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BC-FELDSTEIN
(NEWHOUSE 803)
BY MARSHA TAYLOR
NEWHOUSE NEWS SERVICE

WASHINGTON - THE RECORD U.S. TRADE DEFICIT, NOW EXPECTED TO SOAR BEYOND $100 BILLION IN 1984, IS HAVING ''VERY SUBSTANTIAL EFFECTS'' ON THE U.S. ECONOMY THAT MAY GO UNNOTICED BECAUSE OF CONCERN ABOUT HIGH FEDERAL BUDGET DEFICITS, SAYS PRESIDENTIAL ECONOMIC ADVISER MARTIN S. FELDSTEIN.

IN JANUARY, THE TRADE DEFICIT HIT AN ALL-TIME HIGH OF $9.5 BILLION FOR A SINGLE MONTH, THE COMMERCE DEPARTMENT REPORTED WEDNESDAY.

''THE TRADE DEFICIT AND CAPITAL INFLOW (FROM ABROAD) ARE SIDES OF THE SAME COIN - THE HIGH DOLLAR,'' FELDSTEIN, CHAIRMAN OF PRESIDENT REAGAN'S COUNCIL OF ECONOMIC ADVISERS, SAID IN AN INTERVIEW. ''THE SHIFT TO 'OFFSHORE' MANUFACTURING, TOO - ALL OF THAT REFLECTS THE STRENGTH OF THE DOLLAR.

''IF - I SHOULD SAY, WHEN - THE DOLLAR GOES BACK DOWN, SOME OF THIS WILL SELF-CORRECT. BUT NOT ALL OF IT. THAT'S THE PROBLEM.''

THE LONGER THE EXCHANGE VALUE OF THE DOLLAR AGAINST OTHER CURRENCIES REMAINS AT CURRENT HIGH LEVELS, HE NOTES, ''THE MORE DIFFICULT OR IMPOSSIBLE IT WILL BE TO REVERSE SOME OF THESE PROCESSES - LIKE THE (U.S.) INDUSTRIES' SHIFT OFFSHORE (OVERSEAS).''

U.S. COMPANIES SWITCHING TO FOREIGN MANUFACTURING OPERATIONS ARE TAKING WITH THEM THOUSANDS OF JOBS THAT MAY NEVER RETURN. EVEN IF THE DOLLAR WERE TO DROP DRAMATICALLY, A U.S. COMPANY IS UNLIKELY TO MAKE A QUICK DECISION TO CLOSE A PLANT RECENTLY OPENED ABROAD, FELDSTEIN SAYS.

''INSTEAD, A COMPANY PROBABLY WILL BEGIN TO THINK ABOUT PUTTING ITS NEXT PLANT BACK HERE,'' HE SAYS. ''BUT THAT CAN TAKE YEARS.''

NOW ON LEAVE OF ABSENCE FROM HARVARD UNIVERSITY, FELDSTEIN IS SLATED TO RETURN THERE BY SEPTEMBER. HIS ALREADY-SOLID PROFESSIONAL REPUTATION ONLY HAS BEEN ENHANCED AMONG HIS HARVARD COLLEAGUES BY HIS REPEATED REFUSALS TO SUPPORT PUBLICLY THE VIEW OF THE REAGAN ADMINISTRATION - AND OF TREASURY SECRETARY DONALD T. REGAN - THAT NO NEW TAXES ARE NEEDED TO CURB THE FEDERAL BUDGET DEFICIT.

FELDSTEIN'S FAILURE TO FALL IN LINE ON THE TAX QUESTION, COUPLED WITH SERIOUS UNDERESTIMATION OF THE STRENGTH OF LAST YEAR'S ECONOMIC RECOVERY, HAVE HELPED PUT REGAN IN WHAT SHOULD BE THE FORMER'S PLACE AS THE KEY PRESIDENTIAL ADVISER ON THE ECONOMY.

BUT SUGGESTIONS THAT IN RECENT MONTHS FELDSTEIN HAS BEEN SHUT OUT OF THE OVAL OFFICE APPEAR TO OVERSTATE THE CASE. ON TUESDAY OF LAST WEEK, FOR EXAMPLE, FELDSTEIN SPENT SEVERAL HOURS WITH PRESIDENT REAGAN TO DISCUSS QUESTIONS ON THE ECONOMY THAT MIGHT ARISE DURING THE TELEVISED PRESS CONFERENCE SCHEDULED FOR THE FOLLOWING EVENING.

IN SPITE OF A STRING OF WORRISOME PROBLEMS STEMMING FROM THE HIGH VALUE OF THE DOLLAR, FELDSTEIN RETAINS CONFIDENCE IN THE UNDERLYING STRENGTH OF THE U.S. ECONOMY.

''WE'RE NOT NEARLY AS SENSITIVE (TO WHAT HAPPENS ELSEWHERE IN THE WORLD) AS, FOR EXAMPLE, THE EUROPEAN NATIONS ARE,'' FELDSTEIN SAYS. ''IF THE DOLLAR FALLS BY ABOUT 10 PERCENT, SAY, WE WOULD EXPECT LESS THAN A 1 PERCENT INCREASE IN THE CONSUMER PRICE INDEX AS A RESULT.''

IF THE DOLLAR WERE TO FALL RAPIDLY DUE TO LOSS OF CONFIDENCE IN THE U.S. ECONOMY ON THE PART OF FOREIGN INVESTORS, HOWEVER, THE 1984 INFLATION RATE COULD BE SIGNIFICANTLY HIGHER THAN THE 5 PERCENT EXPECTED BY THE ADMINISTRATION.

THE 7 PERCENT RATE OF INFLATION FOR 1984 THAT SEVERAL PRIVATE ECONOMIC FORECASTERS NOW ARE SUGGESTING ''ISN'T IMPOSSIBLE,'' FELDSTEIN, SAYS, ''BUT IT'S UNLIKELY.

''I DON'T REALLY EXPECT ANYTHING DRAMATIC OR WORRISOME TO OCCUR THIS YEAR.''

ADMINISTRATION PROJECTIONS OF FUTURE ECONOMIC PERFORMANCE DURING THE 1985-89 PERIOD, WIDELY DISMISSED AS OVER-OPTIMISTIC BY MOST NON-GOVERNMENT ECONOMISTS, ''DON'T REPRESENT A SUSPENSION OF THE LAWS OF HISTORY,'' FELDSTEIN SAYS. ''WE'VE HAD SUCH PERIODS OF SUSTAINED EXPANSION BEFORE ... IN THE '50S, SAY, OR IN THE '60S. IF WE PURSUE THE KINDS OF FISCAL AND MONETARY POLICIES THAT WE SUGGEST, WE'LL GET THAT GROWTH.

''IF WE DON'T, I COULDN'T BEGIN QUANTITATIVELY TO MAKE A SPECIFIC FORECAST OF WHAT FAILURE TO PURSUE THESE POLICIES MAY MEAN.''

RB END TAYLOR

(DISTRIBUTED BY THE INDEPENDENT PRESS SERVICE)

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^Regan Rejects Idea Dollar is Overvalued<
^With AM-Budget Rdp Bjt<
^By SALLY JACOBSEN=
^AP Economics Writer=

WASHINGTON (AP) - Treasury Secretary Donald Regan labeled as ``confused thinking'' Wednesday assertions that the dollar is overvalued in comparison with major foreign currencies.

Regan, in a speech to the Chamber of Commerce of the United States, said the dollar's strength is mostly the result of the U.S. economy's strong rebound from the 1981-82 recession.

In doing so, the treasury secretary turned aside arguments of most economists that link high interest rates, caused by enormous federal budget deficits, and the value of the dollar.

These economists argue that the deficits lead to higher interest rates, which in turn encourages foreign investors to put their money in dollar-denominated securities.

Martin Feldstein, chairman of the president's Council of Economic Advisers, told a television interviewer, ``It's clear that the large budget deficits are keeping interest rates higher than they would otherwise be (and) they're keeping the dollar stronger than it would otherwise be.''

Feldstein, in the interview on the Christian Broadcasting Network's 700 Club, urged congressional action to reduce deficits now approaching $200 billion.

He said continuing high deficits pose a risk to the health of the economy and that success in deficit-cutting negotiations between Congress and the White House would ``help to keep the recovery on track after 1984.''

In his remarks on the international economy, Regan said, ``The strong dollar is neither `overvalued' - as some have suggested - nor something to be ashamed of.''

``The strength of the dollar reflects a number of factors; the most important of which, and the one rarely put at the top of the list if it is mentioned at all, is the remarkable performance of the American economy,'' he said.

He acknowledged that the dollar's strength poses ``serious problems'' to exporters of American goods. ``But,'' he said, ``it is confused thinking to describe the dollar as `overvalued'.''

``In a floating exchange rate system, there can be no `correct' value to any currency other than the value given to a currency through market transactions,'' he said.

The strong dollar makes foreign goods cheaper than U.S. products, which analysts say is a major reason why the American trade deficit soared to a record $69.4 billion last year.

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IN THE SENATE OF THE UNITE

Mr. CHILES

submitted the following concurrent resolution; which was .....

CONCURRENT RESOLU

~~A RESOLUTION~~ EXPRESSING THE SENSE OF CONGRESS THAT PRESIDENT SHOULD SUBMIT A REVISED BUDGET PROPOSAL CONTAINS PROVISIONS TO REDUCE THE FEDERAL DEFICIT LEAST $200 BILLION OVER THE NEXT THREE YEARS.

SEN. CHILES, INOUYE, BYRD & others

" WHEREAS THE CURRENT FEDERAL BUDGET DEFICITS AR PROJECTED TO GROW TO UNPRECEDENTED LEVELS, EXCEED BILLION A YEAR BY 1989, UNDER CURRENT TAX AND SPE POLICIES; AND

" WHEREAS THE GROWTH OF THE FEDERAL DEFICIT WO EVEN IF RAPID ECONOMIC GROWTH WERE MAINTAINED; A

" WHEREAS LEADING ECONOMIC EXPERTS INCLUDING THE C OF THE FEDERAL RESERVE BOARD, THE DIRECTOR OF THE CONGRESSIONAL BUDGET OFFICE AND THE CHAIRMAN OF THE PRESIDENT'S COUNCIL OF ECONOMIC ADVISORS HAVE TESTIFIED THAT THESE DEFICITS REPRESENT A GRAVE THREAT TO THE HEALTH OF OUR ECONOMY; AND

" WHEREAS DELAYING SERIOUS LEGISLATION TO REDUCE THE DEFICIT UNTIL 1985 WILL DELAY ANY ACTUAL REDUCTION IN THE DEFICIT UNTIL 1986; AND

" WHEREAS THE PRESIDENT HAS SUBMITTED A BUDGET PROPOSAL WHICH IS ESTIMATED BY THE CONGRESSIONAL BUDGET OFFICE TO

PRODUCE DEFICITS GROWING FROM $192 BILLION IN FISCAL YEAR 1985 TO $233 BILLION IN FY87 AND $248 BILLION BY 1989; AND

" WHEREAS THE PRESIDENT'S CALL FOR ACTION TO REDUCE THE DEFICIT BY ONLY A TOTAL OF $100 BILLION OVER THE NEXT THREE YEARS IS TOTALLY INADEQUATE TO DEAL WITH THE SERIOUSNESS OF THE DEFICIT PROBLEM, SINCE IT WOULD YIELD DEFICITS STILL GROWING TO $195 BILLION BY 1987; AND

" WHEREAS THE CONGRESSIONAL BUDGET OFFICE ESTIMATES THAT THE NET DEFICIT REDUCTION DUE TO POLICY CHANGES PROPOSED IN THE PRESIDENT'S BUDGET EQUAL ONLY $23 BILLION OVER THE NEXT THREE YEARS;

" IT IS HEREBY RESOLVED BY THE ~~CONGRESS OF THE UNITED STATES~~ Senate (the House of Representatives concurring)"; THAT:

" A. NO LATER THAN THIRTY DAYS FOLLOWING ENACTMENT OF THIS RESOLUTION, THE PRESIDENT SHALL SUBMIT A REVISED BUDGET PROPOSAL TO THE CONGRESS; || Further delay

" B. THE REVISED BUDGET SHOULD CONTAIN SPECIFIC PROVISIONS TO REDUCE THE FEDERAL DEFICIT BY A TOTAL OF AT LEAST $200 BILLION OVER THE NEXT THREE FISCAL YEARS BELOW THE LEVELS MOST RECENTLY ESTIMATED BY THE CONGRESSIONAL BUDGET OFFICE;

~~PRESIDENT'S COUNCIL OF ECONOMIC ... THESE DEFICITS REPRESENT A GRAVE THREAT TO THE HEALTH OF OUR ECONOMY; AND~~

~~" WHEREAS DELAYING SERIOUS LEGISLATION TO REDUCE THE DEFICIT UNTIL 1985 WILL DELAY ANY ACTUAL REDUCTION IN THE DEFICIT UNTIL 1986; AND~~

~~" WHEREAS THE PRESIDENT HAS SUBMITTED A BUDGET PROPOSAL~~

" C. THE DEFICIT REDUCTION PROPOSALS SHALL CONTAIN A [redacted] BALANCE OF FAIR SPENDING RESTRAINT AND REVENUE INCREASES;

" D. CONGRESS SHALL ACT EXPEDITIOUSLY THROUGH REGULAR LEGISLATIVE PROCEDURES TO CONSIDER THE PRESIDENT'S PROPOSALS FOR DEFICIT REDUCTION AND ENACT A PACKAGE OF AT LEAST $200 BILLION IN DEFICIT REDUCTION.

PRESIDENT'S COUNCIL OF ECONOMIC ADVISORS HAVE TESTIFIED THAT THESE DEFICITS REPRESENT A GRAVE THREAT TO THE HEALTH OF OUR ECONOMY; AND cans or Democrats, for the bad news if it should happen.

The White House, sources say, views a sagging recovery as a more serious threat to the President's re-election than any candidate the Democrats put up. That's why Reagan and his advisers are, in effect, telling Paul Volcker, chairman of the Federal Reserve Board, that they want the Fed to supply enough money to keep the recovery on track and not to worry so much about a resurgence of inflation.

As Treasury Secretary Donald Regan told *U.S.News & World Report* in a recent interview:

"We're not asking them to expand the money supply to such an extent that they would monetize the debt. Nor do we want them to be so tight that they cause a recession. All we want is enough money to enable the economy to reach our goals and theirs."

So far this year, growth of the money supply has exceeded the Reserve Board's target range. That is pleasing to the President, who, at his press conference, complimented the board for pursuing a monetary policy that, he said, "is consistent with a sound recovery, without inflation."

But the fear in both the White House and Congress is that if no action is taken on the deficits and inflation starts to surge again, interest rates will rise once more.

Signals of concern. Financial experts already are beginning to sound the alarms. "Resurgent inflation is starting to show up in the commodity markets and will spread to the general economy by midyear," says Michael Evans, head of Evans Economics in Washington, D.C.

In New York, Henry Kaufman, executive director of Salomon Brothers, an investment banking firm, told a seminar that though the political timetable may call for postponing action on the deficits until next year, "the economy can't wait for politics."

If a deficit down payment is made this year and is perceived as a preview of further action next year, most analysts feel certain that would be a boon to both the economy and the stock market.

"The recovery's pace would be assured," observes Alan Greenspan of the Townsend-Greenspan consulting firm in New York, "and the stock market could move to new highs."

What investors and consumers—all of them voters—seem to want from their political leaders is for acrimony to be replaced by action. □

By MONROE W. KARMIN with the magazine's Capitol Hill staff

Will Good Times Last Through '84?

The economy is going at a "healthy pace," says a top White House official, who also tells what might stop recovery.

Q Mr. Feldstein, will good times stay with us the rest of the year?

A It's very likely that they will.

Q On what do you base that?

A All the recent evidence shows continued strength. Housing sales, housing starts, retail sales, personal income, leading indicators—everything is pointing in the direction of continued strong activity this year.

Q Are the signs too good? There has been worry that things will accelerate so fast that inflation will surge again—

A No, I don't think that. We are getting close to capacity in a few industries, but certainly not in most. The kind of growth that we're expecting this year—somewhere between 4 and 5 percent growth in the gross national product after adjustment for inflation—is perfectly appropriate. The things we've seen recently are in line with that.

WARREN K. LEFFLER—USN&WR

Interview With Martin Feldstein, Chairman, Council of Economic Advisers

Q On the same line, is this current quarter shaping up so fast that it's liable to force interest rates up?

A Not really. The current quarter is coming along at a healthy pace. Interest rates look further forward than a single quarter. I don't think anybody is expecting to see inappropriately high rates of growth in this year as a whole.

Q What sort of price increases are you forecasting?

A We're looking for an inflation rate this year of about 5 percent. A lot depends on what happens to the dollar. If the dollar comes down sharply, that would push up prices of imports and overall consumer prices more than we anticipate.

Q This is supposed to be the year of the comeback of capital goods. Is that happening?

A Last year saw some comeback. This year, the forecast made by business firms themselves about their plant-and-equipment spending looks for growth in real outlays in plant and equipment of about 10 percent. That is a good, healthy rate of growth, but net investment is still at a very low level. Last year, total net fixed investment, including housing, was only 2.8 percent of GNP. The last three decades, it was nearly 7 percent of GNP.

Q What about consumers? Are they going to pull back on their spending anytime soon?

A Consumer confidence, judged by the surveys, is very, very strong. At this stage, there's no evidence of consumers pulling back.

Q A number of private economists see a significant slowdown in the economy occurring in the second quarter of this year. Do you agree?

A I know that some economists think that we might actually have a decline in output in the second quarter. I think they base that on a very narrow interpretation of monetary statistics. I don't think that there's much prospect of the second quarter of the year being negative.

Q What is the stock market telling us?

A I don't read too much into fluctuations in the stock market. The stock market in principle tells us what investors expect about the future performance of the economy and about future interest rates, but you get an awful lot of fluctuations that don't have much basis in actual economic conditions.

Q Isn't the market really very concerned about the effect of federal budget deficits on future years?

A Deficits must be high on their list of concerns, sure.

Q Treasury Secretary Regan says that

the deficit poses no problem for the economy this year. Do you agree?

A The problem for the economy this year is not this year's deficits but the projection of a long string of deficits into the future. It's that projection that is keeping real interest rates higher now than they otherwise would be. It's that projection of future deficits that's keeping the dollar so strong and hurting our export industries and the industries that have to compete with imports. So there's no question that the economy currently is being affected adversely by that long string of projected deficits.

Q President Reagan's deficit forecast of approximately 180 billion dollars a year for the next three years assumes that you will reach an agreement with congressional Democrats on cuts in the deficits, doesn't it?

A Yes. In fact, it's even stronger than that. If we and Congress don't make actual reductions in outlays or increases in revenue, the deficit that we forecast at 180 billion dollars for 1985 would be about 210 billion a year.

As we've emphasized over and over, the economic forecasts on which those budget calculations are based are too optimistic unless there is substantial progress in dealing with the deficits. In particular, we have interest rates coming down sharply over these years, and we don't think that would happen unless there is progress in dealing with the deficits in a substantial way.

Q Turn it the other way: What happens if there's no progress in the negotiations?

A Then we will have higher interest rates than we have forecast. We will have much larger deficits than we have calculated. The deficits would start at 200 billion and rise to about 300 billion before the end of the decade.

Q What would that mean for the economic outlook for the rest of the decade?

A I hate to think about it. The risks of a recession are certainly much greater if the negotiations collapse.

Q If there is no action on the deficits, when do you see the next recession becoming a clear and present danger?

A Nobody can put a precise date on when the economy is going to turn down.

There's certainly no reason why the economy has to turn down in '85 or '86 if we make a dent in the deficits now and give confidence to the financial community that the deficits are going to come down at an appropriate pace in future years. If that happens, we can have a long, sustained recovery.

Q How do you read Chairman Paul Volcker and the Federal Reserve Board? Is he, in effect, saying, "We've got to have some progress on the deficits as the price of easier money"?

A I don't think he's saying that at all. I think he is saying that progress on the deficits is very important and that a healthy, long-term growth of the economy is not going to be possible without progress on the deficits. But he's not saying that if we cut deficits he will then change monetary policy.

I think that his plan for monetary policy is one that's consistent with the kind of growth that we would like to have.

Q Do you think that interest rates are now at a reasonable level, or are they unreasonably high?

A They're certainly very high by historic standards. The real Treasury-bill rate—the interest rate minus inflation—must be on the order of 4 to 5 percent now. Historically, it has been only a fraction over 1 percent. So those rates are high, and that's keeping the dollar high and it's keeping investment at a lower level than it otherwise would be.

We'd certainly like to see those rates come down, but an easier monetary policy is not the appropriate thing to do now. What is really needed to achieve that are changes in the deficit.

Q What would the administration like to see the Federal Reserve do this year?

A It basically would like to see a monetary policy that achieves the economic assumptions that we've enunciated—that is, real growth of about 4½ percent, an inflation rate of about the same level—about 5 percent. That indeed is what the Fed has said represents its economic forecasts for 1984.

There's no quarrel at all between the administration and the Fed about the appropriate goals or about the appropriateness of current monetary targets.

Q You mentioned the dollar. How much danger is there that it is going to collapse?

A The most likely thing for the dollar to do this year is to come down a little bit—4 or 5 percent. But that was the most likely thing last year, too. It is certainly possible that the dollar will surprise us again and either go up as it did last year or drop substantially more than 4 or 5 percent.

Q What's going to push it?

A It could be pushed or pulled by two different forces: If the markets get confident that there is going to be substantial progress in dealing with the deficits, if the deficit "down payment" works, if the rhetoric that surrounds it is optimistic about progress in '85, then we would see long-term real interest rates come down in this country. That would bring the dollar down with it, and that would be fine.

If, on the other hand, there isn't any progress on the deficits but there is growing nervousness around the world about inflation in this country, that could trigger a drop in the dollar that would not be desirable.

Q Do you see signs of that now?

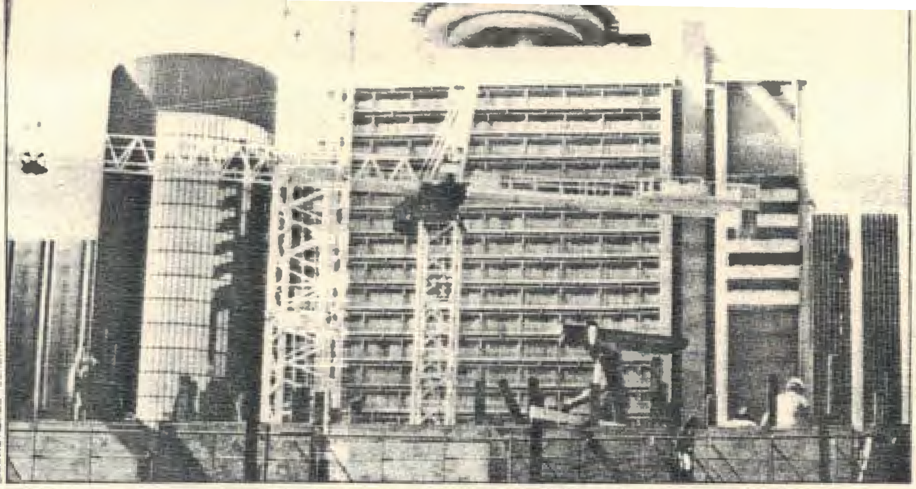
A No, I don't.

Q All in all, why are you so optimistic about the economy? Here we've got very high interest rates, both on a real basis and on a historic basis. We've got nervousness over the dollar. We've got the stock market jumping around, capital-goods sales coming along more slowly than you would like. Aren't these reasons for nervousness?

A First, the economy has a lot of inherent vitality. You'd have to do an awful lot of damage to it to undo the natural vitality of the economy in the long term.

And in the short term, it has got a lot of momentum. The forces at work on consumer spending, on government spending and on housing should continue throughout this year.

But for the long term, it is important that we modify these deficits. I think that a number of very positive things have been done in the last few years. Bringing down inflation, changes in taxes, the transformation of government spending—all give us a basis for optimism. □



DARRYL HEIKES—USN&WR

Construction in Atlanta. Feldstein sees a "good, healthy rate of growth" this year.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

March 19, 1984

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: MARTIN FELDSTEIN
(dictated while traveling)

SUBJECT: Personal Income and Outlays for February

This morning at 8:30 a.m. the Department of Commerce will release personal income and outlays estimates for February. They will also release revised figures for January.

The January revisions show that January was even stronger than previously estimated. Disposable personal income is now estimated to have increased 1.6 percent between December and January instead of the previously announced 1.1 percent. Personal consumption expenditures have also been revised up from a 1.2 percent increase to an increase of 1.9 percent.

These increases are clearly very strong and unsustainable. In themselves, they would tend to frighten financial markets that the strong pace of activity might lead to increasing inflation.

It is a good thing, therefore, that the preliminary estimates for February show a slower pace of increase. Personal income and disposable personal income are both estimated to have increased at a rate of only 0.7 percent.

As you may recall, retail sales in February declined after a very sharp increase in January. This is also true of the broader measure of personal consumption expenditures (that includes things like electricity and heating oil that are not part of retail sales). Personal consumption expenditures actually declined by 0.7 percent between January and February. Although we would obviously not like to see this continue in the future, it is a welcome offset to the very strong 1.9 percent increase in January. The two months taken together still represent a very strong rise at an annual rate of about 7 percent.

February 2, 1984

Martin Feldstein Public Appearances

-- During the week of January 23, the press staff contacted the various television talk shows in order to implement the public affairs plan for the Budget. In the course of these inquiries, we were informed by "Good Morning America" and "This Week with David Brinkley" that they were booking Chairman Feldstein.

-- Because this booking was not part of our plan and was not initiated by the Office of the Press Secretary, we asked the Chairman's office for an explanation. His staff, in turn, asked for a copy of the public affairs plan and informed us that they were arranging their own interviews.

-- The Office of the Press Secretary, in accordance with the public affairs plan of the Office of Communications, arranged two interviews with the Chairman: February 2 on CBS "Morning" and PBS "McNeil-Lehrer".

-- The week of January 23, the press office was informed that Chairman Feldstein would have two private press briefings on the Economic Report -- one on February 1 and another on February 2, both with "selected" reporters. He also scheduled a White House Press Room briefing for Thursday morning, February 2. The Chairman's staff was advised that the press room briefing would be contentious and probably not the best forum for the briefing. The staff would not be dissuaded.

-- In spite of repeated requests, we were never informed by the CEA staff of the television bookings listed in the attachment.

Chairman Feldstein Interviews/Appearances Related to the Budget/Economic Report

Thursday, January 26		ABC "Good Morning America"
Wednesday, February 1		CBS "Nightwatch" Interview with ABC-TV "Evening News"
Thursday, February 2	*	CBS "Morning"
		Briefing for economic reporters, 8:15 a.m.
		Brief the White House Press Corps, 9:30 a.m.
	*	PBS "McNeil-Lehrer"
Friday, February 3		CNN "Take Two"
Sunday, February 5		ABC "This Week with David Brinkley"

* Part of the Office of Communications Public Affairs plan for the Budget/Economic Report

THE WHITE HOUSE

Office of the Press Secretary

Embargoed for Release
at 10:00 a.m. EST

February 2, 1984

BRIEFING BY THE
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
MARTIN FELDSTEIN
ON THE ECONOMIC REPORT

The Briefing Room

9:33 A.M. EST

MR. FITZWATER: This morning's briefing is on the Economic Report by Martin Feldstein, Chairman of the Council of Economic Advisers. The report is embargoed for 10:00 a.m. this morning. And we have extra copies for any of you who didn't get one earlier.

DR. FELDSTEIN: I'm sure you've all had lots of time in the last few days to read the report. I don't have a formal prepared statement. But let me just make a brief remark about the report.

There's no way to summarize it; but there are certain themes that run through it. And one that's clearly prominent in the first two chapters and that comes up again in some of the other discussion is the problems of the budget deficit. That's something that we in this report and that the budget message also pointed out as the single most important problem that has to be dealt with in the years ahead. We can't count on growing our way out of these deficits. And if we don't deal with them, we can't have the kind of economic recovery that we want. Unless they are reduced over the next several years down to a small fraction of our GNP, we're going to continue to have abnormally high real interest rates. We're going to continue to see that investment is depressed, as a share of GNP. We will continue to have a lopsided recovery in which a strong dollar has adverse effects on our export industries and those that compete with imports from abroad.

And in the longer term, as the report and the budget both make clear, the interest payments on our national debt will represent a very large share of total tax revenue, 30 percent or perhaps as much as 40 percent of personal income tax revenue by the end of the decade will have to be devoted to paying the interest on the national debt. So reducing the deficit has to be one of our highest priorities.

I am, as many of you know, quite optimistic that these bipartisan negotiations that are scheduled to begin next week are going to be fruitful, that what we couldn't accomplish by sending up the kind of budget that was sent up last year can be accomplished in quiet negotiations between the leadership of the Republicans and the Democrats in the Congress and the administration.

Q Excuse me. Are you announcing that the Democrats have agreed to meet next week?

DR. FELDSTEIN: No, I'm not announcing any news. I believe that --

Q -- again next week.

MORE

DR. FELDSTEIN: I believe that Mr. Wright and Senator Inouye are expected to come next week. And I believe that's been public information for quite a while.

Q It's news to us.

Q And you're characterizing --

DR. FELDSTEIN: -- I'm not intending to break any news -- Not saying anything that I don't believe I've read in the newspapers.

Q You know, heaven forbid, news should break out here, Dr. Feldstein; but to what was this -- What were the difficult choices, the difficult decisions that we were told yesterday would have to be made in 1985, if there is no progress on the deficit? What kinds of choices?

DR. FELDSTEIN: I wouldn't even put it that way. I would say that difficult decisions are going to have to be made in 1985, even if, as I expect, these negotiations are fruitful.

Q What can you tell us about what we face right after the election?

DR. FELDSTEIN: I can't tell you very much because it's still clearly unknown. But even with success, $100 billion plus in these negotiations, we will have significant deficits in the years ahead. And the only way that they're going to be brought down is to go beyond what the President called "the less contentious issues" and to take on some of the tough parts in the budget.

But I'm not going to say more about the specifics of that until we get to 1985.

Q You're saying that there are going to have to be taxes, there are going to have to be spending cuts.

DR. FELDSTEIN: I'm saying these negotiations I expect that -- to get a compromise, to get $100 billion plus over the next few years agreed to quickly, we're going to have to have additional tax revenue, we're going to have to trim back on the size of the defense authorizations and we're going to have to have domestic spending cuts.

All that has to be done now. And I think it can be done and be done quickly.

Q In these negotiations, are you saying?

DR. FELDSTEIN: In these negotiations.

Q What day next week --

DR. FELDSTEIN: I can't be telling you something you don't already know. The administration has said over --

Q -- negotiations was going to focus on -- We were going to focus on the less contentious issues.

DR. FELDSTEIN: Yes, but that would include dealing not only with domestic spending but also with increased tax revenue through closing loopholes, going beyond the items that are in the budget. And, also, we expect we'll require trimming back the defense appropriations.

MORE

Q Is some kind of general tax increase inevitable? Is that something we're going to have to do in 1985?

DR. FELDSTEIN: I don't think we can answer that at this point.

Obviously, what we're talking about is finding another, roughly, $100 billion beyond what can be done in this downpayment package. And we have to see just how that can be done.

Q Marty, how much worse is the economic situation going to be because you're waiting and not solving the problem now? Because you're putting it off because it's an election year?

DR. FELDSTEIN: I don't think, if we get these negotiations to a fruitful conclusion, the economy will suffer. Let me be more explicit. I think if we get negotiations settled in the next few weeks that produce $100 billion plus of deficit reduction over three years -- and I think $100 billion is the minimum, by no means the ceiling -- I think if we get $100 billion plus over three years and that's interpreted correctly as a downpayment, as a first step to be followed up in 1985, then I think that there will be the kind of confidence in financial markets and among business investors that can keep this recovery moving in the way that we have forecast it.

Q But what if all that's accomplished is what the President has proposed? How much worse is it that he, in his budget, has decided to do nothing in 1984 and to wait until 1985?

DR. FELDSTEIN: I think that -- Our attitude, as you should know, is that these negotiations really supercede the budget, that the budget is not what we want to see happen in 1985, that the budget is a --

Q So why did you send it up, Marty?

DR. FELDSTEIN: Because last year we tried to do the opposite. We sent up a budget that called for substantial spending cuts, called for a large contingent in tax increase and it got no where. It was just -- no reception at all in the House of Representatives. And the result, I think, was that we made no progress.

Therefore, if we're going to make progress, we have to do it a different way. We have to get the key people together in a room to talk about what can be done, rather than turn it into a public debate.

Q Marty, since when is the budget supposed to be a political assessment? Isn't it supposed to be a budget?

DR. FELDSTEIN: It is a budget. It is a budget that explains most of the things that have to be done in the coming year. But it doesn't explain how we can make the additional cuts and tax increases that are required. It describes the funds that are going to be needed to run all the agencies and all the programs. But we do need to find, beyond that, additional cuts.

Q Dr. Feldstein, you're saying $100 billion from the negotiations over three years and then another $100 billion you must get --

DR. FELDSTEIN: A year. A year.

Q -- in fiscal '85 and beyond, each year?

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DR. FELDSTEIN: No, no. Let me be clear. What we're looking for in the negotiations is a $100 billion cumulative over three years, '85, '86 and '87, at least $100 billion.

If we get $100 billion total, that will presumably mean something like $40 billion or $50 billion a year in 1986, '87 and beyond. That, obviously, won't get the deficits down to a balanced budget. The only way we're going to do that is to come back after the elections in 1985 and make the more difficult decisions that will reduce the annual deficits by $100 billion or so.

Q Don't you have to go to a tax increase to do that?

DR. FELDSTEIN: We're going to have to wait until '85 to see what can be done then.

Q Why?

Q But realistically -- you can't get it all from spending, can you?

DR. FELDSTEIN: I think you're going to have to wait and see what happens in 1985. Unless there is -- Let me say this -- unless there is a significant change in priorities, we are going to have to have more tax revenue.

Q You've said repeatedly the waiting until '85 to enact some kind of budget plan will put such a dampening effect on demand in the economy that it's going to have some effect on GNP growth. You've said that throughout this year. What kind of effect will a package of this proportions, that you're telling us is absolutely necessary, will have on economic growth?

DR. FELDSTEIN: The crucial thing is what people expect about future years. If they see this downpayment as a serious

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effort, and as an indication that Congress and the administration will be able to go on working together, then, I think, the economy can produce the kind of solid growth over the next few years that we're forecasting.

I think that's the crucial part -- whether or not they see this as a downpayment to be followed up in '85 by additional legislation that'll continue to shrink the deficits in the coming year.

Q Dr. Feldstein, aren't you really being dishonest on the -- You're saying you need tough choices in 1985 but because you have an election, you don't want to say what those choices are. With a President seeking re-election, isn't that really dishonest not to say what it is that you want, intend to do in 1985?

DR. FELDSTEIN: I think the President has said in very general terms what he wants to do. What he has said --

Q -- exactly the opposite. You've said he said he doesn't want new taxes. You say that -- you're going to need new taxes. He says he doesn't want to cut defense spending. You're saying that he's going to have to.

DR. FELDSTEIN: I'm going to tell you what I think the President has said, and then you tell me where you think I'm wrong. What I believe the President has said and what the administration has made very clear about these negotiations is that in these negotiations, in the $100 billion over three years --

Q I'm not talking about the negotiations.

DR. FELDSTEIN: Okay. Well, that's what I was talking about when I said that we're going to have to do something to --

Q No, you said that after the election that you need, unless there was a significant change of priorities, you'll need additional taxes.

DR. FELDSTEIN: Because you mentioned defense. The defense I --

Q I was talking about taxes as well.

DR. FELDSTEIN: Let me clear because maybe not everybody else is as clear as you are on this. In the negotiations --

Q -- clear.

DR. FELDSTEIN: -- everything is on the table -- in the negotiations everything is on the table. That includes taxes, it includes defense, it includes domestic spending. Now, what happens after the election? I can't say what's going to happen after the election. We face a deficit even with this downpayment that is on the order of two and a half or three percent of GNP.

Q What I'm saying is for a candidate seeking re-election, doesn't he have an obligation to say what will happen after the election?

DR. FELDSTEIN: What he said is -- what he has said is that he believes that he wants to start on the spending side. He wants to start on the spending side and see how much can be done on the spending side. What he said when he came and spoke in this room about a month and a half ago is that if one sees that spending has been reduced as much as possible, cost of government has been brought down as much as possible, and that still doesn't balance receipts and outlays, then something has to be done on the receipt side. And he's emphasized that he wants the Treasury to develop options for substantial tax reform and simplification so that whatever taxes are collected are collected in a way that burdens the economy less.

Q Aren't you not telling us what you want to do in 1985 because you're trying to duck a political issue?

DR. FELDSTEIN: I'm not even going to be here in 1985 so I don't know what the administration is going to decide in 1985.

Q You're not even going to be here tomorrow after this. (Laughter.)

Q Dr. Feldstein, how in the world can you be optimistic about the decision for compromising negotiations when the Democrats are not going to go for significant domestic spending cuts and the President has already overruled advisors like yourself on the prospect for real tax increases or defense cuts?

DR. FELDSTEIN: I think you're wrong. What has been said repeatedly -- Jim Baker said it on television awhile ago; Dave Stockman and Don Regan and I all said it in the general press briefing yesterday -- is that everything is negotiable this time. We expect there to be a trimming down in the proposed defense outlays in this budget. We expect there to be more tax revenue than is in this budget, and we expect to get domestic spending cuts.

Q You're a dead man. (Laughter.)

DR. FELDSTEIN: You haven't been listening to what my colleagues have been saying recently. All this has been repeated over and over and over again.

Q I've only listened to what one person has been saying and he hasn't gotten the word.

Q What does the President mean, then, when he says not on your life that we're going raise taxes to reduce the deficit?

DR. FELDSTEIN: What the President means is we're not going to have a general rate increase for everybody. What he is prepared --

Q -- for the poor, huh?

DR. FELDSTEIN: No, now, in these negotiations. What he wants to do -- Allow me to deal with that in a minute, Sam.

Q Okay.

DR. FELDSTEIN: What he wants to do is to include as part of this package additional tax revenue. Recall that in this budget there are $33 billion over the next three years in additional tax revenue. But it doesn't come from an across-the-board increase. It doesn't raise marginal rates directly. What it does is raise tax revenue by closing tax loopholes. In the President's mind that is a fundamental distinction -- raising marginal tax rates by an across-the-board increase and closing tax loopholes.

Q How much additional can be raised above the $33 billion through the same process?

DR. FELDSTEIN: Again, I don't want to anticipate in detail what the negotiations are going to have to focus on but you probably heard yesterday when Bob Dole and Dan Rostenkowski were on television and said that they could quickly agree to $50 billion over three years, if they were given the opportunity. I think that the leadership in the Congress really can deal with this and deal with it in a very fast schedule.

Q Marty, speaking of 1985, there is really no secret as to where you're going to have to cut because cuts in discretionary programs, as Stockman said, it is fortunate that you are already down to the bone. And he mentioned the places where it's going to have to be cut. Indeed, he mentioned them yesterday, didn't he? So you are talking about such things as entitlements. You are talking about such things as medicare -- are you not?

DR. FELDSTEIN: We don't know what we're talking about for '85. (Laughter.)

Q That'll get on. (Laughter.)

Q I realize, I realize that --

DR. FELDSTEIN: Well, right now we have the budget that has just been presented -- to be discussed, and negotiations to be dealt with. Why can't we wait until a year from now to talk about next year's budget?

Q Because there's an election campaign on, and you are saying, rather frankly from the podium yesterday, that you just don't want to get into the politics of this year and present these targets for everybody to shoot at. But the fact is that there are a hell of a lot people out there who are worried about what is going to happen during the next four years. You implied, very strongly, that the first priority of the President, as you quoted him, was to first see if he could get domestic spending down, as much as possible, and then go to the rest. Now, that domestic spending -- there are few areas left. Will you not acknowledge that they include medicare and entitlements?

DR. FELDSTEIN: I don't want to point to any particular part of the budget for 1985. There have been no discussions -- there --

Q Will you tell --

DR. FELDSTEIN: -- have been no decisions within --

Q Will you tell, will you tell us that --

DR. FELDSTEIN: -- this administration about 1985.

Q -- Will you tell us that social security entitlements and medicare are out of bounds in the next four years?

DR. FELDSTEIN: I can't tell you anything because there's been no discussion in the administration about the budget to be submitted a year from now.

Q Why is it that Stockman in the Fortune interview specifically -- and yesterday -- mentioned that?

DR. FELDSTEIN: Medicare is clearly a problem part of the budget. The medicare outlays do not meet medicare receipts over the next decade. There has been a quadrennial commission that has reported and said that the medicare program is going to be hundreds of billions of dollars short over that period, that either has to be made up by additional revenue -- earmarked for that -- or otherwise, or it has to be made up by finding ways of trimming the medicare program.

But at this point, no decision has been made other than the very small changes that are in this budget for medicare.

Q Marty -- what you and Dave Stockman were saying yesterday, and you again today, is that there's some sort of secret plan to deal with all of these problems, but don't ask us until after the election. I mean, is that fair to the voters?

DR. FELDSTEIN: I will swear to you that there is no secret plan.

Q There's no secret plan -- it's taxes and spending cuts in places like medicare.

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DR. FELDSTEIN: There is no plan. We have to face that problem. It will have to be dealt with in '85. There are going to have to be very difficult decisions, because we're talking about substantial numbers of dollars, but at this time there is no plan.

There's an approach. The President said he wants to go through the budget, see what is politically and economically possible on the spending side, before he turns to the revenue side.

Q Respectfully, after three years in office, doesn't this man have an obligation to have a plan --

Q No --

Q -- which he can present to the voters?

DR. FELDSTEIN: He has been making progress in bringing down domestic spending, and I think we just have to wait and see what happens in 1985.

Q Will you bring the deficits down?

DR. FELDSTEIN: If the negotiations work, the deficit will be coming down.

Q Do you disagree with Mr. Stockman who said yesterday that next year they were clearly going to have to look at entitlements? He said that in plain English, look at, meaning --

DR. FELDSTEIN: There are proposals in this budget which deal with what I think are sometimes called entitlements. There's the pensions for -- they're not low-income means tested entitlements. They are things like civil service and military pensions. And we propose in this budget to delay the COLA increases in those.

There are a lot of things that would fall under the rubric of entitlements that have to be dealt with now as well as in the future. There are small changes in the Medicare and Medicaid program that were in the Congressional Reconciliation bill last year that we hope will be part of the discussions in these negotiations.

Q But Mr. Stockman said there's going to be a very tough bullet to bite next year, which implies strongly that there's going to be a major whack taken at entitlements next year once the election's --

DR. FELDSTEIN: I don't know whether that's going to be possible. I don't know whether that's going to be proposed. All I know is

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the President had made it clear that he is committed to getting these deficits all the way down. He's committed to eventually balancing the budget. That's going to require very substantial reductions in outlays or increases in taxes.

And I know his starting point. His starting point is to look at the spending side.

Q How do you know he's committed to getting the deficits down? That's not what he's saying.

DR. FELDSTEIN: Because he has said that repeatedly inside this administration.

Q Not at the cost of taxes or defense increases.

DR. FELDSTEIN: Let me refer you back to what he said to all of you when he came into the Briefing Room about a month and a half ago, which he said that he wants to bring down outlays, reduce cost of government as much as possible. But if that doesn't balance the budget, if that doesn't bring spending and receipts into balance, then he will look at the receipt side.

Q But he's also --

Q That's not what he's saying in his campaign speeches.

Q Yes, he goes out there and he tells these people --

DR. FELDSTEIN: Just repeat to you what he said to you in this room. I can't give you a better citation than what he said to you personally.

Q I'm suggesting it's been outdated.

Q You said that the negotiations, the deficit negotiations supercede the budget and the budget is not what you want. What do you want in terms of defense spending? You must have a bottom line.

DR. FELDSTEIN: We don't have a specific bottom line. We are prepared to negotiate. We understand that the $305 billion for DOD that is in the authority request for 1985 will have to be trimmed as part of these negotiations. How far? More than the President would like, less than some of the people we're negotiating with would like. But we'll have to wait until we see what that negotiation leads to.

Q Secretary Weinberger yesterday testified on the Hill, said just the opposite. He said that we couldn't accept any cuts in this $305 spending authority request. Why do you then today say what's negotiable and we expect that there will be cuts?

DR. FELDSTEIN: I haven't heard the Secretary's statement but I know what was our understanding in the administration when we announced that we wanted these negotiations. That has been said over and over again. Nothing is ruled out, including defense and taxes.

Q So the $305 -- is that a fake figure that you put up artificially high so you could bargain it down?

DR. FELDSTEIN: No, no. That figure was, as you know, cut down by about $17 billion from the figure that was carried over from last year.

Q Yes, but you're saying that this figure is artificially --

DR. FELDSTEIN: It is clearly less -- it is clearly less than the Defense Department would like, but we have to make changes if we're to get these deficits down and there is a complete commitment to doing that.

important because it's necessary to send the right signal. How important is the actual dollar amount that's cut, this $100 billion figure, or is the more important thing just to show that Tip O'Neill and Ronald Reagan can sit down in civil fashion and discuss and make some progress on economic business?

DR. FELDSTEIN: We look at 1986, and '7, and beyond. We're going to need more than the reductions that can come out of this negotiation. We're going to need more than $40 or $50 billion a year. So it's just a starting point. But, obviously, the more you do now, the easier it's going to be to get those deficits down later. So doing $20 billion a year now just wouldn't be enough. The more we can do, the better.

Q It's the working together that's the key? Is that what --

DR. FELDSTEIN: It is very important. It is very important to indicate that we really -- and I think the language -- calling this a downpayment, is very important because it emphasizes the commitment to go on reducing these deficits in the future.

Q What day do the negotiations begin next week to the best of your knowledge?

DR. FELDSTEIN: Well, since I seem to be saying something that was a surprise to you I should probably stop there, but I believe that there will be a meeting next week.

Q Do you know when?

MR. FITZWATER: We don't have it -- no date's been set.

Q You say in your report that you don't want to have such big downpayment because it could suppress the growth and that it should be gradually and only step by step over the next few years. So how much do you really want this year?

DR. FELDSTEIN: Well, what I said in the report was that a large reduction of the deficit in '84 coming suddenly could be a mistake if it were too large. But I think we're talking about FY '85, '6, and '7 in these negotiations. So I don't expect any significant change in '84 at all.

Q Dr. Feldstein, there are a number of people, as you well know, in this administration who say they're basically suffering your presence until you leave in September, but that you're not --

DR. FELDSTEIN: They didn't say it to my face.

Q Well, that you're not a player anymore. What is -- what are the messages that you are getting? I mean, do you have any role in this administration anymore or -- what's your status here?

DR. FELDSTEIN: Of course I have a role in this administration. I have the same role that I've had all along in the discussions about the budget that's been prepared and in generally advising the President.

MR. FITZWATER: Thank you very much.

THE PRESS: Thank you.

END 9:58 A.M. EST

Q So why didn't you give the actual figure on defense that you really were willing to accept?

DR. FELDSTEIN: The reasons which I'm sure you're fully aware of, that if we had proposed not $305, but $301, that would be the starting point for any negotiations --

Q So --

Q Negotiating position, right?

DR. FELDSTEIN: It was the position that we came to internally before the agreement to negotiate was decided upon.

Q Dr. Feldstein, how can you say --

Q Feldstein. (Laughter.)

Q How can you say that --

Q Here we go again.

Q -- taxes are not ruled out of negotiations when the President has ruled them out in two weeks of speeches?

DR. FELDSTEIN: Let me repeat what I said to somebody here before. A general across-the-board tax increase doesn't fit even within the scope of the kind of downpayment plan that we're talking about. But we have not ruled out at all -- we have not ruled at all additional tax revenue. We expect there to be additional tax revenue. We expect it to be a substantial part of this $100 billion or $100 billion plus. There's no debate about that.

There's no debate about dealing with defense. That's something that the Secretary of the Treasury and the Director of OMB and I said very clearly to the entire press corps yesterday. So that is not a point of contention.

Q But the President doesn't draw that distinction. He says, no taxes. He doesn't say, no general tax. He says, no taxes.

DR. FELDSTEIN: The budget -- you've seen this budget before?

Q I know, but I'm only telling you what he says when the words come --

DR. FELDSTEIN: And what does it have in here? Whose budget is it?

Q Well, what's he doing? Talking out of --

Q Well, we don't know. You wrote it though.

Q And you don't like it.

DR. FELDSTEIN: The President agreed to authorize the additional tax revenue that is in this budget because he makes an important distinction between closing tax loopholes and raising marginal tax rates across the board. There is no direct impact on marginal tax rates in these proposals.

Q So you're saying there's not going to be a request for marginal tax rates.

MR. FITZWATER: Marty has testimony on the Hill, so we'll just have to take one question.

Pat.

Q Well, wait a minute.

Q You said that the downpayment on the deficit is