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COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D. C. 20500

~~MARTIN FELDBSTEIN, CHAIRMAN~~
WILLIAM A. NISKANEN
WILLIAM POOLE

July 23, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: WILLIAM A. NISKANEN *WAN*
SUBJECT: GNP in the First and Second Quarters

This morning at 8:30 a.m. the Commerce Department will release revised estimates of the GNP in the first quarter and preliminary estimates for the second quarter.

The news is spectacularly good. Real GNP is now estimated to have increased at a 10.1 percent annual rate in the first quarter and at a 7.5 percent rate in the second quarter. Moreover, the composition of output is encouraging. Real final sales (less transactions by the payment-in-kind program) increased at a 4.0 percent rate in the first quarter and at a 8.3 percent rate in the second quarter. Business fixed investment and exports continued to increase at a rapid rate; business inventories and imports increased at a slower rate.

The rate of inflation (as measured by the GNP deflator) is now estimated to have been 4.4 percent in the first quarter and 3.2 percent in the second quarter, up slightly from the prior estimates.

We have every reason to express pleasure (and take credit) for these conditions. The concern that high real growth leads to increased inflation has no basis in either theory or evidence. The rate of growth of the money supply should be reduced gradually to avoid an increase in the future inflation rate but, for the moment, there is no reason to be concerned about general economic conditions or monetary policy.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D C 20500

~~MARTIN FELDESTEN, CHAIRMAN~~
WILLIAM A. NISKANEN
WILLIAM POOLE

July 18, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: WILLIAM A. NISKANEN *WAN*
SUBJECT: HOUSING STARTS IN JUNE

This morning at 8:30 a.m. the Commerce Department will release data on housing starts and building permits in June.

More good news. Housing starts in June were at a 1.900 million seasonally adjusted annual rate, up 6.4 percent from the (revised) 1.785 million rate in May. The April rate was also revised up to 2.015 million. The increase in housing starts was strongest in buildings of 5 or more units and in the northeast and north-central regions.

Building permits were issued at a 1.776 million seasonally adjusted annual rate in June, about equal to the average rate since the beginning of the year.

The continued strength of housing, despite high real interest rates, reflects in part the 1981 reduction of the depreciable lives on commercial structures and the availability of new financial instruments such as adjustable rate mortgages.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 6, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN *MF*
SUBJECT: Employment and Unemployment

Today's news about unemployment is spectacular: another 0.4 percent decline bringing the overall unemployment rate to 7.0 percent in June and the civilian unemployment rate to 7.1 percent.

Household employment rose 460,000, bringing the cumulative rise to 6.7 million in the past 19 months.

This is the first time since the Kennedy Administration that a presidential term has seen a fall in both unemployment and inflation.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 29, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: Geoffrey Carliner
(Martin Feldstein is traveling)

SUBJECT: Housing Sales

This morning at 10:00 a.m. the Commerce Department will release figures on the number of new one-family homes sold in May.

New home sales in May were down 4 percent from April to an annual rate of 612,000 units. This is the third monthly decline in a row.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 29, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: Geoffrey Carliner
(Martin Feldstein is traveling)

SUBJECT: Leading Indicators for May

This morning at 8:30 a.m. the Commerce Department will release the Index of Leading Indicators for May.

Leading indicators declined by 0.1 percent in May, compared with an increase of 0.5 percent in April. The May number is subject to revision, and does not indicate the end of the expansion. It does suggest that the economy is cooling off from the rapid pace of growth earlier this year.

The index of coincident indicators rose by 0.5 percent in May, compared with a rise of 0.9 percent in April. This index also suggests that growth is moderating, and should reassure those worried about future inflation.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D. C. 20500



MARTIN FELDSTEIN, CHAIRMAN
WILLIAM A. NISKANEN
WILLIAM POOLE

June 28, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: William A. Niskanen **WAN**
(Martin Feldstein is travelling)

SUBJECT: Merchandise Trade in May

This morning at 8:30 a.m. the Commerce Department will release data on U.S. merchandise exports and imports in May.

Exports increased 2.4 percent to \$17.9 billion. Imports declined 9.8 percent to \$26.8 billion. A substantial decline in petroleum imports accounted for most of the decline in total imports. The trade deficit declined from \$12.2 billion in April to \$8.8 billion in May, the lowest level this year.

This change in trade conditions, unless sharply reversed in June, is likely to increase real GNP during the second quarter relative to the "flash" estimate released last week.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 22, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: William Poole *W.P.*
(Martin Feldstein is travelling)

SUBJECT Consumer Price Index

This morning at 8:30 a.m. the Department of Labor will release the Consumer Price Index for May.

The CPI in May was 0.2 percent above its level in April. At a compound annual rate the CPI rose 3.6 percent over the last three months and 4.2 percent over the last 12 months.

The May CPI report confirms the picture of well-controlled inflation indicated by the recent reports on the Producer Price Index for May and the flash report on the GNP price deflator in the second quarter.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 22, 1984

MEMORANDUM FOR THE WHITE HOUSE SENIOR STAFF

FROM: William Poole *W.P.*
(Martin Feldstein is travelling)

SUBJECT: Advance Durable Orders for May

This morning at 8:30 a.m. the Department of Commerce will release its Advanced Report on Durable Goods Manufacturers' Shipments and Orders for May.

Durable goods orders in May rose 3.3 percent from April, reversing much of the April decline from March. Durable goods shipments rose 2.6 percent in May.

Durable goods orders other than defense rose 4.3 percent in May indicating that the May increase in total orders was not due to the volatile defense goods component.

Durable goods orders often fluctuate from month to month, and the Advance Report is subject to considerable revision. Subject to these qualifications, the May orders data suggest that the economic expansion is continuing at a healthy pace.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 20, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN
(Dictated while traveling)

SUBJECT: GNP in the First and Second Quarters

This morning at 8:30 a.m. the Commerce Department will release revised figures of the GNP in the first quarter and the preliminary flash estimates for the second quarter.

Real growth for the first quarter has been revised up to an astounding 9.7 percent. Inflation (as measured by the GNP deflator) in the first quarter has been revised up slightly to 3.9 percent. A better measure of the pace of final demand is the increase in final sales excluding the operation of the Commodity Credit Corporation. This measure showed a rise of 4.9 percent, the same as in the final quarter of 1983.

The flash estimate for the second quarter is based on preliminary figures and is subject to substantial revision. It is nevertheless significant that the flash estimate indicates real growth at 5.7 percent and inflation of only 2.8 percent. This is certainly an excellent performance for the second quarter. Final sales excluding the operation of the Commodity Credit Corporation rose a very strong 6.8 percent in the second quarter, up substantially from the rate of the two previous quarters.

These figures should be greeted as very good news, but the sharp rise of real demand and output in both quarters will cause increased concern that the speed of recovery may be too fast to be consistent with continued good inflation performance. We should hope that real growth will slow somewhat in the next two quarters before the pressure of demand begins to raise inflation.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D. C. 20500

MARTIN FELDSTEIN, CHAIRMAN
WILLIAM A. NISKANEN
WILLIAM POOLE

June 19, 1984

MEMORANDUM FOR THE WHITE HOUSE SENIOR STAFF

FROM: William Poole *William Poole*
(Martin Feldstein is traveling)

SUBJECT: Housing Starts and Building Permits in May

This morning at 8:30 a.m. the Department of Commerce will release figures on housing starts and building permits in May.

Total housing starts in May were 1.782 million, down from 1.990 million in April. This series tends to be erratic; with the exception of the 2.3 million starts in February, starts have fluctuated in the 1.6 to 2.0 million range since the middle of 1983.

Building permits in May were 1.623 million, down from 1.838 million in April.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON D C 20500

MARTIN FELDSTEIN, CHAIRMAN
WILLIAM A. NISKANEN
WILLIAM POOLE

June 19, 1984

MEMORANDUM FOR THE WHITE HOUSE SENIOR STAFF

FROM: William Poole *William Poole*
(Martin Feldstein is traveling)

SUBJECT: Personal Income and Outlays in May

This morning at 8:30 a.m. the Department of Commerce will release figures on personal income and outlays for May.

Personal income in current dollars rose by 0.6 percent in May, while disposable income in current dollars rose by 0.5 percent. Disposable income is now 10.6 percent above its May 1983 level.

Personal consumption expenditures, also in current dollars, rose 1.1 percent in May compared to an upward revised 1.6 percent increase in April. The saving rate in May was 5.2 percent. The saving rate has averaged 5.7 percent for the first five months of this year compared to 4.9 percent for all of 1983.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 22, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN



SUBJECT: Advance Durable Orders for April

This morning at 8:30 a.m. the Commerce Department will release its preliminary estimate of durable goods orders in April.

Orders for durable goods fell on a broad front, declining 6.4 percent between March and April. However, the decline was concentrated in defense goods; without defense, the decline was only 2.2 percent. This is a very volatile series and the significance of a single month's decline is very limited.

THE WHITE HOUSE

WASHINGTON

June 7, 1984

MEMORANDUM FOR MARTIN FELDSTEIN

FROM: Larry Speakes

This morning's London Financial Times carried the following story on its front page:

"Mr. Martin Feldstein, chairman of President Reagan's council of economic advisers, said yesterday that short-term U.S. interest rates were likely to rise over the next six months. His forecast contrasts sharply with the reassuring outlook which the Reagan Administration has been predicting prior to the London economic summit which starts today..."

This has caused major repercussions from a press standpoint, and is most certain to be raised between heads of state and government at the President's meetings at the Economic Summit.

The President was asked about it by the press this morning during a photo session with Prime Minister Nakasone. The President's reply was:

"Possibly he's wrong. Well, as I've said, they are volatile. There could be fluctuations. But I believe that over the long-range they are coming down." Reagan was asked if he still felt rates would be coming down this summer, and he replied, "I'm going to stick with that prediction."

The content and timing could not be more ill-advised for the President, the Administration, and the U.S. Government during these critical meetings with our Allies.

cc: James Baker ✓

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 22, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN 

SUBJECT: Consumer Price Index

This morning at 8:30 a.m. the Department of Commerce will release the Consumer Price Index for April.

Inflation continues to creep up slowly. The price increase between March and April was 0.5 percent, or an annual rate of increase of 5.6 percent. The rise since last April has been 4.5 percent.

A sharp increase in energy prices (0.7 percent) contributed to this month's performance but even without energy the price index rose 0.4 percent.

I think this shows the importance of remaining careful not to allow demand to increase too rapidly in the months ahead.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 18, 1984

MEMORANDUM FOR THE WHITE HOUSE SENIOR STAFF

FROM: Martin Feldstein
(dictated while travelling)

SUBJECT: First Quarter GNP Revisions

This morning at 8:30 a.m. the Commerce Department will release the second revision of its estimate of GNP growth for the first quarter.

The Commerce Department now estimates that real GNP grew at an annual rate of 8.8 percent in the first quarter, up from their previous estimate of 8.3 percent. The Commerce estimate of growth in final sales was revised down from 3.6 percent to 3.2 percent. This indicates that increases in inventories absorbed much of the growth in GNP.

Inflation, as measured by the GNP deflator, was revised down from 4.1 percent to 3.7 percent.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 16, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: Martin Feldstein
(dictated while travelling)

SUBJECT: Housing Starts in April

This morning at 8:30 a.m. the Commerce Department will release figures on housing starts in April.

Housing starts in April rose to an annual rate of 1.96 million, an increase of over 19 percent from March. Housing permits remained almost constant at 1.7 million units. This sector of the economy shows little evidence of slowing down.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 15, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN
(Dictated while traveling)

SUBJECT: Industrial Production

This morning at 9:30 a.m. the Federal Reserve Board will release industrial production figures for April.

Total industrial production rose by 1.4 percent between March and April, the biggest monthly rise since January. (Note that this is a one month rise and corresponds to an annual rate of almost 18 percent.) All major categories of industrial production expanded at similar rates.

These figures confirm the evidence that you have already seen in the April figures for employment and retail sales that the economy continued to expand at a rapid rate in April.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 11, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN
(Dictated while traveling)

SUBJECT: Producer Prices and Advanced Retail Sales

This morning at 8:30 a.m. the Department of Labor will release the Producer Price Index for April. The news is very good. There was no change at all in the level of prices for finished goods. Food prices declined 0.6 percent and energy prices rose 0.7 percent. With food and energy excluded, the price index rose only 0.1 percent.

In a separate release at 8:30 a.m. the Commerce Department will announce its preliminary estimates of retail sales in April. The news here is also very good. Retail sales rose a strong 2.9 percent, more than offsetting the decline of 2.0 percent that occurred between February and March. Durable goods also rose 5.2 percent, nearly offsetting the 5.3 percent decline that occurred last month. The sales of nondurable goods rose by 1.7 percent.

Both of tomorrow's releases confirm that the economy is proceeding on the type of path that we would like with solid expansion of economic activity and with essentially stable prices.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

1984 MAY -8 PM 5: 21

May 8, 1984

Dear Mr. President:

As I told you when you first asked me to serve as Chairman of the Council of Economic Advisers, Harvard University has an absolutely inflexible rule limiting leaves of absence to two years. In order to have adequate time to prepare for my teaching before the September term begins, I would like to leave my position on July 10th. By that date I will have completed my work for the midsession budget review.

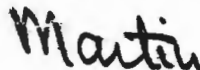
Although I look forward to my return to research and teaching, I am very sorry that I cannot stay for another year to work with you on your post-election economic program. I would be pleased to help you and my successor and other members of the Administration in any way that I can.

It has been a great honor for me to serve as Chairman of your Council of Economic Advisers and a great pleasure to be able to work closely with you. In the past three years, you have changed the course of America's economic history. Inflation is down sharply and monetary policy is following a course that should prevent a return to increasing inflation. The reduction in government domestic spending that you have achieved distinguishes your Administration from any that has come before. The 1981 Tax Act not only reduced high distortionary tax rates but specifically strengthened incentives for saving and investment.

All of these accomplishments reflect your personal vision of a good society: low inflation, a less intrusive government, less burdensome taxation, and maximum scope for the potential contribution of the free market. I am proud to have been associated with you in your pursuit of these economic goals.

I know that the achievements of your first term will be preserved and extended in your next four years. Thank you for giving me the opportunity to work with you and thank you for all that you are doing for our country.

Sincerely,



Martin Feldstein

The President
The White House
Washington, DC

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

1984 MAY -8 PM 5: 21

May 8, 1984

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Sincerely,



Martin Feldstein

The President
The White House
Washington, DC

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 18, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM:

MARTIN FELDSTEIN *MF*

SUBJECT:

Personal Income and Outlays for March


This morning at 8:30 a.m. the Commerce Department will release information on personal income and outlays for March.

The March figures show that the expansion is indeed continuing at a desirably moderate pace. Personal income rose 0.5 percent between February and March, down from the 0.7 percent increase in February. Personal consumption expenditures rose 0.4 percent in March, after falling 1.0 percent in February and rising 1.8 percent in January. The rise in personal consumption expenditures does not have any adjustment for inflation. Presumably, when the price deflator becomes available, we will see that the real increase in personal consumption expenditures was lower than 0.4 percent. I expect that consumer spending will rise at a more rapid rate during the rest of the year but not so rapid that it creates serious problems for inflation.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 6, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN 

SUBJECT: Employment and Unemployment for March

This morning at 8:30 a.m. the Department of Labor will release the employment and unemployment figures for March.

There was no change in the unemployment rate between February and March. The unemployment rate for all workers remained at 7.7 percent and for all civilian workers at 7.8 percent.

The number of people looking for work and the number of people employed both increased. There was a rise of 248,000 people at work according to the household survey. This brings the rise in employment to 5.1 million since the upturn began. This is the first month in which we have passed the 5 million mark.

I think the financial markets will regard the employment figures as an indication that the rapid pace of recovery has slowed to a more manageable level.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 29, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN *MF*
SUBJECT: Leading Indicators for February

This morning at 9:30 a.m. the Department of Commerce will release leading indicators for February.

The indicators continue to point to expansion. The Index of Leading Indicators rose 0.7 percent between January and February, with five of the components increasing, four decreasing, and one remaining unchanged.

The Commerce Department has also revised the previous decline in November 1983 to an "unchanged" for that month. That means that the Index of Leading Indicators has not declined since August 1982, a very impressive record.

The Index of Coincident Indicators rose 0.9 percent between January and February, showing that the recovery in the first quarter has indeed been progressing at a strong pace.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 29, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN 
SUBJECT: Housing Sales for February

This morning at 10:00 a.m. the Department of Commerce will release figures on the number of new one-family homes sold in February.

The figures show continued improvement. 721,000 houses were sold in February (at a seasonally adjusted annual rate), up 8 percent from January's 669,000 rate. The February level is 22 percent above the level of a year ago.

The continued increase in sales should help to sustain the recent increase in housing starts.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 22, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN *MF*
SUBJECT: Durable Goods Orders for February

This morning at 8:30 a.m. the Commerce Department will release advance information on durable goods orders for February.

These preliminary estimates of new orders for durables are very volatile. It is therefore not a cause for concern that there was a slight decline between January and February. Even with this decline the February figures are well above those of December. Moreover, the financial markets will be relieved to see some evidence of a slowdown.

More specifically, total durable orders fell by 1.2 percent between January and February after rising by 2.8 percent between December and January. Nondefense orders for durable goods fell by 1.6 percent between January and February after rising by 5.5 percent between December and January.

The level of durable goods shipments is essentially unchanged. Shipments are still running below the level of new orders, indicating that firms are developing bigger order backlogs. The increase in order backlogs is an indication that production and employment will continue to rise in the months ahead.



MALCOLM BALDRIGE ... no "overheating" if estimate is right.

'Flash' Rate Put at 7.2% GNP Expansion Accelerates

By John M. Berry
Washington Post Staff Writer

The economy is expanding at a surprisingly strong 7.2 percent annual rate in the current quarter, the Commerce Department reported yesterday, but Reagan administration officials insisted that the economy is not "overheating" and that inflation dangers remain low.

Most forecasters had predicted that the gross national product, adjusted for inflation, would rise at about a 6 percent rate or less this quarter, rather than the seasonally adjusted 7.2 percent rate indicated by Commerce's "flash" estimate issued before the end of the quarter March 31. The department also reported that GNP rose at an annual

rate of 5 percent in the fourth quarter of 1983, which represented a small revision of its earlier figure.

Only a few months ago, administration officials and private economists alike were welcoming the slower economic growth in the fourth quarter with the expectation that it would make the expansion more sustainable. Now the officials are still predicting slower growth ahead and arguing that the new upward surge has done little if any damage on the inflation front.

However, the speedup in GNP growth, coupled with other strong statistics recently, may put more pressure on the Federal Reserve to tighten credit conditions to slow the

See ECONOMY, A10, Col. 1.

Media Lose Libel-Law Cases

The Supreme Court rules that libel plaintiffs may file in the most advantageous jurisdiction and that newspaper reporters and editors may be forced to travel to respond to the suits.

Details on Page A2.

Mine Damages Soviet Tanker

A mine, apparently placed by U.S.-backed rebels, damaged a Soviet tanker delivering oil to the Nicaraguan port of Puerto Sandino, officials in Managua announced.

Details on Page A19.

Economy Expands Strongly in Quarter

ECONOMY, From A1

pace of the expansion and head off any significant increase in inflation. The Fed's policy-making group will meet next week to set a course for the next two months.

Major banks raised their prime lending rate from 11 percent to 11½ percent on Monday and money market interest rates continued to rise yesterday.

Analysts said the rapid economic expansion is increasing the need for credit while the Fed apparently is not fully accommodating the increased demand for funds. As a result, interest rates are going up and are likely to continue to do so until the recovery slows down, the analysts said.

Meanwhile, there has been some increase in inflation. The Commerce report said that the GNP implicit price deflator is running at a 4.4 percent rate this quarter, compared with a revised 3.9 percent rate in the fourth quarter of 1983 and a 3.6 percent rate in the third quarter. A separate fixed-weighted price index, which is not affected by changes in the composition of output, is going up at a 5.1 percent rate this quarter compared with a 4.2 percent rate in the previous three months.

The department blamed higher food prices for most of the increase in inflation.

Commerce Secretary Malcolm Baldrige said the 7.2 percent growth rate

"reflects a temporary acceleration in the pace of the economic expansion. If this projection is realized, it does not mean that the economy is showing signs of overheating."

Martin S. Feldstein, chairman of the Council of Economic Advisers, offered a similar assessment. "I'm not worried about overheating at this time," he said. "A large part of the increased output is going into inventory accumulation and price pressures remain under control."

A White House statement noted the unusually strong beginning for the second year of a recovery—in only one other instance since World War II was it as strong—but stressed, "We do expect some slowing in the second quarter, as the recovery settles down to a sustainable level."

"Recent gains in industrial production, retail sales and housing starts show the underlying strength of the economy," the White House statement continued. "At the same time we see moderating influences in the continued low level of inflation, and a slowing of growth in personal income. All of these indicators are consistent with a steady course of non-inflationary growth."

A number of private economists were less sanguine. "It's a good news-bad news situation," observed Edward Yardeni, chief economist at Prudential-Bache Securities, Inc. "The good news is that the economic expansion is still on a roll. But

the bad news is that this is increasingly starting to look like a boom-bust economy. The boom is generating large increases in private credit demand which, in combination with the government's borrowing needs, is pushing up interest rates."

The Commerce report, which is based on incomplete data and subject to later revision, said both final sales and business inventory investment are increasing substantially this quarter. The department, as usual, provided few details of the "flash" estimate other than GNP totals and the inflation rates, which show current-dollar GNP reaching a \$3.5 trillion annual rate this quarter.

Economist Roger Brinner of Data Resources Inc., an economic forecasting firm, said the "mid-winter boom" will lift GNP growth this year more than expected.

Secretary Baldrige, on the other hand, argued that part of this quarter's growth is the result of consumers making some purchases they postponed making in December because of bad weather, and of a bunching of auto production, which is slated to decline this spring. "We see no reason to change the administration's 4.5-percent growth estimate for the year," he declared.

The 5 percent rate of increase in real GNP in the fourth quarter reported yesterday was an upward revision from the 4.9 percent estimated earlier. The "flash" figure for the quarter was 4.5 percent.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 20, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: Martin Feldstein *MF*

SUBJECT: GNP Flash

This morning at 8:30 the Commerce Department will release the "flash" estimate of GNP growth in the first quarter. Revised figures for the fourth quarter of 1983 will also be released.

The figures show continued strength in the economy. Real GNP is estimated to be rising at a rate of 7.2 percent in the current quarter. In only 1 of the 7 previous postwar recoveries did the second year start off this strong.

The rate of inflation is up to 4.4 percent, still very good and below our estimate of 5 percent for the year as a whole.

The revisions for the fourth quarter are quite small: real GNP growth is revised up from 4.9 percent to 5.0 percent and the GNP inflator is revised down from 4.2 percent to 3.9 percent.

In addition to those numbers, there are other important figures that give an indication of the pace of activity but that are not released publicly by the Commerce Department. The most interesting of these measures of activity is labeled "final sales, excluding the Commodity Credit Corporation." This is equivalent to GNP except for (1) additions to inventories and (2) sales by farmers to the CCC. This number is thus a good measure of demand by households, businesses, and ordinary government agencies. It was originally reported as rising at a 5.8 percent rate in the fourth quarter of 1983. That has now been revised to a 4.9 percent rate. The same 4.9 percent rate is now estimated for the first quarter of this year.

The "final sales excluding CCC" is important because it shows that the economy is not heating up as fast as the 7.2 percent GNP rise might imply.

It's important to remember also that the "flash" is a very preliminary number that can be revised substantially if March is not like January and February.

At a 7.2% Rate In First Quarter

Rise Up to 6.5% Was Forecast;
Firms' After-Tax Profits
Slipped 0.8% in 4th Period

By ALAN MURRAY

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON—The economy is bounding ahead at a 7.2% annual rate in the first quarter after adjustment for inflation, the Commerce Department said.

That is well above the revised 5% rate for the growth of the gross national product, the value of the nation's output of goods and services, in the fourth quarter of 1983. And it is above the 6% to 6.5% growth that most economists were anticipating for this quarter.

The department also said that corporate after-tax profits dropped 0.8% in the fourth quarter of 1983 from their high third-quarter levels.

The 7.2% "flash" GNP estimate is the first official government estimate of the first-quarter growth in the gross national product, after adjustment for inflation. It is based on preliminary numbers and subject to large revisions.

The department said the flash figure reflected large increases in both final sales and inventories, while a substantial decline in net exports kept the growth figure from being even higher.

Many private analysts have said that the economy is growing too rapidly, causing interest rates to rise and raising fears of renewed inflation.

'Sign of Overheating'

"I read the GNP figure as a sign of overheating," said Michael Evans, a Washington economic consultant. "Consumers may be beginning to pull in their horns a bit, but businessmen are still going flat out."

"It's a good news-bad news situation," agreed Edward Yardeni, chief economist for Prudential-Bache Securities. "The good news is that the economic expansion is still on a roll. But the bad news is that this is increasingly starting to look like a boom-bust economy. The boom is generating large increases in private credit demand, which in combination with the government's borrowing needs is pushing up interest rates."

Mr. Yardeni said that he wouldn't be surprised to see the prime rate rising to 13% by early next year; the rate was boosted to 11½% from 11% Monday. Such high interest rates could choke off the recovery, he said.

Government officials presented a much more sanguine view of the economy.

December's Weather Cited

Commerce Secretary Malcolm Baldrige said that the 7.2% growth rate "does not mean the economy is showing signs of overheating." He said part of the growth in sales, construction and production was "shifted" from December, when unusually bad weather put a damper on economic activity. And he said that another part of the growth was being "borrowed" from the second quarter. New-car assemblies are rising an estimated 17% in the first quarter, he said, in part to compensate for auto makers' plans to close some plants during the second quarter to retool for new models.

Martin Feldstein, presidential economic adviser, also played down the strong GNP number. He said that the increase largely reflected a big gain in farm inventories, following a decline in the fourth quarter. The government's "payment-in-kind" program, under which farmers receive surplus government stocks in exchange for idling land, has made farm-inventory accounting difficult in recent months.

"I'm not worried about overheating at this time since a large part of the increased output is going into inventory accumulation, and price pressures remain under control," Mr. Feldstein said.

The economic adviser also said that he didn't see any reason for the Federal Reserve to change its current policy. Assuming that the central bank will hit its target of 6% growth in the money supply for the rest of the year, "the implication is the kind of nominal GNP growth we have forecast," he said. The administration has forecast nominal GNP growth, which isn't adjusted for inflation, of about 9.8% during the year, with 4.5% inflation-adjusted growth.

Secretary Baldrige also said he saw "no reason to change the administration's 4.5% growth estimate for the year."

After-tax corporate profits were somewhat weaker than expected in the fourth quarter, dropping 0.8% from the third quarter to \$142.9 billion. But many analysts said

that the figure understates corporate performance in the quarter. Accelerated depreciation schedules enacted in the 1981 tax bill have enabled companies to write off their investments more quickly than before. That depresses book profits, on which taxes are based. But it increases corporate cash flow, and the ability of corporations to finance investments internally. The effect of the accelerated depreciation has grown each quarter as businesses accumulate investment that is eligible for accelerated depreciation.

A more appropriate measure of corporate profits, many analysts agree, is profits from current production, which increased a strong 7.9% in the fourth quarter from the third quarter. That measure includes pre-tax profit, with adjustments for changes in inventory value and capital consumption.

The capital-consumption adjustment in the fourth quarter was a record \$46.2 billion. That adjustment results from converting the tax-based depreciation for plant and equipment into a more standard depreciation. Many analysts said that the figure represents the untaxed gains that companies are enjoying as a result of accelerated depreciation.

The 0.8% decline in after-tax profits followed a 13.3% increase in the third quarter to \$144.1 billion. After-tax profits in the 1982 fourth quarter were \$113.5 billion.

Book profits before taxes fell 0.4% in the fourth quarter to \$228.1 billion, after rising 12.7% in the third quarter to \$229.1 billion. Pre-tax profits in the 1982 fourth quarter totaled \$167.5 billion at an annual rate.

Profits from current production were up from \$248.4 billion in the third quarter, which was 13.8% above the second-quarter level. In the 1982 fourth quarter, this measure totaled \$161.9 billion.

The department also said that a GNP-based price measure rose 4.4% in the quarter, compared with a revised 3.9% increase in the fourth quarter. The department previously estimated that fourth-quarter prices rose 4.2%.

The 5% inflation-adjusted growth rate in the fourth quarter was revised from a 4.9% rate previously reported. The revision was based on higher-than-reported inventories and consumption expenditures, but net exports were lowered another \$3.5 billion.

Before inflation adjustment, GNP is estimated at an annual rate of \$3,535 trillion in the first quarter, up from \$3,436 trillion in the fourth quarter of 1983.

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AND TELEVISION PROGRAM TO "NBC NEWS' MEET THE PRESS".

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

Sunday, March 18, 1984

12:30 P.M., Washington, D. C.
(Live)

Feldsted
Pages 6, 8, 9

GUEST: REPRESENTATIVE JIM WRIGHT (D., Texas)
House Majority Leader

PANEL: Bill Monroe - NBC News
Martin Tolchin - New York Times
Gloria Borger - Newsweek
Robert Novak - The Chicago Sun Times

Moderator: Marvin Kalb - NBC News

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MEET THE PRESS

MR. KALB: Our guest today on MEET THE PRESS is Congressman Jim Wright, Democrat of Texas and Majority Leader of the House of Representatives. Mr. Wright's political star seems to be on the ascendency. If Speaker Tip O'Neill retires, Mr. Wright may become the next Speaker of the House. And if the Democratic presidential candidate needs help in Texas this year, Mr. Wright may even be selected as a vice presidential running mate. In any case, there's a lot of informed talk about Jim Wright.

Our reporters today are Robert Novak, of the Chicago Sun-Times; Gloria Borger, of Newsweek; Martin Tolchin, of The New York Times; and to open the questioning, our regular panelist, Bill Monroe, of NBC News.

MR. MONROE: Congressman, I'd like to ask your expectations on three legislative subjects. President Reagan's \$150 billion plan to cut deficits by that much over three years, will House Democrats go along with that?

REP. WRIGHT: House Democrats will do much more than that. We applaud the effort; we think it's positive and constructive, but not nearly enough. It represents only an \$11 billion so-called down payment on the \$200 billion deficit for 1985. We think that's an inappropriate term. It doesn't even pay the interest on that deficit, let alone amount to a down payment. We think we have to do substantially more than that.

MR. MONROE: Second subject: President Reagan's urgent request for emergency military aid to El Salvador and to the Nicaraguan rebels. Will House Democrats go along with those two requests?

REP. WRIGHT: I think you have to divide those two requests. I believe there is a disposition on the part of most Democrats in the House to support the elected government of El Salvador. And I'll be going at the invitation of our State Department to observe those elections next Saturday and Sunday.

On the other hand, I don't believe that most Democrats support the idea that we ought to spend taxpayers' money starting a war or supporting people whose avowed aim is to overthrow another government in the hemisphere. That applies to Nicaragua, however distasteful that government may be to us. We don't believe that it's our bound and duty to overthrow that government, nor to conspire in its overthrow.

MR. MONROE: Third subject: If the amendment for organized, vocal school prayer passes the Senate this week, what will happen to it in the House?

REP. WRIGHT: If that amendment passes the Senate, it will be scheduled for action in the House. It will come up in -- in due course, and I should suggest rather soon. There is absolutely no disposition on the part of any of the leadership of the House to delay it. There will be the opportunity for every member of the House to express his or her will.

MR. MONROE: Do you think the Senate -- the House will vote on it?

REP. WRIGHT: If the Senate adopts it by a two-thirds margin, the House very definitely will vote on it.

MR. KALB: Thank you, Mr. Wright. We'll be back with more

questions for Congressman Jim Wright.

(Announcements.)

MR. KALB: Our guest on MEET THE PRESS, the House Majority Leader, Jim Wright. We'll resume the questioning with Mr. Tolchin.

MR. TOLCHIN: Mr. Wright, as you know, Rep. Fred St. Germain, the Chairman of the House Banking Committee, has announced that he plans to hold hearings on banking deregulation after finding that many of the banks favor the affluent at the expense of the poor. Senator Mark Andrews has already held field hearings on airline deregulation and contends that travelers from Bismarck to Chicago subsidize travelers from New York to Los Angeles. Congressman Al Gore finds that in rural Tennessee some poor farmers have to choose between keeping their telephone and eating three meals a day.

Is there an increasing congressional concern on the impact of deregulation?

REP. WRIGHT: Yes, there is. It's a growing concern, I'd say, Mr. Tolchin. Deregulation sounded good superficially. In fact, it just hasn't worked out well in practice.

I am very deeply alarmed by the rapid mergers occurring in the banks, the pace at which individually owned, small town, locally owned and operated banks are just absolutely going out of the picture. When I was young, the local banker was the catalyst who helped many young Americans get a toehold on the road to progress or recovery or economic security. He knew them, he cared about them, he knew how much debt they could manage and maintain, he knew something of their integrity, he wanted to help. Now, increasingly, even small town

banks and surely the big town banks have been gobbled-up by fewer and fewer conglomerates, where the decision-making power is remote and aloof and nowhere that the individual borrower can find it. It's -- It's very cold and I think very counterproductive to the kind of a society that we've always had. Maybe it's one reason why we have the greatest number of business failures, small business failures last year.

In airlines, we have seen the much-heralded idea of deregulation which was supposed to result in more competition have just the reverse effect. Several airlines have gone bankrupt, gone out of the competitive field. Many medium-sized communities throughout America have lost their service entirely. And the rates, rather than going down, have gone up precipitously. So, instead of its creating more competition, it has intensified the stranglehold of monopoly.

I worry about that in the oil industry. I worry about it across-the-board. I don't want to get to the point where like the automobile industry and each of our big industries of America upon which the people depend there would be only three, and one of them would be coming to the government for a bailout.

MR. TOLCHIN: Do you look for congressional action on -- on deregulation?

REP. WRIGHT: I would like very much to see some motion put into being to stop the momentum, the headlong drive to deregulating everything and creating the law of the jungle again, which existed a century ago. I don't see it happening with rapidity, but I do see the beginnings of that kind of a movement.

MR. KALB: Ms. Borger.

MS. BORGER: Mr. Wright, if I might just get back to the deficit for a minute. You've been a member of the all but defunct deficit negotiating commission. And recently the President came out and accused the Democrats of foot-dragging on reducing the deficit and you immediately took to the floor of the House and essentially denounced the President as a liar. Now that the President's come out with a package first, are you taking that back?

REP. WRIGHT: Gloria, I didn't call the President a liar, nor I hope will I ever use any pejorative term like that for any President or any political opponent. What I said was that his characterizations, frequently repeated, to the effect that we had offered no suggestions was a lie. It was a lie; it was untrue. I was at the meetings, he was not. We made several -- I made as many as 20 different suggestions. For him to have said that we made no suggestions that he personally found acceptable might have been truthful. For him to have said, as he did, that we made no suggestions was falsehood; it was untrue. He said that they had a very difficult time ever getting us to meet. That was a lie. That was not true at all. That charge began to be made the very day the budget came out, before we'd even had a chance to meet, by Secretary Regan. It was apparent that was their plan to accuse us of this.

We went everytime we were invited. A couple of times I suggested meeting dates that were inconvenient to the President's designee. You see, the President wasn't there; Mr. Baker was there. And Jim Baker couldn't or didn't wish to come because he wanted to be with

the President in Dixon, Illinois; once he wanted to be with the President in California. That was all right with me. I didn't go out and accuse him of dragging his feet. But for them to suggest that we were unwilling or didn't make earnest, serious efforts to try to come to some agreement that would make serious reductions in these staggering Reagan deficits is a lie. It's a falsehood.

MS. BORGER: Well, now we know that the Democrats are scrambling to come up with their own \$200 billion package. And assuming that they're going to ask for less military spending, how are the Democrats going to handle cuts in domestic social programs?

REP. WRIGHT: Gloria, I believe that there are cuts that can be made in the rate of growth of domestic spending, although I think we have to bear in mind that that lemon has been squeezed pretty dry. Only one-fifth of the budget goes for those things that help the handicapped, and the homeless, and the hungry, the needy, the disadvantaged, the school children wanting to get an education, the aged, and from that one-fifth of the budget, 60 percent of the cuts that have been made in the last three years have been visited.

Forty-eight billion dollars have been taken off of the regular entitlement programs in these last three years. But I think the important thing is to recognize what's causing these staggering deficits. Dr. Martin Feldstein identified it very clearly. The cause of the deficits are the excessive tax cut of 1981 in which we gave ourselves the biggest tax cut in history, at the very same time we were launching the biggest military spending buildup in the peacetime

history of the country, and therefore the increase in debt service payments, interest rates which have doubled in those three years.

Those are the big causes of the deficit.

And if we're to do anything to reduce it substantially, then we have to come to grips with those real costs.

MR. KALB: Okay. Mr. Novak.

MR. NOVAK: Mr. Wright, turning to Democratic presidential politics, if I might, you endorsed Walter F. Mondale for President long after most of your fellow big shots in the party had done so, jumping on the bandwagon just as it was screeching to a halt. Did they ask you, in the Mondale campaign, did they ask you to give him a little boost?

REP. WRIGHT: Well, yes, I think that would be a fair statement. I had been talking with Vice President Mondale from the beginning and had thought initially that probably it would be just as well for as Majority Leader to remain publicly uncommitted. Everyone knew that I was really for Walter Mondale. I know him better, I trust him, I am aware of what he stands for, I feel comfortable with him. I think he's a fine American with a clear vision of the future and deep convictions.

But when it reached a point where it appeared that maybe a statement from me could be helpful to him --

MR. NOVAK: Do you think it did any good?

REP. WRIGHT: I'm not sure that it did. I don't know whether an endorsement from any political figure does any good. Perhaps there were some people who would be influenced by my judgment of it, but I

don't delude myself with the thought that I caused it to start turning around. Maybe it was ready to turn around and if I was helpful in any small degree, I'm glad that I was.

MR. NOVAK: Mr. Wright, on the campaign trail this past week, Mr. Mondale made -- made it quite clear that he thinks that Mr. Hart would be a disaster as President, that he doesn't think he's qualified to be President. Do you think if you end up with Gary Hart as your nominee, the Democratic Party is going to be in very sorry shape?

REP. WRIGHT: I expect to support the nominee of the party, as I always have, Mr. Novak.

MR. NOVAK: Well, I'm sure you will, but that wasn't the question.

REP. WRIGHT: No, I wouldn't characterize our predicament that way. And in the event of the nomination of any of those candidates, I have nothing hostile to say about any of them.

MR. NOVAK: So he's an acceptable candidate you think, Mr. Hart.

REP. WRIGHT: Whomever the Democratic Party nominates I expect to be acceptable to me.

MR. KALB: Congressman Wright, I'd like to go back to something that Martin Feldstein said. He's quoted/today's New York Times Magazine as saying that the Congressional Budget Office estimate that by 1989 the deficit may reach \$2 1/2 trillion, Feldstein is quoted as saying, "That's right. That may well be the case." Do you believe that to be the case?

REP. WRIGHT: Yes, it is a very alarming prospect.

MR. KALB: Could you -- Could you explain to us, who don't quite follow these things carefully, how it could rise to that kind of staggering number?

REP. WRIGHT: Yes, I -- I think absolutely, and Dr. Feldstein understands it clearly. The three reasons are the excessive tax cut of 1981, most of which went to the wealthiest few of your citizenry, which is dragging some \$135 billion this year from the revenues of the country and adding \$135 billion to this year's deficit. That is not my figure; that's the figure that was given to the Budget Committee in testimony by Secretary of the Treasury Donald Regan.

The second biggest cause is the enormous military buildup. As recently as 1980, we were spending and appropriating \$148 billion in that year for military strength, 148. The President is asking us next year to appropriate \$313 billion, more than twice as much, and in the next three years the President has asked us to appropriate slightly more than \$1 trillion for military spending alone. These are the reasons that in the past four years of this administration, we will have added more to the national debt than in all the years post World War II of 35 Presidents, Democratic and Republican, beginning with Harry Truman. That's the reason why -- why it took us 192 years of constitutional government and 39 presidential administrations, beginning with George Washington through Jimmy Carter, to amass a national debt of \$1 trillion. The policies upon which Ronald Reagan insisted and Congress lamentably assented, in 1981, if not radically altered, are going to double that and have us with a \$2 trillion

deficit in five short years.

That's why I say something very dramatic needs to be done, and not next year; this year, not to wait until we have a non-election year. The problem is now.

MR. KALB: Mr. Monroe.

MR. MONROE: Congressman, you talk confidently of the House voting on a school prayer amendment if the Senate passes it. What about the House passing it?

REP. WRIGHT: I don't know how to predict that. I guess the truth would be that it would be very difficult to expect to get a two-thirds majority. It came up in 1971 in essentially similar form, not identical wording. I voted for it, incidentally. It failed by some 38 votes, I believe, to muster the two-thirds majority necessary for passage. At that time, if I rightly recall, it was brought to the floor by a very unusual procedure, the discharge petition. In

In the House rules, if a committee refuses to bring a bill wanted by a majority to the floor for their vote, a majority of the members plus one, 219 members, by signing a discharge petition, may bring it to the floor. We had that majority, but not the two-thirds necessary to pass a constitutional amendment.

MR. MONROE: Let me get in a political question. People mentioning possible female vice presidential candidates have lists of six or eight people and they include three congresswomen -- Ferraro, Mikulski and Boggs. Do these women have enough experience for a voter to conclude that they could step-in and take over the presidency?

REP. WRIGHT: Each of those women is an experienced,

dedicated, intelligent, committed public servant. I would feel very comfortable with the -- with the thought of any one of them being in a position of high political power. I'm not trying to suggest to our presidential nominee whom he should select as a running mate.

(Continued on Page 12.)

MR. MONROE: You're not quite saying that they're able to take over the presidency.

REP. WRIGHT: Mr. Monroe, you have not heard me say that anyone is able to take over the presidency. I'm not sure quite frankly that I know anybody who is fully qualified to be President of the United States.

MR. KALB: Mr. Tolchin.

MR. TOLCHIN: Mr. Wright, President Reagan is fond of saying that the government does not spend a single dime that has not been appropriated by Congress, and so while the Democrats lament these extraordinary appropriations, why have they not stopped, not just in '81, but in '82 and in '83, and do you think that there is sufficient pressure now to halt these expenditures?

REP. WRIGHT: Mr. Tolchin, I believe there is pressure at last to begin, chip away at this terrible erosion that was set in motion in 1981. What the President says is true. But it's also as true that the Congress responds to presidential leadership. I regret that we voted to do these extreme things which were called a "riverboat gamble" at the time by Senate Majority Leader Howard Baker, which were called at one point voodoo economics by presently Vice President George Bush, who was not vice president when he said that, which were called by James Schlesinger, who has served in two Republican cabinets, the single most irresponsible fiscal act in the history of the republic. Yes, a majority voted for it; I regret it. I voted against it.

The difficulty is that during these years while we have had enough in the House to forestall what we saw as total catastrophe,

we haven't had a majority in the Senate. We've come to loggerheads. On one occasion in 1962 we did veto, we did override a presidential veto. He was saying then, erroneously, that we had spent more in a supplemental appropriations bill than he had requested. This was factually inaccurate, and when it became apparent to the American people that he had misrepresented it, that we actually were spending less, but rearranging our priorities in a way that people approved, they gave us support to override. We voted in the House for a tax bill which would have reduced the amount that would be lost through the hemorrhaging of this '81 tax by putting a ceiling of \$700 annually on the amount that one individual might receive from that Kemp-Roth tax cut. It protected all the middle income people, but wouldn't have given eight and ten and twelve thousand dollars a year as a boondoggle to the wealthiest few.

MR. KALB: Congressman, we've got less than three minutes to go. Ms. Borger?

MS. BORGER: Mr. Wright, you've been around Congress for quite some time now, and during your tenure you've watched a younger generation, of very moderate Democrats, have more and more control over policy in the House. Can you tell me, do you think that the rise of Gary Hart reflects this kind of generational split within the party as a whole, or do you see it as something else?

REP. WRIGHT: We always have had generational splits. The angry young man. The girl says but father, can't you see you're both angry. He's angry because the world is changing so slowly, and you're angry because the world is changing so fast. It is part of the job of a majority leader or a leader in any party to pull together these

people and see if we can't keep refreshing, keep renewing this distillat of democracy just as the nation itself is continuing in this way.

MS. BORGER: Does that account for Hart's rise, though?

REP. WRIGHT: It may have something to do with it. We young fellows, it's about time we came into our own, don't you think.

MR. KALB: Okay. A little more than a minute to go. Mr. Novak.

MR. NOVAK: Mr. Wright, in all this talk about the budget, you haven't told how much taxes you want to impose on the American people. As I add it up, it's \$234 billion. Wouldn't that be thousands of dollars on ordinary individuals over the next three years?

REP. WRIGHT: Mr. Novak, I don't know where you get your figure and attribute to me. I made 11 different suggestions to the White House--

MR. NOVAK: I added them up.

REP. WRIGHT: -- as alternative approaches. You add them up and say I wanted to do all of them. No, I suggested that any one or combinations of them could without hurting the average person make a serious dent in the deficit. That's far better, though. I think most Americans want to pay as we go, and they don't want to put it on the bill of their grandchildren to pay for things that we've used up and worn out before those grandchildren reach the age of paying taxes.

MR. NOVAK: Mr. Wright, in this election year, do your Democrats in the House of Representatives have any intention of passing any of those options that you're putting out?

REP. WRIGHT: We have a tax bill before the House now

now that would raise about \$50 billion through plugging loopholes and I expect that bill to be passed as the bill I was mentioning to Ms. Borger did pass the House but was stopped in the Senate. I don't know what the Senate will do.

MR. KALB: Congressman, thank you very much for being our guest on MEET THE PRESS.

MR. KALB: I'll be back with a word about next week's guest and a look at letters after these messages.

(Announcements.)

MR. KALB: Next Sunday on MEET THE PRESS, our guest will be the President of France, Francois Mitterrand, who will be in this country.

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