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The President has seen____

THE WHITE HOUSE

WASHINGTON

November 16, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: DAVE GERGEN DG
LARRY SPEAKES

SUBJECT: Don Lambro Interview

As you have said, Don is a specialist in government waste and could easily provide us with information -- not the other way around -- on that subject. One of your first actions as President, of course, was to send his book to new cabinet officers.

In conversation this morning, Don indicated that his interview with you might cover far more than waste and fraud. And he may file with UPI as early as tomorrow morning. Thus, you may want to think about a number of question areas that he could enter:

FOREIGN

Central America: Haig has recently been talking very tough about El Salvador, Nicaragua, etc. You have said there are no plans to send Americans into combat. What would you be willing to do? Blockade? Interdiction at sea? How far are you willing to go?

Taiwan: Haig in recent days has also hinted that the U.S. should not or will not sell sophisticated aircraft to Taiwan out of sensitivity to the PRC. What's going on here? Are we being driven away from our support of Taiwan?

Europe: Aren't these protests all communist inspired? How will you deal with them in the long run?

Khaddify: Has the U.S. ever considered plans to liquidate him? Discussions with France? Why don't we stop buying oil from them?

Allen/Haig: Do you think Allen should temporarily step aside if a special prosecutor is appointed? Do you think all the squabbles are over on the foreign policy side? What will you do if stories like that reappear in 3 months?

Nuclear Arms Negotiations: What posture for the U.S. at the TNF talks? Where do we stand on START?

DOMESTIC

Stockman: Did he tell you why he did it? How badly has he been damaged? Will he continue to be a major architect and spokesman for your program? Has your credibility been hurt, too? Why did you keep him?

Unemployment: Weidenbaum yesterday said it could go as high as 9%. Others are now foreseeing a deep recession -- much deeper than originally expected. If that happens, will you change course in early 1982? How will you hold out?

Balanced Budget: What are your deficit expectations for 1982, 1983 and 1984? Are you willing to accept deficits of over $100 billion in a single year?

Cutting Spending: Harder than you expected? Congress a problem on this?

Waste and Fraud: How much progress do you really think you've made? How do you plan to make people more aware of what you're doing? Are you going to bring in citizen task forces as in California?

Reaganomics: What is your view of the future? How do you think it will all work out?

Continuing Resolution: Will you veto if its overbudget?

Relations with Labor: What future with AFL-CIO?

THE WHITE HOUSE

WASHINGTON

INTERVIEW WITH DON LAMBRO, SYNDICATED COLUMNIST

DATE: November 16, 1981
LOCATION: Oval Office
TIME: 3:15 pm

FROM: Larry Speakes

I. PURPOSE

To be interviewed by Don Lambro on general topics.

II. BACKGROUND

Mr. Lambro would like to discuss topics such as the budget cutting proposals status as of September, and what has happened to them. He also would like to talk about the economy, and politics.

Mr. Lambro is a syndicated columnist for United Feature Syndicate. His column is carried by approximately 100 newspapers around the country. He is the author of "Fat City, How Washington Wastes Your Taxes," from which the President has quoted.

III. PARTICIPANTS

The President
Don Lambro
Larry Speakes

IV. PRESS PLAN

White House photographer only.
WHCA will record the interview and provide a transcript to Mr. Lambro and also to the Press Office.

Depending on what comes out of the interview, Mr. Lambro will either write a story for immediate release on Tuesday morning, November 17, or will write about the interview in his regular column on Wednesday, November 18, which will be released the following Monday, November 23.

V. SEQUENCE OF EVENTS

After opening pleasantries are exchanged between the President and Mr. Lambro, the interview will take place.

Attached are the major talking points on the economy from the press conference briefing book.

We will provide an oral update on current breaking news immediately prior to the interview.

PROSPECTS FOR ECONOMIC RECOVERY

These past few days have brought some of the most dismal economic news of your administration:

- — Unemployment at the highest level in almost 6 years; black unemployment at record levels.
- — 1 million more out of work than in July.
- — Autos had lowest October sales since 1958.
- — Index of leading economic indicators had sharpest drop in 19 months.

Obviously, this is no longer a slight or shallow recession. What's gone wrong? And when will it be put right?

It has been a matter of great concern to me that we've slipped into a deeper recession than almost anyone anticipated a few months ago. And my economic advisers say that we can expect at least a few more months of disappointing news (e.g., unemployment may go somewhat higher).

This is a consequence of both the inflation and high interest rates we inherited — and our efforts to bring them down.

- — High interest rates badly hit the auto and housing industries, for example, helping to tip us into recession.
- — Need for monetary restraint to combat inflation has also slowed the economy.

Thus, what we're really doing today is paying price for sins of the past.

Fortunately (and unlike some occasions in the past), we have been able over these past few months to lay a foundation for good economic recovery in 1982:

- — Our tax cuts will provide more and more stimulus as time goes on;
- — Continuing drop in interest rates should bring revival in housing, autos, elsewhere.
- — Higher defense spending should also provide stimulus.

With this foundation in place, my advisors and, incidentally, many private economists — now foresee recovery beginning in the spring — or certainly by the summer of 1982.

ECONOMIC AND BUDGET ISSUES

Does your statement that the budget will not be balanced in fiscal year '84 mean a basic change in your economic program? When will the budget be balanced?

— There has been no change in our basic economic recovery program. The tax cuts will be phased-in on schedule. Spending reductions will continue. Will continue to support monetary restraint to reduce inflation.

— Achieving a balanced budget remains an essential element of our program. The current recession, incomplete cooperation from Congress on spending control, the lingering of high interest rates and the welcome progress on inflation -- have all added to the deficit size.

-- May now take a while longer for the revenue line and expenditure line to meet.

— But, as I have said before a trillion dollar national debt ought to be ample warning that deficit financing must be eliminated as soon as possible -- consistent with other elements of our program.

-- Will not relax the pressure against excess government spending until our balanced budget goal is achieved.

Do you still expect to achieve your deficit goal of $43 billion in FY '82? Hasn't the recession made that target obsolete?

— No denying that the unfolding recession will significantly reduce revenues and automatically increase spending for unemployment and related programs.

— While the depth and duration of the current slow-down are still uncertain, it is fair to say that our 1982 deficit goal has been overtaken by economic events.

-- Does not mean we have abandoned our intention to hold down FY '82 spending or achieve the savings I proposed in September.

— Congress has not yet sent me one regular appropriations bill — and one month of the fiscal year is already over. Most of the pending bills are way over my September budget request.

— Let me be very firm on this point. I will not permit a temporary increase in the deficit due to recession to become an excuse for budget-busting on Capitol Hill.

-- excessive spending this year will only make it more difficult to reduce the deficit in future years.

-- Economic conditions have temporarily changed, but our on-going battle against over-spending will not cease for a moment.

Chairman Domenici and other Senate Republicans have proposed a $190 billion three-year package of spending and entitlement cuts and revenue increases which they say will balance the budget in FY '84. Are you opposing or supporting this plan — including the $85 billion in tax increases?

— We are sticking to our comprehensive plan for economic recovery and will not deviate on account of temporary conditions.

— Plan always called for additional savings this year - above and beyonnd the $35 billion already passed — and additional savings totaling nearly $75 billion in FY '83 and FY '84.

— The Senate plan incorporates most of these planned savings; is a most welcome initiative.

-- Have indicated that tax increases in FY '82 would be counter-productive; could interfere with the stimulus from the scheduled income and business tax reductions next year.

— For the out-years, willing to consider modest revenue measures, but only if they are packaged with the major additional spending reductions essential to reduce the deficit and ensure success of our overall economic program.

— Senate leadership, including Senator Domenici, shares this view. We are not far apart. We are now working on questions of detail, legislative strategy and timing.

Recent reports suggest the deficit picture for FY '83 and FY'84 has worsened dramatically. The Senate Budget Committee puts the FY '84 deficit at $100 billion. House Budget says $130 billion. And there have been reports that internal Administration projections go as high as $145 billion. Are these figures valid? Does your program not add-up after all?

-- Our program will add-up if we can start subtracting from some of this reckless speculation.

-- First, these deficit projections all depend upon economic assumptions about inflation, interest rates, economic growth and unemployment. Given the rapid changes now occuring in the economy, it will be some time before we have a complete and reliable picture of the economic and budget outlook two or three years down the road.

- still confident program will promote a strong and sustained recovery next year and that some of the more pessimistic budget projections will not materialize.

-- Second, these projections all assume business as usual on future spending. Well, that just won't be.

- now reviewing the entire budget for FY '83 and FY '84. Major new savings, management economies, and program reductions will be identified and proposed in January budget message.

- when these savings are incorporated in the FY '83 and FY '84 budget projections the out-year deficit numbers will be reduced sharply.

- I can tell you this: New budget presented in January will quiet speculation about $100 billion out-year deficits. Our plan calls for a steady reduction of the deficit — moving toward the goal of a balanced budget. On that I will not retreat.

Your budget advisors have indicated that the House and Senate Appropriations Committees have not achieved any of the savings from the 12 percent cut you proposed on September 24th. Moreover, the First Continuing Resolution will expire in less than two weeks. What will you do if confronted with a Second Continuing Resolution that incorporates these higher spending levels and essentially ignores your September savings proposals?

— Have made my strong concern about this known to House and Senate leadership — as recently as last Friday. Am confident that before November 20th, they will send regular appropriations bills or a temporary continuing resolution that achieves a substantial proportion of these savings.

— Also have reiterated a firm warning that budget-busting spending bills — especially in light of the worsening deficit projections -- will be candidates for a veto. No appropriation bill or continuing resolution will be exempt from that test.

FARM BILL

Do you consider the pending farm bill a budget-buster? And if so, will you veto it?

— Have always said I will evaluate bills when they arrive on my desk; applies to the farm bill like all others.

— Last week I met with the House and Senate Agriculture Committee members and urged them to write a balanced conference bill — one that responds to legitimate farm sector needs for better prices, but does not threaten the budget with bigger deficits and the economy with higher interest rates.

— They all agreed that the best help for American farmers is reduced government spending, inflation and interest rates.

- as written, the Senate bill meets that criterion.

- House bill would add nearly $8 billion to the deficit over next several years. I insisted that the conference report be in line with the Senate bill and they pledged to achieve that goal.

- In the final analysis, we cannot afford a budget-busting farm bill. No part of the budget is going to be exempt from restraint.

ENTITLEMENTS REFORM PACKAGE

There have been reports that the $27 billion entitlement reform package you promised on September 24th will include reductions in Medicaid, Medicare, Food Stamps and AFDC. Won't these additional reductions jeopardize the social safety net?

-- Details of the entitlement reform package are still under review — so I will not indicate what programs are going to be changed at this time.

-- However, I must insist that we remain committed to the social safety net — the concept that people without means of their own or the capacity to work deserve and will continue to receive government assistance.

— As before, entitlement reforms will be directed to abuse, benefits for the non-needy and program overlap and duplication.

— We proved in last summer's budget reconciliation bill, and will demonstrate again, that the runaway growth of entitlement spending can be curbed while maintaining support for the truly needy.

$20 BILLION LOAN GUARANTEE REDUCTION

Last week you announced a $20 billion reduction in Federal Loan guarantees. Yet $16 billion or 80 percent was taken from GNMA -- which supports the home mortgage market. With housing starts at nearly an all-time low, how can this action be justified?

— First, the number one affliction in the housing market today is not inadequate government programs, but excessively high mortgage interest rates. By reducing government borrowing in all of its forms -- we will reduce financial market pressures and reduce interest rates.

— Lower interest rates are the best housing program we can possibly offer at the present time.

— Second, we have the old familiar case as to whether the glass is half empty of half full. Even after the GNMA cutback, the authorized commitment level for FY '82 will be $48 billion. That is double the actual take-down level of 1981 and will fully accomodate the hope for recovery of the housing market next year.

-- finally, the fact remains that <u>loan guarantees are a form of back-door spending,</u> and they have <u>exploded out of control</u> during the last four years.

- <u>43 percent of all funds available in the private credit market will be absorbed by Treasury borrowing or government sponsored borrowing.</u>

-- Our economic recovery program required that this huge absorption of funds be reduced so that industrial firms, small business, home-builders and farmers can finance their operations and expansion plans at affordable rates.

- <u>$20 billion</u> loan guarantee reduction package is the <u>first installment of an on-going effort to get Uncle Sam's sharp elbows out of the credit market.</u>