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File Folder: W.H. Staff Memos - Cabinet Affairs [3 of 3] Box 3 Date: 11/24/98

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. Memo	Fred Khedouri to J. Baker re: Jobs Bill (1 p)	2/17/83	~~P5~~ CB 10/5/00

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]
- F-1 National security classified information [(b)(1) of the FOIA].
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-3 Release would violate a Federal statue [(b)(3) of the FOIA].
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- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 5/9/83

TO: James Baker

Lawrence A. Kudlow

FROM: ASSOCIATE DIRECTOR
FOR ECONOMICS AND PLANNING

For your information and review.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 6, 1983

MEMORANDUM FOR: David A. Stockman

FROM: Lawrence A. Kudlow LAK

SUBJECT: Economic Meeting with the President
May 9, 1983

Attached are a variety of update papers and analyses prepared during the past two weeks. The net effect of these and other indicators points toward a trend of solid improvement in the U.S. economy. Moreover, in both the business and financial sectors, this improvement trend is developing additional momentum.

1) Monetary Policy

- The pronounced slowdown in bank reserve growth, started in mid-December 1982, is now generating the lagged slowdown in money supply growth that would normally be expected.
- The level of M1 (4 week moving average) has changed only slightly during the past 6 weeks, and the 4-week growth rate has slowed from 28% in late February to 0.7% in late April.
- The balance sheet analysis of monetary policy continues to provide the only reliable reading of the Fed.

	Source Base	Non-Borrowed Reserves
1/8/82 - 6/30/82	-0.7	0.0
6/30/82 - 12/8/82	8.5	17.7
12/8/82 - 4/13/83	-0.4	1.4

- The policy turnaround from restraint to stimulus in mid-1982 is the dominant factor in the money growth surge from August to March.

- o The December shift in policy is now yielding a slowdown in money growth after a lag of 3 months. This is right in line with the normal econometric calculations of the bank reserves and money supply relationship.

- o Deposit shifts into money market deposit accounts caused a large increase in the money multiplier (M1 = Base x multiplier; M1 = nonborrowed reserve base x multiplier), causing some overstatement of money growth in Q1/83.

- o A large positive seasonal adjustment factor also caused some overstatement of M1 growth during Q1/83.

- o The new deposit effects have largely passed, and there is reason to believe that the multiplier will weaken and then stabilize during the next few months. Hence a slow reserve growth path will yield a modest increase rate for M1.

- o Three factors will influence Fed policy during the second and third quarters:

  a) money growth rates,
  b) economic recovery indicators,
  c) monetary targets.

    a) The Fed will lower the Federal funds rate only if the May money numbers continue the weak March/April trend. Thus, the funds rate will probably be reduced from the prevailing 8 1/2% level, but not for a few more weeks.

    b) Nearly all the economic evidence suggests a stronger than concensus recovery. If the next round of data for April continue this trend, then the Fed is not likely to rush toward a lower funds rate, a drop in the discount rate, and a speed-up in reserve expansion. With more economic growth, they can drag their feet in the open market. But a second shift toward ease is in the cards, at the latest by mid-year.

    c) Year-to-year M1 growth is still running above 10%, and the Fed would love to pull it back into the 4 to 8% target, even though publicly it is said M1 does not matter. But I do not believe this public rhetoric.

Bottom line:

Monetary policy has become less accommodative, and properly so, with no adverse impact on either the economy or the credit markets. But policy is still basically easy, and will continue so for quite a while.

2) Financial Markets

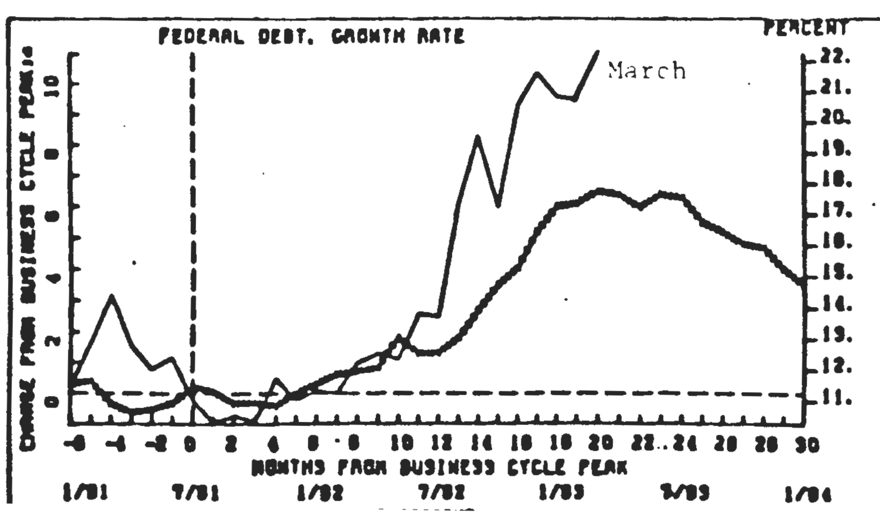
- Long term bond prices have rallied substantially in recent weeks, and the 10 3/8's of 2007 are trading at a premium above par, yielding about 10.25%. This is a new low in yield, representing a breakthrough from the previous low of 10.45% last November.

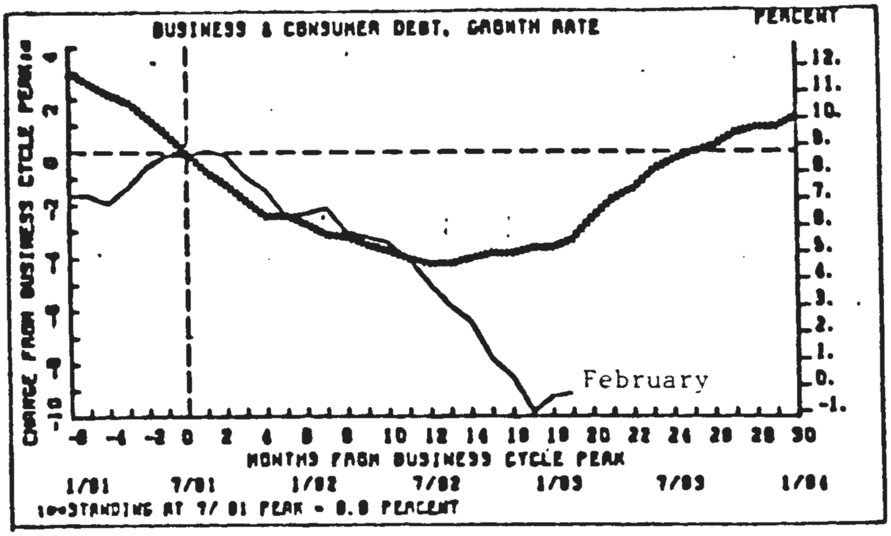
- Gold prices have been stable at around $430 per ounce.

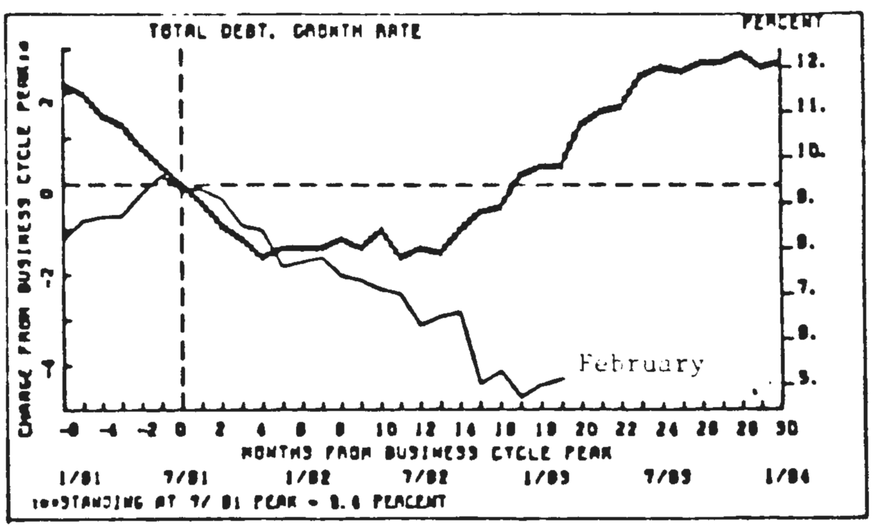
- Dollar exchange rate remains strong at 121.5, near the high of the past 2 years.

- The Dow-Jones closed at 1233, showing that the widely expected "technical" correction has not occurred -- the fundamentals are too good.

- As is illustrated by the following three charts, total credit demand is well below the average of 6 post-war recessions (excluding 1980) at comparable stages. Federal credit demand is above average, but private credit demand is far below average. Deficits are not a concern until private credit demands revive. This is the reliquification phase of the business cycle, and there are ample savings to finance the deficits. Right now, the markets don't give a hoot about deficits.







- A proxy for private credit demand, comprised of C&I loans and non-financial commercial paper, shows that during the January-April period, private credit demand was essentially flat.

- o Corporate stock flotations are very high, and this reduces the demand for bank loans and bond issues, helping to reduce the overall credit demand. Also, profit margins are wide and profit levels are rising fast, so much of the business expansion will be funded through retained earnings.

- o As long as the credit demand picture is weak, the markets will have little or no concern for the budget deficit problem. This honeymoon with liquidity will not last forever and the deficit will be a major problem at some future point, but not for the foreseeable future.

Bottom line:

1) Heavy reliquification and rising profits are positive factors for interest rates.

2) With stable gold and lower long-term rates, inflation expectations are not reviving -- maybe even some further reduction with the monetary growth pullback.

3) With short rates well below long rates and perhaps a steeper yield curve if and when the Fed pushes down the funds rate, the bond market environment is quite positive.

4) All this is still a green light for stocks, if not for the broad averages, at least for many of the groupings (particularly heavy industry, capital investment and raw materials producers).

3) Business Conditions

- o Recent data for housing, production, factory orders, income and employment all show growing recovery momentum.

- o Inflation rates are not likely to decline any more, but there are no signs of reviving inflation pressures.

- o A list of 29 leading and coincident indicators show:

  -- 14 are above average compared to past cycles.

  -- 15 are below average.

- The composite index of leading indicators is below average cyclical levels 20 months after the prior peak (July 1981), but it is catching up fast.

- First quarter real GNP was stronger than the Commerce data suggested. When properly adjusted for CCC distortions and the antiquated net export deflator procedure, real GNP increased by 5.0%, real final sales by 6.9%, and the GNP deflator by 4.0%.

Bottom line:

1) First recovery year will not reach 7.2% average, but 5-6% range looks more and more likely.

2) Big real GNP quarters for Q2 and Q3.

2) Assuming no monetary shocks, the second year of recovery should run in 5-6% range, above the 3.3% average.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 6, 1983

MEMORANDUM FOR: Lawrence A. Kudlow

FROM: Ahmad Al-Samarrie AL
Mark A. Wasserman MAW

SUBJECT: Labor Market in April

1) The labor market continued to improve in April.

o Total payroll employment, a key component of the index of coincident indicators, rose by 260,000 in April, with a large gain (110,000) occurring in manufacturing. Since the December 1982 trough, total payroll employment has risen 650,000 and factory employment 250,000.

o Factory hours and factory overtime each increased a hefty 0.5 hours in April, confirming that the recovery is gathering momentum. In an initial expansion phase, employers usually add hours to the schedules of those currently employed before hiring additional workers, thereby improving productivity and profits.

o Reflecting the combined effects of higher payroll employment and longer workweek, aggregate weekly hours in manufacturing surged 2.1% last month.

-- Based on these data, we estimate the rise in April industrial production (scheduled for release on May 13) to be around 1 3/4%.

-- Since the cyclical trough in December 1982, aggregate manufacturing hours have risen 5.1%, or more than double the average increase of 2.2% experienced during comparable periods in the postwar cyclical recoveries. This above-average performance reflects in part the severity of the 1981-82 decline in manufacturing activity.

- The employment diffusion index (percent of industries in which employment increased) rose to 72.6, the highest level in nearly two years.

- The overall civilian unemployment rate edged down to 10.2% in April from 10.3% in March and a high of 10.8% in December 1982. The small decline in April's jobless rate reflects large increases in both the civilian labor force (300,000) and civilian employment (350,000).

2) Further employment gains are suggested by recent data.

- New factory orders, a leading indicator of production, averaged $159.6 billion in Q1/83, a 21.1% annual rate of increase over the Q4/82 trough level. This gain is the same as the average increase in manufacturing new orders during the first quarter of past recoveries.

New Factory Orders

Trough Quarter	Trough Level ($ billions)	T + 1 Level ($ billions)	% Change (annual rate)
Q4/49	NA	NA	NA
Q2/54	NA	NA	NA
Q2/58	25.9	27.3	23.5
Q1/61	29.3	30.6	18.4
Q4/70	51.7	55.3	30.5
Q1/75	80.6	82.6	10.6
Q3/80	155.9	164.0	22.5
Average			21.1
Q4/82	152.1	159.6	21.1

- The April report of the National Association of Purchasing Management indicates marked strength in the industrial sector of the economy. The managers composite diffusion index (based on new orders, production, employment, vendor performance and inventories) was 57.1% in April, compared to 54.7% in March and a cyclical low of 41.0% in December. A reading above 50% indicates an expanding economy. The increase in the composite index since December (39.3%) is slightly above the average gain of 36.9% in the previous six cyclical upturns.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 6, 1983

MEMORANDUM FOR: David A. Stockman

FROM: Lawrence A. Kudlow LAK

SUBJECT: Underestimation of Economic Strength in Q1/83

- o Nominal GNP is estimated to have increased at an annual rate of 9.1% in Q1/83, with a 3.1% rate of growth in real GNP and a 5.8% rate of increase in the GNP deflator.

- o The real GNP data are appropriate for measuring production in the U.S. and for explaining changes in employment and productivity. However, these data may not be the most appropriate measure of U.S. residents' command over resources. As shown below, due to the particular manner in which net exports are estimated, there is some reason to believe that the economy in Q1/83 is stronger than what is suggested by the real GNP data, while inflation for people in the U. S. is lower.

- o In calculating real GNP, exports and imports are deflated separately to obtain real net exports. The current dollar value of exports are deflated by export prices and the current dollar imports by import prices. Net exports in constant dollars are then calculated by subtracting deflated imports from deflated exports.

  - -- This method of calculating real net exports (a component of GNP) exaggerates the improvement in the economy in periods of deteriorating terms of trade, i.e., when import prices rise much more rapidly than export prices. During such periods, as occurred during most of the 1970's because of the sharp rises in oil prices, the import deflator reduces the level of imports more than the export deflator reduces the level of exports. As a result, the levels of constant-dollar net exports as well as real GNP are higher.

  - -- In contrast, this estimating method underestimates the strength of the economy when U.S. terms of trade improve, as has been the experience in the recent quarter as a result of the discernible decline in oil prices.

- One way to reflect changes in the terms of trade on command over resources and their influence on economic activity is to use a given price deflator to deflate net exports instead of using separate deflators for the trade components. Edward Denison, in the May issue of the Survey of Current Business, advocates using the import price deflator for converting current-dollar net exports into constant-dollar values.

- Computing the improvement in purchasing power using Denison's approach and comparing the results with the real GNP estimates leads to the following conclusions.

  a) Real command over resources in Q1/83 rose at an annual rate of about 5% instead of the 3.1% rate of real GNP. Moreover, the increase in the implicit price deflator is lower than GNP deflator (4.0% vs. 5.8%).

  -- Real net exports are estimated to have increased $3.0 billion in Q1/83 using the Denison method. This is in sharp contrast to the $3.2 billion decline in real net exports in that quarter using the official data.

  b) The 1981-82 recession is shallower than the real GNP estimates would imply. The peak to trough decline is estimated to be 1.8% using Denison's measure instead of the 2.2% decline suggested by real GNP.

  c) During the recession from Q4/73 to Q1/75, when the terms of trade were deteriorating, command over resources declined by 5.9%, fully 1.0 percentage points more than the 4.9% decline in real GNP.

- There was a large $7.5 billion decline in real CCC inventories in Q1/83 which slowed the growth of final sales. Excluding CCC purchases and adjusting for the distortion caused by the net export deflator, real final sales in the first quarter would have increased at an annual rate of 6.9% instead of the 0.9% gain reported by Commerce.

RECENT ECONOMIC INDICATORS - MAY 9, 1983

	APR 1982	MAY 1982	JUN 1982	JUL 1982	AUG 1982	SEP 1982	OCT 1982	NOV 1982	DEC 1982	JAN 1983	FEB 1983	MAR 1983	APR 1983
MONEY AND CREDIT													
M1, BIL. $	449.3	452.4	453.4	454.4	458.3	463.2	468.7	474.0	478.2	482.1	491.1	497.5	NA
PERCENT, A.R.	1.9	8.6	2.7	2.7	10.8	13.5	15.2	14.4	11.2	10.2	24.9	16.8	NA
M2, BIL. $	1835.2	1850.5	1864.5	1880.9	1903.6	1917.0	1929.7	1945.0	1959.5	2008.1	2048.0	2065.8	NA
PERCENT, A.R.	4.2	10.5	9.4	11.1	15.5	8.8	8.2	9.9	9.3	34.2	26.6	10.9	NA
TOTAL RESERVES, BIL. $	38.4	38.5	38.6	38.5	38.8	39.6	39.9	40.5	40.9	41.0	40.5	40.7	NA
PERCENT, A.R.	2.4	2.2	2.2	-1.6	9.1	25.3	9.8	19.0	13.6	1.9	-13.5	7.9	NA
NONBORROWED RESERVES, BIL. $	36.9	37.4	37.4	37.8	38.3	38.6	39.4	39.8	40.3	40.4	39.9	39.9	NA
PERCENT, A.R.	2.1	19.4	-0.5	15.9	15.5	11.3	26.6	14.2	13.4	5.1	-15.0	1.5	NA
C & I LOANS, BIL. $	264.5	268.4	271.1	271.7	272.1	274.0	274.2	268.9	264.0	266.7	265.8	266.5	NA
PERCENT, A.R.	27.5	18.7	12.4	3.0	1.7	8.4	1.0	-20.9	-19.7	12.9	-3.9	3.1	NA
C & I LOANS PLUS COMM. PAPER, BIL. $	322.4	326.6	328.5	329.0	329.4	329.7	329.0	320.5	312.5	314.1	311.9	NA	NA
PERCENT, A.R.	25.7	16.9	7.1	2.0	1.4	1.0	-2.5	-26.9	-26.1	6.3	-8.0	NA	NA
INTEREST RATES													
FED FUNDS RATE	14.9	14.5	14.2	12.6	10.1	10.3	9.7	9.2	9.0	8.7	8.5	8.8	8.8
T-BILL, 3 MON.	12.7	12.1	12.5	11.4	8.7	7.9	7.7	8.1	7.9	7.9	8.1	8.4	8.2
T-BOND, 30 YR.	11.4	13.2	13.9	13.6	12.8	12.1	11.2	10.5	10.5	10.6	10.9	10.6	10.5
NEW ISSUE AAA UTIL.	15.7	15.5	16.2	15.5	14.5	13.7	12.2	11.7	11.9	12.0	12.0	11.9	11.5
MORTGAGE COMMITMENT RATE	16.9	16.7	16.7	16.8	16.3	15.4	14.6	13.8	13.6	13.3	13.0	12.8	12.8
INFLATION INDICATORS													
CPI (PERCENT)	0.2	1.0	1.1	0.6	0.3	0.1	0.4	0.0	-0.3	0.2	-0.2	0.1	NA
PPI, FIN. GOODS (PERCENT)	0.1	0.0	1.0	0.5	0.5	0.1	0.4	0.6	0.2	-1.0	0.1	-0.1	NA
HRLY. EARNGS., PR. NONFARM (PERCENT)	0.6	0.9	0.3	0.5	0.6	0.2	0.5	0.2	0.6	0.5	0.3	0.0	0.3
GOLD, $ PER OZ.	354.4	332.6	316.3	343.5	369.8	436.4	419.8	418.4	447.7	483.8	479.7	419.3	431.7
PERCENT	8.1	-6.1	-4.9	8.6	7.6	18.0	-3.8	-0.3	7.0	8.1	-0.9	-12.6	2.9
RAW INDUSTRIALS INDEX	247.2	244.3	232.1	237.1	236.0	238.8	235.5	229.3	227.3	233.0	242.1	249.5	253.3
PERCENT	-2.7	-1.2	-5.0	2.1	-0.5	1.2	-1.4	-2.6	-0.9	2.5	3.9	3.1	1.5
FOODSTUFFS INDEX	244.1	252.4	249.9	247.2	240.5	235.0	228.2	224.8	225.9	228.8	234.5	235.3	243.5
PERCENT	2.7	3.4	-1.0	-1.1	-2.7	-2.1	-2.9	-1.5	0.5	1.3	2.5	0.3	3.5
EXCH. RATE: TRADE-WTD. (%)	1.4	-2.7	5.3	1.7	[illegible]	1.1	1.8	0.9	-4.1	-1.2	1.7	0.8	0.9
LEADING INDICATORS													
LEADING INDEX	135.0	135.2	135.8	136.6	136.3	138.0	139.1	139.6	141.1	145.6	147.6	149.8	NA
PERCENT	1.0	0.1	-0.3	0.6	-0.2	1.2	0.8	0.4	1.1	3.2	1.4	1.5	NA
COINCIDENT TO LAGGING RATIO	109.5	111.0	109.9	109.8	110.6	110.7	109.7	111.9	113.3	116.1	115.3	117.3	NA
PERCENT	-1.5	1.2	-0.9	-0.1	0.7	0.1	-0.9	2.0	1.2	2.5	-0.7	1.7	NA
RUTGERS LEADING EMPLOY. INDEX (%)	0.1	0.0	0.4	0.3	-0.7	-1.7	0.8	0.4	1.4	3.5	-0.3	2.2	1.7
COINCIDENT INDICATORS													
COINCIDENT INDEX	139.0	138.8	137.2	136.3	135.2	134.3	132.2	132.3	132.1	133.8	133.1	134.0	NA
PERCENT	-0.9	0.5	-1.2	-0.7	-0.8	-0.7	-1.6	0.1	-0.2	1.3	-0.5	0.7	NA
INDUSTRIAL PRODUCTION	140.2	139.2	138.7	138.8	138.4	137.3	135.7	134.9	135.2	137.2	137.6	139.1	NA
PERCENT	-1.1	-0.7	-0.4	0.1	-0.3	-0.8	-1.2	-0.6	0.2	1.5	0.3	1.1	NA
CAPACITY UTIL, MFG.	70.9	70.2	70.0	70.0	69.8	69.2	68.0	67.4	67.5	68.4	68.7	69.4	NA

RECENT ECONOMIC INDICATORS - CONTINUED

	APR 1982	MAY 1982	JUN 1982	JUL 1982	AUG 1982	SEP 1982	OCT 1982	NOV 1982	DEC 1982	JAN 1983	FEB 1983	MAR 1983	APR 1983
EMPLOYMENT INDICATORS													
CIVILIAN EMPLOYMENT, MIL.	99.5	100.0	99.7	99.6	99.7	99.5	99.2	99.1	99.1	99.1	99.1	99.1	99.5
PERCENT	-0.1	0.5	-0.3	-0.1	0.1	-0.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.4
UNEMPLOYMENT RATE, PERCENT	9.3	9.4	9.5	9.8	9.9	10.2	10.5	10.7	10.8	10.4	10.4	10.3	10.2
NONFARM PAYROLL EMPLOYMENT, MIL.	90.1	90.2	89.8	89.5	89.3	89.3	88.9	88.8	88.6	88.9	88.8	89.0	89.2
PERCENT	-0.2	0.1	-0.4	-0.3	-0.2	-0.1	-0.4	-0.1	-0.2	0.4	-0.2	0.2	0.3
AVG. WEEKLY HOURS, MFG.	39.0	39.1	39.2	39.2	39.0	38.8	38.8	38.9	38.9	39.8	39.1	39.6	40.1
INITIAL CLAIMS, UNEMPL. INSUR.	573.7	578.4	560.1	538.8	617.3	652.6	659.0	618.2	549.3	510.6	485.4	492.4	NA
RUTGERS EMPLOY. INDEX (PERCENT)	-1.1	0.5	-1.0	-0.8	-0.6	1.7	-4.1	-0.8	0.6	0.0	-0.3	1.4	1.1
CONSUMER SECTOR													
RETAIL SALES, BIL. $	88.5	90.8	88.6	89.5	89.1	89.9	90.9	92.5	92.5	92.3	91.2	91.5	NA
PERCENT	0.9	2.7	-2.4	1.0	-0.4	0.9	1.1	1.7	0.0	-0.2	-1.2	0.3	NA
TOTAL AUTO SALES, MIL. UNITS, A.R.	7.3	8.2	7.0	7.4	7.6	8.3	7.9	9.4	8.7	8.7	8.3	8.2	8.4
DOMESTIC	5.4	6.2	4.8	5.1	5.4	6.0	5.5	6.8	6.1	6.0	6.0	6.0	6.3
IMPORTED	1.8	2.0	2.2	2.2	2.2	2.3	2.4	2.6	2.6	2.7	2.3	2.2	2.0
PERSONAL INCOME, BIL. $, A.R.	2535.5	2555.2	2566.3	2588.3	2592.0	2597.2	2609.4	2627.7	2635.0	2641.7	2644.3	2658.9	NA
PERCENT	0.7	0.8	0.4	0.9	0.1	0.2	0.5	0.7	0.3	0.3	0.1	0.6	NA
DISP. PERS. INC., BIL. $, A.R.	2146.3	2152.5	2155.6	2194.8	2195.7	2202.7	2211.9	2228.7	2232.3	2243.8	2242.2	2254.9	NA
PERCENT	1.0	0.3	0.1	1.8	0.1	0.3	0.4	0.8	0.2	0.5	-0.1	0.6	NA
REAL D.P.I., BIL $, A.R.	1057.6	1058.1	1048.8	1060.8	1058.0	1056.1	1053.5	1061.1	1062.6	1063.8	1062.2	NA	NA
PERCENT	0.7	0.0	-0.9	1.1	-0.3	-0.2	-0.2	0.7	0.1	0.1	-0.2	NA	NA
PERS. CONSUMP. EXP., BIL. $, A.R.	1934.8	1954.0	1954.7	1974.1	1981.5	2003.2	2015.5	2035.9	2041.1	2051.5	2051.4	2059.0	NA
PERCENT	0.5	1.0	0.0	1.0	0.4	1.1	0.6	1.0	0.3	0.5	0.0	0.4	NA
REAL P.C.E., BIL. $, A.R.	951.4	960.5	951.1	954.1	954.4	960.4	950.0	959.3	971.6	972.6	971.8	NA	NA
PERCENT	0.3	0.7	-1.0	0.3	0.0	0.6	-0.1	1.0	0.2	0.1	-0.1	NA	NA
HOUSING SECTOR													
HOUSING STARTS, THOU. UNITS, A.R.	911.0	1028.0	910.0	1185.0	1046.0	1134.0	1142.0	1351.0	1280.0	1694.0	1775.0	1611.0	NA
HOUSING PERMITS, THOU. UNITS, A.R.	879.0	944.0	929.0	1062.0	886.0	1003.0	1172.0	1192.0	1305.0	1470.0	1493.0	1434.0	NA
NEW HOMES SALES, THOU. UNITS, A.R.	342.0	385.0	359.0	364.0	389.0	473.0	481.0	545.0	529.0	610.0	587.0	577.0	NA
BUSINESS SECTOR													
MFG. ORDERS, DUR. GOODS, BIL. $	76.2	75.7	74.6	76.4	73.0	73.3	69.6	70.6	76.6	80.9	78.1	80.8	NA
PERCENT	-2.1	-0.6	-1.5	2.5	-4.5	0.4	-5.0	1.4	8.5	5.7	-3.5	3.5	NA
NONDEF. CAP. GOODS ORDERS, BIL. $	22.5	20.3	19.3	20.3	18.9	20.3	20.2	20.2	20.2	20.5	18.8	20.8	NA
PERCENT	2.0	-10.1	-5.2	5.4	-7.0	7.1	-0.4	0.0	-0.1	1.5	-8.3	10.7	NA
MANUFACTURING AND TRADE:													
INVENTORY CHANGE, BIL. $, A.R.	32.5	-55.1	24.4	2.2	3.9	0.6	-12.9	-55.5	-35.2	-55.3	6.2	NA	NA
INVENTORY/SALES RATIO	1.51	1.49	1.50	1.50	1.51	1.53	1.55	1.53	1.52	1.49	1.50	NA	NA

THE WHITE HOUSE

WASHINGTON

April 29, 1983

MEMORANDUM FOR THE PRESIDENT

FROM: CRAIG L. FULLER CF

SUBJECT: Houston Rapid Rail System

The Department of Transportation has just this morning provided us with the attached status report on the Houston Rapid Rail System. It is an issue that may be raised during you visit to Houston, Texas later today.

Suggested guidance: You are aware of Houston's application for funding to assist in building an 18 mile Rail Rapid Transit Project from Harris County, through downtown Houston and then into the far west portion of Harris County.

You can assure anyone that asks that Secretary Dole and the Department of Transportation are giving the application careful consideration, particularly in light of the high degree of local financial support and general community support this project has received.

However, no commitment can be made at this time to the project, since the matter is under review by Elizabeth Dole.

cc: James A. Baker III

HOUSTON RAPID RAIL SYSTEM

BACKGROUND: The Metropolitan Transit Authority of Harris County, Texas (METRO) is proposing to build an 18.2 mile Rail Rapid Transit project for the county's most congested transportation corridor. The project would run from Crosstimbers Street in northern Harris County through downtown Houston and then to West Belt in far west Harris County

On September 29, 1982, the Metro Board of Directors approved the METRO-stage one, Regional Rail system. Houston's City Council has endorsed the rail project with a subway along Main Street in the downtown.

FUNDING: Current estimates by Metro set the total project cost at approximately $2.1 billion. Metro has submitted a grant application to the Urban Mass Transportation Administration (UMTA) seeking a letter of intent for the project in the amount of $937 million in Federal funds. They are requesting $150 million in FY 84, $200 million in FY 85, and $200 million in FY 86.

In most cases, UMTA makes grants for 75% of the net project cost of mass transportation projects, with state and local government providing the remaining 25%. However, because of the very substantial local financial commitment to this project, UMTA's share of the total cost would be less than 50%.

NEW STARTS ISSUE: The legislative history of the gas tax legislation indicates congressional intent that a fair share of the gas tax receipts be made available to rapid growing cities to fund cost effective new rail systems. This was a particularly important issue for the Texas congressional delegation.

Prior to the passage of the gas tax legislation, the Administration position was to defer funding of new starts. However, both the Department of Transportation and OMB have confirmed recently that cost effective new rail starts are eligible for funding with the gas tax receipts.

CURRENT STATUS: The Department has received Houston's application for funding. We will be reviewing that application, and will place particulary emphasis in our review on the cost effectiveness of the proposed system. In this context, cost effectiveness means both traditional cost effectiveness analysis in terms of added cost per rider and also the extent of the local financial commitment to the project.

Secretary Dole met with with Houston officials and members of the Texas congressional delegation on Tuesday, April 26. They expressed their strong support for the project and for Federal funding.

In addition, both the House and Senate Appropriations Committees will be marking up their bills and reports in May, and it is possible that one or both committees will "earmark" funds for the Houston project.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 25, 1983

MEMORANDUM TO: ED MEESE
JIM BAKER
ED HARPER
DICK DARMAN
CRAIG FULLER
KEN DUBERSTEIN

SUBJECT: Case Example of the Need for an Eventual Budget Resolution Compromise

1) Can we do without a FY 1984 Budget Resolution?

Given the House outcome Wednesday and the prospect of significant difficulties on the defense and tax issues in the Senate, the view will gain currency in some Administration quarters that no budget resolution would be better than the kind of overall compromise that will be needed to pass a conference report.

I caution strongly against this view because I believe absence of a budget resolution and reconciliation process will lead to far higher domestic spending levels than might otherwise be the case, as a result of:

- No legislative action on major entitlement savings (e.g. Medicare, Civil Service, CCC -- for which up to $70 billion in proposed savings is at risk over FY1984-88);

- Major increases in discretionary appropriations due to an absence of 302(b) ceilings.

The reason for this latter assertion is that the 302(b) appropriations ceilings emerge from a top-down process in which deficit minimization is a major factor in the budget resolution equation.

By contrast, domestic appropriation bills unconstrained by fiscal ceilings reflect the narrow, multiple, bottom-up pressures from program constituencies, advocacy oriented congressional sub-committees, and the fact that our veto-sustaining forces -- conservative Democrats and mainstream Republicans -- are highly influenced by the GOP committee "specialists" in each major program area (e.g. education, nutrition, energy, etc.). These "issue leaders" and ranking members invariably have a soft spot for their respective program jurisdictions.

As a consequence, if they are supportive of, or even indifferent to, a bill or appropriation measure, our veto strength erodes significantly -- often entirely.

Almost without exception, these "issue leaders" support funding levels in their program domains substantially higher than the Administration request, and frequently higher than would be permitted in a "compromise" budget resolution 302(b) ceiling.

The attached illustrative rack-up of comparative funding recommendations for major programs in the jurisdiction of the House Education and Labor Committee clearly demonstrates this point.

2) Comparative Funding Levels for Major House Education and Labor Committee Programs

Recommendation	FY1984 Amount (billions)	Percent Increase From Enacted 1983	Percent Increase From President's 84 Budget
Overall Funding Recommendation for Major Programs Within Education and Labor Jurisdiction:			
o President's Budget......	$26.5	-9%	---
o Committee GOP...........	35.3	+21%	+33%
o House Budget Resolution.	41.2	+42%	+56%
o Committee Democrats.....	49.5	+70%	+87%
Funding for Employment/Training and Public Jobs:			
o President's Budget......	$5.0	+1%	---
o Committee GOP...........	11.0	+121%	+118%
o House Budget Resolution.	14.5	+192%	+188%
o Committee Democrats.....	20.4	+311%	+305%
Funding for Education Program:			
o President's Budget......	$11.6	-13%	---
o Committee GOP...........	13.2	-1%	+14%
o House Budget Resolution.	14.5	+9%	+25%
o Committee Democrats.....	15.7	+19%	+36%

3) Analysis of Implications

- As excessive as it is, the House Budget Committee Resolution embodies considerable restraint ($8 billion less) relative to the recommendations of the Committee Democrats.

- House Republicans recommended aggregate funding levels $9 billion higher that the President's budget, and double the President's level for employment, training and public jobs.

- On a relative scale, the Education and Labor Republicans are closer to the HBC resolution level than the President's budget.

- In the absence of a budget resolution 302(b) ceiling, the President's budget level will not be a viable or sustainable veto benchmark -- given the position of the GOP committee leadership.

- Since most of the big spenders in both parties congregate on the Education and Labor Committee, this is a somewhat exaggerated example. Nevertheless, absence of a budget resolution will result in a substantial escalation of the funding levels at which we could hope to sustain vetoes. The countervailing pressure of deficit reduction operative in a budget resolution compromise would almost certainly result in lower 302(b) ceilings and ultimate funding levels.

MAJOR FY84 BUDGET ASSUMPTIONS

EDUCATION AND LABOR COMMITTEE

	FY 1983 Appropriation Estimate	FY 1984 Reagan Budget Request	FY 1984 Committee Recommendation*	FY 1984 First Budget Resolution*	FY 1984 Repub. Ed & Labor Recommendation*
	(in millions of dollars)				
Elementary, Secondary and Vocational Education					
1) Title I..............................	3168	3014	4138	3823	3172
2) Education Block Grant/Special programs..............................	535	479	908	606	510
3) Science and math......................		50	300	295	250
4) Bilingual education..................	138	94	212	140	100
5) Impact aid...........................	480	465	930	505	475
6) Education for the handicapped.........	1,110	1,110	1,226	1,226	1,110
7) Vocational education..................	729	500	918	937	728
8) Adult education......................	95	**	141	***	95
9) Indian education......................	332	240	414	375	330
10) Subtotal, elementary and vocational education.................	6,587	5,952	9,187	7,907	6,770
Higher Education					
11) Pell grants..........................	2,419	2,714	3,009	3,009	2,879
12) Supplemental opportunity grants.......	355	0	370	370	355
13) Work-study...........................	540	850	550	550	565
14) Direct loans.........................	194	4	202	202	194
15) State incentive grants...............	60	0	76	76	60
16) GSL..................................	3,100	2,048	2,349	2,349	2,349
17) Subtotal, Higher Education...........	6,668	5,616	6,556	6,556	6,402
Other Education-Related					
18) National Institute of Education.......	56	48	60	56	48
19) Libraries............................	80	0	88	81	82
20) Arts and Humanities..................	274	237	326	294	281
21) Subtotal, Other education-related.....	410	285	474	431	411

	FY 1983 Appropri-ation Estimate	FY 1984 Reagan Budget Request	FY 1984 Committee Recom-mendation*	FY 1984 First Budget Resolution*	FY 1984 Repub. Ed & Labor Recom-mendation*
Employment and Training/Jobs					
22) Employment and training assistance....	3,789****	3,643****	5,740	5,014	4,450
23) (Forward funding)......................	N/A	725	4,304	3,911	3,337
24) Emergency Jobs Program................	0	0	8,950	4,050	2,000
25) Community Service Employment for Older Americans.....................	282	0	326	296	282
26) WIN....................................	271	0	365	285	270
27) American Conservation Corps...........	0	0		300	
28) Labor Services........................	630	675	734	675	656
29) Subtotal, Employment and Training/Jobs.......................	4,972	5,043	20,419	14,531	10,995
Social Services					
30) Black lung benefits...................	1,093	1,027	1,088	1,088	1,027
31) Rehabilitation........................	1,037	1,037	1,154	1,152	1,036
32) Head Start............................	912	1,051	1,058	1,050	947
33) Aging.................................	672	998	818	707	686
34) Community Services Block Grant........	360	3	638	398	360
35) Action................................	129	110	162	136	108
36) Low-income energy assistance..........	1,975	1,300	2,178	2,250	1,975
37) Subtotal, Social Services............	6,178	5,526	7,096	6,781	6,139
Nutrition Assistance					
38) Special milk..........................	20	12	130	12	12
39) Child nutrition.......................	3,178	2,932	4,440	3,630	3,430
40) WIC...................................	1,093	1,093	1,148	1,400	1,148
41) Subtotal, Nutrition Assistance........	4,291	4,037	5,718	5,042	4,590
42) Total.................................	29,106	26,459	49,450	41,248	35,307

*As supplied to Education and Labor Committee Members by E & L staff.
**Budget includes consolidation proposal of $500 million for vocational and adult education.
***Assumes $937 million for vocational and adult education.
****Before effect of youth opportunity wage legislation

THE WHITE HOUSE

WASHINGTON

March 22, 1983

MEMORANDUM FOR ED MEESE
JAMES BAKER
RICHARD DARMAN
FRED FIELDING
HELENE VON DAMM

FROM: CRAIG L. FULLER CS

SUBJECT: Reply to the Letter to the President From the Civil Rights Commission

Attached is a draft of the letter discussed earlier thismorning. If I could have any comments you may have on the letter by 12 noon.

If the letter is approved, Larry Speakes would like to indicate at his 12:30 briefing that this letter will be going to the U.S. Civil Rights Commission today. That seems ok to me, but I see no reason to release the letter or the statistics from Personnel.

DRAFT

THE WHITE HOUSE

WASHINGTON

March 22, 1983

Dear Mr. Chairman:

Thank you for your letter to the President of March 14, 1983, concerning information the United States Commission on Civil Rights would like to secure from the White House and certain other Executive agencies.

As I indicated to you by telephone last week, the President has directed that we should cooperate fully with the Commission's efforts to secure information relevant to fulfilling its statutory mandate, including information about Presidential appointees in this Administration. We believe the issuance of subpoenas to obtain such information is not only unnecessary, but might also complicate and delay the process of responding to proper Commission requests.

As an initial response to your general request for information, a compilation of statistics about Presidential appointees is attached. It is not necessarily complete and may be subject to some error. But I hope you find it helpful.

I suggest that you review this initial compilation and provide us with copies of prior requests for information that are mentioned in your letter of March 14, 1983. Once we have an opportunity to review your prior requests, we can get together and determine how best to provide the information that would be most helpful to you.

In closing, let me reiterate the President's firm commitment to assisting the Commission in fulfilling its important responsibilities.

Sincerely,

Craig L. Fuller
Assistant to the President
for Cabinet Affairs

The Honorable Clarence M. Pendleton, Jr.
Chairman
United States Commission on Civil Rights
Washington, D.C. 20425

DRAFT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 14, 1983

MEMORANDUM

TO: Jim Baker
Ed Meese
Ken Duberstein
Dick Darman
Craig Fuller

FROM: Dave Stockman DAS

RE: Legislative Strategy Group/Budget Resolution

- Attached is a good example of our College of Cardinals problem. In the circled paragraph Stevens/Mathias summarily oppose the Administration's entire civil service reform package -- worth $16 billion in budget savings over 1984-88.

- They also indicate that if Congress insists on a half-year pay increase for military -- a good likelihood -- they will push for the same treatment of civilian pay. This would amount to another $10 billion in lost budget savings over 1984-88.

- $26 billion worth of opposition to Adminstration budget savings measures isn't bad for one paragraph in a "Dear Colleague" -- especially when in comes from the Repubican Chairman and Ranking Member of the Senate Civil Service Subcommittee.

of the new pension would be grandfathered into the new program. The recommendations will also be required to address the need to shore up the solvency of the current retirement system to protect all current federal employees and retirees without reducing their benefits. Adoption of these two measures will provide us time to establish a good yet affordable retirement program for all federal employees.

We also want to take this opportunity to express our views on other proposals affecting federal employee benefits. We will oppose all proposals which have the effect of 1 reducing civil service retirement benefits or 2 increasing employee contributions for current employees and retirees except for a delay in the cost-of-living adjustment which is comparable to the delay proposed for the social security benefit until the task force makes its recommendations. Finally, we will 3 insist on an increase in federal civilian salaries if a pay increase is authorized for the military.

Federal employees have served this nation well. They are for the most part a highly qualified and energetic group of workers. We need them to ensure that our government continues to operate effectively and efficiently.

With best wishes,

Cordially,

TED STEVENS

Mac

CHARLES McC. MATHIAS, JR.

MDT - call Eliz

THE WHITE HOUSE

WASHINGTON

March 8, 1983

MEMORANDUM FOR JAMES BAKER

FROM: CRAIG L. FULLER CF

SUBJECT: Call on Behalf of Lee Verstandig

I have contacted Elizabeth Dole and requested that she release four people to assist Lee Verstandig at EPA. She has released three of the people requested but asked that we reconsider taking Susan Lauffer.

Lee indicates that this is the person he needs the most. Susan is apparently willing and believes that she can spend the time on the project at EPA during the next 30 to 60 days.

I think a call from you to Elizabeth will get us Susan Lauffer. Can you make the call?

ACTION: ______________________________

MDT call Eliz. -
he wants person at EPA
Pls. do this favor for JAB -

Will do it
reluctantly but will
do it

Pete DuPont
Bud Brown
Charlie Myers
Dean Stanford
Now Gibson Dunn partner in Denver.
Taught Envirn. Law
(on ~~[illegible]~~ IOB!)

THE WHITE HOUSE

WASHINGTON

March 8, 1983

MEMORANDUM FOR ED MEESE
JAMES BAKER

FROM: CRAIG L. FULLER CF

SUBJECT: Chrysler Loan Guarantee Fee

We are making little progress with respect to the Chrysler Loan Guarantee Fee. You will note that the Chrysler letter to stockholders is very positive:

1. Net profit of $170.1 million in 1982;

2. First 3rd quarter profit in 5 years;

3. Three consecutive profitable quarters for the first time in five years.

However, the Treasury department is still not satisfied. They cite the fact that the fourth quarter loss is "substantial" and the fact that the company sustained an operating loss of $68.9 million for the year as reasons not to review the risk portions of the guarantee fee. In Treasury's calculations they do not count the revenue generated by the sale of Chrysler Defense, Inc. And, little consideration is given to Chrysler's claim that without the strike at Chrysler Canada, the fourth quarter and the year would have shown an operating profit.

The Chrysler record in 1982 led the Board of Directors to approve a major recapitalization plan to further strengthen Chrysler's financial standing and help pave the way for the eventual payment of Chrysler's federally guaranteed loans, according to the letter to Chrysler Shareholders. However, our administration, looking at the same numbers, finds that "...they do not meet the threshold criterion of two consecutive quarters of significant operating profit that would occasion Chrysler Loan Guarantee Board review of the risk portion of the guarantee fee."

I am at a loss to know what to suggest!

TREASURY POSITION

THE SECRETARY OF THE TREASURY

WASHINGTON

March 8, 1983

MEMORANDUM FOR THE HONORABLE CRAIG L. FULLER
ASSISTANT TO THE PRESIDENT
FOR CABINET AFFAIRS

FROM: DONALD T. REGAN

SUBJECT: Chrysler Corporation Loan Guarantee Fee

Chrysler's fourth quarter 1982 results reveal a rather substantial operating loss ($96.1 million vs $66.9 million for 1981). For the entire year, the company sustained an operating loss of $68.9 million. While Chrysler's results have improved over those of earlier years, they do not meet the threshold criterion of two consecutive quarters of significant operating profit that would occasion Chrysler Loan Guarantee Board review of the risk portion of the guarantee fee. This criterion was set forth in the Board's May 26, 1982, letter (attached) to Mr. Iacocca. The Board consulted on this issue again in December at Chrysler's request and affirmed its earlier decision.

Attachment

82-0321

Chrysler Corporation Loan Guarantee Board

c/o Department of the Treasury
Washington, D.C. 20220

Members
Secretary of the Treasury, Chairman
Comptroller General of the United States
Chairman of the Board of Governors
of the Federal Reserve System

Ex Officio Members
Secretary of Labor
Secretary of Transportation

Established by PL 96-185

May 26, 1982

Dear Lee:

Thank you for your letter following up on our recent discussion concerning Chrysler's progress and certain issues arising from the administration of the Chrysler Corporation Loan Guarantee Act.

As you know, Congress directed the Loan Guarantee Board (LGB) to impose a guarantee fee "sufficient to compensate the Government for all of the Government's administrative expense related to the guarantee, but in no case may such fee be less than one half of 1 per centum per annum of the outstanding principal amount of loans guaranteed . . ." Congress also directed "to the maximum extent feasible, the Board shall ensure that the Government is compensated for the risk assumed in making guarantees . . ." An additional fee of one half of one percent was determined to be appropriate for this purpose by the LGB in 1980. The fundamental purpose of the additional fee is not to cover the specific costs that might be associated with a Chrysler bankruptcy, but rather it is partial compensation to the taxpayers for putting at risk their resources to guarantee loans no private lender would have advanced in the absence of Government backing. Viewed in this context, the guarantee fee was a bargain for Chrysler when first imposed and likely remains so today.

The collateral securing the loans reduces the risk of this guarantee but by no means eliminates it. Estimates of the cash Chrysler's assets might bring if the company failed are uncertain at best, and, in any case, there would likely be a substantial delay before any sales proceeds were received by the government.

The warrants you referred to were issued in accordance with Section 5(d)(2) of the Act, which authorizes the Government to enter into contracts "contingent upon the financial success of the Corporation." Although the warrants can be considered partial compensation to the public for assuming the guarantee risk, their value will only be realized if Chrysler's stock price rises; they would be worthless in liquidation, or if, as is presently the case, the company's stock remains significantly below $13, the exercise price of the warrants.

It is difficult to assess whether the risk in guaranteeing loans to Chrysler has significantly diminished since the guarantee fee was imposed. While Chrysler has performed well under trying circumstances and has made progress in many areas, the company has not yet generated operating profits consistently. You have demonstrated resourcefulness in augmenting your cash balances, but this has been accomplished largely through special actions that, in fact, may reduce your flexibility to meet possible future cash shortfalls. In many respects the risks to Chrysler -- and hence to the taxpayers -- are external to the company, a result of the difficulties currently being experienced by our economy. Among the indicators that risk has diminished to the point that a reduction in the fee may be appropriate would be a record of operating profits. As I said in our recent meeting, we will be pleased to review the risk portion of the guarantee fee when Chrysler has achieved two consecutive quarters of significant operating profits. (This approach has been discussed with the other members of the LGB. They concur with it and they do not favor a change in the guarantee fee from the present level pending such a review.)

The Act's specific direction that all fee monies be deposited into the miscellaneous receipts of the Treasury precludes the use of the guarantee fees received by the United States to establish the type of interest bearing escrow account you suggest.

With regard to your concerns about operating aircraft, the Board has established the basis for such operations in the Aircraft Procedures Memorandum. Under these procedures, the company may lease and operate one Cessna Citation II jet (or equivalent) and may charter additional aircraft for not more than five days when there are established unmet business travel needs. Indeed, we have recently received notice of one such charter. I believe that the Aircraft Procedures Memorandum continues to be the appropriate framework for considering the use of business aircraft.

Under your leadership, Chrysler has made strides towards reestablishing its long-term viability and its place as a strong and innovative competitor in the U.S. auto and truck markets. The Board desires to give Chrysler the maximum flexibility to proceed with its rebuilding, and we share your goal of a profitable company, able to repay the outstanding guaranteed loans as soon as possible, thereby freeing Chrysler from oversight by the Board. However, as long as guaranteed loans remain outstanding, we must continue to administer the Act responsibly within the requirements and spirit of the law.

Sincerely,

Don

Donald T. Regan
Chairman

Mr. Lee A. Iacocca
Chairman of the Board
Chrysler Corporation
Detroit, Michigan 48288

THE WHITE HOUSE

WASHINGTON

February 28, 1983

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

FROM: CRAIG L. FULLER CF

SUBJECT: Chrysler Corporation

We have received that attached copy of Chrysler Corporation's Statement to Shareholders which was released on February 24, 1983.

Since this will raise "the question" again over here, could you please let me know the status of the Chrysler request to have their Loan Guarantee Board fee reduced.

Thank you.

CHRYSLER CORPORATION

News Relations Office, P.O. Box 1919
Detroit, Michigan 48288, (area code 313) 956-2894

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 24, 1983

Statement to Shareholders Reporting Chrysler Corporation's Results for the Calendar Year 1982 and for the Fourth Quarter of 1982

SUMMARY OF RESULTS

Chrysler Corporation and its consolidated subsidiaries reported a net profit in 1982 of $170.1 million ($1.84 per common share) including the gain of $239 million from the sale of Chrysler Defense, Inc. which occurred on March 16, 1982. In 1981, Chrysler incurred a net loss of $475.6 million ($7.18 per common share).

In 1982, the Corporation and its consolidated subsidiaries had worldwide sales of $10.04 billion, compared to worldwide sales of $9.97 billion in 1981.

Worldwide vehicle factory sales totaled 1,181,726 units in 1982, compared to sales of 1,283,013 units in 1981.

FOURTH QUARTER RESULTS

In the fourth quarter of 1982, Chrysler incurred a net loss of $96.1 million ($1.30 per common share) on worldwide sales of $2.21 billion. In the fourth quarter of 1981, the Corporation incurred a net loss of $66.9 million ($1.01 per common share) on worldwide sales of $2.53 billion.

	4th Quarter		Calendar Year	
	1982	1981	1982	1981
CHRYSLER U.S. RETAIL UNIT SALES				
Car Sales	200,253	173,998	793,930	840,813
Car Market Share	9.9%	9.9%	10.0%	9.9%
Truck Sales	55,357	42,597	245,945	186,621
Truck Market Share	8.8%	8.8%	9.5%	8.2%
CHRYSLER CANADIAN RETAIL UNIT SALES				
Car Sales	27,739	27,595	110,129	116,089
Car Market Share	16.8%	14.2%	15.4%	12.9%
Truck Sales	4,847	5,833	24,750	30,218
Truck Market Share	10.8%	10.2%	12.1%	10.7%

Report to Shareholders

CHRYSLER
CORPORATION

FOR THE YEAR ENDED DECEMBER 31, 1982

CHRYSLER SHAREHOLDERS
LETTER

CHRYSLER
CORPORATION

February 24, 1983

To Our Shareholders:

Chrysler Corporation reported a net profit of $170.1 million ($1.84 a common share) in 1982, which includes a gain of $239 million in the first quarter from the sale of Chrysler Defense, Inc. This net profit compares to a loss of $475.6 million in 1981. For the fourth quarter of 1982, Chrysler lost $96.1 million ($1.30 a common share), which compares to a loss of $66.9 million in the same quarter last year.

Chrysler's overall impressive showing in 1982 was marred by a strike at Chrysler Canada in the fourth quarter. Without this disruptive event, Chrysler would have reported an operating profit for the fourth quarter as well as for the year.

As it was, 1982 still stands out as a pivotal year in Chrysler's resurgence. Despite having to contend with the lowest industry sales in 21 years, the company compiled several significant achievements during the year.

Chrysler recorded its first third-quarter profit in five years in 1982; and, aided by the sale of Chrysler Defense in the first quarter, the company was able to put together three consecutive profitable quarters -- again for the first time in five years.

At the heart of this improved financial performance is Chrysler's lowered break-even point. Through diligent cost-cutting and dramatic increases in productivity, Chrysler has cut its break-even point to half the level of three years ago.

In a more recent financial development, the Board of Directors on February 3 approved a major recapitalization plan designed to further strengthen Chrysler's financial standing and help pave the way for the eventual payment of Chrysler's federally guaranteed loans. If approved, the plan will constitute one more major milestone in Chrysler's comeback.

The year 1982 was also significant for Chrysler in terms of the continued success of its products. For the second year in a row, Chrysler captured a larger share of the U.S. passenger-car market. The company took 10 percent of the market in 1982, up from 9.9 percent in 1981. In Canada, Chrysler captured 15.4 percent of the car market (up from 12.9 percent in 1981), thereby out-selling Ford Motor Company for seven months in 1982. Chrysler's truck sales improved dramatically in 1982, rising 32 percent as the company posted sales increases in every sales period during the year. Chrysler captured 9.5 percent of the U.S. truck market in 1982, up from 8.2 percent in 1981.

As part of its ambitious five-year, $6.6 billion product development program, Chrysler introduced several new high-quality, fuel-efficient products in the past year -- all backed by our unmatched five-year, 50,000-mile warranty, the industry's strongest and most affirmative statement about product quality and value.

Last fall, the company unveiled its fourth line of front-wheel-drive cars, the Chrysler E Class, Dodge 600, and Dodge 600 ES family-size sedans. In January 1983, Chrysler introduced its new flag-ship model, the all-new, luxurious, front-wheel-drive Chrysler New Yorker. Chrysler will further strengthen its line-up this spring with a "woody" convertible version of the Chrysler Town & Country; a Dodge 400 convertible priced affordably at $9,995; the high-performance Dodge Shelby Charger; and two fuel-efficient luxury front-wheel-drive specialty cars, a spacious Executive Sedan and the seven-passenger Executive Limousine.

In 1983 alone, Chrysler plans to spend $1.5 billion on new products. It will be one of our biggest product years ever, culminating with the introduction this fall of two exciting front-wheel-drive, turbo-charged sports cars, the 1984 Chrysler Laser and Dodge Daytona, and our revolutionary new high-mileage, seven-passenger "T-wagons", the Plymouth Voyager and Dodge Caravan.

With the addition of these exciting new products to our already strong line-up, we look for the company to perform well in what many analysts predict will be a steadily improving market in 1983. We are already heartened by several positive signs pointing to a recovery in auto sales this year, including the reduced level of inflation, the recent jump in housing starts, and most important, the gradual lowering of interest rates. However, we must point out that while the short-term outlook is improving, there remain several unaddressed problems that cloud the long-term future of both the auto industry and the economy as a whole.

Foremost among these problems are runaway federal budget deficits and their corresponding disastrous impact on interest rates. Unless the government's projected record deficits are brought under control, there can never be long-range certainty in the economy about interest rates or their stability. Moreover, there can never be long-lasting security for the jobs of American workers unless decisive action is taken to correct or offset the unfair trade advantages enjoyed by the Japanese in several of our key industries, including automobiles.

Chrysler continues to press the federal government for far-sighted action on these and other important national issues that will produce long-range benefits for America. We invite our shareholders to join us in the public debate by speaking out and by contacting their elected officials in Washington.

With its performance in 1982, Chrysler has etched a blueprint for the recovery of the economy as a whole. We as a company are proud of our accomplishments, just as we are proud of our hard-working people, our products, and our role as a leader in the American automotible industry. With all that we have accomplished, we are now poised to take full advantage of better times in the year ahead.

Lee A. Iacocca
Chairman, Chrysler Corporation

CHRYSLER CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(In millions of dollars)

	Year Ended December 31 1982	1981	1980
Net sales	$ 10,044.9	$ 9,971.6	$ 8,600.1
Equity in net loss of unconsolidated subsidiaries	(5.8)	(56.0)	(67.0)
Other income (Notes 6 and 9)	10.1	60.1	-
	10,049.2	9,975.7	8,533.1
Costs, other than items below	8,585.1	8,915.3	8,583.5
Depreciation of plant and equipment (Notes 1 and 9)	195.9	233.0	261.2
Amortization of special tools (Notes 1 and 9)	236.7	217.8	305.7
Selling and administrative expenses	669.8	598.0	556.5
Pension plans (Note 15)	271.7	287.7	293.3
Interest expense - net (Note 14)	158.0	261.7	275.5
	10,117.2	10,513.5	10,275.7
LOSS FROM CONTINUING OPERATIONS BEFORE TAXES AND EXTRAORDINARY ITEM	(68.0)	(537.8)	(1,742.6)
Taxes on income (Note 16)	.9	17.3	29.0
LOSS FROM CONTINUING OPERATIONS	(68.9)	(555.1)	(1,771.6)
Discontinued Operations (Note 3):			
Earnings of Chrysler Defense, Inc.	-	79.5	61.9
Gain on sale of Chrysler Defense, Inc. (Net of $66.9 million of taxes)	172.1	-	-
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEM	103.2	(475.6)	(1,709.7)
Extraordinary item - effect of utilization of tax loss carryforwards (Note 3)	66.9	-	-
NET EARNINGS (LOSS)	$ 170.1	$(475.6)	$(1,709.7)
Per share data (Note 19):			
Primary:			
Loss from continuing operations	$(1.28)	$(8.31)	$(26.93)
Earnings (loss) before extraordinary item	$ .97	$(7.18)	$(26.00)
Net earnings (loss) per share of common stock	$ 1.84	$(7.18)	$(26.00)
Average number of shares of common stock used in primary computation (in thousands)	76,700	70,300	66,871

See notes to financial statements.

CONSOLIDATED

(In millions

ASSETS

	DECEMBER 31 1982	1981
CURRENT ASSETS:		
Cash and time deposits	$ 109.7	$ 121.3
Marketable securities - at lower of cost or market (Note 6)	787.5	283.1
Accounts receivable (less allowance for doubtful accounts: 1982-$27.2 million; 1981-$48.2 million)	247.9	429.7
Inventories (Note 7)	1,133.0	1,600.4
Prepaid insurance, taxes and other expenses	87.1	98.8
Income taxes allocable to the following year	3.9	68.0
TOTAL CURRENT ASSETS	2,369.1	2,601.3
INVESTMENTS AND OTHER ASSETS:		
Restricted cash (Note 9)	69.6	71.7
Investments in associated companies outside the United States (Note 8)	352.4	352.4
Investments in and advances to 20% to 50% owned companies (Notes 1 and 8)	-	35.2
Investments in and advances to unconsolidated subsidiaries (Notes 1 and 8)	886.0	671.7
Other noncurrent assets	112.7	90.8
TOTAL INVESTMENTS AND OTHER ASSETS	1,420.7	1,221.8
PROPERTY, PLANT AND EQUIPMENT (Note 9):		
Land, buildings, machinery and equipment	3,950.6	3,886.8
Less accumulated depreciation	2,255.2	2,237.5
	1,695.4	1,649.3
Unamortized special tools	778.3	797.6
NET PROPERTY, PLANT AND EQUIPMENT	2,473.7	2,446.9
TOTAL ASSETS (Note 6)	$6,263.5	$6,270.0

See notes to financial statements.

CONSOLIDATED SUBSIDIARIES

BALANCE SHEET

of dollars)

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	DECEMBER 31 1982	DECEMBER 31 1981
CURRENT LIABILITIES:		
Accounts payable	$ 897.8	$1,022.8
Short-term debt (Note 8)	79.4	163.8
Payments due within one year on long-term debt	15.9	61.6
Employee compensation and benefits	323.1	329.2
Taxes on income	5.6	5.9
Other taxes	138.0	148.6
Interest payable	59.4	56.6
Accrued expenses	593.4	630.5
TOTAL CURRENT LIABILITIES	2,112.6	2,419.0
OTHER LIABILITIES AND DEFERRED CREDITS:		
Accrued employee benefits (Note 15)	635.7	666.4
Deferred taxes on income	24.6	68.3
Other noncurrent liabilities	310.5	261.9
TOTAL OTHER LIABILITIES AND DEFERRED CREDITS	970.8	996.6
LONG-TERM DEBT (Note 6):		
Notes and debentures payable	2,009.7	1,909.1
Convertible sinking fund debentures	60.0	72.0
12% Subordinated debentures	78.0	78.0
TOTAL LONG-TERM DEBT	2,147.7	2,059.1
OBLIGATIONS UNDER CAPITAL LEASES (Note 9)	41.3	15.5
COMMITMENTS (Note 10)		
PREFERRED STOCK - No par value		
Authorized 20,000,000 shares:		
10,000,000 $2.75 cumulative shares issued and outstanding (Redemption value of $250.0 million less unamortized issue costs and value of warrants to purchase common stock) (Note 11)	223.5	221.9
342,951 1981 Series shares issued and outstanding, at redemption value (Notes 5 and 11)	1,097.4	1,097.4
COMMON STOCK - No par value		
Authorized 170,000,000 shares; issued and outstanding 79,475,287 shares at December 31, 1982 and 73,132,671 shares at December 31, 1981 (Notes 5, 12, and 13)	501.4	460.2
ADDITIONAL PAID-IN CAPITAL	692.5	692.5
ACCUMULATED DEFICIT (Note 1)	(1,523.7)	(1,692.2)
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$6,263.5	$6,270.0

CHRYSLER CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(In millions of dollars)

	YEAR ENDED DECEMBER 31 1982	1981	1980
Funds provided by (used in) operations:			
From continuing operations:			
Net loss	$(68.9)	$(555.1)	$(1,771.
Depreciation and amortization	432.6	450.8	566.
Contribution to employee stock ownership plan (Note 12)	40.6	40.6	-
Equity in net loss of unconsolidated subsidiaries	5.8	56.0	67.
Other	(19.2)	(46.7)	(47.
	390.9	(54.4)	(1,185.
Changes in working capital affecting operations:			
Decrease in accounts receivable	83.6	46.5	134.
Decrease (increase) in inventories	332.2	315.6	(42.
Increase (decrease) in accounts payable and accrued expenses	45.3	(514.0)	503.
Net	461.1	(151.9)	595.
(Increase) decrease in noncurrent assets	(21.9)	9.4	(31.
(Decrease) increase in noncurrent liabilities	(27.4)	372.4	33.
Funds provided by (used in) continuing operations	802.7	175.5	(587.
Discontinued operations (Note 3)			
Net earnings from operations of Chrysler Defense, Inc.	-	79.5	61.
Funds provided by (used in) operations	802.7	255.0	(525.
Funds provided by (used in) investment activities:			
Increase in investments and advances (Note 8)	(184.9)	(29.2)	(38.
Sale of Chrysler Defense, Inc. (Note 3)	335.0	-	-
Purchase of ABKO Properties, Inc. (Note 4)	(65.6)	-	-
Sale of property, plant and equipment	62.3	119.8	120.
Decrease (increase) in restricted cash	2.1	(21.4)	(50.
Expenditures for property, plant and equipment	(146.8)	(241.6)	(439.
Expenditures for special tools	(227.0)	(214.1)	(394.
Other	(2.3)	(22.9)	6.
Funds used in investment activities	(227.2)	(409.4)	(796.
Funds provided by (used in) financing activities:			
Net (payments) borrowings on short-term debt	(24.4)	13.3	50.
Proceeds from long-term borrowing	11.0	431.8	1,156.
Payments on long-term borrowing	(69.9)	(184.7)	(64.
Proceeds from sale of common stock	.6	1.1	1.
Funds provided by (used in) financing activities	(82.7)	261.5	1,144.
Funds:			
Increase (decrease) during year	492.8	107.1	(177
Cash, time deposits and marketable securities at beginning of year	404.4	297.3	474
Cash, time deposits and marketable securities at end of year	$ 897.2	$ 404.4	$ 297

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Three Years Ended December 31, 1982

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Chrysler Corporation ("Chrysler") and majority-owned and controlled subsidiaries except those engaged primarily in financing, insuring, and retail selling activities. Investments in unconsolidated subsidiaries, as well as investments in associated companies representing 20% or more of the voting stock and pursuant to which some degree of management control is exercised, are carried at acquisition cost plus changes in equity in net assets from date of acquisition. Other investments are carried at cost or less.

The accumulated deficit of Chrysler and consolidated subsidiaries includes net accumulated earnings of Chrysler Financial Corporation ("CFC"), an unconsolidated subsidiary, of $356.9 million at December 31, 1982 of which $353.1 million cannot be paid in dividends due to debt covenants. Total net accumulated earnings of unconsolidated subsidiaries were $218.6 million at December 31, 1982 and $209.2 million at December 31, 1981.

Depreciation and Tool Amortization

Property, plant and equipment are carried at cost less accumulated depreciation. For assets placed in service beginning in 1980, depreciation is provided on a straight-line basis. For assets placed in service prior to 1980, depreciation is generally provided on an accelerated basis.

The weighted average service lives of assets are 30 years for buildings (including improvements and building equipment), 12 years for machinery and equipment and 13 years for furniture. Certain assets relating to rear-wheel-drive products are being depreciated over the remaining planned production periods.

The cost of special tools is amortized rateably on a basis designed to allocate the cost to operations during the years in which the tools are used in the productive process.

Note 1. Summary of Significant Accounting Policies - continued

Pension Plans

Current service costs of pension plans are accrued on a current basis and past service costs are accrued based on amortization periods not exceeding 30 years from the later of January 1, 1982 or the date such costs are established. Prior to 1982, such past service costs were amortized from the date such costs were established. Certain costs accrued in 1979 were not funded in 1979 but are being funded over a future period of 30 to 40 years. Certain costs accrued in 1980 were not funded in 1980 but are being funded over a future period ending September 15, 1984. Effective January 1, 1981, accrued costs are generally funded in the following year.

Other Retirement Benefits

The cost of continuing life insurance provided upon retirement is accrued in a manner similar to pension costs, but is not funded. Health insurance cost for retirees is charged to income as premiums are paid.

Investment Tax Credits

Proceeds from the sale of the tax benefits of investment tax credits are taken into income when received. Investment tax credits resulting in reduced federal income taxes are recognized when realized.

Inventories

Inventories are stated at the lower of cost or market, with cost determined substantially on a first-in, first-out basis.

Product Warranty

Estimated lifetime costs of product warranty are accrued at the time of sale.

Foreign Currency Translation

Foreign currency translation has been recorded in accordance with Statement of Financial Accounting Standards No. 52. The effect of adopting Statement of Financial Accounting Standard No. 52 is not material.

Note 2. 1982 Developments and Future Risks and Uncertainties

Chrysler's 1982 net earnings of $170.1 million includes a gain on sale of Chrysler Defense Inc., of $239.0 million. The loss from continuing operations of $68.9 millio is a $486.2 million improvement over the 1982 loss of $555.1 million. The operating loss in 1982 includes the effect, estimated at $125 million, of a production interruption resulting from a five week strike by employees in Chrysler's Canadian plants, as well as losses of approximately $55 million incurred by Chrysler's Mexican operations, reflecting the adverse effects of the financial and economic crisis in Mexico.

Despite the improvement over 1981, the 1982 operating loss was below the profit projected in Chrysler's Operating Plan submitted to the Chrysler Corporation Loan Guarantee Board (the "Guarantee Board") in December, 1981. The effect of depressed industry sales, which were more than 20% below the levels anticipated in the Operating Plan, was partially mitigated by an improvement in the mix of vehicles sold, increased operating efficiencies, further cost reductions, and lower net interest expense.

In accordance with the Chrysler Corporation Loan Guarantee Act ("the Act"), the Guarantee Board is required to make periodic determinations as to Chrysler's present and future viability and under certain circumstances if such determinations cannot be made the Guarantee Board has the power to accelerate the maturity of outstanding guaranteed loans. Chrysler has filed with the Guarantee Board Operating and Financing Plans dated December 7, 1982 ("the Plans"). Chrysler anticipates that the Plans will be approved as filed after the normal review process has been completed. The Plans project an improvement in the results from continuing operations in 1983 over 1982, based on assumptions as to a modest improvement in U.S. industry retail sales of cars and trucks and an improvement in Chrysler's share of the market. Capital expenditures for 1983 have been projected to be above the 1982 levels and the Plans indicate an ability to finance these expenditures.

Chrysler's improved results from continuing operations, coupled with the sale of Chrysler Defense Inc., and stringent working capital management, have resulted in significantly higher cash levels at December 31, 1982. Chrysler's access to bank credit and traditional credit markets is limited and, therefore, this level of liquidity represents a significant resource to deal with future financing needs should Chrysler be unable to achieve its operating objectives in 1983.

Chrysler's long term viability is predicated upon its ability to achieve sustained levels of significant operating profits, which in turn requires that Chrysler succeed in launching and marketing new products. If Chrysler cannot finance its planned spending programs and, as a result, reduces the scope of its new products, Chrysler could be at a competitive disadvantage and its operating results could be adversely affected. Chrysler's success will depend on a number of factors, including the state of the economy and consumer confidence, interest rates and the availability of consumer financing, the degree of competition from generally larger foreign and domestic manufacturers, cooperation of its labor force, fuel price levels, consumer preferences, the effects of government regulation and the strength of Chrysler's marketing network.

Note 3. Sale of Chrysler Defense, Inc.

On March 16, 1982, Chrysler sold for cash 100% of the outstanding capital stock of Chrysler Defense, Inc., a wholly-owned subsidiary, to General Dynamics Corporation. This sale, effective January 1, 1982, resulted in a gain of $239.0 million which has been reflected on the consolidated statement of operations net of $66.9 million of taxes. The results of operations for the years ended December 31, 1981 and 1980 have been reclassified to reflect Chrysler Defense, Inc., as a discontinued operation.

The extraordinary item reflects the elimination of the $66.9 million tax liability through the utilization of tax loss carryforwards.

Note 4. Purchase of ABKO Properties, Inc.

On October 22, 1982, Chrysler acquired from ABKO Realty, Inc. all of the outstanding shares of ABKO Properties, Inc. at a total acquisition cost of $119.1 million, including $65.6 million in cash. With this purchase, Chrysler regained direct control of more than 400 of the dealer facilities previously controlled by its wholly-owned subsidiary, Chrysler Realty Corporation, before its sale to ABKO Realty, Inc. in 1979. This transaction was accounted for as a purchase of assets and the results of operations of ABKO Properties, Inc. (renamed Chrysler Realty Corporation), a consolidated subsidiary, were included in the consolidated statement of operations from the acquisition date.

The proforma effects of the acquisition on the consolidated statement of operations of Chrysler for the twelve months ended December 31, 1982 and 1981 are not material.

Note 5. Subsequent Event - Reclassification of Preferred Stock

In January, 1983 Chrysler reached an agreement in principle with a group of banks and other financial institutions on a proposed plan to restructure the 1981 Series Preferred Stock. The plan provides for the reclassification of the 1981 Series Preferred Stock, which has a liquidation preference and a redemption value of $1,097.4 million, into 29,151,000 newly issued shares of Common Stock. The plan also calls for Chrysler to offer newly issued Common Stock in exchange for 13,286,000 warrants held by some of the financial institutions that hold the 1981 Series Preferred Stock, at a rate of 1.7 warrants for each share of Common Stock. If that offer is accepted by all such warrant holders, the exchange would result in the issuance of an additional 7,815,294 newly issued shares of Common Stock and the cancellation of the warrants.

The plan is subject to a number of approvals, including those of the holders of two-thirds of the 1981 Series Preferred Stock, the holders of a majority of the Common Stock, and the Guarantee Board. It is also subject to the successful completion by July 15, 1983 of an underwritten public offering of at least $125.0 million at a price of not less than $12 per share, for at least 8,745,000 of the shares of Common Stock to be issued in exchange for the 1981 Series Preferred Stock, and to the receipt by Chrysler, in exchange for newly issued Common Stock, of at least 80% of the warrants held by the financial institutions.

Although the reclassification of the 1981 Series Preferred Stock will have no effect on 1983 net earnings, there will be a dilutive effect on net earnings per share of Common Stock due to the increase in the number of such shares outstanding.

Note 6. Government Loan Guarantees, Pledged Assets, and Restructuring of Debt

The Agreement to Guarantee dated May 15, 1980, as amended, between the United States government and Chrysler provides that if certain conditions are met, the United States government may issue guarantees up to a maximum of $1,500.0 million with no guarantee to be issued after December 31, 1983. Chrysler is obligated to pay a guarantee fee equal to one percent of the outstanding principal of the guaranteed indebtedness. The principal amount of guaranteed indebtedness outstanding as of December 31, 1982, and 1981 was $1,200.0 million.

Substantially all of Chrysler's U.S. assets are subject to the first lien of the United States government, with the exception of certain facilities pledged to the states of Michigan, Delaware, Indiana and Illinois to secure loans obtained from these states with respect to which the United States government has a second lien. Chrysler has agreed to maintain a value of collateral available to the United States equal to at least $2,400.0 million.

Covenants and other requirements contained in the Agreement to Guarantee include, in addition to financial tests, obtaining consents of the Guarantee Board to certain transactions in the ordinary course of Chrysler's business. Chrysler is not able to meet all of these tests and accordingly must obtain consents and waivers from the Guarantee Board with respect to certain convenants and transactions. Chrysler will continue to need such consents and waivers in the future. Management believes Chrysler will be able to obtain such consents and waivers and that the possibility o the Guarantee Board accelerating the maturity of the loans is remote.

The Agreement to Guarantee and the Indenture of Mortgage and Deed of Trust provide for the establishment of custody accounts in which Chrysler must place certain of it marketable securities. Each month, Chrysler must deposit from its working funds int the custody account any cash or cash equivalents equal to the amount by which the sixty day moving average of the working funds account balance exceeds $200.0 million Withdrawals of marketable securities from this custody account by Chrysler are made with the consent of the Guarantee Board. Marketable securities aggregating $543.3 million were held in this custody account at December 31, 1982.

Restructuring of Debt

On June 24, 1980, the date on which the United States government issued its first loan guarantees under the Act, $910.4 million of Chrysler's institutional debt was initially restructured. In February 1981, in connection with the United States government issuing additional loan guarantees of $400.0 million, the majority of Chrysler's institutional debt ($1,309.2 million) was again restructured.

The accounting effect of the February, 1981 debt restructuring resulted in a gain of $21.7 million which was credited to 1981 operations.

Note 6. Government Loan Guarantees, Pledged Assets, and Restructuring of Debt - continued

Long-term debt included in the financial statements, less payments due within one year is as follows:

	December 31 1982	1981
	(In millions of dollars)	
Non-Convertible Long-Term Debt:		
Chrysler Corporation		
Peugeot variable rate term loan due 1984 through 1986	$ 60.0	$ -
8.875% sinking fund debentures due 1984 through 1995	80.5	87.0
8% sinking fund debentures due 1984 through 1998	200.0	200.0
7% debentures due 1984	2.5	5.0
7% Deutsche Mark Bonds due 1984	6.0	14.3
14.90% United States Government Guaranteed Notes due 1990	400.0	400.0
10.35% United States Government Guaranteed Notes due 1990	500.0	500.0
11.4% United States Government Guaranteed Notes due 1990	300.0	300.0
15.5% State of Michigan Notes due 1995	150.0	150.0
15.5% State of Delaware Note due 1994	5.0	5.0
15.5% State of Indiana Note due 1985	32.0	32.0
15.75% State of Illinois Note due 1988	18.5	18.5
All other	14.0	14.6
Total Chrysler Corporation	1,768.5	1,726.4
Chrysler Realty Corporation		
6% to 17% mortgage loans due 1984 through 2019	45.1	-
Subsidiaries Outside the United States		
12.5% Chrysler Canada Ltd. Notes due 1986 through 1991	194.0	179.9
Chrysler de Mexico S.A.	1.7	1.9
Other	.4	.9
Total Subsidiaries Outside the United States	196.1	182.7
Total Non-Convertible Long-Term Debt	2,009.7	1,909.1
Convertible Long-Term Debt:		
Chrysler Corporation 12% subordinated debentures due 1991 and convertible to 8% Cumulative Preferred Stock	78.0	78.0
Chrysler Overseas Capital Corporation		
5% debentures due 1984 through 1988 and convertible to Chrysler Common Stock at $62.00 per share	30.0	36.0
4-3/4% debentures due 1984 through 1988 and convertible to Chrysler Common Stock at $73.50 per share	30.0	36.0
Total Convertible Long-Term Debt	138.0	150.0
Total Long-Term Debt	$ 2,147.7	$ 2,059.1

The aggregate annual maturities of consolidated long-term debt are as follows for the years ending December 31 (in millions): 1984--$93.7, 1985--$124.1, 1986--$102. 1987--$112.2.

Note 7. Inventories

Inventories are summarized by major classifications as follows:

	December 31 1982	December 31 1981
	(In millions of dollars)	
Finished products, including service parts	$ 482.5	$ 615.0
Raw materials, work in process and finished production parts:		
Automotive operations	612.4	803.2
Chrysler Defense, Inc.	-	467.8
Progress payments--defense contracts Chrysler Defense, Inc.	-	(332.6)
Supplies	38.1	47.0
Total	$ 1,133.0	$ 1,600.4

Raw materials and work in process inventories are combined because segregation is not practical.

In accordance with trade practice, the entire service parts inventory has been included in current assets, although in many instances parts are carried for estimated requirements during the serviceable lives of products sold and are, therefore, not expected to be sold within one year. Adequate provision has been made for obsolescence of service parts.

Note 8. Investments and Advances

Detail of investments and advances included in the financial statements is as indicated below:

	December 31 1982	December 31 1981
	(In millions of dollars)	
Investments in Associated Companies Outside the United States:		
Peugeot S.A.	$ 323.9	$ 323.9
Mitsubishi Motors Corporation	28.5	28.5
	$ 352.4	$ 352.4
Investments in and Advances to 20% to 50% Owned Company -		
Sigma Motor Corporation (Pty.) Ltd.	$ -	$ 35.2
Investments in and Advances to Unconsolidated Subsidiaries:		
Chrysler Financial Corporation and Subsidiaries	$ 863.1	$ 648.4
Retail sales outlets	24.7	22.0
Other	(1.8)	1.3
	$ 886.0	$ 671.7

Chrysler's investment in Peugeot S.A. ("Peugeot") is valued at $323.9 million, representing the net assets of the Chrysler companies sold to Peugeot, less the cash consideration received net of costs related to the transaction. At the time of acquiring the shares, Chrysler obtained an independent valuation on a long-term investment basis indicating a value greater than $323.9 million and significantly greater than the aggregate market price on the Paris Stock Exchange on August 10, 1978, the date on which the agreement to sell the companies to Peugeot was executed. Chrysler believes there has not been a permanent impairment in the value of the shares as a long-term investment.

In February 1980, Peugeot arranged for Chrysler to obtain a $100.0 million short-term loan from a member of the Peugeot group. As part of the loan arrangement, Chrysler pledged as collateral the Peugeot shares it owns. The loan automatically converted to a non-recourse demand loan in June, 1980 when Chrysler initially drew down the first of its Federally guaranteed debt.

Note 8. Investments and Advances - continued

In February, 1983, the loan was converted into a non-recourse term loan. Under the term loan agreement, Chrysler is to make an initial payment of $40.0 million in March, 1983 and additional payments of $20.0 million each in March, 1984, 1985, and 1986. At December 31, 1982 the payments due after March, 1983 have been included in the balance sheet as long-term debt (See Note 6). The Peugeot shares held as collateral will be released on a pro-rata basis as payments are made.

In December, 1982 Chrysler sold its 25% interest in Sigma Motor Corporation (Pty.) Ltd. to Anglo-American Corporation. The effect of the sale on 1982 earnings was not material.

During the fourth quarter of 1982 Chrysler purchased $200.0 million of CFC commercial paper having maturities of 1 to 35 days at market rates prevailing on the date of purchase and increased this purchase to $250.0 million in January, 1983. At December 31, 1982 the $200.0 million amount has been included in the balance sheet under the heading investment in and advances to unconsolidated subsidiaries as it is management's intent to continue to roll-over this investment indefinitely.

As part of CFC's debt restructuring, Chrysler granted the private lenders to CFC an option expiring on December 31, 1985 to purchase 51% of CFC at a price equal to 51% of the shareholder's investment or a fair value to be determined by an investment banking firm. In addition, Chrysler has agreed to use its best efforts to sell a 51% equity interest in CFC to a qualified third party who will maintain CFC's function of providing financing for Chrysler dealers and customers.

Note 9. Property, Plant and Equipment and Capitalization of Leases

A summary, by major classification, of property, plant and equipment follows:

	December 31 1982	December 31 1981
	(In millions of dollars)	
Land	$ 106.4	$ 62.7
Buildings	1,172.4	1,097.2
Machinery and equipment	2,412.1	2,455.8
Furniture and fixtures	79.8	79.7
Construction in process	141.9	153.4
Other, including assets under capital leases	38.0	38.0
	3,950.6	3,886.8
Less accumulated depreciation	2,255.2	2,237.5
	1,695.4	1,649.3
Unamortized special tools	778.3	797.6
Net Property, Plant and Equipment	$ 2,473.7	$2,446.9

Chrysler sold the tax benefits of certain of its depreciation deductions and investment tax credits. The proceeds of $10.1 million in 1982 and $38.4 million in 1981 have been recorded as Other Income.

Note 9. Property, Plant and Equipment and Capitalization of Leases - continued

Restricted cash resulting from the sale of certain Canadian assets represents escrow funds reserved for future expenditures for tooling and equipment in Canada.

Chrysler conducts certain of its operations from leased facilities and also leases certain manufacturing, transportation and data processing equipment. The amortization of assets recorded under capital leases is not material and has been included with depreciation expense in the Consolidated Statement of Operations.

At December 31, 1982, the future minimum lease payments under noncancelable capital leases and rental payments under noncancelable operating leases are as follows:

	Capital Leases	Operating Leases
	(In millions	of dollars)
1983	$ 10.6	$ 48.7
1984	9.0	43.7
1985	6.0	40.9
1986	5.8	38.4
1987	5.4	37.6
Thereafter	36.0	137.3
TOTAL	72.8	$346.6
Less amount representing interest	26.4	
Present value of minimum lease payments	46.4	
Less current portion	5.1	
Long-term obligations under capital leases	$ 41.3	

Future minimum sublease rentals under noncancelable subleases total $164.9 million as of December 31, 1982.

Rental expense for operating leases for the years ended December 31, 1982, 1981, and 1980 was $61.3 million, $31.8 million and $23.7 million, respectively. Sublease rentals were not material.

Note 10. Commitments, Guarantees and Contingent Liabilities

Commitments for the acquisition of property, plant and equipment excluding special tools, amounted to approximately $154.2 million at December 31, 1982.

Chrysler and its subsidiaries are parties to various legal proceedings, including some purporting to be class actions, and some which assert claims for damages in large amounts. Chrysler believes each proceeding constitutes routine litigation incident to the business conducted by Chrysler and its subsidiaries, or will not result in ultimate liability that is material in amount.

During the 1980 and 1981 model years, Chrysler Canada Ltd. failed to meet certain production versus sales ratios required by Canada pursuant to the Automotive Trade Pact. In that regard Chrysler Canada Ltd. has requested from the Canadian Federal Government a concession, similar to that obtained in the past, to utilize the excess generated during the 1982 model year to offset these deficits. Chrysler believes the Canadian Federal Government will comply with the request.

At December 31, 1982, Chrysler has guaranteed approximately $28.5 million of 8% notes due January 1, 1991 of an unrelated entity, ABKO Investment Company, Inc. (formerly debt of Chrysler Realty Corporation). Chrysler and consolidated subsidiaries have also guaranteed securities approximating $16.1 million at December 31, 1982 of associated companies primarily outside the United States.

Note 11. Redeemable Preferred Stock

The terms of the Certificate of Designations, Preferences and Rights for the 10,000,000 shares of $2.75 Cumulative Preferred Stock issued and outstanding at December 31, 1982 provide for both optional and mandatory redemption of the shares. Under the Chrysler Corporation Loan Guarantee Act of 1979, Chrysler may not pay dividends on or redeem any Preferred Stock until the loan guarantees issued under the Act are no longer outstanding. Cash dividends at the rate of $.6875 per quarter were paid on the $2.75 Cumulative Preferred Stock each quarter from the date such stock was issued on June 20, 1978 through the third quarter of 1979. As of December 31, 1982 dividend payments had been omitted for 13 consecutive quarters and the dividend arrearage on the $2.75 Cumulative Preferred Stock was $89.4 million.

The 342,951 shares of 1981 Series Preferred Stock issued and outstanding at December 31, 1982 have a liquidation preference and a redemption value of $1,097.4 million. The dividend rate on the shares is 8-1/8% per annum noncumulative until the government guaranteed loans are paid in full and thereafter cumulative. The shares are to be redeemed in 10 equal annual installments commencing one year after the later to occur of (a) government guaranteed loans have been paid in full, and (b) all dividend arrearages on all outstanding series of preferred stock have been paid (See Note 5 for a description of proposed recapitalization).

At December 31, 1982, 400,000 shares of 8% Cumulative Preferred Stock were reserved for issuance upon the conversion of Chrysler's 12% Subordinated Debentures due 1991.

Note 12. Common Stock, Warrants, Employee Stock Ownership Plan and Stock Options

Common Stock

Of the 170,000,000 shares of authorized common stock at December 31, 1982, 3,509,926 shares were reserved for the thrift-stock ownership programs, 6,164,725 shares were reserved for stock options for salaried officers and key employees under the Chrysler Corporation Stock Option Plan, 1,784,053 shares were reserved for issuance upon conversion of debentures, 5,000,000 shares were reserved for issuance upon exercise of warrants, and 13,775,400 shares were reserved for the Chrysler Corporation Employee Stock Ownership Plan. Chrysler is obligated to reserve an additional 27,686,000 shares for issuance upon exercise of the warrants held by the U.S. Government and various financial institutions.

Warrants

Warrants for 5,000,000 shares of common stock issued in conjunction with the sale of the $2.75 Cumulative Preferred Stock are exercisable at $13 per share ($65.0 million aggregate amount) until June 15, 1985. Under certain circumstances, Chrysler may accelerate the expiration date of the warrants to a date as early as July 1, 1983. The value assigned to the 5,000,000 warrants ($18.0 million) at the time of issuance was subtracted from the preferred stock and added to additional paid-in capital. The difference between the initial carrying value ($217.0 million) and the redemption val of the preferred stock ($250.0 million), represented by the total of issue costs ($15 million) and the value assigned to the warrants ($18.0 million), is being amortized o the interest method to attain redemption value over the period such preferred stock is expected to be outstanding.

Chrysler has issued 14,400,000 warrants to the United States government and 13,286,000 warrants to certain participating lenders under various Credit Agreements (See Note 5), to purchase shares of common stock of Chrysler at $13 per share. The warrants issued to the United States are presently exercisable and those issued to the lenders will become exercisable on January 1, 1984. All of these warrants expir on December 31, 1990.

Employee Stock Ownership Plan

The Chrysler Corporation Loan Guarantee Act of 1979 required Chrysler to establish a Employee Stock Ownership Plan (ESOP) and to make contributions to the Plan in the form of newly issued Chrysler common stock in four equal annual installments of $40. million at the then current market price in each of the four years ended June 30, 1981, 1982, 1983, and 1984.

As of December 31, 1982 12,224,600 shares of common stock, aggregating $81.2 million had been issued to the ESOP.

Note 12. Common Stock, Warrants, Employee Stock Ownership Plan and Stock Options - continued

Stock Options

At January 1, 1982, options for 2,672,125 shares of common stock were oustanding under the Chrysler Corporation Stock Option Plan. During 1982, options were granted as to 1,105,500 shares, exercised as to 18,250 shares, forfeited for cash pursuant to stock appreciation rights as to 7,025 shares, and terminated as to 154,500 shares. At December 31, 1982, options for 3,597,850 shares were outstanding at prices ranging from $6.25 to $26.63 a share, the average being $7.97. Options for 1,708,800 shares were exercisable at December 31, 1982. Information with respect to options is summarized as follows:

Options That Became Exercisable During Each of the Three Years Ended December 31

Year Ended	Number of Shares	Option Price Per Share	Option Price Total	Market Price on Date First Exercisable Per Share	Market Price on Date First Exercisable Total
1982	649,601	$ 6.25 to $ 9.88	$4,539,976	$ 4.25 to $14.69	$6,551,058
1981	624,637	6.25 to 11.07	5,486,516	3.25 to 6.75	3,041,873
1980	333,325	6.25 to 20.25	3,697,665	5.13 to 10.19	2,484,744

Options Exercised During Each of the Three Years Ended December 31

Year Ended	Number of Shares	Option Price Per Share	Option Price Total	Market Price on Date of Exercise Per Share	Market Price on Date of Exercise Total
1982	18,250	$ 6.25 to $15.07	$ 147,867	$ 8.25 to $17.94	$ 269,910
1981	-	- -	-	- -	-
1980	3,388	8.82 to 9.07	30,054	10.06 to 10.69	34,814

All outstanding options were granted at prices not less than 100% of fair market value at date of grant and in no case at an option price less than $6.25 per share. Options become exercisable on and after the first anniversary to the extent of not more than 40% of the number of shares under option, on and after the second anniversary to the extent of not more than 70% of the number of shares under option, and after the third anniversary to the extent of 100% thereof. Options granted in 1973 through November 1981 and still exercisable were ten-year nonqualified options. Incentive stock options were granted as to 1,256,500 shares and nonqualified stock options were granted as to 616,000 shares, all with 10 year terms. Incentive stock options provide tax advantages to the option holder if certain requirements are met.

Upon exercise of a nonqualified or an incentive stock option, the holder may forfeit the option on up to an equal number of shares and receive an amount in cash or shares or any combination thereof, at the sole discretion of the Stock Option Committee, equal to the aggregate difference between the option price and the current market value of shares forfeited (Stock Appreciation Rights). Amounts resulting from such Stock Appreciation Rights are accrued and charged to compensation expense in the period services are rendered. No other charges or credits are made against income in accounting for exercise of options.

Note 13. Common Stock, Additional Paid-In Capital and Net Earnings Retained (Accumulated Deficit)

	Common Stock	Additional Paid-In Capital	Net Earnings Retain (Accumulated Defici
	(In millions of dollars)		
Balance at December 31, 1979	$ 416.9	$ 692.2	$ 496.3
Common stock sold to thrift-stock ownership programs (shares sold - 265,690)	1.7	.2	-
Net loss	-	-	(1,709.7)
Amortization of Preferred stock discount	-	-	(1.6)
Balance at December 31, 1980	418.6	692.4	(1,215.0)
Common stock sold to thrift-stock ownership programs (shares sold - 172,588)	1.0	.1	-
Common stock issued under Employee Stock Ownership Plan (shares issued - 5,987,400)	40.6	-	-
Net loss	-	-	(475.6)
Amortization of Preferred stock discount	-	-	(1.6)
Balance at December 31, 1981	460.2	692.5	(1,692.2)
Common stock sold to thrift-stock ownership programs (shares sold - 87,166)	.5	-	-
Common stock issued under stock option plans (shares issued - 18,250)	.1	-	-
Common stock issued under Employee Stock Ownership Plan (shares issued - 6,237,200)	40.6	-	-
Net earnings	-	-	170.1
Amortization of Preferred stock discount	-	-	(1.6)
Balance at December 31, 1982	$ 501.4	$ 692.5	$(1,523.7)

Under the Chrysler Corporation Loan Guarantee Act of 1979, Chrysler may not pay any dividends on its common or preferred stock until the loan guarantees issued under the Act are no longer outstanding.

Note 14. Interest Expense and Capitalized Interest

Total interest charges are as follows: 1982-$338.6 million, 1981-$406.2 million and 1980-$404.8 million, of which $43.7 million in 1982, $71.9 million in 1981 and $72.0 million in 1980 was capitalized and is included in property, plant and equipment.

Note 15. Pension Plans

Chrysler and certain of its consolidated subsidiaries have pension plans covering substantially all of their employees. The net decrease in pension costs of $16.0 million in 1982 and $5.6 million in 1981 resulted principally from decreases in pension costs due to changes in the actuarial interest rate assumptions, a change in the amortization of certain past service costs (See Note 1) and reductions in employment, and also in 1981 from changes in the asset valuation method for the Salaried Employees' Retirement Plan, which more than offset the costs of increases in benefits under the 1979 collective bargaining agreements and the interest cost of additional pension contribution deferrals.

As of January 1, 1982, the accumulated plan benefits, calculated by using January 1, 1982 benefit levels (the last increase under the then current collective bargaining agreements), and the plan net assets for U.S. pension plans are as follows (in millions of dollars):

Actuarial present value of accumulated plan benfits:	
Vested	$2,849.4
Nonvested	424.1
Combined	$3,273.5
Net assets available for benefits including Chrysler's accrued pension liability of $777.7	$1,948.2
Actuarial present value of accumulated vested plan benefits in excess of net assets available for benefits	$ 901.2

The weighted-average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 10.25%, and was based on rates published by the Pension Benefit Guaranty Corporation.

Chrysler's foreign pension plans are not required to report to certain government agencies pursuant to the Employee Retirement Income Security Act and do not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above. For those plans, the actuarially computed value of vested benefits as of January 1, 1982 exceeded the value of pension funds and balance sheet accruals by $37.4 million.

Note 16. Taxes on Income

Income tax expense as shown in the consolidated statement of operations includes the following:

	1982	1981	1980
	(In millions of dollars)		
Foreign Income Taxes:			
Current	$ .9	$ 18.5	$ 50.5
Deferred	-	(1.2)	(21.5)
Total Taxes on Income	$ .9	$ 17.3	$ 29.0

Foreign earnings (loss) before taxes in 1982, 1981 and 1980 amounted to $(37.5) million, $24.2 million and $(107.4) million, respectively.

At December 31, 1982, Chrysler Corporation and Chrysler Canada Ltd. have unused operating loss carryforwards of approximately $1,800 million, and the Corporation also has U.S. investment tax credit carryovers of approximately $240 million available for potential tax benefits. Substantially all of these carryforwards may be used until the expiration dates which occur between 1989 and 1997.

Note 17. Information about Chrysler and its Subsidiaries Operating in Different Geographic Areas

Year ended December 31, 1982	United States	Canada	Other Principally Mexico	Adjustments and Eliminations	Consolidated
Unit Sales:					
Sales to unaffiliated customers	969,106	126,592	86,028	-	1,181,726
Transfers between geographic areas	94,059	225,004	-	(319,063)	-
Total Unit Sales	1,063,165	351,596	86,028	(319,063)	1,181,726
Dollar Sales (millions):					
Sales to unaffiliated customers	$ 8,497.3	$ 892.2	$ 655.4	$ -	$10,044.9
Transfers between geographic areas	1,795.9	2,086.6	127.4	(4,009.9)	-
Total Dollar Sales	$10,293.2	$2,978.8	$ 782.8	$(4,009.9)	$10,044.9
Net Earnings (Loss)	$ 208.5	$ 20.2	$(58.6)		$ 170.1
Identifiable Assets at December 31, 1982	$ 4,949.8	$ 537.2	$ 776.5		$ 6,263.5

Year ended December 31, 1981	United States	Canada	Other Principally Mexico	Adjustments and Eliminations	Consolidated
Unit Sales:					
Sales to unaffiliated customers	1,018,166	132,494	132,353	-	1,283,013
Transfers between geographic areas	94,894	130,913	-	(225,807)	-
Total Units Sales	1,113,060	263,407	132,353	(225,807)	1,283,013
Dollar Sales (millions):					
Sales to unaffiliated customers	$ 7,788.8	$ 909.0	$1,273.8	$ -	$ 9,971.6
Transfers between geographic areas	1,532.8	1,160.7	66.0	(2,759.5)	-
Total Dollar Sales	$ 9,321.6	$2,069.7	$1,339.8	$(2,759.5)	$ 9,971.6
Net Earnings (Loss)	$(482.5)	$(49.3)	$ 56.2		$(475.6)
Identifiable Assets at December 31, 1981	$ 4,676.4	$ 621.4	$ 972.2		$ 6,270.0

Note 17. Information about Chrysler and its Subsidiaries Operating in Different Geographic Areas - continued

Year ended December 31, 1980	United States	Canada	Other Principally Mexico	Adjustments and Eliminations	Consolidat[illegible]
Unit Sales:					
Sales to unaffiliated customers	935,384	144,181	145,358	-	1,224,92[illegible]
Transfers between geographic areas	114,584	99,728	-	(214,312)	-
Total Units Sales	1,049,968	243,909	145,358	(214,312)	1,224,92[illegible]
Dollar Sales (millions):					
Sales to unaffiliated customers	$ 6,524.2	$ 923.5	$1,152.4	$ -	$ 8,600.[illegible]
Transfers between geographic areas	1,327.4	807.5	23.3	(2,158.2)	-
Total Dollar Sales	$ 7,851.6	$1,731.0	$1,175.7	$(2,158.2)	$ 8,600.[illegible]
Net Earnings (Loss)	$(1,573.3)	$(161.8)	$ 25.4		$(1,709.[illegible]
Identifiable Assets at December 31, 1980	$ 5,137.0	$ 536.6	$ 944.2		$ 6,617.[illegible]

Transfers between geographic areas are based on prices either negotiated between buying and selling locations or on a formula as established by the parent company.

Since the sale of Chrysler Defense, Inc. in March, 1982, Chrysler operates principally in one segment, automotive operations. Chrysler's automotive operations are engaged primarily in the manufacture, assembly and sale in North America of passenger cars, trucks and related automotive parts and accessories. Purchases of vehicles, component parts and service parts from Mitsubishi Motors Corporation, an associated company of Chrysler, for resale aggregated $644.8 million in 1982, $809.5 million in 1981 and $875.1 million in 1980.

Note 18. Income Maintenance Agreement with Chrysler Financial Corporation

Chrysler and Chrysler Financial Corporation (a wholly-owned unconsolidated subsidiary) have an Income Maintenance Agreement, expiring December 31, 2000, to maintain CFC's ratio of income before taxes available for fixed charges at no less than 125% of fixed charges on an annual basis.

Payments of $63.1 million were made pursuant to the agreement in 1982, $138.5 million in 1981, and $106.4 million in 1980. The effect of this fee on both selling and administrative expense and equity in net earnings of unconsolidated subsidiaries is eliminated in the statement of operations of Chrysler and its consolidated subsidiaries.

Pursuant to the Agreement to Guarantee between the U.S. Government and Chrysler, CFC is required to pay a dividend equal to the after-tax amounts paid under the Income Maintenance Agreement.

Note 19. Per Share Data

For 1982 primary earnings per share were computed by dividing net earnings, less the preferred stock dividend requirement, and amortization of discount ($27.5 million and $1.6 million, respectively), by the average number of common shares outstanding plus the common stock equivalents which would arise from the exercise of stock options, if dilutive. Fully diluted earnings per share were not reported because the effect is anti-dilutive.

For 1981 and 1980 per share amounts were computed by dividing the net loss adjusted for the preferred stock dividend requirement and amortization of discount by the average number of common shares outstanding during the year.

Note 20. Inflation Accounting

Pursuant to Standard No. 33, "Financial Reporting and Changing Prices" of the Financial Accounting Standards Board, Chrysler's Annual Report will provide supplementary disclosure of certain information intended to measure the impact of changing prices due to inflation.

TOUCHE ROSS & CO.
Detroit, Michigan

February 24, 1983

Shareholders and Board of Directors
Chrysler Corporation
Detroit, Michigan

We have examined the accompanying consolidated balance sheet of Chrysler Corporation and consolidated subsidiaries at December 31, 1982 and 1981, and the related consolidated statements of operations and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 24, 1982, our opinion on the 1980 and 1981 financial statements was qualified as being subject to the effects of such adjustments, if any, which might have been required had the outcome of the uncertainties regarding Chrysler's going concern status and its investment in Peugeot S.A. been known. As explained in Note 2 Chrysler continues to face uncertainties in the future, some of which are beyond its control. However, in 1982 Chrysler generated significant cash from working capital management and the sale of Chrysler Defense Inc., and demonstrated its ability to produce positive cash flow from its automotive operations and to realize its assets and satisfy its liabilities in the normal course of business. In addition, as described in Note 8, Chrysler negotiated a new loan agreement with Peugeot S.A. which assures Chrysler control of its investment in Peugeot S.A. Accordingly, our opinion on the 1980 and 1981 financial statements, as presented herein, is no longer qualified.

In our opinion, the accompanying financial statements present fairly the financial position of Chrysler Corporation and consolidated subsidiaries at December 31, 1982 and 1981 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1982 in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in depreciation methods in 1981.

Touche Ross & Co.
Certified Public Accountants

CHRYSLER CORPORATION AND CONSOLIDATED SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL DATA

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1982	1981*	1982	1981*	1982	1981*	1982	[illegible]
	(In millions of dollars)							
Net sales	$ 2511.3	$ 2251.3	$ 2864.6	$ 2884.8	$ 2463.5	$ 2309.4	$ 2205.5	$ [illegible]
Costs, other than taxes on income	2609.6	2535.6	2754.6	2862.8	2464.2	2455.1	2288.8	[illegible]
Gross profit	(98.3)	(284.3)	110.0	22.0	(.7)	(145.7)	(83.3)	([illegible]
Equity in net earnings (loss) of unconsolidated subsidiaries	3.8	(12.8)	(3.1)	(10.6)	4.0	(19.1)	(10.5)	([illegible]
Other income	-	-	-	-	9.5	-	.6	[illegible]
Taxes on income (credit)	(5.4)	4.9	2.6	6.7	24.1	(.7)	(20.4)	[illegible]
Earnings (loss) from continuing operations	(89.1)	(302.0)	104.3	4.7	(11.3)	(164.1)	(72.8)	([illegible]
Discontinued Operations:								
Earnings of Chrysler Defense, Inc.	-	12.7	-	16.0	-	24.0		[illegible]
Gain on sale of Chrysler Defense, Inc.	172.1	-	-	-	-	-		[illegible]
Earnings (loss) before extraordinary item	83.0	(289.3)	104.3	20.7	(11.3)	(140.1)	(72.8)	([illegible]
Extraordinary item	66.9	-	2.6	-	20.7	-	(23.3)	
Net earnings (loss)	$ 149.9	$(289.3)	$ 106.9	$ 20.7	$ 9.4	$(140.1)	$(96.1)	$([illegible]
Per share data								
Primary:								
Earnings (loss) from continuing operations	$(1.31)	$(4.62)	$ 1.30	$(0.04)	$(0.23)	$(2.34)	$(1.01)	$([illegible]
Earnings (loss) before extraordinary item	$ 1.04	$(4.43)	$ 1.30	$ 0.20	$(0.23)	$(2.01)	$(1.01)	$([illegible]
Net earnings (loss) per share of common stock	$ 1.95	$(4.43)	$ 1.34	$ 0.20	$ 0.03	$(2.01)	$(1.30)	$([illegible]

*Restated for deconsolidation of Chrysler Defense, Inc. (See Note 3)

CONDENSED CONSOLIDATED BALANCE SHEET

	December 31 1982	December 31 1981
	(In millions of dollars)	
ASSETS:		
Cash	$ 133.4	$ 111.3
Short-term investments	216.3	90.3
Marketable securities	84.4	90.2
Notes receivable:		
Retail and lease financing	1,957.5	2,241.4
Wholesale financing	1,292.6	1,224.9
Commercial and other financing	126.1	124.6
Total notes receivable	3,376.2	3,590.9
Less: Unearned income	315.5	345.6
Allowance for credit losses	26.7	28.6
Notes receivable--net	3,034.0	3,216.7
Amounts due and deferred from receivables sales	214.5	240.6
Other assets and receivables	68.7	78.3
TOTAL ASSETS	$ 3,751.3	$ 3,827.4
LIABILITIES:		
Notes payable, short-term	$ 95.6	$ 125.8
Long-term notes payable within one year	104.3	174.4
Other liabilities	309.0	319.0
Amounts due to affiliated companies	201.8	22.0
Senior notes payable after one year	2,140.9	2,292.0
Subordinated notes payable after one year	235.4	245.8
TOTAL LIABILITIES	3,087.0	3,179.0
SHAREHOLDER'S INVESTMENT:		
Common stock	25.0	25.0
Additional paid-in capital	282.4	282.4
Net earnings retained:		
Balance at beginning of year	341.0	360.5
Net earnings for the year	52.2	62.2
Cash dividend paid	(36.3)	(81.7)
Balance at end of year	356.9	341.0
TOTAL SHAREHOLDER'S INVESTMENT	664.3	648.4
TOTAL LIABILITIES AND SHAREHOLDER'S INVESTMENT	$ 3,751.3	$ 3,827.4

Chrysler Financial Corporation is a wholly-owned unconsolidated subsidiary of Chrysler Corporation. This balance sheet has been summarized from the financial statements appearing in the Annual Report of Chrysler Financial Corporation.

UNIT SALES OF CARS AND TRUCKS

	1982	1981	1980	1979	1978	1977	1976
By Area of Manufacture							
United States							
Passenger Cars	598,796	755,315	644,208	927,918	1,129,933	1,229,993	1,324,669
Trucks	122,942	100,316	139,302	269,691	493,658	457,740	423,530
Canada							
Passenger Cars	149,906	70,083	72,736	143,074	177,365	217,936	241,070
Trucks	96,038	86,150	54,106	53,383	77,455	105,977	87,380
TOTAL U.S. AND CANADA	967,682	1,011,864	910,352	1,414,066	1,878,411	2,011,646	2,076,649
Japan	137,702	156,316	206,693	270,405	226,542	207,428	168,296
Mexico	76,342	114,833	106,380	91,785	79,325	60,545	56,345
Australia	-	-	1,219	8,620	11,371	21,830	27,271
All Other Countries	-	-	279	11,589	15,886	26,853	41,948
TOTAL OUTSIDE U.S. AND CANADA	214,044	271,149	314,571	382,399	333,124	316,656	293,860
TOTAL WORLDWIDE	1,181,726	1,283,013	1,224,923	1,796,465	2,211,535	2,328,302	2,370,509
By Area of Sale							
United States							
Passenger Cars	737,350	834,155	721,868	1,021,826	1,229,548	1,354,721	1,428,698
Trucks	231,756	184,011	213,516	329,212	502,594	499,533	441,999
TOTAL UNITED STATES	969,106	1,018,166	935,384	1,351,038	1,732,142	1,854,254	1,870,697
Canada							
Passenger Cars	105,264	103,031	112,692	158,020	180,575	206,078	224,215
Trucks	21,328	29,463	31,489	42,702	43,856	47,145	50,127
TOTAL U.S. AND CANADA	1,095,698	1,150,660	1,079,565	1,551,760	1,956,573	2,107,477	2,145,040
Outside U.S. & Canada							
Passenger Cars	46,231	69,172	82,285	165,587	166,526	159,625	164,307
Trucks	39,797	63,181	63,073	79,118	88,436	61,200	61,162
TOTAL OUTSIDE U.S. AND CANADA	86,028	132,353	145,358	244,705	254,962	220,825	225,469
TOTAL WORLDWIDE	1,181,726	1,283,013	1,224,923	1,796,465	2,211,535	2,328,302	2,370,509

1977 and 1976 restated to exclude deconsolidated operations in Europe and Latin America.

THE WHITE HOUSE

WASHINGTON

February 23, 1983

MEMORANDUM FOR ED MEESE
JAMES BAKER
RICHARD DARMAN
KEN DUBERSTEIN
FRED FIELDING
DAVID GERGEN
HELENE VON DAMM

FROM: CRAIG L. FULLER CF

SUBJECT: EPA Actions

Attached are two memoranda concerning EPA actions. Both memoranda are in draft form and attached for your review and comment.

THE WHITE HOUSE

WASHINGTON

February 23, 1983

DRAFT

MEMORANDUM FOR THE RECORD

FROM: CRAIG L. FULLER

SUBJECT: EPA Personnel/Management Actions

It has been agreed that the following actions will be taken and announced jointly by the White House and the Environmental Protection Agency today:

1. Commission on the Management and Administration of the Superfund Act

   A commission will be established according to the charter that has been developed to advise the EPA administrator concerning the implementation of the Superfund Act. The Commission will make recommendations with regard to improvements in the site designation and evaluation process. It will also recommend improvements with regard to internal control procedures associated with negotiating Superfund settlements.

   David Linowes will chair this commission. Other commissioners will be appointed as rapidly as possible.

2. Assistant Administrator, Solid Waste and Emergency Response

   Lee Thomas will be detailed to fill this position which is now vacant. We anticipate that he will serve in the position for 30 to 60 days. After that period of time the White House, in consultation with EPA, will determine who should fill the position on a permanent basis.

3. <u>Director, Legislation</u>

Lee Verstandig will be detailed to a special assistant position for congressional relations. In this position he will assist Leland Modesitt, Director, Legislation. We anticipate that he will serve in the position for 30 to 60 days. After that period of time the White House, in consultation with EPA, will determine whether a special assistant for congressional relations is required and who should fill the Director of Legislation position on a permanent basis.

4. <u>Assistant Administrator, Administration</u>

John Franke will be detailed from the Department of Agriculture to fill this position. We anticipate that he will serve in the position for 30 to 60 days. After that period of time the White House, in consultation with EPA, will determine who should fill the position on a permanent basis. The incumbent, John Horton, will be asked to resign by the White House.

5. <u>Inspector General</u>

A yet to be identified Inspector General who has a solid reputation will be rotated into EPA to replace Matthew Novick. Matthew Novick will remain at EPA until such time as the investigations that he has control of are completed or transferred to the new IG.

2/23/83 - 10:00 a
DRAFT

Charter
Commission on the Management
and Administration of the Superfund Act

1. The official designation of the Commission is the Commission on the Management and Administration of the Superfund Act.

2. The purpose of the Commission is to advise the Administrator of the Environmental Protection Agency concerning the implementation of the Superfund Act by the Solid Waste and Emergency Response Division of the Environmental Protection Agency.

   a. Examine the allegations;

   b. Evaluate and recommend improvements to the Environmental Protection Agency's toxic and hazardous waste site evaluation and designation process.

   c. Recommend improvements in the internal controls ~~[illegible]~~ related to the negotiated settlements related to the Superfund.

3. The Commission will be in existence not to exceed six months from appointment of the last Commissioner.

4. The Commission will deliver its final report to the Administrator of the Environmental Protection Agency, and will function independently of, but in cooperation with, established organizations of the Agency.

5. Staff support for the Commission is to be provided by the Office of the Administrator.

6. The duties of the Commission are advisory in nature in accordance with this document.

7. The estimated operating cost of the Commission is ________, including approximately 1.5 staff-years of support.

8. The Commission will meet approximately 12 times at the call of the Chairman. All meetings of the Commission and all agenda must have prior approval of the Federal Representative. The Federal Representative will be a member of the Environmental Protection AGency's Office of ______________.

9. The Commission shall submit a final report to the Administrator of the Environmental Protection Agency within six months after appointment of the last Commission or no later than August 15, 1983, whichever comes earlier, and shall terminate on that date unless extended by the Administrator of the Environmental Protection Agency.

10. The Commission is composed of 5 members, who shall be appointed by the Administrator of the Enviromental Protection Agency, one of whom shall be designated as Chairman.

11. Creation of this Commission is by the authority of ____. It is in the public interest in conjunction with the responsibilities of the Environmental Protection Agency.

12. Members of the Commission may receive compensation, travel and per diem expenses for each day such member is engaged in the work of the Commission. Travel and per diem reimbursement shall be up to a daily rate in accordance with the Federal Travel Regulations.

13. In carrying out its responsibilities, the Commission is authorized to:

    a. Use the support services within the Environmental Protection Agency as appropriate in carrying out its function;

    b. Select an Executive Director and other required personnel in accordance with an established budget;

    c. Conduct hearings (swearing in witnesses as appropriate), interviews, and reviews at regional centers and field offices, or wherever deemed necessary to fulfill its duties; and

    d. Confer with contractors, lessees, and other parties dealing with the Agency on matters pertaining to the Commission's mission.

14. The Chairman of a Commissioner specifically designated by the Chairman shall be the spokesperson for the Commission for contact with the Congress, public, media, and others.

15. All Commission meetings and activities will operate in accordance with the Federal Advisory Committee Act (5 U.S.C. Appendix I, Section).

/s/
Administrator, EPA

Date filed

Date signed

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 17, 1983

MEMORANDUM FOR JAMES A. BAKER III

FROM: FRED KHEDOURI

SUBJECT: "Pulling the Plug" on the Jobs Bill Compromise

- -- We have on several occasions rejected the option to start preparing the grounds for "pulling the plug" on the bipartisan jobs bill.
- -- I have tried repeatedly to make the point that whatever consensus we might have with both the Democratic and Republican leadership cannot survive more than a brief negotiating period.
- -- Powerful elements in both houses outside the leadership are in the process of maturing to the point of breaking key agreements in the package.

The Administration's Exposure:

- -- The strategy of inflating the apparent size of the package by counting deferrals and rescissions, obligation limits, and other elements that do not require congressional action created a risk.
- -- That risk is that the Congress will make major, unacceptable additions to our original package and still stay within the $4.3 billion figure with which the President is now identified.
- -- For example, they could drop our CDBG advances, highway and transit funds, and UDAG deferral from the package.
- -- The Public Works Committee leadership will press strongly its argument that these are not "real increases"; our problem is that their argument is correct.
- -- If these elements are dropped, it would be a simple matter for the Congress to replace them with nearly $2 billion of "make-work" CETA-type jobs or other additions that would grossly violate the President's guidelines.

Conclusion:

- -- I make these points because I believe that we need to make an assessment now of the likelihood of the risks in our situation being realized.
- -- We have lost four days this week; in those four days the non-leadership elements in the Congress have been dissecting our proposal and finding its flaws.
- -- If we cannot proceed any more according to prior plans, we should start now to lay the groundwork for "pulling the plug."

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 16, 1983

MEMORANDUM FOR JAMES A. BAKER III

FROM: FRED KHEDOURI FK

SUBJECT: Hatfield/ Baker Meeting on Jobs Bill

-- Our first objective and priority must of course remain that of seeking Hatfield's agreement to the bipartisan compromise in its present form.

-- A review of the contents of last winter's Continuing Resolution jobs title reveals little basis for optimism, however.

-- Although there is a considerable overlap between the House version of the Continuing Resolution and the current proposal, there is much less overlap with the Senate version.

-- Of the 35 items in the House version, 13 appear in the bipartisan compromise.

-- Of the 15 items in the Senate version, only one (National Forest roads) appears in the bipartisan compromise.

-- A comparison of the new Hatfield proposal and the bipartisan compromise is a bit more of a cause for optimism; we have dealt with 20 of the 47 programs on his list (although not always in the same fashion).

-- Our problem is to isolate those among the remaining 27 programs that are priorities for both Hatfield and the House Democrats.

-- If we cannot do this properly, we will inevitably be "bid up" to an unacceptable total bill.

Conclusion and Recommendation:

1 If efforts to persuade Hatfield to drop his separate effort and sign on to the package are unsuccessful, 2 we should get his agreement to work within set parameters. I have attached a draft "definition of limits."

-- We should if necessary indicate some flexibility in a few program areas that are evident priorities for both Hatfield and the Democrats. These are in my judgment those displayed on my second attachment.

Mark: agree to our list and → How about if we add these & get House Dems. to agree.

Programs of Apparent Priority to Hatfield and House Democrats

Program	Hatfield Package	Prior House Level[1]
USDA WIC	$100M	--
DOE weatherization	$150M	$250M
Summer youth	$100M	--
Rural Water and Sewer[2]	$125M	$200M
Dislocated Workers	$125M	$200M

[1] Prior House level refers to Title II of the Continuing Resolution as reported by the House Appropriations Committee last winter.

[2] While Hatfield himself is not an ardent supporter of this program, it is very important to Thad Cochran and to Jamie Whitten.

If Mark insists on Committee mark-up, etc. – can't go with it.

Need a decision today. Pres. before press tonite.

We can't retreat any further.

Pres. won't agree for one thing.

We need list from you of min. items you have to have.

We need them to get you Foley & Conte to close today!

Before Press Conf.

GUIDING PRINCIPLES FOR JOBS BILL

-- No new programs other than one-time distribution of humanitarian aid.

-- No local public works or other traditional anti-recession "make-work" jobs.

-- No increase to existing formula grant programs that would have the effect of raising the basic funding level expectations of cities and state in the future, e.g. CDBG, UDAG, or Social Services Block Grant.

-- Total new budget authority created by the bill for jobs and humanitarian assistance not to exceed $2 billion, inclusive of transfers from Sec. 32 and CCC funds.

-- Base for calculating size of the package should recognize Administration deferral, rescission, and obligation limits.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

713/
7905611

February 15, 1983

MEMORANDUM FOR JIM BAKER
RICHARD DARMAN
KEN DUBERSTEIN

FROM: FRED KHEDOURI

SUBJECT: New Hatfield "Jobs" Package

Hatfield has made a number of highly significant additions to his package:

--$500 million for Community Development Block Grants

--$500 million in new USDA commodity donations

--$150 million in DOE low income weatherization

--$100 million in summer youth employment

--$100 million in USDA Special Supplemental Food (WIC)

Hatfield has not changed in any evident way is basic approach. All funds would be newly-appropriated, net additions to spending.

The descriptive sheet provided by Hatfield shows a number of deletions, most notably $400 million in loan authority for Rural Water and Sewer Grants and $100 million in loan authority for SBA loans. I believe this to be an error because the appropriated funds that go with these loan funds remain in his package.

Budget Effect Summary:

-- Previous Hatfield package totalled $2.995 billion.

-- New package totals $4.445 billion.

-- Exclusive of deferrals and rescissions, Hatfield package is now $1.496 billion higher than the bipartisan compromise.

-- Because Hatfield presumes congressional disapproval of deferrals and rescissions, his package would actually be $2.513 billion more than the bipartisan compromise, however.

JOBS PACKAGE

Agriculture Subcommittee	
Rural Water and Waste Disposal Grants:	
Appropriations	$125,000,000
FmHA Salaries and expenses	6,500,000
Watershed and Flood Prevention Operations	75,000,000
Agricultural Research Service	10,000,000
Special Supplemental Food Program (WIC)	100,000,000
Food and Drug Administration	39,000,000
USDA Surplus Food Donations	(500,000,000)
Commerce-Justice-State-Judiciary Subcommittee	
SBA Small Business Guarantee Program:	
Appropriation	2,000,000
Federal Prison System	60,000,000
Support of United States Prisoners	10,000,000
Energy & Water Development Subcommittee	
Corps of Engineers -- Construction	250,000,000
-- Operations & maintenance	115,000,000
-- Mississippi River & tributaries	40,000,000
Bureau of Reclamation -- Construction	65,000,000
-- Operations & maintenance	25,000,000
-- Loan program	20,000,000
HUD - Independent Agencies Subcommittee	
VA hospital repair and maintenance	50,000,000
FEMA - emergency food and shelter	50,000,000
Community Development Block Grants	500,000,000
Interior Subcommittee	
Forest Service -- Reforestation	35,000,000
-- Construction	25,000,000
National Park Service -- Construction	100,000,000
Fish and Wildlife Service	20,000,000
Indian Health Service	39,000,000
Schools and Hospitals	150,000,000
Indian Education	24,450,000
Indian Housing	30,000,000
Low Income Weatherization	150,000,000
Labor-HHS Subcommittee	
Dislocated workers	125,000,000
Jobs Corps	32,400,000
Job Search Assistance (State Employment Services)	(50,000,000)
Summer Youth Employment and Training	100,000,000
Social Services Block Grant	500,000,000
Community Services Block Grant	41,375,000
Community Service Employment for Older Americans	14,550,000
College Work Study	110,000,000
Impact Aid Construction	60,000,000
Removal of Architectural Barriers in Schools	40,000,000
Library Construction	50,000,000
Centers for Disease Control	15,560,000

<u>Military Construction Subcommittee</u>	
Family Housing	250,000,000
<u>Transportation Subcommittee</u>	
Interstate Transfer Grants:	
Highways	100,000,000
Transit	25,000,000
Northeast Corridor Overhead Highway Bridges	40,000,000
AMTRAK Maintenance of Way	90,000,000
Metro	10,000,000
<u>Treasury Subcommittee</u>	
GSA Federal Buildings Fund	125,000,000
GSA Motor Vehicle Purchases	50,000,000
<u>Total Program Level</u>	$4,444,835,000
Budget Authority	3,894,835,000
Limitation	(550,000,000)

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

January 31, 1983

NOTE FOR JIM BAKER:

I was rather startled to read the attached article in the "Banking Regulator". This is widely read in the banking field. If indeed this happened without any reference to Treasury, I have to protest. I don't think it fair that the White House follow one line when we are using another. This is particularly true in our answers to Senators, Congressmen and bankers that this Administration is sticking with its 1982 tax initiatives and will not back off.

I wish you would look into this and let me know what's going on.

Don

Donald T. Regan

Attachment

2/2/83
Told Don —
nothing to this.
Data is wrong. We
support w/holding etc.
JABaker

BANKING REGULATOR

January 31, 1983 No. 3/83

ENCAPSULATION: White House to review withholding rule (pg 1) • T-i-L, Reg. E amendments proposed (pg 1) • Three states' T-i-L laws preempted (pg 3) • ASC deposits reached $55.3 billion in September (pg 6)

EXECUTIVE OFFICE OF THE PRESIDENT

White House Reconsidering Withholding-at-Source

White House executives met Wednesday afternoon and will recovene in the next few days to reconsider the administration's commitment to making dividend- and interest-paying organizations withhold a portion of those payments for remittance to Treasury as part of the consumers' tax payments.

Presidential special assistant Wayne Valis announced the unexpected meetings following a presentation during a meeting with the National Association of Federal Credit Unions (NAFCU). During the meeting, credit union managers and volunteers complained about the burdens created by withholding-at-source. They also explained that, according to IRS' own study, taxpayer compliance runs at 96.7% when 1099 forms are prepared, as is the case with credit unions, banks and thrifts. By comparison, the government's own estimates indicate that substantial noncompliance has resulted from the Department of the Treasury's inability to police its own interest payments on T-bills, Series E bonds and the like.

While noncommital, Valis said that perhaps, only perhaps, the administration "may not have been all that thorough" in its research when it pressed for inclusion of withholding-at-source clauses in the tax bill. Consequently, he invited the association to represent its case to the administration.

Early indications are that NAFCU's arguments will be reconsidered by White House executives Ed Meese, Jim Baker and Wayne Valis and Secretary of the Treasury Donald T. Regan. It is not clear, however, when the White House will announce the results of its reconsideration.

Valis' appearance before the conference capped the four-day session in which many Republicans and Democrats from the Senate and the House pledged to support NAFCU's legislative goals of repealing withholding-at-source and amending the bankruptcy statute.

FEDERAL RESERVE SYSTEM

T-i-L & Reg. E Amendments Proposed

The Federal Reserve Board is asking for public comment on proposals to implement the Truth-in-Lending (T-i-L) amendments mandated by the Garn-St Germain Act.

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Open for 30 days of comment, the proposals would strike "arrangers of credit" from T-i-L, exempt certain student loans from coverage and reinsert two footnotes designed to safeguard creditors who make improper disclosures due to faulty tools they used to calculate the APR and finance charge. The proposals also would make technical changes to Reg. E (Electronic Fund Transfers) so that the rules properly cross reference provisions in revised Reg. Z (Truth-in-Lending).

Additionally, the proposals would revise the Fed staff commentaries on Regs. Z and E to reflect the Garn-St Germain Act amendments and to respond to new questions Fed staff had received on the rules. Staff said the proposed commentary changes "generally give creditors more flexibility in making disclosures, while preserving basic consumer protections."

Specifically, the board proposes to amend Reg. Z's section 226.2 by removing the definition of "arranger of credit" and striking "arrangers of credit" from the reg.'s definition of "creditor." Last February, the board decided to exempt from Reg. Z real estate brokers who arrange seller financing of homes, but the board said it would reconsider its action in early 1983 without further guidance from Congress on the proper way to handle arrangers of credit. With the Garn-St Germain Act, Congress responded by ordering as exempt all arrangers of credit.

For student loans, the proposal exempts from Reg. Z those loans made under Title IV of the Higher Education Act of 1965. Falling into this category are the Guaranteed Student Loan, Auxiliary Loans to Assist Students and National Direct Student Loan programs. If adopted, these changes would be made retroactive to Oct. 1, 1982, the date revised Reg. Z became mandatory for creditors.

As in the old Reg. Z, the proposed footnotes would not consider as a violation an error in the APR or finance charge that 1) stemmed from a corresponding error in a calculation tool used in good faith by the creditor, and 2) once the error was spotted, the creditor stopped using the faulty tool and told the board about it in writing.

[The board has eliminated these footnotes from revised Reg. Z, reasoning that they became unnecessary thanks to the revised rule's expanded "bona fide error" defense to civil suits, which says basically that the creditor isn't liable if the error was unintentional. After further consideration, though, the board wants to put the footnotes back in the rule. Said the board: "The amended act protects creditors for violations resulting from bona fide errors, even in the absence of footnotes. However, without the protection of footnotes, creditors could be subject to administrative enforcement, including restitution, for the same errors."]

Here is the Fed's brief description of its proposed changes to its Reg. Z commentary:

- <u>Section 226.2- Definition of Rules and Construction</u>

Comments 2(a)(3)-1 through 6 would be removed to correspond to the regulatory amendments that remove "arrangers of credit" from the "creditor" definition.

Comment 2(a)(17)(ii)-1 would be removed to conform the commentary to the regulatory amendments that implement the Garn-St Germain Act T-i-L amendments. The comment designations "Paragraph 2(a)(17)(iv)" and "Paragraph 2(a)(17)(v) would be redesignated "Paragraph 2(a)(17)(iii)" and "Paragraph 2(a)(17)(iv), respectively.

A sentence would be added to the paragraph under <u>1981 Changes</u> discussing "arranger of credit" indicating that the definition has been removed from the statute. This would reflect the Garn-St Germain T-i-L amendment.

- Section 226.3 - Exempt Transactions

Comment 3(f)-1 would be added to clarify which loan programs are administered under Title IV of the Higher Education Act of 1965. This comment corresponds to the regulatory amendment implementing the Garn-St Germain T-i-L amendments that exempt these loan programs from the regulation.

- Section 226.7 - General Disclosure Requirements

Comment 17(i)-1 would be amended to remove references to the Guaranteed Student Loan program and the PLUS program. These loan programs are administered under Title IV of the Higher Education Act of 1965 and are thus no longer covered under the statutory amendments exempting these programs.

Comment 17(i)-4 would be deleted. This comment addresses loan programs that are now exempt under the Garn-St Germain Act's T-i-L amendments. Comment 17(i)-5 would be redesignated comment 17(i)-4.

- Appendix H - Closed-End Model Forms and Clauses

Current comments H-17 through 20 would be removed as they reflect the approval under Section 113 of the act of student loan disclosure forms issued by the Department of Education. The loan programs to which the forms apply have been exempted from the regulation in the recent DIA amendments to the T-i-L Act.

Comment is also sought on proposed changes to the Fed's Reg. E staff commentary. The changes reflect redesignated sections in revised Reg. Z, and some also implement regulatory revisions the Fed adopted in October. The Reg. E provisions that relate to T-i-L cover issuance of access devices, liability for unauthorized transfers, documentation of transfers and procedures for resolving errors. The sectional references in these sections would be revised under the proposal to match the corresponding references in revised Reg. Z.

Comments should be mailed to William W. Wiles, secretary, Board of Governors of the Federal Reserve System, Washington, DC 20551.

T-i-L Laws in Three States Preempted

Arizona, Florida and Missouri creditors can abide by certain federal Truth-in-Lending laws instead of contradictory state laws, the Federal Reserve Board ruled last week. Creditors can follow either laws until Oct. 1, 1983, when the federal preemption becomes mandatory.

The action marks the first time the board under revised Reg. Z has substituted federal for state T-i-L laws. In doing so, the board also laid down three new principles Fed staff will use when reviewing state T-i-L laws, and gave the director of its consumer and community affairs division the authority to make preemption decisions.

Under the T-i-L Act, the board can preempt state T-i-L laws that are inconsistent with federal laws. According to Regulation Z (Truth-in-Lending), a state law is inconsistent and thus preempted if it significantly impedes the operation of federal law or interferes with the purpose of the statute. If the board deems the state law inconsistent, creditors in the state can't make disclosures using those provisions and must instead follow the federal law that applies.

In April, Arizona, Florida, Missouri and South Carolina applied to the board for preemption of certain state laws they believed contradicted federal T-i-L laws, and their applications were put out for comment (BR 4/12/82). [South Carolina has since withdrawn its application after the relevent provisions in its law were amended.]

Some of the 60 commenters, however, challenged Reg. Z's preemption standard as either overstepping the board's authority or as too imprecise. After reviewing the comments, the board opted to stick by Reg. Z's standard, but, while reviewing the three applications, came up with three new principles for determining if state law meets Reg. Z's standard. Fed staff will continue to use these principles when reviewing states' applications. The principls are:

- When uncertainty exists about whether a state requires the use of specific terminology in making state disclosures, it will be assumed the terminology used in the state law provisions is required. Reg. Z provides examples of contradictory state requirements involving required terminology. If state law requires the use of a term that is the same as the federally required term to represent a different amount or a different meaning in the federal law, it is considered contradictory and is preempted. Some commenters had questioned the Fed on whether state law actually requires the use of the specific terminology referred to in the statute. "In view of this uncertainty about the mandatory nature of state terminology," the Fed said, "the reference in Reg. Z to 'required terminology' should be interpreted broadly so that where state terminology differs from the federally required term, the state term is preempted."

- State disclosures that have no functional equivalent in the federal disclosure scheme and do not detract from or confuse the federal disclosures are not inconsistent with the federal act. This principle would preserve several state disclosures that are useful to creditors, staff said. Under Reg. Z, a state law is preempted if it specifies a different term than the federal law to describe the same item. With this principle, Fed staff is taking a more limited view of what constitutes the "same item" than was taken in the April proposal.

- A state law is preempted only in those transactions in which an actual inconsistency exists. After considering comments, the board decided that a state law should be preempted only in cases of actual contradiction, reasoning that this position "best fulfills the congressional purpose underlying the preemption provision, and will ease the burden on creditors and others in dealing with preemption determinations."

Also, the board decided that preempting one state's law won't have an effect on a similar provision in another state without formal board action. Fed staff said this is "the most practical approach" since it ensures a thorough review of each state's laws. A Fed staffer also cautions that, absent formal preemptive action by the Fed, creditors should comply with both federal and state T-i-L laws, even if they appear inconsistent. Failure to do so could make the creditors liable if the Fed later found the laws were consistent.

The board's preemption decisions for Arizona, Florida and Missouri all take effect Oct. 1, 1983 and are as follows:

Arizona:

- Section 44-287 B.5 - Disclosure of final cash balance. This provision is preempted in those transactions in which the amount of the final cash price balance is the same as the federal amount financed, since in such transactions the state law requires the use of a term different from the federal term to represent the same amount.

- Section 44-287 B.6 - Disclosure of finance charge. This provision is preempted in those transactions in which the amount of the finance charge is different from the amount of the federal finance charge, since in such transactions the state law requires the use of the same term as the federal law to represent a different amount.

• Section 44-287 B.7 - Disclosure of the time balance. The time balance disclosure provision is preempted in those transactions in which the amount is the same as the amount of the federal total of payments, since in such transactions the state law requires the use of a term different from the federal term to represent the same amount.

Florida:

• Sections 520.07(2)(f) and 520.34(2)(f) - Disclosure of amount financed. This disclosure is preempted in those transactions in which the amount is different from the federal amount financed, since in such transactions the state law requires the use of the same term as the federal law to represent a different amount.

• Sections 520.07(2)(g), .34(2)(g), and .35(2)(d) - Disclosure of finance charge and a description of its components. The finance charge disclosure is preempted in those transactions in which the amount of the finance charge is different from the federal amount, since in such transactions the state law requires the use of the same term as the federal law to represent a different amount.

• Sections 520.07(2)(h) and .34(2)(h) - Disclosure of total of payments. The total of payments disclosure is preempted in those transactions in which the amount differs from the amount of the federal total of payments, since in such transactions the state law requires the use of the same term as the federal law to represent a different amount than the federal law.

• Sections 520.07(2)(i) and .34(2)(i) - Disclosure of deferred payment price. This disclosure is preempted in those transactions in which the amount is the same as the federal total sale price, since in such transactions the state law requires the use of a different term than the federal law to represent the same amount as the federal law.

Missouri:

• Sections 365.070-6(9) and 408.260-5(6) - Disclosure of principal balance. This disclosure is preempted in those transactions in which the amount of the principal balance is the same as the federal amount financed, since in such transactions the state law requires the use of a term different from the federal term to represent the same amount.

• Sections 365.070-6(10) and 408.260-5(7) - Disclosures of time price differential and time charge, respectively. These are preempted in transactions where the amount is the same as the federal finance charge, since in such transactions the state law requires the use of a term different from the federal law to represent the same amount.

• Sections 365.070-2 and 408.260-2 - Use of the terms "time price differential" and "time charge" in certain notices to the buyer. In those transactions in which the state disclosure of the time price differential or time charge is preempted, the use of the terms in the Fed's notice also is preempted, but the notice itself isn't preempted.

• Sections 365.070-6(11) and 408.260-5(8) - Disclosure of time balance. The time balance disclosure is preempted in those transactions in which the amount is the same as the amount of the federal total of payments.

• Sections 365.070-6(12) and 408.260-5(9) - Disclosure of time sale price. This disclosure is preempted in those transactions in which the amount is the same as the federal total sale price, since the state law requires use of a different term from the federal law to represent the same amount.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

ASC Deposits Reach $55.3 Billion in Third Quarter

All Savers Certificate deposits in the nation's depository institutions as of Sept. 30, 1982 reached $55.3 billion, according to the exam council's latest report on ASC deposits. The September figures is up from $52.9 billion the exam council reported as of June 30, 1982.

As in previous quarters, federally insured savings and loan associations held the most ASC deposits, followed by national banks. Here is the breakdown, with the figures in billions of dollars:

	Sept. 30, 1982	June 30, 1982
National Banks	$13.0	$12.2
State Member Banks	2.8	2.7
Federally insured Nonmember Banks	7.8	7.5
Federally insured Mutual Savings Banks	5.9	5.7
Federally insured Savings and Loans	22.9	21.9
Federally insured Credit Unions	2.9†	2.9
TOTAL	$55.3	$52.9

†Amount at June 30, 1982. Federally insured credit unions report only for June 30 and Dec. 31.

SIDELIGHTS

* * * President Reagan is backing a new savings account aimed at encouraging parents to set aside funds for their children's education. In his Jan. 25 State of the Union speech, Reagan said establishing "Education Savings Accounts" will be a major education goal this year. Such accounts, he said, "will give middle- and lower-income families an incentive to save for their children's college education, and, at the same time, encourage a real savings for economic growth." Details are expected in the administration's proposed fiscal 1984 budget, which is slated for release today.

* * * The Vice President's task group on regulating financial services plans to seek public comment on restructuring the federal financial regulatory agencies. The request for comment will be published in the Federal Register in about a week.

* * * "Super NOW" accounts attracted about $8.3 billion in deposits during their first week on the market, according to preliminary Federal Reserve Board figures. But the ceiling-free checking accounts' debut failed to outshine that of Money Market Deposit Accounts, which the Fed said took in about $59 billion one week after their Dec. 14 introduction. Meanwhile, the Fed reports MMDA deposits continued to climb, reaching about $147 billion as of Jan. 12. Also, revised Fed figures show MMDAs did better than first reported for the week ended Jan. 5. Initially pegged at about $111 billion, the Fed now reports MMDAs drew $118 billion.

* * * Allowing bank holding company subsidiaries to sponsor mutual funds and underwrite revenue bonds is a Reagan administration priority for 1983, said Beryl Sprinkel, the Treasury Department's under secretary for monetary affairs. Speaking to the National Association of Federal Credit Unions last week, Sprinkel said isolating securities powers within a separate subsidiary "satisfies the components of competitive equity" while "insulating banks from the higher risks involved." The administration had tried, without success, to get such a plan inserted in Sen. Jake Garn's (R-UT) financial services reform package. However, Garn is expected to hold fresh hearings this year on securities powers for banks.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

January 19, 1983

MEMORANDUM FOR THE HONORABLE CRAIG L. FULLER
ASSISTANT TO THE PRESIDENT
FOR CABINET AFFAIRS

SUBJECT: Chrysler Request for Airplane

Attached you will find a copy of the letter I sent earlier this week to Lee Iacocca regarding an airplane. As you know the Loan Guarantee Board must approve this action.

Please be advised that Mr. Iacocca will get a fair consideration of his wishes.

Donald T. Regan

Attachment

1/19/83

Jim Baker

Here's Don's reply re Chrysler. The aircraft is ok but the fee is still a problem (see attached). I'll be hearing from Iacocca I'm sure.

82-18675

THE SECRETARY OF THE TREASURY
WASHINGTON

January 17, 1983

Dear Lee:

Thank you for your letter regarding Chrysler's proposals to reduce the guarantee fee and to acquire an aircraft.

My staff is preparing a recommendation for the Loan Guarantee Board to approve changes to the Agreement to Guarantee that will permit Chrysler to acquire corporate aircraft. We anticipate that Board action will be completed by early February.

As I indicated to you in my letter of May 26, 1982, the Board will review the risk portion of the guarantee fee after Chrysler has achieved "two consecutive quarters of significant operating profits." The Board has not changed its position. ? While Chrysler's progress in many areas has been laudable, market conditions have not been such that a return to consistent earnings has been attainable. The result is that Chrysler has not yet met the Board's operating profit criteria. We would all hope that the long-awaited recovery in automobile sales materializes in 1983, and that Chrysler benefits with sustained profits which the Board would then take into consideration in evaluating a change in the fee.

With best wishes.

Sincerely,

Don

Donald T. Regan

Mr. Lee A. Iacocca
Chairman of the Board
Chrysler Corporation
Detroit, Michigan 48288

This is Roger Mehle. His staff reportedly had other options but Roger won't give an inch!

CE

82-18675

CHRYSLER
CORPORATION

LEE A. IACOCCA
CHAIRMAN OF THE BOARD
CHIEF EXECUTIVE OFFICER

December 15, 1982

The Honorable Donald T. Regan
Secretary of the Treasury
Washington, D.C. 20500

Dear Don:

After several months of difficult negotiations, we have finally concluded a fair and reasonable agreement with our U.S. and Canadian unions. I would have preferred a two-year agreement, but the union demands for a second year were so high I decided to settle for a thirteen-month contract.

As discussed with you, on maybe too many occasions, the present procedure for the use of aircraft by our top management people has been especially burdensome. Therefore, I would like to ask your consideration in rescinding the current Aircraft Procedure Memorandum, dated April 1, 1981. Obviously, we will continue to apply prudent business judgment in the use of any aircraft. I hope you and the rest of the Board will honor this request, and I will wait to hear from you directly.

I would be most appreciative if you would also take a look at our request for a fee reduction which we submitted on November 9, 1982. This extra half percent is still costing us $500,000 a month.

I appreciate your personal involvement in these matters and hope to hear from you soon.

Happy Holidays to you and your family.

Sincerely,

Lee.

DETROIT, MICHIGAN 48288