle, that the budget to be presented next month by the president must set out a scenario for reducing deficits over the next four or five fiscal years in a way that financial markets will accept as credible.

That means a descending pattern of deficits, lower for fiscal 1985 than 1984, and so on—in absolute dollars and as a percentage of GNP. "We can't do it with mirrors," says an official.

The deficit numbers projected for the out-years—fiscal 1985 through 1988—"are frightening," says one who has seen them. Unless reduced by both spending reductions and tax increases, the deficits soon top $250 billion and could run over $300 billion for fiscal 1988.

This is the result of the original, badly conceived Reaganomics program. It risked putting in place huge tax cuts, along with big defense increases—and never achieved the economic expansion necessary to avert this sea of red ink. There is, instead, a recession that could turn into depression.

Reagan's dilemma has no readily apparent solution. What's worse, no one stands out as a leader among his economic advisers. As they will admit privately, there is little coordination of their views when they speak out in public. "I'm surprised that the disagreements [on policy] are voiced so openly," says one official.

Theoretically, domestic economic policy is worked out at an informal "Tuesday breakfast" session hosted by Secretary Regan. The team— no alternates allowed—includes Secretary of State George Shultz, OMB Director David A. Stockman, Economic Council Chairman Martin Feldstein, Commerce Secretary Malcolm Baldrige and White House aide Edwin Harper.

Wall Street Journal
Walter S. Mossberg
Rich Jaroslovsky

As part of a package, they have discussed higher taxes at some stage of the game. It is clear, says one participant, that if Ronald Reagan believes one thing as if it were written in the Scriptures, it is this: you don't get out of a recession by raising taxes.

So all hell broke loose when Secretary Regan leaked the idea of a tax increase, presumably to begin in fiscal 1984. Says a colleague: "Don is just unpredictable." Regan, it will be recalled, only a few weeks ago floated the idea of advancing the July installment of the Kemp-Roth tax cut to the beginning of the year.

Regan also did a U-turn on the need to bolster the resources of the IMF as soon as the depth of the Third World debt crisis and the involvement of the American banks became clear. In this situation, Regan began to pay more attention to what Fed Chairman Paul Volcker was telling him about the desperate shape of the global economy, and less to the monetarist concerns of Treasury Undersecretary Beryl Sprinkel.

Stockman is still in the shadow resulting from his indiscreet disclosure late in 1981 of his honest doubts about the original Reaganomics program, and has little influence in shaping macro policy. He is using whatever clout he has, along with Feldstein and Baldrige, to press for spending cutbacks across the board, including a slice in the projected real increase in the Pentagon's budget.

Economist Feldstein, the newest boy on the block, has played an important role by insisting on realistic economic predictions—no more "rosy scenarios." He is respected at the White House, but his relationship with Reagan is still developing.

What Reagan desperately needs is a new policy package that at least holds out a reasonable hope for reducing the later-year deficits. But beyond that, he needs a take-charge guy for economics, someone who operates like George Shultz did in the Nixon administration. The danger is that Reagan will soon appear to be as indecisive as Carter. If the financial markets see no real relief on budget deficits in the later years, we could be in the double-digit interest-rate soup once again.

Arms and the Man

Reagan's Defense Push Draws Increasing Fire As Big Drain on Budget

Despite Critics on All Sides, President Is Likely to Win Most of Spending Goals

Why Cutting Is So Difficult

12-27-82

By WALTER S. MOSSBERG
And RICH JAROSLOVSKY
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—In a recent White House meeting, U.S. Chamber of Commerce President Paul Thayer was advising senior administration officials on areas where the federal budget could be reduced.

President Reagan was on hand for a time, and after he left for another appointment, Mr. Thayer began to talk about the need for cuts in defense spending. As a White House aide recalls it, Chief of Staff James Baker impatiently cut Mr. Thayer off saying, "You should have been making those arguments three minutes ago," when the president was still present. Mr. Baker is said to have added, "I don't even want to hear it now."

The episode tells much about defense-spending attitudes. Mr. Thayer is hardly a dove; he was the chairman of LTV Corp., a major defense contractor, and has since become Mr. Reagan's deputy defense secretary. And Mr. Baker, a wealthy Republican lawyer from Houston, isn't a flaming liberal.

Among business leaders, in public-opinion polls, in Congress and even within the administration, there is a widespread feeling that Mr. Reagan's ambitious military buildup is too costly and should be cut back sharply.

A Majority of Two

But such reversal doesn't seem to be in the cards. By all accounts, Mr. Reagan and his longtime adviser, Defense Secretary Caspar Weinberger, are bent on constituting a majority of two to keep largely intact their $1.6 trillion five-year military spending plan. And the betting is that they will succeed.

Experts say that if Mr. Reagan and Mr. Weinberger can just hold on during 1983, despite the political pressures caused by rising deficits and joblessness, it will be too late for their critics to do much more than wring their hands about Pentagon spending. For 1983 is the year of decision for the Reagan defense program. Without substantial changes in the fiscal-1984 budget due next month, the experts say, weapons-buying plans will be locked in for most of this decade.

That future cost is just what worries some in Congress. "I think we're going to have to have some actual program cuts in the defense budget next year," says Democratic Sen. Sam Nunn of Georgia, an influential defense thinker. He and others worry that the costly weapons programs begun today will demand expenditures for years to come, and that there might not be the dollars in future years to pay for them. "We're going to have severe underfunding problems when the bills come due in 1985, 1986 and beyond," he says.

Revised Approach

Even the staunchest backers of the arms buildup don't think their budget can get through unscathed next year. Hence, the administration is looking for ways to put the best face possible on its budget request: A team of Pentagon officials and White House staffers has been trying to refigure the fiscal-1984 request using lower inflation estimates and other changed assumptions, so the president can ask for less money to buy the same weapons. As the recent House vote against production funds for the MX missile shows, Congress can still hand the president sizable setbacks.

But history shows that once big weapons programs get rolling—generating jobs and business contracts—they are politically almost impossible to stop. Already the general scope and outline of the arms buildup are all but set, and 1983 is the year for many of Mr. Reagan's major projects to pick up steam.

Since the president took office in January 1981, he has jacked up Pentagon spending authority in each year's budget proposal. So far the actual outlays have risen far more slowly, reflecting the lag of several years before production of a new weapons system kicks into high gear.

But if the president sticks to his plan for fiscal 1984, he will present a budget calling for the fattest rise yet in actual military outlays. They would climb about $39 billion, or 19%, from this fiscal year's expected $208 billion.

Ballooning Deficit

Meanwhile, the federal budget deficit is ballooning to levels that set teeth rattling in Washington and on Wall Street. The expected fiscal-1983 deficit of about $185 billion would be by far the largest in U.S. history, and administration officials have said the fiscal-1984 deficit will top $180 billion without new action to reduce it.

Deficits of that magnitude, many fear, could eventually drive interest rates upward again and retard for years the economic growth needed to reduce unemployment. The result is that even conservative Republicans are having qualms about the size of the president's defense program.

Republican Sen. Dan Quayle of Indiana recently warned Secretary Weinberger of "a definite perception in the public that the Pentagon and military spending are simply out of control." "I was elected with your boss by a strong pro-defense constituency," he added, "but my mail has gone 180 degrees in the opposite direction" lately. Public-opinion polls are equally striking. A recent survey for Business Week magazine showed public backing for continued military increases had plunged from 71% during the 1980 election campaign to 17% this fall.

Mr. Reagan obviously doesn't see things that way. "To have your eye on the deficit with regard to defense," he recently told Time magazine, "is to ignore, as some predecessors have, that the primary objective of government must be the protection of the liberties of our people. . . . Defense cannot be looked at as a part of a budgetary solution."

That firmly held conviction, echoed by Mr. Weinberger in speeches and press conferences, has snuffed out most active opposition to the size of the defense buildup within the administration itself.

Last year, Chief of Staff Baker and Budget Director David Stockman mounted an intensive campaign to get Mr. Reagan to make significant cuts in his buildup. But Mr. Weinberger won out, arguing that U.S. military might had dangerously diminished and that only a strong defense posture would persuade the Soviet Union to undertake serious arms-control efforts. A few months ago, the president again sided with the secretary and against many of his other aides by renouncing the 1984 and 1985 portions of a budget deal worked out with Congress. The deal would have reduced the defense buildup by more than $20 billion over the two years.

This time around, the White House aides haven't pressed the case. After their fruitless efforts, Messrs. Baker and Stockman seem to lack the appetite for another major go-round. Moreover, they are loath to mount too visible a campaign, fearing accusations of disloyalty or of trying to manipulate their boss. "There has been a conscious effort to avoid the appearance—or the reality—of ganging up on the president," a senior White House official says.

Aides say Mr. Reagan will probably review the defense budget one more time before it is packed off to the printer. Relatively unbloodied advisers like Martin Feldstein, the new Council of Economic Advisers chairman, may press the issue then. But no one is predicting success. A top official who has known Mr. Reagan for years says there won't be much change "primarily because the president's already made the basic decision on the buildup and he isn't going to back off of it."

Signals to the Soviets

The recent leadership change in the Soviet Union, aides suggest, makes him even more determined. Mr. Weinberger and other hard-liners are telling him that any significant spending cuts or major weapons cancellations would send out what one calls "dreamy signals about unilateral disarmament over here."

Advocates of a smaller military buildup had hoped to rally support from potential allies, including Treasury Secretary Donald Regan and Secretary of State George Shultz. So far, though, neither man has taken up the challenge. A senior White House aide goes so far as to say that Mr. Shultz buttresses Mr. Weinberger in his arguments to the president.

White House aides say there are political as well as philosophical reasons for Mr. Reagan's stubbornness on the arms budget. The president, they say, knows that Congress will try to scale back his request, and he doesn't want to open the door even a crack by proposing cuts himself. He fears Congress would interpret such a move as a sign of political weakness, and a signal to cut much deeper than he wants.

"He's been told that he's going to get cuts whether he wants them or not, and he understands that," one of his closest aides says. And even an adviser who wants reductions sees the tactical logic in this approach. "If you're facing an assault, you don't start by taking one step backwards," the adviser says.

'This Isn't a Game'

Mr. Weinberger bristles at the very idea of setting a stage for compromise by agreeing to cuts in advance. "I haven't been willing to suggest that there are some programs in the budget we don't need, because there aren't," he says.

"This isn't a game. It isn't some sort of stylized Japanese play, with theatrical characters. What are we trying to do here? Are we trying to rebuild or to show we're receptive to editorials and cooperative with Congress?"

About the furthest the secretary seems willing to go is to try to refigure spending plans to allow for lower inflation. But any effort to claim such a "deflation dividend" could actually bolster the hottest Capitol Hill argument against Mr. Reagan's program: that it will be unaffordable in future years when the biggest weapons bills come due.

The reasoning is that, in the critics' eyes, Mr. Reagan has already underestimated the eventual cost of his buildup. Lowering the estimated price — even to reflect gains in the fight against inflation, can only widen the gap, they argue.

A Cutback Proposal

Harold Brown, who was the secretary of defense under President Carter, says, "We now have a great many programs which have been started and which cannot be fully completed" with the funds the Pentagon is likely to get. He favors canceling the B-1 bomber and two planned nuclear aircraft-carrier battle groups, thus saving as much as $65 billion.

Some evidence supports the charge that the price of the buildup has been underestimated. An internal Pentagon study, rejected by top officials there, concludes that the military has indeed underrated the cost of most of the weapons included in the buildup. A study by the Congressional Budget Office is expected to reach a similar conclusion.

But such fears have been around for a year now, with little result, and even advocates of big cuts say Congress can do little more than trim a bit off the edges.

Sen. Ernest Hollings has called for limiting annual Pentagon budget increases to 3% after inflation, rather than the 8% or so Mr. Reagan is seeking. But the South Carolina Democrat concedes that Congress "hasn't got the political will" to do it unless Mr. Reagan takes the lead. Former Secretary Brown glumly says the scaling back that he favors is "politically impossible" unless Mr. Reagan, Senate Majority Leader Howard Baker of Tennessee and House Speaker Thomas P. O'Neill of Massachusetts all sign on.

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Why Cutting Is Difficult

The reason cutting is so hard, Sen. Nunn explains, is that "a huge constituency builds up behind every program." For instance, California's liberal Democratic Sen. Alan Cranston, a Reagan critic, nonetheless supports the California-built B-1. The costly, limited-range F-18 fighter is a favorite target of many Democrats, but Speaker O'Neill backs it: The engines are made in Massachusetts. Rep. Joseph Addabbo is a foe of many proposals and led the charge against the MX missile, but the New York Democrat routinely adds funds for the A-10, a plane that is made near his district.

Pentagon hard-liners are counting on just such disarray among their foes. A White House aide recalls telling a top defense official, "Look, I'm a hawk too, I'm from the right wing of the Republican Party. You may be winning all these budget battles, but you may lose the war. You gotta give some."

The Pentagon official, he says, "just looked at me and smiled and said, 'Our critics are all over the lot. They can't agree with each other. All we have to do is stand our ground, and they lose.' "

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Midterm Malaise

Reagan's 'Revolution' Stalls as Policies Falter Both Here and Abroad

X

After Early Success, He Runs Into Economic Setbacks And Erosion of Support

A Bizarre Stance on Gas Tax

12·23·82

By RICH JAROSLOVSKY
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The "Reagan Revolution" swept into power like a tidal wave two years ago, aiming to wash away decades of U.S. domestic and foreign policies.

With an impressive electoral mandate, Ronald Reagan proposed a fundamental reshaping of the American system unattempted since the New Deal. Tax cuts and a balanced budget would usher in a new era of prosperity. The role of the federal government would be sharply reduced. A defense buildup and more-muscular foreign policy would win the U.S. new respect abroad.

For a while during the heady days of 1981, a dazzling series of legislative triumphs made these fundamental changes seem within Mr. Reagan's grasp. Now, however, as he approaches the midpoint of his term, many goals that seemed so close have begun to drift away. The path he has chosen to reach those goals has proved to be slippery. Meanwhile, unforeseen issues have distracted Mr. Reagan from his pursuit of fundamental change.

Domestic Problems

Domestically, the Reagan Revolution today is near a standstill. The administration seems to have lost the ability to take the lead in solving national problems. It is beset by policies that haven't worked, by political failures of its own making, by missed opportunities and an erosion of public support. The question now is whether it can reclaim that initiative so that the stalled Reagan Revolution can resume.

"The coalition of the first two years is dead," Rep. Jim Leach, a moderate Iowa Republican, declares. Presidential pollster Richard Wirthlin, troubled by defections from the president's 1980 constituency, says, "People believe Reagan, but they want to see action, they want to see results."

In foreign affairs, Mr. Reagan has yet to demonstrate an ability to mold policy in a way that enhances world stability and U.S. interests. Instead, his militant rhetoric, arms buildup and policy inconsistencies have unsettled relations with allies and adversaries alike.

In sharp contrast to his clearly defined domestic agenda, Mr. Reagan brought into office an unsophisticated view of foreign affairs. His strategy amounted almost exclusively to a get-tough attitude toward the Soviet Union and a huge increase in U.S. military strength. But the administration's internal wars over control of foreign policy, typified by the tumultuous tenure of Secretary of State Alexander Haig, prevented Mr. Reagan from developing that strategy.

Outlook Unchanged

The future doesn't look any rosier for Reagan policies. With 26 new Democrats in the House, the odds on economic and other domestic issues increasingly favor either stalemate or unappetizing solutions dictated by Congress, although Congress probably can't compel major changes in his foreign or defense policies.

Those close to the president are well aware of the dangers. "There are 101 different ways to get chewed up," one adviser says. "It's incumbent upon us to make sure the president understands precisely the price he's going to have to pay," a senior White House aide says.

But Mr. Reagan himself, by all accounts, is determined to stay as close to his chosen course as circumstances allow. "He will tolerate a very large political risk to do what he thinks is right," the aide concludes.

Mr. Reagan can realistically discount some of the gloom and doom he is hearing. At the outset of his presidency, widespread predictions were that his crusade wouldn't get very far. Yet he succeeded in pushing through legislation for a 25% reduction in personal income-tax rates. He slashed nondefense spending more than many thought possible. His five-year, $1.6 trillion weapons program is well on its way. And in areas from occupational health to civil rights and the environment, he has rolled back federal regulation.

Economic Distress

But more and more of the predicted gloom and doom is coming to pass. The economy is mired in the deepest recession since World War II, the jobless and business-failure rates are the highest since 1940, and the federal deficit is the biggest in history.

The president and his team still believe Reaganomics will work. But one official wonders if success will come in time "to rescue the Republican Party." A top Reagan adviser suggests that the key to recovery may be prayer. "We're building a chapel in the west wing," he says.

If recovery doesn't come soon, officials say, it will be hard to keep Congress from embracing a grab bag of programs to stimulate the economy. Some of those counter pressures are already evident, aided by what public-opinion polls show is a steadily waning support for Mr. Reagan's policies. "Congress is no longer dictated by a fear that Ronald Reagan can go to the country" and rally wide popular support, one Republican says. "People are no longer in awe of the president's magic."

With unemployment nearing 11%, Congress has already forced onto the administration's agenda the issue of federal job-creating measures. The idea that the government should create jobs is anathema to Mr. Reagan, who eliminated a $53 billion, seven-year-old public-jobs program. The lame-duck session of the 97th Congress – the Congress Mr. Reagan once dominated – forced him into a confrontation over jobs, and the 98th Congress may be even more insistent. "I think we will have to do a lot more compromising," says an administration official familiar with labor matters.

Mr. Reagan's answer to the jobs pressure this year was his proposal to raise the gasoline tax by a nickel a gallon, using the proceeds to repair highways and bridges and thus stimulate jobs. But, sticking to his ideological stance, Mr. Reagan stubbornly refused to term his proposal a jobs bill. In the eyes of even his allies, that refusal hurt both the proposal and his political standing.

One Republican strategist calls Mr. Reagan's posture – bending to the political pressure but refusing to take the political credit – "bizarre." A senior presidential adviser, frustrated by the president's intransigence, says the gasoline tax should have flatly been labeled "a jobs bill – and *our* jobs bill."

Even the president's friends say he can't afford such stubbornness. Many observers believe that political pressures will eventually bring him around to a more moderate outlook on economic issues. But there isn't yet much evidence that he realizes the ball game has fundamentally changed. His aides uniformly say his private attitude is much like his public one – quite unyielding on the basics of his philosophy.

Mr. Reagan similarly shows no sign of softening his foreign policy stance. But despite the rhetoric, the performance has appeared just as indecisive as the Jimmy Carter approach he campaigned against. In his most important test so far, his reaction to events in Poland, he refused genuinely hard-line measures such as declaring the nation in default on its foreign debt. Instead, he imposed economic sanctions without first lining up U.S. allies behind him, and thus damaged relations. Having forsworn the Carter grain-embargo approach in dealing with the Soviets, he acceded to domestic political pressures and even for a time made U.S. grain sales to the Soviets easier.

Mr. Reagan's foreign policy has been rent by "a constant battle between the original ideology and a number of realities," says Stanley Hoffmann, chairman of the Center for European Studies at Harvard University. "Reality has largely prevailed. They've had to put a lot of water into their wine."

In the one area he had firm ideas about, the defense buildup, Mr. Reagan has largely gotten what he wanted. Even with Congress's rebuff over the MX missile, most of the major weapons he is seeking will be well under way by late next year. Despite the evident qualms of even conservative Republicans, Congress shows little inclination to revise the president's grand design.

Mr. Reagan and Caspar Weinberger, his defense secretary, maintain that the buildup will fundamentally enhance world stability by redressing a perceived imbalance of strength and scaring the Soviets into serious arms talks.

But a leading defense analyst, who served as a Reagan campaign adviser, asserts, "the irony is that Reagan talks a lot about defense, but his administration displays more ignorance of defense issues than any since World War II. Congress and the public are beginning to realize that they have gambled on very, very high increases in the budget without a coherent strategy. They are wasting an opportunity to turn around the military balance, because their behavior argues against the chances for sustaining the buildup they want."

Rude Awakenings

Diplomatic initiatives have brought a series of rude awakenings. The administration's early hopes for building an anti-Soviet consensus among Israelis and Arabs died quickly. After engineering a halt to Israel's military advances in Lebanon, its luck has been little better than previous administrations in making progress toward long-range solutions. Mr. Reagan's Sept. 1 initiative for a West Bank solution has scarcely moved, and officials are laboring just to keep it alive.

Other issues have contributed to uncertainty. Friendly feelings in China toward the U.S. were dissipated by disagreements over Taiwan; though relations have improved a bit lately, the appearance that the U.S. is an unreliable ally may have accelerated China's move to ease tensions with the Soviets. Mr. Haig's campaign to make El Salvador a focal point of East-West confrontation appears to have departed with him.

The new team of Secretary of State George Shultz and National Security Adviser William Clark has at least restored relative calm to internal policy making. Mr. Shultz also eased the rift with the allies by engineering the administration's retreat from its sanctions against the Soviet natural-gas pipeline. But major problems persist in the foreign-affairs apparatus. Mr. Weinberger's Pentagon stewardship, for instance, is coming under increasing fire. Critics say that he hasn't enforced tough management on the military and that he has botched important matters such as the MX missile-basing plan. "If I were Reagan, I'd string up Cap for embarrassing me so," a GOP Senate aide snipes.

Not the Type

That isn't likely. Mr. Reagan just isn't the whip-cracking type. His White House has been wracked by infighting, largely among partisans of Chief of Staff James Baker and counselor Edwin Meese. Many presidential aides criticize what they see as subpar performances by cabinet members like Labor Secretary Raymond Donovan and Attorney General William French Smith. Yet Mr. Reagan hasn't taken steps to shake up his administration.

The administration seems to some to be losing its nerve as problems come hurtling at it – the deep recession, high interest rates, Social Security, budget deficits. "They're scared to death," says one House aide. "They're scared to death of Social Security. They're scared to death of the Fed. And they'd much rather not have to produce a budget." Rep. Barber Conable, a New York Republican, adds, "They don't shift gears easily down there. They tend to juggle just one ball at a time."

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As the administration becomes bogged down, some cherished goals are falling by the wayside. Its unwillingness to compromise has damaged its chances for winning far-reaching changes in environmental laws and policy. Its attempts to open wilderness areas to development are hopelessly stalled; Congress is likely to leave clean-water laws largely unchanged and next year may even toughen federal standards for some kinds of air pollution and toxic wastes. "We haven't won many battles where pollution issues are concerned," an Environmental Protection Agency official concedes.

Presidential efforts to slash education spending and dismantle the Education Department don't seem to be going anywhere. "Every time they hit me with a new idea, I said no, and we've pretty much kept that pattern," says Vermont Sen. Robert Stafford, the Republican who heads the education subcommittee.

One initiative close to Mr. Reagan's heart is the "New Federalism"— his effort to shift some domestic responsibilities from the federal to state and local governments. It too has floundered. Mayors and governors, whose support is desperately needed, have come to regard "New Federalism" as synonymous with budget cuts.

While Reagan initiatives languish, it remains to be seen whether Congress can launch major initiatives of its own. Such moves probably can't come from the Democrats alone, despite their increased House majority; many observers say they are in too much disarray to produce effective counterproposals to Reagan policies.

"The president will remain the initiating force," predicts Rep. Conable. A GOP Senate staffer adds hopefully; "Maybe the Democrats are so incompetent that we can muddle through the next two years without making a mess of things."

But others see at least an outside chance for congressional Democrats and Republicans to conclude a separate peace, fashioning their own solutions and moving the nation still further away from the original Reagan goals.

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Reagan Budget-Cutters Seen Falling Shy Of Goal on '84 Non-Defense Spending Cuts

12·16·82

By Rich Jaroslovsky
Staff Reporter of The Wall Street Journal

WASHINGTON – Reagan administration budget-cutters likely won't meet their target for non-defense spending reductions for fiscal 1984, officials said.

The officials said that, as a result of the budget review-and-appeals process under way at the White House, the fiscal 1984 cuts probably won't reach the $26 billion the administration sought at the outset of its budget planning.

Depending on the size of the overage, President Reagan could be forced into an unappetizing choice between ordering his aides to make still further reductions in already decimated programs, or proposing a budget with a deficit even wider than the record $155 billion officials are aiming for in fiscal 1984, which starts Oct. 1.

It also could strengthen the arguments of administration aides who want the president to bend a little by scaling down his defense-buildup plans, supporting modest tax increases and taking other steps to show he is serious about working with Congress to narrow the deficit.

One proposal circulating within the administration, according to aides, would call for "revenue enhancements"–the euphemism for tax increases–of about $14 billion in fiscal 1984. President Reagan has made it clear that he doesn't like tax boosts, but he has reversed himself twice this year and supported them, so aides think it isn't impossible that he could do so again.

At the moment, aides say, Mr. Reagan hasn't shown any signs of willingness to use his budget as a vehicle for peace overtures to Congress. "It won't be a compromise document," one aide predicts. But he and others caution that the budget situation remains highly uncertain and that, in the words of one aide, "the president hasn't signed off on any of this."

The $26 billion figure for fiscal 1984 spending cuts was designed to help narrow what officials said might otherwise be a deficit of at least $185 billion. But the Budget Review Board–composed of White House chief of staff James Baker, presidential counselor Edwin Meese and budget director David Stockman–isn't expected to sustain such deep reductions, officials said.

However, the magnitude of the problem isn't clear yet. "Nobody can yet quantify" it, one official said, because the budget-cutters haven't tackled such major parts of the budget as the "entitlements" programs–welfare, food stamps and the like, for which benefits are mandated by law–and the federal programs that require cost-of-living adjustments. Administration task forces are examining those programs, while the Budget Review Board has been preoccupied with discretionary programs.

What the panel has found so far, one aide says, is that "in several cases there is recognized merit" in the protests of hard-hit departments and agencies.

Some Sympathy for Schweiker

For instance, the aide said, there is some sympathy at the White House for Richard Schweiker, secretary of health and human services, who has loudly protested some of the reductions sought for his agency. "He's got some genuine problems," the aide said. The secretary already has appeared before the budget panel and is scheduled for a second session.

Among other things, Mr. Schweiker is strongly battling proposed reductions in the Food and Drug Administration that, his department told the Office of Management and Budget in a formal appeal, could result in "effectively crippling the agency." The department said the proposed cuts would force the FDA to trim its 6,800-member workforce by 980 employees in fiscal 1984, far more than the 240 jobs the budget office estimated. That might force the FDA to take longer to process new-drug applications, the department said, and could cause it to miss court-ordered deadlines regarding its regulation of food-color additives and the efficacy of prescription drugs.

Another Eight

The department also is fighting a proposed 615-person cutback at the 3,400-strong Centers for Disease Control. It is arguing that the reduction would weaken efforts to monitor and control diseases, ultimately increasing federal outlays for Medicare and Medicaid recipients.

The Agriculture Department, meanwhile, is fighting cutbacks in spending for soil and water conservation. Besides being very popular with farmers, such programs have been a top priority of Agriculture Secretary John Block–but that hasn't kept the budget office from trying, as it did unsuccessfully last year, to force reductions.

The budget office has proposed to cut the department's conservation spending to about $562 million in fiscal 1984. For the current fiscal year, the administration had sought a 28% reduction to $573 million for such activities. But yesterday, Congress sent to President Reagan a bill providing the department with $804.2 million for fiscal 1983 conservation spending.

Secretary Block warned in September that the fiscal 1984 figure is "difficult to defend from a political standpoint," especially in light of a congressional desire to increase, rather than cut, the conservation programs.

Research-Spending Proposal

Agriculture officials say the budget office has proposed keeping research spending about the same as in the current fiscal year, and actually has suggested a small increase in the export-promotion budget. But the department itself, in a September proposal, recommended a "significant reduction" in its nutrition programs, including food stamps.

The agency proposed several technical and administrative changes in the food stamp program–such as reducing benefits more quickly as a recipient's income rises, cutting benefits that total less than $10 a month and fixing its administrative payments to states–that it said could save millions of dollars a year. The department also proposed eliminating money for family day-care homes and for nutrition programs run by the Defense and Interior departments, and converting child-nutrition programs into a block grant, a step it acknowledged might engender "strong opposition," as it has in the past.

In addition, the department requested that 13.1 billion board feet of timber from national forests be sold in fiscal 1984, an increase from an authorized 12.3 billion board feet this fiscal year. Conservationists have opposed increased cutting, but the department said it might be needed for a possible spurt in housing starts.

Joseph Kraft

6 JAN 1983
W.P.

Needed: A Deal . . .

A major political bargain asserts itself as the 98th Congress gets under way. But right-wing Republicans, led by President Reagan, and some liberal Democrats block the obvious deal.

So a long, bruising battle lies ahead. At the end of the day, when the deal is finally cut, the odds are that the economy will still be in trouble, that budget deficits will still be huge and that the political scene will be dominated by cripples.

The stuff out of which deals are made flows in superabundance from the present budgetary situation. The deficit for fiscal 1983, ending this September, is expected to hit a record high of $190 billion. The deficit in the fiscal 1984 budget, which the president will transmit to Congress on Jan. 31, is estimated, unless changes are made, to run at $200 billion. Thereafter the deficit will rise steadily until, in fiscal 1988, it reaches $300 billion.

Borrowing to finance such major revenue shortfalls puts a big strain on private spending. The pinch becomes especially acute after the recession ends and corporations begin competing for funds to expand. So, on the assumption that a turn in the economy will occur this year, a reduction of deficits becomes absolutely essential to sustain recovery later on.

Ways to cut the deficit abound. The huge rise in social spending, certain to occur unless various entitlement programs are moderated, presents a target appealing to most conservatives. The $1.6 trillion rise in defense spending programs for the next few years offers a juicy watermelon to many liberals. The liberals would also like to have a go at the big benefits accorded rich people in the 1981 tax cut. The obvious deal is to reduce the deficit in 1984 by limiting increases in social spending and defense, while raising revenue later on by adjustment in taxes.

Moderate Republican senators, under Majority Leader Howard Baker and Finance Committee Chairman Bob Dole, have long favored that approach. Last week they won over to their side the president's best friend in the Senate, and an ideological soul mate, Paul Laxalt of Nevada.

A White House moderate, Chief of Staff James Baker, has also emphasized deficit reduction. He gained a major ally when Martin Feldstein became chairman of the Council of Economic Advisers earlier this year. Feldstein insisted on putting into the budget estimates for fiscal 1984 realistic numbers that highlighted the super-large deficits. Armed with those numbers, he won over to the need for deficit correction two true heavyweights—Treasury Secretary Donald Regan and Secretary of State George Shultz.

But President Reagan, though virtually isolated, has refused to yield on defense. He has pounded the table in opposing any tax increases. He has recoiled before reductions in social spending that might affront his own middle-class constituents—particularly Social Security. While that strong stance may be a matter of playing poker, a more likely explanation is that the president is sticking to his ideological guns no matter what the economic consequences.

On the Democratic side, mainstream figures in the House of Representatives are primed to get the lion of gargantuan budget deficits out of the street of economic recovery. Chairman James Jones of the Budget Committee has already surfaced a proposal for major cuts in both defense and social spending. He favors putting limits on cost-of-living increases—a neat way to reduce both Social Security payments and the big tax cut enacted in 1983.

But Speaker Tip O'Neill favors big job programs to end the recession quickly. In his opening statement to the new House, the speaker said: "It is time to stop waiting for an economic theory to work, and instead to do what we have done before—stimulate the economy." Of course, the speaker is an old pro used to compromise after asserting his preferred position. But maverick liberals crowding behind him leave little room for turning around. It is notable that a California group, led by Phil Burton of San Francisco, elected its candidate, Howard Berman of Los Angeles, as freshman member of the Democratic Steering Committee, over the candidate—John Bryant of Dallas—favored by the speaker and Majority Leader Jim Wright.

That suggests Democrats on the make are going to embrace the job programs. The Burton lead will probably be followed by all the presidential candidates, and the speaker may have a tough time compromising.

In the end, the deal now visible to everybody will probably be cut. But not before the president and the speaker have been shown beyond any doubt that they lack the votes for a win. That foreshadows a hard-fought battle that will last for most of the year.

In the interim, the economy will drag along without major stimulus. Budget cuts will prove difficult to achieve in the atmosphere of recession, and the deficits will hang high. As to the political consequences, moderate Republicans may have to shoulder the burden of big deficits, high unemployment and a fight with Reagan. The Democrats, while enjoying the benefits of good issues, may find themselves lacking a presidential candidate with a plausible claim to have acted responsibly.

ABROAD AT HOME

The Reagan Record (1)

6 JAN 1983

MYT

By Anthony Lewis

BOSTON, Jan. 5 — Two years into the Reagan Presidency, Americans are beginning to suspect the awful truth: They have a government incompetent to govern, a President frozen in ideological fantasy-land, an Administration spotted with fools and rogues.

The unmistakable symptom of incompetence is the economic disarray in Washington. The United States Government faces a deficit approaching $200 billion in the next fiscal year, more than double the previous record. How is the President going to deal with it? One month from his budget deadline, he has no serious idea.

On this as on so many economic issues the Reagan Administration sends out contradictory signals twice a week. It is going to speed up tax cuts — no it isn't. It is going to raise taxes — certainly not. It is going to make drastic cuts in domestic expenditure — the President has changed his mind, or no he hasn't.

Ronald Reagan came to office as the man who would take charge of the economy. Yet today there is a vacuum in Executive leadership; the crucial economic policies are coming from Congress and the Federal Reserve. What has gone wrong?

Rigidity is a large part of the explanation: an inability to adjust to facts. A President who drove a radical economic program through Congress refuses to see that the program is not working. And the denial of reality immobilizes him.

Mr. Reagan told us, and believed, that he could create an economic boom, and balance the budget, by cutting taxes while spending more for arms and less for domestic needs. What we have instead is a severe recession, massive unemployment and record deficits.

Confronted with the painful economic facts, the President waves them away. He will not face the real sources of fiscal trouble: the uncontrolled growth in military spending and the shrinking of the revenue base. To blame them, he says, is "dipsy-doodle" thinking. And so, reduced to tinkering, he strains to hold the deficit to a mere $175 billion.

The pattern of evasion and ineptitude is disastrous to financial confidence. Even the President's natural backers are turning away. A Gallup poll of big business executives published in The Wall Street Journal shows that, in one year, those expressing "a great deal of confidence" in Mr. Reagan's economic leadership have fallen from 58 to 27 percent.

His appointees share responsibility with the President for the economic mess. White House advisers and the Administration's top economic officials have never broken through Mr. Reagan's fantasies. His Pentagon civilian appointees actually encourage illusion; the uniformed chiefs are now the realists on arms spending.

What George Shultz has done for foreign policy in six months shows that it is possible to move this Administration toward realism. But there is no equivalent on the domestic side: no voice of quiet reason in the President's councils. Instead we see ideology run riot and a gang of predators getting what they can out of the Federal Government.

The perfect symbol of the Administration in domestic affairs outside of economics is the Legal Services Corporation. For ideological reasons Mr. Reagan tried to abolish the program of legal help for the poor. When the country's establishment lawyers resisted and Congress said no, he appointed a Legal Services board that he hoped would subvert the program. When some members would not, he dropped them.

Then it turned out that the new Legal Services president had negotiated himself a fat-cat contract including membership in a private club of his choice. He negotiated it with the chairman, an old friend of his. All that is supposed to be conservatism.

Reading about some of the officials in this Administration, you would think the Snopes family had all moved to Washington. A Reagan appointee to the Interstate Commerce Commission, Frederic Andre, said the I.C.C. should do nothing about bribes in the trucking business because they are just "instances of the free market at work." The man Mr. Reagan chose to head the Veterans Administration, Robert P. Nimmo, spent $54,183 redecorating his office and resigned just before an official report criticized him for misusing military aircraft and a government chauffeur.

It is not just insensitivity. There is a deeper sense of departure from the standards that have made the Federal Government work reasonably well under Presidents of both parties.

The Justice Department, which has for so long maintained a professional esprit, is a sad example under the California society lawyer who is now Attorney General, William French Smith. A career lawyer at Justice remarks that he and others look back with nostalgia to the days of John Mitchell and Richard Kleindienst.

That is where we are, halfway through Mr. Reagan's term: nostalgic for the Nixon Administration.

5

Reagan Trip Seen Warming Ties to Brazil, Chilling Latins' Hopes for Economic Aid

12·6·82

By RICH JAROSLOVSKY
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – President Reagan's Latin American trip yielded mixed results for U.S. interests and relations with the region.

Administration officials had said Mr. Reagan was making the trip mostly to talk and listen rather than to attempt major diplomatic breakthroughs. They practically promised there wouldn't be any dramatic developments, and they were as good as their word.

In his four-nation trip, during which he met with six heads of state, Mr. Reagan may have signaled the start of warmer relations with Brazil after several chilly years. He also signaled the renewal of military aid to El Salvador and probably to Guatemala, two nations whose human-rights policies have brought the U.S. criticism for supporting their governments.

But at some stops, notably in Colombia, Mr. Reagan received firsthand evidence of the substantial differences between the U.S. and many of its neighbors.

Throughout the five-day trip, Mr. Reagan's two major topics of discussion were economic matters and political unrest. He lectured his hosts on the merits of free-trade and free-market philosophies, the evils of protectionism and the need to curb budget deficits. He repeatedly denounced "counterfeit revolutions" in Cuba and Nicaragua and accused those nations of attempting to subvert others in South and Central America.

Leaders Saw a Link

Over and over, however, the leaders Mr. Reagan met with stressed an inextricable link between the economic and security issues. They sounded notes of urgency, and in some cases almost of desperation, warning that without substantial additional help from the industrialized nations—help that Mr. Reagan has been largely unable or unwilling to promise—many Latin American nations will be in danger of succumbing to hostile ideologies.

"We urgently need economic and financial cooperation," Luis Alberto Monge, the Costa Rican president, said in San Jose. "We ask for economic cooperation now so that, God willing, we never have to ask for military help."

Honduran President Roberto Suazo Cordova told Mr. Reagan much the same thing, but Mr. Reagan had little to offer in return. He didn't offer any substantial help for Mr. Monge's plans to develop an industrial buffer zone along the Nicaraguan border and mostly emphasized the possible benefits of his Caribbean-basin initiative, which is designed to provide economic incentives.

Mr. Reagan got a taste of the depth of some Latin American feelings Friday in Colombia. After winding up generally friendly talks in Brazil—he invited Brazil to send an astronaut to the U.S. space program, and the Brazilian president loaned him his favorite horse—Mr. Reagan got a far less than friendly reception in Bogota. His visit was marred by anti-U.S. demonstrations, bombings, extraordinarily heavy Colombian security precautions and a sharply worded welcome from President Belisario Betancur.

In a toast to Mr. Reagan at an official luncheon, Mr. Betancur criticized the U.S. as insufficiently generous to international development organizations, disagreed with U.S. efforts to "isolate" Cuba and Nicaragua and declared his nation "nonaligned." The critical remarks caught U.S. officials by surprise and forced a last-minute rewriting of Mr. Reagan's words to touch on some of the issues Mr. Betancur raised. "It was a tough toast," Secretary of State George Shultz said of Mr. Betancur's statements.

U.S. officials later attempted to play down the significance of Mr. Betancur's public remarks, suggesting that they may have been designed mostly to score domestic political points and that his private meeting with Mr. Reagan went well.

In Costa Rica, Mr. Reagan first met with Alvaro Magana, the provisional president of the U.S.-backed regime in El Salvador. Despite continuing charges of government human-rights violations, Mr. Reagan all but announced that U.S. military aid to the government will continue.

By law, the U.S. can't continue military aid to El Salvador unless the president certifies to Congress next month that El Salvador is making progress in curbing human-rights violations. U.S. Ambassador Deane Hinton recently criticized the government's performance and came close to threatening an aid cutoff. But after meeting with Mr. Magana, the president told reporters, "I think they've been trying very hard and making great progress against great odds."

A Conditional 'Yes'

Asked whether he will recertify the nation for aid, the president said: "On the basis of everything we know now, yes, of course."

Mr. Reagan will take an even more controversial step if he follows through on his stated desire to restore military aid to Guatemala. That aid has been withheld for several years because of widespread reports of government-backed kidnappings, murders and human-rights violations there.

After meeting in Honduras with Guatemalan President Efrian Rios Montt, who took power in a military coup this year, Mr. Reagan said he is leaning toward military aid for the regime. He said Mr. Rios Montt is getting "a bum rap."

In his meeting with U.S. officials, Mr. Rios Montt indicated in general terms that he wants to begin an election process in his country. He said Guatemala may issue a plan next March for eventually installing democratic processes and brought what Mr. Reagan called "a whole lot of material" on his plans.

"I very frankly think that they've been getting a bad deal," Mr. Reagan told reporters later. "He is totally dedicated to democracy in Guatemala."

Asked whether he was then leaning toward providing military aid to the regime, Mr. Reagan said: "This is going to depend, of course, on this information he's provided us. Yes, I would think so."

6

Reagan, in Brazil, Calls for United Effort To Combat Protectionism and Recession

12-3-82

By RICH JAROSLOVSKY
Staff Reporter of THE WALL STREET JOURNAL

SAO PAULO, Brazil—President Reagan said the U.S. and developing nations have two of the same enemies—recession and protectionism—and pleaded for the world's economies to battle them rather than each other.

In a speech to Brazilian and U.S. business executives here, Mr. Reagan said "all of us are trying to work our way free from this tenacious recession" but warned, "We can always make a bad situation worse by damaging those powerful engines of growth—the world's trading and financial systems."

As he has done repeatedly over the past several months, the president declared that "recovery is in sight" for the U.S. This, he said, should help the ailing economies of U.S. neighbors and trading partners as well. But those other economies must do their part too, Mr. Reagan said.

"Borrowers must move to restrict their deficits," he said; protectionism in trade—"an ugly specter stalking the world"—must be resisted, and subsidization of exports poses a "danger" to the world's economies.

The aim of protectionist steps, the president said, may be to protect jobs. "But the practical result, as we know from historical experience, is the destruction of jobs. Protectionism induces more protectionism, and this leads only to economic contraction and, eventually, dangerous instability," Mr. Reagan said.

While Mr. Reagan was decrying protectionism and subsidies, other U.S. officials said they were close to agreement on extending certain protections Brazil's exports currently have in the U.S.

William Brock, the president's special trade representative, said negotiations are nearly complete on a two-year extension of the so-called "injury test" for Brazilian goods. "Extensive discussions" with the Brazilians have "made a good deal of progress," Mr. Brock said. "We're really arguing about little details in the contract."

Under an "injury test," U.S. manufacturers have to prove that they are hurt by a foreign nation's subsidized exports before they can compel the government to impose a countervailing duty. The extension of the injury test for Brazil was made necessary when it recently indicated that it wouldn't be able to end its disputed subsidies by next April, as it had been required to do under the General Agreement on Tariffs and Trade. Mr. Brock said his talks with the Brazilians had focused on such items as steel, shoes, commuter aircraft and orange juice.

Mr. Reagan's tone was serious, as are the economic problems in almost all the nations he will be visiting on his Latin American tour. His tone was a bit defensive, too. Brazil, like many other developing nations, would like the U.S. to offer more of a helping hand and a share of the wealth currently concentrated in the industrialized nations.

Though the president expressed general sympathy with the plight of the less developed nations, he made clear there are tight limits on what the U.S. is prepared to do. Increased wealth for developing nations, he said, can't come at the expense of the developed; the only way is creation of new wealth by economic expansion.

His prescription for creating that expansion in developing nations sounded much like the one he has been following for the U.S. economy. He spoke glowingly of his three-year, 25% income tax-rate cut, of the reductions in non-defense spending he has pushed through and of what he called other U.S. incentives to save and invest.

"Our crisis today isn't between North and South, but between universal aspirations for growth and the longest world-wide recession in postwar history," the president said. "Lenders and borrowers must remember that each has an enormous stake in the other's success."

To demonstrate the value he attaches to Brazilian-U.S. ties, Mr. Reagan issued an invitation to Brazil to supply an astronaut to be trained for and fly on a future trip of the U.S. space shuttle.

In his speech, Mr. Reagan acknowledged demand from borrowing nations for higher contributions by the U.S. and other lenders to such institutions as the International Monetary Fund.

"We have agreed that IMF resources should be increased," the president said, though he didn't refer to the continuing debate over how large that increase should be.

Mr. Reagan also warned of difficult trade problems that must still be resolved. Agricultural trade, he said, "has resisted liberalization in the postwar years." And he called for "agreed rules on safeguards in the event of injury that provide for transparency and equity."

7

Reagan Unveils Credit to Brazil Of $1.23 Billion

He Also Pledges U.S. to Ease Curbs on Sugar Imports In Talk With Figueiredo

12-2-82

By RICH JAROSLOVSKY

Staff Reporter of THE WALL STREET JOURNAL

BRASILIA, Brazil—President Reagan, in the first stop of his Latin America tour, announced that the U.S. had agreed to provide Brazil with $1.23 billion of short-term credit to tide the country over its current economic crisis.

Like a politician dispensing election-year grants, Mr. Reagan used his meetings with Brazil's president, Joao Figueiredo, to announce as well a relaxation in U.S. restrictions on sugar imports for certain purposes.

The White House said that the two presidents made progress toward better ties, and that they exchanged pledges of friendship and cooperation in toasts at a working dinner last night. But Mr. Figueiredo made clear in his remarks that the U.S. favors offered by Mr. Reagan haven't led Brazil to change its mind about a number of U.S. policies. He politely but pointedly expressed concern about U.S. actions in Africa and Central America, decried increasing East-West tensions, and pressed Mr. Reagan to open global talks on the problems of poorer nations and to be more generous with international lending institutions.

White House aides had dampened expectations of any major breakthroughs in the Brazilian talks, and they apparently were warranted in their caution. The major development after the day's meeting was an agreement to establish a series of high-level "working groups" to examine U.S.-Brazilian relationships in a number of fields.

Shultz Lists Issues

Secretary of State George Shultz said the groups will address issues of finance, trade and economics, nuclear power, science and technology, and "industrial-military fields of cooperation."

Those talks could lead to improved ties between the two countries, U.S. officials said. In particular, they could result in allowing Brazilian military officers to come again to the U.S. for training and permit U.S. sales of enriched uranium to Brazil.

Such sales are currently barred under U.S. law because of Brazil's stance on nuclear-proliferation issues. The Reagan administration hasn't been happy with the restriction and the talks with Brazil could give it a reason to have the rules eased.

The U.S. loan that Mr. Reagan announced—he called it a "bridge loan"—has been in the works for some time, administration officials said. It is in the form of so-called swap arrangements between the U.S. and Brazilian treasuries. The arrangement was worked out secretly by U.S. Deputy Treasury Secretary R. Tim McNamar and Brazilian Finance Minister Ernane Galveas at last week's session of the 88-country General Agreement on Tariffs and Trade. It became effective Nov. 25.

U.S. Treasury Secretary Donald Regan said the loan, which will carry an interest rate pegged to the Treasury's 90-day borrowing costs, will come from the department's foreign-exchange stabilization fund. He said it will be repaid with funds due Brazil on a short-term basis from the International Monetary Fund. Mr. Regan said the U.S. loan isn't directly connected to a long-term loan of some $6 billion Brazil said last week it is seeking from the IMF.

Brazil asked for the bridge loan from the U.S. to allow it more flexibility until the IMF money comes through. The U.S. is said to have won some belt-tightening measures from the Brazilian government in return for the credit, but it wasn't immediately clear the extent of such terms.

Brazil has been involved in its own self-imposed belt-tightening program for the past 1½ years, but has been unable to stem the drain on its reserves caused by falling commodity prices and the impact of the world recession in reducing its export markets. Today, its foreign exchange is nearly depleted, and the country has amassed a foreign debt burden exceeding $80 billion.

Bankers Relieved

The U.S. agreed to the loan as part of its efforts to forestall panic in the world's financial markets as the scale of debt problems in such countries as Mexico, Brazil and Argentina begin to come into focus. Bankers learning of the bailout last night were expressing approval and relief. One of them, Roger Shields, chief international economist of Chemical Bank in New York, said commercial banks would take the Treasury move "as a sign that the resources of the international financial network are rising to the occasion, are being mobilized to treat problems in an appropriate way."

In his briefing in Brazil, Secretary Regan said the loan was "a nice thing for us to do" for Brazil and said it should "differentiate" Brazil, in the eyes of other lenders, from other financially pressed nations. Despite Brazil's troubles, the nation remains fundamentally sound, Mr. Regan said.

President Reagan also signed a proclamation modifying quotas to allow the importing of sugar if it is distilled into alcohol for industrial use or is to be reexported in refined form. The action could benefit all sugar-exporting nations, not just Brazil.

In his toast, Mr. Figueiredo expressed concern that his country's problems "are likely to be greatly increased" unless, among other things, "multilateral organisms" such as the IMF are "strengthened through an increase in their resources."

Mr. Reagan, in turn, agreed on the necessity of spreading the world's wealth. "Economic and political power once concentrated in the hands of a few is being spread, as it should, among many nations," he said. But he stressed that such spreading must come by creation of new wealth through economic growth instead of by redistributing current resources.

"Self-discipline is necessary," he told the Brazilians. "Borrowers must move to restrict their deficits. But it is just as important that lenders not withhold new funds from countries which adopt effective stabilization plans."

Urges Discipline

Secretary Regan said that, when the topic of greater U.S. aid to multinational agencies was raised in private talks, U.S. officials cite U.S. budget problems and congressional reluctance. The secretary said he promised "we will be as generous as we possibly can."

In Mr. Figueiredo's toast, he also called for independence for Namibia, the troubled territory controlled by south Africa that faces Brazil across the Atlantic Ocean. And he expressed "apprehension" at what he called "the deteriorating political situation in Central America," where Brazil has opposed U.S. as well as other foreign involvement.

Mr. Reagan, though, blamed problems on "counterfeit revolutionaries" backed by the Soviet Union. "This is aggression pure and simple," he declared.

1

1/10/83

GOP Leaders Want Reagan To Alter Budget

Legislators Ask President To Ease Defense Buildup, Opposition to Tax Rises

By RICH JAROSLOVSKY

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Republican congressional leaders disagreed sharply with President Reagan's budget-planning course and asked him to reconsider significant elements of it.

After a White House meeting, the legislators said they told Mr. Reagan that he should consider scaling back his planned defense buildup and perhaps his opposition to raising taxes. But they weren't sure if the president was receptive.

Sen. Paul Laxalt (R., Nev.), the president's closest friend on Capitol Hill, cautioned that if Mr. Reagan doesn't relent on his plans for the defense budget, "We're going to have to take a close look at it." But he said that the president currently "is very close to being set in concrete" against any reductions.

Participants in the meeting said there was widespread concern, even alarm, at the huge deficit projections for fiscal 1984 and beyond. "These numbers are a little terrifying," said Sen. Laxalt. The administration currently expects a deficit of $190 billion to $200 billion in fiscal 1983, which ends Sept. 30, and a deficit of $200 billion in fiscal 1984 unless further budget cuts are made.

Presidential advisers fear the deficits could continue to mount throughout the decade unless Mr. Reagan commits himself to substantial budget changes to reduce them. Yesterday, however, a White House spokesman disputed a report in The Wall Street Journal that said advisers had warned the president that the deficit could hit nearly $300 billion a year by fiscal 1988 unless he makes changes.

Deputy Press Secretary Larry Speakes, who acknowledged he hadn't read the article in question, nonetheless pronounced it "dead wrong." He said the article "stretched it . . . got too big a figure." He refused to say, however, just what the advisers—including Treasury Secretary Donald Regan, Secretary of State George Shultz, Council of Economic Advisers Chairman Martin Feldstein and Budget Director David Stockman—did tell Mr. Reagan.

Mr. Speakes suggested that the forecast of massive budget deficits represents a "do-nothing scenario," and reiterated that Mr. Reagan is committed to narrowing deficits.

Sen. Laxalt, the most talkative of the legislators who met with the president yesterday, described the projected deficits as "huge and probably intolerable." He said that spending reductions in "discretionary" programs, those that Congress and the administration can most readily control, are already "awfully close to the bone." He added that "I think we'll have to look at some deferral in military spending," and suggested the possibility of a "freeze" on so-called entitlements programs, in which benefits are mandated by law.

Despite Sen. Laxalt's remark about Mr. Reagan standing firm on his defense proposals, Senate Budget Committee Chairman Pete Domenici (R., N.M.) detected signs of "open-mindedness" on the president's part. "He listened attentively to everything," Sen. Domenici said. And Senate Majority Leader Howard Baker (R., Tenn.) said: "I think the president went off to think about these things."

There so far isn't any indication, however, whether the president has taken the warnings to heart. As Mr. Reagan entered the final phase of work on the fiscal 1984 budget, which is to be submitted to Congress on Jan. 31, his aides described him as determined to avoid both significant reductions in his defense plans and new tax increases.

Aides and allies, however, have warned Mr. Reagan that Congress will probably compel changes whether he wants them or not. What he apparently hasn't yet finally decided, these observers say, is whether he will make the first move toward compromise by proposing some of the changes himself in his budget.

Presidential aides say signs continue to point toward a tough budget, in the hopes of minimizing any changes sought by Congress by making legislators fight for every concession. However, the aides haven't given up hope that Mr. Reagan will ease up.

A number of White House and other administration officials are pushing for what several call a "balanced package" that might include a modest reduction in the defense buildup and perhaps some selective tax increases, in return for congressional promises of support in further nondefense spending reductions. Such an approach is generally along the lines of what congressional Republicans want to see as well.

However, the proposal is reportedly still being opposed by Defense Secretary Caspar Weinberger. Aides said Mr. Reagan must resolve the matter quickly in order to meet his budget deadline.

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FG006-19

THE WHITE HOUSE

WASHINGTON

January 10, 1983

MEMORANDUM FOR TOM LEWIS

OMB

FROM: CRAIG L. FULLER

SUBJECT: DATEBOOK/Digital Marketing

I noticed with interest that Digital Marketing is advertising a product called DATEBOOK that can be used with the IBM DisplayWriter.

Would it be possible to experiment with the package?

Are there any other particularly useful software packages available for the DisplayWriter?

DATEBOOK
DATEBOOK
DATEBOOK
DATEBOOK
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#1

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THE WHITE HOUSE

WASHINGTON

August 27, 1981

WS

MEMORANDUM FOR JOHN ROGERS

FROM: Elizabeth H. Dole

SUBJECT: Daily Labor Reporter

Bob Bonitati of my staff has been receiving the Daily Labor Reporter, published by the Bureau of National Affairs, on a trial basis for the past two months. This is a specialized publication which provides accurate, in-depth reporting on labor issues and we need to begin receiving it on a continual basis. I would appreciate the White House handling the subscription cost.

I have attached a copy of the Daily Labor Reporter. You can contact Art Rounds of the BNA on 452-4211 for subscription information.

JSR-1
RE: DOJ
DQ

ID # 119863

PU

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

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☐ H - INTERNAL
☑ I - INCOMING
Date Correspondence Received (YY/MM/DD) 83/01/17

Name of Correspondent: James W. Griffin

☑ **MI Mail Report** **User Codes: (A)** ______ **(B)** ______ **(C)** ______

Subject: Urges that an increased effort be made in the form of a directive to the Attorney General that will emphasize enforcement of federal Anti-Obscenity laws.

ROUTE TO: **ACTION** **DISPOSITION**

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
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	Referral Note:				
99 DOJ	A CS	83/01/27		A	83/02/03
	Referral Note:				
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ACTION CODES:
- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:
- A - Answered
- B - Non-Special Referral
- C - Completed
- S - Suspended

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5/81

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CPn - Presidential Correspondence
- n - 0 - Unknown
- n - 1 - Ronald Wilson Reagan
- n - 2 - Ronald Reagan
- n - 3 - Ron
- n - 4 - Dutch
- n - 5 - Ron Reagan
- n - 6 - Ronald
- n - 7 - Ronnie

CLn - First Lady's Correspondence
- n - 0 - Unknown
- n - 1 - Nancy Reagan
- n - 2 - Nancy
- n - 3 - Mrs. Ronald Reagan

CBn - Presidential & First Lady's Correspondence
- n - 1 - Ronald Reagan - Nancy Reagan
- n - 2 - Ron - Nancy

MEDIA CODES:

- B - Box/package
- C - Copy
- D - Official document
- G - Message
- H - Handcarried
- L - Letter
- M - Mailgram
- O - Memo
- P - Photo
- R - Report
- S - Sealed
- T - Telegram
- V - Telephone
- X - Miscellaneous
- Y - Study

FEB 3 1983

The Honorable Jim Griffin
Mayor of Buffalo
Buffalo, New York 14202

Dear Mayor Griffin:

Your letter to President Reagan concerning enforcement efforts in the obscenity area has been referred to me.

Prosecutive priority in this area is given to cases involving large-scale distributors who realize substantial income from multi-state operations, cases in which there is evidence of involvement by known organized crime figures, and cases based upon the distribution of obscene material involving the use of children and based upon the production of films or photographs depicting children engaging in sexually explicit conduct.

The concentration of our prosecutive efforts in these areas is necessitated by United States Attorney resource limitations. Since United States Attorneys are responsible for litigation under literally thousands of criminal and civil statutes, you must understand that these resource limitations are very real. Furthermore, the concept that prosecutive priorities must be assigned to certain categories of cases within a particular statutory area is not unique to obscenity prosecutions. Indeed, it is necessary for United States Attorneys to establish prosecutive priorities within most, if not all, areas within their supervisory responsibility. Under the circumstances we believe that our selection of prosecutive priorities here is clearly justified and that prosecution of more local offenders should be left to local law enforcement efforts. Further, in this area, as in most areas, United States Attorneys have a considerable amount of discretion in declining to initiate prosecutions. Although our guidelines call for prosecution in the three areas mentioned above, it is not always possible for every United States Attorney to devote resources to every violation arising even in these areas. We have made it clear to United States Attorneys that prosecution is authorized and, indeed, urged in appropriate cases in all three of our priority areas. Given the limitations imposed upon the prosecutive resources of the United States Attorneys, we believe our efforts in this area have been successful.

Records
Frederick
Jensen
Exec. Sec. 4414 Main
Sally Kelley

Nevertheless, within the past couple of months the Department has given serious consideration to various ways in which our obscenity enforcement program could be strengthened and has determined that the following initiatives should be taken at this time:

First, the Department will increase its efforts to develop prosecutions against the major distributors of obscene material.

Second, we have taken steps to make certain that United States Attorneys are aware of our prosecutive priorities in the obscenity area, i.e., cases involving large-scale distributors, organized crime figures and child pornographers, and to urge United States Attorneys to devote appropriate resources to the prosecution of these cases.

Finally, we believe that the child pornography statutes (18 U.S.C. §§ 2251-2253) can be strengthened by deleting the requirement that production or distribution of this material be for commercial purposes and the requirement that the material distributed be limited to that which is legally obscene, and we expect to support appropriate statutory amendments. In addition, we are giving serious consideration to the desirability of amending 18 U.S.C. § 2516 to provide for electronic surveillance in child pornography cases.

Let me assure you that the Department of Justice is sensitive to the concerns raised by you. We believe that these new initiatives are responsive to those concerns. Thank you for writing.

Sincerely,

D. Lowell Jensen
Assistant Attorney General
Criminal Division

BY:

James Knapp
Deputy Assistant Attorney General

408

THE WHITE HOUSE OFFICE

REFERRAL

JANUARY 27, 1983

TO: DEPARTMENT OF JUSTICE

ACTION REQUESTED:
APPROPRIATE ACTION

DESCRIPTION OF INCOMING:

ID: 119863

MEDIA: LETTER, DATED JANUARY 13, 1983

TO: PRESIDENT REAGAN

FROM: THE HONORABLE JIM GRIFFIN
MAYOR OF BUFFALO
BUFFALO NY 14202

SUBJECT: URGES THAT AN INCREASED EFFORT BE MADE IN THE FORM OF A DIRECTIVE TO THE ATTORNEY GENERAL THAT WILL EMPHASIZE ENFORCEMENT OF FEDERAL ANTI - OBSCENITY LAWS

PROMPT ACTION IS ESSENTIAL -- IF REQUIRED ACTION HAS NOT BEEN TAKEN WITHIN 9 WORKING DAYS OF RECEIPT, PLEASE TELEPHONE THE UNDERSIGNED AT 456-7486.

RETURN CORRESPONDENCE, WORKSHEET AND COPY OF RESPONSE (OR DRAFT) TO:
AGENCY LIAISON, ROOM 91, THE WHITE HOUSE

RECEIVED
JAN 31 1983
CDCU

SALLY KELLEY
DIRECTOR OF AGENCY LIAISON
PRESIDENTIAL CORRESPONDENCE

January 24, 1983

Dear Mayor Griffin:

On behalf of the President, I would like to acknowledge your recent correspondence.

I have forwarded your letter to the appropriate officials at the Department of Justice for their consideration and direct reply. You should be hearing from them shortly.

I appreciate your bringing this matter to the attention of the Administration.

Sincerely,

J. Steven Rhodes
Special Assistant to
the President for
Intergovernmental Affairs

The Honorable James D. Griffin
Mayor of Buffalo
Buffalo, NY

JSR/mvk
JSR-1

DOJ

5.

CP

CITY OF BUFFALO
OFFICE OF THE MAYOR

119863

JAMES D. GRIFFIN
MAYOR

January 13, 1983

The President
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President:

The sex industry in the United States has been expanding rapidly in the past several years because of the lack of vigorous enforcement of federal anti-obscenity laws. Much of this material is produced outside of New York State and enters our cities through the United States mail, via interstate transportation and through customs. It is extremely difficult to enforce New York State Obscenity Laws in all counties if there is little or no federal enforcement.

Federal enforcement is extremely important as the sex industry is about to move into cable television. In fact, this move is already in progress, and both public access cable and pay cable are now in the living rooms of homes all over New York State. It is vitally important that this move be blocked. This can be effectively accomplished by vigorous enforcement of federal laws.

I ask that an increased effort be made in the form of a directive to the Attorney General that will emphasize enforcement of federal anti-obscenity laws. This enforcement would greatly benefit all prosecutors in New York State and make their burden easier. Indeed, FBI experts have said that the back of the pornography industry could be broken if these laws were enforced.

With this request I pledge my support in this effort to protect our cities, our children and our families from this corrupting force. I would appreciate your attention with this matter.

Sincerely,

Jim Griffin

James D. Griffin

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JDG/sa

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WHITE HOUSE LIBRARY AND RESEARCH CENTER

Room 308 x7000

TO Karen Hart

ROOM Gf/rww DATE 12-27-82

- [x] To Keep
- [ ] To Borrow Due Date ____
- [x] Per Your Request

Message:

CLF — I think this is what you wanted — it just come out.
K.

From: Catherine Smythe

Clippings from Fortune Magazine re the Administration and Economic Recovery — Fortune Forecast

THE NEXT 18 MONTHS

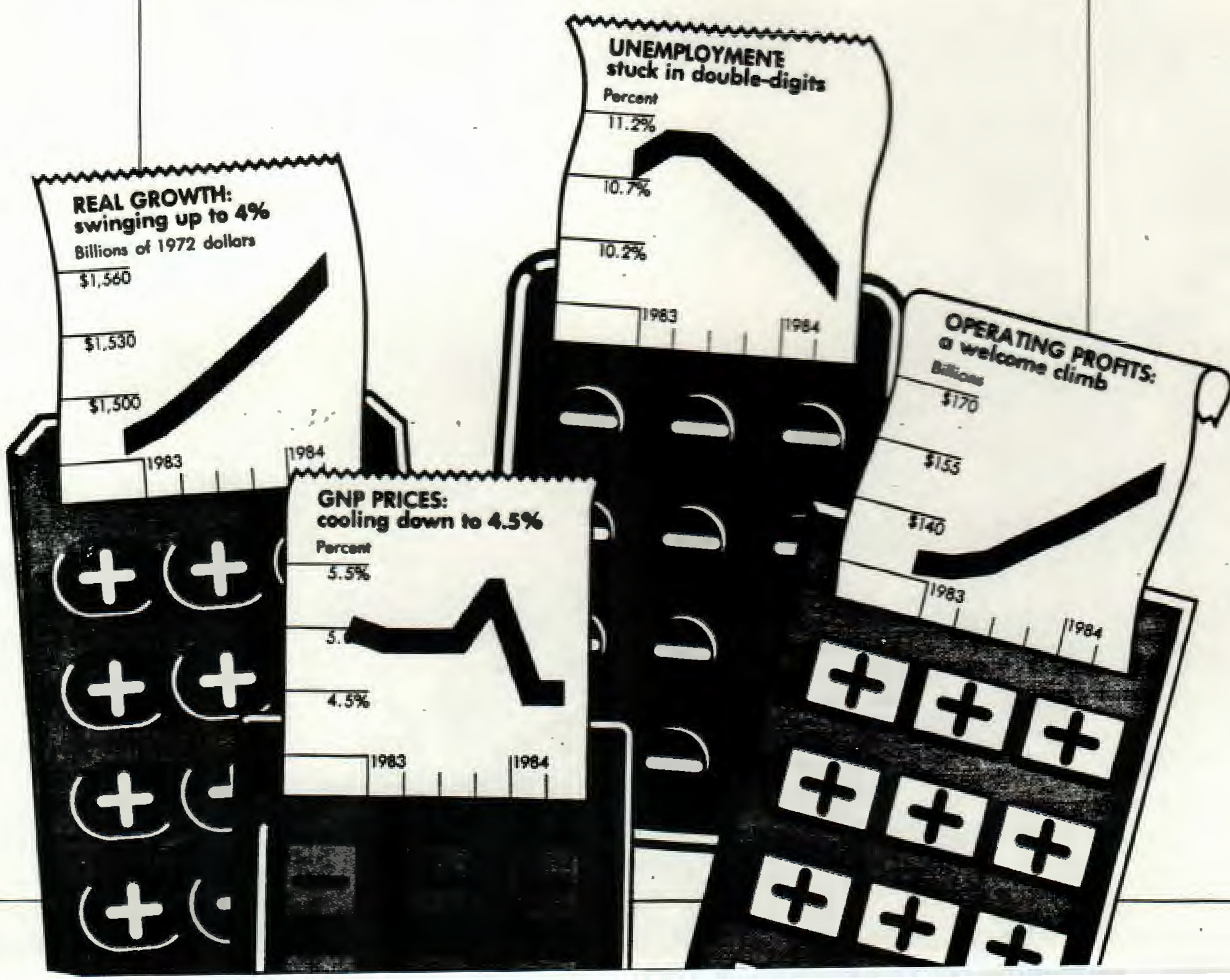
So long delayed, the recovery will start slowly and build steadily while inflation recedes.

■ After sputtering in neutral for most of 1982, the economy finally seems in gear to move ahead at medium speed during 1983 and 1984. With inflation likely to stay down at 4% to 5%, business will find the new year cheering. The White House will not. The budget deficits are likely to range deeply into triple-digit territory and unemployment may still be in double digits when the presidential campaign begins in earnest in 1984.

Real GNP is likely to expand at a meager 2.5% annual rate in the first half of 1983, at a comfortable 3.5% rate in the second half, and a brisk 4% in the first half of 1984. Many forecasts are given as changes from one yearly average to the next, but these now understate the expected strength of the recovery. Owing to the stagnation in the last part of 1982, GNP at year-end amounted to only $1,478 billion in 1972 dollars, virtually the same as the average for the year's four quarters. By the end of 1983 GNP will be up 3%, or $45 billion, but average GNP for the year's four quarters will be up only $27 billion. That's an increase of only 1.8% (compared with a 1.7% decline in 1982).

ANY FORECAST of an imminent pickup in the economy must first come to grips with what prevented the widely expected recovery in the second half of 1982. That stagnation was unique. Real GNP bottomed out in the first quarter and seemed started on a normal pickup in the second quarter, but since then has gone nowhere—the first time in postwar history that the end of a decline in GNP has not been followed by at least three quarters of appreciable growth.

A good part of this prolonged stall in GNP was caused by high interest rates in the first



half of the year. Housing is particularly sensitive to rates and so its poor performance was no surprise. But high U.S. interest rates also sent the dollar soaring, and that contributed to a faster than expected plunge in net exports, a fall worsened by the lingering recessions abroad and a shrinkage of farm exports. Stiff financing costs, weak liquidity positions and the continued erosion of capacity utilization pushed businessmen to slash orders and appropriations for capital goods last spring when both had seemed on only a gentle downward slope. Given the weakness in sales, inventories piled up, especially in autos, and had to be chopped back. Consumer spending was lackluster, not because of a reluctance to buy but because of a shortage of ready cash. Increases in income from the tax reduction were offset by cuts in jobs.

SOME OF THESE negative factors have improved. Interest rates have dropped sharply since midyear. Short-term rates are down five to six percentage points and bond yields are down four points. Since inflation hasn't changed much since then, virtually all of that decline is in real rates (interest rates less inflation). Real rates are still higher than they have been in most of the postwar period, but the improvement is helpful for the economy.

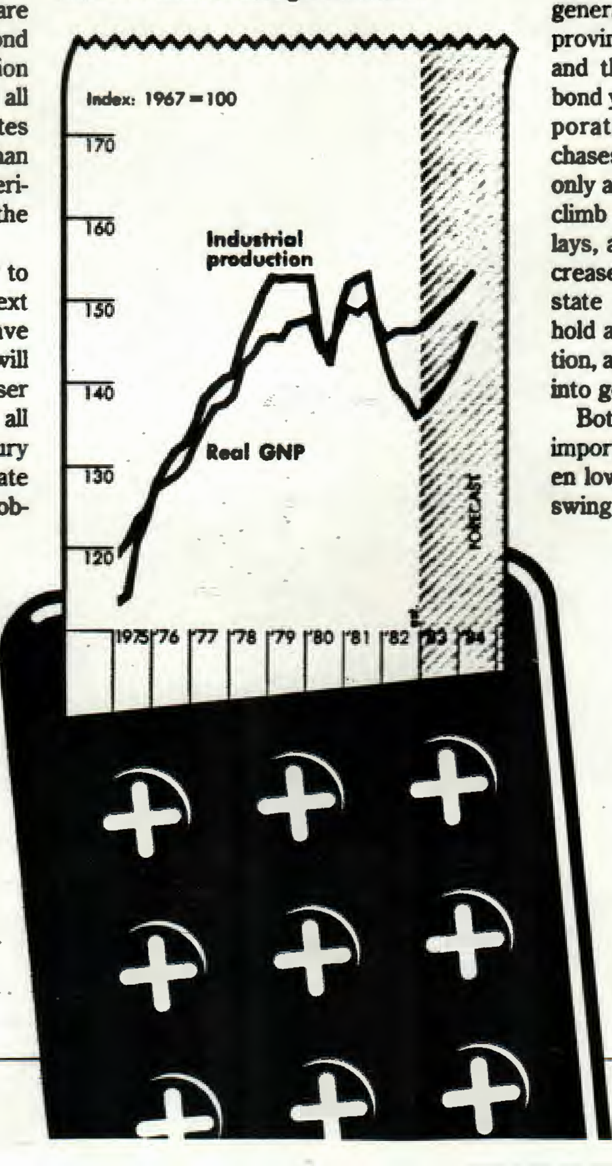
Short-term interest rates are not likely to show any trend up or down for the next year—though as J. P. Morgan is said to have pontificated about stock prices, they will surely fluctuate. Long rates may drop closer to the rate of inflation. In 1984, however, all rates will feel upward pressure as Treasury borrowing competes with growing private demands. At that point the Fed will probably be a lot stingier than it has been recently.

The Fed's easier posture the last few months has already begun to make some investors nervous about its determination to subdue inflation. Greater stringency would seem in the offing. The most meaningful of the money measures these days is M2, which includes both the old and the new kinds of checking accounts. If the Fed holds to a ceiling of 9% growth in M2 in 1983, as it suggested last July, that would be adequate for the growth in GNP FORTUNE has forecast and wouldn't worsen international financial strains.

The pressure in Congress will be tremendous for the Fed to lop a few more points off interest rates. But without doing anything about the deficit, Congress will be in a poor position to second-guess the Fed. Even with the respectable economic growth in FORTUNE's forecast the federal deficit is going to average around $180 billion in fiscal 1983, about the same as the rate in the fourth quarter on the national income accounting. The deficit will head even higher in fiscal 1984. These depressing calculations assume that some action will be taken to eliminate the $10-billion deficit in the Social Security funds before they go bust, and that Congress will cut military and civilian spending in line with the resolution it passed last summer. The deficit shouldn't greatly strain the financial markets in 1983, and Washington may postpone the tough decisions until sometime in 1984. Action or inaction then won't affect the economy materially until the second half of 1984. In the meantime, the economy will enjoy the benefits of the decline in interest rates that has already taken place.

The Long Road Back

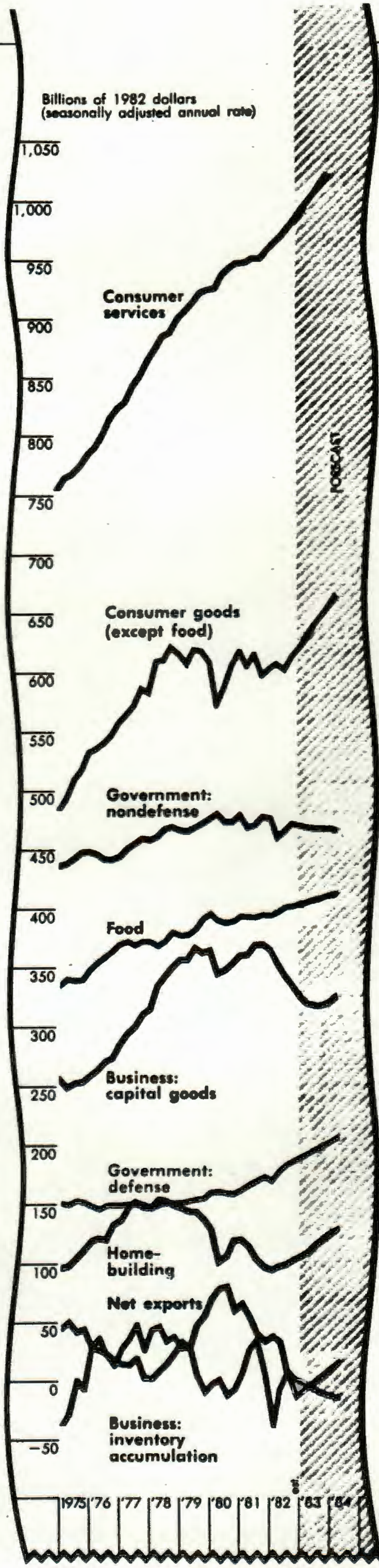
Real GNP should start rising again in the first quarter, and by the end of 1983 will have passed its old high in mid-1981. Industrial production, covering only volatile goods output, will climb at a vigorous 5.5% rate over the next 18 months but won't reach its old highs until later.



Some sectors still won't contribute much to business growth over the next year and a half. Net exports will continue to sag, though not as badly as in the past three quarters. Most of the effect of the expensive dollar is already behind us; the dollar may start declining now. Furthermore, our foreign customers' economies should be starting their own recoveries. Capital goods will slide some more until next summer. By the end of 1983 capacity growth will be the slowest in a generation and capacity utilization will be improving. Cash flow will be picking up briskly and this, along with the recent decline in bond yields, should quench the thirst for corporate liquidity. Total government purchases of goods and services will be rising at only a 1% to 2% rate. Defense spending will climb at a 7.5% rate, and public works outlays, aided by the highway program, will increase even more rapidly. Other spending by state and local governments will probably hold about steady after adjustment for inflation, and federal nondefense spending will go into gentle decline.

Both housing and inventories will provide important strength. Mortgage rates have fallen low enough to launch a considerable upswing in housing, though hardly a boom. In the fourth quarter, business cut inventories enough to trim the ratio of inventories to sales. Liquidation will slow gradually and by next autumn a small buildup will begin.

Consumers could, of course, kick the recovery off at a faster pace than FORTUNE expects. Their savings rate, after bouncing around a lot, stands at a respectable 6.5% of income—and income will advance as the recovery proceeds. Many taxpayers will get rebates—an after-effect of last July's tax cut—once they file their 1982 returns. But with unemployment so high, consumers have every reason to be cautious. Con-



Where the Growth Is

Consumers, housing, defense, and inventories will all be powering the recovery throughout the next 18 months. Outlays for capital goods will begin expanding in 1984. Both net exports and nondefense government spending will be slipping throughout the forecast period.

sumers have also learned by now that if they can restrain their enthusiasm for the latest goody the price may well fall instead of rise. They will probably salt money away in the new high-interest bank accounts, more than offsetting their rising use of credit (which is counted as negative saving). This laudable effect of Reaganomics will provide an underpinning to sustain the recovery but will dampen growth in the first few quarters. FORTUNE expects the savings rate to rise to at least 7% in 1984.

UNEMPLOYMENT is likely to be stuck at high levels for the next year and a half. With much of the growth in GNP coming from higher productivity, employment will rise fast enough to keep even with the new people coming into the labor force, but not fast enough to absorb the backlog of people looking for work. Unemployment seems likely to top out at around 11% early in 1983 and stubbornly persist at that rate until mid-year. As the economy speeds up in 1984, productivity will too. So unemployment may drop only a paltry one percentage point by mid-1984.

However bad productivity increases are for employment in the short run, they are good for inflation and so for employment in the long run. Inflation, as measured by GNP prices, plunged faster than expected, to below 5% during 1982 compared with 8.9% in 1981. There has been talk lately that this is nothing more than a recession phenomenon and that price rises are about to pick up again. Nothing in the economic evidence, whether oil, food, or wages, supports that conclusion. Businessmen are fighting costs in order to survive. With inflation tailing off to 4.5%, the economy will be responding over the next 18 months as outlined below:

■ **GOVERNMENT.** Federal outlays bulged by nearly $40 billion in the fourth quarter as transfer payments, subsidies to farmers, and purchases of farm products surged early in the period. So the deficit swelled to an annual rate of $180 billion. It will shrink a little over the next six months, but with the tax cut in July, the deficit for fiscal 1983 won't come in much below the recent rate.

State and local governments have kept their budgets in fairly good shape. Despite some serious exceptions such as Michigan and California, operating deficits are small on average and won't grow precipitously over the next few quarters. Purchases of goods and services haven't increased beyond inflation for more than a year, and the future looks similarly flat.

■ **CREDIT.** Federal Reserve policy will not be easy to make or to fathom in the period ahead. The Fed has to walk a narrow path between keeping credit overly tight—perhaps weakening vulnerable domestic and international financial institutions—and making it so easy that fears of inflation, or of a future clampdown, would drive interest rates up anyway. At the same time, the new money market accounts offered by the banks will complicate interpretation of the monetary aggregates. Chairman Volcker has already said that some new broader measure of credit may be introduced.

In trying to characterize policy in this confusing period FORTUNE has used the broad money supply, M2, and on this measure there should be plenty of room for the economy to expand. Nominal GNP (real GNP plus inflation) has risen more slowly than M2 for the past two years. The 9% rate of growth in nominal GNP that FORTUNE is forecasting for the second half of 1983 and the first half of 1984 is the same as the Fed's ceiling for M2. But in 1984, with huge government deficits continuing when private credit demands are expanding, the markets could start anticipatory bidding up of short-term rates before anything like a money crunch develops. Before that happens, Washington might find the gumption to trim the deficits.

■ **WAGES, PRICES, AND PROFITS.** Consumer prices will speed up little if at all from 1982's 5% increase. Food and housing prices will continue to be well behaved. A nickel-a-gallon gas tax wouldn't add much to cost pressures because petroleum products will otherwise be flat to down in price.

The GNP deflator, the broadest measure of inflation, will rise 5% in 1983 and slow to a 4.5% rate in the first half of 1984. While concessionary wage packages may be a thing of the past, double-digit unemployment will hold down wage gains, and the size of CO-

LAs will decrease with diminishing inflation. Hourly compensation should grow at just a 6% rate through the forecast period, while a 2% gain in productivity in 1983 will cut the increase in unit labor costs to just 4%. A pickup in productivity in 1984 will further trim the gain in unit labor costs.

On the profit side, low capacity utilization will prevent business from improving margins much over the next 18 months. But rising sales will lead to a 15% increase in operating profits in 1983, and they'll be up at a 20% pace in the first half of 1984.

■ **CONSUMERS.** The potent combination of slowing inflation, another tax cut, and some growth in employment will boost real disposable income by almost 6% over the next year and a half, compared with the 2.5% gain of the past 18 months.

Though outlays for food and services will accelerate, the biggest share of extra consumer spending will go for durable goods. In real terms, purchases of durables will rise more than 10% in the period ahead after a slim 2% gain in the past period. By mid-1984 car sales will be running at a 10 million rate, including imported models, compared with the recent pace of 8.5 million; and the recent trend toward more luxuriously appointed cars should continue. Spending for furniture and appliances, which fell during the slump in home sales, will rebound by more than 7%. Outlays foı apparel have languished recently but will also show a strong gain now.

■ **HOUSING.** The decline in mortgage rates—down four points from their peak last February—has ignited a respectable housing recovery. Housing starts have averaged a rate of 1.2 million units over the last three months and permits have been rising steadily. Single family homes will gain by 40%, topping a one million rate by mid-1984 for the first time in nearly four years. Starts should average 1.35 million in 1983 and rise to a 1.6 million rate in the first half of 1984.

■ **INVENTORIES.** Business slashed inventories at a $35-billion annual rate at the start of 1982 and by almost half that much in the fourth quarter. But the total reduction in stocks amounted to only 2% during the year, a little less than the decline in final sales. Most of the bumpiness was due to the stops and starts of auto sales and production. Final sales will start to turn up by spring and accelerate to a 5% pace by early 1984, but inventory will fall a bit further. Auto dealers are starting the new year in good shape, but the rest of business will continue to run off stocks for another few months.

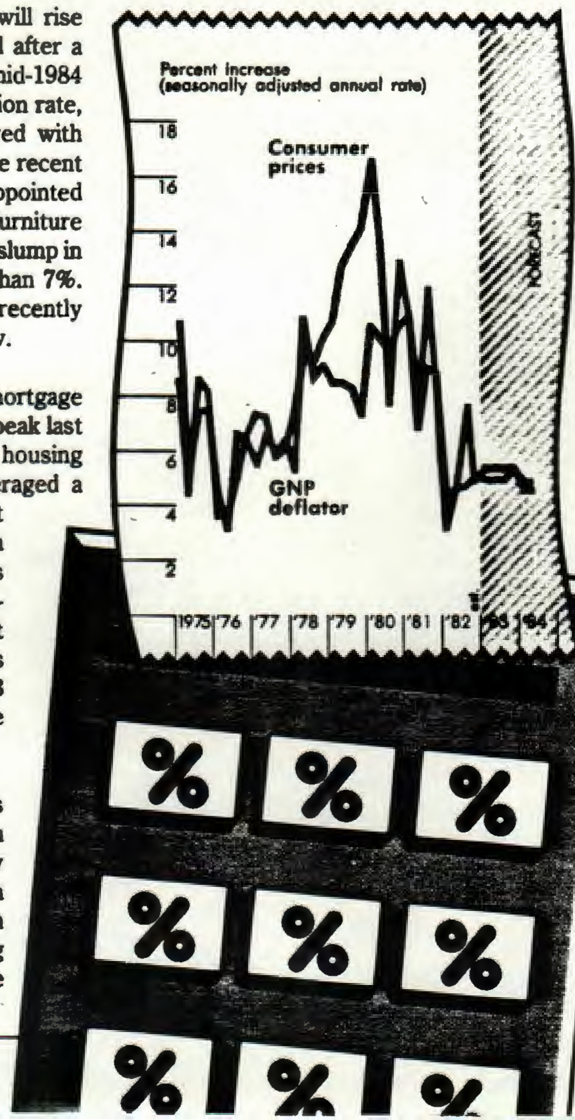
When rebuilding begins, toward the end of the year, it will start slowly. Inventory-sales ratios will fall for six quarters and only then be down to comfortable levels.

■ **CAPITAL SPENDING.** Business spending on plant and equipment has plunged 10% in real terms from its peak one year ago, to a current level of $332 billion. With capacity utilization the lowest in decades, business simply has little incentive to expand. Orders for equipment show it; they have leveled out but are still below shipments. Spending will drop another 5% in 1983. As a result, the growth of the capital stock will slow to just 2.3%, down from 4.4% in 1979.

By the second half, a growing economy will have boosted the utilization rate, and cash flow will be rising smartly. So business spending should begin to grow during the first half of 1984.

Inflation Is Tamed

Despite the expansion of business activity over the next several quarters, inflation as measured by both the CPI and broader GNP deflator will remain about as slow as during lethargic 1982. Indeed, inflation may slow a trifle in 1984.



■ **FOREIGN TRADE.** Exports of goods and services slipped below the pace of imports in the fourth quarter for the first time since mid-1978, and the deficit will widen over the next year and a half. However, the impact of the foreign trade balance will be barely noticeable compared with the large drain of the last couple of years, when foreign trade lopped two percentage points off real GNP growth as the balance deteriorated. The drag over the next six quarters will amount to less than half a point.

After falling nearly 20%, the volume of merchandise exports will stabilize now. U.S. exporters have lowered their prices recently, offsetting part of the higher cost of dollars to foreign buyers. Our customers' economies are likely to be weaker than our own, but at least some expansion is due.

Imports grew 7% during the past 18 months despite the decline in U.S. markets. The extra share going to foreign producers will stop increasing now that the dollar is losing some ground and domestic inflation has slowed. But with expanding economic activity here, the volume of merchandise imports will grow more than 10%.

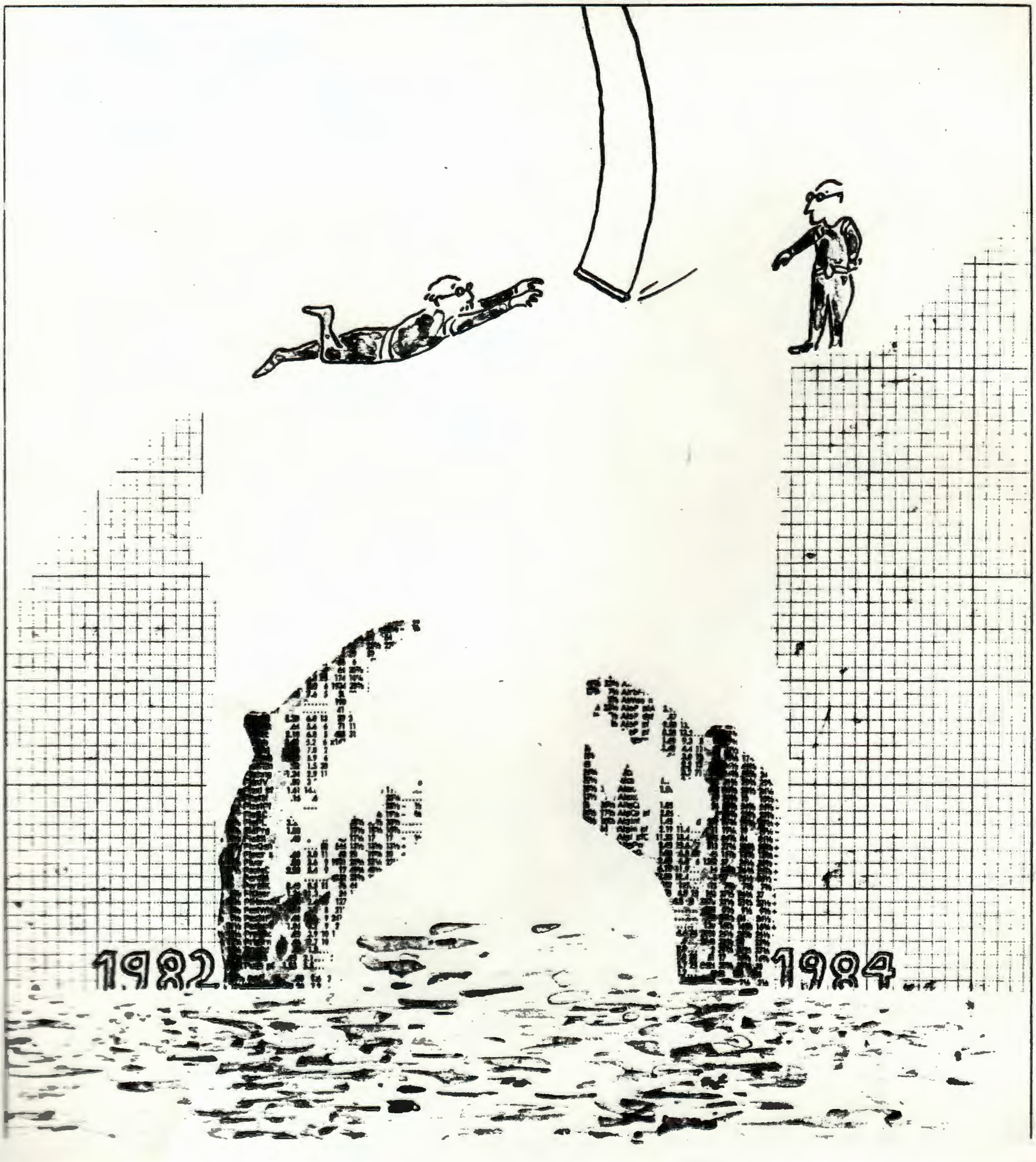
The U.S. surplus on services, though still large, slipped a bit during the last year and a half. It will start to improve again now. Foreigners will earn less on their U.S. bank deposits since interest rates are lower; and earnings by U.S. companies on their overseas investments will start to expand. ■

CHIEF ECONOMIST: *Todd May Jr.*
ASSOCIATE ECONOMIST: *Vivian Brownstein*
STAFF ECONOMIST: *Bruce Steinberg*
RESEARCH ASSOCIATES: *Catherine Comes Haight, Lenore Schiff*

Fortune, December 27, 1982

THE ADMINISTRATION

A Dangerous Time



for Economic Policy

Having moved beyond the economics of joy, the Reaganites now have a program that makes sense, but perils loom between now and the 1984 election.

by HERBERT STEIN

The election of 1982 was not a watershed in economic policy. It was only one more of several events in 1982 that signaled some change in economic policy and made it clear that the Reagan Administration, which during the campaign asked voters to "stay the course," is in fact being forced to alter course. Where the Administration will end up remains to be seen, but it appears to be ridding itself of some unrealistic ideas that marked policy during its first year, while holding to those parts of its program that were generally sound.

To understand these developments it is necessary to go back at least to 1979. At that time thought about economic policy was significantly changing at several levels. There was a shift in the public's economic priorities. There was a shift of the mainstream consensus about economic policy, and Reagan campaign economics was emerging as a new option in economic policy. All three of these changes represented moves in a conservative direction.

The shift of the public's priorities was simply a response to three discontents and anxieties that were becoming more intense. First, people were irritated and resentful of the inflation that, by then, had been accelerating for 15 years. Second, they were disappointed and unhappy because real incomes per worker had not been rising for some years, contrary to the usual American experience and expectation. Third, they were angry and ashamed because they felt that the United States was losing its position in the world and that our national security was threatened.

Thus the American people wanted three things. They wanted the inflation stopped. They wanted their real incomes to rise faster. They wanted America's position in the world restored.

Two points must be made about these attitudes. First, they expressed what the public wanted but they were not generally accompanied by an awareness that a price would have to be paid to achieve these things—and, of course, the politicians who promised to deliver did not warn of the price. Second, the public that wanted these things was almost entirely innocent of ideas or preferences about how to accomplish them. That is, there was not a surge of desire for tight money, for balanced budgets, or for free markets, for example. The public was wishing the ends but had no commitment to the means.

The 1979 consensus

Of course, there were some informed and responsible people who had come to agree on means and policies by 1979. They agreed that policy should include the following elements:

1. Monetary restraint to curb inflation, even though this would involve a transitional period of increased unemployment.

2. Restraint on the growth of the nondefense budget, even though this would deprive some worthy people and purposes of federal money.

3. A substantial increase in defense expenditures.

4. Reduction of the federal deficit, although not necessarily to zero.

5. Reduction of tax rates bearing on capital investment, even though the deficits in prospect did not permit a large tax cut for all taxpayers.

6. Elimination or reduction of government economic regulations.

This was a conservative strategy in the sense that it relied on the private sector, free markets, and prudent fiscal policy. But by 1979 it was embraced by many who were commonly called liberals.

There were two problems with this consensus, however. First, no one knew how to manage it precisely—how fast to disinflate, how much to reduce monetary expansion, where to get the most benefit for a dollar of tax reduction, and so on. Second, although there was agreement that the strategy involved sacrifice, there was disagreement about how the sacrifice should be allocated.

The third change in conservative thinking, which I call Reagan campaign economics, seemed to solve these problems. It would solve the budget problem by a large across-the-board tax cut, which would *raise* revenue. It would make huge cuts in the expenditure side of the budget without sacrifice by anyone but bureaucrats, simply by eliminating waste and fraud. This would permit the budget to be balanced while defense expenditures were greatly enlarged. The idea that reducing inflation would require a temporary increase of unemployment was rejected as a Keynesian shibboleth. Easy answers were available for the management of monetary policy—or, rather, two easy answers, one being gold and the other being a constant rate of monetary growth.

This was the economics of joy, as distinguished from traditional conservatism, which is the economics of austerity. The economics of joy is simple, painless, and salable. It is also unrealistic.

This is the version of conservatism we elected and by which we were governed for nearly a year. Under its influence we enacted a big tax cut, initiated a big defense increase, made some nondefense cuts and counted on bigger ones later, promised ourselves a balanced budget by 1984, and also promised a disinflation with no recession leading up to

Herbert Stein, chairman of the Council of Economic Advisers from 1972 to 1974, is professor of economics at the University of Virginia and a senior fellow at the American Enterprise Institute.

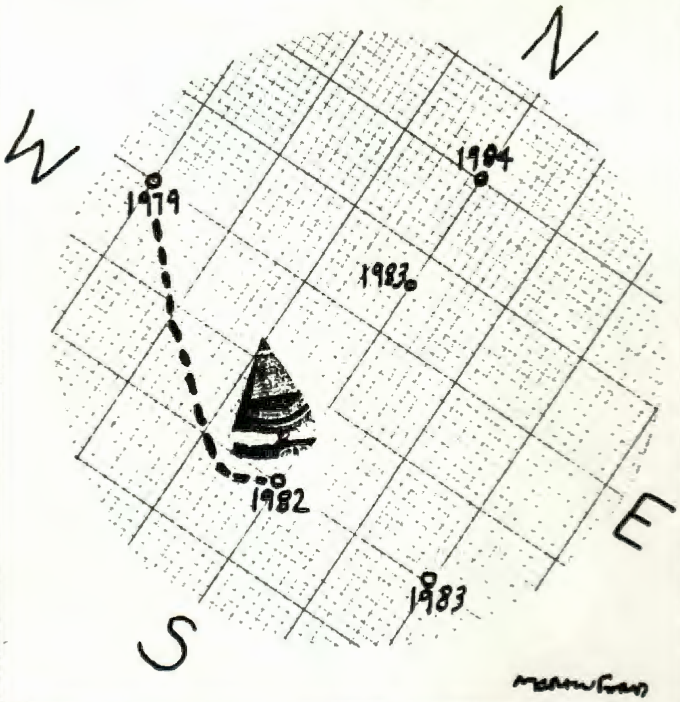
Illustrations by Michael Crawford

The Administration has already changed course somewhat, without admitting it, and Reaganomics could go off in new directions again.

a long period of rapid growth.

But by late 1981 reality had flooded in. The announcement and enactment of the program had not elated the financial markets; on the contrary, the recession set in with a vengeance. The promised further expenditure cuts were hard to find. Deficits looked large and endless. A government commission dismissed the idea of gold as a panacea; meanwhile we lost confidence in the workability of simple rules of monetary policy.

Some good things were accomplished. We launched the needed defense expansion and we made nondefense cuts that many had thought were politically impossible. We made a stern and good beginning to getting the inflation down. These things might not have been accomplished with a more realistic and cautious approach. A degree of recklessness and fanaticism may actually have been needed.



But by the beginning of 1982, this suspension of realism was no longer desirable or possible. The President submitted a budget that did not come close to balance for as far as the eye could see. He finally came to urge a tax increase. He accepted a small cut in the defense program. The Republicans joined in overriding his veto of an appropriation bill. The President recognized that the transition to stability would be painful and urged us to be patient. He urged us to stay the course, even though the course had already changed. His urging was itself a sign the course had changed. A year earlier he had not thought talk of pain and patience necessary.

The turns of policy in 1982 were not a deviation from conservatism. They were a return to the mainstream conservatism that I have described as the consensus of the late 1970s. They were a return toward, if not to, the old-time religion.

Now, what can we learn from the 1982 election? One of the most important facts about the 1982 election is that we got through it without much damage to policy. Even though the election took place when unemployment was at its highest level in 40 years, we got through it without irresistible pressure on the Federal Reserve to pump up the economy and without great demands for enlarged spending programs. That is extremely encouraging.

Our sensitive Presidents

But the end of the 1982 election campaign is the beginning of the 1984 campaign. This could be the most dangerous part of the journey. Economic policy is, on the whole, presidential policy. Presidents are naturally more sensitive to the conditions that exist when they might be running than when only a bunch of Congressmen and Senators have seats at stake. The danger of a politically motivated U-turn will increase.

The election of 1982 showed that conservative economic policy would not be accepted by the public just because it was accompanied by conservative social policy. If the economic results are not satisfactory, the public will not forgive the government because of its position on abortion or pornography or prayer in the schools.

Essentially, the 1982 election puts the President on notice that he must deliver economic results. The public has shown understanding that the present condition is not entirely his responsibility, and has not thrown out as many Republicans as it might have done. But the more innings that pass, the more the ball game will be the President's to win or lose.

Polls, including exit polls on Election Day, show that unemployment has passed inflation as the public's No. 1 concern. However, the election was not a mandate to disregard inflation and focus on unemployment. Neither was the election a referendum about particular strategies or programs of economic policy. The election was not a defeat or a victory for monetarism, or supply-side economics, or balanced budgets, or any other particular policies. These policies were not elaborated or defended by the contestants.

The assignment that government has today, after the 1982 election, is to make visible progress on reducing unemployment before the 1984 election, but at the same time to continue reducing the inflation rate, to rearm, and to promote the long-run growth of real per capita incomes.

There is a large irony about this assignment. It is that answers to the questions about inflation and unemployment are primarily the responsibility of people who were not up for election in 1982 and will not be up for election in 1984. I refer to Paul Volcker and the other members of the Federal Reserve Board. Unemployment and inflation in the next few years will depend primarily on the course of monetary policy and on how the private economy responds to it, the latter being something the government cannot control.

The Federal Reserve has responsibility

continued

This would not be the first Administration to do something surprising when an election loomed.

for finding a path of monetary expansion that will durably reduce the inflation and lead to a low and sustainable level of unemployment. No one knows for certain where this path lies. It will have to be found in part experimentally. But the path exists and the Federal Reserve has a good chance to find it.

How to buy more

I believe that the Federal Reserve has the correct strategy, that it is working, and that it will achieve both reasonable price stability and high employment. The strategy in simple terms runs like this:

Slowing down the growth of the money supply slows down the rise in the demand for output. As output slows or even falls, prices and particularly wages respond little at first. But in time wage and price increases also slow down. As this happens, the growth of the money supply buys more goods and labor. A 5% rate of money growth buys more output—makes possible more real growth—if prices are rising 3% a year than if prices are rising 8% a year. Ending the inflation will produce the recovery of output and employment.

While this strategy will work, and nothing else will work, we don't know how long it will take. There is no reason to be defeatist about this. But it obviously creates a risk. The timetable on which it may work may not be satisfactory for the politicians who want to deliver the results sufficiently before the 1984 election.

Several bills have already been introduced in Congress, with important Democratic and Republican sponsorship, that would direct the Federal Reserve to get interest rates down, presumably by printing more money. Such legislation, if enacted and effective, would be disastrous. It is not clear whether the sponsors of such legislation really want it to be enacted. Congress probably does not want to assume responsibility for the conduct of monetary policy. But even if it is not enacted, the process of debating it could be unsettling to financial markets and disturbing to the economic recovery.

One must also recognize that, in the period between now and the 1984 election, the Administration itself could be a source of danger to the responsible conduct of monetary policy. The Administration has now been through about a year in which its own forecasts of imminent recovery have been disappointed. It has now been through an election that has highlighted its vulnerability on the economic issue. One can imagine that if clear signs of recovery do not appear by, say, mid-1983 the Administration would get anxious about whether it was coming in time for the 1984 election. It might then be tempted to lean on the Federal Reserve for a more expansionist policy. The odds are that clear signs of recovery will have appeared, that even if they don't the Administration will resist the temptation to pressure the Fed, and that even if pressured, the Fed will remain firm. Still, the danger should be recognized. This would not be the first Administration to do something surprising when an election loomed.

Within the area of policy that is more directly the concern of Congress, a standard proposal for dealing with unemployment seems to be emerging. It calls for cutting the proposed defense budget and increasing expenditures for public works, now called infrastructure. The logic of this idea totally escapes me. The level of defense spending was not an important issue in the campaign. The results of the election cannot be interpreted as a mandate for unilateral disarmament. Also, there is no reason to think that shifting money from defense to infrastructure would increase employment significantly if at all. The basic question is whether we want defense more than roads and bridges. If we want defense more, we should not spend less on defense to create more jobs. If government spending creates jobs and if we want more jobs, we could spend more on defense.

Probably, but unfortunately, the drive for a public works spending program at the expense of the defense program is irresistible. This will mean little for employment or unemployment. It will leave our bridges a little stronger and our defense a little weaker. That will be too bad, and one

continued

must hope that the damage can be limited. (Raising the gasoline tax in order to repair roads is better. It will not do much for employment either, but at least it won't weaken defense.)

Dithering over deficits

In the months ahead we will hear a great deal about the large budget deficits now looming. Great concern is being expressed in the country about deficits. Almost as much concern is being expressed today about the prospect of a deficit of $180 billion or so as there was last year about a deficit of $100 billion and as there was two years ago about a deficit of $50 billion. Our alarm about the deficits does not lead to decisive action; the size of deficits rises, and the threshold at which we become alarmed also rises. So we will be shocked about the deficit numbers contained in the next budget, we will all want to be on the side of reducing the deficit, but in the end we will not do much about it. There will be marginal tax increases and marginal spending cuts. And we may wind up with deficits of $150 billion.

The reason we won't do much is that we don't really care much. Reducing the deficit requires giving up something, and no one is willing to eliminate much except the other fellow's program or the other fellow's tax cut. For some years we evaded the worst consequences of this situation by allowing the defense establishment to run down and by reaping the revenue generated by inflation. Presumably we don't want to do either of these anymore.

Why don't we care more about deficits? The reason is that the real consequences of deficits come years in the future. Despite the common talk, the deficits of the Reagan Administration have little to do with present unemployment. The main effect of the deficits is to absorb saving that would otherwise go into private investment and thus into the increase of productivity and capacity to produce. The size of the deficit in 1982 will have only a trivial effect on the stock of productive capital in 1982 or 1983. But the total deficits of the 1980s will have a large effect on the size of the capital stock in the 1990s, and therefore on the income of people living in that decade. To be concerned about the income of the nation as a whole in the next generation, as distinguished from the income of our own children individually, requires a lot of understanding, foresight, and civic spirit. So we are probably destined to live with large deficits for a long time.

However, I don't want to close on a gloomy note. The change of economic priorities and policies that became most evident at the end of the 1970s has produced highly beneficial results and will continue to do so. It has begun to reduce the dangerous inflation, and while the process of disinflation is entering a phase of economic and political difficulties, it seems likely that the process will be carried on to success. Curbing the inflation will permit recovery of output and employment. We have begun the essential rebuilding of our defense forces. Enthusiasm for defense is a little less in some quarters today than it was two years ago—since no one is holding our hostages and the Russians have not invaded anybody recently—and the program may be whittled down a little, but still there will be a major expansion. It seems reasonable to believe that we will be making progress on two of our major problems—inflation and national security—and that we will be leaving the period of high unemployment behind us. All in all, not a bad record.

At Last, a Payoff from Reaganomics

by Murray L. Weidenbaum

With the benefit of hindsight, it seems clear that the costs of carrying out the Reagan economic program are significantly higher than we thought when we announced it in February 1981. I take no great satisfaction in recalling that I was in the minority within the Administration that did not envision instantaneous success. I shared to some degree the excessive enthusiasm of my colleagues. In any event, I do believe that most of the costs of the economic changes are behind us and that important benefits are imminent. Some of the positive results, such as markedly lower inflation, already are visible. The more delayed benefits, notably the movement to a path of modest and sustainable growth, are in the offing.

The present has all the earmarks of a transition period, which is always easier to examine in retrospect than while slogging through it. According to my foggy crystal ball, the economy hit bottom some months ago, but since then we have all become bottom-watchers, because recovery has turned out to be elusive. Unemployment is up again, to 10.8%.

Good omens from Delphi

One reason for hope is the recent path of monetary policy, combined with the sometimes Delphic statements by the chairman of the Federal Reserve Board. Both talk and action are in the direction of an expansion in the nominal level of GNP. For the time being, the Fed apparently is counting on the cumulative effects of its earlier actions to achieve any further reductions in inflation. It is clearly concerned about financial strains at home and abroad.

The acid test, of course, will come when the Fed shows the extent of its determination to fight inflation during the coming upturn. At this point, financial markets seem to feel that, under Paul Volcker's leadership, the Fed has enhanced its credibility, especially its reputation for independent and sensible judgment.

In the real economy, adjusted for inflation, perhaps the single most important positive force is personal income, which has been rising for the past year despite the drop in employment. Disposable personal income, net of inflation, is running about 1% above a year ago. Not too surprisingly, consumer spending has continued growing through the year. Looking ahead, the most recent University of Michigan survey of consumer attitudes registered 73.4 on its index of consumer sentiment, up from 65.4 two months earlier and the highest reading in a year. Higher stock prices help both to restore consumer confidence and to give a healthier appearance to consumer balance sheets. Consumer net worth has risen some $300 billion since July.

For a while it seemed too "Keynesian" to talk about consumption and demand—even though the great neoclassical economist Alfred Marshall taught us that supply and demand were the two blades of the economic scissors. But there is a refreshing new common sense in economic discussions these days. The 1983 recovery, as all of its recent predecessors, likely is going to be fueled by the demands of the American consumer.

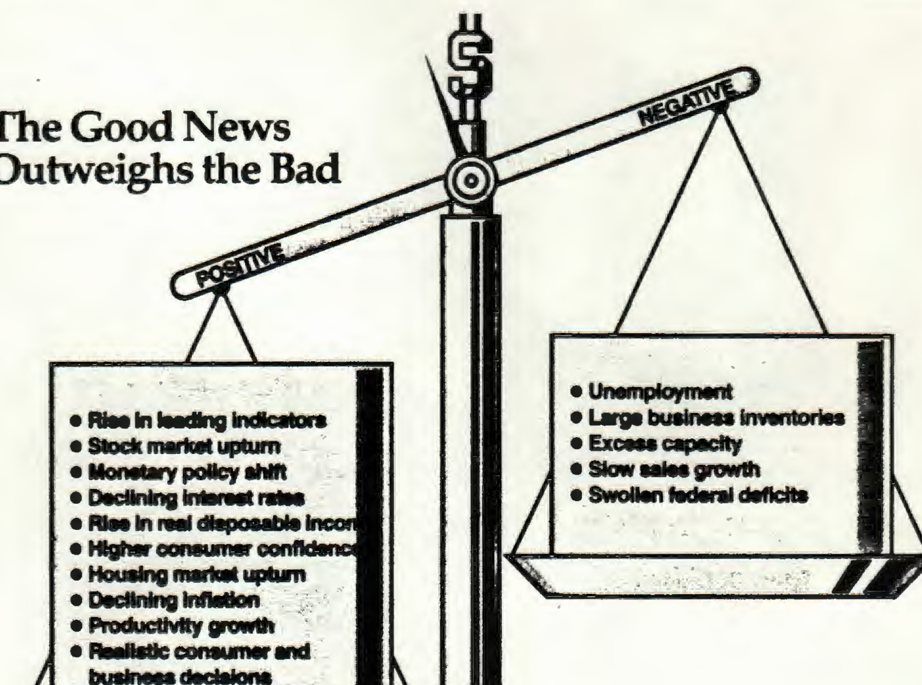
Why the deficit bulged

The housing industry already has staged a quiet turnaround, but the pressure of large Treasury borrowings on the financial markets will continue to inhibit both housing and capital investment for at least the next three years. Despite the wishful thinking and rosy estimates of some supply-side enthusiasts, the federal deficit rose from $58 billion in fiscal 1981 to $110 billion in 1982. Estimates by experienced

continued

The author of this guest column, chairman of the Council of Economic Advisers until last August, is Mallinckrodt Distinguished Professor at Washington University in St. Louis. FORTUNE's own 18-month forecast will appear in the next issue.

The Good News Outweighs the Bad



analysts for the fiscal year that began on October 1 range from $150 billion to $200 billion. And off-budget borrowing is not optional but extra.

Some of the rise in this year's deficit is due to the recession. What is truly troublesome is the likelihood that massive Treasury borrowing will continue as the economy recovers. The basic budget problem is that the reductions in federal spending growth do not come close to matching the tax cuts. This is not a fundamental failing of the basic policy of Reaganomics—which consistently called for large tax cuts and accompanying budget reductions of generally comparable magnitude. Contrary to the extreme optimism of some vocal supply-siders (especially those outside government), the official economic documents of the Reagan Administration always—even in the most optimistic versions—showed that, at least initially, tax rate reductions would result in less revenue. This, of course, was an important justification for large spending reductions. The latter were also desired on their own merits—to reduce the burden and power of the federal government.

We can now see that the execution of the policy fell far short of perfection. The tax cuts and the spending cuts weren't anywhere close to balance. The 1981 tax act cut over $700 billion in federal revenues for the period 1982-86, $50 billion more than envisioned in the Administration's economic white paper of February 18, 1981. The budget cuts accomplished for the same period totaled a far more modest $300 billion. Most of the reduction came from lower inflation assumptions. In real terms, Reagan has had trouble clipping even a few billion off Carter's last budget (see table).

The knife is dull

Estimated federal outlays in billions of 1972 dollars

Fiscal year	Carter budget	Reagan budget	Difference
1981	$338.1	$339.3	+$1.2
1982	$345.0	$354.9	+$9.9
1983	$351.7	$347.1	-$4.6
1984	$355.4	$347.7	-$7.7
1985	$361.2	$353.0	-$8.2
1986	$368.8	$356.1	-$12.7

In real terms, the Reagan budget totals are close to Carter's swan-song estimates. Below the surface an important shift in composition is taking place, from civilian to military spending.

Dividends from defense cuts

Cuts in nondefense spending were partially offset by an expansion of military outlays. Reagan's defense budget for fiscal 1984 is $10 billion larger than Carter's in 1972 dollars (or $16 billion in 1984 dollars). Current schedules imply weapon production growth rates more rapid than those at the peak of the Vietnam buildup. Moreover, the expansion would occur after a decade of reductions in the defense industrial base. As a result, some of the spending increases will be lost in the defense-industry inflation they will provoke, especially later in the decade. By relieving inflationary pressures, a cutback in spending would result in less than a proportional reduction in real procurement.

It surely would seem appropriate for the White House to start applying the same tough standards to the review of the military budget that it has been willing to use with some civilian agencies. That approach could prove the successful entering wedge for negotiating with Congress another round of badly needed reviews of civilian spending programs ranging from entitlements to subsidies.

Even so, the budget deficit may not drop below the $150-billion annual range for several years, and that will be a drag on recovery. There is a positive side to all this. A modest recovery may turn out to be relatively durable. Inflation is likely to remain low as productivity resumes its growth. The 4% rate of increase in output per worker-hour in the third quarter of 1982 is a noteworthy improvement from the less than 1% rise in the first half of the year. Thus the Reagan Administration may well succeed in its objective of avoiding the stop-and-go cycles that have characterized recent American economic history.

In a nutshell, my economic forecast for 1983 is a significant improvement over 1982—nearly 3% real growth compared with a 1.5% decline, and 5.5% inflation compared with 6%. Unemployment, which likely is close to a peak, may stay in the 10% range for most of 1983. Companies that have learned to control their costs closely—this is one of the pluses of the liquidity squeeze—will benefit significantly from even a modest upturn in sales volume. Nevertheless the business community should brace itself for some needling on this score in 1983. A drop in earnings is not newsworthy, but the subsequent offsetting rise in profits often gets a headline and is followed by outcries of assorted economic nonsense about excess profits and windfalls.

Hard lessons learned

There is, however, a new economic realism abroad in the land. Consumers once again are looking on purchases of art, coins, and postage stamps as primarily a form of consumption rather than as sage investments in a continually rising price level. Ill-conceived corporate outlays are no longer automatically bailed out by inflation. Employees are learning that their wages, salaries, and fringe benefits are vitally dependent on the future success of their company. But the new realism is quite recent. It could readily be reversed if the federal government shifts course and decides to bail out various declining industries, albeit under such innocuous-sounding labels as "industrial policy" or "fair trade," the latter being a euphemism for protectionism.

Thus the economic prospects for 1983 may disappoint optimists and pessimists alike: the rocky road of 1982 may well be leading the American economy to sustainable but lackluster economic growth with relatively moderate inflation. In retrospect, there may be very little wrong with Reaganomics that sharply reduced deficits wouldn't cure.

120191

4620
PU
LA

THE WHITE HOUSE

WASHINGTON

January 14, 1983

Dear Court:

Many thanks for sending me a copy of the Directory of U.S. Labor Organizations.

I appreciate it very much.

Best wishes.

Very sincerely,

Robert F. Bonitati
Special Assistant to
the President

Mr. Courtney Gifford
Staff Editor
Daily Labor Report
The Bureau of National Affairs, Inc.
Washington, D.C. 20037

ID # 120199

PU

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

☐ O - OUTGOING
☐ H - INTERNAL
☑ I - INCOMING
Date Correspondence Received (YY/MM/DD) 83/01/17

Name of Correspondent: Albert B. Franklin

☐ **MI Mail Report** **User Codes: (A)** ______ **(B)** ______ **(C)** ______

Subject: Encloses a letter from the Navy Opportunity Information Center concerning a subscription which was fraudulently requested.

ROUTE TO: **ACTION** **DISPOSITION**

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
CoKell	ORIGINATOR CS	83/01/17		C	83/02/09
Referral Note:					
DOD	R CS	83/01/21		A	83/01/31
Referral Note:					
		/ /			/ /
Referral Note:					
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Referral Note:					
		/ /			/ /
Referral Note:					

ACTION CODES:
- A - Appropriate Action
- C - Comment/Recommendation
- D - Draft Response
- F - Furnish Fact Sheet to be used as Enclosure
- I - Info Copy Only/No Action Necessary
- R - Direct Reply w/Copy
- S - For Signature
- X - Interim Reply

DISPOSITION CODES:
- A - Answered
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FOR OUTGOING CORRESPONDENCE:
Type of Response = Initials of Signer
Code = "A"
Completion Date = Date of Outgoing

Comments: CS Tell Kathy Osborne

Keep this worksheet attached to the original incoming letter.
Send all routing updates to Central Reference (Room 75, OEOB).
Always return completed correspondence record to Central Files.
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5/81

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Code	Date	Comment	Form
C __ __	______	Time:	P-
DSP	______	Time:	Media: ____

SIGNATURE CODES:

CPn - Presidential Correspondence
- n - 0 - Unknown
- n - 1 - Ronald Wilson Reagan
- n - 2 - Ronald Reagan
- n - 3 - Ron
- n - 4 - Dutch
- n - 5 - Ron Reagan
- n - 6 - Ronald
- n - 7 - Ronnie

CLn - First Lady's Correspondence
- n - 0 - Unknown
- n - 1 - Nancy Reagan
- n - 2 - Nancy
- n - 3 - Mrs. Ronald Reagan

CBn - Presidential & First Lady's Correspondence
- n - 1 - Ronald Reagan - Nancy Reagan
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- P - Photo
- R - Report
- S - Sealed
- T - Telegram
- V - Telephone
- X - Miscellaneous
- Y - Study

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350

31 JAN 1983

Mr. Albert B. Franklin
164 Hamilton Avenue
Apartment #415
Palo Alto, CA 94301-1684

Dear Mr. Franklin:

This is in response to your letter of January 14 to Ms. Kathleen Osborne at the White House. I am answering your letter on her behalf.

The Navy Opportunity Information Center is a subcontractor for the U.S. Navy. It serves as a clearinghouse only, by answering requests for information about Navy opportunities, careers, and benefits. The letter you received from them concerning a fraudulent subscription was a form letter which apparently did not apply to your correspondence to them. If you wish to conduct business with the U.S. Navy, I suggest you contact the contracting officer at the nearest Naval Supply Center for information.

Thank you again for writing. I hope this information is of help to you.

Yours truly,

SIGNED
John S. Herrington
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

WQ3150
3U203 162

THE WHITE HOUSE OFFICE

REFERRAL

JANUARY 21, 1983

TO: DEPARTMENT OF DEFENSE

ACTION REQUESTED:
DIRECT REPLY, FURNISH INFO COPY

REMARKS: TELL KATHY OSBORNE

DESCRIPTION OF INCOMING:

ID: 120199

MEDIA: LETTER, DATED JANUARY 14, 1983

TO: KATHY OSBORNE

FROM: MR. ALBERT B. FRANKLIN
164 HAMILTON AVENUE
SUITE 415
PALO ALTO CA 94301

SUBJECT: ENCLOSES A LETTER FROM THE NAVY OPPORTUNITY INFORMATION CENTER CONCERNING A SUBSCRIPTION WHICH WAS FRAUDULENTLY REQUESTED

PROMPT ACTION IS ESSENTIAL -- IF REQUIRED ACTION HAS NOT BEEN TAKEN WITHIN 9 WORKING DAYS OF RECEIPT, PLEASE TELEPHONE THE UNDERSIGNED AT 456-7486.

RETURN CORRESPONDENCE, WORKSHEET AND COPY OF RESPONSE (OR DRAFT) TO:
AGENCY LIAISON, ROOM 91, THE WHITE HOUSE

SALLY KELLEY
DIRECTOR OF AGENCY LIAISON
PRESIDENTIAL CORRESPONDENCE

THE WHITE HOUSE
WASHINGTON

TO: Anne

FROM: **KATHY OSBORNE**
Personal Secretary
to the President

DATE: 1-17-83

Can Sally Kelly
check into this
Thanks

120199

Ms. Kathleen Osborne
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

January 14, 1983

Dear Ms. Osborne

I am writing to you in hopes that you can help to direct this information to the proper agency or person who will be more able to assist me in this matter.

In the Navy Opportunity Information Center letter addressed to me and recieved December 29, 1983, from the desk of Captain C. D. Hawkins, Jr. My guess is that the Captain is talking about information that was mailed out to not only to his office but to the Department of the Army, Marines and Air Force. I can only assume that they too have responded to this program.

If this is true, then is the Captain saying that he is sugessting that his office wishes to purchase these goods and services at twice the price of what the other branches may now be paying for them?

Per Captain Hawkins order to cancel the subscription, he is stating that he wishes me then to resume his subscription, under my business. In other words, what ever his office has built up to this point is being forfeited to me to do as I please. It is hoped that this is not what the Captain is implying, but that his letter to me was in error. Can you help me in this matter?

Sincerely

ALBERT B. FRANKLIN
164 HAMILTON AVE., #415
PALO ALTO, CALIFORNIA 94301-1684
415-321-5729

cc

DEPUTY ASSISTANT SECRETARY FOR LOGISTICS
Chapman B. Cox

Secretary of the Navy
John F. Lehman Jr.

Navy Opportunity Information Center
P.O. Box 5000
Clifton, New Jersey 07012

AD

ALBERT B FRANKLIN
164 HAMILTON AVE #415
PALO ALTO CA 94301

The subscription referred to below was fraudulently requested.

The U.S. Navy maintains only a fulfillment warehouse operation in Clifton, N.J. The address and the names of Captains Miale, Weir and Hawkins appear on response coupons in all Navy advertising and are therefore widely known. Consequently, the Navy is the occasional victim of practical jokers, and this subscription order is one example.

Please cancel the subscription and ignore all future requests which generate from Navy personnel at this address.

I regret any inconvenience this matter may have caused you.

Sincerely,

C.D. Hawkins, Jr.
Captain, U.S. Navy

.3/381

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Transcript

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M E E T T H E P R E S S

Produced by Betty Cole Dukert

Live/Washington, D.C.

Sunday, May 3, 1981

GUEST: DAVID A. STOCKMAN
Director
Office of Management and Budget

MODERATOR AND EXECUTIVE PRODUCER:

Bill Monroe - NBC News

PANEL:

Bill Monroe - NBC News
Hobart Rowen - The Washington Post
James Fallows - The Atlantic
Irving R. Levine - NBC News

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This is a rush transcript provided for the information and convenience of the press. Accuracy is not guaranteed. In case of doubt, please check with

MEET THE PRESS

MR. MONROE: This is Bill Monroe inviting you to MEET THE PRESS with Budget Director and salesman of Reaganomics, David Stockman.

(Announcements.)

MR. MONROE: Our guest today on MEET THE PRESS is David Stockman, Director of the Office of Management and Budget. Mr. Stockman, a 34-year-old former Michigan Congressman, is the Reagan Administraton's chief budget cutter and a zealous spokesman for supply side economics including three years of tax cuts.

Mr. Stockman, Lester Thurow, of MIT, the economist, argues that President Johnson wrecked the nation's economy by not raising taxes to pay for the Vietnam War. Now he says the Reagan Administration, with inflation running at 10 or 11 percent, is going to spend an amount of money on the military equivalent to the Vietnam War and simultaneously is cutting taxes, or as the President puts it, keeping taxes level. Thurow says this is going to wreck the economy the way Johnson did. What is your response?

MR. STOCKMAN: Well, I think that analysis is 180 degrees off base. While Mr. Johnson did increase the Defense budget substantially to finance the Vietnam War, at the same time he increased dramatically the Domestic budget as well. As a result, during that period, Defense spending, which was high to begin with, increased from 7 to 9 percent of our GNP, and Domestic spending increased substantially as well.

We're proposing just the opposite. We begin today after a decade of underfinancing Defense. We're spending only 5 percent. Even with the build-up in 1983 and 1984 to recapture our momentum and our position, to catch up with the Soviets in some important respects, we'll only be spending 6, 6-1/2 percent on Defense, less than when the Vietnam build-up began.

Secondly, we are substantially reducing expenditures across the board in all other parts of the budget. As a consequence, the total Government spending, as a share of GNP, will fall dramatically, from about 23 percent today to 19 percent by 1984. The growth rate of Federal spending will be negative in real terms, after inflation. That is totally different, totally opposite from what occurred during the build-up in the '60s, and for those reasons, I think Mr. Thurow is just wrong.

MR. MONROE: Let me ask you about the prospects for those budget cuts you say you are depending on. House Speaker Tip O'Neill says that the severity of the Administration's budget cuts is beginning to sink in. He says that the President is now a little bit on the run and that as many as 16 Republicans might vote against the Reagan budget plan. Do you think, are you confident that that Reagan plan will win in the House?

MR. STOCKMAN: Well, we're encouraged but ever at the ready. We realize that the House is going to be the critical test of this entire program as it is embodied in the budget resolution next week. We believe that we will have strong Republican solidarity and that there are an increasing number of Democrats who believe that there is such strong support in the country for the program, who believe that it is moving in the right direction in terms of budget control, reducing taxes, that we have a very strong chance of winning that.

Nevertheless, it will be tough because, after all, the House is controlled by a 50-vote margin by the other party.

MR. MONROE: You are talking about Republican solidarity. What about Republican unanimity in the House?

MR. STOCKMAN: Well, I don't know how you define that, but I wouldn't expect that we will have any defections, or any significant defections.

MR. MONROE: Thank you, Mr. Stockman. Our reporters on MEET THE PRESS today are Hobart Rowen of The Washington Post, James Fallows of The Atlantic, and Irving R. Levine of NBC News.

We'll be back with our questions shortly.

(Announcements.)

MR. MONROE: We'll continue the questions for Budget Director David Stockman with Hobart Rowen.

MR. ROWEN: Mr. Stockman, in an administration that is committed to supply side economics, which presumably means increasing the supply of goods available for people to buy, how do you defend the so-called voluntary decision by the Japanese Government which was solicited in effect by this government, to reduce their export of cars by 140,000 units a year?

MR. STOCKMAN: Well, supply side economics applies to our policies, on the tax, on the budget, regulatory policies, not necessarily the actions or the decisions other countries would make.

We have clearly indicated that we think the problem in the automobile industry is primarily made in Washington, not in Tokyo, that it is going to tax changes, it's going to take budget control, get inflation down, so the American people will start buying cars again. That's where the major solution will lie.

I think in this case the Japanese have decided that the American market, over the next decade, will be a very important and lucrative market for them, and they are behaving as prudent sellers, as prudent marketers, looking at their lcngrun interest.

MR. ROWEN: Well, Mr. Stockman, with all due respect, I don't think you answered the question. Doesn't sending Mr. Brock to Tokyo, in effect to negotiate the decision, make a mockery of the free trade, free enterprise principles that you yourself stand for and argue for in Cabinet sessions?

MR. STOCKMAN: Well, I don't think so. In the first case, we didn't send him. The Japanese requested that he come to explain what we are doing to try to revitalize our own industry. Second, I suppose that you can look at these things in purely theoretical abstractions and suggest that this solution deviates from the line in some degree.

But basically what we have to focus on is the practical results. The practical results is that there will be very little change in the composition of the domestic market. The voluntary initiative that has been made by the Japanese permits import growth in the next year and the year after. I don't think that we h ave any protectionist direction here that would have major domestic adverse repercussions.

MR. ROWEN: Well, aren't you concerned, at least to some extent, by the standard or example set? Aren't you in a weak position now when the steel or the textile or other industries that are failing come in and say, look, you gave some help to the automobile industry, how about us? Aren't you facing that situation?

MR. STOCKMAN: Well, I suppose you could make that point but I think the basis of our policy is pretty clear. We believe that the fundamental problems in our economy, whether it is in the steel or auto industry, the low savings rate, the fact that we are becoming less competitive internationally, is primarily the result of a decade of incorrect or counterproductive policy.

We are putting 99 percent of our focus and effort and attention on changing Government policy at the domestic level.

MR. MONROE: Mr. Fallows?

MR. FALLOWS: I'd like to follow-up on Mr. Monroe's question about the military budget. Your projections for the next five years of military spending assumes the inflation rate in the Defense industries will start at about 9 percent and go to 6 or 5 percent in four or five years. There've been a number of Government reports issued recently which show the inflation rate is now much higher than that and that in general Defense industries have a chronically higher inflation rate than does the rest of the economy. How can you defend the projections you are using?

MR. STOCKMAN: Well, I think, one, we can defend it on the basis of historical experience. If you look at the last half of the 1970s, you will see that the deflator for Defense goods moved up at a rate roughly similar, closely tracked the general GNP deflator for the economy.

Secondly, we have not said that the inflation rate in the Defense industry will come down on its own. We do believe that the entire economic plan will bring down the inflation rate, not only for civilian goods but for Defense goods as well.

MR. FALLOWS: There has been a pattern in Pentagon spending over the last several decades, you are no doubt aware of, where each year, in projecting spending for the next five years or so, the Pentagon makes very optimistic estimates of how much money will be available by systems that require that much money to operate, and then doesn't get that much money and has systems it can't fully fund. Are you not setting up the same sort of situation with this optimistic inflation estimates and unprecedentedly high projections for increased spending?

MR. STOCKMAN: No. I don't think so. If you look at the last five years, you'll find that in three of the last five budget years, Defense outlays were actually lower than had been estimated in the budget, not higher. Now, there is a clear problem, on the other hand, of weapons system overruns, and we believe that that is not primarily a matter of inflation. It's a matter of poor contracting procedures, inadequate competition, the failure to use multi-year contracting, changes constantly in the specifications for the system being procured. We intend to have a much tougher, more prudent, and I hope more efficient contracting procedure established so that some of that overrun problem can be addressed.

But that's different, that's a different issue than the question of whether or not we can meet those Defense spending targets. I believe we can.

MR. MONROE: Mr. Levine?

MR. LEVINE: Mr. Stockman, one of the things which has constantly driven up the budget deficit is the automatic cost of living increases in certain Federal benefits paid to retirees in the military and the civil service and particularly cost of living increases for Social Security recipients. Now, you have indicated all along that you are in favor of maintaining those cost of living increases and those cost of living increases would add, in the case of Social Security, some $15 billion to the budget deficit next year. Senator Byrd said that he has sent a letter to the Administration asking what the attitude is toward projected cuts which the Congress would like to make in those automatic cost of living increases. What is the Administration's attitude now?

MR. STOCKMAN: Well, it's the same as it has been before. We have indicated it would be highly unfair and I think unjust to ask the retired population, which is most vulnerable to inflation, that has had its private savings eroded, if not wiped out by the inflation of the last decade, to bear a disproportionate share of this effort to get the Federal budget under control, to eliminate the deficit and bring inflation down.

We have to remember that without those cost of living adjustments, the real benefit level, the purchasing power of

35 million Social Security checks and Federal pension checks would shrink drastically each year. Our view is that there are problems in that area of Social Security in particular. We face a very severe problem in about two years in keeping that fund solvent and safeguarding the benefits of millions of people. We believe that if anything is to be done in that area, it has to be done as part of a comprehensive effort to maintain the solvency of Social Security. There may well have to be benefit changes. But we shouldn't pick out just the COLA as a expedient budget saving device. We have to look at the whole system in terms of the cost and the benefit structure. We are doing that now and there will be recommendations to Congress in the relatively near future.

MR. LEVINE: But what is your answer to the critics who claim that it will be impossible to balance the budget in 1984 or even beyond unless you do cut into those cost of living increases, not only in Social Security, but in Federal, military, pensions and so on?

MR. STOCKMAN: Well, we have proposed some change in that area. I would mention that in the case of the Federal, military, and civilian pensions, that have been on a twice-a-year cost of living adjustment, we've proposed to reduce that to one. That will save some money.

But the important point is that the COLA is not the entire problem. We will spend well over $200 billion for Social Security and other pension programs next year. The base needs to be examined in terms of the benefit structure and not just the

$15 billion that's put on top in order to compensate for the cost of living, a solution that requires looking at the entire program.

MR. LEVINE: By COLA, you are not referring to a soft drink but to the cost of living adjustment.

MR. STOCKMAN: The cost of living adjustment.

MR. LEVINE: To turn to your comment earlier that you believe that the House and Senate will give you favorable votes, we have seen in the past week certain Congressional committees, particularly the Agriculture Committee, has been voting subsidies and other Federal expenditure commitments which would go beyond the President's proposals. Are you fearful that while you may get the votes in the House and Senate, that the President's budget may be blown apart in the appropriations process in the committees?

MR. STOCKMAN: Well, I am concerned but the Ag Committee, I think, is only behaving par for the course. When those farm bills are marked up every four years, the first round includes an effort by every commodity group, by every special interest, to get its hand into the Federal piggybank as deeply as they can.

The pattern, though, in the past, has been that those bills get cleaned up, they get shrunk down, and in this case, we have a very tight ceiling on the farm program costs for next year and future years, and we will make a determined effort to clean up those bills on the floor of the House and Senate, if they emerge from committee in their present form, and if they emerge from the Congress with that kind of budget-busting total, we would have to consider very seriously whether or not that program could be signed.

MR. MONROE: Mr. Stockman, about a month ago you said that the President would veto a one-year tax cut. A day or so later, the White House, in effect, said that was your idea. Can we assume that you would urge the President to veto a one-year tax cut but in fact you do not know whether he would veto a one-year tax cut?

MR. STOCKMAN: Well, I think the policy on that is very clear. The President has indicated and he followed this practice during eight years as Governor of California, that he doesn't announce in advance explicitly whether a bill is going to be signed or vetoed. And, surely, at this early stage in the process, before we have even begun to mark up one sentence in a tax bill, it's too early to form a judgment about whether a bill conforms with what we have proposed and can be signed or doesn't and would have to receive the other treatment.

But clearly we have suggested that a tax bill, to be acceptable, to fit into what we think is necessary for basic economic recovery in this country, has to be multi-year. It has to be oriented towards bringing the rates down which are prohibitive and counter-productive today, and has to be oriented towards economic incentives, expanding the economy, rather than simply reshuffling the tax burden, as has been the case in the past.

That standard is clear and I don't believe it will change.

MR. MONROE: The President has not specifically told you that he would veto a one-year cut?

MR. STOCKMAN: The President never makes up his mind until the bill is on his desk.

MR. MONROE: In connection with the Administration effort to save money by wiping out the Legal Aid program, you have said that you don't feel poor Americans are entitled to legal aid, it is not a basic right. Do you have any objection to a society that wants to set up a national mechanism so that very poor people who get into legal trouble can, like their richer neighbors, get a lawyer?

MR. STOCKMAN: Well, we have not proposed to abolish the Legal Aid program at the local level. We have simply proposed to fund it differently. We don't believe that you need a national corporation employing 18,000 people, including 7,000 lawyers, in order to accomplish the job of providing that civil legal aid for people who have inadequate incomes.

We would rather fund it through the states in a block grant.

Secondly, on the matter of entitlements, what I have suggested is, you have to be very careful as to what kind of entitlement you provide. We have entitlement for insurance that retired people have pensions. Of course we support that. We have entitlements for cash assistance for low income families, like AFDC, which need support. What I have indicated on a number of occasions is that when you provide an entitlement for a social service, unlike an entitlement for cash aid or for social insurance, you have serious problems because the providers, whether they are lawyers or psychologists or social workers or educators, will always find some reason to drive up the cost of the program.

So there is a clear distinction between services and cash assistance, income support, to maintain a safety net under people.

MR. MONROE: Mr. Rowen?

MR. ROWEN: Let me come back to Mr. Monroe's series of questions on the tax bill. I noticed you said multi-year. Is multi-year two years or three years?

MR. STOCKMAN: We have defined multi-year as three years.

MR. ROWEN: In other words --

MR. STOCKMAN: But I would also point out that some of the proposals we have made are permanent. The depreciation reform is permanent, out into the remainder of the decade.

MR. ROWEN: Does that mean, Mr. Stockman, if there were a two-year tax bill that preserved the Kemp-Roth emphasis on reduction of marginal tax rates, that the President would veto that?

MR. STOCKMAN: Well, I have indicated the policy on vetoes so I don't think that it would be very helpful to speculate about what might or might not happen. Clearly we think you need a 30 percent reduction of the rates. Given the budget situation and the condition of the economy, it will take three years to achieve that.

MR. ROWEN: Why isn't the Democratic bill proposed by Congressman Rostenkowski which provides for a cut in one year of the marginal tax rates from 70 to 50 percent even more attractive to you and other conservative Republicans than the Kemp-Roth bill itself?

MR. STOCKMAN: There are many things in the Chairman of the Ways and Means Committee's proposal that are attractive including the item that you have mentioned. However, it doesn't go far enough. Cutting the rates from 70 to 50 percent would only help a relatively small proportion of the entire group of taxpaying Americans. What about those who are in the middle income and the lower income categories? They need incentive. They need tax rate reduction as well. We think the Chairman has made a good start but now we have to go further to complete the job.

MR. ROWEN: But wouldn't the Democratic bill in the House also help you in the Senate with those conservative Republicans who are worried, as Mr. Levine suggested, about the big budget deficit that lies ahead, this year, next year, and into the foreseeable future?

MR. STOCKMAN: Well, our view is that there is no big budget deficit that lies ahead. We believe that the response that we have received already, from the Congress, in terms of willingness to bite the apple here and to support some of these very difficult cuts, even though there is so much pressure, indicates that we're going to succeed in achieving our goals on the budget side, of holding spending growth to 6 percent next year and in future years. If that's achieved, then, obviously, the tax reduction can be financed and the budget can be balanced.

MR. MONROE: Mr. Fallows?

MR. FALLOWS: I'd like to pursue this matter of legal services. You replied to Mr. Monroe that the states could fund these through block grants and suggesting that it was a different manner of funding the program. What you actually said, six weeks ago, was that, I don't believe there is any entitlement, any basic right, to legal service, or any other kind of service, and went on to explain that these entitlements have gotten out of control. In saying that about legal service, do you mean to suggest either that there is no significant difference between the kinds of legal services available to rich and poor people, or that the right legal representation is no so fundamental a right that it should be provided regardless of income?

MR. STOCKMAN: Well, every American has the right to representation in criminal cases and we have a legal aid system, a court assignment system, that ensures that. Here we are talking about civil litigation. We are talking about drawing up wills. We are talking about divorces. We are talking about property disputes. Obviously, there are a lot of ways to ensure that lower income people have access to the legal advice or service they need.

Many county bar associations provide that. The Federal Government has helped with its legal aid program in the past. My argument here is that you cannot create a legal entitlement in the sense that you have to have one lawyer for every 10,000 poor people, as decided by some Federal bureaucrats. That is the wrong approach. That is too rigid. It becomes too costly.

MR. FALLOWS: I'd like to turn briefly to one other topic, if I might. One of the divisions within the generation to which you and I both belong is among the people who fought in Vietnam and those who didn't. As you are aware, some veterans' groups have complained about the cutbacks you have made in programs for Vietnam veterans, saying they have a particularly divisive effect coming from someone who is in divinity school when they were in Vietnam. What is your response to that complaint?

MR. STOCKMAN: Well, I've found that when people can't defend a program, they resort to ad hominem. That program was clearly designed as a temporary program, for two years, in order to undertake special outreach efforts to ensure that Vietnam veterans were availing themselves to the normal counseling, medical, income, and other services of the V.A. That program was to expire at the end of fiscal year '81. We have proposed that that policy be pursued. That was the original intent.

Now, like any program, once it gets started, it has a payroll and a travel budget, and operating offices, there are those who want to perpetuate it permanently. But in this case, I think the job has been done and the whole V.A. network is still there and every Vietnam veteran is still entitled to the whole range of V.A. benefits that we have appropriately provided for those who served in behalf of our country.

MR. MONROE: We have about one minute, a little bit more.

Mr. Levine?

MR. LEVINE: Mr. Stockman, you said a few moments ago that no big budget deficit lies ahead. Yet, by the Administration's