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memo w/att	~~Lloyd Cutler to the President. Re: Corn embargo. (4 pp.)~~ opened per RAC NLC-126-20-6-1-2 12/11/13	1/10/80	A

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THE WHITE HOUSE

WASHINGTON

1/11/80

FOR THE RECORD

Charlie Schultze received a copy of the attached.

Good

J

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 10, 1980

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

Subject: Employment and Unemployment in December

Tomorrow (Friday, January 11) at 9:00 a.m., the Bureau of Labor Statistics will release the December figures on employment and unemployment. December was another month of strong labor demand.

Total employment (as measured in the household survey) rose 266,000, and the increase for nonfarm workers was 330,000. The civilian labor force increased somewhat more than total employment, however, so the unemployment rate inched up to 5.9 percent -- from 5.8 percent in November. For blacks, the unemployment rate rose from 10.8 percent in November to 11.3 percent last month, but monthly changes of that magnitude in the black unemployment rate are not unusual.

Payroll employment at all nonfarm establishments also rose by over 300,000 in December, a strong increase. The manufacturing sector recorded a surprising gain of about 100,000, and employment rose also in construction. Aggregate hours worked, moreover, increased 1.2 percent in manufacturing and 0.5 percent for all nonfarm businesses.

Since the survey week was early in the month, when some auto workers had been recalled to their jobs temporarily, these data do not fully reflect the effects of announced layoffs in the auto industry and their effects on employment in steel. Even allowing for that fact, the data show substantial strength in labor demand last month; they do not remotely resemble what would have occurred had the economy begun heading into recession late last year.

The figures released tomorrow will include revised data for the unemployment rate based on updated seasonal adjustment factors. The pattern for 1979 is not altered much; interestingly, however, the months that previously recorded 6 percent unemployment (August and November) were revised down to 5.9 percent. The unemployment rate all of last year, therefore, ranged between 5.7 and 5.9 percent.

THE WHITE HOUSE
WASHINGTON

11 Jan 80

Jim McIntyre
Jack Watson

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

Rick Hutcheson

cc: Stu Eizenstat

To Jim, Jack
I still don't like it. We had weeks before the legislation passed to prepare the mailing list
J

THE WHITE HOUSE

WASHINGTON

January 11, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON Jack

SUBJECT: Your Inquiry regarding HEW Checks to SSI Recipients for Energy Costs

This is in response to your telephone call to me Wednesday evening about the captioned subject.

The problem of sending checks to some recipients who do not face direct cost increases for heating bills was considered in the policy discussions between DPS and HEW. HEW also testified specifically on the subject before the relevant Congressional Committees.

An explicit decision was made to trade-off the "error" rate problems against the pressing need to get the checks out as quickly as possible for this winter. Checks were actually mailed to 4.2 million recipients of SSI within 42 days of your signing the legislation.

Attached is a press release which was issued yesterday afternoon by the head of Social Security explaining the Administration's (and Congress') position on the problem.

The problem will not reoccur next year since there will now be time to refine the system and to separate out those who will bear direct increases in heating costs. Jim McIntyre and I discussed the matter this morning, and Jim is getting his people together with appropriate HEW staff to begin working out the necessary refinements to the program for next year.

cc: James McIntyre

HEW NEWS

#556

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Social Security Administration
Jim Brown - (202) 472-3060
Home - (301) 498-2148

Statement by

William J. Driver, Commissioner of Social Security

on Special Energy Assistance Checks

to SSI Recipients

While all Americans are feeling the effects of the rising cost of energy, the poor are particularly hard hit.

This week, we sent out $400 million to help ease this burden on 4.2 million recipients of Supplemental Security Income -- a program which aids needy aged, blind and disabled persons. That money will go a long way toward seeing that the most vulnerable among us will not be made the victims of forces beyond their control.

It is true that some of these recipients do not pay energy costs directly. But without doubt, most pay -- one way or another. The high cost of energy is having an insidious and uncontrollable impact on the cost of living for millions:

- o People on fixed incomes who live in apartments and face exhorbitant rent hikes because of the cost of energy.
- o Old people living in foster homes where their dollars for food and even modest luxuries are consumed by rising energy costs.
- o People living in boarding houses who are eating less because energy costs more. And they can't do a thing about it.

(More)

Rather than create a bureaucratic nightmare to handle the complexity of tailoring assistance to persons in various living conditions, Congress, after consulting with the Social Security Administration, decided to assist all SSI recipients who received SSI checks in December -- except those who live in institutions where Medicaid pays the majority of their living expenses.

The law was signed by the President in November. The checks were sent out 42 days later in early January. We knew that the program could not be tuned to perfection if it were to aid people in need this winter. But we firmly believe that it is the best means we have as a nation to aid the largest number of people in the shortest time possible.

We are confident that the vast proportion of these funds will be used by poor and needy persons to offset the rising cost of energy. The money is not being wasted.

# # #

ID 800286 THE WHITE HOUSE

WASHINGTON

DATE: 11 JAN 80

FOR ACTION:

INFO ONLY: STU EIZENSTAT

SUBJECT: WATSON MEMO RE YOUR INQUIRY CONCENRING NEW CHECKS TO SSI RECIPIENTS FOR ENERGY COSTS

++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: +

++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE LONG-RANGE BUDGET OUTLOOK
(in billions of dollars)

	1979	1980	1981	1982	1983	1984	1985
Current Administration Policy:							
Receipts	466	524	600	691	799	920	1061
Outlays	494	564	616	686	773	839	903
Surplus or deficit (-)	-28	-40	-16	+5	+26	+82	+158
Alternative Tax Reduction Presentations:							
I. Tax reductions beginning in FY1982, reaching receipts target of 21% of GNP in 1985.							
Tax reduction	---	---	---	-17	-37	-78	-140
Surplus or deficit (-)	-28	-40	-16	-12	-11	+4	+18
II. Discussion of long-range tax policy without explicit presentation of numbers							

ADDENDUM: The Budget as a Share of GNP

	1979	1980	1981	1982	1983	1984	1985
Current Administration Policy:							
Receipts	20.1	20.8	21.7	22.2	22.7	23.3	24.2
Outlays	21.3	22.4	22.3	22.1	22.0	21.3	20.6
Receipts Under Alternative I Tax Reductions	20.1	20.8	21.7	21.7	21.7	21.4	21.0

January 9, 1980

12

January 8, 1980

1980 Outlays
Change from Last Public Estimate

(In billions)

Last public estimate	547.1
Major uncontrollable programs (economic assumptions and other reestimates):	
Interest on the debt	5.7
Farm price supports including $20B export purchase program	2.1
Medicare and medicaid	1.3
Social security funds	1.1
Unemployment trust funds	1.3
Military credit sales	1.2
Food stamp and other food programs	.8
All other major uncontrollable programs	-.6
Total uncontrollable programs	12.9
Other major changes:	
Farmers Home Administration Asset Sales	1.6
GNMA Asset Sales	.7
SBA Disaster & others (loan increases)	.5
All other	1.2
Total changes	16.9
Current estimate	564.0

January 9, 1980

Changes in Outlay Estimates
1980 to 1981

Current 1980 estimate		563.6
Defense		15.3
Uncontrollables (open-ended programs and fixed costs):		
Social security program	19.1	
Medicare and Medicaid	6.2	
Interest (net)	3.0	
Subsidized housing	1.2	
Civil service retirement	2.4	
SSI and public assistance	1.1	
Food stamps and other nutrition	1.2	
Unemployment assistance	3.2	
Farm price support (including grain export control)	-1.1	
All other uncontrollables	-2.1	
Total uncontrollables		34.2
Energy: Department	1.0	
Energy Security Trust Fund	1.8	
Total Energy		2.8
Contingencies and welfare reform		1.4
Civilian pay raises		1.1
All other		-2.6
Current 1981 estimate		615.8

WHERE ARE THE OUTYEAR INCREASES?

(Outlays in billions)

	1981 to 1982	1982 to 1983
Defense	18.9	20.1
Major uncontrollable programs:		
Social security	17.5	17.8
Medicare and medicaid	7.4	8.4
All other major uncontrollables	7.3	8.0
Total, major uncontrollables	32.2	34.2
Major initiatives:		
National health insurance	--	24.1
Welfare reform and other contingencies	5.0	.7
Energy security program	1.6	2.0
Youth initiatives	.7	.6
Total, major initiatives	7.3	27.4
Remaining changes:		
Farmers Home Administration Result of larger Asset Sales in '81	3.7	.2
Other energy programs SRRO #1.9B	2.6	.9
Department of Education	1.8	1.5
Employment and training (CETA, etc.)	.6	.4
Railroad and mass transit	.6	.5
Highway trust funds	.5	.3
All other	2.1	2.8
Total, remaining changes	11.9	6.6
Total change	70.3	88.3

January 8, 1980

January 10, 1980

II. DISCUSSION OF LONG-RANGE TAX POLICY WITHOUT EXPLICIT PRESENTATION OF NUMBERS

The budget outlook.--The following table summarizes the budget outlook from 1980 to 1985 based on current law and proposals in this budget. Receipts are assumed to increase at an average of 15.3% per year from 1981 to 1985, and rise from $600 billion to $1,061 billion. Over the same period, outlays are projected to rise by an average of 10.0% a year, from $616 billion to $903 billion. Thus, under these assumptions, the budget would move into approximate balance in 1982 and into significant surplus in 1983, with somewhat larger surpluses (or budget margins) in subsequent years.

It should be emphasized that these budget margins projected after 1982 do not imply that budget surpluses of such magnitude will in fact occur in those years. These projected surpluses simply indicate that resources would be available to accommodate future discretionary fiscal and budgetary policy decisions -- further tax reductions, new or expanded programs, or debt reduction.

For purposes of long range planning, it would be unrealistic to assume that Federal receipts will be permitted to rise continually as a percentage of GNP with the attendant effects on individual tax burdens. In fact, frequent tax reductions were enacted in the 1970's to prevent such increases in tax burdens. For instance, in the absence of any tax reductions, Federal receipts will rise to about 22.7% of GNP by 1983 and 24.2% by 1985, implying an increase in individual tax burdens, measured by individual income taxes and employee contributions to social security taxes as a share of modified personal income, to 16.5% in 1983 and 18.2% in 1985. These unacceptably high tax burdens would be far above the 12% to 14% ratios observed during the past decade. In addition, tax reductions may be required as an incentive to business investment and innovation to raise productivity growth and reduce inflation.

For this reason the projections of significant surpluses in 1983-1985 under an assumed continuation of current tax policy do not imply that resources of such magnitude will be available for additional spending. Indeed, holding future tax burdens to levels roughly consistent with recent experience will require even more stringent control over budget outlays to maintain budgetary balance in those years. The timing and structure of such reductions will depend upon economic considerations, especially upon progress in reducing inflation and the appropriate level of public sector savings, as discussed in the President's Economic Report.

THE WHITE HOUSE
WASHINGTON

11 Jan 80

Lloyd Cutler
Stu Eizenstat

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

Rick Hutcheson/mb

~~SECRET~~ SENSITIVE

~~SECRET-SENSI~~TIVE

cc Lloyd - Good memo. Share with Stu

C

THE WHITE HOUSE

WASHINGTON

January 10, 1980

MEMORANDUM FOR THE PRESIDENT

FROM LLOYD CUTLER LNC

SUBJECT: The Corn Embargo

I write to raise a matter of grave concern.

Your decision to impose the grain embargo is a bold response to the Soviet invasion of Afghanistan - a response that is appropriate to the gravest threat to peace since World War II. But its boldness has not yet been matched by equal boldness in the program your advisers have framed to offset the impact of the embargo on the farmers.

As a result, wheat, corn and soybean prices are plunging, and there is widespread concern in the farm belt. Almost all of your political rivals have placed expediency above principle, and have publicly criticized your action. All this has weakened the national unity essential to convince the Soviets we mean business, and encouraged them to believe we are badly divided on giving up the trade profits of detente.

The proof of our pudding of offset remedies is in the eating. If the grain markets stay below last week's levels, our remedies have failed. If the grain markets stay level or rise in accordance with pre-embargo expectations, our remedies have succeeded.

What is needed is bold action equal to the boldness of the embargo itself. This is not a time for fine-tuning. If a choice has to be made between overdoing and underdoing, the case for overdoing is overwhelming. The budget impact of what we do is much less relevant than the market impact.

To maintain pre-embargo market prices, we must convince grain farmers and dealers that the embargoed grain already sold to the Soviets will never return to the non-Soviet market as it existed a week ago, and that future demand for grain will be at least as good as grain farmers and dealers believed a week ago.

There is a way to accomplish these objectives. So far we have been babying up to it, instead of grasping the nettle all at once. That way is for you to announce that a quantity equal to the grain we have agreed to buy will be placed in a reserve that will never be resold on the conventional market, that the wheat (and perhaps the soybeans) will go into the grant side of the PL 480 program, and that the corn will go into a reserve for the production of alcohol. At the same time, you should announce that the initial gasohol program (which can use the equivalent of 3 to 4 million tons of corn annually) is only the beginning, and that you propose to expand it as rapidly as more alcohol distilling plants can be built.

The potential is enormous - if we require that all unleaded gasoline contain 10% alcohol as fast as the capacity comes onstream, this would consume the equivalent of 40 million tons of corn per year. That is more than farmers could ever hope to sell to the Soviet Union. When and if corn becomes in short supply, the technology exists to use wood chips, sugar beets and other raw materials.

I recognize that some of your farm experts, energy experts, budget experts and inflation experts are against moving this fast. Perhaps there are many unknowns and imponderables in such a visionary program. But you are President because you are capable of being visionary and setting goals that the experts regard as too visionary. FDR's goal of 50,000 warplanes a year was too visionary for his experts, but because he set it in 1941 before Pearl Harbor, we reached 100,000 a year by 1944.

Let me close with a story about Lloyd George, for whom I was named. When he was Minister of Munitions in 1915, the British General Staff wanted him to produce a new-fangled weapon called the machine gun. They wanted enough to supply four guns per battalion. Lloyd George believed in the new gun more than the generals did. He decided on his own to quadruple their request. Within a year, the generals wanted every gun he could produce.

If we do face the gravest threat since World War II (and I agree we do), we will soon need all the alcohol we can produce to replace the oil we may lose. And right now, we need all the national unity you can produce. The way to produce it is to be as bold in offsetting the impact of the grain embargo as you were in imposing it last Friday.

Chris Matthews
Draft A-1 1/7/80
Scheduled Delivery:
Friday, Jan. 11, 1:15 P.M.

Talking Points

State-Local Regulatory Reform Conference

1. GOVERNOR BABBITT, ATTORNEY GENERAL BROWNING (W.Va.); FRANK BORMAN; DAVID COHEN; VONDAL GRAVLEE (Pres., Nat. Assoc. of Homebuilders). FRANK FRAN-KOY [This list will be confirmed or corrected no later than 9:15 am on Friday, Jan. 11, by Missy Mandell x7062]

2. I WANT TO THANK YOU ALL FOR COMING HERE TODAY AND FOR SHARING YOUR IDEAS WITH US. REGULATORY REFORM IS CATCHING ON AROUND THE COUNTRY; WE CAN ALL LEARN FROM EACH OTHER.

INFLATION
OPEC [illegible]
[illegible]

3. TODAY'S INFLATION RESULTS FROM SOME FACTORS OUTSIDE OUR IMMEDIATE CONTROL -- OPEC FOR EXAMPLE. EXCESSIVE REGULATION IS A DIFFERENT STORY. GOVERNMENT MAKES REGULATIONS. IT CAN REMAKE -- OR UN-MAKE -- THEM.

[illegible]

4. OUR APPROACH TO REFORM IS TWO-FOLD -- GET RID OF REGULATIONS THAT WE DO NOT NEED; DO A BETTER JOB OF MANAGING THE ONES WE DO.

[illegible]

¶ WHERE ECONOMIC DECISIONS CAN BETTER BE MADE BY THE MARKET, DEREGULATION IS THE ANSWER. WE DEREGULATED AIRLINES, SAVING CONSUMERS $2.5 BILLION THE FIRST YEAR. WE ARE ASKING THE CONGRESS TO REDUCE REGULATION OF RAILROADS, TRUCKING, COMMUNICATIONS, BANKING.

¶ BUT MARKET FORCES DO NOT ALWAYS OPERATE IN THE PUBLIC INTEREST -- IN SCREENING DANGEROUS CHEMICALS, FOR EXAMPLE. HERE WE ARE TRYING TO IMPROVE OUR REGULATING.

-- IN 1978, I ISSUED AN EXECUTIVE ORDER DIRECTING ALL FEDERAL AGENCIES TO ADOPT MORE EFFECTIVE, MORE OPEN, RULEMAKING. WHERE FEASIBLE, I DIRECTED THEM TO PURSUE LESS COSTLY REGULATORY ALTERNATIVES. EXAMPLES: EPA'S "BUBBLE" APPROCH TO AIR POLLUTION CONTROL; OSHA'S EXEMPTION OF 40,000 LOW-RISK BUSINESSES.

-- THAT SAME EXECUTIVE ORDER ALSO OPENED UP NEW OPPORTUNITIES FOR STATES AND LOCALITIES TO PARTICIPATE IN FEDERAL RULEMAKING.

-- LAST YEAR WE ALSO INITIATED A NEW WAY TO COORDINATE RULEMAKING GOVERNMENT-WIDE. THE NEW <u>REGULATORY CALENDAR</u> GIVES PEOPLE A PERIODIC OVERVIEW OF WHAT NEW REGULATIONS ARE PENDING.

-- WE HAVE CUT PAPERWORK BURDENS BY 15 PERCENT.

6. THERE ARE MANY GOOD REFORM EFFORTS GOING ON AT THE STATE AND LOCAL LEVEL. ARIZONA -- IN THE AREA OF MOTOR CARRIER DEREGULATION -- AND WEST VIRGINIA -- BY INVOLVING CONSUMERS IN HEALTH COST REGULATION -- APPEAR TO BE SHOWING THE WAY.

7. I APPRECIATE YOUR COMING TODAY. I ASK FOR YOUR CONTINUED HELP IN THE FIGHT AGAINST INFLATION. REGULATORY REFORM -- AT ALL LEVELS OF GOVERNMENT -- IS AN IMPORTANT, NECESSARY PART OF THAT LONG-TERM FIGHT. WE CAN ALL HELP EACH OTHER. WE CAN BE PARTNERS IN REFORM.

# # #

1:15 P.M.

THE WHITE HOUSE

WASHINGTON

January 10, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: ALFRED E. KAHN Fred

SUBJECT: Drop-by at the White House Conference on State and Local Regulatory Reform

Friday, January 11, 1980
Room 450, EOB
1:15-1:30 p.m.

I. PURPOSE

To focus attention on the need for regulatory reform at the state and local level -- in hopes of initiating, re-enforcing and/or revitalizing regulatory efforts. To highlight your accomplishments in the field of regulatory reform at the federal level and to use these accomplishments as examples of what can be done by state and local governments. To reiterate your commitment to reform and to stress the importance of the Federal/State/Local partnership in this effort.

II. BACKGROUND, PARTICIPANTS AND PRESS

A. BACKGROUND

Regulatory reform is an important and integral part of your anti-inflation program. While much has been done on this front at the federal level, there is a paucity of action at the state and local level.

This conference has been put together with the cooperation of federal agencies, public interest groups, the business community, consumers and state and local officials.

B. AGENDA

9:30-10:30	Remarks by Alfred Kahn and Douglas Costle (Federal Accomplishments)
10:45-11:30	Panel chaired by Lloyd Cutler (Why Should State and Local Governments be Interested in Regulatory Reform?)
11:30-12:00	Speech by Governor Bruce Babbitt
12:00-1:00	Lunch
1:15-1:30	Remarks by THE PRESIDENT
1:30-2:45	Panel chaired by Attorney General Chauncey Browning (Regulatory Process and Procedures)
2:45-4:15	Concurrent Workshops
4:30-5:15	White House Reception

A complete agenda is attached.

C. PARTICIPANTS

Approximately 250 people are registered. They include 30 local government officials, 85 state government officials, 30 representatives from the business community, consumers, labor, public interest groups and congressional aides. A partial list is attached.

D. PRESS

White House press corps and interested local press will be in attendance.

Attached is an article from the *Washington Star*, which was picked up by the Atlanta papers.

III. TALKING POINTS

You have received talking points from the speechwriters.

Attached is a memo from EPA. Although we recommend that you do not take questions, these are issues you might like to review.

Attachments: Agenda
Participants List
Washington Star article
EPA Memo

WHITE HOUSE CONFERENCE
ON
STATE AND LOCAL REGULATORY REFORM

Agenda

9:30-10:30	Reasons for Regulatory Reform: Targets and Accomplishments at the Federal Level ALFRED E. KAHN - Advisor to the President on Inflation DOUGLAS COSTLE - Chairman, U.S. Regulatory Council; Administrator, Environmental Protection Agency	
10:30-10:45	Coffee Break	
10:45-11:30	Why Should State and Local Governments be Interested in Regulatory Reform? Moderator: LLOYD N. CUTLER - Counsel to the President Panelists: FRANK BORMAN - President, Eastern Airlines VONDAL S. GRAVLEE - President, National Association of Homebuilders DAVID COHEN - President, Common Cause	
11:30-12:00	Problems and Potential at the State Level THE HONORABLE BRUCE E. BABBITT Governor of Arizona	
12:00-1:00	Lunch - Treaty Room (room 474)	
1:15-1:30	Remarks by THE PRESIDENT	
1:30-2:45	Regulatory Process and Procedures Moderator: THE HONORABLE CHAUNCEY BROWNING Attorney General, West Virginia Panelists: REP. GERALD H. KOPEL, Colorado WILLIAM C. McCONKEY, Executive Director for Regulatory Reform, Alaska BARBARA B. GREGG, Director, Office of Consumer Affairs, Montgomery County, Maryland FRANCIS B. FRANCOIS, President, National Association of Counties	
2:45-4:15	Concurrent Workshops	
4:30-5:15	White House Reception	

CONCURRENT WORKSHOPS

FEDERAL/STATE/LOCAL WORKSHOPS - Treaty Room (room 474)

Moderator: WAYNE G. GRANQUIST, Associate Director for Management and Regulatory Policy Office of Management and Budget

Panelists: RALPH GROTELUESCHEN, Manager for Environmental Control, Deere & Co., Moline, Illinois

WILLIAM REILLY, Assistant Health Commissioner for Air Management Services, Department of Health, Philadelphia, Pennsylvania

J. LEONARD LEDBETTER, Director, Environmental Protection Division, Department of Natural Resources, Georgia

BARBARA D. BLUM, Deputy Administrator, Environmental Protection Agency

HOUSING WORKSHOP - Room 160

Moderator: ANTHONY S. FREEDMAN, Director, Office of Policy Planning and Program Development, Department of Housing and Urban Development

Panelists: HERMAN SMITH, Vice-President-Treasurer, National Association of Home Builders

LEE ANTHONY SYRACUSE, Chief Planner, Benicia, California

DONALD E. PRIEST, Research Division Director, Urban Land Institute

THOMAS ZUNIGA, Vice-President, National Housing Partnership

HEALTH CARE WORKSHOP - Room 450

Moderator: JOSEPH N. ONEK, Deputy Counsel to the President; former Associate Director (Health), Domestic Policy Staff

Panelists: WALTER McCLURE, Vice-President & Director, Health Policy Group, InterStudy, Minneapolis, Minnesota

HAROLD A. COHEN, Director, Health Services Cost Review Commission, Maryland

JACK K. SHELTON, Manager, Employee Insurance Department Ford Motor Co., Dearborn, Michigan

OCCUPATIONAL LICENSING WORKSHOP - Room 305

Moderator: DOUG ROEDERER, Special Assistant, Council of State Governments, Kentucky

Panelists: B. LAWRENCE THEIS, First Assistant Attorney General, Antitrust Section, Colorado

REP. TERRY MANN, Chairman, Interim Joint Committee on Business Organizations and Professions, Kentucky

PAUL JORDAN, Executive Director, Government Evaluation Commission, North Carolina

The White House Conference
on
State and Local Regulatory Reform

ALABAMA

T.D. "Ted" Little, Alabama State Senator, Auburn

ALASKA

William McConkey, Governor's Office, Anchorage

ARIZONA

Bruce Babbitt, Governor of Arizona, Phoenix
Dale Pontius, Executive Assistant to the Governor, Phoenix
Heinz R. Hink, Councilman, Scottsdale
Conrad Joyner, Pima County Supervisor, Tucson
Jonathan Rose, Professor of Law, Arizona State University, Tempe

ARKANSAS

Steve Clark, Arkansas Attorney General, Little Rock
W.H.L. Woodyard III, Insurance Department Commissioner, Little Rock

CALIFORNIA

David K. Hayward, Mayor, Redondo Beach
Lee Syracuse, City Planner, Benicia

COLORADO

Gerald Kopel, Colorado State Representative, Denver
Charles D. Bowling, Mayor, Fort Collins
Mike Bird, Vice Mayor, Colorado Springs
B. Lawrence Theis, First Assistant Attorney General, Denver
Gail Klapper, Executive Director, Department of Regulatory Agencies, Denver
Robert D. Farley, Executive Director, Denver Regional Council of Governments, Denver
Rosalie Schiff, Executive Director, Colorado Common Cause, Denver

CONNECTICUT

Sidney L. Gardner, Councilman, Hartford
Ralph A. DeSantis, Town Manager, Wethersfield
James J. Bockelman, President, Danbury Area Chamber of Commerce, Danbury
Richard C. Wigger, Vice President for State & Environmental Affairs, Champion International, Stamford

DELAWARE

Richard S. Gebelein, Delaware Attorney General, Wilmington
Nancy F. Olsen, Legislative Liaison, Governor's Office, Dover
Rebecca Riddle, State Issues Coordinator, Delaware Common Cause, Wilmington
Charles E. Welch, Vice President for External Affairs and General Counsel, E.I. du Pont de Nemours & Co., Wilmington

FLORIDA

Nancy Kelley Wittenberg, Secretary, Department of Professional Regulation, Tallahassee
Ida Cameron, Department of Professional Regulation, Tallahassee
Anthony L. Shoemaker, City Manager, Clearwater
Frank Borman, President, Eastern Airlines, Miami
Lee Chira, Orange County Commissioner, Orlando

GEORGIA

Arthur K. Bolton, Georgia Attorney General, Atlanta
Robert S. Bomar, Senior Assistant, Attorney General's Office, Atlanta
J. Leonard Ledbetter, Director, Environmental Protection Division, Department of Natural Resources, Atlanta
Sam Brownlee, County Manager, Fulton County, Atlanta
G. Curtis Branscome, City Manager, Decatur
E.B. Davis, Executive Vice President, Georgia Chamber of Commerce, Atlanta
Edward H. Johnson, Georgia State Senator, Atlanta

IDAHO

Steve Seward, Senior Assistant, Governor's Office, Boise
Daniel Emborg, Administrator, Division of Economic Affairs, Boise

ILLINOIS

Larry L. Rice, City Manager, Highland Park
Ralph Grotelueschen, Manager for Environmental Control, Deere & Co., Moline
L.B. Lea, Vice President & General Counsel, Standard Oil Co. (Indiana), Chicago
Charles Hayes, International Vice President, United Food & Commercial Workers International Union, AFL-CIO & CLC, Chicago
Duane Rohlfing, Corporate Director for Human Resources, Sundstrand Corporation, Rockford
Vivien Ravdin, Executive Director, Administrative Rules Commission, Office of the Governor, Chicago

INDIANA

John W. Walls, President, Indiana Chamber of Commerce, Indianapolis

IOWA

Charles E. Webb, Executive Vice President, Greater Des Moines Chamber of Commerce, Des Moines
Calvin O. Hultman, Majority Leader, Iowa State Senate, Red Oak

KANSAS

Steven Carr, Assistant Attorney General, Topeka

KENTUCKY

Terry Mann, Kentucky State Representative, Newport
Doug Roederer, Special Assistant, Council of State Governments, Lexington

LOUISIANA

William J. Guste, Jr., Louisiana Attorney General, New Orleans
Frederick L. "Fritz" Eagan, Louisiana State Senator, Baton Rouge
Anthony Guarisco, Louisiana State Senator, Baton Rouge

MAINE

John L. Martin, Speaker, Maine House of Representatives, Augusta
John M.R. Paterson, Deputy Attorney General, Augusta
Gordon L. Weil, Commissioner, Department of Business Regulation, Augusta

MARYLAND

Thomas J. Hatem, Chairman, Public Service Commission, Baltimore
Charles Avara, Vice Chairman, Appropriations Committee, Maryland House of Delegates, Annapolis
Harold A. Cohen, Director, Health Services Cost Review Commission, Baltimore
Dennis M. Sweeney, Special Assistant for Administrative Proceedings, Attorney General's Office, Baltimore
Francis B. Francois, President, National Association of Counties, Upper Marlboro
Barbara Gregg, Director, Montgomery County Office of Consumer Affairs, Rockville
Caroline Stellman, Executive Director, Consumer Council of Maryland, Baltimore
Robert J. Colborn, Jr., Executive Secretary, Administrative Codes & Registers Committee, National Association of Secretaries of State, Annapolis
Jayne H. Plank, Mayor, Kensington

MASSACHUSETTS

Michael T. Daley, Director, Governor's Development Office, Boston
Susan Rouder, Board Member, Common Cause, Arlington
Eric Swider, President, The New England Council, Inc., Boston
William M. Bulger, President, Massachusetts State Senate, Boston
Francis X. Joyce, Administrative Assistant, Senate President's Office, Boston
Joseph Danieli, Budget Director, Massachusetts House of Representatives, Boston

MICHIGAN

William S. Ballenger, Director, Department of Licensing & Regulation, Lansing
William J. Baldridge, City Manager, Royal Oak
John J. Flaharty, Director for State/Local Government Relations, General Motors Corporation, Detroit
Jack K. Shelton, Manager, Employee Insurance Department, Ford Motor Company, Dearborn
Doug Ross, Michigan State Senator, Lansing

MINNESOTA

Rod Searle, Speaker, Minnesota House of Representatives, St. Paul
Wayne Simoneau, Chairman, Legislative Commission to Review Administrative Rules for Minnesota, St. Paul
Charlee Hoyt, Alderman, Minneapolis City Council, Minneapolis
Walter McClure, Director, Health Policy Group, InterStudy, Excelsior

MISSISSIPPI

Kenneth M. Autrey, State President, Mississippi Common Cause, Jackson

MONTANA

Harold E. Gerke, Speaker, Montana House of Representatives, Billings
Jerome J. Cate, Chief, Antitrust Enforcement Bureau, Montana Department of Justice, Helena

NEBRASKA

Frank Lewis, Nebraska State Senator, Lincoln
John L. Robinson, City Council President, Lincoln

NEVADA

Bruce J. Eggers, Legislative Assistant to U.S. Senator Howard Cannon, Las Vegas

NEW HAMPSHIRE

Thomas D. Rath, New Hampshire Attorney General, Concord
Michael Cornelius, Special Assistant, Governor's Office, Concord

NEW JERSEY

Joseph P. Merlino, President, New Jersey State Senate, Trenton
Michael J. Faigen, Special Assistant, Attorney General's Office, Trenton
Brian D. Forrow, Vice President and General Counsel, Allied Chemical Corporation, Morristown
Kenneth Schwartz, Vice President, Managing Director of ORC Public Opinion Index, Opinion Research Corporation, Princeton
Benjamin Shimberg, Associate Director, COPA, Educational Testing Service, Princeton
Christopher J. Jackman, Speaker, New Jersey General Assembly, Trenton
Michael J. Scheiring, Policy Specialist, Governor's Office, Trenton

NEW MEXICO

Jeff Bingaman, New Mexico Attorney General, Santa Fe

NEW YORK

Jess J. Present, New York State Senator, Jamestown
Rolland E. Kidder, New York State Assemblyman, Jamestown
Raymond D. Salman, Director of Professional Licensing, State Education Department, Albany
C. Samuel Kissinger, City Manager, New Rochelle
David W. Shepherd, Executive Assistant, New York State Assembly, Jamestown
Sam Convissor, Staff Vice President for Community Relations, RCA Corporation, New York
Eleanor Kissinger, Self Funding Administration, New Rochelle
Edward R. Weidlein, Jr., Regional Director, Public Affairs Department, Union Carbide Corporation, New York
Lawrence J. Siegel, Director, Institute for Consumer Policy Research, Consumer Union Foundation, Mount Vernon
John H. Barry, Assistant Controller, Mobil Corporation, New York
Charles Fitzgibbon, Director, Office of Business Permits, Albany
William Hassett, Jr., Commissioner, Department of Commerce, Albany

NORTH CAROLINA

Rufus L. Edmisten, North Carolina Attorney General, Raleigh
W. Craig Lawing, Senate President Pro Tempore, North Carolina General Assembly, Charlotte
Paul Jordan, Director, Governmental Evaluation Commission, Raleigh
Patton G. Galloway, Executive Director, National Association of Attorneys General, Raleigh
Jean Denny McGuire, Policy Advisor, Department of Administration, Raleigh
Lucien Capone, Governmental Evaluation Commission, Raleigh

NORTH DAKOTA

Bruce Hagen, Commissioner, Public Service Commission, Bismarck

OHIO

Robert J. Quirk, Mayor, Cuyahoga Falls
Mary Alice Mack, City Council Member, Middletown
Edwin S. Brubaker, President, Preble County Commission, Eaton
William D. Keip, Director, Office of Budget and Management, Columbus
William W. Wilkins, Director, State Department of Administrative Services, Columbus
W. Wallace Abbott, Senior Vice President, The Procter & Gamble Company, Cincinnati
Bruce Rakay, First Assistant Attorney General, Columbus

OKLAHOMA

Leonard D. Briley, City Manager, Ada

OREGON

Calvin C. Leitch, Special Assistant, Antitrust Division, Department of Justice, Salem
Jane Huston, Director, Department of Commerce, Salem

PENNSYLVANIA

Jeffrey E. Piccola, Pennsylvania State Representative, Harrisburg
Bill Reilly, Assistant Health Commissioner, Air Management Services, Philadelphia Department of Public Health, Philadelphia
John M. McDonald, Manager of State Government Affiars, Bethlehem Steel Corporation
Brian Baxter, Deputy Secretary for Employee Relations, Governor's Office, Budget and Administration, Harrisburg

RHODE ISLAND

Dennis J. Roberts II, Rhode Island Attorney General, Providence
Gloria Fleck, Rhode Island State Senator, Providence

SOUTH CAROLINA

Franklin W. Allen, Mayor, Spartanburg
Jim Burwell, Director of Intergovernmental Affairs, Columbia

SOUTH DAKOTA

Charles A. Kearns, Owner, Kearns Machinery Company, Sioux Falls

TENNESSEE

Michael E. Terry, Assistant State Attorney General, Nashville
Cliff Tuck, Administrator, Shelby County Intergovernmental Coordination Office, Memphis
James F. Blumstein, Professor of Law, Vanderbilt Law School, Nashville

TEXAS

Mark Wells White, Texas Attorney General, Austin
Bernis W. Sadler, Mayor, Port Arthur, Texas
E.A. Robinson, Senior Vice President, Exxon Company, USA, Houston
Bill R. Shelton, President, Fort Worth Chamber of Commerce, Fort Worth
Herman Smith, Vice President & Treasurer, National Association of Homebuilders, Fort Worth

UTAH

Michael L. Deamer, Deputy State Attorney General, Salt Lake City
Lorayne Tempest, Assistant State Planning Coordinator, Governor's Office, Salt Lake City

VERMONT

M. Jerome Diamond, Vermont Attorney General, Montpelier
Margaret Garland, Chairman, Vermont Environmental Board, Montpelier

VIRGINIA

Marshall Coleman, Virginia Attorney General, Richmond
David Brickley, Member, Virginia House of Delegates, Springfield
Ruth J. Herrink, Director, Department of Commerce, Richmond
David K. McCloud, Executive Assistant, Office of the Lieutenant Governor, Richmond
Donald Tubridy, Special Assistant, Office of the Lieutenant Governor, Richmond
Douglas Harman, City Manager, Alexandria, Virginia
James D. Fairchild, Executive Vice President, Norfolk Chamber of Commerce, Norfolk

WASHINGTON

Gordon L. Walgren, Majority Leader, Washington State Senate, Bremerton
Earl Tilly, Washington State Representative, Wenatchee
Alex A. Deccio, Washington State Representative, Yakima
Roger K. Anderson, City Council Member, Spokane
John Paul Jones III, Administrative Assistant to the Senate Majority Leader, Olympia
Timothy George Reitemeier, President, Spokane Area Chamber of Commerce, Spokane
Thomas A. Mahar, Assistant Director for Policy Analysis, Governor's Office, Olympia

WEST VIRGINIA

Chauncey Browning, West Virginia Attorney General, Charleston
Nicholas G. Lazarius, Special Assistant, Governor's Office, Charleston

WISCONSIN

Bronson C. LaFollette, Wisconsin Attorney General, Madison
Ann J. Haney, Secretary, Department of Regulation and Licensing, Madison
William M. Kraus, Assistant to the Governor, Madison

WYOMING

Thomas A. Jones, Wyoming State Representative, Powell
David D. Freudenthal, Administrative Aide, Governor's Office, Cheyenne

The Washington Star MONDAY, JANUARY 7, 1980

Business & Finance

White House Calls Meeting On State, Local Regulations

By Caroline E. Mayer
Washington Star Staff Writer

In Maryland, a state law requires hospitals to keep hot water in patients' rooms at no less than 110 degrees F. Yet a federal rule says the water temperature must be no more than 110 degrees.

In Texas, local regulations have increased so much in the last five years that it now takes a home builder two years from the time land is acquired to put up his first house — twice the time it took in 1974.

In New York, the process of obtaining building permits and licenses has grown so complex and time-consuming that a whole new profession has grown up. For a hefty fee "expediters" will, for example, help out architects by walking building plans through the cumbersome administrative maze.

In Illinois, underground coal mine operators are required by state law to control highly combustible coal dust by spraying water or the wetting agent calcium chloride in the mine. Federal law, on the other hand, orders coal operators to apply limestone dust instead of water.

In Florida and many other states, opticians have been barred from fitting contact lenses — even though they are allowed to teach optometrists to do such fittings in schools of optometry.

These and other horror stories have prompted the White House to call in state and local regulators for a day-long conference this Friday to take a critical look at state and local red tape.

About 200 officials, including state attorneys general, small-city mayors, state legislators and county commissioners, will be meeting with Alfred E. Kahn, chairman of the Council on Wage and Price Stability, and other high-level federal officials, to see what can be done to improve local regulation.

"State and local rules are at least as bad and far more pervasive" than federal rules, Kahn said in a recent phone interview. "They have a particular impact in industries where prices have gone up the fastest.

"In housing, for example, there is an infinitude of local regulations. There are 8,000 separate building codes from 8,000 separate localities," he said, making it difficult for the housing industry to engage in mass production methods.

Developers, he said, are often faced with "onerous requirements." Although many rules are made to protect the public from overdevelopment, pollution and shoddy construction, he said, some rules are clearly ridiculous.

As an example, Kahn said, developers often complain that in small quiet subdivisions they are often required to build four-lane highways or roads that would stand up to heavy traffic even though few cars will end up using them.

These little rules can cost a lot. According to a General Accounting Office survey of 87 communities, 66 had excessive street width requirements, boosting the cost of a house anywhere from $40 to $550.

Housing experts estimate that for each month a builder must spend in filling out forms instead of building a house, the house's price goes up 1 to 2 percent.

Occupational licensing also is a problem, Kahn said. "Hundreds of occupations are licensed," from auctioneers to tree surgeons and watchmakers. In many cases, he said, "this licensing clearly restricts competition."

For years, federal antitrust officials have attacked licensing, arguing that by limiting the number of people who can practice, licensing restrains competition and keeps prices high.

For instance, a Federal Trade Commission study found that licensed TV repairmen in Louisiana charged 20 percent more than their non-licensed counterparts in the District of Columbia.

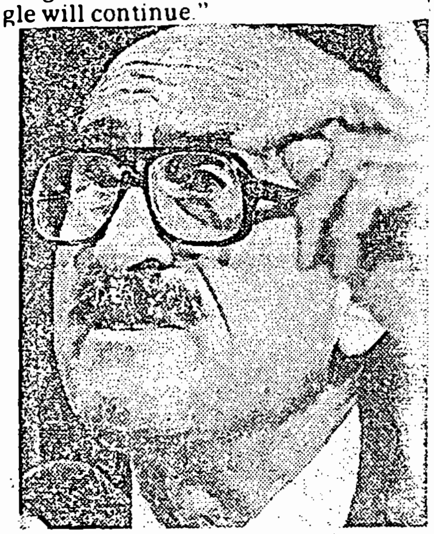
All these problems will be discussed at Friday's White House conference. Its purpose, Kahn said, "is to exchange ideas, to inspire one another and to see how we can help each other."

The conference, he hopes, will encourage states to set up "institutional mechanisms," such as "sunset" review commissions to evaluate existing regulations or a regulation council to review overlapping and duplicative rules.

Kahn hopes to spur the regulators on by pointing to several local success stories, such as Georgia's one-stop process for environmental permits.

By giving one agency authority over all environmental rules, Georgia has managed to approve all permits to build major industrial facilities within 90 to 100 days. In many states where authority is spread over several agencies, it often takes two to three years for a company to win all the necessary approvals.

The conference is only the beginning, Kahn said. "This kind of struggle will continue."



ALFRED E. KAHN

High Priority EPA Issues

Coal and air pollution

EPA wants to increase local coal use while minimizing environmental damages. The current program has reduced substantially the localized effects of sulfur oxides. And the standard that EPA issued last summer for new coal-fired power plants will protect our atmosphere enormously in the future as those plants come on line in great numbers. Even high sulfur coal can be burned cleanly with proper treatment.

But the interim period while existing coal-fired power plants are used to the fullest still poses a problem. Acid rainfall resulting from regionwide emissions of sulfur and nitrogen compounds threaten not only the productivity of our lakes and forests but those of Canada as well.

Finding ways to use local coal, particularly in those areas of the Midwest where it is often high in sulfur content, while not contributing to increasing levels of acid rainfall offers a definite challenge because the Clean Air Act limits EPA's authority to deal with regional levels of pollution. Regional cooperation and legislative change may be elements of a solution to this problem.

Hazardous Waste

The Hazardous Waste Regulations will require persons who generate hazardous wastes to ensure their disposal at environmentally safe facilities. The regulations do this by:

- defining hazardous wastes by their character and rate of generation
- creating a "cradle to grave" manifest system to accompany all hazardous waste shipments
- identifying criteria which any storage, treatment, or disposal facility must meet to get a permit; and
- setting conditions a state must meet to receive delegation of the program.

In April EPA will issue final regulations to be effective in October.

Industrial Water Pollution Controls

EPA is issuing regulations called Effluent Guidelines which set industry-specific limits on discharges to the nation's waters after 1984. For most pollutants, firms must install Best Available Technology (BAT) economically achievable. For conventional pollutants--the kind typically discharged by publicly-owned sewage treatment works--EPA will limit discharges to a level that results in control costs no higher than those experienced by a typical sewage treatment works. For many industries this approach--called Best Conventional Technology (BCT)--results in control costs significantly lower than BAT costs. Total cost savings from revisions of regulations for industries previously regulated will be about $200 million annually. Some industries, paper and food processing particularly, argue that EPA should offer even greater relaxation.

Regulatory Reform

EPA is adopting several bold new "controlled trading" alternatives to direct command and control regulation, letting the marketplace operate to a far greater degree than in the past to minimize costs and stimulate innovation. Some of these efforts underway in the air control area include:

- The bubble policy allows firms to propose alternative emissions limits for all the emissions points in a plant. Thus, firms can use their greater knowledge of their own facilities to meet overall emissions control requirements at lower cost and with greater incentives for innovation.

- The offset policy allows major new sources to site in areas already violating the health standards only if they can get emission reductions from new sources sufficient to more than offset the new pollution. This provides an incentive for the market to identify least-cost clean-up alternatives in dirty areas.

- Banking of offsets allows a source controlling pollution at levels greater than the law requires to obtain a credit for later use or for sale. This provides incentive for additional clean-up and eases economic development.

In addition to exploring and implementing controlled trading, EPA is consolidating its permit requirements in an effort to expedite and simplify the process of obtaining permits. This move towards a one-stop shopping process will eliminate unnecessary, costly procedural delays.

#18
1130

THE WHITE HOUSE
WASHINGTON

January 9, 1980

MEMORANDUM FOR THE PRESIDENT

From: Al McDonald
Rick Hertzberg
Chris Matthews cgm

Subject: Presidential Talking Points: Regulatory Reform

Scheduled delivery:
Fri., Jan 11, 1980
1:15 P.M.

The Talking Points for this event are attached.

Clearances

Stu Eizenstat
Jack Watson
Fred Kahn
Ray Jenkins

THE WHITE HOUSE

WASHINGTON

January 11, 1980

TO: RICK HUTCHESON

FROM: MISSY MANDELL MM

RE: People to be Recognized by the President at his Drop-by at the State and Local Regulatory Reform Conference

Friday, January 11, 1980
1:15 p.m.

The only additional person for the President to acknowledge is Frank Francois (pronounced Fran-coy) -- President of the National Association of Counties. There are no other changes to the original list (See bottom of page).

There will be a number of other attorneys general and elected officials in the audience that the President will probably recognize.

Talking Points

State-Local Regulatory Reform Conference

1. GOVERNOR BABBITT, ATTORNEY GENERAL BROWNING (W.Va.); FRANK BORMAN; DAVID COHEN; FRANK FRANCOIS (PR. FRANCOYS)(PRES. NACO) VONDAL GRAVLEE (Pres., Nat. Assoc. of Homebuilders). [This list will be confirmed or corrected no later than 9:15 am on Friday, Jan. 11, by Missy Mandell x7062]

THE WHITE HOUSE
WASHINGTON

11 Jan 80

Lloyd Cutler

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

Rick Hutcheson/mb

cc: Sarah Weddington

THE WHITE HOUSE

WASHINGTON

January 11, 1980

good J

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD N. CUTLER LNC

Jonathan Bingham called me today from Eleuthera to discuss the decision to rest the grain embargo on the national security authority of the Export Control Act as well as the foreign policy authority. I believe I satisfied him that we have a valid legal basis for invoking both grounds.

Bingham and I have been close friends since college. During the conversation he asked me to advise you of the following:

1. He is announcing his full support of your actions including the grain embargo.

2. He disagrees with Senator Kennedy's criticism of the embargo.

3. He is getting ready to withdraw his support from Senator Kennedy.

THE WHITE HOUSE

WASHINGTON

1/11/80

Al McDonald

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

Rick Hutcheson/pm

THE WHITE HOUSE

WASHINGTON

January 11, 1980
11:50 a.m.

Good!

J

MEMORANDUM FOR THE PRESIDENT

FROM : AL MCDONALD

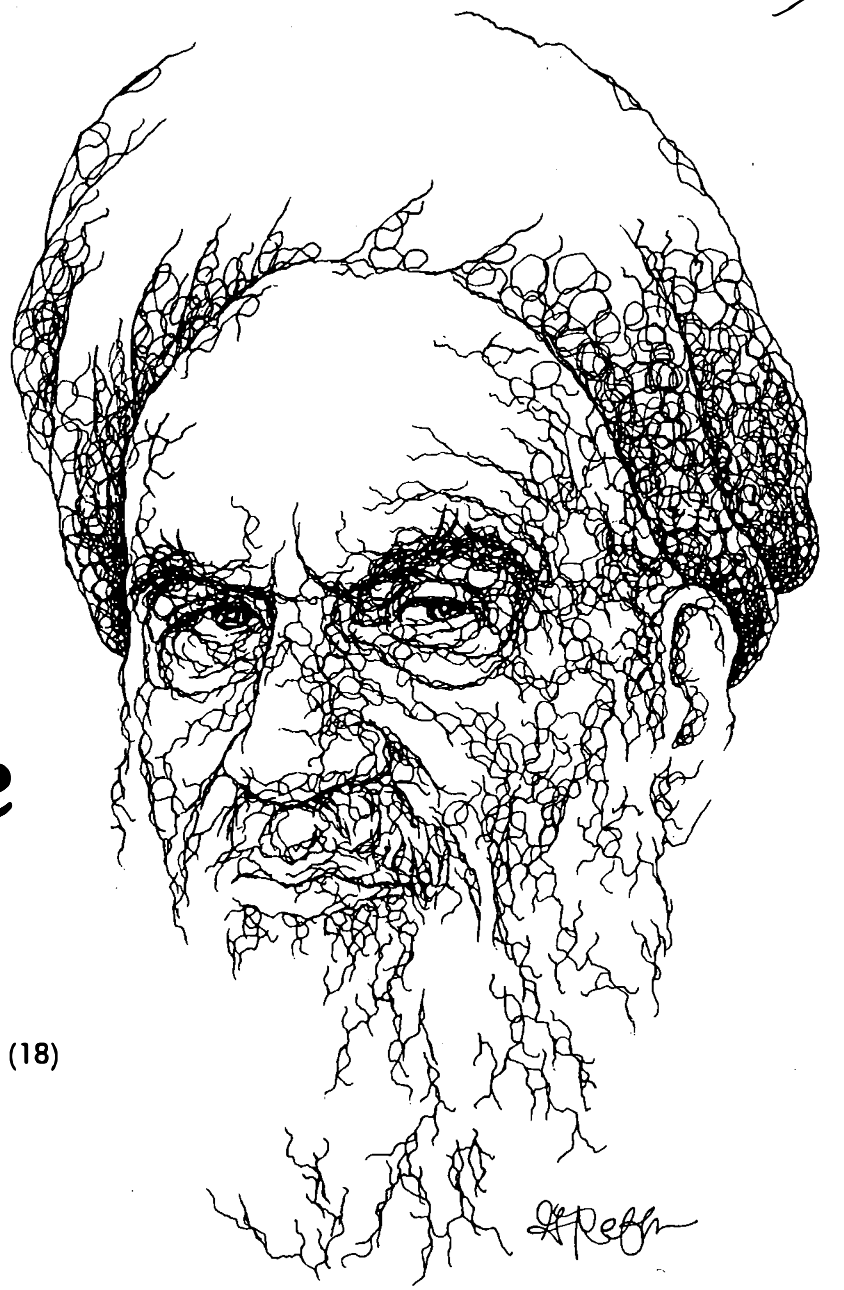
SUBJECT : Corn and Wheat Futures

Corn and wheat futures opened on schedule today, showing signs of near-term recovery and stability. In the early trading, corn and wheat futures were both up 3¢.

CONGRESSIONAL QUARTERLY
Weekly Report

Vol. 38, No. 1 • Pages 1-48 • Jan. 5, 1980

C



Iran in Perspective

THE WHITE HOUSE

WASHINGTON

1/11/80

FOR THE RECORD

THE PRESIDENT HANDED ATTACHED MEMO TO STU EIZENSTAT DIRECTLY. RETURNED FOR FILES AT LATER DATE (1/15/80)

Stu

THE WHITE HOUSE

WASHINGTON

January 10, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu
JIM McINTYRE Jim

SUBJECT: Comments on Duncan's Decision Memorandum on Gasohol

The attached memorandum from Secretary Duncan outlines the gasohol program recommended to you by OMB, DPS, DOE and the Department of Agriculture. All of the aforementioned concur with the basic program elements, including the new $3 billion credit program, and with the range of production estimates which DOE has developed. OMB and DPS recommend, however, a slightly different formulation of a target, which is discussed later in this memorandum.

This memorandum supplements the Duncan memorandum by providing:

- o Estimates of total budget and economic impacts of the program;
- o Certain views of the Department of Agriculture concerning use of the grain we recently agreed to purchase;
- o A discussion of the targets issue, including a reconciliation with the statement made by Warren Christopher on Face the Nation; and
- o An assessment of the likely political reaction to the program.

Budget and Economic Impacts of the Proposed Program

Without a subsidy, ethanol is not economically competitive with gasoline, although the economics of gasohol have improved markedly with the dramatic rise in world oil prices and decontrol. It costs about $1.25 per gallon to manufacture ethanol, compared to unleaded wholesale gasoline prices of $0.85-$0.95 per gallon.

With existing and proposed federal and state programs, however, subsidies for gasohol are much deeper than the cost differential: the Federal Government provides $0.48 per gallon of ethanol (tax exemption/credit, investment credit, entitlement benefit). Additional Federal subsidies will be provided through the ESC and the $300 million annual federal credit support program.

In addition, about one-half the states provide additional tax exemptions worth $0.10 to $0.90 per gallon, for aototal of up to $1.38 per gallon in subsidies for gasohol over the market value. Therefore with federal/state subsidies a tremendous incentive is now available to encourage sharp increases in investment in alcohol plants and alcohol production.

Under the gasohol program recommended above, federal expenditures (tax and outlays), including direct loans and loan guarantees, would range between $10-$13 billion for the period 1980-90. These estimates will vary depending on the rate of alcohol production and are summarized by major expenditure as follows:

	1980-90(in billions 1/
o Federal gasoline tax revenues lost because of 4¢ exemption for gasohol. 2/	$3.4 - 6.7 or higher
o Tax expenditures for investment tax credit for alcohol plant equipment 2/	.1
o Loans, loan guarantees for alcohol plants.	3.0
o Energy Security Corporation	1.0
o DOE, Agriculture, Commerce funding. (Assumes FY80 funding level continues research, development and technical assistance and loans/loan guarantees).	2.0
	$9.5 = 12.8

1/ This does not include the value of an entitlement subsidy for gasohol provided under DOE's crude price control regulations of 5¢ per gallon.

2/ These estimates have not been reviewed by Treasury and are approximations.

Assurance of the future economic feasibility of major new ethanol production is about to improve quite dramatically, assuming enactment of the permanent 4¢ per gallon excise tax exemption. (The current exemption from this tax expires in 1984.) The Department of Agriculture calculates that the economics of ethanol production as of December, 1979, are highly competitive with those of unleaded gasoline production with federal subsidies only. With additional state subsidies already enacted in 26 states, the economics are extremely attractive. (See Chart attached at Tab B.) This favorable trend is expected to improve even further as crude oil prices increase due to decontrol and as the new incentives proposed later in this memorandum come into effect.

It must be recognized that the net energy balance effects (net energy gain after deducting energy inputs) of ethanol are marginal where corn is used as the feedstock. (If coal is used to produce methanol, the net energy results are much more positive.) A recent Office of Technology Assessment study concluded that if corn is used for alcohol production the average net energy yield will range from .1 to .3 gallon for every gallon produced. It takes approximately .3 gallon (energy equivalent) of alcohol to produce corn and another .4 to .6 gallon to convert the corn into alcohol. Thus, alcohol production is not likely to have a significant effect even if production reaches 100,000 barrels per day.

divulge these cautionary data

This is particularly true if oil or natural gas are used to run the distillation process. If coal is used, the oil import reduction would be higher since domestic coal is readily available. The proposed tax and spending initiatives are available regardless of the fuel used to run the distillation process, and the preliminary data available indicate that a significant amount of alcohol production will use natural gas in the distillation process.

emphasize

You should know that a DOE Energy Research Advisory Board has prepared a draft report that suggests that the net energy yield for alcohol is about zero and that its use in gasohol will not reduce imports even though substantial federal subsidies are being provided for alcohol production.

The net energy yield can be improved where the fibrous corn by-product is used for animal feed. Further, the net energy yield is likely to increase over time as technological process improvements are developed or as we learn to use agricultural waste or by-products.

Although some energy experts may criticize the investment of billions of dollars of federal subsidies in energy production which now has only a marginally positive energy balance, we believe the investment is sound and caution only against rhetoric which overstates its potential contribution to solving our energy problems.

USDA's Views on Grain Subsidies or Special Earmarking of Reserves

The Department of Agriculture recommends against earmarking or subsidization of grain as feedstocks for ethanol distilleries. Subsidizing grain feedstocks would bias decisions on choice of feedstocks toward the use of grain, and discourage the development and use of alternative feedstocks such as food processing residues (cheese whey, citrus residues, etc.) and (for the longer term) cellulosic feedstocks. A grain subsidy for ethanol distilleries would distort normal market competition with other uses such as livestock production and other domestic consumers of grain for food and feed.

There would seem to be no need for subsidies beyond those proposed in the Duncan memorandum given the economics of gasohol production as described above. Although fluctuations in grain feedstocks cause uncertainty in decisions to construct commercial-scale ethanol plants, firms will be able to contract for grain and to lock in grain supplies for future delivery with hedging operations on the commodity futures markets. Also, the farmer-held grain reserve program tends to assure grain supplies at prices within a range between the price support loan (minimum) and the release level, although, of course, no assurances can be made in this regard.

If it should be decided that additional federal incentives are desired, it would be preferable to guarantee price or purchase of the ethanol rather than to subsidize grain feedstocks -- because of the adverse effects of subsidizing grain feedstocks which are noted above.

Gasohol Production Projections and Targets

Because of the fast growing nature of this program and its dependence on many individual investment decisions for success, it is difficult to estimate precisely what new production or production capacity will be added in a given year. Estimates of production capacity at the end of 1980 range from 300 million to 450 million gallons per year. During 1980, however, we expect commitments to be made or construction started on facilities which will ultimately have the capacity to produce well over 500 million gallons.

The presentation of targets or production estimates is tricky given the statement made by Warren Christopher last Sunday on "Face the Nation". On advice from DOE, he said that we would stimulate 500 million gallons of gasohol production by the end of 1980 under our new program. He added that this would use 5 million metric tons of corn.

We have carefully reviewed all possible options to meet such a capacity level within the next 12 months and all agencies agree that, no matter how much money is spent over the coming months, this level is unattainable. As a result, we will have to slip that projection to 1981 and correct the Christopher statement. To do otherwise will simply invite expert disagreement with the feasibility of our program, thereby casting doubt on our overall credibility.

ok to correct

We all recommend setting a target for domestic production capacity of 500 million gallons of ethanol during calendar year 1981. This volume of ethanol, if all-turned into gasohol (10% blend with gasoline), would be able to replace about 10% of anticipated unleaded gasoline consumption in 1981 (estimated at 51.0 billion gallons in 1981).

Although, a significant portion of this ethanol will be used directly on farms and thus will not replace unleaded gasoline, DOE has recommended expressing the target as replacement of 10% of our unleaded gasoline with gasohol during 1981 thus making an already ambitious target even more so.

OMB, DPS, and USDA recommend that the only target we set be 500 million gallons of annual alcohol capacity during 1981 (probably closer to the end of 1981), without linking that volumetric goal to replacement of unleaded gasoline. It could be pointed out -- to the extent that DOE or others find this useful -- that this is a volume (when mixed with 90% gasoline) equal to 10% of unleaded gasoline demand.

DECISION

___✓___ Target of 500 million gallons of annual alcohol production capacity during 1981 (recommended by DPS, OMB, USDA and DOE) (and Lloyd Cutler)

J

________ Additional target of replacing 10% of unleaded gasoline with gasohol during 1981 (recommended by DOE)

Anticipated Political Reactions

Although the size of our overall gasohol package is very large, some of the strongest gasohol and farmer advocates may still find it wanting, particularly in the size of the credit assistance program and the lack of an earmarked grain reserve for ethanol production.

1. Size of the Credit Program.

As noted in the Duncan memo, the Senate bill containing the Energy Security Corporation also provides $5 billion of loans and loan guarantees for alcohol fuel production over five years. Our proposal seeks $3 billion over ten years.

While we have not been able to have extensive consultations with members of the Conference Committee since the grain embargo, staff-level conversations indicate that the Conferees may well compromise at about $3.5 billion over ten years (or a slightly shorter period). As you will recall, the House bill contains no special gasohol program. A number of key House Conferees, including Chairman Foley, have expressed serious reservations in private about the size of the Senate proposal.

It is difficult to know at this point just how strong the clamor might be for beefing up the credit program, or even including a small grant program for farmers. On the one hand, a high-level Administration announcement which sets ambitious new targets, for the first time announces our support of a $3 billion, ten-year credit program, and which calls attention to the very large totals we propose to commit may make the program acceptable. We have never had an announcement which tallies up the commitments represented by the entire program. On the other hand, some may see this (and correctly so) as no more than what we were thinking about doing in the period immediately prior to the grain embargo. Arguments that we should go even further can be expected from at least some quarters.

this should be truthful & not go overboard, should keep on relatively even basis beets, cassava, garbage, wood etc

2. Grain Reserves and Subsidies.

Some in Congress, and more particularly in the farm community, may be expecting the Administration to provide an earmarked grain reserve, or even subsidized supplies of corn for ethanol production. For the reasons outlined in the preceeding section, we recommend against either. We believe that our strategy -- which seeks to make the economics of gasohol very favorable and to stimulate rapid investment in production capacity -- will create the needed market for corn and grain

Agree

without additional earmarking or subsidy. Nonetheless, we must anticipate questions and some criticism on this score.

USDA believes that the overall farmer reaction will be positive, although they will probably express hopes of going even further next year. As the program moves into high gear, however, some of this pressure for additional stimulus may abate.

Overall, we can moderate criticisms if we keep stressing in our announcement the size of the overall commitment and make an effort to explain to the press (along the lines of the chart prepared by Agriculture) just how strong a subsidy the total package provides. There is virtually no other program in our energy package, including synthetic fuels and conservation, which will receive such a deep and multifaceted subsidy.

Minor Corrections to Duncan Memo

DOE has not checked with Treasury on the extension and expansion of the 10% investment tax credit, as stated on page 2 of the DOE memo, and it is our understanding that Treasury opposes this proposal. We will take up this issue with DOE and Treasury over the next few weeks during our deliberations on the windfall profits tax.

We have been unable to confirm that the full $160 million is available in FY 80 from SBA, EDA and the FMHA for alcohol production assistance as stated on page 3 of the DOE memo. As a result, we recommend leaving these out of the upcoming announcement; it adds relatively little from a political standpoint in any event. I agree

TAB A

THE SECRETARY OF ENERGY
WASHINGTON, D.C.

9 January 1980

MEMORANDUM FOR THE PRESIDENT

I apologize for the length of this memo. The subject is important, complicated, and required substantial inter-agency coordination.

I would be pleased to discuss it with you, if you deem it necessary and helpful.

CWD

Charles W. Duncan, Jr.

Attachment

Department of Energy
Washington, D.C. 20585

January 9, 1980

MEMORANDUM FOR The President

FROM: Charles W. Duncan, Jr. CWD Jr

SUBJECT: Accelerated Gasohol Production Program

This memorandum describes the Administration's program for accelerating the production of gasohol. The program is a diversified effort requiring the coordinated actions of the Department of Energy (DOE), the Department of Agriculture (DOA), the Economic Development Administration (EDA) and the Energy Security Corporation (ESC), when fully established. The program would stimulate the private sector to at least quadruple the 1979 rate of gasohol production in 1980, with a target of replacing 10% of unleaded gasoline with gasohol during 1981. A significant portion of this increased production would use grain as its raw material. The Department of Agriculture concurs in this memorandum.

Background

This Administration has already put important incentives and programs into place in the last two years to develop and produce ethanol for gasohol. As a result, production of ethanol for gasohol has increased from virtually nothing 18 months ago to the current rate of almost 80 million gallons per year. In December 1979 enough ethanol was produced to run about 1.5 million automobiles on gasohol.

The Program

The Administration's gasohol program has two major purposes: (1) to make gasohol more competitive economically at the pump; and (2) to stimulate and facilitate investment in the facilities that convert agricultural materials into ethanol. The program has eight important parts.

1. The most important existing incentive for gasohol production is an exemption at the retail level from the Federal gasoline excise tax of 4 cents per gallon. This exemption provides the equivalent of a subsidy of 40 cents for every gallon of ethanol produced from an agricultural biomass source and blended to make gasohol. The exemption will expire in 1984, but you have asked the Congress to make it permanent for alcohol fuels produced from biomass. The Senate has approved an extension to the year 2000 as part of the Windfall Profits Tax Bill; it now awaits action in the Conference. This exemption represents a substantial financial commitment; for each 100 million gallons of gasohol used, the revenues of the Federal Highway Trust Fund are reduced by $4 million.

   This Federal excise tax exemption is an incentive that works best for the larger producers of ethanol, who sell the product for blending as gasohol. It does not benefit very small producers such as those on the farm, who use the ethanol they produce directly as a fuel. The Senate version of the Windfall Profits Tax Bill, therefore, also provides a separate 30 to 40 cents per gallon production tax credit (depending on the proof of the alcohol) for those who distill and use the ethanol as a fuel. The Administration supports this provision, which is awaiting action in the Conference.

2. The Energy Tax Act of 1978 made an investment tax credit of 10% available for energy-related capital investments, in addition to the standard 10% capital investment tax credit. When final, the IRS regulations will make this credit available for producers of alcohol fuels. The Windfall Profits Tax Bill passed by the Senate extends this extra energy investment tax credit beyond its 1982 expiration date, and increases it from 10% to 20%. The Administration supports the extension but opposes the percentage increase as excessive.

3. The Department of Energy has revised the crude oil entitlements program, which seeks to equalize the imbalance created by U.S. crude oil price controls, to include ethanol produced from biomass for gasohol. This provides an incentive of about 5 cents for each gallon of ethanol used in gasohol. Since the entitlements program will be phased out in September 1981, concurrently with crude oil decontrol, it offers the most potential benefits to those who begin production soon.

4. DOE has budgeted $25 million for Research and Development in FY 1980, which will be used primarily to improve the technology base for ethanol production and to expand the use of non-agricultural products. I shall submit a supplemental appropriation request of $30 million to OMB to expand this gasohol R&D effort; this will be reviewed on a separate course in the budget process and we are not asking you to make any decision at this time. These two actions will not materially increase 1980 production, but will accelerate future, more efficient production.

5. Titles II and III of S.932 provide $5 billion for five years for loans and loan guarantees for alcohol production. At present, interagency discussions have developed a compromise position that would provide $3 billion over a ten-year period for medium- and small-scale alcohol production facilities through loans and loan guarantees. This $3 billion over the next ten years, available through DOE and DOA, may not be considered sufficient by many congressional advocates. DOE believes that the Administration's position on this compromise should now be made public, if you approve, despite the possibility that the Congress may appropriate more than $3 billion.

6. The proposed Energy Security Corporation will provide assistance for the construction of large-scale plants for the production of ethanol from biomass. The Senate version of S.932 allowed up to $1 billion of the total funding for this purpose.

7. Without new legislation, up to $160 million can be made available during 1980 under existing authorities from the Farmers Home Administration (FmHA) in USDA and the Economic Development Administration (EDA) in the Department of Commerce to assist with the financing of medium and smaller scale plants. Some portion of that money is expected to be used for this purpose to augment the ongoing ethanol loan and loan guarantee programs in FmHA, EDA, the Small Business Administration (SBA), and the Community Services Administration (CSA). The FmHA alcohol programs, involving more than $30 million in loan guarantees, date from early 1978. The EDA and CSA programs began in June 1979 and have already awarded a few million dollars as part of the Rural Energy Initiatives, which you announced in Des Moines on May 4, 1979.

8. In late 1979, the Administration received an appropriation which included $2.2 billion for DOE's immediate use to stimulate alternative fuels production to prepare for the implementation of the Energy Security Corporation -- $1.5 billion for price or purchase guarantees, $0.5 billion to secure $1.5 billion in loan guarantees, and $100 million each for feasibility studies and cooperative agreements. These funds are not specifically designated for ethanol production, but are currently available should we wish to do so. I am not proposing such an action at this time, and would consult fully with OMB and Treasury before making any such recommendation.

In total, this combined program, with a complementary public information program promoting gasohol, will offer a substantial impetus to the production and use of fuel ethanol. The Administration's program will benefit the farmers, farm cooperatives and small-scale distillers, who can construct and convert production capacity with the greatest speed. It will assist current larger producers to expand their capacity rapidly, and it will encourage the construction of large-scale plants for our longer term needs.

Projected Results of the Program

Estimates of the annual rate of ethanol production for gasohol by the end of 1980 range from 300 million to 450 million gallons per year. We recognize that achievement of the upper end of this range will be affected by a number of factors outside Federal control and therefore, it should not be expressed as a target. We are encouraged, however, by widespread expressions of support for an accelerated program that we have received from large-scale gasohol producers and potential gasohol users since your message on Afghanistan. The President of the Building Trades Union has offered his assistance in meeting your gasohol goals.

It is important to note that by the end of 1980 not only will we have quadrupled our current production rate but in addition we expect to have, as a result of the long term program discussed above, significant commitments for new and more energy-efficient ethanol capacity. We would expect these 1980 commitments to new, more energy-efficient plant construction to be in excess of 500 million gallons of capacity per year. The program that we are proposing does not focus only on the end of 1980, but rather reaches toward a goal of up to 30% gasohol in the mid-1980's, which is equivalent to 1.8 billion gallons per year of ethanol production.

The major portion of the near-term expected ethanol production will be from grain. If we have production capacity for 350 million gallons of ethanol for gasohol in 1980, DOE estimates that 300 million gallons would be produced from grain, requiring 3 million tons of grain as the raw material. This is five times the amount of grain used for this purpose in 1979. (The remaining amounts are produced from biomass other than grain, such as molasses, wood wastes, and citrus wastes.)

It is worth noting that much of the existing production capacity burns fuel oil or natural gas to ferment and distill the alcohol, thus reducing the net impact on oil imports. The financial incentives proposed above will be designed to assure that new capacity is more energy efficient through the use of coal, waste products, and other alternative fuels. good

The economics of ethanol production have changed significantly since this matter was last reviewed. DOA explains that with the Administration's incentives in place, the production of ethanol was profitable at the end of 1979 (20-25 percent after tax return on equity capital) and will be even more profitable in 1980 and subsequent years. This suggests that the expansion in the production of ethanol will be constrained only by the time it takes to construct the production facilities.

According to DOA, this means there will be an additional source of demand for agricultural products, particularly corn, that will become increasingly important in the 1980's. The production of ethanol, given current Federal incentives, will provide sufficient demand for grain to require major changes within the food and agricultural system of the United States.

Action Proposed

If you approve, this program will be announced this week.

Approved ✓ J

Disapproved ______________

If you approve, the announcement will include a description of the Administration's compromise position on the $3 billion dollar program discussed in point number 5 at page 3.

Approved ________________________

Disapproved ________________________

THE WHITE HOUSE

WASHINGTON

Date: 1/10/80

MEMORANDUM

FOR ACTION:
Stu Eizenstat — will comment
Frank Moore
Jack Watson — will comment
Jim McIntyre
Jody Powell

FOR INFORMATION:
The Vice President
Hamilton Jordan
Charlie Schultze

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Duncan memo re Accelerated Gasohol Production Program

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: IMMEDIATE TURNAROUND

DAY:

DATE:

ACTION REQUESTED:

x Your comments

Other:

STAFF RESPONSE:

___ I concur. ___ No comment.

Please note other comments below:

Call Michael R. when

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

TAB B

Stu -
I agree with this
J

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 10, 1980

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: The Gasohol Decision

I strongly support the arguments and conclusions in the memorandum by Stu Eizenstat and Jim McIntyre on this subject. There could be some very bad economic consequences from an overly ambitious gasohol program:

1. Taking into account the subsidies proposed in the new program, incentives provided by Federal, state and local governments will cost the nation more than $20 per barrel of ethanol produced -- over and above the relatively high cost of the ethanol itself.

2. Depending upon the process employed, the energy available in the ethanol may even be less than the amount consumed in all of the steps along the way to producing it from grain. At best, even if all the energy required in the conversion of grain to ethanol came from coal-fired electricity, one barrel of ethanol would save less than one-half barrel of oil.

3. When the subsidy is related to the oil import savings that might result from ethanol production, the per barrel cost of those savings is much larger than the subsidy per barrel of ethanol. To save a barrel of oil imports we would be spending at least $40 to $50 in subsidies, and probably more.

4. Locking in permanent subsidies of this magnitude would soon overstimulate the expansion of ethanol production to the point where the extra demand created by it for feed grains could drive up their prices significantly. (Admittedly, this may be a strange thing to worry about now; but, it is nonetheless true.)

5. Gasohol may well play a major role in our energy picture at some date if it is produced from the more promising technologies that use plentiful waste materials and less total energy per quantity of ethanol. But the current proposal is tied primarily to using corn as the feedstock. The cost of transporting biomass is very large relative to its energy content. Plants in the industry have to be located near their sources of corn. It would be highly ill-advised to cast the geography of a large gasohol industry firmly in a pattern suited for processing corn, thereby making it far more costly and difficult to introduce at the right time more efficient processes based upon other, more plentiful and less expensive biomass feedstocks.

Feb 5
2 pm

THE WHITE HOUSE
WASHINGTON

1/11/80

Mr. President:

Hedley Donovan has requested you to attend the initial meeting of the Comm. on the 80's in about 3 weeks. He feels you will need to participate for 60 - 90 minutes.

May I schedule this?

✓ yes ___ no

Phil

60 min.

C

MB NAME EDMUND STEPHAN (pronounced Steff-en) 558

TITLE Co-Chairman-Illinois Lawyers for Carter Committee

CITY/STATE Chicago, Illinois

Phone Number--Home (312) 475-5356

Work (312) 782-0600

Other ( )

Requested by Bob Thomson/ Jim Johnson BT

Date of Request January 10, 1980

INFORMATION (Continued on back if necessary)

Mr. Stephan is a very prominent and well-recognized lawyer in the city. Also highly visible as a Catholic, he is on the Board of Trustees at Notre Dame and is closely allied with Father Hesburgh, the President of the University. He is strongly supportive of you and is ready to endorse. He has also consented to co-chair the Illinois Lawyers for Carter Committee.

This is probably the most important Illinois phone call at this time. (over)

NOTES: (Date of Call)

Called already

It is important that this call be made as soon as possible as Stephan feels that the credibility of the Lawyers for Carter Committee hinges upon its having received your personal blessing. He is ready to wage a vigorous campaign of recruitment for the Lawyers' Committee once he has spoken with you.

You should merely thank Stephan for his support and convey your concern for the success of the Illinois Lawyers for Carter Committee.