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MEETING WITH
GOP CONGRESSIONAL LEADERSHIP

Wednesday, December 10, 1975

8:00 A. M.

THE PRESIDENT HAS SEEN....

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THE WHITE HOUSE

WASHINGTON

December 9, 1975

MEETING WITH REPUBLICAN CONGRESSIONAL LEADERSHIP

Wednesday, December 10, 1975

8:00-9:30 a.m. (90 minutes)

The Cabinet Room

From: Max L. Friedersdorf

M.L.F.

I. PURPOSE

To report on the President's trip to the Far East and to discuss the issues of energy and tax cut legislation with the Republican Congressional leaders.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background:

1. Both Hugh Scott and Herm Schneebeli have announced plans to retire, and Presidential letters have been sent. The President may wish to again express regret about the plans of Scott and Schneebeli to retire.
2. The President has just returned from a Far Eastern trip to the Peoples Republic of China, Indonesia and the Phillipines.
3. The House has a tax bill providing about \$17 billion in permanent tax reductions comprised of about \$13 billion in personal income tax cuts and \$4 billion in tax reductions for business. Repeated attempts by Republicans in the House to couple the tax reduction bill with a spending ceiling for Fiscal Year 1977 were unsuccessful.
4. The tax bill was taken up by the Senate Finance Committee on Tuesday, December 9. Senator Long supports separating the tax reduction from tax reform and passing a temporary (6 month) tax reduction at the level of current withholding rates coupled with some form of Expanded Stock Ownership program and the earned income credit. Furthermore, Senator Long is convinced that the Senate will not pass a spending limitation on Fiscal Year 1977 expenditures at this time.
5. Energy conferees were scheduled to file the energy bill conference report (S.622) by midnight Tuesday (December 9) and Floor consideration in the House and Senate could occur late this week.

B. Participants: See TAB A

C. Press Plan:

Press Office to announce as a regular Republican leadership meeting; White House and press photographers, if requested.

III. AGENDA

See TAB B

IV. TALKING POINTS

1. China Trip - See TAB C
2. Tax Cut Legislation - TAB D
3. Energy Legislation - See TAB E

PARTICIPANTS

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

HOUSE

John Rhodes
Bob Michel
Sam Devine
Jack Edwards
Barber Conable
Lou Frey
Jimmy Quillen
Guy Vander Jagt
Al Cederberg
Bill Broomfield
Herm Schneebeli
Bud Brown

SENATE

Hugh Scott
Bob Griffin
Carl Curtis
Bob Stafford
John Tower
Ted Stevens
Cliff Case
Milt Young
Paul Fannin
Cliff Hansen

STAFF

Bob Hartmann
Jack Marsh
Dick Cheney
Phil Buchen
Max Friedersdorf
Bill Baroody
Jim Cannon
Jim Lynn
Alan Greenspan
Brent Scowcroft
Bill Seidman
Vern Loen
Bill Kendall
Bill Greener
Pat O'Donnell
Charles Leppert
Tom Loeffler
Bob Wolthuis
Russ Rourke

REGRETS

M.C. John Anderson - out of town

AGENDA

- 8:00-8:15 a.m.
(15 minutes) The President convenes the meeting and reports on his trip to the Far East.
- 8:15-8:30 a.m.
(15 minutes) The President calls on Secretary Kissinger and General Scowcroft for additional comments on the trip.
- 8:30-8:35 a.m.
(5 minutes) The President introduces the subject of the tax bill.
- 8:35-8:40 a.m.
(5 minutes) The President calls upon Secretary Simon for comments on the tax bill.
- 8:40-9:00 a.m.
(20 minutes) The President requests leaders' comments on the tax bill. (Representatives Rhodes, Schneebeli, Conable; Senators Scott and Curtis)
- 9:00-9:05 a.m.
(5 minutes) The President introduces the subject of the energy bill.
- 9:05-9:15 a.m.
(10 minutes) The President calls upon Frank Zarb for status and analysis of the energy bill.
- 9:15-9:30 a.m.
(15 minutes) The President calls upon leaders for comments on the energy bill. (Representative Brown, Senator Fannin)
- 9:30 a.m. The President concludes the meeting.

SECRET

TALKING POINTS

People's Republic of China

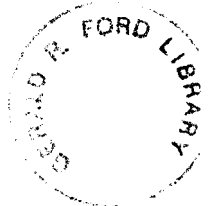
1. I went to China with the intention of sustaining and building on the dialogue which we have established with the leaders in Peking over the last four years. I believe this serves the most fundamental interests of our country: to help shape the evolution of a more stable balance among the great powers; and to create the conditions for a more permanent and realistic relationship with a country with almost a quarter of the world's population. *Mao. Teng.*
2. I went to Peking with no illusions. We clearly have basic areas of disagreement with the Chinese. Quite apart from the differences of philosophy, culture, and social systems, they perceive the state of the world in much more ominous terms than do we. They believe the prospects for a new world war are substantial. They maintain a bitter hostility toward the Soviet Union that is reflected in both political and military confrontation. *Chou En-lai*
3. For all these areas of difference, we did find much in common with the Chinese. Although our approaches to dealing with the Soviet Union differ, given our varying positions in the world and our respective national interests, we share a distrust of Soviet intentions. The Chinese support a strong NATO, as we do. They urge the Japanese to maintain strong ties to the U.S., a policy of obvious value to us. They wish to see Soviet influence excluded from the Middle East. And we both are wary of Moscow's efforts to extend Soviet influence directly or indirectly into such places as Angola, the Indian Subcontinent, and Southeast Asia. I believe my talks with Chairman Mao and Vice Premier Teng strengthened the basis for continuing parallel actions on these issues of common concern. We also clarified our areas of continuing difference. I indicated, for example, that our people find it difficult to accept some of the Chinese criticism of our policies that serve their own interests as well as ours -- as in the Middle East.

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4. On Korea, our public policies clearly differ, but my impression is that the Chinese would not find instability on the peninsula helpful to their security concerns any more than we would. I believe they will oppose the stirring up of trouble there.
5. On Taiwan and the normalization question, the Chinese did not press for a change in the present situation. They know that there are strong feelings in this country, and they see that our influence there keeps the situation stable. At the same time, their interest in the eventual completion of the normalization process has not changed. I believe that it is important that that should at some point take place -- for the larger strategic interests involved -- but there was no attempt to resolve the specific timing and the actual modalities of a new arrangement.
6. As you know from the public announcement, the Chinese very helpfully provided information on seven MIAs lost in past years along the Chinese periphery. Hopefully this may encourage Hanoi to be more forthcoming in accounting for our Indochina MIAs.
7. To summarize, I believe my four days in Peking contributed to the strengthening of our relationship with the People's Republic of China in a manner that will further our efforts to create a more stable international situation.

Indonesia and the Philippines

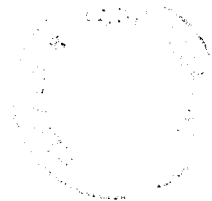
1. My visits to Indonesia and the Philippines were especially useful parts of the Pacific trip. They put our overall relations with the region into perspective in the context of my trip to China and our active dealings with the Japanese this past year.
2. Both President Marcos and President Suharto said that the fall of Vietnam and Cambodia last spring had produced very real questions about the future role of the U.S. in their part of the world.



3. My visit elicited comments from both of them that they do not want the U. S. to retreat to a "fortress America." They want us to play a constructive and responsible role in Asia. I told them this was precisely our intention. My speech at the East-West Center in Hawaii on Sunday was designed to explain to the American people our overall approach to the Pacific region.
4. I was highly impressed by the receptions we received in both countries, particularly in the Philippines. We have many friends and much public good will in these two countries. They are looking to us for leadership and support. I told them both that we want to sustain strong and friendly relations.
5. President Marcos is basically concerned with two aspects of our relationship: achieving more favorable terms of trade for Philippine products, and revising our base arrangements so that it does not appear as though they have no control over them. Marcos genuinely wants the bases to remain. He told me the Chinese had not in any way pressed him for their removal.
6. We agreed that we would negotiate on both subjects in the near future. We hope to include investment guarantees that would be helpful to American investors, as well as trade arrangements which are in Philippine interests, in our overall treaty. While we may agree to some changes in the base arrangements, there will be no reduction in our operating capability.
7. Indonesia is a country which merits our close attention and interest. It is the fifth most populous country in the world. It is also rich in oil resources, although its per capita income is still very low.
8. Indonesia is a member of OPEC, and we have tended to lump it together with the other OPEC countries when enacting restrictive or retaliatory legislation. I do not believe this has been a wise course. Indonesia has not in the past supported the harshest OPEC actions, such as the embargo and the full amount of the recent ten percent price increase.



9. The Indonesians are concerned about the possible spread of Communist subversion in their country. They keep Peking and Hanoi at arms length and try to react quickly to possible threats.
10. The Indonesians also indicated they want to encourage U. S. investment in their country.



TALKING POINTS: TAX REDUCTION AND SPENDING RESTRAINT PROGRAM

1. There are two broad objectives of my tax reduction and spending restraint program. First, the reduction in the level or rate of growth in Federal spending was designed to make a start toward regaining control over the excessive rise in government expenditures which has been a major force behind the inflation of recent years.
2. Secondly, the tax reduction was designed to provide relief for the American taxpayer who has witnessed a larger and larger portion of his income sent to Washington in the form of taxes. My tax program was structured to focus relief among those middle income Americans who have borne the major burden of greater taxes.
3. I have insisted on coupling my proposed tax reduction with a comparable reduction in the growth of Federal spending. To legislate a permanent reduction in Federal revenues without a simultaneous reduction in the level of Federal expenditures is to delude our constituents that we are providing them a tax cut. We only substitute the capricious tax of inflation for the income tax we seemingly cut.

We must summon the political courage to consider both tax reductions and expenditure restraints together. We must avoid the temptation to do what is easy today and put off what is difficult until later.

4. I am convinced that the great majority of Americans desire sustained economic growth without inflation and are willing to support the measures necessary to achieve this goal.

This is the purpose of my program. It is a program which is fair and achievable and a program for which I am proud to request your wholehearted support.

5. Some have suggested that establishing a limitation on Federal spending in FY 1977 now disrupts the congressional budget process. But this is a convenient criticism rather than a substantive one. To recognize and explicitly acknowledge the parameters within which one is going to make budgetary decisions is a constructive rather than a disruptive step. Establishing a level of Federal spending permits all those in the government to realize the bounds within which they must operate. We all know from our individual experience that we should not decide how much we would like to spend first and then see if we have enough resources to accommodate that level of spending. Rather, we determine what level of spending we can afford and then make our decisions within that constraint.

Comparison of Tax Cuts Relative to 1972-74 Law
(in \$ billions assumes 1975 Income Level)

<u>Individual Cuts</u>	<u>Tax Reduction Act of 1975</u>	<u>H.R. 10612</u>	<u>President's Proposal</u>
-- standard deduction changes	\$ 2.5	\$ 2.5	\$ 4.0
-- exemption/taxable income credit	\$ 5.3	\$10.2	--
-- personal exemption	--	--	\$10.1
-- rate changes	--	--	\$ 6.6
-- earned income credit <u>1/</u>	\$ 1.5	--	--
-- house purchase credit	<u>\$ 0.6</u>	<u>--</u>	<u>--</u>
	\$ 9.9	\$12.7	\$20.7
 <u>Business Cuts</u>			
-- investment credit	\$ 3.3 <u>2/</u>	3.0	3.0
-- small business rate and surtax exemption changes	\$ 1.5	\$ 1.5	\$ 1.5
-- 2% corporate rate reduction	--	--	\$ 2.2
-- Six point utility package	--	--	\$ 0.6
	<u>\$ 4.7</u>	<u>\$ 4.5</u>	<u>\$ 7.2</u>
Total Tax Cuts	<u>\$14.6</u>	<u>\$17.2</u>	<u>\$27.9</u>

1/ Includes both refundable and non-refundable portions.

2/ Includes extra 1 percent credit for ESOP's.

(For additional detail see Annex Tables 21 and 22.)

TALKING POINTS FOR
REPUBLICAN LEADERSHIP
MEETING
WEDNESDAY, DECEMBER 10, 1975

1. I have not, as yet, made up my mind on whether I will sign the omnibus energy bill now in Conference. This will be a tough decision on my part and while I have heard from most of my advisors, I will not make a final decision until I see the final bill.
2. On the one hand, this bill incorporates several of my major proposals outlined last January and begins the decontrol process, so long sought by this Administration. And while I feel this is the best possible piece of energy legislation I can expect before the election, it does have several major drawbacks, particularly the decontrol provision which will not provide adequate incentive for increased production in the next two years.
3. I hope, nevertheless, that whatever my final decision is, you will support that decision in the Congress.
4. As you know, natural gas legislation is expected to reach the House floor for a vote in the near future. Frank, will you please give us a status report on this legislation?