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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo	From Brown to The President (3 pp.) re: Weekly Report, Dept of Defense/enclosed in Hutcheson to Mondale	1/12/79	A

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THE WHITE HOUSE
WASHINGTON

1/15/79

Tim Kraft
Arnie Miller

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

COMMODITY FUTURES TRADING
COMMISSION

THE WHITE HOUSE

WASHINGTON

January 13, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: TIM KRAFT
ARNIE MILLER AM

SUBJECT: Commodity Futures Trading Commission

In November you decided to nominate Jim Stone of Boston, Massachusetts, to be Chairman of the Commodity Futures Trading Commission. All necessary clearances are complete and Stone's nomination is ready to be forwarded to the Senate.

Former Chairman William Bagley resigned from the CFTC on November 15, 1978. The remainder of Bagley's term expires in April 1980. It is for this 14 month term that you must select a nominee.

We recommend two candidates for your consideration: Read Dunn, Jr., and Donald Anderson.

Read Dunn, Jr., 64, of Mississippi, has been a member of the CFTC since its inception in 1975. Dunn's term expired last April, and he has continued as a holdover appointment since that time. At the time of your decision to nominate Jim Stone, you indicated that you agreed that he should be nominated for the term Dunn now fills, which expires in April 1983. Dunn has served well and is the only member presently on the Commission with a strong agricultural background. He worked with the National Cotton Council from 1945 to 1975. He has the confidence and support of many members of the Senate Agriculture Committee, most notably Senators Talmadge and Huddleston.

Our second candidate, Donald Anderson, was highly recommended for the Chairmanship of the CFTC last November by DNC Chairman John White and former Congressman George Mahan. Anderson, 56, is a successful rancher and farmer. Although Anderson has has no contact with the CFTC and little regulatory experience, he is a smart businessman who can articulate well the concerns of many farmers and ranchers. He has served on several state and national advisory panels, of which he has always been an active and productive member.

Good arguments can be made for the appointment of either Dunn or Anderson. Dunn would provide some continuity to the Commission and would also go a long way toward relieving the reservations of Senators Talmadge and Huddleston regarding Jim Stone. Accordingly, Frank Moore and Lynn Daft of Stu's staff recommend his reappointment.

Anderson would give the Commission a new strong agricultural representative. Anderson would be seen as a good Texas appointment, and although the Senate Agriculture Committee will welcome a nominee with an agricultural background, Senators Talmadge and Huddleston have made clear their preference for Dunn.

Anderson would limit your flexibility regarding the next two appointments. First, since Anderson would have to move to Washington, it is highly unlikely that he would accept this appointment unless there was a commitment to reappoint him to a full term in 1980. Dunn could be expected to accept the short term without any commitment of another term. Second, if Dunn were to leave the Commission now, many people would be concerned about continuity and we could expect substantial pressure to reappoint the current Vice Chairman, Gary Sievers (a Republican economist), when his term expires this April. We will probably not recommend Sievers' reappointment.

In the past the CFTC has been criticized for lack of leadership by the Chairman on administrative matters. Both the GAO and OMB Reorganization Study identified this problem and recommended that the Chairman have a much stronger role in administrative matters, and that the members have a less active role. We would stress to the next appointee that you expect him to support this change and to leave the administrative responsibilities of the Commission to the new Chairman.

You may want to consider meeting with your choice for this position before the nomination is sent forward, to discuss these matters with him.

Frank Moore and Stu Eizenstat recommend that you reappoint Read Dunn. We agree.

John White recommends that you appoint Don Anderson.

RECOMMENDATION

Nominate Read Dunn as a member of the Commodity Futures Trading Commission.

✓ approve ______ disapprove ______ J

ACTION

______ Schedule a brief meeting with Read Dunn, Jr.

______ Schedule a brief meeting with Donald Anderson.

THE WHITE HOUSE
WASHINGTON

1/15/79

Bob Lipshutz

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

WHITE HOUSE GIFT POLICY

Bob

J

THE WHITE HOUSE

WASHINGTON

December 27, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ RJL

RE: <u>White House Gift and Travel Policy</u>

On January 3, 1979, the new "Ethics Legislation" goes into effect. As you are aware, among other things it establishes a government-wide gift and travel policy for federal employees who are paid at an equivalent of GS-16, or higher.

I wish to recommend that you authorize me to send out to <u>all</u> White House employees the attached memorandum, which consolidates the limitations and prohibitions relative to gifts and travel, which now is contained in "Ethics in Government Act of 1978", and "Foreign Gifts Act of 1966 as Amended", Executive Order 11222, and prior official White House Policy Guidelines.

While in a few instances the current White House provisions are significantly more stringent than those under the new law, it is my judgment that the provisions set out on the attached memorandum are sufficiently stringent.

Please indicate if you approve my publishing this memorandum to the members of the White House staff.

APPROVE ✓ With two deletions - DISAPPROVE ______

OTHER ______

What are significant differences? J

THE WHITE HOUSE

WASHINGTON

January 2, 1979

MEMORANDUM FOR THE WHITE HOUSE STAFF

FROM: BOB LIPSHUTZ
Counsel to the President

RE: White House Gift and Travel Policy

Pursuant to the "Ethics in Government Act of 1978", the "Foreign Gifts Act of 1966 as amended " (5 U.S.C. §7342), Executive Order No. 11222 and regulations issued pursuant to that Order (3 C.F.R. 100.735-14), 5 U.S.C. 4111(a), 5 U.S.C. §7351, and official White House policy, White House staff members are advised of the following relating to the acceptance of gifts, travel, honoraria and reimbursements.

The rules set forth below apply to all White House Staff Members. This memorandum incorporates the most recent changes in the law and supercedes all previous memoranda on this subject. Staff members are requested to become familiar with these provisions and to retain this memorandum for future reference.

I. GIFTS

A. A staff member may not:

1. Solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value from a person who:

a) has, or is seeking to obtain, contractual or other business or financial relations with the White House; or

b) conducts operations or activities which are regulated by the White house; or

c) has interests which may be substantially affected by the performance or non-performance of the staff member's official duty.

2. Give a gift to a person in a superior official position.

B. A staff member <u>may</u>:

1. Accept a gift, gratuity, favor, entertainment, loan or other thing of monetary value from a friend, parent, spouse, child, or other close relative when the circumstances make it clear that the family or personal relationship involved is the motivating factor.

2. Accept food or refreshments of nominal value on infrequent occasions in the ordinary couse of a luncheon or dinner meeting or other meeting.

3. Accept loans from banks, or other financial institutions, on customary terms to finance proper or usual activities of employees.

4. Accept unsolicited advertising or promotional materials such as pens, pencils, note pads, calendars, or other items of nominal value.

C. A staff member <u>may</u> accept an award for a meritorious public contribution or achievement, if such award is given by a charitable, religious, professional, social, fraternal, nonprofit, educational, recreational, public service, or civic organization.

II. <u>FOREIGN GIFTS</u>:

A. Staff members may accept gifts from representatives of foreign governments or public multi-national organizations (such as UN, UNESCO - this does <u>not</u> include private, commercial multi-national organizations). However, acceptance of such gifts having a retail value in the United States of more than $100 should be avoided unless it appears that to refuse to do so would embarrass the foreign government or the United States government.

1. All gifts from foreign governments or public multi-national organizations to staff members that have a retail value in the United States of over $100 become property of the U.S. Government upon receipt of the gift. Receipt of the gift must be reported through the White House to GSA within 30 days. (Note: See specific regulations on receipt of foreign gifts.)

2. Staff members may accept and keep for personal use gifts from foreign governments or public multi-national organizations that have a retail value in the United States of $100 or less. (Note: See specific regulations on receipt of foreign gifts.)

B. Staff members may accept decorations or awards from a foreign government in recognition of outstanding service, educational scholarships, or medical treatment.

C. Staff members may accept food, transportation and lodging while abroad from a foreign government or public multi-national organization when necessary, when to refuse to do so would embarrass the foreign government or U.S. Government.

D. Acceptance of gifts from foreign sources <u>other than foreign governments</u> are governed by the same rules as all other gifts as set out in Part I above.

E. A staff member may <u>not</u> request or otherwise encourage the giving of a gift by a foreign government or public multi-national organization.

III. <u>TRAVEL</u>:

Staff members shall <u>not</u> accept travel, lodging or meals or reimbursement thereof -

A. When on official business representing the White House, <u>except</u> from a nonprofit, federal tax exempt organization under Section 501(c)(3) of the IRS Code (e.g. Urban League, American University, et al). Officials of the organization in question will know whether it has 501(c)(3) status.

B. When not on official business, <u>except</u> from political organizations, DNC or local Democratic groups or candidates.

Spouses accompanying a staff member are allowed to accept reimbursement for travel and lodging on the same basis as the staff member if they participate in the event.

IV. <u>HONORARIA</u>:

No honoraria, in cash or kind, may be accepted; nor may an individual designate a certain charity as the recipient of honoraria.

V. <u>DISCLOSURE</u>:

The following disclosure of gifts, travel and reimbursements is required.

A. <u>Disclosure of Gifts Received</u>.

The identity of the source, a brief description and the value of all gifts (other than transportation, lodging, food, or entertainment) aggregating $100 or more in value received from any source, other than a relative of the reporting individual, during the preceding calendar year, (except that any gift with a fair market value of $35 or less need not be aggregated).

delete

B. <u>Disclosure of Transportation and Entertainment Received</u>.

The source and a brief description of any gifts of transportation, lodging, food, or entertainment aggregating $250 or more in value received from any source, other than a relative of the reporting individual, during the preceding calendar year, (except that any food, lodging, or entertainment received as personal hospitality of any individual need not be reported,) and any gift with a fair market value of $35 or less need not be aggregated).

delete

C. <u>Reimbursement of Expenses</u>.

The source and a brief description of reimbursements received from any source aggregating $250 or more in value and received during the preceding calendar year.

D. Definitions for Purpose of Disclosure.

- "relative" means an individual who is related to the reporting individual, as father, mother, son, daughter, brother, sister, uncle, aunt, great aunt, great uncle, first cousin, nephew, niece, husband, wife, grandfather, grandmother, grandson, granddaughter, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half brother, half sister, or who is the grandfather or grandmother of the spouse of the reporting individual, and shall be deemed to include the finance or financee of the reporting individual;

- "gift" means a payment, advance, forbearance, rendering, or deposit of money, or anything of value, unless consideration of equal or greater value is received by the donor, but does not include -

  - bequest and other forms of inheritance;
  - suitable mememtos of a function honoring the reporting individual;
  - food, lodging, transportation, and entertainment provided by a foreign government within a foreign country, or by the United States Government;
  - food and beverages consumed at banquets, receptions, or similar events; or
  - communications to the office of a reporting individual including subscriptions to newspapers and periodicals;

- "value" means a good faith estimate of the dollar value if the exact value is neither known or easily obtainable by the reporting individual;

- "personal hospitality of any individual" means hospitality extended for a nonbusiness purpose by an individual, not a corporation or organization, at the personal residence of that individual or his family or on property or facilities owned by that individual or his family;

- "reimbursement" means any payment or other thing of value received by the reporting individual, other than gifts, to cover travel-related expenses of such individual other than those which are --

- provided by the United States Government;
- required to be reported by the reporting individual under Section 7324 of Title 5, United States Code; or
- required to be reported under Section 304 of the Federal Election Campaign Act of 1971 (2 U.S.C. 434).

THE WHITE HOUSE
WASHINGTON

1/15/79

The Vice President
Hamilton Jordan
Stu Eizenstat
Tim Kraft
Bob Lipshutz
Frank Moore
Jody Powell
Jerry Rafshoon
Jack Watson
Anne Wexler
Jim McIntyre
Hugh Carter

Re: Cabinet Summaries

The attached was returned in the President's outbox today and is forwarded to you for your information.

Rick Hutcheson

EYES ONLY

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

FOR ACTION	FYI	
		VICE PRESIDENT
		JORDAN
		EIZENSTAT
		KRAFT
		LIPSHUTZ
		MOORE
		POWELL
		RAFSHOON
		WATSON
		WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE
		ADAMS
		ANDRUS
		BELL
		BERGLAND
		BLUMENTHAL
		BROWN
		CALIFANO
		HARRIS
		KREPS
		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARONSON
		BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

cc Cleland

Patti - what other agencies besides Cabinet?

Good - cc: Cabinet + top agencies - C

VETERANS ADMINISTRATION
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS
WASHINGTON, D.C. 20420

JANUARY 1 1 1979

TO : The President

THRU : Rick Hutcheson, Staff Secretary

FROM : Administrator of Veterans Affairs Max Cleland

VA Presidential Update

Fighting Inflation - "Every Dollar Counts" - New ideas and better management can save millions of dollars in government - with no impairment of services. In VA, for instance:

Item - We improved collection of insurance premiums by reducing receipt/deposit functions by just one day. Result: Yearly interest savings of $149,000 for FY 1978, and $163,000 per year thereafter.

Item - A new VA policy of paying supplier invoices when due - and not before - is achieving interest savings of over $500,000 a year.

Item - The summation of up to 9 vendor invoices on one check is saving VA and Treasury about $544,000 a year.

Item - Thru emphasis on the incentive awards program, the number of suggestions received in FY 1978 was the highest in 5 years. Savings to the government - $3,314,756.

Item - While still assuring nutrious and tasty meals, VA is reducing the number of high cost beef meals served. Result: An annual savings of $750,000.

Item - Nearly 100 generic name items were added to the list of drugs centrally procured by VA in FY 1978. This addition represents an annual saving of $2,435,000.

Item - So far in FY 1979, VA has received $2,253,661 from the sale of silver bullion salvaged from X-ray developing solutions and scrap X-ray film. This revenue from silver sales goes to our supply fund, thus lowering the overall cost of our supply tab.

Item - VA's Office of Inspector General, which I created 1/1/78, achieved savings of $5.4-million through its audit and investigation functions in only its first year of operation.

Item - VA's Supply Service has completed negotiations to procure vaccines for HEW's use in immunization programs. If purchased at prices on the Federal Supply Schedule, the vaccines would have cost $46-million. VA obtained them for $22-million.

cc Watson

C

United States of America
General Services Administration
Washington, D.C. 20405

Administrator

January 12, 1979

MEMORANDUM FOR THE PRESIDENT

THRU: Rick Hutcheson

SUBJECT: Weekly Report of GSA Activities

Mexican Visit

I was in Mexico over the Christmas holidays and met with some of my friends in the hierarchy of the industrial business community. This week a delegation of Mexican businessmen and a local lawyer called on me to discuss the Government's involvement in the purchase of fluorspar for the Strategic Stockpile. If I can be of any help on your trip to Mexico, I'll be glad to.

Seventeen-Acre Parcel Given to Miami Beach

I accompanied Congressmen Fascell and Pepper to Miami Beach on Wednesday to participate in the Government's donation of 17 acres (value - minimum, $17 million), which is vital to the 264-acre re-development program of the City of Miami Beach. This land is at the entrance to the Harbor and has been underutilized by the Corps of Engineers. I made the statement that I was certain President Jimmy Carter would be looking forward to addressing the citizens of the community from the planned park and playground in 1980.

Former Congressman Joins Top Staff

Former Congressman Mike Blouin has been hired as a consultant pending a permanent appointment as the new head of the Information Security Oversight Office.

Request for Meeting

I need, at some early time, to discuss GSA with you in person and might need you to pay a visit to quell the many rumors about my imminent departure as Administrator of GSA.

Paul Goulding

For JAY SOLOMON
Administrator

cc Griffin
C

Office of the Attorney General
Washington, D.C. 20530

January 12, 1979

Principal Activities of the Department of Justice for the Week of January 8 through January 12, 1979

1. Meetings and Events

On Friday, the Attorney General hosted a ceremony by the Postal Service honoring the issuance of a Robert F. Kennedy commemorative stamp.

2. Special Prosecutor Bill

The Deputy Attorney General discussed the implementation of the Special Prosecutor Bill with the three federal judges who are responsible for appointing special prosecutors when necessary.

3. Iranian Student Violence

The two Iranians arrested on felony arson charges in last week's Beverly Hills demonstration against the Shah's mother have been determined by INS to be students at schools in the Washington, D. C. area. They are subject to possible deportation proceedings if convicted. Five other demonstrators were arrested on misdemeanor charges by local police and subsequently released. It now appears that they gave false names and addresses to the local police, but INS is still searching for them to determine whether they are legally in the United States as students.

Be fair but strict

The Attorney General initiated a systematic review of the foreign student program. The first step is an audit of 500 randomly selected files in the Los Angeles area to determine whether the persons are still attending school. The audits should be completed early next week.

4. Immigration & Naturalization Service Review

The Attorney General received an extensive briefing on INS operations this week. He sent Associate Attorney General Michael Egan and Deputy Associate Attorney General Doris Meissner on a week-long fact finding mission to the Southwest as part of a comprehensive management review of the INS. The Attorney General also directed the Commissioner of INS to change the reporting and supervisory lines for its Office of Professional Integrity from the Deputy Commissioner to the Commissioner himself to conform to similar reporting in other Justice components.

5. Patty Hearst Petition

The petition for executive clemency from Patty Hearst has been forwarded from the Office of the Pardon Attorney to Deputy Attorney General Benjamin Civiletti, who is now reviewing the entire file along with the Pardon Attorney's recommendation.

6. Guyana

I think we should try to recover funds

The Civil Division has frozen People's Temple assets in banks in Switzerland and Panama and requested similar action in Guyana to safeguard the government's potential claims for recovery of U.S. funds expended during the tragedy. Justice will be making a decision within the next two weeks on whether such a claim can be filed in a federal district court.

cc Doug
C

UNITED STATES REGULATORY COUNCIL
401 M Street, S.W.
Washington, D.C. 20460

January 12, 1979

CHAIRMAN
Douglas M. Costle

WEEKLY REPORT TO THE PRESIDENT

FROM: Douglas M. Costle

Last Friday I announced the appointment of Peter Petkas as Director of the Council. He has been deputy to Harrison Wellford, specializing in regulatory and management issues, and staffed the Inspector General bill negotiations for OMB. Prior to that, he was Executive Director of the Southern Regional Council in Atlanta. Peter knows many of the regulators personally, and has their confidence. He has worked closely with Stu's staff and with CEA staff on most major regulatory issues and they are pleased with his appointment.

The Council has agreed to serve as the lead organization --outside the Executive Office--for staffing and selling a 1979 regulatory reform legislative package. (A memo from Stu and Jim McIntyre on this subject will be coming to you shortly.)

The first calendar of regulatory action will be completed for release in February. Although we will miss our February 1 target date by a few weeks, Stu, Charlie and the other regulators agree that a short delay is necessary to assure a quality product.

I have begun holding a series of one-on-one meetings with chief executive officers of major corporations to discuss the activities of the Council and to solicit their ideas. Many business executives have been initially skeptical about whether the regulators would take regulatory reform seriously. I think these meetings are helping to dispel that concern and are persuading them that change will come as a result of a sustained, steady effort.

ok Stu and I are planning a Council meeting with you in February in connection with releasing the calendar and completing Phase I of the Cancer Policy development. I will request a brief private meeting with you before then to discuss how the meeting might be structured to convey your continued personal interest in having the regulators themselves contribute significantly to your regulatory reform program.

Doug

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

C

January 12, 1979

THE ADMINISTRATOR

REPORT TO THE PRESIDENT

FROM: Douglas M. Costle

- This week we issued the proposed rules for requiring firms to notify EPA of their intentions before they begin manufacturing new chemical substances. These are extremely important to the successful implementation of the Toxic Substances Control Act, for they provide the mechanism for preventing serious toxic problems from occurring in the first place, rather than having to correct them afterwards. At the same time they are some of our trickiest regulations for we need to obtain enough information about the possible toxicity and likely use of the substances without unduly hindering innovation in the chemicals industry or creating excessive impacts on smaller firms. We are exploring the use of short reporting forms for substances produced in low volumes and the feasibility of providing non-financial assistance to small firms in an attempt to achieve this delicate balance.

- As a first step in implementing our voluntary program on asbestos-sprayed materials in public schools, we will conduct a training program for State, EPA, and other Federal agency staffs dealing with this issue. Work is proceeding on the development of a video tape and manual as part of the overall training program. Meanwhile, we are preparing a response to a petition requesting EPA to take regulatory action regarding the asbestos problem in schools. In part, the petition asks EPA to require replacement or repurchase by manufacturers and processors of asbestos-sprayed materials.

Doug

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

F.Y.I.

January 12, 1979

C

MEMORANDUM FOR THE PRESIDENT

Subject: Highlights of Treasury Activities

1. CHINA:

On Monday I chaired a PRC meeting with Cy, Bob, Juanita, and David Aaron in attendance, to begin the task of organizing our economic relationship with China. We plan to use this committee to coordinate economic policy issues in preparation for the Teng visit, for my trip in February and for subsequent trips by others.

At this stage the focus of our efforts is on the resolution of the claims/assets settlement issue and an eventual trade agreement. We agreed that in moving toward a trading relationship with the Chinese, we must resolve the MFN issue in a manner which is evenhanded vis-a-vis the Soviets. It was agreed that Cy and I explore Congressional thinking and we have begun to do so.

Meanwhile, we are beginning to meet with the PRC Mission in Washington to engage them in preliminary discussion on claims/assets and other bilateral issues.

2. FOREIGN CURRENCY DENOMINATED TREASURY BORROWING:

Treasury announced on Thursday, January 11 that it would borrow 2 billion Swiss francs ($1.2 billion) next week in the Swiss private market. The method of borrowing is virtually identical to our German borrowing of mid-December.

The dollar appreciated following the Treasury announcement of the Swiss franc issue. Exchange market conditions continued to improve this week, though sensitivity to political developments in Iran remained important. The U.S. did not intervene, and foreign intervention was extremely light.

3. EPG

I will submit the real wage insurance program to the Congress next week. The prospects are uncertain, but Treasury will lead a major effort.

C

The Steering Group is now working on possible legislation that would permit all Executive Branch regulatory agencies to take cost-benefit considerations into account in deciding on the timing and content of their regulations. This could transform the regulatory process. Our staffs are analyzing the pro's and con's.

Mike

W. Michael Blumenthal

THE SECRETARY OF COMMERCE
WASHINGTON, D.C. 20230

C

January 12, 1979 FYI

REPORT TO THE PRESIDENT

In meetings this week with various business groups I sensed a conviction on their part that this Administration is finally serious about budget restraint. However, businessmen are expressing skepticism about our commitment to regulatory reform. They stress the need for one or two "victories" in the area of reform to give credibility to the longer-term initiatives the Administration has taken, such as the Executive Order. Although I believe that some of their concern is the result of garbled press reports on the international application of NEPA, we should nevertheless be sensitive to this concern. I will be working with Fred Kahn, Charlie Schultze and Barry Bosworth to identify three or four specific regulatory issues on which the Administration could achieve results this year.

A new Department survey of major companies released on Thursday indicates that business spending on new plant and equipment, after adjustment for inflation, will rise by about 3% in 1979 compared with 4½% in 1978. Investment growth in manufacturing is expected to accelerate overall with larger increases in certain basic industries including steel, machinery, paper, and chemicals. Investment growth in nonmanufacturing sectors is expected to be slower this year than in 1978. The Department also reported this week that seasonally adjusted retail sales rose 1% in December, making this the fifth consecutive month of strong increases. This is consistent with our current assessments that real GNP for the 4th quarter of 1978 will approach 5% at an annual rate.

This month marks the beginning of the 12-month Global Weather Experiment, the largest international experiment ever held and a joint effort of the World Meteorological Organization (WMO) and the International Council of Scientific Unions. U.S. efforts, coordinated by the National Oceanic and Atmospheric Administration (NOAA), will join with those of the other 146 WMO member nations in developing the most complete record of global weather data ever assembled. Ten satellites (six from the U.S.) will have a central role in the experiment. It is expected that this experiment will lead to major improvements in extended weather forecasting which, in time, could have dramatic and beneficial socio-economic impacts worldwide.

Based upon your recent approval of the regional commission decision memorandum we are now working on appropriate implementing measures. In accordance with your concerns we will be proposing a reduction in the number of Federal Cochairmen/Federal Regional Council positions, doubling up where responsibilities and workloads permit.

Juanita
Juanita M. Kreps

THE SECRETARY OF THE INTERIOR

WASHINGTON

C

January 12, 1979

MEMORANDUM TO THE PRESIDENT

From: Secretary of the Interior

Subject: Major Topics for the Week of January 8

In light of Bakhtiar's suggestion that Iran cease selling oil to Israel, it appears likely that Israel may well call on our 1975 agreement to provide them with crude oil. Considering our own supply problems and if we are unable to procure their needs from other world markets, permit me to make one suggestion. The State of Alaska receives 8 percent of the Prudhoe oil which amounts to more than 100,000 barrels per day. Because of transportation and political problems, we have a glut on the West Coast. With your concurrence, Alaska could sell to Israel during their emergency, relieve the West Coast surplus and set the stage for future exchanges of other Alaskan crude. It appears to me that in light of our agreement with Israel, it would be more politically prudent to start trading Alaska oil with them rather than Japan. After the Israel oil crisis is resolved, we might be in a better position to talk trade to Japan. I discussed this with Governor Hammond and he was receptive to the idea. If your advisors have already resolved the problem, just write it off as another wild Andrus scheme.

On transportation of western supply to eastern refineries, we have completed the draft environmental statement on the Northern Tier Pipeline Proposal. Due to Senator Melcher's amendments to Title V, we now must look at two new applicants which will take considerably more time. Although he caused the problem, he is now urging us to throw out the other applications as "not timely." I won't bore you with details, but should he appeal to you please let me discuss it with you before we commit to an easy solution that will end up in the Federal Courts.

The coal industry, who have always opposed the Strip Mine Bill, are now trying to dilute the regulations and slow the process under the guise of fighting inflation. They seem to have Charlie Schultze's ear, so I will listen carefully and give where we can, but short of instructions from you, I will not let them destroy the intent of the law they opposed and we supported.

I am on your schedule Monday at 2:30 to discuss reorganization. I think that OMB has prepared a sound proposal on DNR, but I am concerned about some of the water portions dealing with operation of the projects. DNR doesn't need to be in the deep port or navigation business of the Corps, but if they operate the reservoirs and water supply we can have very serious problems.

Our prayer breakfast group will meet in the White House Mess from 8:00 a.m. until 8:50 a.m. before Monday's Cabinet Meeting. The Scripture work usually gets started about 8:20. If you have time, the men would be very pleased if you could stop by.

It looks like I got a little long-winded this week. Sorry about that.

Cecil

CECIL D. ANDRUS

JAN 12 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Weekly Report on HEW Activities

- Surgeon General's Report: I am ~~enclosing~~ a copy of the Surgeon General's Report on Smoking and Health, released yesterday. The Report highlighted four areas not treated in detail by its predecessor fifteen years ago:

  -- Women and smoking. The number of women who smoke has not decreased as rapidly as the number of men; the rate of lung cancer deaths for women has increased five-fold in 20 years and may outstrip deaths from breast cancer; and smoking during pregnancy has adverse effects on the fetus and on child development.

  -- Smoking and hazardous occupations. Workers in asbestos, rubber, coal, textile, chemical, and other industries face highly increased risks if they smoke.

  -- Children and smoking. The figures are disturbing. There are 6 million regular smokers age 13-19, and the percentage of girls age 12 to 14 who smoke has increased eight-fold since 1968.

  -- Smoking and other diseases. The report confirms the link between smoking and a host of deadly diseases, including heart diseases and several types of cancers.

  The statistics show that public health education works. The American people, given medical and scientific facts, will respond: figures show that each major anti-smoking campaign during the past 15 years has resulted in decreased cigarette consumption.

- Higher Education Desegregation: In the first part of next week I will announce HEW acceptance of a final plan for desegregation of Virginia's higher education system. We have worked intensively with the State in the last few months to perfect this second, and final, stage of their plan. The highlight of the plan is an educationally sound approach to the elimination of duplicate programs between black and white institutions in the same vicinity, thereby encouraging a mixture of races at the schools.

  We have problems on the same issue of program duplication in North Carolina. The State has submitted a study which concludes that all of their 57 duplicated, non-core programs are necessary. This is unacceptable, and inconsistent with commitments the State made last May to eliminate a significant portion of this duplication. The submission has been reviewed by the Office for Civil Rights staff, and next week David Tatel, the Director of OCR, will begin negotiations with the State. We will do everything we can to negotiate an acceptable plan in the time allowed by the court -- we have until mid-March -- but we are already under pressure to begin proceedings to cut off funds to North Carolina.

  Although the deadline for concluding negotiations with Georgia has expired under the court order, we are continuing to explore alternatives. David Tatel has been meeting with a Board of Regents Subcommittee, and I have spoken to the Governor and will do so again next week. We are very close and are pressing hard for a settlement.

Hale Champion
for Joseph A. Califano, Jr.

C

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

January 12, 1979

MEMORANDUM FOR THE PRESIDENT

ATTENTION: Rick Hutcheson, Staff Secretary

FROM: Brock Adams

Brock Adams

SUBJECT: Significant Issues for the Week of January 8

Railroad Strike - The labor dispute between the Norfolk and Western Railroad and the Brotherhood of Railway Clerks is finally settled. As you will recall, this dispute escalated nationwide last October and required your intervention when all rail service stopped for four days. A contract was initialed and signed and a few items concerning pending court actions are being settled at this time. Both sides find the contract very satisfactory and it seems that a better era of labor management relations is in the making. The key problems of the dispute were displacement by automation (computers) and scope of union jurisdiction.

The national negotiations between BRAC and the railroads (this concerns the wages and fringe benefits) are continuing and should come to a conclusion in the very near future. Although the Union President, Fred Kroll, announced recently that they were ready to resume a nationwide strike as of January 18, at this point we believe it will be averted.

Northeast Corridor Redirections - On Monday I will announce a new work plan for the Northeast Corridor Rail Improvement Project at a press conference. I have reached decisions on Amtrak service and equipment operating on the Corridor; as well as the schedule and budget for completing this major project.

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410
January 12, 1979

C

MEMORANDUM FOR: The President
Attention: Rick Hutcheson

SUBJECT: Weekly Report of Major Departmental Activities

Study Reports Success of Rehabilitation Program in Portland, Oregon. A study performed by a doctoral candidate at Portland State University indicates that Portland's rehabilitation program has successfully combined Section 312 rehabilitation loan funds, Community Development Block Grant funds and a special fund established by local banks to rehabilitate 2,500 properties. The study also revealed that 25 per cent of the loans went to Black homeowners and that the program is accomplishing its intended purpose of serving lower income homeowners in the city's most needy neighborhoods. This independent study comes at a time when the Department is taking steps to help house lower income persons in revitalized neighborhoods. HUD's field staff is being alerted to changes in the Section 312 program which directs that priority for loans be given to low and moderate income property owners. Other changes require that multifamily rehabilitation loans be made for properties located in low and moderate income neighborhoods, or for properties where over half the tenants are low or moderate income persons.

In a related issue, HUD's Office of Policy Development and Research has entered into an agreement with the National Institute of Building Sciences to develop the rehabilitation guidelines called for by the Housing and Community Development Amendments of 1978. The guidelines will (1) assist states and local communities in modifying their existing building codes for the special needs of rehabilitation projects and (2) assist rehabilitators and building officials to reach compromises under existing building code provisions. The intent is to reduce the additional and unnecessary costs and delays imposed on rehabilitation projects by new construction-oriented building codes and standards.

Home Loan Insurance Programs Continue Growth. The Department's loan insurance programs for property improvement, mobile homes and single family homes continue to demonstrate substantial growth. During 1978, the property improvement program increased nearly six per cent in the number of loans over 1977, and over 20 per cent in dollar amount, to 349,209 loans and $1,379,830,224. The mobile home program increased nearly 43 per cent in loans and 60 per cent in dollar amount, to 22,375 loans and $307,804,758. Single family activity exceeds comparable figures for 1977, with the first half of December up approximately 10 per cent over last year, from 22,683 to 24,432.

HUD and EDA Agree to Common Guidelines for Community Development Block Grant Recipients in Preparing Economic Development Strategies. Cities using Community Development Block Grant funds and funds from the Economic Development Administration may now satisfy any requirement either agency has for an economic development strategy by submitting a single plan.

Patricia Roberts Harris

Patricia Roberts Harris

C

Department of Energy
Washington, D.C. 20585

January 12, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: JIM SCHLESINGER JS

SUBJECT: Weekly Activity Report
January 6 - 12, 1979

Standby crude oil pricing and allocation program. This past week, the Department published standby regulations on the pricing and allocation of crude oil for possible activation in the event of serious crude oil shortages or supply interruptions. While these are not technically final regulations, by publishing them now, the public is informed of the type of pricing and allocation system we would implement should it become necessary. These regulations are directed primarily at a supply interruption of the type which occurred in the 1973 oil embargo, and are authorized under the Emergency Petroleum Allocation Act of 1973. However, in view of the current absence of crude oil exports from Iran, these regulations may prove useful later this year, should these exports not be resumed by summer. Under the regulations, the Department could take a variety of responses, depending on the severity of the supply interruption. For example, the Department could ensure that all refiners share equally in a substantial shortfall of crude supply, thereby minimizing regional inequities. Under this program, refiners with estimated supplies in excess of the refinery utilization rate nationwide would sell crude oil to refiners with estimated supplies less than the national utilization rate. Other responses are also available to deal with less severe supply interruptions.

Ethics in Government Act. Concern has been expressed by a number of senior Departmental officials (and I understand this may be true in other agencies) about the effect of the government-wide post-employment restrictions contained in the recently enacted Ethics in Government Act. These restrictions apply to senior government officials serving on and after July 1, 1979. Because the new law's limitations on future employment are not entirely clear, key personnel, perhaps with undue alarm about the potential effects of these restrictions, may decide to leave government precipitously before the July 1 effective date. Accordingly, I urge that high priority be given to the prompt issuance of regulations which should alleviate unnecessary uncertainty.

C

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON
20506

January 12, 1979

MEMORANDUM FOR THE PRESIDENT

From: Ambassador Robert S. Strauss RSS

Subject: Weekly Summary

The first of this week we resumed our tariff negotiations with the Europeans in Geneva, and hopefully, will have them concluded by the end of January. The Europeans have not been as forthcoming as they should be but I must confess we are having a great deal of difficulty getting our own local interests to go along with anything very responsive. There are few willing donors when you are involved in trade negotiations.

We have spent tremendous amounts of time negotiating with the textile interests primarily, other interests, including dairy, secondarily. If we can come to some sort of agreement with the textile people (and it's possible), it will be a tremendous step substantively and politically. You will be kept advised.

The agricultural interests, who generally don't seem to be pleased about anything these days, are going to be supportive of the trade package and we have done a good job for them. They are aware that this Administration is the first that ever gave real emphasis to agricultural interests in international negotiations.

C

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
722 JACKSON PLACE, N. W.
WASHINGTON, D. C. 20006

January 12, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Charles Warren Charles
Gus Speth
Jane Yarn

SUBJECT: Weekly Status Report

1. Executive Order on Environmental Effects Abroad. Your issuance last week of the Executive Order requiring agencies to consider the environmental effects abroad of their major federal actions received excellent press coverage which reflected the importance of your action. We have begun meetings with State Department officials to ensure that your directive is promptly and effectively implemented.

2. NEPA Regulations Briefings for Members of Congress. Last week we met with Congressmen Breaux, Dingell, and Udall to brief them on our NEPA Regulations and on the Executive Order you signed last week (discussed above). The Regulations and Executive Order were well received by the Congressmen. This is part of our continuing effort to brief key congressional leaders on the improvements that the NEPA Regulations and the Executive Order bring to the federal environmental quality program.

3. Energy Coordinating Council and NEPA. At the last meeting of the Energy Coordinating Council, issues involving integration and coordination of federal permit requirements were raised. In response we sent to all Committee members a detailed memorandum which discussed reforms in our new NEPA regulations that will assist in integrating and coordinating all environmental review and related permit requirements.

4. Chamber of Commerce Plaudits. Last week the National Chamber of Commerce, for itself and its 80,000 members, sent us a letter congratulating us on "the excellent work done" in preparing the NEPA Regulations, calling them "a significant improvement on prior EIS guidelines."

5. Improving U.S. Implementation of the Convention on International Trade in Endangered Species (CITES). This week we sent memoranda to Secretaries Vance and Andrus recommending improvements in the U.S. CITES program. These letters followed-up and implemented U.S. endangered species policies recommendations which we reported to you at the end of last year.

C

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 13, 1979

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: CEA Weekly Report

Food Prices. Based on recent good news on pork supplies during 1979, the Agriculture Department has revised downward its forecast of food price increases, which were already somewhat below our estimates. If this forecast is realized, our ability to attain our inflation goals this year will be given a real boost. In light of recent disappointments on the food front, however, we have not incorporated this forecast into our official economic outlook for next year.

Real Wage Insurance. CEA continues to work with the Treasury on the final aspects of the real wage insurance program. I spoke on Friday with Donald Seibert of J. C. Penny regarding the views he and other businessmen had expressed to us regarding the RWI program. Seibert assured me that he and his colleagues will not speak out publicly against the program at this time. He and I plan to meet next week to discuss RWI.

Regulation. My staff has been working extensively during the past week on the two major pending regulatory decisions, EPA's ozone standard and Interior's strip mine regulations. As you know, a suit has been filed to enjoin the CEA from further conversations with Secretary Andrus or his staff. Justice has filed a petition seeking dismissal of the suit and has been assured that a hearing on that motion will be held in a week's time. The lawyers defending CEA believe that the suit probably will be thrown out of court. We also have told the environmental groups that filed the suit that no further contacts between CEA and Interior are planned in any event, and we remain hopeful that they will withdraw the suit on their own.

Social Security. CEA's staff is working with HEW, OMB, Treasury and others to develop for your consideration policy on social security tax reductions in 1981, when the next big round of increases is due.

Bill Nordhaus. Bill Nordhaus will be leaving the Council at the end of next week. I will invite Bill to accompany me during our regular weekly meeting next Friday so that he may have a final word with you before leaving the Executive Office.

Economic Report. The bulk of the CEA's staff time this month goes to preparation of the Economic Report, which will be published on January 25. Your Economic Report to the Congress is in the drafting stage and will be circulated to White House staff, OMB and Treasury early next week. As drafted, your report will follow closely the basic themes that have been set forth for 1979: Fighting inflation, encouraging efficiency in government, and pursuing compassionate policies, within a policy of restraint on overall spending.

THE WHITE HOUSE
WASHINGTON

1/15/79

The Vice President
Hamilton Jordan
Jerry Rafshoon

The attached was returned in the President's outbox and is forwarded to you for your information.

Rick Hutcheson

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

FOR ACTION	FYI	
	✓	VICE PRESIDENT
	✓	JORDAN
		EIZENSTAT
		KRAFT
		LIPSHUTZ
		MOORE
		POWELL
	✓	RAFSHOON
		WATSON
		WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE
		ADAMS
		ANDRUS
		BELL
		BERGLAND
		BLUMENTHAL
		BROWN
		CALIFANO
		HARRIS
		KREPS
		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARONSON
		BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

✓	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

Note to HJ -
you should read this

[This memo came from Pres on
Friday]

THE WHITE HOUSE

WASHINGTON

January 3, 1979

C

MEMORANDUM FOR THE PRESIDENT

FROM: JIM SCHLESINGER
MIKE BLUMENTHAL
RICHARD COOPER
CHARLES SCHULTZE
ALFRED KAHN
JIM McINTYRE
HENRY OWEN
STU EIZENSTAT Stu

SUBJECT: DOMESTIC CRUDE OIL PRICING - INFORMATION

The Issue:

This memorandum discusses, for your information, several options which are open to you on domestic crude oil pricing policy. It also analyzes the relationship of the various options to economic and inflation policies, energy policy, international commitments, and to the Administration's agenda for the coming Congress.

While we are not seeking a decision at this time, we did feel it important to provide you with the basic information which we have developed thus far. Interest has mounted on the Hill, among producers and consumers, and in the international arena concerning future crude oil pricing policies. In view of this interest, and your upcoming meeting with Summit leaders in Guadeloupe, we felt that you should be aware of the basic options we have been discussing.

The options presented have been distilled from an even longer list of approaches which are at least theoretically available to you. We have met several times to discuss the consequences of the various options, and to narrow the range of approaches to those which are most realistic. The choices which you will face in deciding this issue are not easy, and your advisors have widely divergent recommendations. We would be pleased to meet with you to discuss these issues later. We would urge, however, that you not make commitments or statements right away which would tend to prejudice your ultimate decision on crude oil pricing. You need not make a decision until early spring, and we feel strongly that this added time, to be used to refine our analyses as well as to consult further with the Congress and others, will be very productive in shaping the final set of recommendations which we will present to you. It will also be of help to the Administration's posture during the upcoming Teamster's negotiations to defer a decision until those are concluded (expected in March).

Your decision on domestic oil pricing will affect three central elements of Administration policy -- energy objectives, the anti-inflation campaign, and your pledges at the Bonn Summit. Key considerations which you should bear in mind in determining an appropriate oil pricing policy are:

° Energy policy

-- replacement cost pricing;

-- provision of adequate incentives to stimulate maximum domestic production of oil;

-- incentives for conservation and a reduction in oil imports;

-- equity in the distribution of any windfalls associated with oil price increases;

-- elimination of the current complex system of price controls, allocation, and entitlements.

° Economic policy

-- reducing inflation, and holding 1979 increases in the Consumer Price Index as low as possible;

-- maintaining the strongest possible posture to urge major unions to remain within Administration guidelines in upcoming contract negotiations;

-- maintaining growth in the economy and in employment;

-- improving the balance of trade and the strength of the dollar; and

-- regulatory reform objectives.

° Foreign policy

-- The Bonn pledge to raise the price paid for oil in the U.S. to world prices by the end of 1980

-- the general international concern over inflation, including Bonn pledge to make reduction of inflation a top priority of U.S. economic policy.

-- reducing U.S. ~~dependence on oil imports,~~ thereby reducing the trade deficit and strengthening the dollar

-- maintaining U.S. credibility among our key Summit allies and assuring their continued efforts toward meeting their own Bonn pledges.

The options presented below engage one fundamental issue:

> Should our energy policies and international commitments on energy be deferred or delayed in their implementation so as to minimize the near term inflation effects which an increase in U.S. prices to world levels would entail?

The choices between the options are very difficult, each one having varying effects depending upon the Congressional, international, and political reactions to the particular approach chosen.

Option I is designed to minimize the direct inflationary effects of crude oil pricing decisions, but at some cost in meeting energy objectives and international commitments. It bears some risk that the dollar will react negatively, thereby offsetting inflation benefits.

Option II would meet at least the spirit of our Bonn and other energy objectives, but with higher inflationary effects in 1980-1982.

Another key difference between the options is that under Option I we must seek a legislative extension of price controls, while under Option II we must seek Congressional action on a tax. While extension of price controls could be postponed until 1981, a tax would have to be proposed in 1979.

BACKGROUND

Legal Authority

The Energy Policy and Conservation Act of 1975 (EPCA) and prior statutes set price controls for certain categories of domestic crude oil. Ceiling prices are established for old or "lower tier" oil (oil produced prior to 1972), and for new or "upper tier" (oil production begun since that date). Certain other categories of domestically produced oil, such as stripper (wells producing below 10 barrels/day) and Alaskan oil, are not effectively price-controlled.

Increases in the old and new categories are statutorily limited through a mechanism known as the "composite" -- a weighted average price of old and new oil. The law has limited increases in the composite to 10% per year, but this restriction expires on May 30, 1979. After June 1, 1979, you may alter or eliminate price controls without Congressional approval. All current authority to control prices of domestic oil lapses on September 30, 1981.

- The law also establishes the entitlements program which equalizes crude oil acquisition costs between refiners who have access to domestic price-controlled oil and those who must rely on imported crude. The entitlements system will remain in place as long as there is a discrepancy between the U.S. crude oil price and the world price. The entitlements and price control programs are universally regarded as complicated, and difficult to administer. Substantial resources are required to implement the oil price regulatory program. The entitlements system has been used to subsidize small refiners, imported petroleum products (residual fuel oil imported to the East Coast), and for other regional adjustments.

Current Sources of U.S. Crude Oil

The volumes, prices, and percentages of 1978 U.S. crude needs are presented in the following table.

	1978 Volume (million bbl/day)	%1978 U.S. Consump.	1978 Wellhead Price (current $/bbl)	%1985 U.S. Consump.
Old Oil	3.2	20	5.68	8
New Oil	3.0	18	12.64	24
Stripper	1.2	7	13.94	7
Alaska	1.2	7	5.12*	8
NPR	-	-	-	1
Total U.S. production	8.6	52	9.25 wellhead (11.40 refinery)	48
Imports	7.8 / 16¢	48	14.55**	52

* The refinery acquisition cost of Alaskan oil (as opposed to the wellhead price) is currently at the world level since the transportation costs involved in bringing this oil to market are about $9.00/barrel.

** Average Landed Price for 1978.

Since April 1977, the Administration has limited increases in the domestic price of controlled oil to the rate of inflation (considerably below the statutorily allowable 10%). Although the average price of all oil used domestically has risen by 15% due to a decline in the relative volume of price-controlled oil and an increase in crude oil imports, the statutory composite price is still below the limits contained in EPCA.

Price controls reduced producer revenues in 1978 by about $12 billion below what they would have been had no price controls been in effect and U.S. crude prices been at world levels. Almost 80% of this $12 billion comes from price controls on old oil.

THE BASE CASE

Even if no changes are made in current domestic crude oil pricing policies, the average price paid for crude oil in the U.S. will increase in nominal terms by about 12% in 1979, and about 8.5% annually thereafter, assuming no further real OPEC price increases. The 1979 OPEC price increases will add 0.4% to the CPI.

These increases in the base case oil price occur because:

- about 50% of our crude oil is imported, and therefore not subject to U.S. price controls.
- about 15% of all crude used in the U.S. (or 30% of all domestic production) comes from stripper wells and from Alaska which are now sold at world prices.
- the volume of old oil (currently 20% of consumption) is now declining at a rate of 15% per year, compared with an historical rate of 8-9% per year. As a result, a larger percentage of U.S. production will be coming from categories of oil other than old oil.

THE OPTIONS

Two basic approaches to future crude oil pricing are presented in addition to the base or "no policy change" case. Option I is designed to minimize near-term direct inflation effects, and requires extending price controls on old oil through 1984 -- a period beyond current control authority.

Option II would raise prices gradually to the world level by October 1, 1981, the date upon which price controls expire. Option II has several variants, each of which has to do with how or whether a tax is imposed upon domestic crude production in order to recoup some of the revenues which would otherwise flow to producers from price decontrol.

Each Option, and its major economic effects are described in general outline below. These options can and will be further refined to reflect results of Congressional consultation and further analysis.

Option I -- Decontrol by 1985 with no tax

Under this approach:

- newly discovered oil (so-called new, new) would rise to the world price immediately.

- upper tier oil would rise to the world price gradually, reaching that level by October 1, 1981.

- lower tier oil would remain under controls through January 1, 1985, with gradual increases in price occurring throughout that period.

- a legislative extension of EPCA price control authority would be sought in order to control prices after September 30, 1981.

	Base	I	II
79	12	13	13
80	9	10	13
81	8	9	18

As a result of these policy changes, the average cost of all crude oil used in the U.S. will increase by 13% in 1979, 10% in 1980, and 9% in 1981 (compared with a 12% increase in the base case in 1979, 9% in 1980, and 8% in 1981). These increases will add approximately .05% to the CPI in 1979, and .1% in 1980 and 1981, over and above the base case.

At the expiration of current control authority, the price gap between U.S. domestic production and the world price (assuming no real OPEC price increases in 1980 and 1981) would be $4.25, or 65-75% of the current gap. At that time, however, about 75% of all domestically produced crude oil would be decontrolled, that is, all upper tier, newly produced crude, stripper, and Alaska. Only old oil, which is a declining fraction of overall U.S. production would remain under price controls. Retaining controls on this category of oil is important, however, for minimizing the inflationary effects of price increases since old oil prices would have to increase by about $10 per barrel to reach current world levels. It is from increases in this oil category that the majority of the inflationary effects of decontrol derive.

An extension of price controls will require new legislation to be submitted in 1981, or possibly earlier, to authorize price controls through 1984. Such legislation is certain to be controversial. It need not be submitted during 1979 or 1980.

Option IA -- Minimal action at this time

This variant of Option I would involve only those modifications of the current system of controls necessary to increase domestic production. Consideration of policies to raise domestic prices to world levels would be deferred. Under this approach:

° newly discovered oil ("new, new oil") would be permitted the world price;

° modifications in the definition of lower tier oil would be made to maintain old oil production; and possibly

° some additional relief would be provided for so called "marginal (stripper) wells".

This approach represents the smallest feasible change in current oil policy, and the annual increase in U.S. average crude cost would be 1-2% lower than for Option I. Inflationary effects would also be reduced. (Two of these changes are already in rulemaking.)

Option II -- Decontrol by October 1, 1981, with a tax

Under this approach:

° new, new oil would be allowed the world price immediately;

° upper and lower tier oil prices would be increased to close 2/3 of the existing gap between the overall average U.S. price and the world price by September 30, 1981. On October 1, when controls expire, the balance of the gap would be closed.

° a tax on lower tier oil (and possibly upper tier oil) would be sought to recoup windfalls which would otherwise go to producers.

As a result of these policy changes, the average real increase in the price of all oil in the U.S. will increase by about 13% in 1979, 13% in 1980, and 18% in 1981. The increases are estimated to add .1% to the CPI in 1979, .3% in 1980, and .4% in 1981, over and above the base case.

No extension of price control authority would be sought after October 1, 1981. It is important to note that this approach "back loads" the price increases resulting from decontrol so that much of the inflationary and other macroeconomic effects are put off until 1980 and 1981.

In addition to these administrative decontrol actions, an excise tax on lower tier oil would be sought to recoup some of the revenues which would otherwise flow to oil producers. Several variants of this tax are now being analyzed by DOE and Treasury. Strategies for securing enactment of the tax can vary significantly and are discussed later.

In addition, a tax which would only be triggered by a real OPEC price increase would be sought for all domestically produced oil to guard against any future large increases in the world price.

A broad range of strategies are available to the Administration for seeking a tax, each having very different political and international consequences.

Tax Strategies

Option IIA -- Decontrol contingent upon enactment of a tax

Under this approach, the decontrol schedule would not be fully implemented until Congress passed an acceptable tax. This provides maximum leverage in securing producer support for the tax, and ensures that the Administration does not run the risk of having to go forward with decontrol without the tax. Congressional liberals, however, will probably withhold support for a tax in order to prevent decontrol.

Option IIB -- Decontrol not contingent on a tax

With this approach, the Administration would announce its intent to move forward with decontrol whether or not an acceptable tax is passed by Congress. This has advantages in gaining moderate and liberal support for the tax, as well as providing producers and international exchange markets with certainty in the future path of U.S. prices. It creates, however, disincentives for producer support since they are assured of decontrol without the tax, and may make it harder to "sell" decontrol to the public.

Option IIC -- Aim for decontrol with a tax, but do not, at the outset, indicate a fall-back position if a tax is not enacted.

Under this approach, the Administration would propose a tax but would not indicate publicly what course would be followed if the tax were defeated. This option would maintain flexibility while Congress considers the tax. If the tax is unsuccessful, the Administration could re-evaluate its approach to oil pricing in light of progress on the inflation program, movements in world oil prices and general economic conditions.

ANALYSIS

A. Economic effects

The following chart shows the major macroeconomic effects of the base case and the two options. Since the variations in tax strategies do not affect the macroeconomic effects of the underlying approach (assuming that a tax is successfully enacted no matter which strategy is chosen), the variants are not shown in this table. You should recall, for comparison purposes, that even with no change in current policy oil prices will cause a .4% CPI increase in 1979, a .2% increase in 1980, and .1% in 1981.

MACROECONOMIC IMPACTS OF ALTERNATIVE OIL PRICING POLICIES COMPUTED RELATIVE TO THE BASE CASE

	% change in the CPI 4th Quarter over 4th Quarter				%change in real GNP			
	1979	1980 1/	1981 1/	1982 1/3/	1979	1980	1981	1982
Option I* - Decontrol by 1/1/85	+0.05	+.10	+.10	+.10	-- Negligible --			
Option II - Decontrol by 10/1/81 with a tax 2/	+ .10	+.30	+.40	+.10	0	-.10	-.25	0

1/ Assumes no real increase in OPEC prices after 1979.

2/ Assumes that any receipts from the tax are either rebated or spent.

3/ After 1982 the inflationary impact of Option I would be somewhat greater than Option II.

* The minimal action approach (Option IA) is expected to have even lower inflationary or other macroeconomic effects.

To further clarify the distinctions between the basic options the table below shows how the price of both domestically produced oil, and all oil used in the U.S. increase under the different approaches.

ANNUAL % INCREASE* IN NOMINAL REFINER ACQUISITION COSTS UNDER ALTERNATIVE OIL PRICING POLICIES**

	1978	1979	1980	1981 1st 3 quarters	1981 last quarter	1981 total	1982	% of gap remaining in Oct. '81***
BASE								
Domestic Oil	7	12	10	7	2	9	9	90-95%
All Oil used in U.S.	2	12	9	6	2	8	8	
OPTION I								
Domestic Oil	7	14	12	8	3	11	10	65-75%
All Oil used in U.S.	2	13	10	7	2	9	9	
OPTION II								
Domestic Oil	7	14	18	17	13	30	7	33%
All Oil used in U.S.	2	13	13	11	7	18	7	

* Measured fourth quarter over fourth quarter, and assuming a 7% inflation rate for ease of exposition and comparison.

** Assumes <u>no</u> <u>real</u> OPEC increase after 1979.

*** This % reflects the portion of the current gap between average U.S. and world prices which remains to be closed by October 1981.

From a straight inflation standpoint, the Base Case -- no change in policy -- would appear to be the most advantageous. The 1979 OPEC increase alone will add about .4% to the CPI, and would, at least in theory, minimize inflation attributable to oil pricing policy.

There are, however, three important caveats to the above statement. First, some believe that sticking with current policy (or Option I) will cause domestic oil production to decline considerably more than it would under Option II. To the extent that domestic supplies are reduced, these needs will be met with costlier imported oil.* On the other hand, to the extent that raising oil prices (under either Option I or II) reduces the chance of bringing major wage settlements in at 7%, the inflationary effects of a substantial change from current policy would be greater than under Option IA.

Second, to the extent that reaction to U.S. oil policy causes further depreciation of the dollar, exchange losses could more than offset the inflation rate "savings" resulting from maintenance of strict controls on domestic crude oil prices. (Additional discussion of this follows in the section on the Bonn Commitment.)

Third, to the extent we continue a policy which subsidizes the use of imported oil -- as we would under Option I -- we dampen investment in more energy efficient capital equipment and reduce incentives for conservation. Delay in reaching the true replacement cost of domestic oil does not provide maximum incentives for either increased production or conservation.

As between Options I and II, the inflationary effects projected for 1979 are quite similar. (The inflationary effects of the minimal approach of Option IA would, of course, be less.) Because Option II "backloads" the price increases to 1981, the inflationary difference between the two options does not become noteworthy until 1980 and 1981.

While both Options I and II arguably give the anti-inflation program a chance to get off the ground in 1979, many of the important 1979 wage negotiations involve three year contracts. In these cases, the 1980 and 1981 inflationary effects of Option II take on far greater significance. It will be very difficult to urge the unions to restrain demands, when, at the same time, the Administration is pursuing an oil pricing policy which will add .8% to the CPI over three years, and which will cause a <u>real</u> increase in oil prices of 6% in 1980 and 12% in 1981. Option I (especially under the minimal action approach of Option IA), on the other hand, will largely remove the oil pricing issue from the scope of union negotiations, except to the extent that the recently announced OPEC increase becomes a factor. Although union opposition to <u>any</u> oil price increase and higher producer revenues may create an issue in wage negotiations, under Option I, the Administration can argue that, to the extent that it has control over oil prices, it too has exercised major restraint.

In reviewing the economic calculations presented in this memorandum you should bear several caveats in mind:

* All of your advisors believe that some change in the current system of controls is necessary to maximize domestic production. For this reason, all will recommend at least the changes contained in Option IA.

- Inflation effects in the oil pricing area are difficult to calculate with precision since there is uncertainty about how much of the increase in crude oil costs will be passed on to ultimate consumers. For the purpose of this analysis, we have assumed that 2/3 of the crude price increase is passed on to the ultimate consumer, and to the extent that pass-throughs are actually lower, these inflation effects are overstated.

- The reaction of international exchange markets to any crude oil pricing decision can have a significant effect on the domestic inflation rate. If, for example, exchange markets were to react adversely to Option I (or IA) and the dollar depreciates further, one bad day (whose effects were continuing) could negate the savings attributable to selection of that policy. By the same token, however, if selection of Option II were to cause a heightening of concern about U.S. inflation rates resulting in a further decline of the dollar, the inflationary effects of that Option would increase.

- This analysis assumes that OPEC will not increase oil prices by more than the rate of inflation in 1980 and 1981. Depending on the ultimate resolution of the Iranian situation, as well as internal OPEC policies, this assumption may or may not hold. Inflation rates attributable to all options, but particularly to Option II, are sensitive to variations in the OPEC price.

The Bonn Commitment and International Effects.

In Bonn last July, you made several energy related pledges, as well as a general commitment on inflation. On oil prices you stated, "The U.S. remains determined that the prices paid for oil in the United States shall be raised to the world level by the end of 1980." On inflation, you stated that, "reducing inflation is essential to maintaining a healthy U.S. economy and has therefore to become top priority of U.S. economic policy."

In our discussions, much concern has been raised about the international impacts of failing to meet the Bonn oil pricing commitment. Your advisors now believe, however, the other Summit participants will accept slippage of the date for reaching world price levels from December 1980, to October 1981. However, a program which did not achieve the decontrol commitment until 1985 and which required legislative extension of the price control authority beyond the present termination date would undoubtedly be greeted with skepticism and disappointment abroad and with possible adverse consequences for international exchange markets.

Option I fails to meet the Bonn pledge on oil prices since average domestic crude oil acquisition costs do not reach world levels either by the December 1980 date, or by October 1981. Option I is, however, consistent with our overall inflation concerns as expressed at Bonn and elsewhere. Option II would meet the oil pricing pledge, although the confidence level which our Summit partners would have during the interim period varies depending upon which tax strategy is selected.

Your international advisors believe that failure to meet the Bonn energy pledge -- one of our most important short-term Bonn commitments -- would give the French an excuse to renege on their MTN commitment and the Japanese defense for their failure to meet their growth commitment. These failures would have an adverse effect on the U.S. trade balance and on the dollar. Further depreciation of the dollar, as noted above, makes it more difficult to control domestic inflation.

Failure to meet the Bonn oil pricing pledge will also cause our Summit partners to question the credibility of U.S. commitments generally. This impression could, at least in part, be mitigated by our adherence to the NATO defense spending commitment even under heavy domestic pressures to provide less than 3% real growth for defense outlays. If a decision to substantially delay compliance with the Bonn energy pledge were based on our concerns and commitments on inflation, this could also help reduce concerns over U.S. credibility.

Apart from the Bonn commitment, there continues to be great concern internationally about U.S. energy policy. The failure of the U.S. to take what many foreigners (and Americans) regard as essential steps in facing our energy problems could create anxiety, and further depress the already low level of business confidence internationally.

State and Treasury feel that there are significant international policy differences between the various tax strategies which might be adopted to implement Option II. They believe that the option would not be credible unless decontrol were clearly not contingent upon Congressional passage of a tax. Our Summit allies, and the international exchange markets are skeptical about our ability to enact a tax after the long and unsuccessful debate we had on COET. Option II, they feel, would not be adequate in meeting the Bonn commitment if decontrol were made contingent upon enactment of the tax. In addition, Treasury predicts a strong negative reaction by the international exchange markets to any option which does not virtually guarantee decontrol by 1981.

Energy Policy Impacts

From the standpoint of consistency with previously announced energy policies, Option II is the most consistent in that it:

- o provides for replacement cost pricing
- o provides incentives for new domestic production
- o permits the elimination of the entitlements system by October 1981
- o if a tax is successfully enacted, recoups some of the revenues which would otherwise flow to domestic oil producers and distributes these "economic rents" more equitably.

The conservation incentive provided through replacement cost pricing, along with the incentives for new production should reduce our overall demand for imports by about 850,000-900,000 barrels per day by 1985. In the early years import savings over the base case are expected to be lower, e.g. about 270,000 barrels per day in 1981.

Option I, however, also provides some advantages in that:

- o it contains targeted production incentives to oil categories where the supply response is expected to be the greatest (this is also true for IA).
- o by October 1981, the Administration can indicate that 75% of all domestically produced oil will have been decontrolled (but not for Option IA)
- o it avoids, until the 1984-5 time frame, a potentially difficult fight over establishment of new protections for the domestic refinery industry. Option II would defer this until 1980 or 1981. (Our refiners currently have a significant competitive advantage over foreign refiners which derives from access to crude priced below world market levels. The refiner trade association has asserted that as the U.S. price approaches world levels, they will need either quotas or tariffs on imported refined products in order to retain their current business.)

Option I would not, however, permit elimination of the entitlements system until 1/1/85, since a discrepancy between the U.S. and the world price will exist through that date. It would also not provide the full range of production and conservation incentives which Option II would produce.

Relationship of the Options to Gasoline Decontrol

Since April 1977, the Administration has had a proposal to decontrol motor gasoline ready for submission to the Congress. (Such a proposal is subject to a one-house veto if submitted before June 1, 1979. After that date, no special Congressional review or ratification is required.) The control system has discouraged investment in refinery capacity needed to produce unleaded gasoline. Without significant investments in that refining capacity, the current tight market could lead to serious shortages in 1980 and beyond.

Since some action is necessary to create incentives for production of increased amounts of unleaded gasoline, the choice is not between the status quo and decontrol. DOE and the White House are now reviewing various options ranging from allowing refiners to recover a higher percentage of costs from gasoline to decontrol. The range of inflationary effects resulting from these options is .2% to .3% increase on the CPI. DOE concludes that the differences in price increase between these proposals would be small, perhaps as little as 1¢ per gallon in 1979. Over a longer period, prices under decontrol should be no higher than under modifications to the existing control system, and increased competition under decontrol could cause prices to be lower.

Congressional and Political Considerations and Impacts

One fundamental difference between Options I and II is the need for Congressional action to implement the Option. While Option I requires an extension of price control authority, Congress need not act on legislation to do so until early 1981 since that authority does not expire until September 30, 1981. Option II, however, regardless of the tax strategy selected, requires Congressional consideration and action on the tax in 1979.

If Option II is selected, the Administration should expect a major oil pricing debate with the Congress in 1979, perhaps extending into 1980. If Option I (or IA) is chosen, this debate may be postponed, although there will be attempts by producing state representatives to create legislatively new production incentives (such as the Wright and Bentsen amendments of last year). Your domestic advisors are split, however, on whether such efforts would be successful though clearly they will be controversial.

The difference in the overall political reactions to the two Options is also important. Consumer groups, unions, and consuming state representatives would oppose any changes in oil pricing that would increase prices or give greater profits to oil companies. Option IA would be the most acceptable of the options to these groups. This option (and possibly Option I) would do less to compound the negative reactions to the FY 1980 budget which we now expect from traditional Democratic constituencies. It is extremely difficult to ask unions, the poor, the disadvantaged, and the distressed cities to absorb significant real cuts in domestic programs (with little demonstrable impact on inflation) while simultaneously advocating an oil pricing policy which significantly increases both prices and inflation. New England will be particularly strongly opposed to any policy which would decontrol prices. Option I, although raising prices more gradually than Option II, would not tax any of the economic rents resulting from phased decontrol. As a result, it could draw opposition from consumer and union groups, and their Congressional representatives similar to that expected under Option II.

Option II, on the other hand, will be supported by some moderates and may be preferred by producing interests to Option I, though even Option II falls far short of their real preference -- decontrol as soon as possible without a tax. Producers may opt to oppose all legislation in hopes of avoiding both a tax and an extension of price controls. Option I would, however, be strongly opposed by producing state interests. Depending upon the strategy selected for a tax, the political and Congressional reactions will be quite different. Under any of these strategies, however, the Administration will have to expend substantial political energy and resources to secure a tax. The tax envisaged in Option II will also pose problems by futher crowding an already full agenda before the tax writing Committees. A number of important Administration initiatives, such as hospital cost containment, welfare, real wage insurance, and preparing for acceptance of the MTN, will come within the jurisdiction of the Ways and Means and Finance Committees. Al Ullman has indicated, however that he will reserve space for consideration of an oil tax on the hearing calendar. Senator Long is also expecting to receive a tax proposal.

If decontrol is made contingent upon enactment of the tax, maximum pressure is put on producers and their representatives in Congress to speedily enact a tax. The liberals, however, may well try to block decontrol through opposition to the tax, including a filibuster. Under this approach, however, Congress shares both the blame and the credit for the eventual decision, be it decontrol with a tax or no decontrol because a tax failed.

If decontrol occurs whether or not a tax is enacted, the tax is likely to attract stronger liberal and moderate support, although the producers then lose their incentive to support the tax. A Republican or producing-state filibuster could thwart tax efforts under this strategy. In addition, consumer groups and union interests would be violently opposed to decontrol without a tax, though it is unlikely that decontrol could be stopped legislatively. Under this strategy, the Administration will take the blame for decontrol, and for failing to secure the tax if proposed.

Option IIB also poses political problems for the Administration which may well spill over into 1980. If Congressional action on the tax is slow -- which is entirely possible -- pressures will mount to stop the pace of decontrol until a tax is enacted. If by early 1980 no resolution of the issue has occurred, you are likely to be charged with giving the oil companies a free ride, gaining nothing in return. To change policies at that point, and stop or slow down decontrol in order to gain leverage to support a tax, would subject you to criticism for changing policies in midstream, and would then engage all of the problems mentioned above with backing away from the Bonn commitment. On the other hand, Option IIB has substantial advantages from the point of view of the current international exchange markets and our Summit allies.

Option IIC, which defers a decision on how to proceed in seeking a tax would permit the Administration to gain a clearer understanding of the Congressional mood before making a firm commitment to either course. It would also permit Congress to participate more fully in the design of the tax and make the decision more of a joint venture with the Congress. It does, however, leave considerable uncertainty as to the future of oil prices, which could have an unsettling effect on wage negotiations and producer investment, as well as on our Summit allies and international exchange markets.

SUMMARY

As is clear, the decision which will be before you over the next two months is not an easy one. Over the coming weeks we will seek to refine the Options as well as our estimates of their impacts and political and international consequences. Once again, we urge that you keep an open mind on this issue, until we can present the final analysis for your decision.

P

THE WHITE HOUSE
WASHINGTON 1/15/79

Mr. President:

Frank would like you to see Sen. Baker as soon as possible about his recent trip to Russia and the SALT treaty. I suggest tomorrow afternoon as your last appointment.

✓ approve meeting tomorrow

___ wait till later to schedule

J

Phil

THE WHITE HOUSE
WASHINGTON

1/15/79

Mr. President:

Frank would like to have Rep. Jim Howard in this week for 5 minutes to enlist his help in the Teamster's contract negotiations.

✓ approve meeting this week

___ schedule later

Check with Strauss first
J

Phil

11[15] wed.

Red tag to Fran

THE WHITE HOUSE

WASHINGTON

CONGRESSIONAL SCHEDULING PROPOSAL

MEETING: White House appointment for Rep. Jim Howard (D-New Jersey-3)

LENGTH: 5 minutes

DATE: Anytime during the week of January 8. or 15th

PURPOSE: To discuss transportation issues.

BACKGROUND: As Chairman of the Subcommittee on Surface Transportation (Committee on Public Works & Transportation), Howard will play a key role on all of our deregulation proposals: ICC, trucks, buses. He will also be especially important on the renegotiation of the Teamsters' contract. A meeting with him before the session starts could be crucial to our chances of passage of any of this legislation.

EVENT DETAILS: Location: Oval Office

Other Participants: Bill Cable

Press Coverage: White House photographer only.

INITIAL REQUESTER: Bill Cable

APPROVED BY FRANK MOORE: ____________________

DATE OF SUBMISSION: January 10, 1979

THE WHITE HOUSE
WASHINGTON

1/15/78

Mr. President:

Attached is the list of attendees for the 3:30 pm meeting with Judge Bell on women judges. It will be in Room 263 fo the Old EOB. Do you want to attend?

Phil

no
J

MEETING WITH JUDGE BELL
Monday, January 15, 1979
3:30 p.m.

BABCOCK, Barbara, Department of Justice
BAILEY, Patricia, Department of Justice
CHAMBERS, Marjorie Bell, Am. Assn. of University Women
COHEN, David, President, Common Cause
DEWALD, Gretta, Democratic National Committee
EIDSON, Gerry, Pres., Business & Professional Women
FOREMAN, Carol, Assistant Secretary, Dept. of Agriculture
FRASER, Arvonne, Department of State
GREENBERGER, Marcia, Women's Rights Project, Center for Law and Social Policy
HALPERN, Charles, Director, Judicial Nomination Coalition; Director, Institute for Public Interest Representation
HERMAN, Alexis, Department of Labor
HINERFELD, Ruth, President, League of Women Voters
JEFFREY, Mildred, Chair, National Women's Political Caucus
LICHTMAN, Judith, Women's Legal Defense Fund Director
MILLER, Joyce, Coalition of Labor and Union Women
SHATTUCK, John, President, American Civil Liberties Union
SIMMONS, Breen, Natl. Assn. for the Advancement of Colored People, Inc. Fund
SMEAL, Elly, National Organization for Women
TAYLOR, Lynette, Executive Dir., Delta Sigma Chi
WYATT, Addie, Amalgamated Meat Cutters

CANDELA, CHRIS, President, WEAL
RAWALT, MARGUERITE, Democratic Women
Thein, Tin Myaing, Co-Chair, Asian and Pacific Minority Women's Caucus

WHITE HOUSE

HAFT, Marilyn
RAINWATER, Betty
WEDDINGTON, Sarah

C

THE WHITE HOUSE

WASHINGTON

January 17, 1979

MEMORANDUM FOR THE VICE PRESIDENT
AND MEMBERS OF THE CABINET

FROM: JACK WATSON Jack

Subject: Cabinet Minutes for Last Meeting

Attached are the minutes of the Cabinet meeting held on Monday, January 15th. Due to their confidential nature, they should be considered "for your eyes only."

There will be no Cabinet meeting on January 29th, and we will call you as soon as the next meeting is scheduled.

Warm regards.

THE WHITE HOUSE

WASHINGTON

Minutes of the Cabinet Meeting

Monday, January 15, 1979

The President called the Sixtieth meeting of the Cabinet to order at 9:03 a.m., January 15, 1979. All Members of the Cabinet were in attendance, except U.N. Ambassador Andrew Young, who was represented by Anne Forrester Holloway. In addition to the Members of the Cabinet, the following people were in attendance:

Zbigniew Brzezinski	Frank Moore
Douglas Costle	Richard Pettigrew
Max Cleland	Frank Press
Gene Eidenberg	Jay Solomon
Stuart Eizenstat	Claudia Townsend
Les Francis	Stansfield Turner
Gail Harrison	Anne Wexler
Fred Kahn	John White
Dick Moe	Jack Watson

1. The President opened the meeting by noting this was the first meeting of the Cabinet in 1979. He expressed the hope that the Administration would build on the good record of 1978.

2. The President asked the Vice President to discuss recommendations regarding the priority legislative calendar for this year. The Vice President asked that the matter be deferred until he returned from a meeting he had to attend at 9:30 a.m. with Senate Majority Leader Byrd and others on the Hill. He said he would be back by 10:30. The President agreed.

3. The President thanked the Cabinet for their very constructive work in preparing the FY 1980 budget. He noted that although a number of his decisions did not meet the hopes of individual agencies, the cooperative spirit in which each Secretary worked with him and OMB made the difficult task of preparing the budget much easier.

-- The President stressed the need for the Cabinet to speak with a unified voice in getting the budget enacted.

To that end, the President reported on his establishment of a special Budget Task Force to monitor each stage of the Congressional process. It is important that the Administration's views on the budget be effectively represented at every point of the process and that we not simply react to Congressional decisions made at different stages. The President urged the Cabinet to cooperate fully with the Task Force in its efforts to hold the budget to the figures in his recommendations.

4. The President asked Jim McIntyre if he had any further comments on the FY 1980 budget.

-- Mr. McIntyre also complimented the Cabinet Members for their extremely cooperative and constructive attitude in the budget process. He also echoed the President's sentiments on the important role the Budget Task Force will play in monitoring the Congressional handling of the Administration's budget proposals.

5. The President asked Charlie Schultze to brief the Cabinet on the current economic indicators. Mr. Schultze made the following comments:

-- The anti-inflation program wage and price guidelines are generally being taken quite seriously throughout the economy. The Council on Wage and Price Stability is being deluged with calls and letters seeking information on how to comply with the guidelines;

-- For the next 3-5 months we can expect the rate of inflation to remain at unacceptable levels. The economy will continue to feel the effects of cost increases implemented in 1978;

-- The Department of Commerce will shortly release data on the 4th quarter, 1978 performance of the Gross National Product. The annual rate of growth annualized from these data will be approximately 5 1/2%. This rate of growth is greater than can be expected in the second half of 1979. The Council of Economic Advisors is projecting a 1979 GNP growth rate figure of 2 1/4% (4th quarter to 4th quarter) with an inflation rate of 7 1/4% (over the same period);

-- The CEA is not expecting a recession later this year, but is predicting a slower rate of growth.

-- The President indicated that the relatively poor inflation statistics over the coming months would not be indicative of failure of the anti-inflation program. Rather, they are more evidence of the need for the program. He noted especially the need to do something to increase productivity within the economy. Recent years' productivity gains of 1 to 1 1/2% have fallen in 1978 to "0".

-- Secretary Blumenthal concurred with Chairman Schultze's comments but added his own judgment that the period of time during which relatively high rates of inflation would continue would extend to as much as six months. He commented that, during this period, steady nerves will be required as the economy experiences (1) a rise in unemployment; (2) a dip in the rate of growth of GNP; and (3) higher than acceptable rates of inflation, before the inflation rate starts to drop.

-- Secretary Marshall urged that the Administration initiate visible efforts in those major sectors of the economy in which there is promise of improving productivity (e.g., in the areas of energy, health, and foods) to help off-set the predicted bad news of the next several months.

6. The President asked Fred Kahn to comment on the anti-inflation program in general. Chairman Kahn made the following points:

-- There has been some suggestion in the press that the Administration is not serious about the procurement portion of the program; this is emphatically not so, and the assertion should be rebutted at every opportunity;

-- A number of public sector wage settlements (with state legislators, for example) have been reached within the guidelines;

-- The National Governors' Association has been very supportive. Its Chairman, Governor Julian Carroll of Kentucky, is meeting with Mr. Kahn today to discuss the state and local role in fighting inflation;

-- The Administration's seriousness in reducing the costs of government regulation is still in question because no major examples of reducing regulatory costs exist.

-- In response to questions, Mr. Kahn mentioned several specific areas in which regulatory costs should be reviewed and indicated that the newly-formed Regulatory Review Group would be helpful in conducting such reviews.

-- Doug Costle, Administrator of the EPA, pointed out that the group has no control over independent regulatory agencies, and that much of the cost in government regulation is mandated by the Congress.

-- The President emphasized the importance of balancing the costs of regulation with their intended benefits when making regulatory decisions that are within the authority of the Administration. The President cited several specific examples where the cost/benefit ratio of regulations was at least in doubt. The President made clear that he intended the Administration to meet its legal and moral requirements, but that, in doing so, he wanted the cost issues to be weighed in the balance.

-- The President agreed with Mr. Kahn that a breakthrough had to be forthcoming in the anti-inflation effort concerning government regulation. He also asked that each Member of the Cabinet do his/her best to keep him out of specific issues, although he made clear that he is willing to step in when that is the only way to get resolution of difficult problems.

-- Mr. Costle reported that the first calendar of major proposed regulations would be published in mid-February. This is one effort of the Regulatory Review Group which is aimed at identifying the agenda of major regulatory issues with which the Administration must deal.

-- The President noted that Max Cleland's weekly report included some excellent examples of cost-cutting initiatives which had been taken within the Veterans' Administration without cutting back services to veterans. The President asked that the memorandum be circulated to the entire Cabinet.

-- Secretary Adams and Secretary Blumenthal noted the automobile and diesel fuel EPA standards as examples of regulations which divert dollars from investment in business expansion and thus reduce productivity in the manufacturing sector of the economy.

-- The President asked Doug Costle to comment on these points.

-- Mr. Costle pointed out that many of the standards imposed on the automobile and trucking industries are Congressionally-mandated. He also noted that many industries are affected by a range of government actions and regulations which are neither coordinated nor assessed in the light of their aggregate impact. The Regulatory Review Group intends to identify the whole range of federal policies which have inflationary impact on single industries and to suggest ways the regulatory approach can be coordinated so that inflationary effects can be reduced.

-- Ambassador Strauss commented that, despite all the discussion, the Administration was not coming to grips with the regulatory portion of the anti-inflation program. It is, he said, the one major part of the program where the President's program lacks credibility.

-- Secretary Schlesinger expressed the view that taking each of these regulatory issues on one at a time was a mistake. He suggested a legislative initiative which would defer, for six months to a year, a number of the standards and regulations which are known to be significantly inflationary in their impact. Secretary Schlesinger specifically noted the need for legislation in the regulatory field analogous to the Budget and Accounting Act of 1922 which established federal budgetary procedures and structure for the first time.

-- Secretary Kreps concurred in the need for something dramatic along the lines of Secretary Schlesinger's suggestion. She noted that the business community is waiting to see whether this portion of the anti-inflation program (in addition to the wage and price guidelines and other parts) will be pursued.

7. The President noted that, in several of the Weekly Reports to him from the Cabinet, concern was expressed about the effects of the new Ethics in Government Act, particularly with respect to its provisions regarding post-government-service employment. It appears that a number of people will leave the government before July 1st (when the Act becomes effective) because of concern that they would be prohibited from returning to professions over which they exercised some regulatory or

grant-making authority while in government service. The President asked Jack Watson and Jim McIntyre to get the necessary information and materials together for the President to review on the matter. The President noted his support for the Bill when it was before the Congress and his sense that Congress did not intend for it to have the effects being described.

-- Secretary Brown urged prompt attention to this issue. Secretary Califano asked that Mr. Watson consult with him and others on the implications of the law for specialized agencies such as the National Institutes of Health.

8. The President asked Secretary Schlesinger to brief the Cabinet on the oil supply situation in light of developments in Iran.

-- Secretary Schlesinger reported that unrest in Iran has resulted in a cut-off of the 5 million barrels per day production of Iranian oil fields. The Saudis and others have increased production of their fields temporarily (by over 3 million barrels per day) to replace approximately half of the Iranian supply loss. The net effect is a draw-down of approximately 2 million barrels per day from world stockpiles. If supplies from Iran are resumed within a reasonable time period, there will be no supply problems next winter. However, if Iranian production is limited for an extended period (or permanently), the U.S. will experience shortages next winter. The Secretary observed that the net effect of the slow-down in Iranian production has been to move the predicted shortages of oil from the middle 1980's a little closer in time. The Secretary added that domestic consumption in this country should be reduced approximately 500,000 barrels per day to insure adequate supplies into next winter. He has begun conversations with the Department of Defense and the General Services Administration to see what can be done at the governmental level to reduce consumption.

-- Secretary Schlesinger also briefed the Cabinet on the effect of the Iranian crisis on oil supplies to Israel. The American government is working with other suppliers to insure that oil remains available to Israel in the context of the bilateral agreement between the U.S. and Israel. If other parties are unable to supply Israel, consideration is being given to making North Slope (Alaska) oil available to Israel.

9. The President commented briefly on his decision to change the leadership of the National Advisory Committee for Women. Ms. Bella Abzug was relieved of her Chairmanship by the President on Friday, January 12, 1979. The President emphasized that his decision was in no way related to a change in Administration policy or in his personal view regarding the vital importance of women's issues to the country. The President asked for the continuing active support of the Cabinet in pursuing such goals as the passage of the Equal Rights Amendment and increased employment opportunities for women.

10. The President briefly discussed recent news stories regarding various government reorganization proposals. He noted that he has made absolutely no final decisions on the subject and expressed his hope that news speculation would not be of concern to Members of the Cabinet.

11. In response to a question from the Attorney General, the President noted his concern over Iranian students in this country, on student visas, who violate American law. The Attorney General is working through appropriate U.S. Attorneys in reviewing the situation following a violent demonstration by Iranian students in Beverly Hills, California. The President said that he expects the law to be applied to such students fairly, but firmly.

12. Secretary Adams expressed concern on behalf of the Governor of Puerto Rico regarding the disposition of the case involving the Puerto Ricans convicted of the attempted assassination of former President Harry Truman. The Attorney General noted that he is aware of the sensitivity of the matter and is handling it appropriately.

13. Secretary Califano commented that there is a number of opportunities to contribute to the anti-inflation effort by enforcing competitive bidding statutes. He noted that there were significant savings in the Medicare program in bidding the claims management process with private insurance companies. Mr. Califano also expressed his concern that Congressional action, on a case-by-case basis, might restrict these opportunities.

14. The President asked the Secretary of State to brief the Cabinet on a number of foreign policy matters. The Secretary reported the following:

-- As announced over the weekend, discussions with the Egyptian and Israeli governments have resumed with regard to renewed negotiations between the two governments toward a peace treaty. The discussions will begin below the Ministerial level and will escalate as circumstances warrant.

-- Iran is at a very delicate stage with the new government seeking votes of confidence from the Iranian legislature. The Shah will leave the country for a vacation after the new government is installed, and his departure will present a test for the new government. U.S. policy is seeking to keep the major contending forces within Iran working towards a constructive resolution of the crisis.

-- The U.S. is watching the Cambodian situation very closely. Since the fall of Vietnam in 1975, both new and ancient rivalries have been re-kindled in Southeast Asia which have led to the successful Vietnamese invasion of Cambodia. There is a number of important, but unanswered, questions about Vietnamese intentions, the answers to which will have significant impact on the future of Southeast Asia generally.

The U.S. position is not to take sides between the Soviet and PRC positions; to use diplomatic means to express our displeasure over the invasion; and to seek Vietnam's withdrawal from Cambodia.

-- The SALT II negotiations are continuing both in Geneva and at the Ambassadorial level. The outstanding issues are resolvable and should lead to the signing of a treaty.

-- Vice Premier Deng Xiaoping of the PRC will visit the U.S. on January 29th. He will visit three American cities after concluding talks in Washington with the President and other members of the Administration. It is the U.S. position that normalization of relations with the PRC will contribute to the long-term stabilization of the Western Pacific region.

Continued commercial and cultural relations with Taiwan will be maintained at the non-governmental level through a new entity to be incorporated in the District of Columbia today.

-- The President offered several comments and observations on his decision to normalize relations with the PRC and his expectation of the benefits that will accrue to the U.S. and to the prospects for peace in the Western Pacific as a result.

-- The President also commented on the status of the SALT II negotiations with the Soviet Union and the overall status of U.S.-Soviet relations.

-- The President noted the importance of the debate in the U.N. Security Council on the Vietnamese invasion of Cambodia.

-- The President stated his commitment to the fulfillment of the accords reached between Egypt and Israel at Camp David. If necessary, he is prepared to become personally involved in working out the final agreement, but only after outstanding legal and other issues have been negotiated at lower levels.

-- Secretary Vance noted that the recently announced renewal of the U.S. lease with the Philippines for continued use of a naval base has been very reassuring to our allies in the Pacific.

-- Secretary Brown commented on the importance of U.S. support for other pro-Western nations in the Middle-East which are concerned by developments in Iran. The recently announced visit of a squadron of Air Force F-15s to Saudi Arabia has been understood as a gesture of such support.

-- The Secretary also noted the importance of the SALT II treaty and said that the draft treaty which is almost complete is very good for the U.S.

-- Dr. Brzezinski commented that developments in Iran were the product of larger social, political and economic forces over which the U.S. could exert relatively little control. He noted that there were a number of trouble spots around the world in which similar forces were at work. Nonetheless, Dr. Brzezinski noted that the overall context in which American foreign policy is operating is favorable. For the first time in history, the United States is enjoying good relations with the three major Asian powers (China, Japan and India).

15. Since the Vice President's meeting on Capitol Hill prevented his return to the Cabinet meeting, the President asked Jack Watson to report on the proposals concerning a priority legislative agenda for the year.

-- Mr. Watson outlined the recommendations of the Executive Committee chaired by the Vice President regarding a priority legislative agenda for the year, with the associated commitments of Presidential, Vice Presidential and Cabinet time. The Cabinet was asked to review the document and to submit their further comments and proposed changes to the Vice President by close of business, Wednesday.

The President adjourned the meeting at 11:00 a.m.

Respectfully submitted,

Jack Watson

Jack H. Watson, Jr.

THE WHITE HOUSE
WASHINGTON

1/15/79

FOR THE RECORD:

JIM MCINTYRE WAS GIVEN A COPY OF THE ATTACHED TODAY.

IMMEDIATE ACTION REQUESTED

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Jim
good
See p. 6
p 8
p 9
J

JAN 12 1979

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: Jim McIntyre Jim

SUBJECT: Budget Message

Attached for your review is a printer's proof of your budget message to the Congress. It will constitute the opening section of the 1980 Budget and the Budget in Brief.

The version I am sending you reflects review of, and comments from, Treasury, CEA, and senior White House staff, including speechwriters.

To adhere to our printing schedule, I would appreciate your approval or revisions Monday, January 15.

With your permission, we may make some marginal changes in the draft after your review.

Attachment

The President

JAN 12 1979

PART 1

THE BUDGET MESSAGE OF THE PRESIDENT

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JAN 12 1979

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

This budget for fiscal year 1980 is the most restrained Federal budget in many years. It recommends a spending level well below that suggested by the recent momentum of Federal spending. It meets my commitment to a deficit of $30 billion or less.

This policy of restraint is not a casual one. It is an imperative if we are to overcome the threat of accelerating inflation.

If that threat is realized—if we *permit* it to happen—it would severely disrupt our economy and the well-being of our society. Americans with low and fixed incomes would suffer the most. Restraint would eventually become an inescapable necessity. But the longer we wait, the more severe and costly the inevitable restraint will be. By contrast, this budget supports a balanced fiscal policy. It is sufficiently restrained to ease inflationary pressures, but it will permit continued economic growth.

The Federal Government cannot overcome inflation by itself. Success will require cooperation from business, from labor, from consumers, from State and local governments—in short, from everyone. I have called for that cooperation as part of my anti-inflation program. The Federal Government must secure this cooperation through its leadership and its example. This budget provides that leadership. It restrains Government's demand on the economy. At the same time, it makes the Federal dollar work harder and better.

The key to effective Federal leadership against inflation, unemployment, and poverty lies in more effective allocation and management of available resources. We must reduce the growth of total Federal spending while protecting the security of our Nation and the well-being of the American people.

This budget provides the necessary discipline over Federal spending by:

—eliminating programs that are unworkable;

—improving programs to make them more effective;

—focusing assistance on the disadvantaged and the poor; and

—reorganizing and consolidating Federal activities to improve efficiency and avoid waste, abuse, or mismanagement.

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THE BUDGET TOTALS

[In billions of dollars]

	1978 actual	1979 estimate	1980 estimate	1981 estimate	1982 estimate
Budget receipts	....	....	....	....	....
Budget outlays	....	....	....	....	....
Surplus or deficit (−)	....	....	....	....	....
Budget authority	....	....	....	....	....

My budget provides for total outlays in 1980 of $——— billion, an increase of $——— billion, or ———%, over 1979, and receipts of $——— billion. For 1981 and 1982, it provides for total outlays of $——— billion and $——— billion, respectively. Budget outlays will decrease as a share of the Nation's gross national product from 22.0% in 1978 to ———% in 1980 and ———% in 1982.

This is a lean and austere budget—one that may disappoint those who seek expanded Federal efforts across the board, even in times of austerity. It is my firm intention to continue these policies in future years, and to reduce the size of the deficit, reaching a balanced budget as soon as economic conditions permit.

The need for overall budget stringency must override specific demands upon the Federal Treasury. My budget recommendations reflect the necessity of placing the public interest in controlling inflation above the interest of any particular group, while being sensitive to the disadvantaged and the powerless. Even initiatives of high priority to my administration have been deferred.

This necessary slower rate of growth of Federal spending also represents an opportunity to reassess and build strong foundations for future Government activity; an opportunity to change the Government for the better.

The expenditures I recommend are specifically focused on overcoming our Nation's crucial problems. Through rigorous zero-base analyses, priorities have been established to help us get the best Government possible for the resources we can afford. Careful attention to efficiency and productivity will enable Federal managers to achieve our most important priorities with less money and fewer people.

The spending restraint in this budget means that in some areas the Government will simply not be able to do as much as it has in the past. Inevitably, real sacrifices must be made if we are to overcome inflation. In formulating this budget, I have made every effort to spread that burden fairly and objectively. Moreover, restraint has not been applied arbitrarily.

There are areas where we cannot make major reductions. I have sought to reconcile the need for extraordinary restraint in government spending with the need to maintain a strong defense; to implement a national energy policy; to assist people in need; and to continue important public services and investments.

First, as President, it is my central responsibility to ensure that our defense forces are strong enough to deter aggression. This budget does that.

In May of 1977 I met with our NATO allies and urged that we work together to strengthen our common defense. They are meeting the goal that we agreed upon. We must and will do our share.

In total, the 1980 defense budget provides for growth in outlays in real terms of 3% above the current year's spending. Most of this increase will be for strengthening our NATO forces and maintaining the strategic balance. The budget continues my policy of steady modernization of our strategic forces, and improved combat readiness of our tactical forces. It also emphasizes research and development to meet future challenges to our security. At the same time, however, it restrains defense costs by introducing important economies in purchasing, supply management, and personnel costs and numbers.

Second, the 1980 budget recognizes the vital importance of energy to the Nation. Because of our dependence on foreign oil, we continue to be in danger of having supplies disrupted as they were 5 years ago. It is essential that we continue to move forward with an effective national energy program that will decrease our demand for foreign oil and protect against disruption of foreign oil supplies.

The 1980 budget provides for the continued buildup of the strategic petroleum reserve. It continues to assist in the development of technologies to tap our domestic energy resources more effectively. I have given special emphasis to developing advanced solar power technologies. The budget proposals give increased attention to more efficient use of uranium, to nuclear proliferation and environmental problems, and to effective measures to deal with nuclear waste.

Third, even when budget restraint is essential, we will continue as a compassionate society to meet our committments to the disadvantaged. Therefore, I have ensured that my budget includeS adequate funds for programs that help those Americans most truly in need. To make these funds as effective as possible, the budget includes recommendations for adjustments in direct payment programs, better targeting of existing programs, and improved management so that funds are not wasted but go to the people for whom they were intended.

My administration is developing a national health plan. Consistent with the development of that plan, the budget emphasizes programs to address critical health needs. As ~~part of the first phase of~~ early steps toward this plan, my proposals extend health services to 2 million more low-income children and pregnant women who cannot afford health care that they need, and bring new health care resources to people who live in medically-underserved areas. The budget includes new and expanded programs to reduce activities that cause ill health, such as drug and alcohol abuse, as well as to protect individuals and communities from pollution and other toxic substances; increased funding for mental health research; and expanded health-related services such as nutrition programs for low-income mothers and children.

As part of this health plan, I am again proposing legislation to contain the exorbitant nationwide rise in hospital costs. The

320% ~~110%~~ rise in these costs in the past 10 years has been a major inflationary force and an unacceptable drain on family incomes. The Congress *must* act on this problem.

Curbs on hospital costs will benefit State and local budgets—and those of private citizens—as well as the Federal budget. They will strike directly at inflation in a sector where price increases have been chronically high.

The budget recommends a number of changes in the social security system to streamline it and eliminate unnecessary benefit payments. They will reduce the future costs of this largest of all Federal programs—and, ultimately, hold down the taxes imposed on workers and employers.

In the past 2 years, total employment in the U.S. has increased at an average rate of 4.1% per year, one of the most rapid expansions in our history. The proportion of our civilian population employed is higher, at almost 60%, than it has ever been before. But despite these gains, unemployment, particularly among the disadvantaged and minorities, remains too high.

Continued high structural unemployment in an inflationary economy requires a redirection of our efforts. Programs targeted to employ the truly disadvantaged should remain funded at the levels established at the beginning of my administration. More general employment programs, not directed specifically to those most in need, must be reduced to reflect improvements in the economy and our need to establish priorities. Our youth employment and CETA programs reflect my continued high commitment to fight unemployment of the needy. The employment tax credit enacted last year is encouraging the private sector to provide increased employment opportunities primarily for disadvantaged youth. This incentive will be reinforced by a private sector employment initiative, for which I am requesting a $400 million supplemental appropriation for 1979.

Meaning unclear - in 1977 c
Peff over from Ford

This budget also strongly supports economic development programs, and again proposes a National Development Bank to help fund these efforts. The budget provides for a 36% increase in ~~for~~ assistance to minority business enterprises.

Fourth, I believe that the Federal Government must lead the way in investing in the Nation's future. This budget, therefore, continues my policy of providing real growth in Federal support of basic research. This support amounts to a relatively small part of the total budget—$4.6 billion in 1980—but it is vital to the future of our Nation. The knowledge created through basic research holds the potential for breakthroughs to the solution of problems we face or may face in such critical areas as agriculture, health, environment, energy, defense, and the overall productivity of our economy. Higher productivity gains in the future, moreover, will make an important contribution to reducing inflation.

* * * * *

Meeting the essential needs of the Nation, while restraining growth in overall spending, makes efficient management not just desirable, but essential.

In 1977 I proposed—and the Congress approved—a Cabinet-level Department of Energy, a streamlined Executive Office of the President, and a consolidation of our international information activities.

In 1978 I proposed—and the Congress approved—reorganizations of the Federal civil service system, emergency preparedness and disaster relief programs, and the pension plan insurance system in order to make them more responsive and effective.

Shall we refer to natural resources here?

In 1979 I will resubmit my proposal to establish a Department of Education and propose further reorganization and consolidation [in economic development assistance, natural resources management, and surface transportation.]

For the second year, my budget reflects detailed, Governmentwide, zero-base budgeting. Agency programs were explicitly ranked by priority, and programs were ranked across agencies, in a new interagency, zero-base budgeting process.

For the first time, the budget reflects the 3-year budget planning system I have instituted to gain better control of the longer-range effects and direction of Government policies.

In this budget I am proposing a new system to control the growth of Federal credit activities, particularly federally-guaranteed credit.

Other important steps will be taken to improve the way the Government operates and the way it affects the private sector. To increase the efficiency of the private sector, the administration will eliminate unnecessary regulation where possible, and will minimize the redtape involved in necessary environmental and safety regulation. Further efforts will be made to reduce excessive paper (hyphen

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work. State and local governments, private institutions, and citizens will benefit from simplified conditions for receiving Federal assistance. In particular, a number of programs have been consolidated to simplify the grant system, and more will be proposed in the future. The Government's own management will be improved through more effective cash management, application of the Civil Service Reform Act, and use of new offices of Inspectors General to identify waste and search out fraud and corruption.

* * * * *

Preparing this budget reminds me once more of the overwhelming demands upon the Federal budget and of the limits on our resources.

I believe that we must firmly limit what the Government taxes and spends. We must balance public and private needs. We must set priorities more carefully. We must change some old priorities and establish new ones. If we are to meet today's most critical needs adequately, We must defer of some demands.

These principles have guided my actions in shaping this budget and they will continue to do so in the future:

—the budget must be kept within the bounds of what is appropriate in today's economic circumstances;

—the Government has no resources of its own; the only resources it can use are those it collects from the taxpayer;

—Government action must be limited to those areas where its intervention is more likely to solve problems than to compound them; and

—we have an obligation to manage with excellence and to maintain proper priorities within the $532 billion proposed in this budget.

I know that the Congress shares these beliefs. ~~It~~ You, as well as the executive branch, ~~is~~ are sensitive to the American people's concerns about the scope of government, the burdens of taxes, the needs of our citizens, and the efficiency of public management. Indeed, the Congress in the last few years has taken important steps—in particular, through the establishment of the congressional budget process—to improve its own means of establishing priorities. I have worked closely with the Congress, and will continue in this spirit of cooperation.

I look forward to working with the Congress and its leadership on this budget.

The decisions I have made are difficult ones. They involve—not figures on a balance sheet—but the lives and future of the American people. I have chosen restraint in government spending because inflation must be controlled. I have tried to be equitable in ordering priorities. Yet I have continued to support those programs

3/l.c.

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THE WHITE HOUSE

WASHINGTON

12 January 1979

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MEMORANDUM FOR THE PRESIDENT

FROM: RICK HUTCHESON Rick

SUBJECT: Status of Presidential Requests (Complete Listing)

WATSON:

1. (11/17) (and Kraft) Review the memo concerning the manner in which the 1980 Census is being approached and then see Secretary Kreps; the President is concerned -- Done. done

SECRETARY BROWN:

not JCS

1. (12/14) When will the President receive the DoD-JC's positions on SALT III and MBFR? -- Done. ~~done~~

RAFSHOON:

1. (12/11) Please see the President concerning Mrs. Mondale's request for a Presidential Medal for Art -- In Progress, (to be scheduled after the State of Union address).

SECRETARY CALIFANO:

1. (5/20) After you assess Admiral Rickover's speech, "Why School Boards," make an appointment to discuss it with the President; search for solutions, not obstacles -- In Progress, (Califano is ready to discuss this with you whenever it can be scheduled).

2. (10/31) Give the President another progress report on status of Hispanic employees in HEW on 1/1/79 -- Done, (will have another update in April). done

3. (12/11) If possible, the President would like for Charlotte Wilen to serve on the select panel on child health; she did an outstanding job in Georgia -- Done, (in 12/15 weekly report, Califano said he would appoint her). done

JORDAN:

(10/26) The suggestion by Bert Lance that Luther Hodges, Jr. be considered to fill Jackson's seat on the Federal Reserve is a good one -- Message Conveyed, (recommendations expected by 1/26). Done

MCINTYRE:

1. (10/31) The President wants you, Kraft, GAO and private auditing firms to help the President assess the 12 candidates for Inspectors General -- In Progress, (remainder expected 1/19). Done

EIZENSTAT:

1. (12/2) (and McIntyre) Prepare a brief reply to the National Governors Association recommending 1) the elimination of ongoing attempts to bypass state governments in implementation of domestic programs; and 2) intensifying goals to streamline federal aid systems -- In Progress, (expected 1/16).

KRAFT:

1. (10/3) (and Gammill) Put Lang Sheffield on some good commission -- In Progress, (although there are still no recommendations yet).

2. (10/22) (and Brzezinski) Javits wants his wife on an arts council; the President would like to do it -- Responded in 11/11 memo. (11/11) Look for something other than the National Council on the Arts for Mrs. Javits -- In Progress, (with no specific recommendations at this time).

3. (10/31) Check with Jim Free on Director, TVA; search as though a Cabinet member. (12/22) Hamilton, check on the Kraft/Miller recommendations of Ed Jones, Lucius Burch and Ned Breathitt for TVA -- In Progress, (Kraft, Free and Miller are trying to schedule meeting with you for week of 1/15).

4. (2/9) (and Army Secretary Alexander) Recommend several nominees for Assistant Secretary of the Army for Civil Works -- Done, (Blumenfeld nomination still awaiting conflict of interest clearance, expected 1/17).

THE WHITE HOUSE
WASHINGTON

1/15/79

Hugh Carter
Bob Lipshutz

The attached was returned in the President's outbox and is forwarded to you for appropriate handling.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON 1/12/79

Mr. President:

John Simpson has asked that I verify that you want continued protection for James now that he is in Atlanta. They recommend that it be continued but want to make sure before they assign agents to the detail.

✓ continue protection

___ other

J

Phil