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THE WHITE HOUSE

WASHINGTON

Notes of the Cabinet Meeting, January 29th, 1975.
President arrived in the Cabinet Room, 11:02 a.m.
Press arrived 11:03 a.m. Press departed 11:06 a.m.
President opened the meeting.

The President in opening the meeting made two strong points: 1) The three hundred million dollar Vietnam supplemental and the 222 million dollar Cambodian supplemental have been submitted to the Hill. We are for it; the Cabinet and Administration must pledge its total support to this bill. It is vital and it is right; and we will stand behind it 100%. 2) We are dealing with a delicate economic plan. Our energy and economic plan will be submitted in one bill, all in one writing, somewhere between 7 and 8 hundred pages; it will be a single plan. Congress doesn't even have a bill, let alone a total plan. We must be unified in our support of that plan, we must be strong and tough; and I want you to know that I will make the compromises, no one else in the Executive Branch is authorized to make concessions or compromises and if you do, you are wrong. I will make the compromises.



Secretary Morton then asked the President, do we have a talking paper on the supplemental so we will be prepared either for testimony or for press conferences as we travel around the country during the next thirty days?

Secretary Simon agreed with Secretary Morton indicating that a talking paper was important; but he added that the important point to understand is that this Administration is not asking for anymore than Congress has already authorized. That is the key point in the argument.

The President then indicated that there was a column in the morning's paper by Goodwin in the Christian Science Monitor where he enunciated the results of a fall in Vietnam and the guilt complex that would be inherent in the United States' position in having withdrawn support from Vietnam. The President agrees with that position.

Secretary Morton then asked, what can that kind of money do in Vietnam and Cambodia?

Secretary Schlesinger - The Congress has authorized 90 million dollars per quarter in aid to Vietnam and Cambodia. The Congress then passed a bill on 12/31/74 squeezing the quarterly payments by almost 50%. With the result of this decrease in aid, the Vietcong will succeed in overrunning South Vietnam by late spring. Phnom Phen will fall by March or April. They are on such dire straights that they are rationing hand-grenades. It must be understood that 300 million dollars will not buy any new equipment, but it will buy ammunition, gasoline, oil, and other essential ingredients which will allow them time to build their own forces.

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Secretary Kissinger--We are asking for only enough to make it. We must have enough! We are out of Vietnam, we brought 550,000 troops home with honor; but, now the dissenters who wanted those troops out, are asking for even more. The dissenters want to retroactively destroy everything that we have achieved. We maintain that this will hurt our credibility worldwide. Our allies must know that we will stand by them and by any agreements we have with them. It will hurt our international negotiating power, if we do not stand in South Vietnam. We will need this support for two, perhaps for three years before the Vietnamese will be able to handle themselves adequately.

The President--The same people who said get the troops out, get the troops out, and we did, now are backing away from the aid they said they would support in place of those troops.

Vice President Rockefeller--Mr. President, this deals a severe blow to our international negotiating ability, unless we stand by these two small countries. This must be understood by the American people, that we stand by our allies and deliver on commitments made. This is a necessity for our global relationships.

The President then added--Our global relationships are very important. It is necessary for people around the world to know that we will stand by our allies. As we deal internationally, what we say in the Middle East or Southeast Asia or in detente with Russia and China, that they can count on those statements as being backed by the American people, and the American Congress. It will impair our international negotiating ability if it always hinges on the domestic question of whether or not Congress will approve.

As we start the main substantive portion of our Cabinet Meeting, I do want to thank Claude, Bill, and Roy for the outstanding service they have given to our Country. I know that I, and all of you, appreciate the effort and service they have put forth. I want to mention also that next Monday afternoon and Tuesday, I will be travelling to Atlanta. We have a full day of activities planned. I think that these regional trips are very important and I would like full Cabinet support and I would like the Cabinet to participate as much as possible. Our people will be in touch with you about this.

We want to discuss the new budget act, if all the deferrals and recisions go through, we will save 3 billion dollars in '75 and 17 billion dollars in '76. Now we didn't do well last year; REA was very bad last year. Congress was wrong; 400 million dollars in limbo now that we may have to spend as the result of a Congressional decision last year.

Secretary Weinberger--Actually more savings than that, Mr. President. It looks like 300 million dollars in '75 and 500 million dollars in '76 for HEW. The legislation will be submitted soon; it is at the White House now and that legislation will save a considerable amount.

Secretary Brinegar--Most of our legislation is in the referral category. About 5 million dollars will be handled in the new highway bill that we will submit. As you know, the impoundment started sometime ago. Our strategy is to design a new highway bill and make the budget expenditures appropriate for '75 and '76.

The new bill is good; we think that we will have an excellent chance. The bill is ready to go through now and will be submitted this week.

Under Secretary Campbell--Our legislative strategy is the same as of the Department of Transportation. There will be new legislation which will be introduced. Our great problem is food stamps and that bill will be very, very difficult.

Mr. Ash--At 10:00 AM on Monday, the President will sign the Budget Bill. On Saturday, the Cabinet officers will receive the budget material and an overview of all key issues. It will deal with the major new features of the budget and the two major areas of the budget. I would like to make a slide presentation now of some graphics which will give you a more detailed look at the budget we are proposing. (Note charts at Tab A.)

After Roy Ash's presentation, there followed a general discussion among the Cabinet officers and the President about the budget.

Secretary Weinberger--We find it extremely hard to get people to introduce new legislation to help us. Senator Hruska finally agreed to introduce one bill; but it was difficult to do.

Secretary Simon--I will help you do that.

The President--Unless Congress agrees to go along with our deferrals and recisions, there will be a 71 or 72 billion dollar deficit.

Vice President Rockefeller--May I ask this question please, Mr. Ash: Do we realistically expect to achieve any of these goals and projections which you have outlined?

Mr. Ash--All are projections. We are assuming 17.6 billion dollars in deferrals and recisions. If that changes drastically, and the Congress does not go along with us, then all projections will change as well.

Secretary Schlesinger--Equally important to understand is that there is no net fiscal stimulus if these totals are met.

The President--It is important to talk about the tax cut, but equally important to talk of the curtailment of Federal spending. They go hand in hand. The two cannot be separated in our approach to the budget.

Mr. Ash--I would like to make some general comments of historical nature about the budget and its change. In 1950, the Federal debt was equal to 80% of the GNP. In 1974, the Federal debt was equal to 38% of the GNP. So we have seen a substantial reduction in Federal debt over the last 24 years. The real story of the Federal budget can be seen in the following comments: In the 1950's, the budget went up and down appropriately with the increase of activities in Korea and then the decrease. And when Vietnam came along, the spending went up for Vietnam, but the spending stayed up. As a result from 1960 to 1968, we have 50% more dollars in Federal spending; most of these are related to individual payouts. The biggest reasons for increasing deficits have been the payments for individuals. They have been growing at a rate of



8 1/2 to 9% per year, while the GNP has been growing at a rate only 3 1/2% per year. In the year 2,000, 1976 dollar expenditures for all governments, state, local, and federal, will be 2 trillion dollars. The GNP is expected to be 3.4 trillion dollars. Over 50% of the GNP will be committed dollars by the year 2,000 and this is what the President was alluding to in his speech before the Conference Board last week.

Vice President Rockefeller--If these projections are met, it doesn't seem to me that we will bring state government spending down. We need to move from a thousand different categorical grants to block grants.

Secretary Weinberger--Congress doesn't seem to be willing Mr. Vice President, to change that grant structure. They are very uncooperative.

The President--Roy, do you have figures on the Defense budget vs. the social programs.

Mr. Ash--Yes, we do and they will be included in the package which you will receive on Saturday.

Secretary Dent--It seems that an important part of this understanding of the budget is that a decline in the GNP is a new twist. Spending is based on a smaller GNP.

Secretary Weinberger--There is no need to eliminate all creative programs, but we must be able to substitute better programs for existing programs without adding to the pile and making it an increasing Federal expenditure. Congress doesn't seem to want to cooperate in substituting a better program for an existing program.

The President--We have developed a hodgepodge social program. We need a new, totally comprehensive program in social reform.

Vice President Rockefeller--Mr. President, this is a very serious political question. State and local governments will see this as a real blow and I fear for you politically. You must be able to offer them an alternative, a new program, rather than changing the structure seriously. You see, in order to get Federal funds on the categorical grants, state governments must have what is called an enrichment program. In other words, they must commit to spend dollars before the Federal government will match them; therefore, state and local governments will continue spiraling upward in dollars spent before they will get a commitment for new funds. Therefore, I would urge you to be prepared to talk about your philosophy and feelings on categorical vs. block grants; and, if you think it was bad having the New England governors down here, in my judgement, you will have all 50 governors and most mayors knocking on your door and wanting answers, unless we have an answer for them.

The President--Well Nelson, my personal philosophy is to move from categorical grants to block grants; and I am committed to that. It does give states and local governments more flexibility and perhaps we should make that view more widely known.



Under Secretary Campbell--It is a very realistic problem and that is dealing with the second layer of bureaucracy, because regardless of what kind of leadership we offer the departments, that second layer of bureaucracy wants to see categorical grants continued.

Secretary Morton--You are right Mr. Campbell, it is a real problem. I have got 70,000 people under me and 35,000 of them today are up on the Hill talking with the Congressmen about categorical grants. Everytime I talk to a Congressman, they seemed to have talked with somebody in the parks department or some other area below that second level of bureaucracy and they are making important policy decisions.

The President--This is something that we will have to look at very carefully, but let's turn to the Congressional area. Max, do you have a report for us from the Congress?

Max Friedersdorf--Organization of the Congress has been the major problem which has been in the newspapers and confronting the members of the House and Senate for the past three weeks. They now seem to be organized and ready to move off on various issues. There is a crucial vote coming up next week that all of you need to know about. That is the tariff vote. The House tax bill may get to the floor by tomorrow. So begin to talk to your House and Senate members and encourage them in the direction the Administration wants to go.

The President--Jack, do you have anything for us?

Mr. Marsh--We have developed a task force on energy that will handle all the legislation in the President's package and that task force has spent considerable time up on the Hill educating the members of Congress to the President's position. The second point that I would like to mention to you, is what we discussed previously, it is essential that you meet the new members of Congress. A great example of that is Peter Brennan, who has met every single new member of Congress in the last three weeks. I urge each of you to do this as it can strengthen our position considerably. Assignments will be given out to you and your legislative departments, we must see these people before the vote; it doesn't do us any good to see them after. Also, the comparison on the Ullman bill vs. the Administration's bill will be out this week, and will be in your hands as soon as we get it done.

The President--With the bill on the floor this week, it is important that we understand our position. The Congress is tying the debt ceiling limit to the President's ability to go with the higher tariff. You should understand that that is what we want; we want the two bills tied together. We will veto the bill if it comes to us in that form and there are not enough votes to override in either the House or the Senate. Tell your Congressmen to vote for the debt ceiling and vote against the President's ability to impose a tariff. The White House view on this and the Administration's view is that the Congress is going backwards by using a parliamentary gimmick to hurt the President's ability to handle the energy crisis and that is how we have to sell it to the public. I would like Alan Greenspan to now give us a brief analysis of the economic sector.

Mr. Greenspan--While the decline continues, it is declining at a slower rate now than it was previously. The decline is giving rise to inventory liquidation which is a good sign. That cannot go on forever. I believe that we are beginning to see the first signs of a bottoming out which may take place in late summer. Again in January we will see a substantial increase in unemployment, however, the layoffs are minimal. I believe that beginning in March, we will see some new signs. Signs that there is revitalization of the economy and that the decline is at least slowing down considerably. You may also expect to see a sharp decline in GNP for the first quarter.

The President--This ends the substantive portion of the meeting. As I mentioned when we started the meeting, I wanted to give Claude, Bill and Roy an opportunity to make whatever comments and observations they choose at this time.

Attorney General Saxbe--Mr. President, it has been an honor to serve with you and serve my country and with the Cabinet. I believe that when we started our job, we wanted to remove the Justice Department from the political arena and leave it objective and professional. I believe that we are doing that. Attorney General Designate Levi will find the Department competent, proud, and in good shape; although, he will have problems as any Cabinet officer does have. In the time that I have served in the Cabinet, this morning was one of the most thrilling. To hear the President offer that strong statement of leadership which this country so badly needs; and I admire you for that. I want to thank my fellow Cabinet officers for the privilege and opportunity of working with them and serving with them. If you continue to give us that strong leadership, Mr. President, I see nothing but good times ahead.

Secretary Brinegar--I have prepared two minutes of comments about observations I would like to make. First, may I say that the strength of the Cabinet is great, there are really good, capable men serving this Administration. The Department of Transportation is in good shape. Transportation generally is better than one thinks; there are problems. The long-term problem is how do we clear the regulatory process that is strangling the railroads; and very short-term, the possibility of financial collapse of TWA and Pan American. I am leaving Mr. Coleman a lot of headaches, a lot of problems, and a lot of challenges. I have enjoyed my time here and I look forward in serving again at some future point; but, I am anxious to return to the private sector.

Mr. Ash--The Cabinet members are very able and I have enjoyed working with them. It is fun to be at the focal point of the most responsible job in the whole world and it has been a pleasure to assist you, Mr. President. May I say also that this country needs strong leadership and they are going to need it this time next year, two years from now, four years from now, five years from now, six years from now; and Mr. President, I urge you two years from last week to be our President again. I think that you should make a run at it; I think that yours is the kind of leadership the country needs. It has been a pleasure to have worked with you.

The Cabinet Meeting ended at 12:32 PM

