

THE WHITE HOUSE

WASHINGTON

April 1, 1976

MEMORANDUM FOR ROBERT T. HARTMANN *RTH*

FROM: GWEN ANDERSON *GA*

SUBJECT: REAGAN SPEECH

In response to your request for the quickest possible research check on the speech by former Governor Reagan, we checked the drafts of the candidate's speech for factual accuracy. See attached.

In checking any changes in the pre-released text as compared to the speech as it was actually delivered on TV, there were 28 minor changes, according to Bruce Wagner of Campaign '76 (833-8950). Of the 28 changes, however, there was only one factual change on page 11. That changed the figure from 45% to 43%.

This preliminary report has been compiled by three of our five research staff members headed by Agnes Waldron. The other two researchers have been handling the President's speech texts for Wisconsin. We have been assisted by the NSC, FEA, OMB, and PFC staff members cited as sources.

The economic section, despite some data provided by CEA, is obviously incomplete, but the material promised by Mr. Seidman is not yet available at this writing (4 p.m.).

*Mr. Seidman's memo (rec'd 6:30 pm) is attached as separate section.*



ERRORS IN CANDIDATE REAGAN'S  
SPEECH OF MARCH 31, 1976

Page 1 - paragraph 3 - Reagan Statement

In this election season the White House is telling us a solid economic recovery is taking place. It claims a slight drop in unemployment. It says that prices aren't going up as fast, but they are still going up, and that the stock market has shown some gains. But, in fact, things seem just about as they were back in the 1972 election year. Remember, we were also coming out of a recession then. Inflation has been running at around 6%. Unemployment about 7. Remember, too, the upsurge and the optimism lasted through the election year and into 1973. And then, the roof fell in. Once again we had unemployment. Only this time not 7%, more than 10. And inflation -- wasn't 6%, it was 12%.

RESPONSE -- The peak of unemployment -- 8.9% -- was reached in May, 1975. Latest unemployment figures -- February, 1976 -- show the rate was 7.6%. But Mr. Reagan in deprecating these figures failed to note that total employment has returned to the pre-recession peak of July 1974 with 86.3 million at work.

Prices are not going up as fast. Inflation in 1974 was at an annual rate of 12.2%. Today it is at 6.3%.

In 1972 we were further into recovery than we are today. But Mr. Reagan has his statistical facts concerning 1973-74 somewhat askew. The peak unemployment figure was reached in May 1975 at 8.9%. It never reached 10% as he states.

Source -- John Davies, CEA



Page 2 - paragraph 2

Now, in this election year 1976, we're told we're coming out of this recession. Just because inflation and unemployment rates have fallen, to what they were at the worst of the previous recession. If history repeats itself will we be talking recovery four years from now merely because we've reduced inflation from 25% to 12%.

RESPONSE -- All of the figures -- retail sales, GNP, durable goods, housing, personal income, etc. clearly show we are moving out of the recession -- the Administration's statements are not based merely on improved unemployment and cost-of-living statistics as Mr. Reagan implies.



Page 2 - paragraph 3

The fact is, we'll never build a lasting economic recovery by going deeper into debt at a faster rate than we ever have before. It took this nation 166 years -- until the middle of World War II -- to finally accumulate a debt of \$95 billion. It took this administration just the last 12 months to add \$95 billion to the debt. And this administration has run up almost one-fourth of our total national debt in just these short nineteen months.

RESPONSE -- The national debt reached \$72 billion in 1942. The current estimated deficit for FY 1976 is \$76.19 billion. Gross federal debt for FY 1976 is estimated at \$634 billion. Thus the administration's share of the national debt is 15.6¢ not 25%.



Page 2 - paragraph 4

Inflation is the cause of recession and unemployment. And we're not going to have real prosperity or recovery until we stop fighting the symptoms and start fighting the disease. There's only one cause for inflation -- government spending more than government takes in. The cure is a balanced budget. Ah, but they tell us, 80% of the budget is uncontrollable. It's fixed by laws passed by Congress.

RESPONSE -- The President has offered specific plans for a balanced budget. But a large part of the cause of the current recession is the result of past fiscal policies, rapid increases in federal expenditures. There is no quick fix for problems created a decade or more ago. A rapid return to a balanced budget as Mr. Reagan calls for would provide faster progress on inflation, but at the same time, it would mean a long delay in recovery and much longer period of high unemployment.

The budget for FY 1977 estimates that 77.1% of the budget is uncontrollable.



Page 3 - last 2 sentences of top paragraph

But laws passed by Congress can be repealed by Congress. And, if Congress is unwilling to do this, then isn't it time we elect a Congress that will?

RESPONSE -- The open-ended or uncontrollable program caol for outlays of \$383.1 billion in FY 1977 (plus the third quarter) \$236.8 billion is allocated to payments for individuals. Doe Mr. Reagan want to repeal the following:

Social Security and Railroad Retirement -- \$108.0 billion

Federal Employees Retirement benefits -- \$22.9 billion

Veterans Benefits -- \$16.3 billion

Medicare and Medicaid -- \$38.4 billion

Public Assistance programs -- \$26.0 billion



Page 3 - paragraph 2

Soon after he took office, Mr. Ford promised he would end inflation. Indeed, he declared war on inflation. And, we all donned those WIN buttons to "Whip Inflation Now." Unfortunately, the war -- it is never really started -- was soon over. Mr. Ford, without WIN button, appeared on TV, and promised he absolutely would not allow the Federal deficit to exceed \$60 billion (which incidentally was \$5 billion more than the biggest previous deficit we'd ever had). Later he told us it might be as much as \$70 billion. Now we learn it's \$80 billion or more.

RESPONSE -- The President did draw a line at a deficit of \$60 billion on March 29, 1975 in a televised address. The largest single year deficit occurred in 1943 -- \$57.4 billion. The difference between 57.4 and 60 billion is of course \$3.6 billion. The current estimated deficit for FY 76 is not \$80 billion or more, it is \$76.9 billion.



Page 3 - paragraph 3

Then came a White House proposal for a \$28 billion tax cut, to be matched by a \$28 billion cut in the proposed spending -- not in the present spending, but in the proposed spending in the new budget. Well, my question then and my question now is, if there was \$28 billion in the new budget that could be cut, what was it doing there in the first place?

RESPONSE -- The proposed \$28 billion cut was not a cut in the budget as suggested in the next to last line, it was a \$28 billion cut in Federal expenditures in programs already in place. The President's proposal was an effort to prevent further increases in spending.

SOURCE: John Davies, CEA





Page 4 - paragraph 1

It would have been nice if they'd thought of some arrangement like that for the rest of us. They could, for example, correct a great unfairness that now exists in our tax system. Today, when you get a cost of living pay raise -- one that just keeps you even with purchasing power -- it often moves you up into a higher tax bracket. This means you pay a higher percentage in tax, but you reduce your purchasing power. Last year, because of this inequity, the government took in \$ 7 billion in undeserved profit in the income tax alone, and this year they'll do even better. Now isn't it time that Congress looked after your welfare as well as its own?

RESPONSE -- Inflation does indeed increase taxes. The President has recognized this and has been successful in reducing the inflation rate by 50%. He has also proposed curbing the rise in expenditures and matched this with a comparable tax cut.

SOURCE: John Davies, CEA



Page 5 - paragraph 3

Ending inflation is the only long range and lasting answer to the problem of unemployment. The Washington Establishment is not the answer. It's the problem. Its tax policies, its harassing regulations, its confiscation of investment capital to pay for its deficits keeps business and industry from expanding to meet your needs and to provide the jobs we all need.

RESPONSE -- The President's economic policies are anti-inflationary. That is why he has vetoed 46 bills and saved the taxpayers \$13 billion.

SOURCE: Pete Modelin, OMB



Page 6 - paragraph 2

At the time we were only importing a small percentage of our oil. Yet, the Arab boycott caused half a million Americans to lose their jobs when plants closed down for lack of fuel. Today, it's almost three years later and "Project Independence" has become "Project Dependence." Congress has adopted an energy bill so bad we were led to believe Mr. Ford would veto it. Instead he signed it. And, almost instantly, drilling rigs all over our land started shutting down. Now, for the first time in our history, we are importing more oil than we produce. How many Americans will be laid off if there is another boycott? The energy bill is a disaster that never should have been signed.

RESPONSE -- Candidate Reagan stated we were only importing a small percentage of our oil -- actually 35%. When he stated it's almost three years -- in fact -- it is only two years March, 1974 to the present. The amount of oil that we imported during 1975 was 6.0 bm/d, and we produced 8.4 mb/d.

SOURCE: FEA, Bruce Pasternak and Jim Peterson



SOURCE: CHRIS RATHKOPH/FRANK ZARB  
FEA -- Administrator's Office

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Paragraph 2

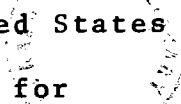
Reagan Statement:

Today, it's almost three years later and "Project Independence" has become "Project Dependence." Congress has adopted an energy bill so bad we were led to believe Mr. Ford would veto it. Instead he signed it.

RESPONSE:

The Energy Policy and Conservation Act passed by the Congress in December signaled an end to the year long debate between the Congress and the Administration on oil pricing policy and opens the way to an orderly phasing out of controls on domestic oil over forty months, thereby stimulating our own oil production. Over time, this legislation, by removing controls, should give industry sufficient incentive to explore, develop and produce new fields in the outer continental shelf, Alaska, and potential new reserves in the lower forty-eight states. Removal of these controls at the end of forty months should increase domestic production by more than one million barrels per day by 1985 and reduce imports by about three million barrels per day.

More importantly, this bill enables the United States to meet a substantial portion of the mid-term goals for



energy independence set forth over a year ago. Incorporated in this are authorities for a strategic storage system, conversion of oil and gas-fired utility and industrial plants to coal, energy efficiency labeling, emergency authorities for use in the event of another embargo, and the authority we need to fulfill our international agreements with other oil consuming nations. These provisions will directly reduce the nation's dependency on foreign oil by almost two million barrels per day by 1985. The strategic storage system and the stand-by authority will enable the United States to withstand a future embargo of about four million barrels per day.



Page 7 - paragraph 3

Page 9 - paragraph 2

California was faced with insolvency and on the verge of bankruptcy. We had to increase taxes. Well, this came very hard for me because I felt taxes were already too great a burden. I told the people the increase, in my mind, was temporary and that, as soon as we could, we'd return their money to them.

This was government-by-the-people proving that it works when the people work at it. When we ended our eight years, we turned over to the incoming administration a balance budget. A \$500 million surplus. And, virtually the same number of employees we'd started with eight years before. Even though the increase in population had given some departments a two-thirds increase in work load.

RESPONSE -- The number of state employees increased from 113,779 in 1967 to 127,929 in 1975. Under Reagan, there were three huge tax increases totalling more than \$2 billion in 1967.

In 1967, there was an increase of \$967 million, the largest state tax hike in the nation's history. Of this, \$2280 million went for one-time deficit payment and state property tax relief. In 1971, the increase was \$488 million with \$150 million for property tax relief. In 1972, an increase of \$682 million with \$650 million for property tax relief. Much of this property tax relief was short term, but the overall tax increases were permanent.

State personal income tax revenues went from \$500 million to \$2.5 billion, a 500% increase. Taxable bracket levies were increased from 7% to 11%. The size of the brackets was reduced so that taxpayers reached the highest bracket more quickly and personal exemptions were reduced. Finally, after he adamantly denied that he would ever do so, the Governor agreed to a system of withholding state income taxes.

Bank and corporation taxes went up 100%. The state sales tax rose from 4% to 6%. The tax on cigarettes went up 7 cents a pack and the liquor tax rose 50 cents per gallon. Inheritance tax rates were increased and collections more than doubled.



Under Reagan, the average tax rate for each \$100 of assessed valuation rose from \$8.84 to \$11.15. Under predecessor Pat Brown, the increase was much less in dollars and percentage -- from \$6.96 to \$8.84, and in the six years of Republican Knight's administration, it was still less -- from \$5.94 to \$6.96. One reason for the big increase under Reagan -- from \$3.7 billion to \$8.3 billion -- is that the state paid a statutory formulated percentage of the school costs -- one of the biggest reasons for local property taxes.

Despite periodic efforts to provide relief there has been a substantial increase in the burden carried by most property owners. Inflation and high assessments have helped wipe out any savings. Only \$855 million of the record \$10.2 billion budget in Reagan's final year was for tax relief for homeowners and renters.

SOURCE: Peter Kaye, PFC



Page 10 - paragraph 4

And in less than three years we reduced the rolls by more than 300,000 people. Saved the taxpayers \$2 billion.

RESPONSE -- Substitute for 300,000 and \$2 billion the following:

1. Drop by 20,000 persons in rolls due to correction in accounting procedures in largest county, Los Angeles.
2. Migratory rate of unemployed into California declined from 233,000 in 1967 to 44,000 in 1971.
3. 110,000 decline in rolls attributed to Reagan even though his welfare had not gone into effect when decline occurred.
4. Rolls for welfare families increased in 8 years of Reagan's Governorship from 729,357 to 1,384,400 and the cost went from \$32.3 million to \$104.4 million.

SOURCE: Peter Kaye, PFC





Page 11 - top sentence

And, increased the grants to the truly deserving needy by an average of 43%. We also carried out a successful experiment which I believe is an answer to much of the welfare problem in the nation. We put able-bodied welfare recipients to work at useful community projects in return for their welfare grants.

RESPONSE -- The program never touched more than 6/10th of 1% of welfare recipients. Also, the program designed to have 59,000 participants in 1st year in 35 counties, but program managed 1,100 participants in 10 counties in mostly rural farm areas.

SOURCE: Peter Kaye, PFC



Page 12 - paragraph 4

Independent business people, shopkeepers and farmers file billions of reports every year required of them by Washington. It amounts to some 10 billion pieces of paper each year and it adds \$50 billion a year to the cost of doing business. Washington has been loud in its promise to do something about this blizzard of paperwork. And they made good. Last year they increased it by 20%.

RESPONSE -- The figures 10 billion and 50 billion are guestimates. No one has counted the number of pages in all of these reports. Moreover, if it is liberally estimated that it costs \$100 an hour to work on these forms, the total cost to business would be \$4.3 billion.

Between December, 1974 and December, 1975, the number of reports from the Executive branch agencies excluding IRS, banking and regulatory agencies declined by 5%. However, the number of hours of burden associated with filling out the reports increased by 8%. One reason for that increase is reports required by the Congress, i. e., the Real Estate Settlements Act which requires information to be filed when house was sold added 4 million manhours of reporting burden last year. In the absence of that report the reporting burden would have declined. There are other reports mandated by Congress which have added to this burden.

Dr. Duncan can see no reason for the increase of 20% that candidate Reagan was talking about. It is also virtually impossible to estimate cost to business in completing the forms.

SOURCE: Dr. Duncan, OMB, and Roy Lawry of OMB



SOURCE: BUD MCFARLAND, NSC

Page 13  
Paragraph 3

Reagan Statement:

We gave just enough support to one side in Angola to encourage it to fight and die but too little to give it a chance of winning.

Response:

The U.S. objective in supporting the FNLA/UNITA forces in Angola was to assist them, and through them all of black Africa, to defend against Soviet and Cuban intervention. Despite massive Soviet aid and the presence of Cuban troops, we were on the road to success in Angola until December 19 when Congress adopted the Tunney Amendment cutting off further U.S. aid to the FNLA and UNITA.

Page 13  
Paragraph 3

Reagan Statement:

Mr. Ford's new Ambassador to the United Nations attacks our long time ally Israel.

Response:

Governor Scranton not only did not attack Israel, his veto blocked an unbalanced Security Council Resolution critical of



SOURCE: Bud McFarland, NSC

Israel -- a resolution that every other member of the Security Council voted for. In his March 23 speech in the United Nations Security Council Gov. Scranton was simply reiterating long-standing U. S. policy -- a policy articulated by every Administration since 1967 -- on Israel's obligations as an occupying power under international law with regard to the territories under its occupation.

Page 13  
Paragraph 3

Reagan Statement:

In Asia our new relationship with mainland China can have practical benefits with both sides. But that doesn't mean it should include yielding to demands by them as the Administration has, to reduce our military presence on Taiwan where we have a long-time friend and ally, the Republic of China.

Response:

We have not reduced our forces on Taiwan as a result of Peking's demands. Instead, our reductions stem from our own assessment of U.S. political and security interests. We have drawn our forces down because the Vietnam conflict has ended and because the lessening of tension in the area brought about by our new relationship with the People's Republic of China has made it possible.



SOURCE: Bud McFarland, NSC

Page 13-14  
Paragraph 3

Reagan Statement:

And, it is also revealed now that we seek to establish friendly relations with Hanoi. To make it more palatable, we are told this might help us learn the fate of the men still listed as Missing in Action.

Response:

The Congress, reflecting the views of the American people and the Administration, has called for an accounting of our Missing in Action and the return of the bodies of dead servicemen still held by Hanoi. The Administration, in keeping with this Congressional mandate, has offered to discuss with Hanoi the significant outstanding issues between us. We have not said we "seek to establish friendly relations with Hanoi." Such an assertion is totally false.

Page 14  
Paragraph 2

Reagan Statement:

In the last few days, Mr. Ford and Dr. Kissinger have taken us from hinting at invasion of Cuba to laughing it off a ridiculous idea. Except, that it was their ridiculous idea. No one else suggested it. Once again -- what is their policy? During this last year, they carried



SOURCE: Bud McFarland, NSC

on a campaign to befriend Castro. They persuaded the Organization of American States to lift its trade embargo, lifted some U.S. trade restrictions, they engaged in culture exchanges. And then on the eve of the Florida primary election, Mr. Ford went to Florida, called Castro an outlaw and said he'd never recognize him. But he hasn't asked our Latin American neighbors to reimpose a single sanction, nor has he taken any action himself. Meanwhile, Castro continues to export revolution to Puerto Rico, to Angola, and who knows where else?

Response:

We did not persuade the OAS to lift the sanctions against Cuba. At Quito in the fall of 1974 we did not support a motion in the OAS to do so. At San Jose last summer the U.S. voted in favor of an OAS resolution which left to each country freedom of action with regard to the sanctions. We did so because a majority of the OAS members had already unilaterally lifted their sanctions against Cuba, and because the resolution was supported by a majority of the organization members. Since that resolution passed, no additional Latin American country has established relations with Cuba.

The U.S. did not lift its own sanctions against Cuba, did not enter into any agreements with Cuba, and did not trade with Cuba. We did not engage in cultural exchanges. We validated some passports for U.S. Congressmen and their staffs, for some scholars and for



SOURCE: Bud McFarland, NSC

some religious leaders to visit Cuba. We issued a few select visas to Cubans to visit the U.S. These minimal steps were taken to test whether there was a mutual interest in ending the hostile nature of our relations. This policy was consistent with the traditional American interest in supporting the free flow of ideas and people. We have, since the Cuban adventure in Angola, concluded that the Cubans are not interested in changing their ways. We have resumed our highly restrictive policies toward Cuban travel. With regard to Cuban efforts to interfere in Puerto Rican affairs, we have made it emphatically clear in the UN and bilaterally to the Cubans and other nations that the U.S. will not tolerate any interference in its internal affairs.

Page 15

Paragraph 2

Reagan Statement:

The Canal Zone is not a colonial possession. It is not a long-term lease. It is sovereign U.S. territory every bit the same as Alaska and all the states that were carved from the Louisiana Purchase. We should end those negotiations (on the Panama Canal) and tell the General: We bought it, we paid for it, we built it and we intend to keep it.



SOURCE: Bud McFarland, NSC

Response:

Negotiations between the United States and Panama on the Canal have been pursued by three successive American Presidents. The purpose of these negotiations is to protect our national security, not diminish it.

Finally, Governor Reagan's view that the Canal Zone is "sovereign U.S. territory every bit the same as Alaska and all the states that were carved from the Louisiana Purchase" is incorrect. Legal Scholars have been clear on this for three-quarters of a century. Unlike children born in the United States, for example, children born in the Canal Zone are not automatically citizens of the United States.

Page 16

Paragraph 2

Reagan Statement:

Why did the President travel halfway 'round the world to sign the Helsinki Pact, putting our stamp of approval on Russia's enslavement of the captive nations?

We gave away the freedom of millions of people -- freedom that was not ours to give.

Response:

The President did not go to Helsinki to put the stamp of approval on Soviet domination of Eastern Europe. On the contrary,





SOURCE: Bud McFarland, NSC

he went to Helsinki along with the Chiefs of State or heads of government of all our Western allies and, among others, a Papal Representative, to sign a document which contains Soviet commitments to greater respect for human rights, self determination of peoples, and expanded exchanges and communication throughout Europe. Basket three of the Act calls for a freer flow of people and ideas among all the European nations.

The Helsinki Act, for the first time, specifically provides for the possibility of peaceful change of borders when that would correspond to the wishes of the peoples concerned. With regard to the particular case of the Baltic States, President Ford stated clearly on July 25 that "the United States has never recognized that Soviet incorporation of Lithuania, Latvia and Estonia and is not doing so now. Our official policy of non-recognition is not affected by the results of the European Security Conference." in fact, the Helsinki document itself states that no occupation or acquisition of territory by force will be recognized as legal.

Page 16  
Paragraph 3

Reagan Statement:

Now we must ask if someone is giving away our own freedom.  
Dr. Kissinger is quoted as saying that he thinks of the U.S. as Athens



SOURCE: Bud McFarland, NSC

and the Soviet Union as Sparta. "The day of the U.S. is past and today is the day of the Soviet Union." And he added, "...My job as Secretary of State is to negotiate the most acceptable second-best position available."

Response:

Governor Reagan's so-called quotes from Secretary Kissinger are a total and irresponsible fabrication. He has never said what the Governor attributes to him, or anything like it. In fact, at a March 23, 1976 press conference in Dallas Secretary Kissinger said: "I do not believe that the United States will be defeated. I do not believe that the United States is on the decline. I do not believe that the United States must get the best deal it can.

I believe that the United States is essential to preserve the security of the free world and for any progress in the world that exists.

In a period of great national difficulty, of the Viet-Nam war, of Watergate, of endless investigations, we have tried to preserve the role of the United States as that major factor. And I believe that to explain to the American people that the policy is complex, that our involvement is permanent, and that our problems are nevertheless soluble, is a sign of optimism and of confidence in the American people, rather than the opposite."



SOURCE: Bud McFarland, NSC

Page 17

Paragraph 2

Reagan Statement:

Now we learn that another high official of the State Department, Helmut Sonnenfeldt, whom Dr. Kissinger refers to as his "Kissinger", has expressed the belief that, in effect, the captive nations should give up any claim of national sovereignty and simply become a part of the Soviet Union. He says, 'Their desire to break out of the Soviet straightjacket' threatens us with World War III. In other words, slaves should accept their fate.'

Response:

It is wholly inaccurate, and a gross distortion of fact, to ascribe such views to Mr. Sonnenfeldt or to this Administration. Neither he nor anyone else in the Administration has ever expressed any such belief. The Administration view on this issue was expressed by Secretary Kissinger before the House International Relations Committee on March 29 as follows:

"As far as the U.S. is concerned, we do not accept a sphere of influence of any country, anywhere, and emphatically we reject a Soviet sphere of influence in Eastern Europe.



SOURCE: Bud McFarland, NSC

"Two Presidents have visited in Eastern Europe; there have been two visits to Poland and Romania and Yugoslavia, by Presidents. I have made repeated visits to Eastern Europe, on every trip to symbolize and to make clear to these countries that we are interested in working with them and that we do not accept or act upon the exclusive dominance of any one country in that area.

"At the same time, we do not want to give encouragement to an uprising that might lead to enormous suffering. But in terms of the basic position of the United States, we do not accept the dominance of any one country anywhere.

"Yugoslavia was mentioned, for example. We would emphatically consider it a very grave matter if outside forces were to attempt to intervene in the domestic affairs of Yugoslavia. We welcome Eastern European countries developing more in accordance with their national traditions, and we will cooperate with them. This is the policy of the United States, and there is no Sonnenfeldt doctrine."



SOURCE: BUD McFARLANE, NSC

Page 16

Paragraph 1

Reagan Statement:

The Soviet Army outnumbered ours more than two-to-one and in reserves four-to-one. They out-spend us on weapons by 50%. Their Navy outnumbered ours in surface ships and submarines two-to-one. We are outgunned in artillery three-to-one and their tanks outnumber ours four-to-one. Their strategic nuclear missiles are larger, more powerful and more numerous than ours. The evidence mounts that we are Number Two in a world where it is dangerous, if not fatal, to be second best.

RESPONSE:

Our nation is not "in danger," but it is damaging to the interests of this country when a politician declares to our adversaries and our friends abroad -- completely falsely -- that we are in second place. Such statements are both irresponsible and dangerous. They alarm our people and confuse our allies.

-- It is meaningless to say the Soviet Army may now be twice the size of the US Army! Considering that about half of the Soviet Army is deployed on the Chinese border, that isn't all that surprising. I suppose that if



we had to defend our borders and thus doubled our forces to do it, Mr. Reagan would be happier. Simplistic rhetoric such as this reflects a disturbingly shallow grasp of what true balance is all about.

-- For example, Mr. Reagan conveniently neglects to point out that our strategic forces are superior to Soviet forces. Our missiles are far more accurate and survivable. We have over twice as many missile warheads and, after all, it is the warheads which actually reach the target. Our lead in this area has been increasing over the past several years. Mr. Reagan likewise ignores our vast superiority in strategic bombers.

In short, if Mr. Reagan wants to alarm with use of numbers he can; but it only portrays his superficial understanding of these matters and by inflaming opinion -- at home and abroad -- falsely, does not serve the public interest.

-- Let's look at actions as opposed to words. President Ford is the one who reversed the trend of shrinking defense budgets. His last two defense budgets are the highest peacetime budgets in the nation's history. Mr. Reagan should speak to the Democratic Congress about its \$32 billion cuts in defense over the past six years.

Let's examine the question of America's strength.

First, we must dispose of the numbers game. National defense is not bookkeeping.



If it were, we could point out that our missile warheads have tripled, that we lead the Soviet Union by more than two to one. We would point out that we have over a three to one lead in strategic bombers. We could point out that our missiles are twice as accurate as the Soviet Union's.

We would point out that the Soviet Army -- which the Governor says is twice the size of ours -- has the problem of guarding a long border with China with a million men, and that our borders with Mexico and Canada are peaceful.

But it is a confusing disservice to the American people to dazzle them with numbers. If we were isolated in a fortress America, then it might be important to compare numbers. But we stand at the head of a great Alliance system in Europe and are firmly tied to the strongest economic power in Asia. We have friendly relations with most of the nations of the world. These are the valuable accomplishments of all of our previous Administrations since President Truman. We cannot insult our friends and allies by pretending they do not count.

Second, we cannot ignore that whatever might be the balance of power today, it is not fixed. And in our military programs, our defense budgets, we are indeed looking to the future, to guarantee that this nation will never be in danger. Consider our defense programs.



-- We are proceeding with the development and production of the world's most modern strategic bomber, the B-1.

-- We are proceeding with the development and production of the world's most modern and lethal missile launching submarine, the Trident.

-- We are developing a new large ICBM.

--We are producing three new fighters.

--We are planning the production of 15 new fighting ships, including two carriers.

It is true that you can cite a figure that the Soviets have more ships, but it is a trick to equate Soviet destroyers with our modern nuclear powered aircraft carriers.

Unfortunately, the money we have put into defense over the past several years has been inadequate. But the responsibility for slashing \$40 billion dollars must rest with the Congress.

Fortunately, under the prodding of President Ford the Congress has begun to awaken to the risks of constantly reducing our defense spending.

When the budget he proposed this year passes, then the trend will have been reversed.

So, we are in fact number one, and unless we falter, or give way to panic, we will remain number one.





THE WHITE HOUSE

WASHINGTON

April 1, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN  
BURTON G. MALKIEL

SUBJECT: Governor Reagan's March 31 Address

Governor Reagan's speech of March 31 is almost pure demagoguery. His facts are often wrong and his characterization of present policies is grossly misleading. The major implication of the speech is that we are excessively stimulating the economy for political purposes, just as was ostensibly done in 1972, and the result will be more inflation and an economic collapse. The analogy is completely unfair for the following reasons:

(1) Just the opposite is true. Our policies are moderate, balanced and geared to producing a solid and sustainable recovery and a reduction of inflation.

- (a) The President's vetoes during 1975 and 1976 have saved the taxpayers \$13 billion.
- (b) Monetary expansion is now far more restrained than in 1972. Over the last six months -- that is, from September 1975 to March 1976 -- the broadly defined money supply ( $M_2$ ) has grown at an 8.6 percent annual rate. In the comparable September 1971 - March 1972 period, it grew at a 14.6 percent rate. It should also be pointed out that a 14.6 percent rate is well above the 10-1/2 percent upper limit of the Federal Reserve's present target range for the growth rate of the broadly defined money supply.

(2) It is true that we are running a larger deficit now than in 1972. However, the following points should be made:

- (a) The unemployment rate is considerably higher now and therefore so are the payments under automatic stabilizing programs such as unemployment compensation. Does Governor Reagan suggest we should reduce or eliminate these programs?



- (b) Capacity utilization was 70.8 percent in the 4th quarter of 1975 versus 78.6 percent during 1972. There is far more room for expansionary policies to increase real output without simply generating inflation.
- (c) The inflation of 1973 and 1974 was not wholly the result of government deficits. It was also influenced by monetary policy and by unusual shocks such as the quintupling of international oil prices and a world wide food shortage.

The Reagan speech does not acknowledge the considerable progress made by the Administration in reducing inflation. Wholesale prices increased 12.5 percent from March 1974 to March 1975. In the twelve months through March 1976 the wholesale price index increased only 5-1/2 percent. Inflation in the CPI was also at double digit rates during the 12 months ending March 1975. Over the last 12 months the CPI has increased at an annual rate of just over 6 percent.

The President's program of matching expenditure cuts with tax relief is ridiculed by Reagan. "If there was \$28 billion in the new budget that could be cut, what was it doing there in the first place?" The whole point is that the President did not put the \$28 billion in his budget. The \$28 billion was measured from a projected current service budget, i.e. a budget assuming the continuance of programs Congress already legislated.

Indeed the President's program is based upon the very premises which Governor Reagan would cite for himself. The President has stated repeatedly that an enduring solution to the unemployment program must go hand in hand with a reduction in inflation. To argue otherwise is dishonest. The President has proposed a radical reordering of budget priorities so as to improve the operation of many federal programs and to slow the rapid rise in federal outlays for the transfer and grant programs. These proposals, if adopted, would enable the budget to swing back into surplus as the recovery carries the economy back toward full employment.

These proposals will also enable a reversal in the long decline in real military outlays, and some modest further reductions in taxes. The President's proposals will leave the incomes of the American people for individuals themselves to spend,

rather than transferring it to the Federal Government. These proposals, if adopted, will enable the transition in the Federal budget which was not made in 1972-73. The President has exercised his veto power 46 times in the past year to insure that the transition is made.

To advocate an immediate balanced budget would be both irresponsible and dishonest. Part of the deficit is due to the recession and the reduced level of Federal revenues. Part of the deficit is due to the explosion of Federal outlays for transfers and grants. It took a decade and more to create these problems. They cannot be solved overnight without imposing intolerable costs upon the American people. They cannot be solved without a solid sustainable recovery, an enduring reduction in inflation and the reordering of budget priorities which the President has proposed.

An immediate balance in the federal deficit would require either a large tax increase or a large expenditure reduction. Such measures would shock the recovery and probably bring it to a halt. The only way to achieve our goals is to follow a prudent and disciplined budget policy, or reorder our budget priorities, to curb the rapid rise in Federal outlays. Otherwise, instead of overshooting the mark as we did in 1972-1973, we will undershoot it -- and the American people will again pay the dual price of recession and inflation.

There were also a number of factual errors in Governor Reagan's speech. Among them are:

- (1) Governor Reagan stated the unemployment rate was over 10 percent at some point during the recession. In fact, it peaked at 8.9 percent in May 1975.
- (2) Governor Reagan stated the FY 1976 budget deficit will be over \$80 billion. In fact, our best estimate is \$76 billion.
- (3) Governor Reagan stated that the maximum social security benefit "today buys 80 fewer loaves of bread than it did when the maximum payment was only \$85 a month." This would imply the average benefit in terms of dollars of constant purchasing power has declined substantially. In fact, the average benefit in terms of constant purchasing power has almost tripled since 1940 when the maximum benefit was \$85.
- (4) Governor Reagan indicated that since the energy bill was enacted "almost instantly, drilling rigs all over our land started shutting down." In fact, there were

1660 drilling rigs operating in 1975, the highest number in a decade. Through mid-March 1976 there were as many rigs operating as were operating in the comparable period during 1975.

