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THE WHITE HOUSE
WASHINGTON

August 27, 1974

MEMORANDUM FOR:

JERRY TER HORST

FROM:

ROY L. ASH

Attached are OMB's questions and answers for the President's news conference.

HUMAN & COMMUNITY
AFFAIRS

Education

Funding for education programs

- Q. What did you mean, in your address to the joint session of the Congress, by "excess funding" for Federal elementary and secondary education programs?
- A. By excess funding, I meant any appropriations amounts which are above those provided in the current budget requests for education. I will continue to veto, as I have in other funding areas, appropriations that fit into this category.

Problems with H.R. 69

- Q. What are the specific programmatic problems you have with the Education Amendments of 1972?
- A. This bill represents a good beginning towards complete reform of existing elementary and secondary education programs. However, this good beginning is blunted by such features as: numerous "hold-harmless" provisions, continuation of needless funding provisions in the Impact Aid program and legislative encroachments on the Executive Branch, to name a few.

NATURAL RESOURCES,
ENERGY & SCIENCE



Energy R&D Reorganization

Q: Do you intend to continue to support the formation of an Energy Research and Development Administration (ERDA)?

A: Yes, an ERDA is key to ensuring effective planning and management of our overall Federal R&D program. As such, we are continuing to work with both Houses of Congress to aid in the completion of the enabling legislation that has passed in each House. I hope to see the compromise Bill out of conference shortly after the current recess.

Electric Utility Bail-Out

Q: Is the Federal Government planning any steps to assist the electric utility industry in financing its construction programs?

A: The industry has been having serious financing problems as a consequence of high interest rates, the decline in stock prices, and rising costs. However, this is a situation where the state regulatory commissions, which control utility rates, have the most direct leverage. We hope to be able to work closely with the state regulatory agencies to develop effective ways of dealing with this problem.

CRITICAL IMPORTED MATERIALS

Question: What is the Government doing to ensure that problems similar to last year's oil emergency do not occur in other imported commodities as well?

Answer: We are in the final phases of a full-scale interagency review of this potential problem area. The review has tentatively concluded that we face few real threats of being cut off from imported commodities. We are making plans to deal with these so that we won't have the kinds of shortages we had last fall and winter regarding oil. Price increases are possible, but the size of most potential increases is limited.

INTERIOR

Question: Conference action on a coal surface mining bill is now underway -- what is the Administration's position on this legislation?

Answer: I support enactment of a workable surface mining bill which will protect our land and environmental quality without unduly limiting vital coal production. However, before this goal can be realized, major deficiencies contained in the Senate and House passed bills must be remedied in conference -- Secretary Morton has advised the conferees of our specific concerns.

Question: If Senator Jackson's land use bill that passed the Senate last year were attached to another important piece of legislation and sent to you, would you veto it?

Answer: First, I don't believe the House would allow that to happen in view of the fact that the rule to debate this issue on the House floor was voted down. I think an acceptable land use bill must minimize Federal involvement and maximize the role of State and local governments, and the Senate bill can certainly be criticized on this basis.

Question: Do you intend to continue to try to meet the goal, announced by President Nixon, that the Interior Department would lease 10 million acres of the Outer Continental Shelf (OCS) in calendar year 1975 to help increase oil and gas production?

Answer: Yes, the 1975 Interior Appropriations bill enacted by Congress provides funds to do that. We will, of course, review the program as it goes along and, if necessary, change it to ensure that the leases will be explored quickly, that potential environmental impacts are fully assessed, and that the prices paid for the leases reflect fair market value.

PUBLIC WORKS

Question: Why did you sign the Public Works Appropriation Bill which mandated the spending of \$80 million over the President's Budget for 1975 when in recent statements you have indicated that you would veto any such legislation?

Answer: The Public Works Program is important to the Nation's energy and water resource development and to have vetoed this bill now would have caused undue delays to many important programs and projects. However, discussions have been held with Congressional Leaders on the matter of excessive government spending. It is my expectation that an accord can be reached whereby we agree to defer the expenditure of some of these appropriated funds until 1976 in the interest of combating inflation.

LIQUID METAL FAST BREEDER REACTOR (LMFBR)

Question: Is the Administration strongly committed to AEC's LMFBR civilian nuclear power R&D program?

Answer: The LMFBR program still has considerable potential as a means of extending our long-term energy resources. Like the rest of our energy R&D program, the LMFBR will be subjected to periodic reexamination to ensure that the pace and scope of the program is optimum for our needs. In particular, the cost estimate and schedule for the LMFBR demonstration plant is currently undergoing a searching review by the AEC.

Daylight Savings Time and Speed Limit

Q: Year-round Daylight Savings Time and the 55 MPH speed limit: will they be continued?

A: I support congressional action to shorten year-round DST to eight months--last Sunday in February to last Sunday in October. But we will continue to analyze the impact of extended DST.

I fully support the indefinite extension of the 55 MPH speed limit.

NATIONAL SECURITY
& INT'L AFFAIRS

Foreign Assistance Legislation

- Q. What is your view of the cuts in foreign aid authorizations and other restrictions on the use of foreign aid recommended by the Senate Foreign Relations Committee?
- A. I recognize that the Foreign Relations Committee may feel that foreign aid should be cut at a time when we must do everything possible to hold down government expenditures. I also recognize the differing views on the appropriate purposes and uses of foreign aid. However, the need for budget stringency must be balanced with the need to meet our humanitarian and security obligations abroad. I am concerned both with the depth of the cuts recommended for certain programs and also with the restrictions on country levels and earmarking by particular programs. In the kind of rapidly changing and uncertain world we live in, the cuts and restrictions seems to me to be unwise. I realize that a sense of comity and understanding between the Executive and the Congress has broken down in the area of foreign aid, and I believe it essential to reestablish it. I look forward, therefore, to an early opportunity for consultations with the Congress on our critical foreign aid requirements.

AUG 26 1974

1975 DEFENSE REDUCTIONS

QUESTION: Defense appropriations have been reduced \$4 billion by the House and \$5 billion by the Senate; are these "unwarranted" reductions?

ANSWER: Our target for total federal spending for fiscal 1975 is below \$300 billion. Difficult reductions will have to be made in every agency, including defense, if we are to achieve this goal. In our judgment, some defense programs have been cut too deeply. As you know, the military bill will go into conference for the resolution of differences between the House and Senate. Secretary Schlesinger will make an appeal to the conferees for the restoration of the specific reductions which in our opinion would be unwarranted.

AUG 26 1974

1976 DEFENSE REDUCTIONS

QUESTION: Will defense be exempt from the reductions necessary to achieve a balanced budget in 1976?

ANSWER: Congressional action is not yet completed on the 1975 budget.

Thus, it is too early to tell what further adjustment will be required to bring federal outlays into balance in 1976. No agency will be exempt from scrutiny. However, defense manpower and force levels have already been reduced by over 1/3 since 1968. In view of the large Congressional cuts which have been made by the House and Senate on the 1975 military bill, further program reductions would be unwarranted.

AUG 26 1974


WOMEN

Q: You recently signed the Education Amendments of 1974 and stated that you hoped the Congress would exercise restraint in appropriating funds authorized under this legislation. Women are concerned that the Women's Educational Equity Act included in that bill will not be funded. What are your thoughts?

A: When appropriations are considered, I hope that the Congress will avoid increasing the budget. My intention is not to eliminate any one program but to hold down Federal spending.

THE WHITE HOUSE
WASHINGTON

August 27, 1974

MEMORANDUM FOR: JERRY TER HORST
FROM: DEAN BURCH 
SUBJECT: Suggested Qs & As for Presidential
Press Conference

I've attached some suggested Qs & As, in the political area, for the President's press conference on Wednesday.

Attachment

THE WHITE HOUSE
WASHINGTON

Jerry — FYI

These are the
Questions for which we
will submit answers
for tomorrow. See
any holes?

Les



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

August 27, 1974

AUG 27 1974

MEMORANDUM FOR: Jerry terHorst

FROM: *Carole A. Fay ST for*
Stephen S. Gardner

SUBJECT: Q's & A's for President Ford's Press Conference

Here is a selection of Q's & A's for inclusion in the briefing book for President Ford in preparation for his press conference on Wednesday, August 28.

QUESTION: Do you think FEA should be put in the Department of the Interior?

ANSWER: Creation of FEA was a first and major step toward the creation of a single Cabinet-level Department -- DENR -- that will be responsible for overseeing energy and natural resources policy within the Federal Government.

FEA is really just an "interim" institution that will be folded into DENR. Hopefully, the Congress will continue to move forward towards enacting the legislation to create DENR.

QUESTION: How do you interpret the announcement of several of the OPEC countries that they plan to cutback production? What kind of effect will this have on U.S. efforts to reduce oil prices?

ANSWER: First, the production cutbacks are further evidence of the fact that the world market has been experiencing an oversupply situation where the oil surplus has risen to over 2 million barrels a day.

Second, it is the U.S. position that world oil prices today are set at clearly unacceptable levels, and that lower prices are in the best interests of the oil-producing nations as well as the oil-consuming nations.

QUESTION - The Wall Street Journal wrote an editorial last week (August 23) saying the Social Security System is financially unsound. It challenged George Meany and AFL-CIO to institute studies on the subject. Can you tell us if you are aware of any problems with the Social Security System? What is being done in your Administration about it?

ANSWER - We are aware that several economists have conducted studies suggesting that there exists certain funding problems with the Social Security System. Treasury Secretary Bill Simon is also aware of the contents of these studies and intends to look into it further for me.

QUESTION: Treasury Secretary William Simon said last week that the Administration would prefer to move toward a balanced budget by getting spending under control rather than by raising revenues which would put an added burden on the American people. How do you reconcile this statement with the acknowledgement by Jerry terHorst that an increase in gasoline taxes is being considered?

ANSWER: A reduction in spending, to the extent possible, would always be a preferred method of achieving a balanced budget. Other approaches, of course, must always be studied and considered. This does not mean that heavy burdens would be imposed on anyone.

QUESTION: Would any increased revenues from a gasoline tax go into the highway trust fund or general revenues?

ANSWER: The revenues from the present Federal excise tax on gasoline are dedicated to the Federal Highway Trust Fund which presently is in surplus. If there were to be any increase in the Federal gasoline tax, that would be for a different purpose and we would not propose that the revenues be added to that special fund for highway use.

QUESTION - Maybe you wouldn't go as far as actual wage-price controls, but would you consider guidelines?

ANSWER - We do not rule them out. But we had guidelines before without much visible benefit. Guidelines will probably be discussed at some of the pre-summit and summit meetings. At the present time, we do not see guidelines as being particularly useful.

ja
John H. Auten
Ext. 5914
Home phone: 370-3892
08/27/74

QUESTION - What, if any, ideas are under consideration to help the housing industry which can't get loans from Savings and Loan Associations because the S&L's are being drained of deposits as Government securities bear high interest rates and attract savings?

ANSWER - The first task, of course, is to get inflation under control. As that happens, interest rates on market instruments will come down and S&L's will again be able to acquire funds and make mortgage loans.

As you know, we have proposed a Financial Institutions Act which would increase the ability of thrift institutions and banks to compete in the open market for funds and we think increase the amount of monies available to the mortgage market. This is an essential piece of legislation to help solve the underlying inflexibilities of our financial institutions which have led to the current situation.

In addition to that, of course, President Nixon in his housing message of May 10 made \$10 billion available to the housing industry under a program whereby \$3 billion of Treasury loans through the Federal Home Loan Mortgage Corporation for 8-3/4% mortgages, \$4 billion in Home Loan Bank advances at below market rates and the \$3 billion increase in the Government National Mortgage Association tandem plan were made available to mortgage borrowers.

One of the things that we will be considering over the next month in conjunction with our economic summit meetings is additional methods of dealing with this question.



Edward M. Roob

x5806

356-2811

August 27, 1974

QUESTION - What is your position on Public Service Employment?
Don't you think you might lose some of the good will
you enjoy if you delay in proposing the idea to
Congress soon?

ANSWER - We are studying ways to minimize the burden of
any rise in unemployment. The Administration
has already proposed an expansion in the unemploy-
ment insurance program. There is a public service
employment program. It could be enlarged. I
think we should be primarily concerned with making
the right decisions, not whether or not we retain
someone's goodwill. Naturally, we will cooperate
closely with the Congress.

ja
John H. Auten
Ext. 5914
Home phone: 370-3892
08/27/74

QUESTION - Is it true that there may be no more than 60 days to head off a financial collapse? There have been reports that Arthur Burns gave you such a warning.

ANSWER - The strains and adjustment problems are sufficiently evident to require close watching during the needed disinflationary program. The financial strains which often appear after prolonged inflation have been showing up here and abroad. They have not yet taken on the proportions that have usually been evident prior to financial collapses in history.

Paul W. McCracken
8-27-74

QUESTION - On a scale of ten how high is your resolve against reinstituting wage-price controls?

ANSWER - About 9 as opposed to the readings of 10 and 11 that I get from some of my advisers. We have no plans to reinstitute wage-price controls. We don't believe they do any lasting good, and they certainly cause economic distortions.

Ja
John H. Auten
Ext. 5914
Home phone: 370-3892
08/27/74

QUESTION: Has the Secretary of the Treasury heard officially or unofficially from Saudi Arabia about the auction that was announced during the Simon visit to Saudi Arabia?

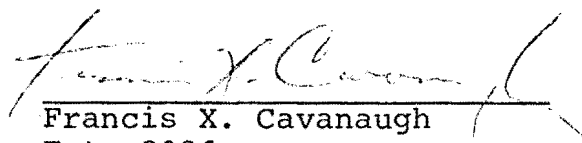
ANSWER: To date we have not received any notification from the Saudis regarding their plans to hold an oil auction; although there have been reports in the press that the Saudis will not be holding an auction in August.

At this point I would suspect that we won't hear anything officially until after the next OPEC meeting in Vienna on September 12.

J.P. Smith
Ext. 8381
Home: 544-4585
8-22-74

QUESTION - Do you think it is a good idea to put back in the budget the off-budget items in order to give the American people a truer picture of what is being spent by the Government?

ANSWER - I believe it is essential that we give the American people a truer picture of what is being spent by their Government. The budget now submitted to the Congress each year is the so-called "unified budget," which was adopted by the President in 1968 at the recommendation of the President's Commission on Budget Concepts. In recent years, however, several Federal agencies and programs have been removed from the unified budget by the Congress or by the Administration, and there are other Federal programs which have never been included in the unified budget but which have a considerable impact on the economy and on the American taxpayer. I will review these programs, and in my first budget presentation to the Congress, in January 1975, I intend to present a truer picture of all Federal spending activities, including those activities which are now excluded from the budget.



Francis X. Cavanaugh

Ext. 2026

652-0777

August 27, 1974

QUESTION - Are you worried about a domino effect on the banking system if Franklin fails, and/or if more large domestic or foreign banks fail? Are you worried about a general bank panic and failure?

ANSWER - The U.S. banking system is in a sound condition and there is no cause for concern that there will be any widespread bank failures. Our banks have essentially good quality assets and their liquidity position is protected against both domestic and foreign financial problems by the Federal Reserve System - in effect, by the U.S. Government. Individual banks may have their own specialized problems from time to time, such as Franklin has had. Nevertheless, the existing regulatory, insurance, and financial support powers of the government are available to assure that if one or more large banks were to reach the failure point, their deposit liabilities would be able to be transferred to another institution. In most cases substantial recovery would also be possible for other creditors and for shareholders as well.

FURTHER
INFO

- For any widespread bank failure problem to occur, given the liquidity that can be supplied by the Fed to overcome a general bank liability collapse due to a financial panic, there would have to be a widespread asset deterioration problem in the banking system. This only appears possible if the U.S. economy deflates seriously, or if foreign central banks refused to support their banks and business firms with liquidity in the face of a financial panic, leaving U.S. banks with many worthless international credits. At the point worthless assets exceed the capital of a bank, the regulator must put the bank into receivership or conservatorship, by statute. With a latent liquidity insolvency, such as Franklin, as long as a lender of last resort continues to meet the liquid funds needs of the institution, the regulator can avoid declaring it insolvent.

08/21/74
Jim Smith

C-11

QUESTION - Are we headed for a severe capital shortage over the next few years?

ANSWER - There will be enormous additional capital requirements for housing, urban transportation, basic industrial capacity, to clean up the environment, and especially to achieve the goals of Project Independence. Estimates of the needs of the energy industry alone over the next decade range from three-quarters to one trillion dollars. Our future capital needs represent an enormous challenge. In order to avoid severe capital shortage, we must bring inflation under control since inflation discourages saving and distorts investment. We may also need to run federal budget surpluses and offer new investment incentives through the tax system.


These and other aspects of the problem are currently under intensive study by an inter-agency group headed by the Chairman of the Council of Economic Advisers.

JA
John H. Auten
Ext. 5914
Home phone: 370-3892
08/07/74

QUESTION - Are we in a recession and, if not, are we headed for one?


ANSWER - What happened in the first half of this year was not a recession as I use the term -- the economic weakness we had was too narrow in scope -- but I'll leave the final answer to that question to the National Bureau of Economic Research.

As to the period ahead, economic growth is likely to be less vigorous than we would like, but I do not think we will see a decline.


Edgar R. Fiedler
Ext. 2551
299-3476
August 12, 1974


QUESTION - Do you think the big (10%) wage increases that labor has gotten lately, if sustained, will prove dangerous to the U.S. economy? Ken Rush testified it would be dangerous.

ANSWER - Large wage increases go hand in hand with rapid inflation. Wages and prices are two sides of the same coin. Our economic policies are designed to decelerate the upward trend in both simultaneously.


E.R. Fiedler
2551
299-3476
8/14/74

QUESTION - Can you give us a checklist of places where you want to see the budget cut?

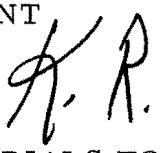
ANSWER - I do not have such a checklist at this time:
That is the kind of thing that should be worked out in a cooperative venture among the Congressional leadership and the Administration.


E.R. Fiedler
2551
299-3476
8/14/74

THE WHITE HOUSE
WASHINGTON

August 24, 1974

MEMORANDUM FOR THE PRESIDENT

FROM: KENNETH RUSH 
SUBJECT: BRIEFING MATERIALS FOR
WEDNESDAY'S PRESS CONFERENCE

I had the attached list of questions and answers prepared as briefing material and background for your upcoming press conference on the economy. I have attempted to cover all of the topics that seem to be most current in the minds of the press. I hope you find them useful.

Labor

1 Question: Do you expect to have a smooth relationship with labor?

Answer: Yes. Organized labor has pledged this Administration all possible support in meeting the serious problems which affect the Nation. Following my address to the Congress I met at considerable length with top leaders in the labor movement--including George Meany and Frank Fitzsimmons. We discussed many of the problems which affect the working public, and our conversation was amiable and constructive. As you know, in my initial address to the Congress and the Nation I called for an economic summit meeting that would include some of the best economic minds from labor. It is my intention to conduct further consultations with leaders from organized labor as we move ahead to deal with our mutual problems.

Question: What big contract settlements are on the near term calendar?

Answer: In the next six months major agreements in the longshore, bituminous coal, aerospace, railroad, and oil industries will be subject to change. An agreement covering 35,000 of the 50,000 longshoremen whose contracts expire on September 30 has already been ratified. The upcoming negotiations in the bituminous coal and oil industries are of course of great importance to the nation in terms of assuring an adequate energy supply for industry and the public. A prolonged work stoppage in either of these two industries would have serious consequences. I hope that the parties involved will be mindful of that fact. In all negotiations, of course, I am counting on everyone's support as we seek to solve the problems of the Nation's economy.

3 Question: Why are there so many strikes at this time?

Answer: With the expiration of economic controls in April 1974, it would be unrealistic not to expect that labor would in some instances utilize its economic weapon to attempt to catch-up with those wage and benefit increases which were previously denied. But, we should also be aware that there were some notable successes in the 1974 bargaining year to date. Peaceful settlements in the can, aluminum and steel industries were reached months before the expiration of previous agreements. A pattern settlement in the East Coast longshore negotiations was reached three months before the expiration of the current contract, and significant progress has been made to date in local port bargaining. In other large industries, such as copper mining and smelting and telephone communications, where some strikes did occur, settlements covering the majority of employees were reached without work stoppages. This shows a heightened level of public responsibility on the part of labor and management which I am hopeful will continue in the coming months as we search for solutions to the Nation's pressing economic problems.

COAL STRIKE

4 Question: United Mine Workers recently had a memorial five-day shutdown. This is only a prelude to the threatened national shutdown when their contract with the coal operators expires on November 12. We understand that this could have a disastrous effect on the economy of this nation, and I wonder if you would tell us what you and your Administration are doing to avoid such a calamitous situation?

Answer: As you know, I have been meeting with my advisers within the Administration and labor leaders, generally, concerning problems which face the nation's economy. There is no question that a national coal strike would have very serious consequences and, thus, I am taking steps to insure that the Administration does everything in its power to protect the national interest.

Although we had a 46-day national coal strike in 1971, the economic impact was not too severe overall, primarily due to the large stocks of coal which the users had on hand. However, current coal stocks are substantially lower than they were in 1971 and a prolonged strike could have a severe adverse impact on this nation's economy.

My Special Assistant, Bill Usery, who is also Director of the Federal Mediation and Conciliation Service, has been working with all parties to this dispute for many months. In addition, other officials of my Administration, are developing comprehensive plans to insure that the Government's actions are designed to provide maximum help to both sides, in order to avoid, if possible, a national shutdown this Fall.

Although I was concerned about the recent five-day memorial work stoppage of the United Mine Workers -- because of its impact on our critical need for energy -- the normal avenues of collective bargaining are open, and I believe that it is through direct communication between the parties that these disputes can most successfully be resolved. I am urging both parties to bargain in good faith and I am hopeful that the collective bargaining process will work successfully in solving the problems of the coal industry.

Housing

1. Q: What is being done to prevent a further collapse in the housing industry?

A: The problems faced by the housing industry and by prospective home buyers result from the same inflationary pressures that affect the rest of the economy. I have asked the Department of Housing and Urban Development, in consultation with my economic advisers and other agencies in the Federal Government, to advise me promptly as to whether there are any new initiatives we might take to bring some relief to the housing sector without adding to the inflationary pressures that brought about the problem in the first place.

2. Q: Why are HUD social programs being deleted in the new legislation?

A: The Housing and Community Development Act of 1974 does indeed eliminate HUD's old rigid categorical grant programs and replaces them with a single "block grant" program for community development. This new approach will put Federal funds to work on behalf of our cities and towns far more effectively than before. In a very real sense, this bill will help to return power from the banks of the Potomac to people in their own communities. Decisions will be made at the local level; action will come at the local level; and responsibility for results will be placed squarely where it belongs --

at the local level. I believe this transfer of responsibility will indeed improve the social programs of our country.

3. Q: Administration spokesmen have said the Housing and Community Development Act of 1974 will provide a shot in the arm for housing. In what ways?

A: In a number of ways, affecting various Federal credit agencies and financial institutions. But let me cite one particular example. In a home that costs \$35,000 that is bought with an FHA-insured mortgage, the down payment is cut roughly in half, from \$3,450 to \$1,750.

TRADE BILL

Trade Bill Timing

3

Q

As the Senate Finance Committee has not reported out the Trade Bill and the Senate is now in its Labor Day recess, are you still hopeful that a Trade Bill can be enacted this year?

A

I understand that the Senate Finance Committee is making good progress on the bill, which has already passed the House. As I stated in my address to the Congress, the Trade Bill deserves a high national priority. I believe that the Congress shares this view of the bill's priority. I strongly urge prompt Senate action so that a good trade bill can be enacted into law in the coming weeks. I am quite confident that this will occur.

TRADE BILL

Jackson/Vanik Amendment

4 Q: Has the Soviet emigration problem, which has held up progress on the Trade Bill, been resolved?

A: The Jackson/Vanik amendment is being actively worked on by the Administration and the key co-sponsors of that provision. Very good progress has been made in recent weeks and only a few details remain to be worked out. I believe this matter no longer will be an obstacle to enactment of the Trade Bill.

Presidential Discretion

- 5 Q I understand that several of the tentative decisions of the Senate Finance Committee would require, in several factual situations, that restrictions be placed on the commerce of foreign countries. Do you think that this will endanger the open and fair trade policy that the United States has pursued for the last 40 years?
- A I believe it would be a mistake to lock any President into mandatory actions against other countries, triggered by a specified set of circumstances placed in the law today to cover future events. A primary reason for having an Executive is so that you have someone exercising judgments in the national interest in administering the laws of this country. The Congress has the Constitutional right and duty to establish overall trade policy. Once they have done so the Executive ought to have a reasonable degree of flexibility in carrying out the directives of the Congress.

Background

Some mandatory provisions have been tentatively decided upon by the Senate Finance Committee. For example, the President must impose import barriers where imports are found by the Tariff Commission to be causing serious injury to a United States industry. However it may be, that in a given factual situation the President might wish to disagree with a Tariff Commission finding, or find that financial benefits to affected firms and workers would be better policy than imposing import restrictions, or that the strain on our trading relations with other countries would be too great if the import restrictions were put into place.

TRADE BILL

Need for Negotiations

- 6 Q It now appears a compromise trade bill will be enacted by Congress, giving the US authority to negotiate lower tariffs. In view of profound changes in the global economy in the past year what do you feel are the prospects for negotiations to move forward?
- A Although the fight to curb world inflation is the number one problem today, we feel that free trade is still an essential goal. The reduction of trade barriers is just as important now as ever, even though current problems may make agreement more difficult.

ARAB INVESTMENT IN THE UNITED STATES

24 Q. Financial circles have attributed the recent rise in the value of the dollar to an influx of Arab oil money ("Petro-dollars") to the United States. Is this true and what is the USG going to do about oil producers investing billions of dollars in the U.S.?

A. Certainly, the United States has the world's largest and best developed capital markets and this is bound to attract a large share of the money the oil producers cannot use at home or for imports. As you know, Secretary Simon discussed this issue during his recent trip to the Mideast. I understand he received some indications of interest in investment in the United States. We are continuing our established policy of welcoming foreign investors to the US and treating them on an equal basis with US investors, whether they are oil producers or other countries.

We do not see the expected increase in foreign investment here as any reason to alter this policy. We received substantial benefits from foreign investment here and have existing authority (like the Department of Defense Industrial Security Regulations) to protect the economy from any threat to national security. Indeed, if we are to finance the increased cost of our energy imports and use our efficient financial system to help recycle oil money to those countries with oil-related balance-of payments problems, we will need increased foreign investment in the United States.

QUESTION - Is the world financial system threatened with collapse because of the very large increase in payments that must be made to the oil producers due to oil price rise?

ANSWER - The oil price rise poses serious problems for the world economy -- especially cruel ones for many of the poorest nations. But the world financial system, both the private and official sectors, is strong. It is adapting rapidly to the needs of the situation. There will be strains, inevitably, and governments are watching the situation closely. But I see no threat of collapse. The framework for international cooperation for dealing with such financial problems is highly developed, and we stay in close contact with our partners abroad on these matters.