

Ronald Reagan Presidential Library Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Fritz, Sara: Papers **Folder Title: White House Notes – July 1982** **(2/2)** **Box: 3**

To see more digitized collections visit:
<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:
<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

WITHDRAWAL SHEET

Ronald Reagan Library

Collection: Sara Fritz Papers
OA/Box: Box 3
File Folder: White House Notes – July 1982 (2/2)

Archivist: jsm
FOIA ID:
Date: 4/2/2018

| DOCUMENT NO. & TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|------------------------|---------------|------|-------------|
|------------------------|---------------|------|-------------|

| | | | |
|----------|---|---------|---|
| 1. notes | James Baker and Margaret Tutweiler off the record conversation (2 pp) | 7/23/82 | C |
|----------|---|---------|---|

RESTRICTIONS

B-1 National security classified information [(b)(1) of the FOIA].
B-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
B-3 Release would violate a Federal statute [(b)(3) of the FOIA].
B-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
B-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
B-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
B-7a Release could reasonably be expected to interfere with enforcement proceedings [(b)(7)(A) of the FOIA].
B-7b Release would deprive an individual of the right to a fair trial or impartial adjudication [(b)(7)(B) of the FOIA].
B-7c Release could reasonably be expected to cause unwarranted invasion or privacy [(b)(7)(C) of the FOIA].
B-7d Release could reasonably be expected to disclose the identity of a confidential source [(b)(7)(D) of the FOIA].
B-7e Release would disclose techniques or procedures for law enforcement investigations or prosecutions or would disclose guidelines which could reasonably be expected to risk circumvention of the law [(b)(7)(E) of the FOIA].
B-7f Release could reasonably be expected to endanger the life or physical safety of any individual [(b)(7)(F) of the FOIA].
B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

July 23, 1982

FROM: SJF - White House

TO: MLS, LT, JF, BFP, SXM, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, DLB,
PGH

RE: Reagan in St. Louis

President Reagan explained Thursday night that he banned the sale of pipeline parts to the Soviet Union because the Russians are not ^W'up against the wall' economically.

Yet Reagan was surprisingly conciliatory when asked about France's decision to force the sale of rotors^O produced by a French company--Alsthom Atlantique--under license to General Electric. 'What really they are doing is going ahead with contracts already signed,' Reagan said.

'I have talked with President Mitterrand about this situation. He said when he came there he found the contracts already agreed to and signed by the previous administration, and they feel legally bound by those.' (Deputy Press Secretary Larry Speakes said Reagan was referring to his meeting with Mitterrand in Paris before the economic summit in June.)

Reagan noted that he had authorized the Commerce Department to study what options the U.S. has for enforcing the sanctions. But he said nothing to indicate that he was prepared to take any drastic measures.

Reagan also noted that the European^S had agreed to reduce export credits to the Soviet Union 'so that we, at least, are not helping finance a potential adversary.'

Reagan said he wants to halt the pipeline for two reasons:

- o He does not want the European^s/to become dependent upon the Soviets because they could be ''blackmailed'' if the Soviets decided to shut off the gas. He noted the U.S. had offered to help the Europeans find gas elsewhere, in the North Sea, Norway and the Netherlands.

- o The pipeline will provide the Soviets with between 10~~f~~and~~f~~12~~f~~ billion dollars a year in ''cold, hard cash.'' Reagan added:

''The Soviet Union has poured so much money into its great military might that we are now trying to get reduced that they are up against the wall. They do not have cash for those purposes the way they did.''

Nowhere in his remarks on this subject did Reagan mention Poland.

A Commerce Department spokesman said there are three potential remedies the U.S. can use against companies that violate the President's sanctions: (1) Put them on the ''denial list'' of firms that cannot buy U.S. goods, (2) impose civil penalties or fines up to \$10,000 for each violation, and (3) press criminal charges that could cost the violat^oer as much as 1 million dollars or an amount totaling the value of the violation. Fees could be collected by seizing any property owned by the violator in the United States.

But Commerce Department officials say there is no precedent for trying to impose such penalties on foreign subsidiaries. A spokesman said the Court of International Justice at The Hague would be the forum for pressing charges against foreign governments and companies that violate the President's sanctions.

Economy. Reagan, speaking in a television interview in St. Louis, also cautioned against expecting an economic recovery anytime soon. He repeated his previous assertion that the recession has "'bottomed out'" and noted there have been some promising signs this week--a drop in the discount rate and a small rise in GNP, but he quickly added: "'I am not going to jump up and down and say that there is going to be a boom just around the corner. It won't get cured that way.'"

Weidenbaum's resignation. Murray Weidenbaum's resignation underscores the administration's frustrations with the economy. Although Weidenbaum has never been publicly ^L~~X~~ critical of Reagan's economic program, he was known to be increasingly frustrated with his lack of influence.

On Wednesday, Weidenbaum told Gannet ^{TV}~~X~~ News Service that he had submitted two optional economic projections for the midyear economic review, but the White House rejected both of them as too pessimistic. Instead, the administration will put out figures next week based on the economic assumptions in the 1983 compromise budget report. According

to Gannett^T, Weidenbaum's biggest complaint was that the administration is going to underestimate the 1983 deficit. The midyear report will project a deficit of about 115 billion dollars; Weidenbaum thinks 135~~to~~^{to} 145~~to~~^{to} billion dollars would be more realistic.

Coming in the wake of the Haig resignation, Weidenbaum's departure adds to the appearance of disarray. But in truth, Weidenbaum was not a valued advisor^E of the President. Treasury Secretary Donald Regan and Budget Director David Stockman have had much more influence on economic policy in the Reagan administration than Weidenbaum.

Deputy Press Secretary Larry Speakes insisted that Weidenbaum resigned only because he wanted to go back to teaching. As evidence, Speakes noted that Weidenbaum submitted his resignation around July 12 or 13--prior to the controversy over the economic forecasts.

Weidenbaum's resignation letter to the President said in partⁱ: "I believe that it is becoming clear that your economic recovery program is succeeding in shifting the balance of power from the federal government to the federal sector. From the outset, we have said that yours is a long-term program, unlike the quick fixes of the past. The substantial reduction in inflation is heartening evidence of the progress that has been made. Yet the overall condition of the economy underscores both the difficulty of carrying out fundamental changes as well as the continuing

need to move ahead on each of the four key aspects of economic policy in order to achieve your basic goal of restoring the economic strength of our country. [y]

The four points that Weidenbaum referred to are: 1. Cutting taxes, 2. Slowing the growth of government spending, 3. Reforming the regulatory system, and 4. Moderating the growth of the money supply.

(END - AR)

Pool Report -- July 23, 1982 -- Returning from St. Louis

President Reagan talked briefly with reporters.

On the death of Ed Meese's son, he said: That has all of us very saddened. It's just a terrible tragedy. They were a very close family." He noted that he would talk to Meese personally about it back at the White House.

On Weidenbaum, he said: "I goofed in mentioning it. That was for him to announce. Many ~~XX~~ people came with us with the understanding that they couldn't stay." He explained that he spilled the beans in a chatg with his interviewer, who was a ~~kind~~ a graduate of ~~XX~~ ~~XX~~ Washington University of St. Louise and a friend of Weidenbaum.

Any policy disagreements? "Oh, no, no. ~~X~~ This was like when Marty Anderson went back to Stanford -- they had a limit on how long they could stay away. " Asked about a successor, he replied that he would "start thinking about that right away."

On the Middle East, ~~X~~ he said there was nothing ~~that~~ on which he could ~~xx~~ comment.

Asked if he intended to go to court to enforce his sanctions on the pipeline parts, he said "I'm going to wait for the report on the entire situation." He said he was trying to lower the level of rhetoric on the issue. "There are plenty of people that are trying to step the level of rhetoric up." He then quoted Helmut Schmidt as saying that the ~~XX~~ dispute is "all in the family". The President has no plans to see Schmidt, who is currently in the country.

Reagan said he was sorry he could not go to the Bohemian Grove. "I can't go now. It would cause too much disruption. It's a real nice wholesome gathering." He said some of the public stories about what goes on there are not accurate. He called it "the Grove."

He declined to comment on the mid-year economic review. He said he's still holding meetings on it.

(more)

Deputy Press Secretary Larry Speakes said President Reagan will meet with Ed Meese at the White House later today to offer his personal condolences over the death of the Meese's ~~xxxx~~ son, Scott.

"Nancy and I are shocked and deeply saddened," said a statement issued on the President's behalf. Our hearts go out to Ed and ^{Ursula}~~Ursula~~, who with their family are close and dear friends of ours."

Tax Bill. The President talked last night about 8: 30 p.m. with Ken Duberstein -- ~~xxxxx~~ just after the first key Senate vote on the tax bill. Larry said Reagan helped to ~~xxx~~ win it by meeting with ~~Exxi~~ five ~~x~~ senators on Thursday and calling others. "The ~~xx~~ president's involvement was helpful in turning around three key ~~x~~ votes." ~~x~~ He said these three votes came from "people he talked to or ~~xxxx~~ people aware of his desires on this." He also praised Senators Baker and Dole for their roles in lobbying. "Nobody likes to raise taxes" ~~xxx~~ said Larry. He said 75 percent of the bill ~~xxxxx~~ deals with "loopholes, compl~~ai~~ance and base-broadening." "With the size of the deficits we are faced with, we think that this is a good action." He said he hopes the House will pass a bill before the August recess.

Weidenbaum. Larry said he never expressed discontent, even last week when he had stockman and Regan met with the President on the mid-year review. "He did not voice any objections." He said there are "several candidates" to replace Weidenbaum. (more)

2nd add pool report

The president will have lunch in the residence after he returns to the White House, and then go to Camp David about 3 p.m.

EY Future Travel. Speakes predicts one trip every 10 days or so ~~fix~~ up until the election. Reagan will go to ~~XXXXXXXXXX~~ Connecticut, Iowa and Chicago allX in one trip prior to going to California. He will speak to the corn growers, the firefighters and the knights of Columbus. On his way to California, he will make a ~~six~~ campaign stop in Wyoming. On the way back, there will be a campaign stop in Utah.

NOTE: Travel plans are OFF THE RECORD.

Sara Fritz -- U.S. News & World Report

Earl Lane -- Newsday

RONALD W. REAGAN LIBRARY

THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 1 LISTED ON THE
WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

STORY:PERSONN QUEUE:SJF-SJF MSG:
MA:60 FMT: HJ: INI: OPR:SJF ;07/27,15:05

To: mls lt jf bfp sxm jwm gp dr jg dcb lh rak pa pgh dlb

From: sjf

Reagan's "Achilles" heel.

James Watt's "unfortunate" letter to the Israeli ambassador underscores what I have long viewed as Ronald Reagan's Achilles' heel--his reluctance to discipline people who work for him.

Frequently over the past 18 months, Reagan has been embarrassed by the actions of cabinet members and White House staff. Yet he has been slow to reprimand them.

Max Hugel is the only Reagan administration official who got the axe quickly, and that was done primarily to protect Reagan's old friend, William Casey, whose integrity also was being questioned at the time. Although Al Haig and Dick Allen were forced to resign, the President failed to act until they had caused him considerable embarrassment.

Others such as Casey, Ray Donovan, Robert Nimmo, William French Smith--and now Watt--have embarrassed the President without impunity. Even David Stockman, the only aide taken to the woodshed by Reagan, has survived.

Reagan's closest aides have often pleaded with him to take action against advisers who embarrass him. Jim Baker argued for the ouster of Donovan. Others aides suggested a full-fledged housecleaning after the Haig departure. Lyn Nofziger advised the President he should fire someone as a warning to others in the administration to behave.

Not only has he rejected their advice, the President

(MORE)

apparently has decreed that everyone's job is safe at least through the November election.

Although many top White House aides are hoping for a full-scale shakeup after the election, Baker questions whether Reagan can bring himself to deal with personnel problems--even then. If Reagan does nothing by then, it's likely that many of the good people such as Baker and Richard Darman and Craig Fuller will leave the administration in disgust. The weaker aides will then be left to run the show.

Reagan's inability to deal with these matters is not surprising. As one White House aide notes, most politicians lack the ability to handle touchy personnel matters. Politicians want to be liked by everyone. Reagan's problem is compounded by his fierce loyalty to long-time friends and supporters. He was an outsider for so long that it's hard for him to deal harshly with the people who helped him before he was the President of the United States.

(END)

SJF

July 28, 1982

To: MLS (LH, DR, SJF)

From: JF

RICHARD PIPES. NSC SOVIET SPECIALIST:Background--no attribution.

KEY POINTS:

<*>Reagan foreign policy shifting toward more nationalistic approach to world issues.

<*>Main emphasis now on squeezing Soviets economically to force change in system and it's up to allies to come along.

<*>Russia is in critical financial straits, having trouble selling gold and weapons and after four straight crop failure in desperate need of big grain imports to avoid starvation.

<*>Leadership paralysis in Moscow.

<*>U..S. position in world better today than at any time since 1960s.

1. Reagan foreign policy: There has been a decided shift in recent months toward a more nationalistic approach to world affairs, an approach that looks at issues in terms essentially of American national interests. Haig and the State Department pushed for an approach that gave priority to a placating allies on the grounds that alliance unity was paramount. No more. The President's June 18th pipeline decision is symptomatic of the new approach. (See (2)

(MORE)

below), where Reagan decided to go with a policy that he deemed right even if it was opposed by allies. Boycotting the law of the sea agreement, shelving comprehensive test ban negotiations, reopening the threshold and peaceful uses nuclear test agreements to achieve tougher verification-- these are other examples of the more nationalistic approach. All of these actions are calculated to serve American national interests even though they may alienate allies and others.

This new approach reflects Reagan's greater interest and involvement in foreign policy. During his first year he was disinterested. He began getting interested with the Polish crackdown last December. Clark's arrival at the White House was not the critical development in the shift but it helped because the two are very close and Reagan's interest was encouraged and he had a better vehicle to reflect his views.

2. Pipeline: The June 18 decision was taken deliberately in the full knowledge that there would be a strong allied reaction. But the president decided that the time had come to lance the boil of alliance difficulties. Obviously the allies are unhappy (Pipes came to lunch from a long meeting with the German minister lecturing him on the pipeline issue). But it was decided that the pipeline decision was the way to clear the air with the allies. There already are signs that the allied front is breaking down (Holland is not joining in defying the sanctions and Belgium probably

(MORE)

won't while others, including the key French company involved, are having a lot of reservations about the potential cost of going through with their defiance--for instance, the lose of future cooperation with GE. Pipes said that the assumption is that after six months the situation will settle down and the alliance will be stronger than ever. While we can't stop it, our objective is to delay the pipeline and increase the cost to Russia and we are achieving that.

What prompted Reagan to act in midJune? One factor was that he had warned that if there was no improvement in Poland he would tighten the squeeze and there had not really been improvement. But Pipes says that the reason thing that triggered it was that Reagan was angered by comments by Mitterand and Schmidt after Versailles that the agreement on limiting credits there was meaningless. Even if the agreement was symbolic and not very effective, Reagan found it offensive to have the German and French leaders debunk it that way. He's very stubborn in the sense that he has strong feelings about the way America is treated--a Midwesterners' kind of pride of nation--and that was offended. He might have been willing to accept the credit agreement as evidence of tougher action against Poland but when Schmidt and Mitterand said it was meanginless Reagan decided to turn the screws tighter on the pipeline to demonstrate that he meant what he said when he warned the Russians of tougher sanctions if there was no

(MORE)

improvement in Poland. If not tighter credits than tougher pipeline sanctions. Pipes is confident that the allies will in the end come along with the U.S. on a policy that in one way or another does put more economic pressure on Russia. They might tighten up on government credits to Russia in exchange for Reagan concessions on the pipeline.

3. Soviet policy: The administration's policy toward Russia stems from a conviction that the Soviet Union is in deep, deep economic and financial trouble. By squeezing wherever we can, the aim is to force the Soviets to carry out reforms of the system which would make the system more efficient by making it freer. Also this would force Russia to divert resources away from the military. It won't happen overnight but Pipes is confident that we will see results over two years. The emphasis in US policy toward Russia has shifted from military to economic--exploiting Russia's economic weakness to bring change.

The Soviet financial bind, he says, is terrific. They've just had their fourth crop failure in a row. In the past Russia might have three failures and then a bumper crop. The result of the fourth failure is that Moscow must import on a vast scale--he mentioned an outside figure of 50 million tons. Already they are rationing bread and meat. If they weren't importing on a large scale, people literally would be starving. The big problem for the Soviets now is how to pay for the grain imports. They are in a terrible bind for foreign exchange. That is evident in reports we

(MORE)

are getting from around the world of Soviet notification to companies and banks of delay in payments, postponement on accepting deliveries, cancellation of orders. Private credits to Eastern Europe have dried up and for the first time Russia is running into trouble raising loans in Western banks. Even such small credits as 100 million dollars pose troubles, forcing them to organize consortia and such whereas in the past Western banks snapped up the loan requests.

Sell gold? They're hedged in there by the week gold market. If they sell more than 10 tons in a week--200 million dollars--it severely depresses the market. Weapons' sales? Also difficult since many of the Third World buyers were financing purchases with oil earnings. Now OPEC is in trouble. Libya, for instance, told the Russians it would pay for weapons with oil but the Russians don't want it because there's no market for the oil at a reasonable price.

4. Wheat sales to Russia: If Russia in such a fix, why sell grain? Pipes privately says that he strongly opposed lifting the embargo and favors an embargo. Technically he says he can--and did it with his German visitor--make a technical case that grain sales differs fundamentally from the pipeline. The pipeline earns foreign exchange for Russia; US grain sales costs Russia foreign exchange. But still he concedes that the symbolism of the grain sales is wrong. One argument in its favor, he says, is that if

(MORE)

Russia is importing grain there will not be the agricultural reforms that would enable them to feed their people. (I wasn't clear how these jibed with his earlier assertion that our objective is to force Russia to reform its system.)

5. Soviet leadership paralysis: Pipes says that it is impossible to get any business done with Russia today because no one really is running the show. It's as though both Reagan and Shultz were gone. No decisions are taken. There is a kind of paralysis. They are unable or unwilling to make decisions, to change, even to exploit opportunities. Their representatives simply come in and set out the standard arguments and that's that, no flexibility, no give-and-take at all. The arms talks at Geneva are going nowhere at all; just a constant repetition of the arguments. This also explains in large part why the Russians have been dealt out of the Middle East--they just are unable to make a decision to change anything, to take vigorous action. Also deeply worrying for Soviet leadership--especially the military--is the humiliating defeat of three major weapons' systems--MIG, SAMs, tanks by American equipment. That clearly had had profound effect and must make them wonder about the effectiveness of their weapons in a war with the US if they did so badly in Lebanon.

6. US foreign policy: Pipes maintains that US is better off in the world today than it's been since the 1960s. He paints this picture: Russia is in deep economic trouble.

(MORE)

Our arms program is in place. Israel's victory in Lebanon has transformed the correlation of forces in the Mideast so that, whatever the shortterm problems, the US will benefit. Russia has been dealt out of the Mideast. We are close to resolving the longstanding Namibia problem. China is a problem but we're getting that sorted out (see below). True, we have the problem with our allies over the pipeline but he is confident that this is temporary and will be resolved in way that will be a plus for U.S.

7. China: Pipes is critical of the original Reagan approach to China and Taiwan, believes that it is important to strengthen cooperation with Peking. Contrary to White House hints that Reagan would come out more openly in support of Taiwan, Pipes says that it is his understanding that an agreement is almost set that will satisfy Peking and open the way for improved relations. Interestingly enough, Pipes said that he has not been involved in deliberations on China policy even though it obviously is an important element in a policy of toughness with Russia. The Russians have been trying to exploit the uncertainties in Washington-Peking relations by getting into technical negotiations with Peking. China has gone along in order to strengthen its bargaining position. Pipes indicated that he is concerned that our policy should not strengthen the hands of the pro-Soviet faction that is maneuvering to cut down Deng.

8. NSC under Clark: He and Clark are very much on the same

(MORE)

ideological wavelength. The whole operation has been transformed. Under Allen, the only cables NSC saw were those going overseas with President's signature. Now NSC sees all important outgoing cables and "if I disagree with a State Department cable I make it known and it's changed." In short., he implied, NSC is calling the ultimate tune. Also under Allen no NSC staffer saw Reagan. Now Pipes says Clark takes him in to talk to Reagan and his memos go to Reagan over his own signature. Clark at NSC meetings does not take a position--for instance on the pipe--but acts as a traffic cop for the various department representatives. However, he is very close to the president there is no doubt that his views influence Reagan. Will Shultz challenge the new approach to Russia and allies? He doesn't think so, Shultz is a conciliator and will work to accommodate. He is likely to make major changes at State to replace Haig appointees (Veliotis, Burt, Eagleburger, Wolfowitz).

(END)

TO: MLS, LT, JF, BFP, DR, JG, GP, LH, DXB, DCB, JWM, SJF,
PA, PGH, SXM, DLB

FROM: RAK

RE: Background-only ivu with Bob Sims, special assistant
to Bill Clark

Gandhi visit. The White House regards Prime Minister Gandhi's visit as significant, says Sims, chiefly because the Soviets are "miffed" that she is responding to Reagan's invitation while keeping Brezhnev waiting. But Reagan will employ a low-key approach to Gandhi; no major developments are expected from the talks. "Generally, we expect it to be a friendly meeting indicating a warming of relationships...without any significant immediate outcome."

Sims claims that Reagan established a degree of rapport with Gandhi in Cancun last October and followed it up with "an exchange of cordial letters" over the past several months. "On a person-to-person basis, these two people do get along well and that's good."

Gandhi will press Reagan for bigger IMF loans, but past disputes over the sale of U.S. weapons to Pakistan and American refusal to supply nuclear fuel for the Tarapur atomic plant are not expected to be serious points of contention, Sims says. If Reagan presses the Prime Minister on anything, it will take the form of a warning about the Soviet threat in south Asia. Reagan "would come from the

(MORE)

point of view of, 'Watch out for the Soviets. Don't trust them and don't buy their weapons.' Reagan and Gandhi may discuss the coproduction of American-designed fighter aircraft in India.

Defense cuts. Confirming a story in today's New York Times, Sims says that although the fiscal '83 budget resolution provides for 23 billion in defense cuts for '84 and '85, Reagan in all likelihood will attempt to restore those cuts. He never agreed to cuts for '84-'85; he only agreed to accept the 7 billion in cuts for '83. Reagan is committed to the deficit targets for '84-'85 contained in the budget resolution, but 'how we get [to those targets] is another matter. He has not agreed to any defense cuts in '84 and '85...Right now, he's not fooling around with defense.' Score another point for Cap Weinberger. Sims says, however, that it was Secretary of State Shultz who swayed Reagan to go along with Weinberger's effort to restore the cuts. Shultz argued that going along with the military cuts would send the wrong signal to the Soviets.

Grain deal. Sims predicts Reagan will reject the advice of his political advisers and go along with the recommendation of Bill Clark and Weinberger to extend for one year the Soviet grain agreement in its present form, without increasing the minimum purchase requirement. Reagan 'doesn't bend easily on these matters of principle,' says Sims. As of this morning Reagan still had not signed off on the decision and he will not announce his position at

(MORE)

tonight's press conference as earlier expected. Increasing the minimum would be "cosmetically significant to the farmers" but would have no practical impact on the grain agreement, because the Soviets will undoubtedly purchase much more than the minimum, anyway. The current agreement, which took effect last year, provides for a minimum of 6 million to 8 million tons but Moscow purchased 16 million tons in 1981.

Soviet pipeline. Will the administration take strong action to enforce Reagan's sanctions? "I don't think anybody senses an urgent need for action," says Sims. "Legally, you might say that infringement of the [sanctions] would not occur until delivery" of the French-made rotors in 1983. Reagan is sympathetic to the domestic political problems of the Western European governments, says Sims, and he "doesn't want to respond heatedly" to their open defiance of the U.S. sanctions.

Middle East. Special envoy Habib does not believe the Israelis will enforce the "deadline" set by Prime Minister Begin for the PLO to be evacuated from Beirut. The deadline announced by Begin is Friday of this week. Instead of an Israeli ground assault on West Beirut, Sims thinks it more likely that Israel's new military tactic of "static offense" will be employed (as it was in Tuesday's air assault on residential neighborhoods of West Beirut) to strike at Palestinian strongholds.

Reagan's decision to suspend shipments of cluster bombs

(MORE)

will have little impact because Israel has stockpiles of the weapons and a limited capacity to produce the bombs themselves.

(END)

TO: MLS, IT, JF, BFP, DR, JG, GP, LH, DXB, DCB, JWM, SJF, PA, PGH, SXM, DLB

FROM: RAK

RE: Background-only ivu with David Gergen

Mid-year economic review. The credibility of the White House deficit projections will suffer severely because of Fed Chairman Volcker's endorsement of the much higher Congressional Budget Office deficit figures, Gergen says. Volcker's views will carry more weight in Congress and in the financial markets than will the White House economic forecast. The mid-year economic review, which will be released Friday afternoon, projects a 115-billion deficit in '83, compared to 140 billion to 160 billion in the CBO forecast.

Tax bill. The White House is getting edgy about Representative Jack Kemp's drive to kill the tax bill in the House. He now has 40 to 80 Republican signatures on a resolution to shelve the tax bill. His argument is that the Democrats are exceeding the spending levels contained in the budget resolution, so why should Republicans raise taxes to keep down the deficit. The Republicans are more fearful than Reagan about the potential success of the Democrats' strategy of standing aside and letting the Republican tax bill sail through. "There are a lot of Republicans on the House side who are not too happy with this" tax bill.

(MORE)

Reagan, incidentally, is "very highly irritated" by the fact that the tax bill has become known as the largest peacetime tax increase in history. The Social Security tax increases for 1983-'85 amount to 112 billion, compared to the 98.6 billion tax bill now before Congress. But Gergen concedes that the Social Security hikes were contained in more than one bill.

Interest rates. Reagan may call in the heads of major banks in the next few weeks to try to break the "psychology" of high interest rates. The President firmly believes that high interest rates are rooted in an inflation psychology and he seems to think he can talk the bankers out of that psychology. The White House is encouraged that a number of banks lowered their rates today despite the Treasury Department's announcement yesterday of plans to borrow 100 billion in the last half of the year.

Draft registration. To encourage compliance with the law, Reagan is seeking a forum from which to reassure 18-year-old men that he has no intention of reinstituting the draft. Gergen says there was "a ripple of surprise" at the White House when the latest numbers showed a decline in registration.

New Federalism. Reagan will send up legislation to implement his New Federalism plan, but Gergen admits that the President (along with Rich Williamson) is virtually the only person in the White House who still cares about it.

"A lot of the sex appeal has been lost on the [White

(MORE)

House] staff," says Gergen, in the understatement of the week. Nor does the idea have much appeal outside the White House. "It's just moving boxes to a lot of people." Reagan promised in Baltimore earlier this month that he would send the legislation to Congress by the first of August but that deadline will not be met, Gergen says.

Congressional relations. Is Reagan growing frustrated with Congress? No, says Gergen, he just believes that "the only way you can make any progress is to keep the heat on the liberal Democratic leadership." That is why Reagan responded harshly in the press conference to the Democrats' criticism of his support for the balanced budget amendment. Reagan "gets along exceptionally well with the Republican leadership," Gergen claims. "He hasn't lost a big one yet."

Ed Rollins' gag. Jim Baker told Rollins to stop talking to reporters after he was the source of a story listing what states Reagan would campaign in this fall. The travel schedule had not even been finalized. "And more importantly, it's far too early to be telegraphing our strategy," Gergen adds.

(END)

July 30, 1982

FROM: SJF - White House

TO: MLS, LT, JF, BFP, SXM, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, DLB,
PGH

RE: The following items come from a background interview with White House Chief of Staff James Baker;

- o The midyear economic review was delayed by the dispute within the administration over defense spending in 1984 and 1985.

- o The administration will not tackle the 1984 budget until after the election because next year's cuts will be even more controversial than those of 1983.

- o The GOP will do better than expected in November. Why? "'Because we got a lot of money--that tends to even things out.'"

- o Nobody at the White House has scolded Interior Secretary James Watt for his "'unfortunate'" letter to the Israeli Ambassador.

- o Baker recently had political consultant Stewart Spencer[?] review the White House political operation. Spencer's conclusion: Ed Rollins is doing a good job when he keeps his mouth shut.

- o A list of possible replacements for Murray Weidenbaum includes at least two women--Marina Whitman[?] and Kathaleen Icoff[?].

Economic Review. Defense Secretary Caspar Weinberger delayed the midyear economic review by refusing to accept the so-called "'consensus'" numbers for defense spending in

1984 and 1985.] As a former OMB director, Weinberger knew he'd get stuck with those figures later this year if he accepted them now. Weinberger lost his appeal, but Ronald Reagan went half way by declaring that he would not be bound by the figures. Baker thinks this strategy backfired because it incensed members of Congress. Baker adds, "There is a question how long you can preserve the coalition in Congress for defense spending."

Baker acknowledges that he thinks the recovery will be weak, although he says an anticipated drop in the prime rate to 15 percent next week may help out. He notes that the prime rate has never dropped below 15.5 since Ronald Reagan took office. He also claims the administration still has "a shot" at a sustained recovery beyond early 1983.

The administration's "No. 1 problem" is the high deficits. "We haven't done what we could have to bring them down," he says. It's not] secret that Baker would have preferred bigger cuts in defense spending in fiscal 1983.

Election strategy. Beyond spending more money than the Democrats, the Republicans will attempt to downplay the economic issues in the November election by focusing on signs of hope in the economy--like the new drop in the prime rate. "The fundamental issue is ^{do} ~~due~~ we stay on course or do we return to the failed programs of the past," Baker said, explaining the line that Republicans

are expected to use in the election campaign. He contends that 55 to 60 percent of the people still think Reagan needs more time to stimulate the economy.

Rollins was not muzzled, according to Baker. He was simply told not to discuss GOP strategy and tactics. He was told: "'Turn on your brain before you turn on your mouth.'"

Watt. Watt apologized to the Jewish leaders voluntarily, according to Baker. It's obvious that Watt still has the President's support, even if others would like to muzzle him. "'The President views that he's more positive than negative,'" said Baker. "'He represents a specific core constituency.'"

CEA chairman. Also on the list of possible replacements for Weidenbaum is Allen^A Greenspan[?], Martin Feldstein[?] and "'someone named Solomon.'" Baker wants a "'fairly high-powered person[''] as the new CEA chairman. He doubts that Greenspan would accept it, if asked. Even though Baker mentions^{ED} the names of two women candidates, it is doubtful that either of them would be chosen. The White House has a habit of mentioning women's names in these circumstances in order to make it appear as if women are getting more appointments than they truly^D are.

Grain. Reagan's decision on the grain embargo got hung up on the "'nonissue'" of higher minimum sales to the Soviet Union. Agriculture Secretary John Block wanted to state higher minimums for "'cosmetic,'" political reasons.

Although Reagan refused to set higher minimums on ^{THE} grain sales to the Soviets, he authorized Secretary Block to forecast higher grain sales. Reagan ruled against the higher minimums because he feared this would provoke our European allies at a sensitive period.

(END FILE)

July 30, 1982

FROM: RAK - White House

TO: MLS, JF, BFP, LJJ, SXM, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA,
DLB, PGH

RE: Grain embargo

As expected, President Reagan today proposed a one-year extension of the Soviet-American grain deal, with no increase in the minimum-purchase requirement or any other changes in the terms of the existing agreement. The decision was announced by Agriculture Secretary Block and Treasury Secretary Regan at the White House.

Citing the situation in Poland, Reagan ruled out negotiations on a new long-term agreement. "The Soviets should not be afforded the additional security of a new long-term grain agreement as long as repression continues in Poland," Reagan said in a statement.

But he signaled in the statement that the Soviets would be entitled to purchase as much U.S. grain as they want under the one-year deal.

If the Soviets accept Reagan's proposed deal, they would be obligated to purchase a minimum of 6 million metric tons of wheat and corn in approximately equal proportions. They could purchase up to 2 million metric tons] more grain without consultation with the U.S. Purchases above a million tons would require consultations.

According to a White House fact sheet, the U.S. has offered the Russians 23 million tons of grain in fiscal 1982. To date, they have purchased only 13.9 million tons.

The U.S. now supplies 30 percent of Soviet grain imports, compared to 70 percent before the embargo.

The White House has advised the European allies of the decision, but Secretary Regan claimed it is too early to gauge their response.

Reagan's decision is a victory for national-security adviser Clark and Defense Secretary Weinberger, who urged a simple extension without increasing the minimum-purchase requirement. Block and other domestic advisers urged Reagan to hike the minimum in order to please U.S. farmers.

Excerpts from the President's statement:

"In the spring of 1981, I lifted the U.S. grain embargo^o imposed by the previous administration, because it was not having the desired effect of seriously penalizing the U.S.S.R. for its brutal invasion and occupation of Afghanistan I vowed at that time not to impose a grain embargo unilaterally unless it was part of a general cutoff of trade between the U.S. and the Soviet Union.

"I renew that pledge to American farmers today. American farmers can be assured that they will continue to have a fair opportunity to export grain to the U.S.S.R. on a cash basis. Other suppliers, who sometimes criticize our grain sales, also supply grain to the Soviet Union. Grain sales have little impact on Soviet military and industrial capabilities. They absorb hard-currency earnings, and feed the people of the Soviet Union who are suffering most from

Page - 3

the disastrous economic policies of the Soviet
government.''

(END FILE - ERJ)

To: mls lt dr jwm gp rak pa jsl

From: sjf

White House travel.

The White House is going to rebate most of Bob Manning's controversial \$165,000 slush fund for press travel.

John Rogers, director of the White House office of administration, told the board of the White House Correspondents Association on Wednesday that a rebate will be paid on the basis of travel costs paid for Jimmy Carter's 1980 trip to Italy.

About \$140,000 of the slush fund comes from overcharging on that trip, according to Rogers. Thus every news agency can expect a check amounting to about 20 percent of what they paid for that trip. The remaining \$25,000 will be used as an operating fund by the travel office in making arrangements for press travel.

Rogers also has decreed that the White House travel office will use proper accounting procedures in handling the money. Bills will be itemized in the future.

According to Rogers, Manning built up his slush fund by overcharging us slightly on most trips. Since he often billed us before he received his bills, he usually added a little cushion to his estimate to be safe. Manning did not keep good books either. But Rogers insists there is no evidence of hanky-panky.

Jim Baker also has decreed that spouses and dependents of White House staff must pay commercial airfare plus one

(MORE)

dollar to ride on the press charter. Until now, dependents have been charged a very low flat rate (Example: \$200.00 for spouses and \$75.00 for children for a round trip from Washington to California). This was done on the idea that dependents were only filling up empty seats and thus saving the news organizations money.

The new policy has Larry Speakes and other White House staffers upset. But it will probably save us some money. Mannings's successor, Billy Dale, says he's often forced to rent a bigger plane to accomodate dependents. Thus they end up costing us money instead of saving it.

Still undecided is how to charge for traveling dependents of reporters. The White House has asked the White House Correspondents Association to make a recommendation. The issue is proving highly controversial.

(END)