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Cabinet
4/18/77

THE WHITE HOUSE
WASHINGTON

> Crop insurance - PR
> Revised stimulus pkg
JMT salaries
DISC - need?
> ~~Phyrr~~ Pyhrr
> Advis Comm - if? - abusc
> Consultant form
> Cons Protection Agency
> H_2O projects - reform mgt
> Clean air testimony
Waterway user charges

THE WHITE HOUSE
WASHINGTON

> H_2O projects
> $50
> Energy
> Air purity standards
> Summit
> SALT
> farm bill
Min wage
Welfare
> EC - Jenkins
> Portugal - Soares
> Khaddam
> Hussein
> Reorg - work c̄ OMB

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THE WHITE HOUSE
WASHINGTON

April 18, 1977

Stu Eizenstat -

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

Rick Hutcheson

Re: Statement by the AFL-CIO Executive Council on Energy

+ cc Central Files

THE WHITE HOUSE
WASHINGTON

April 18, 1977

The Vice President
Stu Eizenstat
Hamilton Jordan
Jack Watson

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

Rick Hutcheson

Re: Office of Education Reorganization

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
	X	MONDALE
		COSTANZA
	X	EIZENSTAT
	X	JORDAN
		LIPSHUTZ
		MOORE
		POWELL
	X	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

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

April 14, 1977

1977 APR 14 PM 4 58

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Office of Education Reorganization

The internal reorganization of the Office of Education announced publicly by the Department of Health, Education, and Welfare on April 11 makes sense, and does not unduly prejudice the case for a new Department of Education.

Substantially we approve of the actions to streamline reporting relationships and tighten management of support services. Procedurally, we ought to have had an opportunity to review the reorganization in advance. There is an error in the new organization chart, which Commissioner Boyer has agreed to change, that could lead Congress to believe that five special programs no longer report to the Commissioner as required by law.

It is important to note that some large problems in the education area remain unaffected by this reorganization. There is a vital need for coordination of research dissemination and operations. This could be achieved through assertion of leadership in the Office of the Assistant Secretary for Education which ties together the Office of Education and the National Institute of Education.

We are proceeding to analyze the possibility of creating a new Department of Education to address this and other problems in the fields of education, research support, and the arts. This internal reorganization does not conflict with that project.

Bert Lance
Director

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Stu
J

THE PRESIDENT HAS SEEN.

Statement by the AFL-CIO Executive Council

on

Energy

February 25, 1977
Bal Harbour, Fla.

The AFL-CIO endorses the Administration's plan to consolidate energy activities into a single department that would absorb the Energy Research and Development Administration and the Federal Energy Administration and also the energy functions now a part of the Interior and other departments. Such a restructuring is badly needed and would provide a better and more efficient mechanism for creating and implementing energy policy.

Clearly, this would not solve the energy problem. It is not a substitute for a comprehensive energy policy, and if this is all that would be done, this nation still would not have an energy policy worthy of the name.

In the more than three years since the Arab oil embargo little has been done to resolve the energy problem.

While the natural gas crisis of this winter dramatized the issue, it was not unexpected. Yet, the Congress and the Nixon-Ford Administration did little to meet a situation that could readily have been foreseen.

America is much more vulnerable today to an oil embargo than it was in 1973. The nation's dependence on foreign oil has increased. In addition, imports from the Arab countries are three times more than they were prior to the embargo. Meanwhile, domestic production of oil, despite higher prices for new oil, has been declining steadily in recent years.

Such steps as the 94th Congress and the past Administration took were timid and hesitant. They treated the energy matter gingerly as if it were a fragile thing that would shatter if directly confronted. The time is long past for complacency and inaction.

Development of energy sufficient to meet the country's needs is one of the most serious domestic problems facing America in the years ahead. How America copes with the situation will have an overwhelming effect on the nation's economic well-being.

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The AFL-CIO has long urged the government to take decisive action. This is not a time for muddling through. We urge the President to set in motion a comprehensive energy program that will move the nation on the road to energy security. With that in mind, we have noted below some of the elements that we feel are essential to the development of a sound program.

CONSERVATION

Conservation is the cornerstone upon which this nation must build its energy policy.

Per capita consumption of energy in this country is twice as much as in such countries as Switzerland, Sweden, West Germany -- all of whom have a standard of living and quality of life comparable to that enjoyed by Americans.

Conservation does not mean a diminishing in the quality of life. It does not mean less automobile driving. It does not mean cold, drafty, uncomfortable homes. It does not mean less usage of home appliances.

It does mean using energy efficiently. It means the manufacture of automobiles that get more mileage per gallon of gasoline, the retrofitting of existing homes and buildings and the construction of well-insulated homes and buildings that drastically reduce energy consumption, the designing and building of home appliances that use only small quantities of energy.

As an example, if all of the cars on the road were to get twice as much mileage as the current average of 14 miles per gallon of gas, the nation would save more than three million barrels of oil per day. This exceeds the nation's oil imports from the Arab countries.

Nor does conservation mean no growth. We hold no brief for those pushing conservation as part of a no-growth philosophy. Growth in the economy and conservation of energy can, and must, go hand-in-hand.

Adoption of tough and stringent conservation measures could reduce the nation's energy consumption growth rate from 4 percent to well under 2 percent.

While conservation is essential it will not, by itself, solve the energy problem.

NEW SUPPLIES

The nation needs new and additional supplies of energy. Oil and natural gas are declining resources. While no single source of energy represents the ultimate fuel, it is clear that coal and nuclear power are the ones upon which this nation must rely in the immediate future.

The United States holds about 450 billion tons of coal reserves -- estimated at about one-fifth to one-half of the world's coal deposits. This is more than 700 times the nation's annual usage of about 600 million tons. As reported by Forbes Magazine this reserve is "ten times as much energy as is contained in Saudi Arabia's oil and 2.6 times as much as is available from the entire world's supply of oil."

Nuclear power, by the end of this century, is expected to grow from 2% of current total energy supply to over 20%. In terms of today's energy picture, this is the equivalent of about 7 million barrels of oil per day -- about the same as imports in 1976.

Coal has been under attack by environmentalists and nuclear energy is the target of a well-organized drive to ban its use. The basis of that campaign is that nuclear energy is not safe. We do not agree with that assessment. The record of safety in the nuclear industry is among the best in all industry.

Every effort must be made to accelerate the development of coal and nuclear power while protecting the environment and maintaining stringent safety and health standards. Meanwhile, facilities to provide enriched uranium should be expanded and the procedures for licensing of nuclear facilities should be expedited to eliminate costly and unnecessary delays.

Continued development of the liquid metal fast breeder reactor program must be pursued. This is essential to the nation's long-term energy needs.

Development of oil and gas reserves on the U.S. outer continental shelf provides an excellent opportunity for the United States to increase domestic oil and gas production. Development of new offshore areas could reduce U.S. oil imports by 10-15 percent in 1980 and 10-30 percent in 1985-1990.

At the same time, America must direct its efforts toward developing such other sources of energy as solar, geothermal, biomass, shale oil, coal liquefaction and gasification. These energy sources will be neither cheap nor be developed overnight.

It is clear that private industry, by itself, cannot develop the energy sources required by this country. It is for that reason that the AFL-CIO urges the establishment of a massive 5 year $100 billion program to help achieve energy security for the United States through direct loans, loan guarantees and other financial assistance to private industry and public bodies unable to secure private capital.

As we envision it, that program would concern itself with projects for conserving energy as well as projects for developing new and additional supplies of energy. Under that program, the government would also be empowered to launch projects of its own patterned after the TVA concept.

IMPORTS

The increasing dependence of the United States on imported oil raises economic as well as national security problems. Prior to the Arab oil embargo of 1973, the nation was importing less than six million barrels of oil per day. In 1976 imports generally averaged more than seven million barrels per day and in January, 1977, averaged over eight million barrels per day. Of those imports, the Arab countries furnished less than a million barrels daily, prior to the embargo. Today they export close to three million barrels per day to the United States.

As a result, the nation is now more vulnerable to an oil embargo than in 1973. It is more vulnerable to the price that OPEC sets for its oil. That price may well determine America's level of economic activity and the rate of inflation. Early in this decade, oil imports that cost the nation $3.5 billion, now cost the nation more than $35 billion annually.

Much rhetoric has flowed; but little action has followed.

To cope with this issue, oil imports should be taken out of private hands and placed in the hands of the government. The government should determine the amount of oil to be imported, negotiate its price with the individual oil producing countries and provide for its allocation. Private companies have no power to deal with the oil producing countries. They accept whatever terms are made by these countries and pass on the additional costs to the consumers and, in the process, probably make more money than they ever did before.

On the other hand, the United States has bargaining power with the OPEC nations that no private company could ever hope to achieve.

At the same time, the nation must accelerate the establishment of an oil stockpile that will give America a measure of protection against any future oil embargo and enhance its bargaining power.

PRICES

Continued regulation of oil and natural gas prices is essential to the economic well-being of this nation.

A Library of Congress study estimated deregulation of natural gas prices would increase consumer costs by $5.4 billion annually in the first year and by $17.7 billion annually in the fifth to seventh year. Decontrol of oil prices would have an even greater impact in the first year. Together, the effect would be as devastating as the four-fold increase in oil prices imposed by OPEC following the oil embargo.

There is no free-market price for oil. It is an arbitrary price imposed by the OPEC cartel -- about $13 per barrel -- which bears no relation to the 18 cents a barrel production cost in the

Arab countries. All other energy prices relate to the price of oil.

The argument that uncontrolled prices provide incentives for greater production is groundless. Domestic production of oil, despite skyrocketing prices for newly discovered oil, has been declining steadily. The same would be true for natural gas unless the producers, as initial government studies indicate, are sitting on their wells waiting for natural gas prices to be deregulated. If this is so, it constitutes the same kind of blackmail indulged in by the Arab oil producers.

We urge a complete and thorough investigation of the natural gas producers to determine whether the natural gas shortage is real or contrived by the producers to benefit themselves at the expense of the national interest.

It is intolerable that a nation so dependent on energy is ignorant of the basic facts needed to make intelligent analyses and critical decisions. Such data as is available is incomplete and unreliable because in the past the natural gas companies have been unwilling to provide complete and detailed information with regard to their reserves and other facets of their operations. The investigative body should be empowered with the right to subpoena such records as are needed to get to the bottom of this question.

In any case, decontrol of oil and gas prices would place an intolerable burden on the American consumer and we are unalterably opposed.

DIVESTURE

The American public is at the mercy of the giant oil monopolies whose complete control of petroleum, from well-head to marketing, represents an incredible influence over the nation's well being.

Clearly the oil companies are pursuing only their self-interest. They have not suffered from the energy crisis. In fact, they have prospered while the country suffered.

We urge Congress to enact legislation to break-up the oil monopolies so that the companies may no longer produce as well as refine, transport and market petroleum.

Not satisfied with their monopolistic control of oil, these companies are stretching their tentacles into competing sources of energy. Already, they have secured a major position in the coal industry and are reaching into other energy fields. Clearly, this is not in the national interest and will hamper the development of alternative sources of energy.

The AFL-CIO urges the Congress to enact legislation to prohibit a company from owning competing sources of energy.

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THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
	✓	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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	FOR INFORMATION
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		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
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		SIEGEL
		SMITH
		STRAUSS
		WELLS
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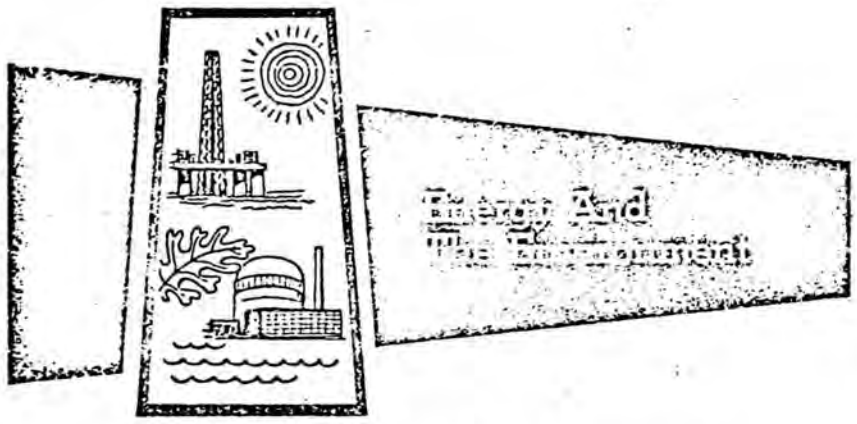

Energy and the Environment

The Energy Crisis

On the same day the AFL-CIO began its tenth convention, Oct. 18, 1973, the Arab countries launched their oil embargo against the United States—a blackmail effort to force this country to adopt a Mideast policy favoring the Arab nations.

The shock waves emanating from that action are still being felt. Crude oil prices have risen fivefold—a major factor in the double-digit inflation of the past year and the severe recession that has gripped the nation.

The hardships, inconveniences and sufferings endured by American workers and consumers resulting from the peacetime shortage of energy due to the Arab oil embargo are common knowledge. If this were a one-shot occurrence America would need have no concern.

Because oil is currently plentiful and there are no longer any lines at the gasoline pumps, too many people view the energy crisis as a thing of the past. While not highly visible, the energy crisis is still with this country.

The Jan. 23, 1975, emergency session of the AFL-CIO General Board adopted an action program to put America back to work. Included in that program was a call for "immediate government measures to reduce America's dependence on imported oil and establishment of a fair and equitable system of allocation and rationing."

The Executive Council, at its February 1975 meeting, issued a policy statement affirming the action of the General Board. It added: "The cornerstone of the nation's energy policy must be the establishment of a reliable source of energy free from the blackmail threat of a renewed Arab oil embargo while achieving high employment, a dynamic economy and a prosperous and satisfying way of life."

The Administration program to meet the energy crisis is based on a prayer and a hope. Its solution is to escalate prices through tariffs, excise taxes and decontrol and deregulation of gas and oil prices. It is a throwback to the old-time religion. The hope is that rising prices will reduce consumption. The prayer is that reduced consumption will compel the oil producers to reduce prices. Clearly, the prayers of the Administration have not been answered. The oil cartel, despite enormous oil surpluses, continues raising prices.

The Administration proposal to deregulate the price of old oil would ultimately increase its price from $5.25 per barrel to more than $13 per barrel. The combination of added taxes and deregulation of old oil would almost double the average price of oil.

In addition, the Administration proposes deregulating the price of natural gas. That would cost American consumers almost as much as the deregulation of oil. The inflationary impact of the Administration's proposals would be extraordinarily harsh.

Meanwhile, the Congress floundered without enacting any significant program to meet the crisis.

The President and the Congress have placed partisan political considerations above the national interest. Today, almost two years after the Arab oil embargo, this nation still has no energy policy.

Meanwhile, the nation's dependence on oil from insecure foreign sources has increased. America is more dependent on Arab oil than ever before. In the first quarter of 1975, 22.7 percent of the country's oil imports came from Arab countries. This is up from the 17.9 percent in the fourth quarter of 1974 and the approximately 15 percent in the months preceding the embargo.

Certain interests have taken advantage of the energy crisis to try to emasculate environmental objectives. The coal mining industry made every effort to prevent the enactment of reasonable legislation to protect the land from being ravaged by strip mining operators. The legislation passed by Congress in the Spring of 1975 would have allowed full coal production while protecting the land. Unfortunately, this legislation was vetoed by the President.

The AFL-CIO has long been in the forefront of the battle to protect and clean up the environment. This nation can have environmental protection and economic growth at the same time.

The energy battle must be fought on three fronts: Conservation; substitution of plentiful energy materials for scarce energy materials, and increasing energy supplies.

It is urgent that tough mandatory measures be enacted to reduce energy consumption. The nation should not be lulled into a sense of security because there are currently no energy shortages. A cold winter may run up against insufficient natural gas production. The threat of an Arab embargo still exists. At any time, the Arab nations could shut off the flow of oil and plunge

this country into an economic crisis that would dwarf that of 1973-74.

To a large extent the apparent sufficiency of oil and gas supplies is due to the reduced consumption resulting from the economic recession. Should the economy start moving upward, the nation may well experience energy shortages which would halt or slow down the upturn. When that time comes it may well be too late to institute the kind of conservation measures needed now.

It is important that the nation take steps now to convert oil and gas fueled industrial and commercial power plants to other fuels. This is especially imperative in the case of electric utility plants.

The nation should make every effort to accelerate the development of nuclear energy. Initial investment costs for nuclear energy are high, but in most cases it does offer the cheapest form of electricity.

There is legitimate concern regarding the risks and dangers relating to nuclear energy; however, the record to this point has been good. And with continued vigilance and utilization of the safest methods for handling nuclear energy, the record of the past should continue.

A widely-held myth equates reduction in energy consumption with a rise in unemployment. In a report prepared by the AFL-CIO Energy Policy Committee for the February 1975 meeting of the Executive Council no merit was found in this assertion. The report, quoted below, cites a study by Harold Barnett and another by the Ford Foundation in support of this view.

"Harold Barnett, a Washington University professor of economics, revealed in a 1950 study that 'over a quite long period, beginning at least about the time of World War I, U.S. energy grew less rapidly than real national output.' In a more recent study, published by the Joint Economic Committee in 1974, Barnett showed this relationship continuing through 1966. In the following four years, energy usage grew faster than the economy, but this has happened in the past for limited periods of time.

"During this four-year period there were a number of unusual events—use of inefficient stand-by power facilities and difficulties with large generators causing inefficient utilization—that caused this temporary acceleration in energy usage. Despite this short-term phenomenon, the long-term trend still shows energy consumption growing at a lesser rate than national output.

"Barnett projects a rate of energy growth that will not exceed that of real output. In fact, he thinks it more probable that energy usage will decline in relationship to output.

"The Ford Foundation, in its recent report entitled 'A Time to Choose: America's Energy Future,' maintains that the rate of energy growth can be cut in half without hurting the economy. The Ford Foundation found that the 15 largest energy-

using industries consumed 45 percent of the energy used in manufacturing, but produced only 9 percent of the value added and accounted for only 6 percent of manufacturing jobs.

"It is further stated in the report that it is reasonable to expect intensive manufacturing industries will have little if any adverse effect on employment in these industries . . . The United States can grow and prosper and have plenty of jobs—and still conserve energy.

"This country has been wasteful in energy usage because it has not been a major factor in production costs.

"Per capita energy consumption in this country has been considerably higher than in the countries of Western Europe. We can substantially cut our energy usage without any adverse effect on the economy or any permanent increase in unemployment.

"True, there will be dislocations—negligible if the reduction in energy consumption is small, larger if the reduction is larger. Resources that otherwise would have been used for energy could be allocated to other sources. In any case, implementation of the AFL-CIO program would more than offset any dislocation that might occur as a result of reduced energy consumption. A reduced rate of energy growth is not incompatible with a dynamic, full employment economy."

Council Recommendation

So long as the United States is dependent on the importation of oil, shipped in foreign vessels from insecure sources, the energy crisis will haunt this country.

The first steps must be aimed at the elimination of that dependence:

1. Take the importation of oil out of private hands and place it in the hands of government. The government should determine the amount of oil imported, negotiate its price and provide for its allocation.

2. Enact a quota on oil imports, including a ban on such imports originating in those countries that embargoed oil to the United States and Holland in 1973-1974.

3. Establish a fair and equitable system of allocation and rationing. Permit motor gasoline consumption above the rationed amount, but levy a high tax on this additional consumption. The funds created by this tax should be earmarked for the reduction and the ultimate elimination of commuter transit fares and for the development and construction of mass transit systems.

4. Make it clear to any nation contemplating an embargo directed against the United States that this country will strike back with economic measures. To nations imposing such an embargo against this country, export bans would be applied. No item, including military equipment as well as agricultural and industrial commodities, would be shipped to such countries. Their assets in this country would be frozen. All technical assis-

tance would be withdrawn. This country would construe such an oil embargo as economic warfare and retaliate with all the economic weapons at its command.

Energy Conservation

Energy conservation is indispensable. While it is not "The Solution," steps to reduce wasteful use of energy must be taken:

1. Rigidly enforce the 55-mile speed limit which saves lives as well as gasoline.
2. Tax automobiles and other energy-using equipment in relationship to their energy efficiency. Higher tax rates should be levied on energy-wasting equipment.
3. Label energy-consuming equipment with respect to energy efficiency. This will enable consumers to compare energy efficiency as well as price.
4. Revamp gas and electric rate structures to discourage and penalize the use of wasteful amounts of energy.
5. Economize on heating, lighting and cooling through the establishment of temperature and light standards that could be reasonably enforced in industrial, commercial and residential buildings.
6. Require all new and existing structures to conform to energy efficiency standards.
7. Develop and expand mass transit systems and subsidize low fares.

Increasing Energy Supplies

It is urgent that the United States launch a massive program to increase energy supplies. Yet this country need not delude itself that this is an instant panacea.

Increasing supplies from old sources has its limitations. Developing new sources of energy takes time. From the planning board to the consumer may take anywhere from 3 to 10 years.

Since the Arab embargo, more than 18 months ago, domestic oil production has actually declined 4 percent to 5 percent. Billions of dollars of planned utility construction have been cancelled or postponed. Despite enormous U.S. coal reserves, significant moves have not been made to make more effective use of these reserves. Because of the long lead times in developing energy supplies, delay in initiating programs for increasing energy supplies cannot be tolerated. Therefore, we recommend that the United States:

1. Launch a 5-year, $20 billion government-funded crash program to mobilize the nation's scientific and technological resources to develop alternative sources of energy, increase the efficiency of consumption and expand existing sources. Major emphasis should be on expanding existing sources, particularly nuclear energy, domestic oil (including offshore), coal and coal gasification and liquefaction and natural gas.

2. Intensify production from U.S. military reserves while taking proper care to maintain strategic reserves at appropriate national security levels. In the leasing of these reserves safeguards must be taken against exploitation by private interests.

3. Revoke the lease of any oil or natural gas producer who refuses to pump supplies on land leased from the United States. The government should turn these leases over to companies which will produce the needed supplies. Similar action should be taken with respect to any coal leasings.

4. Establish a government corporation for the construction of prototype and new energy facilities which would serve as a cost yardstick. Depending on the success of such prototypes, long-term commitments could be made for the development of alternative energy sources.

5. Give special assistance to the electric utility industry as provided for in the May 21, 1975 statement of the Labor-Management Committee which recommends tax measures and administrative policies to increase electric utility construction and output.

Conversion to Substitute Fuels

A concerted drive should be launched to convert oil and gas fueled plants to coal and nuclear energy:

1. Make a major effort toward increasing the domestic use of coal. A timetable should be established for the conversion of power plants from oil to coal, with appropriate applications of technology to minimize pollution. Electric utilities now consume over 1.5 million barrels of oil daily and substantial quantities of gas.

2. Government action is required to promote the public acceptance of nuclear power. Steps should be taken to reduce the lead time for getting plants into production. A schedule for replacing oil and gas fueled power plants with nuclear energy should be established. Vigilant environmental and safety measures should be continued to minimize risks.

Additional Energy Measures

A comprehensive energy policy should envision a number of other measures:

1. Stretch out as necessary present environmental restrictions on energy production and use to reduce energy consumption and facilitate expansion of domestic energy output. This is a matter of timetable, not of objectives. The advance of technology and development of clean energy sources can permit realization of environmental objectives. The two programs should be viewed as compatible parts of a single problem. Extension of auto emission control standards should provide that the auto companies be required to increase mileage per gallon and to lower prices, dollar-for-dollar, for any cost reduction enjoyed as a result of an extension.

2. Establish a petroleum stockpile to guard against future oil embargoes.

3. Strengthen legislation to provide for the full identification of all significant foreign investments. While there are a few haphazard legislative restrictions on foreign participation in domestic enterprise, additional safeguards are needed to prevent a foreign takeover of major and sensitive facilities.

4. Reject the President's proposal to deregulate the price of natural gas and "old" oil and roll back the price of new domestic oil.

5. Terminate U.S. government subsidies for the giant oil companies, including the intangible drilling expense and the dollar-for-dollar credit against U.S. taxes for these corporations' royalty and tax payments to foreign governments.

6. Enact legislation to prohibit a single company from owning competing sources of energy. This horizontal integration has hampered the development of alternative sources of energy.

7. Enact legislation to require the dissolution of vertically integrated oil companies. The separation of the marketing of petroleum from production and refining would benefit the independent marketer as well as the consumer.

8. Treat giant oil companies as public utilities subject to stringent regulation by the federal government.

9. Enact legislation to require that a substantial portion of oil imports to be transported in U.S.-flag vessels.

10. Direct the Federal Reserve to allocate available credit at reasonable interest rates for the development and expansion of domestic energy resources.

The Environment

For nearly two decades, the AFL-CIO has strongly supported the nation's effort to protect and restore the environment.

The labor movement firmly rejects the counsel of those who say the choice is the environment or jobs. America can and must have a clean environment and jobs, too.

Workable solutions to environmental problems are attainable without sacrificing economic growth, achievement of energy requirements or the goal of full employment.

Over the past two years, the energy crisis, the deep recession, continued inflation and intolerably high and growing levels of unemployment have made workers increasingly vulnerable to environmental blackmail—false claims by employers that controls and standards will result in lay-offs and the shutdown of facilities.

On the one hand there are those who would exploit the fears and frustrations of unemployed workers in an effort to divert the nation from the goal of a clean environment. On the other hand are the "no-growth" advocates who want to clean up every form of pollution except the human pollution of unemployment.

THE WHITE HOUSE
WASHINGTON

April 18, 1977

Stu Eizenstat -

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

Rick Hutcheson

Re: CIA Study on Oil Reserves

THE PRESIDENT HAS SEEN.

Stu - This is bureaucratic b.s. All I asked for were a) estimates of reserves & b) How many barrels in a cubic mile. J

THE WHITE HOUSE

WASHINGTON

April 16, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT

SUBJECT: CIA Study on Oil Reserves

I have checked with the authors of the CIA study on oil reserves to see whether it would be possible to convert the barrels per day measurement used in the study to a measurement such as cubic feet.

They have told me the following:

1) While it is technically possible to convert the barrels per day measurement (into cubic feet, BTU's or kilowatt hours), such a conversion would probably make less comprehensible the amount of oil involved. That is so, in their view, because the barrels per day measurement has long been the standard one used by the energy industry (domestic and international) and by the federal government; any other oil measurement would carry virtually to meaning to those familiar with energy matters.

2) The CIA authors also believe that the barrels per day standard is more comprehensible to those not familiar with energy matters. Their reasoning is that while BTU's or kilowatt's may have some scientific meaning, such standards are less graphic and readily understandable than barrels per day.

3) Because many of the figures used in the oil reserve study were approximations, it will take some time to accurately convert the barrels per day figures into cubic feet or some other measurement. If you would still like a conversion figure, they will continue to work on it over the weekend.

4) Attached is a memorandum prepared by the CIA authors on energy conversion and the meaning of barrels per day.

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THE WHITE HOUSE
WASHINGTON

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		MONDALE
		COSTANZA
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	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

15 April 1977

MEMORANDUM

SUBJECT: Energy Units of Measurements

1. Because energy is produced in several different forms and is converted from one form or another it is often necessary to convert or reduce several types to one standard. (Attached is a standard energy unit conversion chart) these equivalencies are computed using heat values.

2. Most energy presentations use barrels of oil per day (b/d) as a standard measure. Thus, when it is said that all energy types have been converted to barrels of oil per day equivalent, it simply means the amount of oil that would result if all of the other energies came in that form (on a heat content basis).

3. When we use a figure of barrels of oil per day for a year we simply use an average of the days in that year.

4. The standard barrel contains 42 gallons.

5. Some examples:

a. A large new nuclear power plant produces the same amount of electricity as would an oil fired plant that consumed 26,500 barrels of oil per day (this is a 1,000 megawatt plant).

Thirty eight of these plants would be required to substitute for 1 million barrels of oil per day. US oil imports are now over 7 million barrels per day. The equivalent of 264 large nuclear plants.

b. A typical Washington area home used almost 20,000 cubic feet of natural gas during the month of February. This was equivalent to 3 1/2 barrels of oil.

c. A large truck getting 5 miles to the gallon of fuel would consume about 14 barrels of oil to cross the US.

ENERGY UNIT CONVERSION CHART*

CUBIC FEET NATURAL GAS** (CF)	BARRELS OIL (bbl)	SHORT TONS BITUMINOUS COAL (T)	BRITISH THERMAL UNITS (Btu)	KILOWATT HOURS ELECTRICITY (kWhr)
–	–	–	1	0.000293
1	0.00018	0.00004	1000	0.293
3.41	0.00061	0.00014	3413	1
1000 (1 MCF)	0.18	0.04	1 MILLION	293
3413	0.61	0.14	3.41 MILLION	1000 (1 MWhr)
5600	1	0.22	5.6 MILLION	1640
25,000	4.46	1	25 MILLION	7325
1 MILLION (1 MMCF)	180	40	1 BILLION	293,000
3.41 MILLION	610	140	3.41 BILLION	1 MILLION (1 GWhr)
1 BILLION (1 BCF)	180,000	40,000	1 TRILLION	293 MILLION
1 TRILLION (1 TCF)	180 MILLION	40 MILLION	1 QUADRILLION (QUAD) (Q)	293 BILLION

* Based on the following nominal fuel heating values:
1 Cubic Foot Natural Gas = 1000 Btu
1 Barrel Crude Oil = 5.6 Million Btu
1 Pound Bituminous Coal = 12,500 Btu

** Substitute Natural Gas (SNG) and Liquefied Natural Gas (LNG) will have approximately the same heating value.

This chart has been distributed by the Institute of Gas Technology, 3424 South State Street, IIT Center, Chicago, Ill. 60616, and is reproduced for the convenience of readers of *Weekly Energy Report*.

THE WHITE HOUSE
WASHINGTON

April 18, 1977

The Vice President
Hamilton Jordan
Frank Moore
Jack Watson

The attached is forwarded to you for your information.

Rick Hutcheson

Re: Ullman Employment Tax Credit

pdu

THE WHITE HOUSE

WASHINGTON

April 18, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT

SUBJECT: Ullman Employment Tax Credit

After your telephone call regarding Senator Long's action on the Ullman employment tax credit issue now before the Senate, I talked with Charlie Schultze, Secretary Blumenthal and Frank Moore. We decided that for consistency purposes, since you had indicated that in withdrawing the tax rebates you also wanted to withdraw the business tax credits, it was necessary to oppose the Ullman credit. This credit, while it is job related, is as much a business tax credit as the 2% add-on to the investment tax credit.

Secretary Blumenthal conveyed this to Senator Long.

It now appears that we will have until tomorrow to finalize our position on this, according to Senator Long. Senator Long suggested that we rethink our options since the Senate version of the Ullman Plan includes the optional investment tax credit provisions and somewhat modifies the worst elements of the Ullman Plan. He suggested that the Administration would be in a stronger position in the Conference if the Senate version (sponsored by Senator Bentsen) passed the Senate.

Nevertheless for consistency, it seems to me that we can hardly support the Ullman Plan having asked Congress to delete the business credits in the package. Of course, this will not sit well with Congressman Ullman. I suggest you check with Frank Moore, Charlie Schultze and Secretary Blumenthal this afternoon.

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

April 18, 1977

Stu Eizenstat -

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

Rick Hutcheson

Re: Issues of Concern:

THE WHITE HOUSE
WASHINGTON

first 3 pages only

ACTION	FYI	
		MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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	FOR INFORMATION
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		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

April 15, 1977

MEMORANDUM FOR HONORABLE STUART EIZENSTAT

SUBJECT: Issues of Concern

The attached address the issues of concern of your memorandum of last month.

1. With respect to the question of dual compensation (so-called "double dipping") of retired military personnel employed by the federal government--the current federal employment policy, supervised by the Civil Service Commission, is to hire the best qualified in open competition. Retired members with needed skills are considered, without any advantage based solely on their military service other than veteran's preference. A fact sheet related to Dual Compensation is at Tab A.

This is a highly complex issue that must be considered in the context of total military compensation. Therefore a final decision should be deferred until after the report of the Blue Ribbon Commission proposed by the President. We have reviewed potential alternatives (Tab B) and will evaluate those for adoption in light of the Commission's report.

2. Regarding the amount of money spent through the DoD on independent research and development (IR&D)--at Tab C is a chart which indicates the level of IR&D expenditures reimbursed by DoD, and how they have leveled off since 1969. Since that year changes in DoD supervision, technical evaluation and negotiation have restricted IR&D activities and placed DoD in a strengthened supervisory role. As a result of a continuing review of IR&D of DoD contractors during the past seven years, IR&D activities have been found to promote competition for DoD programs by increasing the effectiveness of the competitor's technological competence.

Considering the output of IR&D, and DoD's use of it as the technological underpinning for competition among contractors in the acquisition process, substantial reductions in IR&D reimbursements might prove illusory. However, there may be an opportunity to achieve some savings by simplification of standard practices in proposals and related expenditures associated with DoD contractor business. Procedures are being reviewed to determine the extent savings can be accomplished.

3. The suggestion that the Secretary of Defense and the Secretary of Labor jointly explore the possibility of meeting with Defense contractors and related unions in order to develop ways to hold down costs on Defense

costs does not appear likely to be productive at this time. Until the contracting agencies of the Executive Branch develop common positions on the various issues involved, a more constructive approach would be to focus attention on the various socio-economic programs which are tied to and increase the costs of the procurement process. Specifically:

- DoD can explore with the Office of Federal Procurement Policy means to reduce the cost of administering the Davis-Bacon Act and the Service Contract Act by introducing legislation to raise the threshold of those Acts to exclude small purchases ($10,000 or less), and

- DoD can reopen with the Office of Federal Procurement Policy changes in the implementation of the Service Contract Act previously supported by DoD, but since placed in abeyance.

Previous studies have concluded that the actions identified will reduce the cost of Federal procurement, although it is not possible to quantify the amount of such savings. In our view, these are concrete areas in which change is both needed and achievable.

4. The bill sponsored by Congressman Minish to give additional power to the Defense Renegotiation Board has been reviewed. The Fact Sheet at Tab D addresses various aspects of the bill with this Department's comments.

John G. Kester
The Special Assistant

Attachments

CONFIDENTIAL -- NOT FOR CIRCULATION

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

good - OK

April 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Issues of Concern

Attached is the response from the Office of The Secretary of Defense, following up on my request after meeting with Admiral Rickover, on:

1. Double Dipping

2. Independent research and development

3. Labor and Defense meeting with Defense contractors

4. The bill sponsored by Congressman Minish concerning the Defense Renegotiation Board.

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A

Federal Employment of Retired Members of Uniformed Services

Current National Policy on Federal Dual Compensation. The current Dual Compensation Act of 1964 [1] was enacted [2] to:

o Codify all existing dual compensation and dual employment laws into one law which will be relatively simple to interpret and administer and which will eliminate the hardships caused individuals as a result of inadvertent, misunderstandings of the application of the law.

o Make it possible for the government to recruit any retired military member who possesses scarce skills needed for government programs.

o Protect career civilian employees from advantages enjoyed by retired military personnel solely as a result of military service.

o Provide for equitable treatment of retired military personnel consistent with the employment needs of the government.

o Retain the merit system of open competition, on a best qualified basis, for Federal civilian employment.

Legislative History. There are four basic pieces of legislation applicable to dual employment and dual compensation:

o The Dual Office Act of 1894 was designed to prohibit the employment of any person in any Federal office if such person was already an office holder if either of the positions involved paid $2500 per annum. Retired members of the Armed Forces were considered office holders for the purposes of this act. At that time, very few retired military personnel received as much as $2500 retirement pay, and few positions paid as much as $2500 per annum. It worked no substantial hardship on either the government or retired military personnel. The 1894 Act was amended (1924) or interpreted to exclude from its prohibition everyone except Regular officers retired for length of service. All others, enlisted, Reserve, and disabled were not subject to the Act.

o The Dual Compensation Act of 1916 prohibited the employment of one person in two civilian positions if the total compensation exceeded $2000 per annum. Because of the law's restrictive provisions, many agencies had to obtain statutory exemptions to meet particular government employment needs.

o The Economy Act of 1932, as amended, stipulated that retired commissioned officers employed by the government would have their retirement pay reduced to the extent necessary to maintain a maximum compensation of $10,000 per annum. It applied only to Regular officers and to certain "temporary" officers who were, in either case, retired for "noncombat" disability. Reserve officers were exempted from the provisions of this Act. If both retired pay and civilian compensation were in excess of $10,000, the employee could choose which salary he wished to receive, but could not receive both. Since the 1894 Dual Office Act applied to many of the same officers, the only group affected by the 1932 Act were Regular and temporary commissioned officers retired for noncombat physical disability.

o The Dual Compensation Act of 1964, was intended to consolidate and simplify the numerous confusing statutes on dual compensation and employment, and eliminate hardships to individuals caused by inadvertent misunderstandings of applications of the law. Its purpose was to aid the Federal government in obtaining the best qualified people available for hard to fill civilian positions; to treat retired military personnel in a reasonably uniform manner if employed in Federal civilian positions, and to ensure that retired military personnel were not granted unfair advantage over civilian employees or hamper career opportunities for civilian employees.

The Act provides that retired military members employed by any branch of the Federal government are entitled to the full civilian wages of the position for which employed. However, retired Regular members have their retired pay reduced to an annual rate equal to the first $2000, plus one-half the remainder, if any. The initial $2000 represented the average annual nondisability retired pay of enlisted personnel. This floor increases at the same time and by the same percentage as increases in military retired pay, and is currently $4045.16. Adjustments to active duty pay in the intervening years and increases in the retired population have increased the average enlisted retired pay to over $6400. Retired

Reserve officers, retired enlisted members and Regular officers whose retirement is based on a combat incurred disability are exempted. Further exclusions may be granted to meet special or emergency employment needs of the government.

The Act prohibits appointment of retired members in the Department of Defense for 180 days immediately following retirement. Exceptions may be authorized to recruit personnel with highly specialized skills in short supply, or in instances of a national emergency, or when the Secretary, with the approval of the Civil Service Commission, authorizes such an appointment.

Related Studies.

o A 1961 study of the military retired pay system by the University of Michigan for the Senate Committee on Armed Services 4/ indicated that employment opportunities were influenced by dual compensation restrictions for 44% of retired officers. The Study concluded the Dual Compensation Act should be modified to make available to the government a group of trained personnel interested in government service. It recommended liberalizing that portion of the retired pay an officer may receive while earning a Federal salary.

o The 1966 report of the Cabinet Committee on Federal Staff Retirement Systems emphasized the importance of consistency of treatment among categories of employees. 5/ The Committee noted the distinctions between various Federal benefits systems, the fact that the military system requires its Regular officers, but not Reservists or enlisted personnel to forfeit a portion of their retired pay if employed by the Federal government, and emphasized that this difference affects uniformity and equity in treatment of categories of workers. The Report 6/ indicated it was difficult to reconcile the discriminatory treatment of retired Regular officers as compared to retired Reserve officers or enlisted members, and stated that all retired members should be treated alike when employed in Federal civilian capacities.

o The First Quadrennial Review of Military Compensation 7/ noted that all military personnel face ultimate involuntary retirement from active service to maintain a force capable of performing defense and combat missions. That Study concluded that the military retirement system functions to encourage and permit withdrawal of career personnel from military forces at relatively young ages in order that the military organization may maintain a desired degree of "youth and vigor". During

second career years, retirement pay is not an old-age pension. Rather, it serves to compensate retired members for reduced civilian employment income levels which stem from a late entry into civilian employment.

o At the request of the President, an Interagency Committee on Uniformed Services Retirement and Survivor Benefits 8/ was established in 1971 because of concern over equity and costs of military retirement. The Committee proposed that retired pay should be reduced during the retired member's second career years, and restored to the full rate at age 60. The Interagency Committee believed that the revisions would establish a system more closely comparable to other Federal staff retirement systems and achieve significant cost savings. In the evaluation of the Committee's recommendations, the Department of Defense Study Group 9/ indicated that the similar savings could be achieved by reducing the full multiplier for computing retired pay until the member reached the point at which he would have had 30 years of service.

o A Civil Service Commission study of retired uniformed services personnel drawing retired pay in the Federal civilian service 10/ indicates that as of June 30, 1975, there were 141,817 retired uniformed services personnel in the Federal civilian employment. This is 5% of the 2,809,541 total Federal civilian work force, and 13.2% of the retired military population.

	Retired Military Employees		Retired Military Personnel	
Category	Number	Percent	Total Retired	Percent Federal Employment
Regular Off	5,164	3.6	137,821	3.7
Reserve Off	22,518	15.9	201,421	11.1
Enlisted	111,793	78.8	737,546	15.1
Unspecified	2,342	1.7	-	-
Total	141,817	100.	1,076,788	13.2

Additional Alternatives Considered.

o Prohibit Federal employment of retired military personnel. Loss of skilled and experienced manpower. Increase in outyear military retired pay costs since savings in retired pay of Regular officers would not be reduced through Federal employment. Restores earned military retired pay benefit level.

o Pay full civilian salary, plus retired pay equal to difference, if any, between the civilian salary and the active duty Regular Military Compensation (RMC) rate associated with full retired pay. Reduction in retired pay costs while maintaining at least pre-retirement income level. Probable reduction in number and quality of retired members seeking Federal employment.

o Reduce or eliminate the amount of military retired pay by the amount of the civilian position salary. Reduction in outyear military retired pay costs. Possible reduction in number and quality of retired members seeking Federal employment.

o Recall to active duty if employed by the Department of Defense after retirement. Military expertise developed over a 20 to 30 year career could be used by DoD without increase to retired or civil service pay portion of the Defense budget. Employment by other government agencies to remain in normal competition with private enterprise.

Considerations Bearing on Dual Compensation.

o About 11% of military personnel serve to retirement eligibility. Members who separate before initial retirement eligibility forfeit the implied equity in the benefit.

o Military retirement is mandatory between 20 to 30 years of active service with certain exceptions. Some are voluntary, some involuntary. This is designed to maintain a youthful force and achieve desired force distribution.

o Full military retired pay equal to 75% of basic pay is paid for retirement with 30 years of service or more. Reduced rates are paid for earlier retirement, to 50% of basic pay at 20 years of service. The maximum rate is roughly equivalent to 53% of the military equivalent of civilian salary. Military retirement pay is increased on March 1 and September 1 of each year by the percentage change occuring in the Consumer Price Index during the preceding six month period. This is to protect the purchase power of the initial retired pay.

o There is no vesting of retired pay for less than 20 years of service. Retirement with less than 30 years of service is not a legal right; through tradition many members view it as a right. The military retirement system assists in attracting and retaining the kinds and numbers of members required for military service. The retirement program provides a means of removing members from active service after 20 to 30 years of service consistent with military requirements.

o Military retired pay provides a partial income replacement to members who are retired at what is the mid-point of a normal civilian working career. This is the period of highest income and highest expenses for most citizens. On the average, enlisted members are retired at age 42 with 22 years of service and an average retired pay of $539 per month. On the average, officers are retired at age 46 with 25 years of service and a monthly retired pay of $1295. The great majority of retired members must seek post-service employment.

o Since military service cannot provide normal lifetime employment for its members, it can be assumed that personnel will select the most favorable point at which to terminate a military career and begin civilian employment. The difficulty and economic penalties of a transition to civilian employment vary with age, education, and military occupation. The older a member is when he retires, then proportionally less are his opportunities for second career income. This fact often discourages personnel from continuing on active duty after attaining initial retirement eligibility. The formula for computing military retired pay uniformly increases the multiplier for each year of service, offering no added incentive to overcome the increasing disincentive associated with employment subsequent to a military career.

o One of the most significant defects of the present nondisability retirement system is its failure to vest a pro-rata share of retirement benefits for voluntary and involuntary separation before 20 years of service. Today, a member who serves for less than 20 years of service and who separates before achieving eligibility, forfeits the implied equity he has built up in the retirement system. This inhibits force managers from separating members who have significant time in service.

o Retired military members possess skills, experience, and knowledge that are available and attractive to both private industry and government. The skills were developed to meet military requirements, often at government expense, and have been historically viewed as a source of skilled manpower for government programs. Retired members can be appointed to positions for which qualified through the system of open competition. Appointment is on a best qualified basis consistent with strict compliance with the merit system in order to avoid preferential treatment being extended to members solely by virtue of their military service.

o Past Administrations have sponsored legislation to repeal the Dual Compensation Act of 1964 to achieve equal treatment for all retired military personnel when the conditions of service on retirement were similar. The proposal of the Civil Service Commission that was amended did not differentiate between Regular and Reserve officers.

Because of the Congressional action to exempt Reserve officers and all enlisted men from the receipt of retired pay when employed by the Federal government, and recommendations of related studies the position was that logic and equity dictated similar treatment for Regular officers. Amendatory legislation, however, was not proposed for consideration by the 94th or 95th Congresses.

o In developing alternatives to expand dual compensation restrictions consideration must be given to the possible precedent impact of such action by the Federal government on the civilian employment community. If the Federal government significantly expands the dual compensation restrictions, it is a distinct possibility that the civilian sector particularly other governments would follow the Federal government's lead and expect retired military to accept employment at much lower levels of compensation than their civilian contemporaries. Applying the same reason and logic as the Federal government, the civilian sector could justify their action by the fact that the difference in pay would be offset by the retirement compensation of the military member. In the short term this would reduce post-service employment opportunities. It would have long term impact on the Services' ability to attract and retain the quality and quantity of personnel required to meet national defense objectives.

o The presence of income from other sources is not a consideration of qualification for Federal employment. However, national economic conditions have influenced the rules governing Federal wages. The Panic of 1893 preceded the Dual Compensation Act of 1894 and the Depression of the 1930's exerted an influence on the Economy Act of 1932, but individual need has never been used as a criterion in selection for Federal civilian employment.

o A Presidential Blue Ribbon Commission of distinguished citizens is to be established to review the analyses and findings of the compensation system, recently completed by the Third Quadrennial Review of Military Compensation and other studies of military compensation. It will be tasked to make recommendations on the appropriate benefit levels and lengths of service for military retirement and survivor benefits.

o The Employee Retirement Income Security Act of 1974 (Public Law 93-406) established vesting rights for employees under most private pension and employee benefit plans. Pension plans must include minimum vesting schedules, and provide 100% vesting of benefits derived from an employee's own contribution. This law has the objective of preventing the loss of earned retirement benefits through breaks in employment and involuntary and voluntary severance. It has the effect of improving the mobility of the work force by reducing the economic penalty associated with changing jobs.

o The civil service retirement benefit is based on a combination of minimum age and service upon separation. Retirement is mandatory at age 70. Normal retirement is at age 62. Retirement earlier than age 55 involves reduced benefit levels. The ceiling on civil service pension is 80% of the high 3-year average salary. The annuity depends upon the high 3-year average pay, and the length of service, calculated by the retirement multiplier. Credit is 1.5% per year for the first five years of service, 1.75% for the sixth through tenth years, and 2% for each year over ten. The plan is contributory with the employee and the government each paying 7% of salary into the fund.

o DoD has proposed that the Federal government shift to accrual budgeting for military and civilian retirement to increase the visibility of future retirement liabilities attributable to present force levels. The proposal is described in the Defense Report for 1978.

o There are about 148,000 Federal civilian employees who are members of the Reserve components. About 108,000 are participating Reservists who are paid Reserve drill pay and military pay for active duty training in addition to their civilian salaries. DoD has submitted, and is proposing for the 95th Congress, legislation to reduce their civilian salary to the difference between military pay and the full civilian salary when they are on Reserve training leave.

o About 79,000 Federal civilian employees are retired Reservists eligible for Reserve retired pay who will not receive retired pay until they reach age 60. These employees have met the requirements for Reserve retirement, subject to the age criteria, and continue in Federal employment entitled to their full civilian salary.

o Military retirement pay and civilian pensions are generally viewed as having been fully earned as a result of military service or civilian employment. However there are virtually no employers who pay their own retired employees both their pensions and salary for subsequent work. Some apply this argument to military personnel on the basis that civilian employment in any Federal agency is employment by the same employer as was preceding active military service. Civilian employment practices appear to draw the distinction more on the basis of the covering pension plan than on the identity of the umbrella corporate entity.

o Significant change in dual compensation rules would probably require appropriate transition and saved pay provisions. Whenever practicable, changes that have significant monetary impact are phased in and saved pay provisions are employed to protect those currently under the system. Regardless of this, and irrespective of the validity of the rationale for the changes, many members perceive them as an unjust and inequitable loss of benefits to which they remain entitled. It is seen as a failure of their leadership to honor contractual and unwritten, yet moral, commitments.

o The issue of erosion of benefits has become of significant management concern since about 1972. It involves the loss of morale from perceived piecemeal reductions in traditional military pays and benefits. This perception has been reinforced by actions to reduce personnel costs in areas of pays, reimbursements, promotion opportunities and force reductions. In testimony before the Senate Armed Services Committee, the Secretary of Defense stated that he does not contemplate a wholesale reduction of pay or fringe benefits. Rather, it is intended to make a more effective use of the compensation now provided in order to compensate military members fairly and equitably. With regard to retired pay entitlement, those who are retired have met their part of the service agreement and, conversely the government should meet the obligation to those members. The retirement system needs to be reviewed as to be more fair to members and to provide more incentive to keep good people in the Department.

o Leadership considerations are associated with the form and the content of changes affecting the military force. They underlie the "erosion of benefits" and military "unionization" issues. This was

identified by the Third Quadrennial Review of Military Compensation and by the Defense Manpower Commission. It led the DMC to recommend that civilian leadership not give military members any reasonable grounds for believing that there should be divided authority over them, or that they perhaps need representation in order to be fairly and equitably treated, or that there has been any erosion of expressed and implied commitments previously made to them. The DMC concluded that the attitude of the members of the armed forces in this regard are shaped primarily by their perceptions of the attitude toward them of the President, the Congress, and the Secretary of Defense.

FOOTNOTES

1/ Public Law 88-448, August 19, 1964, 78 Stat 484.

2/ Report to accompany H. R. 7381, Dual Compensation Act, House of Representatives, Report No. 890, November 7, 1963, 88th Congress, 1st Session.

3/ Report to accompany H. R. 7381, Dual Employment and Dual Compensation, Senate Report No. 935, March 4, 1964, 88th Congress, 2d Session.

4/ Report to the Committee on Armed Services, U. S. Senate, July 6, 1961, Committee Print, 87th Congress, 1st Session.

5/ House Document 402, 89th Congress, 2d Session, March 7, 1966.

6/ Senate Document No. 14, 90th Congress, 1st Session.

7/ Modernizing Military Pay, Report of the First Quadrennial Review of Military Compensation, Volume V, The Military Estate Program, January 15, 1969.

8/ Report to the President on the Study of Uniformed Services Retirement and Survivor Benefits by the Interagency Committee, Volume I, July 1, 1971.

9/ Report to the Secretary of Defense by the DoD Retirement Study Group, May 31, 1972.

10/ Study of Retired Uniformed Services Personnel in the Federal Civilian Service - December 1976, prepared by the U. S. Civil Service Commission for the Committee on Post Office and Civil Service, House of Representatives, February 28, 1977, Committee Print No. 95-2, 95th Congress, 1st Session.

FOOTNOTES

1/ Public Law 88-448, August 19, 1964, 78 Stat 484.

2/ Report to accompany H. R. 7381, Dual Compensation Act, House of Representatives, Report No. 890, November 7, 1963, 88th Congress, 1st Session.

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B

Alternative #1

Extend the limitation on retired pay of Regular officers to Reserve officers and to enlisted members.

Concept: Extend the current restriction on military retired pay (5 USC 5532) to all retired members of the uniformed services employed by the Federal government. Continue exemption for those retired for combat incurred disability and for special or emergency employment needs of the government.

Impact:

o Would reduce the military retirement pay for retired enlisted and Reserve officers in 136,653 civilian positions to an annual rate equal to the first $4054.16 of military retired pay plus one-half the difference, if any. Presently, retired Regular officers in 5,164 positions are subject to this restriction.

o Provides equal treatment to all members whose conditions of service and retirement are similar.

o Preserves identity of earned military retirement benefit.

o Extends penalty for taking government jobs to two additional groups of retired military personnel.

o Permits continued recruitment from a potential source of manpower skills, often developed at government expense.

o The average pay rates of employees who are retired military personnel would be:

	Avg Civ Svc Pay	Avg Unif Svc Ret Pay		Total	
		Present	Alt #1	Present	Alt #1
Officer	$20,186	$10,224	$6,854	$30,409	$27,040
Warrant Officer	15,086	7,070	5,282	22,156	20,368
Enlisted	12,306	5,147		17,452	17,073

o Assuming no change in ability to hire retired military, retired pay costs would be reduced $168 million. Civil service pay costs would be unchanged. Detailed data not yet available to estimate likely savings.

o Number and quality of retired members seeking Federal employment would decline.

Alternative #2

Limit the retired pay of all retired officers and enlisted members to half the amount to which entitled.

Concept: Reduce by fifty percent military retired pay on all retired members employed by the Federal government. Continue the exemption for those retired for combat incurred disabilities and for special or emergency needs of the government.

Impact:

o Would reduce military retirement pay for retired members in 136,653 civilian positions by fifty percent, and make greater reduction in retired pay for Regular officers in 5,164 positions.

o Provides equal treatment for all members whose conditions of service and retirement are similar.

o Preserves identity of earned military retirement benefit.

o Increases penalty for taking government jobs to all retired military personnel.

o Permits continued recruitment from retired military population.

o The average pay rates of employees who are retired military personnel would be:

	Avg Civ Svc Pay	Avg Unif Svc Ret Pay		Total	
		Present	Alt #2	Present	Alt #2
Officer	$20,186	$10,224	$5,112	$30,409	$25,298
Warrant Officer	15,086	7,070	3,535	22,156	18,621
Enlisted	12,306	5,147		17,452	15,335

o Assuming no change in ability to hire retired military, retired pay costs would be reduced about $403 million. Civil service pay costs would be unchanged. Detailed data not yet available to estimate likely savings.

o Number and quality of retired members seeking Federal employment would decline more severely than under Alternative 1.

Alternative #3

Reduce the full salary of the civilian position by the amount of military retired pay.

Concept: For employees who are retired military personnel reduce the salary for the civilian position by the amount of military retired pay received.

Impact:

o Provides equal treatment for all members whose conditions of service and retirement are similar.

o Same as practice followed for reemployment of Federal pensioners within the civil service system.

o Costs of programs and agencies hiring retired military personnel will not reflect full labor costs in civilian pay accounts because of the "subsidy" from military retired pay.

o Preserves identity of earned military retirement benefit.

o The average pay rates of employees who are retired military personnel would be:

	Avg Civ Svc Pay	Avg Unif Svc Ret Pay		Total	
		Present	Alt #3	Present	Alt #3
Officer	$20,186	$10,224	$14,224	$30,409	$20,186
Warrant Officer	15,086	7,080	7,070	22,156	15,086
Enlisted	12,306	5,147	5,147	17,452	12,306

o Assuming no change in ability to hire retired military. Military retired pay costs would increase by about $15.7 million annually. Civilian pay costs would be reduced by $146 million. Detailed data not yet available to refine estimate.

o Number and quality of retired members seeking Federal employment would probably decline severely.

Alternative #4

Terminate military retired pay and create full civil service retirement eligibility at level equivalent to earned military retirement.

Concept: For employees who are retired military personnel, eliminate entitlement to military retired pay and create full civil service retirement eligibility without age limitations.

Increase the benefit level for years worked without the ceiling imposed on civilian pension levels.

Impact:

o Shifts military cost liabilities to civil service pension system.

o Emphasizes view of military service as interchangeable with civilian employment.

o Ends military retired pay as an indentifiable entitlement for members employed in Federal government, but provides member with equivalent compensation level in another system.

o Provides equal treatment for all retired members employed by the Federal government.

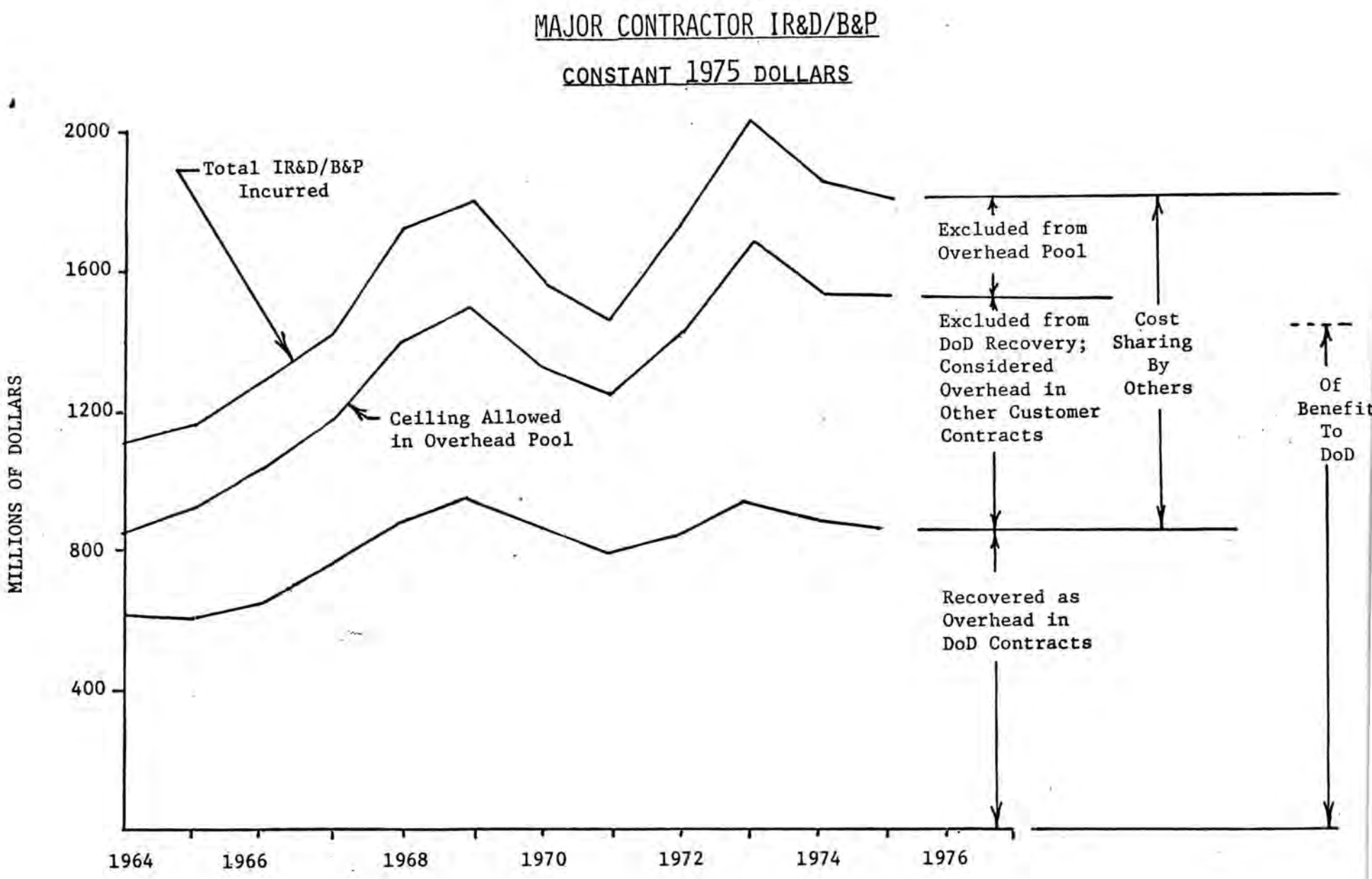
o The average pay rates of employees who are retired military personnel would be:

	Avg Civ Svc Pay	Avg Unif Svc Ret Pay		Total	
		Present	Alt #4	Present	Alt #4
Officer	$20,186	$10,224	0	$30,409	$20,186
Warrant Officer	15,086	7,070	0	22,156	15,086
Enlisted	12,306	5,147		17,452	12,306

o Assuming no change in ability to hire retired military personnel, reduces military retired pay costs by $825 million. Civilian payroll costs remain constant. Civil service pension system liabilities will increase. Detailed data to refine estimates not yet available.

o Numbers and quality of retired military personnel seeking Federal employment would probably decline severely.

C


MAJOR CONTRACTOR IR&D/B&P
CONSTANT 1975 DOLLARS
MILLIONS OF DOLLARS
2000
1600
1200
800
400
1964
1966
1968
1970
1972
1974
1976
Total IR&D/B&P Incurred
Ceiling Allowed in Overhead Pool
Excluded from Overhead Pool
Excluded from DoD Recovery; Considered Overhead in Other Customer Contracts
Cost Sharing By Others
Recovered as Overhead in DoD Contracts
Of Benefit To DoD

STATISTICS RELATING TO IR&D & B&P FOR MAJOR DEFENSE CONTRACTORS
(Millions of Current Year Dollars)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Sales												
Total Government and commercial	23,470	24,054	28,438	34,167	36,954	36,430	32,519	32,065	30,577	37,635	40,405	46,664
Total DoD only	16,442	15,644	17,889	21,371	22,275	22,692	21,315	19,568	19,117	21,148	21,690	24,461
% DoD sales to total sales	70%	65%	63%	63%	61%	62%	65%	61%	63%	56%	54%	52%
IR&D												
Total industry cost incurred	601	676	735	883	1,004	986	904	703	1,936	1,164	1,148	1,224
Total reimbursed on DoD contracts	270	274	315	369	410	468	436	354	392	441	457	493
Amount reimbursed on DoD contracts												
As of % of total incurred	45%	41%	43%	42%	41%	47%	48%	50%	42%	38%	40%	40%
As of % of DoD sales	1.64%	1.75%	1.76%	1.73%	1.84%	2.06%	2.04%	1.86%	2.05%	2.09%	2.17%	2.02%
B&P												
Total industry cost incurred	252	277	315	338	387	426	414	428	469	553	546	595
Total reimbursed on DoD contracts	182	186	202	230	275	286	278	265	306	360	351	384
Amount reimbursed on DoD contracts												
As of % of total incurred	72%	67%	64%	68%	71%	67%	67%	62%	65%	65%	64%	65%
As of % of DoD sales	1.11%	1.19%	1.13%	1.08%	1.23%	1.26%	1.30%	1.35%	1.60%	1.70%	1.62%	1.57%

SOURCE: Annual DCAA Report, "Summary of IR&D and B&P Costs Incurred by Major Defense Contractors"

D

FACT SHEET

Minish Bill (HR 4082) to extend and expand the Renegotiation Act of 1951. The major provisions and our comments on the Minish Bill are as follows.

a. Gives Renegotiation Act of 1951 indefinite life instead of extending it on a year to year basis:

We do not object to this provision.

b. Reorganizes the Board to function on a permanent basis:

The bill makes the Board bi-partisan. We have no comment on this section of the bill.

c. Changes the method of negotiation in two ways:

(1) Percentage of completion method to account for profit on long term contracts will no longer be acceptable for renegotiation purposes. This creates serious distortions in profitability from year to year and is contrary to generally accepted accounting principles. We are opposed to this.

(2) Changes the determination of excess profits from an aggregate of the company's total renegotiable business to determination by division and by major product line within a division. We are opposed to this because:

- This creates an accounting problem because defense contractors will have to allocate total assets and net worth to the divisional or major product line level.

- This creates an inequity because low profits or losses on one product line would not be offset against excess profits on another division or product line.

d. Requires defense contractors to provide cost and pricing data on articles sold on a commercial market price basis:

We feel that the Board needs to be able to determine the reasonableness of profits on commercial articles.

e. Makes it harder to qualify for commercial article exemption:

The bill raises the required percentage of free market sales from 55% to 75% in order to qualify as a standard commercial article. In view of the provision to collect data on commercial articles we believe this provision is premature. However, we do not object to the provision.

f. Raises the minimum values subject to renegotiation:

The bill raises minimum value of annual sales subject to renegotiation from $1,000,000 to $2,000,000 and annual manufacturing agents' fees from $25,000 to $50,000. We have no objection to this provision of the bill.

g. Imposes civil penalties for late filing or failure to file requested information and criminal penalties for furnishing false or misleading material.

The bill establishes civil penalties of $100 per day not to exceed $100,000 for late filing or failure to file requested information. Fines or imprisonment or both may be imposed for furnishing false or misleading material. We have no objection to these provisions of the bill.

h. Changes the basis to compute interest due the government on excess profits:

The bill changes the starting date for interest computations from the date the Board makes a determination that profits were excessive to the close of the contractor's fiscal year in which excess profits were made. We have no objection to this provision of the bill.

i. Provide the Board with subpoena power:

The bill provides the Board with authority to issue subpoenas requiring the production of books, records, documents, etc. We feel that the imposition of civil penalties makes subpoena power unnecessary. However, we do not object.

j. Requires Procurement activities to furnish audit support to the Board.

We understand the cost of audit support provided by the Department of Defense will be reimbursed by the Board. This should be clarified by adding the phrase "pursuant to section 107(c)(50 U.S.C. App. 1217(c))" in the third sentence after the phrase "upon request by the Board" in the third sentence of the amendment to section 105(e)(2).

k. Makes technical amendments:

The bill also contains several technical amendments to update the legislation to reflect government organizational changes, i.e., agency name changes. We have no objection to these amendments.

THE WHITE HOUSE
WASHINGTON

April 18, 1977

Bert Lance -

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

Rick Hutcheson

cc: Stu Eizenstat
Jack Watson

RE: Administration Position on H.R. 5959, The Renegotiation Reform Act of 1977

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
✓		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
✓		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
✓		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

THE PRESIDENT HAS SEEN.

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

April 15, 1977

Bert - Please let someone from OMB or this staff discuss briefly I Nickerson
J

INFORMATION

MEMORANDUM FOR: THE PRESIDENT

FROM: BERT LANCE Bert Lance by WBC

SUBJECT: Administration Position on H.R. 5959, The Renegotiation Reform Act of 1977

Per your request.

This is in response to your request for my staff's assessment of H.R. 5959, "The Minish Bill."

Background

Renegotiation originated in World War II and was carried on during Korea and Vietnam as a response to an economy which required urgent procurement with less than normal regard to price negotiations. There is substantial agreement that conditions have changed -- we no longer have an emergency economy and procurement procedures are improved and more relaxed. Opponents, therefore, argue that we do not have a continued need for renegotiation. We do not regard the elimination of renegotiation as a viable possibility. We do believe that the substantive impact of renegotiation, and the administrative effectiveness of the process, can be improved.

Principal Features of H.R. 5959

We support a number of provisions of H.R. 5959 which would substantially strengthen the Renegotiation Board. Briefly these provisions:

-- extend the Board's authority until 1982;

-- exempt from the Board's jurisdiction those firms with total sales under $4 million annually (the previous level was $1 million in annual sales);

-- restructure the Board for 5-year staggered terms, provide a bipartisan appointment requirement, strengthen the administrative authority of the Chairman, and upgrade the executive level of the Chairman from executive level V to level IV.

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-- authorize subpoena power for the Board; and

-- increase penalties for delinquencies and false or misleading information.

The bill also proposes a number of changes about which we have reservations. These provisions would:

-- change the basis of renegotiation from the aggregate company business done during a fiscal year to the business done during a fiscal year by each division and major product line.

Comment: This change would require special financial reporting from many contractors and subcontractors for renegotiation purposes, an additional burden requiring more paperwork. However, it must be recognized that there is a growing trend toward other agencies, such as Federal Trade Commission, requiring reporting on a segmented basis. More importantly, we believe the provision does not provide fair consideration to market and other circumstances that cause losses or low profits in portions of a contractor's business with the Federal Government. Under current law, the Board has adequate authority to analyze renegotiable business on a division or product line basis when warranted by a contractor's mismanagement or otherwise.

-- prohibit the percentage of completion method of accounting for the purpose of reporting renegotiable sales.

Comment: We can see no valid reason for not allowing contractors to use this accounting method. It is a generally accepted accounting procedure and to prohibit the use of it may result in many contractors having to institute new accounting procedures solely for renegotiation purposes and thereby increase Government procurement costs. The Board now has authority to require methods of accounting that adequately reflect a contractor's renegotiable income and costs. I agree

-- modify the existing exemption in the Act for standard commercial articles as follows:

1. The exemption for standard commercial articles would remain but the exemptions for certain "classes" of standard commercial articles and certain commercial "services" would be repealed.

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2. The required level of nondefense sales for exemption-qualification purposes would be increased to 75 percent from the current 55 percent.

3. The nonrenegotiable sales base to which the percentage qualification level is applied would no longer include sales to Federal Government agencies not covered by the Renegotiation Act.

4. Contractors would be required to furnish "complete cost and pricing data" on all articles subject to the exemption.

In addition, the Renegotiation Board would be directed to study all exemptions and to submit recommendations on their retention to the Congress by December 31, 1977.

Comment: We believe that the proposed study of the exemptions is appropriate. However, until such a study is completed, we believe it unwise to take the action called for in this provision. A study of the exemption, as called for in the bill, is needed, but it should be completed before and not after action is taken to modify the exemptions.

-- require that "Every financial statement ... shall be verified by an audit performed by the Board or its authorized audit representative."

Comment: At present, the Board has the authority to audit contractor books and records but is not required to do so. To require audits in all cases, even where the Board thinks they are not needed, will result in unnecessary additional resource requirements for the Board and needless burden for contractors.

I agree

-- provide that interest is to accrue on excessive profits from the period beginning after the last day of the fiscal year in which such profits are earned to the date of payment or recovery.

Comment: At present, interest accrues from 30 days after the date of the excessive profit determination by the Board. In many cases, it is difficult to determine who may be responsible, the Board or the contractor, for delays in the renegotiation process. In those cases where the Board is responsible for unnecessary delays, we believe it unfair to charge the contractor additional interest.

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-- require the Board to provide the Secretary of each affected Department a summary of each financial statement which reflects receipts of accruals under contracts with such Departments.

Comment: This provision would result in unnecessary additional reporting requirements. We believe that any necessary exchange of information can be adequately handled under administrative procedures.

General Concerns

These include:

- the additional cost impacts on contractors in complying with the above requirements and the reduction in competition for Government contracts which will ultimately be a burden to the Federal Government in the form of higher contract prices;

- the substantial additional resources needed by the Board to carry out these additional requirements;

- the institutionalizing on a mandatory basis of procedures now available to the Board for use when warranted in its discretion; and

- the questionable fairness of changing the renegotiation rules under existing contracts which were priced and entered into in reliance on current law.

Current Status

To assist us in evaluating the provisions of H.R. 5959, we have asked the Board to provide us with their estimates of what additional resources would be required if the bill were enacted. Office of Management and Budget staff are planning to meet with Chairman Chase and his staff on Monday, April 18, 1977, to discuss our concerns with H.R. 5959.

The Board currently has pending before the Office of Management and Budget a budget supplemental ($925,000 - 46 full-time permanent positions) and amendment ($2,465,000 - 89 full-time permanent positions) request to facilitate the reduction of the Board's current case backlog.

THE WHITE HOUSE
WASHINGTON

April 16, 1977

The Vice President
Midge Costanza
Hamilton Jordan
Bob Lipshutz
Frank Moore
Jody Powell
Jack Watson
Charlie Schultze

The attached memorandum has been sent to the President. This copy is for your information.

Rick Hutcheson

Re: Farm Policy

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
	X	MONDALE
	X	COSTANZA
		EIZENSTAT
	X	JORDAN
	X	LIPSHUTZ
	X	MOORE
	X	POWELL
	X	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
X	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
	X	SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

THE PRESIDENT HAS SEEN.

Schedule mtg w/ Sec Ag
J

THE WHITE HOUSE

WASHINGTON

April 15, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT Lynn

SUBJECT: Farm Policy

Our farm bill proposal has encountered a great deal of resistance within both Agriculture Committees of the Congress. Secretary Bergland reports there is no chance of holding the Administration's position in the House Committee. Chairman Foley has been most cooperative but he indicates that even with a concerted effort he could muster no more than 5 of the Committee's 46 votes.

The House Subcommittees have completed their work and the full Committee will begin deliberations early next week. Though the Subcommittees used our proposal for markup, the result bears little resemblance. For example, our proposed loan rate/income support levels for wheat of $2.25/$2.60 were raised to $2.50/$3.20. These and other changes would result in very large budget costs in periods of good weather -- in excess of $6 billion annually versus $1.1 billion under our proposal.

The outlook in the Senate is not much brighter. The full Committee begins markup next Tuesday using the Talmadge Bill. Under favorable weather conditions and assuming it is administered so as to minimize budget costs, we estimate this bill will cost about $2.7 billion annually. And, if the level of supports in that bill are raised, as some members favor, the cost could go higher.

Senator Bellmon has suggested the possibility of establishing an upper budget limit of $12 billion for a 5-year period and requiring the Secretary of Agriculture to administer the program in such a way as to remain within this limit. This would have the effect of requiring the use of acreage set-asides if favorable weather presses against the budget limit.

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On Tuesday, April 19, Secretary Bergland is scheduled to meet with House Committee Democrats to discuss the markup. He would very much like to be able to provide them guidance as to what is acceptable (and unacceptable) to the administration. If we are to head-off passage of an expensive farm bill (and the prospect of a veto) by offering a more acceptable alternative, this will be the time to do it.

If this is done, the principal concession must be in the income support level for wheat. This is the commodity group that is hurting economically and is most vocal politically. Loan rates for wheat cannot be raised any further without endangering our competitiveness in the international market. Congressmen Foley and Poage have developed a compromise that would raise the income support for wheat to about $3.00 and corn to $2.05. The latter change would have little budgetary effect since the loan rate would be left at $2.00 and market price should remain at or above the income support level. These changes, combined with a scaling down of the income support levels for sorghum, barley, and oats, would result in a yearly budget cost under favorable weather of about $2.2 billion (compared with $1.1 for our current proposal; $2.7 billion for the Talmadge bill; and $6.1 billion for the House Subcommittee proposal). We are told that Congressman Foley feels he could hold the line with these changes but that this is about as close as he can come to our current proposal. It is difficult to gauge the attitude of the Congress at large. Though there will be some resistance to very large budget costs, the resistance is not well organized.

From an economic viewpoint, our present position has a great deal of merit. Beyond keeping us competitive internationally, it holds budget costs down, tends to slow the escalation of farm land values, and protects farm income from disasterously low farm prices. Unfortunately, it provides fairly limited income protection to many of the younger more recent entrants into farming who have paid inflated prices for their land and are heavily indebted.

From a political standpoint, our proposal is in trouble. There is essentially no chance of sustaining it in the Congress.

We recommend that you discuss this situation with Secretary Bergland, if possible prior to his meeting with the House Democrats on Tuesday.

THE WHITE HOUSE
WASHINGTON

April 18, 1977

Tim Kraft

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

Rick Hutcheson

cc: Secretary Bergland
The Vice President
Stu Eizenstat
Jack Watson

Re: Farm Policy

THE WHITE HOUSE
WASHINGTON

cc Berglund

ACTION	FYI	
	✓	MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
	✓	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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	FOR INFORMATION
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		HUTCHESON
		JAGODA
		KING

X		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

THE WHITE HOUSE
WASHINGTON

April 18, 1977

Bob Linder -

Attached material is back-up for the Tennessee Disaster Denial sent to you earlier.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

for file

was sent to Gen Sy

gtn

Stu -
Does not seem to warrant "major" disaster status -
J

THE WHITE HOUSE

WASHINGTON

April 13, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
LYNN DAFT Lynn

SUBJECT: Recommendation for a Major Disaster Disaster Declaration Due to Flooding - Tennessee

Governor Blanton of Tennessee has requested a major disaster declaration because of the impact of the same severe storms and flooding that affected neighboring states during the period of April 4 - 7, 1977.

Members of the Federal Disaster Assistance Administration (FDAA) Regional Office staff in Atlanta have assessed the situation to determine the requirements for major disaster assistance. They found that five of the nine affected counties sustained damage to housing and that 62 families will require some form of temporary housing assistance.

The Department of Labor reported that 1,400 persons are, or have been, unemployed as a result of the storms and flooding. Since the State of Tennessee has a "one-week waiting period" requirement before persons are eligible for regular State unemployment insurance benefits, there will be a need for disaster unemployment assistance (DUA) payments of about $100,000.

The Small Business Administration (SBA) reported that there is an anticipated requirement for 752 homes and business disaster loans in the amount of $4,400,000. The Farmers Home Administration of the U.S. Department of Agriculture (USDA) reported that preliminary information indicated there will be a requirement for 50 emergency loans. This figure may increase as additional information is obtained. In addition, there is a need for the Emergency Conservation Measures Program of the Agricultural Stabilization and Conservation Service in the amount of about $1 million. The Food and Nutrition Service of USDA reported that an estimated 100 families would require emergency food stamp assistance.

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The assessment of damaged public property revealed that there is a significant requirement for Federal financial assistance to assist State and local governments in repair and restoration work, primarily on roads and bridges. It is estimated that this work could total in excess of $4,000,000.

On the basis of their investigation, the FDAA has concluded that this siutation is beyond the effective response capabilities of the State and local governments and recommends that you declare a major disaster for the State of Tennessee. We concur in this finding and recommend that you sign the attached.

ONE SIGNATURE NEEDED

THE WHITE HOUSE

WASHINGTON

April 18, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

I talked with Senator Byrd, He said the Press attempts to precipitate conflict between you and some Senators. He believes you should not allow this to happen.

cc: Hamilton Jordan

THE WHITE HOUSE

WASHINGTON

April 18, 1977

THE PRESIDENT HAS SEEN

MEMORANDUM FOR THE PRESIDENT

FROM: DAN TATE

SUBJECT: Conversation with Senator Robert Byrd Saturday Morning, April 16

For more than an hour Saturday, Senator Byrd gave me a straightforward account of his views on a number of topics. The Senator was uncharacteristically frank, but at all times respectful of you and appeared genuinely interested in working with and helping you. In making suggestions, he was not presumptuous. In offering criticism, he was not high-handed. In expressing disagreement, he was not bitter.

The Rebate Decision

The Senator feels that you were less than candid in your Wednesday evening telephone conversation with him. He showed me a newspaper report stating that you made the firm decision to drop the rebate at 6:00 p.m. Wednesday and immediately instructed Bert Lance to leak the decision to the press. However, later that evening, you merely indicated to him that you were "inclined" to reverse your position on the rebate, and he got the impression that you were not only seeking his personal advice, which he gave immediately, but were also asking him to gather other Senators' opinions and explore with them the possibility of a change in your position several days later. You did not give him an opportunity to touch bases with important colleagues (notably Senator Muskie) who had gone out on a limb in pushing the rebate for you and who might need a couple of days to cover themselves.

He suggested (1) that you should have trusted him enough to tell him precisely what the situation was and (2) that you should have allowed Senators enough time to retreat partially from the awkward positions they had assumed only for your benefit.

Attitude Toward Congress

Senator Byrd twice asked if you and your advisers) he specifically excluded Frank Moore) really recognized that a President

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cannot deal with the Congress in the same fashion that a governor deals with a state legislature. He seemed reluctant, almost fearful, in making that inquiry.

He said that the way you handled the rebate situation could have serious repercussions. When you again ask Congressional leaders to carry the ball on a controversial issue, some might not be willing to go to the wall, fearing that you might change your mind and leave them high and dry, embarrassed and battered politically.

SALT

Senator Byrd enthusiastically supports you on the arms limitation talks thus far. He wants you to continue to "hang tough." His major concern, and he emphasized this several times, is that you might let the media and others pressure you into going to a summit meeting with the Soviets or reaching an early agreement. He strongly urges that you not create too much pressure on yourself or let others generate enough pressure to force you into an agreement which is not the best one we could get. Any agreement will be carefully scrutinized by the Senate and if Senators get the impression that we rushed into the treaty, chances of its ratification will be irreparably harmed, regardless of its merits.

Inflation

Senator Byrd is greatly concerned about the economy and inflation. Your anti-inflation statement "did not grab" him. Obviously, he was not impressed, but did not elaborate.

Energy

The Senator is also deeply worried about the energy situation. However, in light of the tremendous cross currents in the Congress and the near impossibility of reaching a concensus there, he is not optimistic about your comprehensive energy package or many of its major components being passed intact.

Public Works Jobs Bill

Senator Byrd is working with Senator Randolph to break the impasse in the conference. He wants to help as much as possible.

Deadlines

In line with his warning about the dangers of your reaching a quick SALT agreement, the Senator expressed reservations about your setting specific deadlines for announcing major programs. He feels this creates too much pressure on you and can be counterproductive. He alluded to the April 20

deadline, which probably allowed us enough time to develop our views, but not enough time to do necessary missionary work ("consultation") on Capitol Hill. He suggests that delivering something not promised in advance is preferable to not being able to deliver effectively on something promised by a certain date.