

REPUBLICAN LEADERSHIP MEETING

8:00 A.M. Tuesday
November 4, 1975

Cabinet Room

1) Default Procedure

2) The cut - members
cut

3) Budget

4) ~~of~~ members, & other assistance

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THE WHITE HOUSE

WASHINGTON

November 3, 1975

MEETING WITH REPUBLICAN CONGRESSIONAL LEADERS

Tuesday, November 4, 1975
8:00-9:30 a.m. (90 minutes)
The Cabinet Room

From: Max L. Friedersdorf *MLF*

I. PURPOSE

To discuss with the Republican Congressional leaders the subjects of New York City, tax and spending cuts, energy, Middle East military assistance package and consumer protection legislation.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background:

1. Guaranteed loan legislation to bail out New York City is moving in both Houses and may be on the Senate Floor this week. In the House the guaranteed loan proposal is likely to be joined with the President's Bankruptcy Act amendment.
2. Representative Caldwell Butler and Senator Roman Hruska, both of whom accepted for today's meeting, introduced the President's bankruptcy legislation.
3. House Ways and Means Committee is in it's final review and mark-up of tax cut legislation. Final Committee vote could come on Wednesday. Bill Simon has been working closely with the Minority and Joe Waggoner to have the President's tax cut and spending reduction proposals considered.
4. House and Senate conferees could conclude work this week on the energy bill (S.622/H.R. 7014). The conference is at a critical stage with the pricing provision to be resolved.
5. The President's request for military assistance for Israel and Egypt was submitted last week. Secretary Kissinger will testify on Friday, November 7, before the House International Relations Committee, and mark-up is scheduled to start next week. In the Senate, Sparkman is starting hearings on the security assistance bill.

6. H.R. 7575, a bill creating a Consumer Protection Agency, will be on the House Floor this week. The Republican leadership, led by John Erlenborn, is mounting a strong fight against the bill. The Republican whip check is encouraging and enough votes seem assured to sustain a veto, and possibly defeat the bill outright on the Floor.

B. Participants: See TAB A

C. Press Plan:

The Press Office has announced the meeting. Press and White House photographers.

III. AGENDA - See TAB B

IV. TALKING POINTS - See TAB C

1. We have a heavy agenda today, gentlemen, on five issues of great importance.
2. Those five subjects which I would like to address today include the New York City financial situation, my tax cut and spending reduction requests, energy, our Middle East security assistance request, and consumer protection.
3. In addition to our regular leadership, we have here today the appropriate Minority Members from the jurisdictional Committees, as well as our own Administration people with responsibilities in these areas.
4. Let us first discuss the subject of New York City.

PARTICIPANTS

The President
The Vice President
The Secretary of State
The Secretary of the Treasury
The Administrator of FEA

HOUSE

John Rhodes
Bob Michel
Sam Devine
Jack Edwards
Lou Frey
Barber Conable
Jimmy Quillen
Guy Vander Jagt
Ed Hutchinson
Caldwell Butler
Al Johnson
Stew McKinney
Herm Schneebeli
Bud Brown
Bill Broomfield
Frank Horton
John Erlenborn
Del Latta
Al Cederberg

SENATE

Bob Griffin
Bob Stafford
Ted Stevens
Carl Curtis
John Tower
Roman Hruska
Paul Fannin
Cliff Case
Henry Bellmon
Milt Young

STAFF

Don Rumsfeld
Bob Hartmann
Jack Marsh
Phil Buchen
Ron Nessen
Max Friedersdorf
Jim Cannon
Jim Lynn
Bill Seidman
Alan Greenspan
Bill Baroody
Dick Cheney
Brent Scowcroft
Doug Bennett
Vern Loen
Bill Kendall
Pat O'Donnell
Charles Leppert
Tom Loeffler
Bob Wolthuis

REGRETS

Sen. Hugh Scott - out of town
Rep. John Anderson - out of town

AGENDA

- 8:00-8:05 a.m.
(5 minutes) The President opens the meeting, announces the agenda, and introduces the subject of New York City's financial problems.
- 8:05-8:15 a.m.
(10 minutes) The President requests Bill Seidman and Bill Simon to comment on New York City.
- 8:15-8:20 a.m.
(5 minutes) The President requests the leaders to comment on New York City. (Senator Hruska and Rep. Caldwell Butler will attend. They are the ranking Minority Members on the Judiciary Subcommittee for the bankruptcy bill.)
- 8:20-8:25 a.m.
(5 minutes) The President introduces the subject of his tax cut, spending reduction proposals.
- 8:25-8:30 a.m.
(5 minutes) The President calls on Alan Greenspan and Bill Simon for comments on the Tax bill. (Simon has been meeting regularly with Ways and Means Minority Members on Committee strategy.)
- 8:30-8:35 a.m.
(5 minutes) The President calls on the leaders for comments on the tax bill. (Herm Schneebeli, Barber Conable and Carl Curtis will be in attendance.)
- 8:35-8:40 a.m.
(5 minutes) The President introduces the subject of energy and calls upon Frank Zarb for comment.
- 8:40-8:45 a.m.
(5 minutes) The President requests comments from the leaders on the energy conference, and natural gas. (Paul Fannin and Bud Brown will be in attendance.)
- 8:45-8:50 a.m.
(5 minutes) The President introduces the subject of military assistance to the Middle East and calls upon Secretary Kissinger for comment.
- 8:50-9:00 a.m.
(10 minutes) The President requests comments from the leaders on Middle East security assistance. (Senator Case and Rep. Bill Broomfield will be in attendance.)
- 9:00-9:05 a.m.
(5 minutes) The President introduces the subject of consumer protection. (Bob Michel will have a good whip check report; John Erlenborn, who is the chief opponent will be in attendance, as will Frank Horton, a proponent of the objectionable bill.)
- 9:15-9:30 a.m.
(15 minutes) The President suggest the leaders may wish to discuss other subjects in the brief time remaining. (Other subjects which may be raised include the Schlesinger change, Rockefeller statement, situs picketing which is on the Senate Floor this week, 200 Mile Limit which is in Senate mark-up

TALKING POINTS

1. I continue to be concerned about the citizens of New York City in the event of default. As I've said in the past, I think it imperative that essential services be maintained. I still believe that the City and State have it within their power to avoid a default, and I am continuing to keep abreast of the New York situation through my economic advisors.
2. I understand that the Senate and House Banking Committees have reported legislation which would provide financial assistance prior to default and also contain provisions authorizing essential services after default. Neither of these bills requires the Executive Branch to provide funds to prevent a default.
3. I would like to have your views on these bills.

Seidman
11/3/75

TALKING POINTS
ON ENERGY
FOR REPUBLICAN
LEADERSHIP MEETING

1. I am pleased that S.2310, providing for both emergency natural gas legislation and long range deregulation, passed the Senate. It is my hope that the House Commerce Committee will begin early deliberation on a companion bill which would also provide for emergency measures as well as a long range solution -- new natural gas deregulation.
2. The Conference Committee on S.622/H.R.7014 is continuing deliberations this week. I have been pleased with the attitude of the Committee so far in addressing the concerns of the Administration. However, we still have some serious problems with the non-price provisions. The oil pricing provisions, however, have not yet been resolved and I cannot consider the bill acceptable until these provisions are addressed.
3. As you know, the bill extending oil price controls until November 15 did not allow the submission of the Administration decontrol plan before November 1. While the Administration could now submit a plan of its own to Congress, I think we must wait until we see how the Conference is proceeding. I would appreciate your views on this matter as well as your thoughts on strategy with regard to natural gas legislation and the Conference Committee.
4. Frank, do you have anything to add before we begin our discussions?

Talking Points

My program is directed at one of the most important long-term economic problems confronting this country: an accelerating and increasingly uncontrollable rate of increase in federal outlays.

The rate of increase in nondefense budget outlays, in real terms, has been exceeding the real growth of the economy. Payments to individuals in real terms for example, rose at a 11 percent annual rate between fiscal 1965 and fiscal 1975. Real outlays for all nondefense programs, excluding NASA and interest payments, rose at an annual rate of more than 8 percent. (Real GNP rose at a 3-1/2 percent rate.)

The size of the developing problem has been obscured for years by the decline in real defense outlays following the Vietnam War peak. Between fiscal years 1968 and 1975 such outlays declined by an average of 6.4 percent per year. These trends obviously cannot continue if we wish to avoid the fate of New York City. We have three choices -- to sharply curb the growth of domestic programs, to continue the gradual dismantling of our defense establishment, or to raise taxes. Even should we, as a nation, short-sightedly opt for either of the latter two courses of action, we would be only postponing again, the inevitable confronting of the unsustainable real rise in domestic programs.

The full significance of this acceleration in outlays became particularly evident during the spring and summer of this year as the fiscal 1977 budget began to take shape. Accordingly I directed Jim Lynn to devise measures and ways by which the expenditure growth could be slowed. I further directed that any savings be refunded to the American taxpayer in order to maintain private purchasing power and job creation.

One problem that I had in formulating my program was that the temporary tax cut for calendar year 1975 expires on December 31st. Unless the new permanent tax structure were put in place as of January, income tax rates would have risen automatically. In order to reduce the uncertainty with respect to taxes, I decided to recommend my tax legislation to be effective as of January 1, 1976.

This timing problem could produce a small increase in the deficit for the first 9 months of 1976. But as I indicated previously, I would support further curbs in fiscal 1976 expenditures to eliminate this increased deficit.

In any event, the deficit increases are certainly not large when compared with a program of an extension of the current tax withholding rates and prospective outlays. Hence the impact of my program on the path of economic recovery would not be significant.

What would be significant are the effects on the levels of federal outlays during the fiscal years 1978, 1979 and beyond. The \$28 billion cut in the fiscal 1977 rate of increase in outlays, which I have proposed, would help insure that the dangerous acceleration in federal spending would be dramatically slowed and budget balance achieved in FY 1979. This would be a major first step toward defusing the very strong inflationary bias that has gripped our economy.

BACKGROUND

You submitted your FY 1976 Security Assistance Program to Congress on October 30. The overall program levels were as follows:

MAP Material	422.8
MAP Training	30.0
FMS	2374.7
Supporting Assistance	<u>1867.6</u>
Total	4695.1

This total is slightly below the total program figure included in your January budget (\$4.7 billion), but it is significantly higher than the \$2.2 billion program of FY 1975. In addition, the composition of the assistance program has changed significantly. Assistance to Indochina, a major factor in past years, is no longer included. Assistance to the Middle East, on the other hand, has grown significantly and now constitutes about 70% of the entire program.

Moreover, the FMS credit sales and Security Supporting Assistance accounts together make up a greater portion of the total budget figure (up from 75% in '75 to 90% in '76); the MAP grant program a correspondingly smaller portion (down from 25% in '75 to 10% in '76).

The major elements of your Security Assistance proposal include:

- Middle East: \$3.4 billion of which:
 - \$1.5 billion FMS and \$740 million supporting assistance for Israel (with a provision that \$750 million of Israel's FMS indebtedness will be forgiven)
 - \$750 million supporting assistance for Egypt
 - \$100 million MAP, \$75 million FMS, and \$77.5 million supporting assistance for Jordan
 - Syria: \$90 million supporting assistance
- Turkey: \$75 million MAP, \$130 million FMS
- Greece: \$50 million MAP, \$110 million FMS

- Portugal: \$65 million supporting assistance
- Korea: \$74 million MAP, \$126 million FMS
- Thailand: \$28.3 MAP, \$36.7 FMS
- Philippines: \$19.6 MAP, \$17.4 FMS
- Zaire: \$19 million FMS

Initial reaction in Congress to the overall size of the program has been negative. We can expect strong criticism of the proposal to "double" foreign assistance spending at a time of fiscal austerity; deceptive but persuasive comparisons will doubtless be made between generous foreign aid levels and the Administration's unwillingness to aid New York in avoiding default; pressures to reduce program levels, especially MAP grant levels, will be heavy. Our response should be that in setting foreign assistance levels we have been mindful of the need to restrain spending, but also of our worldwide responsibilities and the legitimate security needs of our friends and allies in the light of the far-reaching events of the last year. Substantial Congressional reductions in the program would hamper seriously our ability to work for peace in areas of potential conflict, particularly the Middle East and the Aegean.

LIMITATIONS ON EXECUTIVE ACTION

Congress has taken several steps in recent years to limit Executive discretion in the allocation of security assistance funds and the administration of the MAP and FMS programs. The major limitations placed on Executive action by the Congress include:

- Section 36b of the Foreign Military Sales Act of 1973 requires that the Congress be notified of the intention to transmit a Letter of Offer for any FMS sale over \$25 million. Congress then has twenty calendar days to prohibit the sale by concurrent resolution
- Section 502b of the Foreign Assistance Act expresses the sense of Congress that security assistance should be reduced or terminated to any government which engages in a "consistent pattern of gross violations of human rights.."
- Section 17 of the FAA of 1974 expresses the sense of Congress that the MAP program be "reduced and terminated as rapidly

as feasible consistent with the security and foreign policy requirements of the United States. "

In addition, Senator Case and others have recently introduced an amendment which would prohibit assistance to any country which "objects to the presence" of a US employee sent to the country in connection with activities coming under the FAA or FMSA. The intent of the amendment is to prevent Arab countries such as Saudi Arabia from excluding Jewish-Americans from joint assistance undertakings. The effect, if the amendment is passed in its present form, would be to endanger our security relationship with the Saudis.

There is strong sentiment to strengthen and extend these limitations. Elements in Congress will attempt, for example, to extend notification requirements to licensing of commercial sales of military equipment. Similarly, there is a strong move afoot to arbitrarily end all MAP assistance by the end of FY 1978. You should emphasize your opposition to sweeping Congressional restrictions which limit Executive flexibility in dealing with concrete issues affecting our national security.

TALKING POINTS

- The foreign aid budget is larger this year after declining over the past several years. We have gone over this budget very carefully and believe that every specific part of it is justified and necessary. It is now at the minimum level necessary to serve critical foreign policy needs.
- While the Middle East figures appear large, they are consistent with the needs of the countries involved and are essential to our efforts to bring a permanent peace settlement to that troubled region. Israel, for example, projects a major foreign exchange deficit next year if it is to meet required foreign purchases, including the need to obtain oil from other sources than the Sinai wells. Egypt has a deep need for financial assistance to put her economy on a productive footing, and to rehabilitate industries closed by the war.
- The funds for the Middle East are not a commitment made as part of the recent interim agreement in Sinai. But there is a connection between our settlement efforts, our efforts to ensure security and stability for Israel and our wish to assist the Arab countries toward civilian-oriented economic growth.
- Elsewhere in the world aid levels have stayed roughly the same.
- The action of Congress in partially lifting the arms embargo against Turkey marked an essential first step in our efforts to promote a peaceful and equitable settlement to the Cyprus dispute, and to safeguard our vital strategic interests in the Eastern Mediterranean. My proposal to provide Turkey with substantial MAP and FMS funds is intended as a continuation of these efforts. At the same time, I have proposed a substantial assistance program for Greece in order to strengthen our relations with the Greek Government and to lend our support to Prime Minister Caramanlis in his efforts to rebuild his economy in a framework of security.
- In the wake of events in Indochina, it is extremely important that we ~~continue to demonstrate our support for our friends in Asia.~~ Our assistance is designed to help them bolster their security capabilities to continue their faith in the U.S. as a reliable ally.

(At this point you may wish to call on Secretary Kissinger for additional points.)

- In conclusion, let me say that I realize that there will be criticism of our willingness to help our friends abroad while refusing aid to New York City. This comparison is simply not valid. We are not dealing with an either/or proposition; the two issues are completely different. The foreign assistance we provide bolsters the security of the recipient nations and is an essential adjunct to the support of important U.S. security interests. The choice is not between New York and a foreign country, but between meeting or failing to meet our responsibilities to provide for the national security of all Americans

If MAP phaseout is raised.

- I realize there is support in Congress for an end to grant military assistance. MAP is a decreasing component of our assistance and we are shifting emphasis to foreign military credit sales. Nevertheless, there are instances where grant aid is clearly warranted because of the economic situation of the recipient or a clear and present security need.

If Human Rights issue is raised.

- The Administration is committed to the promotion of human rights worldwide. We will work for human rights wherever our influence can have some effect. But, our assistance relationships with friendly countries are meant to serve primarily the needs of our diplomacy, international security, and world peace. Attempts to use this assistance as leverage on human rights will be ineffective and counterproductive to our national interests.

Agency for Consumer Protection

Talking Points

General Position. I have publicly stated that I will veto legislation to create an Agency for Consumer Protection (ACP). The proposed ACP would have broad powers and discretion to participate in any Federal agency actions affecting consumers.

Its authority would include:

- an extensive right to intervene in proposed Federal actions which "substantially" affect consumer interests by injecting itself into agency proceedings and court actions;
- sweeping independent authority to issue interrogatories to private parties; and
- access to trade secrets and financial information. ACP would not, however, have authority to review labor-related and other matters which also have a great impact on consumer interests.

Objections to Legislation. I am opposed to H.R. 7575 because:

- There is no such thing as a single consumer interest that the agency could fairly represent. An ACP would have to pick and choose among competing consumer views in selecting its stand, thereby leaving other consumer views to fend for themselves.
- ACP would add a new Federal agency and layer to the Federal bureaucracy at a time when both the Congress and Administration should be trying to cut down on the size and cost of government. ACP could cost \$60 million over three years, and could require an additional 1,000 new Federal employees.

- This \$60 million in direct costs does not include the substantial costs to other Federal agencies and to the general economy caused by the inevitable delays, backlogs, and confusion which ACP could create.

- The laws authorizing most Federal agencies' activities specify that they are responsible for protecting the public interest, which includes consumer interests. A separate agency would further encourage existing agencies to be lax in this responsibility. The Administration and Congress should make sure that existing agencies respond to legitimate consumer interests. If Congress and the Administration fully exercised their oversight responsibilities, an ACP would not be necessary.

- I have recently launched a number of steps to make Executive Branch agencies more responsive. In April, I instructed Virginia Knauer to head an effort to examine the means by which Federal agencies consider consumer viewpoints in their decisions and activities. This month all major Executive Branch agencies will publish a consumer representation plan for public comment and hearings. I am also anxious to see that existing laws are reviewed to make sure that outdated or burdensome government requirements do not work against consumers. I have supported repeal of the Retail Price Maintenance laws, for example, because I feel they tend to reduce competition, which is the means for insuring that consumers' wishes are met.