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THE WHITE HOUSE
WASHINGTON

THE PRESIDENT'S BRIEFING BOOK

(Key Questions)

For May 14, 1975

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TAB A

5/2/75

ECONOMIC OUTLOOK

Q: There is a growing amount of commentary that the recession is bottoming out and the economy will soon turn up. Do you agree?

A: It is true that a number of early indicators that normally appear prior to the bottoming of a recession have begun to emerge in recent weeks. Although we expect the economy to stabilize and to begin to recover in the months ahead it is still declining--more slowly than earlier but the trend is still downward. Consequently, we must expect to see several months of unfavorable economic indicators. Among these we should expect another increase in the unemployment rate to be reported for the month of April--perhaps to nine percent or even more.

The evidence that is gradually appearing is consistent with and supportive of our view that the economy will bottom out around mid year. This was our forecast in January in the Economic Report and the Budget and we see as yet no evidence to suggest that the expected mid year bottoming out has been advanced or delayed.

Memo: A number of key indicators have continued to do better than we expected: retail sales, a stabilization in new orders and, most importantly, the growing evidence that the recession is to a very large extent an inventory recession, and this will limit both the depth and the duration of the recession.

INFLATIONARY PRESSURES

QUESTION: Do you feel there is any danger that increases in Government spending will rekindle inflationary pressures?

ANSWER: Yes, there is a real danger that unless we are careful about Government spending inflationary pressures will reappear. Past experience has shown that spending programs initiated to combat recession have very often had perverse effects. There are long delays in starting spending programs and when they do finally become effective the need for spending has passed.

Furthermore, temporary spending programs have a way of becoming permanent so that the spending itself adds to demand at a time when the growth in demand should be moderated. Once programs are locked into the budget they become difficult to eliminate and thus constitute a continuing source of demand pressure long after the original need has passed. Because of these dangers, it makes much more sense to combat the recession via the tax cut route.

There have already been increases above the spending totals initially proposed in the budget in February and unless these are kept limited, the progress against inflation we have seen thus far will be largely lost. Each committee of the Congress cannot attempt to conquer the recession with its own program.

In addition to the dangers of increased Federal spending we must also avoid concentrating all our attention on short term problems. Too much spending on programs such as public service jobs at this time may mean lower investment to increase production capacity for the future. Thus we must exercise some restraint now in order to assure that a recovery is not prematurely terminated because of a lack of adequate investment to sustain it.

May 2, 1975

TAB B

REVENUE SHARING

QUESTION: What evidence do you have that the general revenue sharing program is worth renewal when the Federal budgets are running such deficits?

ANSWER: I feel that renewing general revenue sharing is an important part of winning the battle against the combined inflation and recession that are major contributors to our Federal deficits.

Without it, states, cities, counties and small communities would have either to cut back essential services causing increased public or private unemployment, or tax or borrow more. That would defeat our objectives to reduce the total tax load and revive the economy.

ELIMINATING FEDERAL DEFICITS

QUESTION: Do you see any real hope of eliminating Federal budget deficits once we're out of this recession? Congress is cutting taxes and pressing for more government spending-- but isn't the tax structure already pitched at too low a level in relation to foreseeable outlays, even if we can return to high economic activity? What do you believe can be done to achieve a balanced budget once more?

ANSWER: A productive U.S. economy is entirely capable of generating adequate tax revenues to support a proper level of public services. The major challenge is to regain control of the rate of spending. In the period FY 1966-68 and again in the 1970's, the rate of increases in Federal spending have gone beyond what the economy is capable of absorbing given the total of public and private claims. Therefore, the outlook is certainly not hopeless, but as I have stated time and again, we have to exercise a fiscal discipline and not finance expensive new Federal programs.

TAB C

CANADIAN CRUDE OIL

- Q. What plans has the United States made to handle cut-backs in Canadian crude oil exports?
- A. The United States is currently working in cooperation with the Canadian government to develop a three-stage plan for accomplishing a complete cut-off of Canadian exports by 1982.

The first stage of the plan involves development of a workable preferential allocation system for those U.S. refineries dependent on Canadian crude. The second stage involves pinpointing and resolving impediments to a commercial swap of oil between our two countries. The third stage involves the exploration of long-term alternative energy systems, such as a program to provide western Canada, as well as the western United States, with crude oil from Alaska and to develop a transit pipeline treaty for "in-bond" treatment of hydrocarbons passing through one country to the other.

We are also consulting with the Canadian government on common energy concerns such as natural gas and coal exports, the dovetailing of potential rationing plans, and cross-border accommodations.

5/13/75
FEA - IEA

SURFACE MINING BILL

Q. Congress has passed and sent to you the bill H.R. 25-S.7, entitled "Surface Mining Control and Reclamation Act of 1975". Do you intend to veto this bill?

A. The Administration favors legislation to protect the environment and reclaim land disturbed by surface mining of coal and to prevent abuses that accompanied such surface mining in the past. But surface mining legislation also includes other fundamental national objectives and issues including, (a) energy independence, (b) outflow of dollars to other nations, (c) unemployment, and (d) higher consumer costs, particularly for electricity.

To meet these objectives, on February 6, 1975, the Administration submitted H.R. 3119 and S652 to Congress. These bills were designed to strike a balance between our desire for environmental protection and our need to increase domestic coal production. I am presently reviewing the bill H.R. 25-S.7 to determine if it will strike that acceptable balance.

5/13/75
FEA - ERD

SURFACE MINING BILL

Q. What provisions of H.R. 25-S.7 concern you in particular?

A. The provisions that particularly concern me are those which would:

1. preclude or prohibit mining of coal; a lockup of surface mineable coal reserves where reclamation could be accomplished, or
2. delay or curtail production of present or future coal mining in areas where reclamation is possible.

5/13/75
FEA - ERD

SURFACE MINING BILL

Q. What other provisions of the bill concern you?

A. Other provisions that concern me are those:

1. that call for an excessive and unfair fee on coal which is mined - the fee should be uniform,
2. that sets precedents on mineral resource development on Federal lands such as the National Forest,
3. that requires Federal lands to adhere to state standards.

5/13/75
FEA - ERD

IS THE OIL CRISIS REALLY OVER?

QUESTION: Present information indicates that there is an excess of oil on the market, i.e., an oil glut. In view of this, why does your Administration continue to harp upon the severity of the "energy crisis"?

ANSWER: The energy crisis still exists. While its form may have changed since the days of the embargo, it is no less dangerous. The present surplus capacity in oil production results from the fact that major consumers, particularly, the U.S., Western Europe and Japan, have reduced their consumption of oil by 5-10%, much of this reduction in consumption stems from current recession.

If economic recovery occurs more-or-less simultaneously throughout the industrialized free world, there will be a sharp rise in demand for world-traded oil. This demand will be met by those OAPEC producers who have a combination of production slack and low recovery costs. At that time, market conditions may emerge which would make another increase in world oil prices possible, and once again playing havoc with the American economy.

May 2, 1975

TAB D

Question

Senator Church has publicly expressed dissatisfaction at apparent obstacles raised by your administration to the investigation by his Senate Select Committee into the activities of the Intelligence Agencies. What is your reaction?

Answer

Officials in my administration who are responsible for responding to the requests by the Senate Select Committee also have a high responsibility for reasonably protecting sensitive information from any disclosures that could damage our foreign relations with particular nations or risk the lives of individuals involved or destroy the effectiveness of our vital foreign intelligence operations. Whatever delays have occurred are only the result of ensuring this protection while at the same time helping the Committee to obtain in an orderly and understandable fashion all material on allegations which especially concern the Committee.

CROWDING OUT PRIVATE BORROWERS

QUESTION: Are you concerned that Treasury borrowing at proposed levels to finance the expected federal deficit will crowd out private borrowers?

ANSWER: I would like to clarify the position which has been taken by the Department of the Treasury.

Contrary to some reports, the Treasury has not been saying that financing difficulties are a sure thing at the proposed level of the deficit, only that the level is near the danger area.

The Treasury is saying that a larger deficit resulting from the possible enactment by the Congress of further spending programs and congressional failure to act on the deferrals, recessions, and budget cuts I have already proposed presents a serious danger of undesirable crowding out of the private borrower--and that this is likely to develop just when economic recovery gets into full swing in late 1975 or 1976. Under conditions of a larger deficit, if "crowding out" is to be prevented it would require a highly expansionary monetary policy which would result in a return to double digit inflation.

The basic point is that there is a limit to how large a deficit our financial system can absorb without serious damage to the private sector, either by crowding out or inflation. And as we push the deficit up beyond that which I had planned, we seriously increase the risks of reaching that limit.

May 2, 1975

RAILROAD CRISIS

QUESTION: Do you have a plan or program to deal with the crises of the railroads? Will your new regulatory reform program abolish the ICC?

ANSWER: We are now formulating a broad scale program for rail revitalization, and I expect to submit it to the Congress very soon. The problems of railroads in the United States are very complex, and this proposal will try to attack some of the long-standing causes of those problems, including access to funds for rehabilitation, discriminatory taxation, better control of equipment, and regulatory reform.

I do not propose to abolish the ICC, but, as I said last week to the U.S. Chamber of Commerce, I do view regulatory reform as absolutely necessary to the success of a private-enterprise transportation system in this country. The right kind of reform can provide the consumer with efficient service at a fair price. Without reform the taxpayer will be forced to finance our transportation system.

FURTHER INFO: DOT has drafted a Rail Revitalization Act, which will include some streamlining or by-pass of ICC procedures, a prohibition against discriminatory taxation of railroads, and a \$2 billion loan guarantee program for rail rehabilitation. The proposal would not abolish the ICC. Certain options as to interest payments, additional funding, and the degree of regulatory reform are being presently considered.

TAB E

May 3, 1975

INDO CHINA AND THE MIDDLE EAST

- Q. What effect do you think the recent situation in Indochina will have on the Middle East situation and particularly on Israel's willingness to make an agreement if it believes that the US cannot follow through on its commitments to its allies?
- A. The Indochina situation will not affect our continuing pursuit of peace in the Middle East -- which is in the long term interest of the United States and the countries of the area. It would be a mistake for any nation -- on either side in the Middle East -- to draw conclusions from Indochina for the Middle East, where the conditions and issues are quite different.

No nation should imagine it can pressure us. No nation should assume we will tolerate a stalemate. The U.S. is determined to maintain its constructive role and efforts to promote a peace settlement.

Moreover, on this issue there is no question in my mind -- and there should be no question in anyone else's mind, -- that the American people and the Congress fully support this role for the U.S. in the Middle East. Our resolve will not be weakened and our commitments can be relied upon.

CHINA

Q: Can you clarify where the Administration stands on China policy?

A: It is a cardinal element of the Administration's foreign policy to seek the further normalization of relations with the People's Republic of China. The Shanghai Communique details the basic perspectives which the Administration brings to the normalization process. We remain committed to the Shanghai Communique.

CHINA

Q: Where do we stand in our relations with the Republic of China on Taiwan? Has Chiang Kai-shek's death altered our commitments on Taiwan?

A: There has been no change in our relations with the Republic of China on Taiwan as a result of the passing of Chiang Kai-shek.

Q: But what about our defense treaty with Taiwan?

A: As I said, we maintain all of our commitments.

CHINA

Q. Doesn't Peking want you to break relations with Taiwan as a price for normalization?

A. I see no useful purpose served by speculation now about this and other questions that may come up in the future.

I look forward to holding wide-ranging discussions with senior leaders in Peking later this year on a broad range of issues, but there are no preconditions for my trip to the PRC and no prior commitments about the outcome of my visit.

INDIAN CRITICISM OF THE UNITED STATES

Q: Do you agree with Ambassador Saxbe's assessment that U. S. -Indo relations will drift apart if the Indians continue their current high level of criticism, particularly of our arms decision and U. S. reverses in Indochina? What are your views on their criticism and are we protesting in New Delhi? Will you cancel your visit to India this year?

A: I will make the general observation that such public criticism is not conducive to the evolution of the more mature relationship with India which we hope to build. We are making our views known in New Delhi.

My acceptance of Prime Minister Gandhi's invitation to visit India, as well as Prime Minister Bhutto's invitation to visit Pakistan, is a matter of public record but no dates have been set. No initiative has been taken to cancel any visit to India.

-FYI: Ambassador Saxbe has been authorized to bring our concerns about the recent wave of Indian criticism to the attention of Foreign Minister Chavan and to warn that if continued we will take other steps.

REPLACEMENT FOR US AMBASSADOR TO UN

Q: There is speculation that you will soon appoint Ambassador Moynihan to replace Ambassador Scali at the United Nations. Is this your plan and if so does it reflect, as some have speculated, irritation over the United Nations' performance in the recent past and your determination to get tough with the United Nations and the Third World?

A: Ambassador Scali is an outstanding U. S. representative at the United Nations and has my full confidence. Ambassador Moynihan has been a valuable public servant, he was an outstanding Ambassador to India, and I would hope that he would continue to be available for public service.

As for this Administration's attitude toward the United Nations and the Third World, I would only note that on the whole range of issues, we have continuing and constructive consultations with UN authorities and through the UN system and elsewhere similar contacts with the Third World. As they do frequently, Secretary Kissinger and UN Secretary General Waldheim met recently and had a useful positive exchange concerning several current matters of common interest. As in the past, this Administration will continue to support a spirit of negotiation not confrontation in the UN and elsewhere. But we are concerned about the increasing spirit of confrontation on the part of many new countries.

EUROPEAN TRIP - NATO SUMMIT

Q: Mr. President, what do you hope to accomplish at the NATO Summit meeting in Brussels May 29-30? What is the purpose of the meeting?

A: There are no peoples with whom America's destiny has been more closely linked than those of Western Europe. None of the members of the Atlantic Community can be secure, prosper or advance unless all do so together. At this time in our history, our close collaboration is essential for our common security, to improve East-West relations, and to pool our efforts on the new challenges in the fields of economic policy and energy. I look forward to the meeting in Brussels as an opportunity to take stock, to consult on our future, and to reaffirm our cohesion in a difficult period.

I believe Alliance solidarity today is stronger than at any time in the last decade. The steps we have taken in the energy field are a remarkable success. This is an important example of what can be done in other fields. Maintaining this solidarity is a first priority for me. At the same time, we in the Alliance do have problems and challenges. Close consultations among allies, I am convinced, offer the best avenue to meet these challenges.

EUROPEAN TRIP - NATO SUMMIT

Q: Mr. President, you clearly attach considerable importance to the NATO Summit. Why, then, are some of the Allies -- such as the French -- so lukewarm about the meeting?

A: The decision to hold a summit in Brussels at the end of May was the product of general discussion and agreement among the members of the Alliance. It is very clear, I believe that the allies view the meeting as a welcome opportunity for consultations and a reaffirmation of Alliance solidarity. If France will not be represented at the highest level, this is largely due to French domestic considerations.

EUROPEAN TRIP - SPAIN

Q: Mr. President, why are you going to Spain at a time when many observers believe that the Franco regime is in its waning days?

A: The United States regards Spain as a friendly European state with an important role to play in Europe and the Mediterranean and, of course, there are very friendly ties among the Spanish and American peoples. Based on the 1970 Friendship Agreement and last year's Declaration of Principles, our two governments have excellent cooperation in many fields -- agriculture, science and technology, education and defense. I look forward to discussing these matters with Spanish leaders and also to considering further improvements in US-Spanish relations in the future. We believe that Spain is an integral part of the West and must be brought closer to Western structures.

EUROPEAN TRIP - ITALY

Q: Mr. President, why are you going to Italy?

A: During his State Visit to Washington last year, President Leone invited me to visit Italy -- an invitation I have accepted with pleasure. We are especially concerned about developments in the Mediterranean. My trip to the NATO Summit also affords the welcome opportunity to travel to Italy to meet with President Leone and also to have further discussions on issues of common concern with Prime Minister Moro and other Italian leaders.

THE VATICAN

Q: Mr. President, why are you meeting with the Pope? Does this meeting foreshadow a new policy between the US and the Vatican -- the Catholic Church? What is the purpose of the meeting?

A: I am pleased that my visit to Italy will give me the opportunity to visit the Vatican City and to have an audience with His Holiness Pope Paul VI. I welcome this opportunity to discuss humanitarian issues with him and also to have the benefit of his views on problems of world peace. Our relations with the Vatican are excellent.

PURPOSE OF MEETING WITH PRESIDENT SADAT
OTHER MEETINGS

Q: Will the U. S. policy reassessment be concluded by the time you meet with Sadat in early June and will your meeting involve the launching of a "new" US initiative in the Middle East? What will be the outcome of your meeting?

A: This will be a first opportunity for me to meet President Sadat and discuss the Middle East situation and the evolution of U. S. - Egyptian relations personally with him. I look forward to this opportunity. While our policy review remains underway, I am not going to prejudge or speculate on the outcome or on specifics of a meeting which has yet to be held. As you know, I will also be meeting with Prime Minister Rabin in June as a part of our efforts to move toward peace in the Middle East. I will not make any final decisions until after these meetings are conducted.

ISRAELI-SOVIET CONTACTS

Q: Are we involved in the emerging contacts between the Israelis and the Soviets and do we support these contacts? How do you see a rapprochement between Israel and the USSR affecting power relationships in the area and the prospects for a Middle East peace, including settlement of the Palestinian issue?

A: This is a matter for the parties concerned to determine and I am not going to comment except to say we welcome any moves that would further the cause of peace in the Middle East.

ECONOMIC ASSISTANCE TO ISRAEL

Q: Are you planning to slash Israel's \$2.5 billion aid request?

A: We have always done our best in support of our commitment to Israel's well-being. At the present time, all aspects of our Middle East policies are being integrated into our overall reassessment. New aid levels have not yet been determined, but we will make our own decisions on aid on the basis of our national objectives and our commitment to the survival of Israel and the pursuit of peace in the Middle East. The reassessment is not a punitive exercise against any country.

MIDDLE EAST -- OIL EMBARGO

Q: Is the fact that there might be an oil embargo in any new war in the Middle East one of the most serious considerations in your policy reassessment and does your concern about such an embargo constitute an implicit acknowledgement that U. S. relations with the Arab states will have to take priority over U. S. relations with Israel?

A: The central objective of our Middle East policy is to achieve peace, avoid war and maintain the good relations we now enjoy with the Arab states and Israel. The history of the area has shown that in the absence of momentum toward peace, the chances for war increase. That is why we cannot accept stagnation or a stalemate in our peace efforts. It is also obvious that we cannot ignore the possibility of an oil embargo if the chances for another war become a reality.

We do not intend to have a foreign policy dictated by oil considerations. I have submitted legislation to reduce our dependence on imported oil, and I strongly urge the Congress to act quickly in this vital area.

U. S. STRATEGY IN THE MIDDLE EAST DISPUTE

Q: Since our step-by-step diplomacy has been suspended, will the U. S. now turn towards efforts to build a framework for a comprehensive settlement? Can you envisage the parties developing a plan for an overall settlement which could then be worked out in stages? Or would you prefer a revival of the step-by-step approach? Is there a "new" U. S. initiative planned for reviving efforts for an interim agreement?

A: Our objective has always been an overall settlement which resolved all problems outstanding between the Arabs and Israel. Our step-by-step approach was never viewed as an end in itself but rather as a means of making progress on particular issues and building confidence to enable further steps to be taken toward an overall peace.

In our policy review, we are examining all options for achieving an overall settlement and, as I have already indicated, there are several possibilities, including (a) resuming efforts to achieve interim agreements, (b) seeking an overall settlement or, (c) seeking some sort of interim arrangements in the process of negotiations for an overall settlement. We will continue to seek the views of the parties as we conduct our own policy review. I am not going to prejudge the outcome of what might be the best negotiating strategy but the objective remains constant -- the

achievement of an overall and comprehensive settlement. We are determined that there will be no stalemate or stagnation in the progress toward peace in the Middle East. We are prepared to pursue any avenue, including Geneva, and we are prepared to assist in whatever way seems most likely to be effective.

SUEZ CANAL REOPENING

Q: Will the Suez Canal be opened for commercial traffic on June 5 or will it only be symbolically opened?

A: It is our understanding that the Canal will be opened for commercial traffic but that there may be some restrictions on the size of vessel drafts and the numbers of convoys in the first two weeks because the Canal has been closed for so long.