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THE WHITE HOUSE  
WASHINGTON

*File  
Treasury*

March 23, 1981

MEMORANDUM FOR FRANK HODSOLL

FROM: KATE MOORE *K.M.*  
SUBJECT: Treasury Transition Report: Key International  
Economics/Finance Issues

Below is a summary of the significant international financial and economic issues emerging from the report of the Department of Treasury Transition Team. This summary may be useful as we prepare for the Ottawa summit.

SIGNIFICANT ISSUES

1. East/West Trade

AFE's\*: July 19-21, 1981:

Ottawa Summit

Fall, 1981:

U.S./U.S.S.R. Grain Agreement to expire.

Two East-West trade issues are of particular import and require immediate attention:

a. Polish Debt Rescheduling

A rescheduling of Poland's debt seems virtually unavoidable. Poland's 1981 gross financing requirements are estimated at \$12 billion. Of this, repayments of medium and long-term credits account for \$7 billion. The remaining \$5 billion is Poland's current account deficit.

U.S. government exposure (Commodity Credit Corp.) is \$2.4 billion. U.S. bank exposure as of June, 1980 was \$1.7 billion with additional commitments made.

b. USSR Economic Sanctions

The U.S. took actions of four major kinds against the Soviet Union as a result of its invasion of Afghanistan. These sanctions need to be reviewed

\* AFE = Action-Forcing Event

for effectiveness, consistency with current foreign policy, and relationship to allies.

1. Agricultural embargo
2. High technology restraints
3. Credit restraints
4. Phosphate embargo

2. North/South Relationships

AFE's:      April, 1981:

World Bank convenes "Committee of the Whole" for overall review of bank proposals growing out of Brandt Commission Report: North/South: A Program for Survival.

July 19-21, 1981:

Ottawa Summit

October 22-23, 1981:

North/South Summit convenes.

a. Brandt Commission

The Brandt Commission (created at World Bank president MacNamara's suggestion) published its report in early 1980. The World Bank and IMF have initiated a series of studies on proposals falling within their domain; the Treasury Department should be prepared to comment and/or respond.

b. UN Global Negotiations

Another North/South issue is the global negotiations currently being prepared within the UN framework to cover food, energy, trade, raw materials, development, financial and monetary issues.

c. Ottawa Summit

North/South relations are currently on the agenda for the Ottawa economic summit. Our stance on North/South issues needs to be clarified before the summit.

### 3. International Monetary Fund

#### a. Special Drawing Right

AFE:            May 21, 1980:

IMF interim committee to meet to consider recommendations as to SDR allocations.

Significant modifications of the SDR were pursued by the Carter Administration and decisions regarding these changes will be forthcoming. The Secretary of the Treasury, as the head of the lead agency for the IMF should be prepared to have a point of view on these changes. They include:

SDR Interest Rate. The IMF Executive Board agreed in principle to raise the SDR interest rate to the full market level subject to review of the impact on the IMF's financial position and on IMF charges.

SDR Re-constitution. A final decision is pending regarding whether to eliminate the remaining 15% SDR re-constitution requirement.

Allocations. The developing countries have pressed for larger SDR allocations and for a link between such allocations and development assistance. The U.S. has continually opposed such a link.

#### b. IMF Lending

Demands for loans from the IMF are expected to double in 1981 versus 1980. The IMF is in the process of seeking additional funds, primarily via bilateral arrangements from members having strong financial positions.

The Reagan Administration needs to determine its policy in regard to the U.S. level of commitment to the IMF.

#### c. PLO Observer Status

The Palestine Liberation Organization is seeking observer status at the Annual Meeting of the IMF-World Bank and the U.S. has resisted the PLO's efforts. This issue needs to be factored into the Reagan Administration's overall IMF-World Bank policies.

#### 4. International Trade

AFE:            July 19-21:

Ottawa Summit

##### a. Imports

Three issues now dominate U.S. import policy: autos, steel, and textiles.

##### i. Autos

The structural problems confronting the auto industry have combined with the effects of recession and interest rate policy, and with the special problems of the Chrysler Corporation, to create tremendous political pressure to limit imports. The auto issue, however, is seen internationally as a key test of U.S. trade policy.

##### ii. Steel

The U.S. has developed a Trigger Price Mechanism. Under it, Treasury monitors the price of steel mill imports and agrees to initiate anti-dumping procedures on an expedited basis should monitored prices fall below "trigger prices." The TPM is now in effect, with a new provision for U.S. government response in cases when new imports surge. The Transition Report notes that the TPM/Import Surge provision could become a means by which the domestic steel industry receives a broad pervasive form of import protection. This Administration must be aware of that potential result; the Transition Report recommends elimination of the TPM.

##### iii. Stainless steel

The stainless steel industry is seeking to bring imported stainless steel under the TPM (in addition to the currently-covered carbon steel).

The Transition Report recommends that the TPM not be applied to the stainless steel industry.

##### iv. Textiles

The need to renegotiate the Multifiber Agreement (MFA) presents on the one hand an opportunity to allow poorer exporting countries to build a greater share of

the U.S. market, and on the other hand, an opportunity to tighten textile and apparel quotas.

The Transition Report recommends that the MFA be made, on balance, no more restrictive.

v. Exports

The Transition Report recommends a major re-orientation of U.S. trade policy toward an "export-directed" U.S. trade policy. Recommended measures include:

- o Lending should be effectively targeted where export credits are most needed.
- o Barriers to U.S. trade should be removed - e.g., change Ribicoff amendment; modify the "unclear" and "confusing" Foreign Corrupt Practices Act.
- o Reject protectionism at home.

THE WHITE HOUSE  
WASHINGTON

3/11/81

Frank--

Attached is a summary of the significant issues emerging from the Dept. of Treasury Transition report.

This report differs somewhat from the EPA report, in that the key issues are well on their way to resolution. So, in all honesty, I did not spend a lot of time pinpointing key dates, as I think Darman's group has this well in hand.

However, it occurred to me that given your(our) mandate to track international issues, it would be well to look closely at the international finance and economic issues. I would propose a separate summary on this, and will work on it accordingly. In light of our luncheon conversation today, I think such a summary could be useful.

Let me know if you think otherwise.

*Kate*  
Kate

PS All my biz school books are in NYC; do you have a good primer in your library on international finance? When it comes to SDR's and the like, I am a little rusty.

Also, Iran agreements perhaps should go into this summary. Let's discuss.

THE WHITE HOUSE

WASHINGTON

March 11, 1981

*File  
Treasury*

MEMORANDUM FOR FRANK HODSOLL

FROM: KATE MOORE *KM*  
SUBJECT: Treasury Transition Report: Key Issues

Per your request, below is a summary of the significant issues emerging from the report of the Department of Treasury transition team.

As you will note, most of the significant issues have been addressed already, given the high priority of the domestic economy. In a separate summary, therefore, I am addressing international economic issues which should be brought to your attention.

The issues which are significant are characterized by one or more of the following attributes:

- a) high potential for national impact
- b) strong likelihood that the issue will require action by the President and/or top Administration officials within the next three months
- c) close relationship to major campaign themes or promises.

SIGNIFICANT ISSUES

1. Tax Legislation

Supply side economics, which President Reagan endorsed during the campaign, sees tax policy as the principal instrument of the governments fiscal policy, hence it is the most significant issue facing the Treasury Department.

The DOT transition report recommends a supply-side restructuring of the tax code which might consist of the following elements:



- significant reduction in marginal personal income taxes (e.g., Kemp-Roth).
- a "simplified capital cost recovery system," (e.g., 10-5-3 depreciation).
- some reduction of the corporate income tax rates.
- further tax incentives for savings (e.g., diminishing differential between taxes in earned and unearned income).

Timing: The Economic Recovery Plan generally reflects the above characteristics and is currently being considered by Congress.

## 2. Public Debt Limit

The transition report identified February 28, 1981 as the expiration date of the debt ceiling of \$925 billion and noted that legislation would be required to increase the limit.

Timing: The Administration sought and achieved legislation increasing temporarily the debt limit to \$985 billion. This limit will expire September 30, 1981. The revised budget estimate (March 10, 1981) indicates the public debt will reach \$987.4 billion at the end of the fiscal year.

## 3. Chrysler Loan Guarantee

The transition report identified the Chrysler loan guarantee as an issue requiring immediate attention, owing to the likelihood of a January-February request for an additional \$400 M in loan guarantees. (The Secretary of the Treasury is the Chairman of the Chrysler Loan Guarantee Board.)

Timing: On February 27, the Loan Guarantee Board extended a guarantee for an additional \$400 M. An additional \$300 M represents the remainder of the \$1.5 billion that the Board is authorized to guarantee, although the Chairman of the Board of Chrysler has indicated that Chrysler will not seek any additional federal loan guarantees.

#### 4. Social Security Financing

The Old Age Survival Insurance Trust Fund (OASI) is in serious financial difficulty in the short term due to a combination of unemployment and declining real wages (OASI funds may be exhausted in mid 1982). Long term financing problems also exist due to demographic changes.

The Secretary of the Treasury is the Managing Trustee of the Social Security Trust Fund and may be called on to testify on Social Security funding early in 1981.

##### Timing:

|                       |   |
|-----------------------|---|
| Early 1981:           | Comments and debate begin regarding trust fund solvency. Proposals may include: <ul style="list-style-type: none"> <li>- increasing trust fund revenues</li> <li>- interfund financial flexibility (e.g., funds from Disability Insurance funding OASI)</li> <li>- changes in indexing formula</li> <li>- reduction in noncrucial, special benefits.</li> </ul> |
| Late 1981/early 1982: | Enactment of legislation to assure financial solvency of the trust funds.   |

Discussion of short-term problems may bring into focus the long-term crisis -- i.e., the year 2010 when the "baby-boom" generation reaches the age of 65.