

OPS
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USA: Econ. Sit.

PRIME MINISTER'S CONFIDENTIAL

PERSONAL MESSAGE

(SERIAL No.)

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March 14, 1980

Dear Prime Minister:

I am writing to let you know of the decisions that I have made and will shortly announce regarding U.S. economic policy. These decisions have been prompted by recent increases in inflation and a consequent greater rise in inflationary expectations. They are intended to make clear our determination to do whatever is required to control inflation. We have consulted extensively about these steps with Congressional leaders, and I am confident that their support will be forthcoming.

The basic thrust of my decisions is restraint:

1. Restraint in the federal budget. I will soon submit to the Congress a revised and balanced budget for 1981. I will freeze Federal civilian employment and reduce on-going programs in every civilian agency of government. I will nonetheless fulfill my commitment to a continued growth in real spending on defense, and will maintain an effective foreign aid program, including a large contribution to the multilateral banks.

2. Restraint in borrowing and lending. I will authorize the Federal Reserve to impose a limited range of credit controls. The Federal Reserve will also act in other ways, under its own authorities, to moderate the expansion of credits. And it will launch a major voluntary program for banks and other lenders to limit the growth of credit. These actions will increase the prospects for reducing the tremendous strains in financial markets during recent weeks.

3. Restraint in setting private wages and prices. I am firmly determined not to impose mandatory wage and price controls. The Council on Wage and Price Stability has just issued revised voluntary pay standards and confirmed an extension of voluntary price standards, which were developed from the recommendation of a tri-partite advisory committee, with members from business, labor, and the public. I will substantially expand the government's capability to monitor and report to the public on any violation of these voluntary wage and price standards.

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4. Restraint in the use and importation of oil. I am using the powers of the President to impose a gasoline conservation charge on imported oil. The charge will be allocated solely to gasoline at a rate of 10 cents a gallon. It should reduce imports about 100,000 barrels a day after a year, and as much as 250,000 barrels a day after three or four years. I will also submit to the Congress a request for enactment of a permanent gasoline tax. The conservation charge will be removed as soon as the tax is enacted.

I am imposing this import charge in the expectation that it will be part of an internationally agreed demand restraint program, involving additional actions by all the major industrial oil importing countries. Reductions in U.S. demand, alone, will not solve the global energy problem. Indeed, it will be difficult for me to secure sustained public support for these reductions unless they are seen as part of a wider program to the same end. I trust that my action will pave the way for agreement on such a program, involving tight 1981 oil import ceilings and substantial cuts in oil consumption between now and 1985, if estimates of future oil supply and demand indicate that this is needed. My Government will be making specific proposals in this sense at appropriate international meetings. I hope for your support.

These are hard decisions. They will involve substantial sacrifice by the American people. The threat that we face requires nothing less. In meeting this threat, the United States will be making a large contribution to world economic health. The more these actions are taken, and appear to be taken, as part of concerted action by all the industrial countries, the more effective they will be, over the substantial period required for success.

Sincerely,

Jimmy Carter

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President Carter, after consulting widely with Congress, has just completed an intensive review of measures which can be taken to arrest inflationary pressures in the U.S. economy. The President has decided that, as a critical part of the resulting strengthened domestic economic program, the price of gasoline needs to be increased in the interest of encouraging conservation in the discretionary use of petroleum; this is a course of action that has been urged upon the U.S. repeatedly in the IEA, by oil producing nations publicly, and in bilateral discussions. Such measures both will encourage more rapid progress toward conservation of energy and will raise additional revenues to bring the budget into balance, thereby working against inflation.

The revenues raised by this measure, together with new budget reductions, will help achieve a balance between expenditures and receipts.

The President does not have, at present, the authority to impose an increase in the federal ad valorem tax on gasoline. Therefore, concurrently with submitting to the Congress legislation to enact an increased gasoline ad valorem tax, the President will use his existing authority under the Trade Expansion Act to impose a gasoline conservation charge on all crude oil imports of \$4.62 per barrel; through the mechanism of an entitlements program authorized by the Trade Expansion Act and the E.P.A.A., the full impact of this charge will be allocated against gasoline prices. This temporary charge will be lifted as soon as Congress enacts the proposed increase in the gasoline ad valorem tax.

In explaining this program, which will have the same effect as a gasoline tax, it is important to emphasize that the temporary fee approach is the only option the President has available to take immediate action to increase gasoline prices -- as all European and other Western industrialized countries have already done for some time. This temporary action is necessary to move

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immediately; the basic objective is to achieve conservation in gasoline consumption. The fee will bridge the time gap until legislation for an increase in the gasoline excise tax can be passed. It will thus meet the need for increased revenues on a more immediate basis than the legislative process will allow, in order to achieve a balanced budget and thus maximize the Administration's efforts to bring inflation under control as rapidly as possible. This is consistent with conservation policy measures in other industrialized consuming nations. It is important to stress that the charge will be removed when the tax is enacted by Congress.

By providing a more stable U.S. economy, these measures will strengthen the world economic and trading system. World oil markets will also benefit from the reduction in U.S. import demand resulting from additional gasoline conservation. In addition, the program will promote stability for the dollar in the exchange markets and therefore a more stable international monetary system.

It should be stressed that the expected conservation effects of this immediate import charge which will be shifted to gasoline are a critical part of the President's anti-inflation package.