

Meetings With Ford Cabinet, 11/76

Folder Citation: Collection: Office of Staff Secretary; Series: 1976 Campaign Transition File;

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Memo	<p>Watson, Aaron, Steadman to Carter, 22 pp Re: Defense Department</p> <p><i>OPENED 11/7/13</i></p>	11/20/76	A

FILE LOCATION

Carter Presidential Papers, Staff Offices, Office of Staff Secretary, Pre-Presidential Handwriting & Transition File, Meetings with Ford Cabinet, Box 3

11/76

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TO: PRESIDENT-ELECT CARTER
FROM: ECONOMICS TRANSITION TEAM *J. J. J.*
RE: NOVEMBER 22, 1976 MEETING WITH TREASURY SECRETARY SIMON
DATE: NOVEMBER 20, 1976

WE UNDERSTAND THAT YOU WILL MEET WITH SECRETARY SIMON ON MONDAY, AND THAT HE INTENDS TO BRIEF YOU ON ECONOMIC, FINANCIAL, AND OTHER MATTERS CURRENTLY AFFECTING THE TREASURY DEPARTMENT. THE PURPOSE OF THIS MEMORANDUM IS TO PROVIDE YOU BACKGROUND INFORMATION FOR THIS MEETING AND TO SUGGEST QUESTIONS WHICH YOU MIGHT ASK OF SIMON.

BECAUSE SECRETARY SIMON IS ONE OF THE MOST IDEOLOGICAL MEMBERS OF PRESIDENT FORD'S CABINET, HIS OPINIONS ON DOMESTIC ECONOMIC POLICY ARE NOT LIKELY TO GIVE YOU A VERY BALANCED VIEW. WE BELIEVE IT WOULD BE MOST USEFUL TO DRAW HIM OUT ON INTERNATIONAL ECONOMIC PROBLEMS AND THE NEW YORK CITY SITUATION.

I. INTERNATIONAL ECONOMIC AND FINANCIAL PROBLEMS

MOST EXPERTS BELIEVE THAT A SERIES OF IMPORTANT INTERNATIONAL ECONOMIC AND FINANCIAL PROBLEMS MAY CONFRONT YOUR ADMINISTRATION IN ITS FIRST FEW MONTHS. THE ECONOMIES OF THE MAJOR INDUSTRIALIZED NATIONS ARE INCREASINGLY INTERDEPENDENT, AND THESE PROBLEMS THUS CAN AFFECT OUR OWN ECONOMIC RECOVERY.

FIRST, OPEC IS WEIGHING AN INCREASE IN THE PRICE OF ITS EXPORTED OIL AND HAS BEEN PLANNING A DECEMBER 15 MEETING TO ACT ON IT. THERE HAVE BEEN INDICATIONS THAT AN INCREASE OF 10% OR SLIGHTLY MORE HAS BEEN CONSIDERED. ECONOMIC MINISTERS OF MANY IMPORTING COUNTRIES HAVE

ARGUED THAT SUCH AN INCREASE COULD SLOW OR EVEN ABORT THEIR ECONOMIC RECOVERIES, AND IT OBVIOUSLY WOULD HAVE A NEGATIVE EFFECT ON GROWTH AND INFLATION TRENDS IN THE U.S. AS YOU KNOW, THESE MINISTERS HAVE BEEN TRYING TO PERSUADE OPEC TO DEFER ITS MEETING OR THE PRICE INCREASE ITSELF. THERE IS SOME POSSIBILITY THAT THERE WILL BE NO OPEC PRICE INCREASE THIS YEAR SO THAT OPEC CAN NEGOTIATE WITH A NEW ADMINISTRATION.

SECRETARY SIMON, FORMERLY ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE, HAS HAD EXTENSIVE, PERSONAL EXPERIENCE IN NEGOTIATING WITH OPEC MEMBER COUNTRIES ON RECYCLING PETRODOLLAR FLOWS, BILATERAL ECONOMIC COOPERATION AGREEMENTS, ETC. YOU MIGHT ASK HIM:

1. WHAT ARE THE U.S. SOURCES OF NEGOTIATING LEVERAGE WITH OPEC?
2. WHAT IS THE POWER COMPOSITION OF OPEC -- IS SAUDI ARABIA DOMINANT; ARE IRAN AND/OR VENEZUELA ALSO HIGHLY INFLUENTIAL? WHAT DO THESE NATIONS SEEK FROM THE U.S.?
3. WHAT ARE THE POSITIONS OF OUR INDUSTRIALIZED ALLIES CONCERNING OPEC AND THE PROPOSED PRICE RISE?
4. WHAT OVERALL STRATEGY SHOULD THE U.S. PURSUE IN RELATING TO OPEC?

SECOND, BRITAIN AND ITALY CONTINUE TO EXPERIENCE SEVERE ECONOMIC CRISES, AND EACH IS NEGOTIATING WITH THE IMF FOR MULTI-BILLION DOLLAR LOANS. THE LEADERSHIP IN BOTH COUNTRIES HAS BEEN ENCOUNTERING GREAT POLITICAL DIFFICULTY IN PERSUADING THEIR LEGISLATURES TO SUPPORT NEEDED AUSTERITY PROGRAMS, E.G. INCOMES POLICIES, REDUCED PUBLIC SPENDING, ETC. INDEED, THERE IS SOME EVIDENCE THAT THE BRITISH LEADERSHIP

IS ENCOURAGING THE IMF TO INSIST ON SUCH AUSTERITY AS A CONDITION FOR THE REQUESTED LOANS.

YOU MIGHT ASK SECRETARY SIMON:

1. HOW SEVERE ARE THE FINANCIAL PROBLEMS OF THOSE TWO NATIONS? WILL THESE LOANS BE SUFFICIENT FOR ANY PROTRACTED PERIOD OR WILL FURTHER CREDITS BE REQUIRED?

2. HOW FAR CAN THE IMF PUSH THESE NATIONS CONCERNING AUSTERITY PROGRAMS WITHOUT CAUSING INTERNAL POLITICAL DISORDER?

THIRD, THERE ARE INCREASING INDICATIONS THAT NUMEROUS, LESSER DEVELOPED COUNTRIES (LDC'S) MAY BE UNABLE TO REPAY ON SCHEDULE THEIR EXTERNAL DEBTS. THE COMBINATION OF WORLDWIDE 1974/1975 RECESSION CONDITIONS AND HIGHER OIL PRICES RESULTED IN LARGE BALANCE OF PAYMENTS DEFICITS FOR MANY OF THESE, AND THEY RESORTED TO FOREIGN BORROWINGS. A SUBSTANTIAL AMOUNT OF THESE LOANS WAS PROVIDED BY THE U.S. COMMERCIAL BANKING SYSTEM.

IT MAY BE HELPFUL TO SOLICIT SIMON'S VIEWS CONCERNING THE LIKELIHOOD AND SEVERITY OF "LDC BANKRUPTCIES," (THEY PROBABLY WOULD TAKE THE FORM OF MORATORIA ON PRINCIPAL PAYMENTS) BOTH ON THE WORLD FINANCIAL SYSTEM AND ON THE U.S. BANKING SYSTEM.

FOURTH, MANY HAVE CALLED FOR AN ECONOMIC SUMMIT MEETING, IN THE IMMEDIATE POST-INAUGURATION PERIOD, INVOLVING YOU AND THE LEADERS OF THE MAJOR INDUSTRIALIZED NATIONS. TWO SUCH MEETINGS HAVE BEEN HELD DURING THE PAST TWO YEARS, AT RAMBOUILLET, FRANCE AND PUERTO RICO. SUCH MEETINGS WOULD SEEM CONSISTENT WITH YOUR CALL FOR CLOSER COOPERATION IN MACRO-ECONOMIC POLICY-MAKING AMONG THE INDUS-

TRIALIZED NATIONS. ON THE OTHER HAND, SUCH MEETINGS ARE OFTEN COSMETIC, AND YOU WILL HAVE LITTLE TIME FOR SUCH ACTIVITIES IN THE FIRST FEW MONTHS OF YOUR ADMINISTRATION. IT WOULD SEEM USEFUL, SINCE SECRETARY SIMON PARTICIPATED IN THESE SUMMITS, TO ASK HIM WHETHER THEY CAN BE GENERALLY USEFUL IN ACHIEVING COORDINATION IN POLICY-MAKING, AND WHETHER ANOTHER ECONOMIC SUMMIT MEETING WOULD BE ADVISABLE IN EARLY 1977.

II. NEW YORK CITY ISSUES FOR SIMON MEETING

YOU WILL BE GETTING A MORE DETAILED MEMO ON THE NEW YORK SITUATION.

AS YOU KNOW, THE FEDERAL LAW ENACTED LAST YEAR FOR NYC PROVIDED "SEASONAL FINANCING LOANS." THIS SERVES ONLY TO TAKE CARE OF NYC'S CASH FLOW NEEDS -- I.E., TO PAY FOR ANTICIPATED REVENUE THAT DOES NOT COME INTO THE CITY'S COFFERS WHEN IT IS NEEDED TO PAY BILLS. THIS IS THE SAME AS REVENUE SHARING, WHICH COMES IN AT THE END OF THE QUARTER BUT IS NEEDED TO MEET COSTS DURING A QUARTER. THE CITY BORROWS AT THE BEGINNING OF A PARTICULAR TIME PERIOD AND PAYS OFF LOANS AS THE ANTICIPATED REVENUE IS RECEIVED. THERE IS AT THE PRESENT TIME A LIMIT OF \$2.3 BILLION OF SEASONAL FINANCING FOR NEW YORK CITY FOR THE PERIOD JULY 1976 TO JULY 1977. YOU SHOULD NOTE THAT THE FEDERAL GOVERNMENT ACTUALLY MAKES MONEY ON THIS SEASONAL FINANCING FOR NEW YORK CITY. THE FOLLOWING ARE THE MAIN QUESTIONS TO RAISE WITH SIMON:

1. WHAT IS SIMON'S GENERAL ASSESSMENT OF THE NEW YORK SITUATION?

2. WILL SIMON EXTEND THE SCHEDULED SEASONAL FINANCING FOR DECEMBER?

3. WILL SIMON EXTEND THE SCHEDULED SEASONAL FINANCING FOR JANUARY?

4. IF OTHER PARTIES TO THE CREDIT AGREEMENT, SUCH AS THE PENSION FUNDS, DO NOT MAKE THEIR EXPECTED PURCHASES, CAN SIMON PICK UP THOSE SEASONAL FINANCING NEEDS IN JANUARY?

5. WHAT IS SIMON'S GENERAL OPINION ON HOW TO HANDLE THE \$1 BILLION UNDER THE MORATORIUM THAT HAS BEEN DECLARED UNCONSTITUTIONAL BY THE NEW YORK STATE COURT OF APPEALS?

6. WHAT IS SIMON'S GENERAL OPINION ON HOW THIS DECISION ON THE MORATORIUM WILL AFFECT (A) THE MUNICIPAL MARKET; (B) OTHER CITIES; (C) THE ECONOMY AS A WHOLE?

III. THE "PROCESS" OF U.S. ECONOMIC POLICY-MAKING

THERE HAVE BEEN NUMEROUS CHANGES IN THE ORGANIZATION OF OUR ECONOMIC POLICY-MAKING, BOTH FOREIGN AND DOMESTIC, WITHIN THE PAST SEVERAL YEARS. CURRENTLY, THE WHITE HOUSE-BASED ECONOMIC POLICY BOARD (EPB) IS THE PRINCIPAL MECHANISM FOR FORMULATING ECONOMIC POLICIES RELATING TO THE DOMESTIC ECONOMY. SECRETARY SIMON IS CHAIRMAN OF EPB, WHICH HAS SOMEWHAT SUPERSEDED THE MORE NARROWLY BASED "TROIKA" OF THE TREASURY SECRETARY, DIRECTOR OF OMB AND THE CHAIRMAN OF CEA. *effective?*

CONCERNING FOREIGN ECONOMIC POLICY, THE "PROCESS" IS IN CONSIDERABLE DISARRAY. THE COUNCIL ON INTERNATIONAL ECONOMIC POLICY (CIEP), IS THEORETICALLY RESPONSIBLE FOR FORMULATING AND RECOMMENDING FOREIGN ECONOMIC POLICIES. YET, MOST OBSERVERS BELIEVE IT IS USED ONLY SLIGHTLY EVEN AS A CONSULTATIVE BODY. AS A RESULT, THERE ARE

MULTIPLE U.S. SPOKESMEN CONVEYING DIFFERENT POSITIONS ON IDENTICAL ISSUES INVOLVING INTERNATIONAL ECONOMIC AFFAIRS.

WE SUGGEST THAT YOU ASK SECRETARY SIMON THE FOLLOWING:

1. DOES THE PRESENT ECONOMIC POLICY BOARD REPRESENT A SUCCESSFUL APPROACH TO FORMULATING ECONOMIC POLICIES IN AN OPEN, COLLABORATIVE MANNER? WHAT IMPROVEMENTS MIGHT BE MADE IN THIS PROCESS?

2. HOW MIGHT THE PROCESS OF FOREIGN ECONOMY POLICY-MAKING BE REORGANIZED? HOW SHOULD THE TREASURY AND STATE DEPARTMENTS AND OTHER DEPARTMENTS, RELATE TO THE WHITE HOUSE ON IT?

IV. DOMESTIC ECONOMIC CONDITIONS

NUMEROUS LEADING ECONOMISTS ARE REDUCING THEIR ECONOMIC GROWTH FORECASTS FOR THE FOURTH QUARTER AND 1977. THERE IS NO EXPECTATION AT THE MOMENT, HOWEVER, OF A RECESSION NEXT YEAR. ALTERNATIVELY, AN AVERAGE GROWTH RATE OF APPROXIMATELY 5.5% (AND 6.5% NEXT YEAR) OVER THE NEXT FOUR YEARS HAS BEEN ESTIMATED AS NECESSARY TO EVENTUALLY REDUCE UNEMPLOYMENT TO THE 4-4½% LEVEL WHICH YOU HAVE DISCUSSED. IT IS INCREASINGLY QUESTIONABLE AS TO WHETHER THIS RATE NOW CAN BE ACHIEVED FOR 1977, WITHOUT ADDITIONAL STIMULUS.

WE SUGGEST THAT YOU SOLICIT SECRETARY SIMON'S VIEWS CONCERNING THE FOLLOWING. (IT SHOULD BE NOTED THAT HE IS QUITE CONSERVATIVE, IS HIGHLY INFLATION-SENSITIVE, AND HAS GENERALLY EVIDENCED SATISFACTION WITH THE "SLOW BUT STEADY" ECONOMIC PACE.)

1. HIS PERCEPTION OF THE CURRENT PACE OF THE ECONOMIC RECOVERY; WHY THE "PAUSE" HAS BEEN EXTENDED, WHY BUSINESS INVESTMENT AND UNEMPLOYMENT HAVE BEEN DISAPPOINTING, AND WHETHER THIS PACE IS ADEQUATE/INADEQUATE FOR U.S. ECONOMIC AND SOCIAL HEALTH?

2. HIS EXPECTATIONS CONCERNING THIS FOURTH QUARTER AND 1977; ECONOMIC GROWTH RATES, UNEMPLOYMENT AND INFLATION LEVELS, ETC., AND WHY. IN PARTICULAR, WHAT EVIDENCE EXISTS TO SUPPORT MR. GREENSPAN'S CONTENTION THAT THE PAUSE HAS ONLY "A SHORT TIME TO GO" AND THE OFFICIAL FORD ADMINISTRATION FORECAST OF 5.7% REAL GROWTH IN 1977.

V. POLICY ALTERNATIVES CONCERNING ADDITIONAL ECONOMIC STIMULUS

AS YOU KNOW, A POLICY DEBATE IS RAGING OVER WHAT FORM OF FISCAL STIMULUS MIGHT BE MOST APPROPRIATE AND EFFECTIVE. MANY ARGUE THAT ONE-TIME TAX REBATES OR CREDITS TO INDIVIDUALS CAN PROVIDE THE "QUICKEST" STIMULUS. OTHERS BELIEVE THAT ONE-TIME INDIVIDUAL TAX CUTS ARE PRIMARILY SAVED, NOT SPENT, AND THAT PERMANENT TAX REDUCTIONS ARE MORE EFFECTIVE. STILL OTHERS CONTEND THAT A MIX OF INDIVIDUAL AND CORPORATE TAX REDUCTIONS OR INCENTIVES, E.G. LIBERALIZED DEPRECIATION RATES, HIGHER INVESTMENT TAX CREDIT RATES, SHOULD BE USED.

which?

OF COURSE, A SEPARATE SCHOOL OF THOUGHT ARGUES FOR SPENDING STIMULUS ALONE, OR A COMBINATION OF TAX REDUCTIONS AND INCREASED SPENDING. THE ONLY AVAILABLE APPROACH TO INCREASED 1977 SPENDING INVOLVES USE OF EXISTING PROGRAMS. THOSE RELATING TO COUNTERCYCLICAL ASSISTANCE, GIVEN THE FLIGHT OF CENTRAL CITIES AND DECLINES IN THEIR

PUBLIC EMPLOYMENT, HAVE BEEN FREQUENTLY MENTIONED. ADDITIONALLY, INCREASED SPENDING FOR PUBLIC WORKS AND MANPOWER TRAINING ALSO HAS BEEN RECOMMENDED.

IT MIGHT BE USEFUL TO OBTAIN SECRETARY SIMON'S VIEWS CONCERNING:

-- THE ADVISABLE FORM OF FISCAL STIMULUS; TAX POLICY ALONE, AND IF SO, WHAT FORM OF TAX INCENTIVES TO GROWTH; SPENDING POLICY ALONE, AND WHAT CATEGORY OF SPENDING; A MIX OF TAX AND SPENDING POLICIES, WHICH ONES AND WHY.

YOU SHOULD INDICATE TO HIM THAT YOU WOULD LIKE YOUR STAFF TO COOPERATE WITH HIS STAFF ON THE TECHNICAL QUESTIONS INVOLVED.

TO: PRESIDENT-ELECT CARTER
FROM: BO CUTTER
JERRY JASINOWSKI
JACK WATSON
RE: MEETING WITH CHAIRMAN BURNS
DATE: NOVEMBER 20, 1976

Bible
Green book
Nixon - Set up CEA

IT IS ESSENTIAL IN YOUR MEETING WITH CHAIRMAN BURNS THAT YOU SET THE AGENDA FOR WHAT SHOULD BE DISCUSSED AND THAT HE NOT BE ALLOWED TO DOMINATE THE DISCUSSION. HE COULD EASILY DOMINATE BECAUSE HE IS ONE OF THE BEST ECONOMISTS IN THE COUNTRY, WITH GREAT DISCUSSION AND NEGOTIATING SKILLS. HE HAS A VAST KNOWLEDGE OF HOW THE ECONOMIC AND POLITICAL SYSTEM WORKS.

I. APPROACH TO THE MEETING

WE RECOMMEND THAT YOU HAVE THE FOLLOWING OBJECTIVES IN MIND FOR THIS INITIAL MEETING WITH ARTHUR BURNS:

1. TO TAKE THE MEASURE OF BURNS' INTELLECT AND STYLE AND TO ESTABLISH A BASIS FOR FUTURE COOPERATION BETWEEN THE WHITE HOUSE AND THE FEDERAL RESERVE. SUCH COOPERATION -- DESIRABLE AS IT MAY BE -- REQUIRES CERTAIN UNDERSTANDINGS: SPECIFICALLY, THAT THE FEDERAL RESERVE'S MONETARY INDEPENDENCE DOES NOT EXTEND TO INDEPENDENCE IN SETTING NATIONAL ECONOMIC GOALS; AND THAT THE PRESIDENT HAS EVERY RIGHT TO EXPECT ARTHUR BURNS' ECONOMIC POLICY ADVICE TO BE CONVEYED TO HIM IN PRIVATE RATHER THAN THROUGH THE PRESS.

2. TO SEEK BURNS' VIEW OF THE CURRENT STATE OF THE ECONOMY AND THE OUTLOOK FOR NEXT YEAR;

3. TO DISCUSS WITH BURNS YOUR ECONOMIC GOALS FOR NEXT YEAR AND TO DETERMINE THE EXTENT TO WHICH HE WILL SUPPORT THEM;

4. TO SOLICIT HIS VIEWS ON THE APPROPRIATE FISCAL POLICY ACTIONS THAT SHOULD BE TAKEN NEXT YEAR IF THE ECONOMIC RECOVERY CONTINUES TO BE SLUGGISH;

5. TO SOLICIT BURNS' VIEWS ON THE COURSE OF MONETARY POLICY NECESSARY TO SUPPORT THE ECONOMIC RECOVERY; AND

6. TO DISCUSS WITH BURNS HOW MONETARY AND FISCAL POLICY CAN BE PROPERLY COORDINATED. THIS WOULD INCLUDE A DISCUSSION OF YOUR POSITION THAT THE FED CHAIRMAN SHOULD SERVE A TERM COTERMINOUS WITH THE PRESIDENT.

IN DISCUSSING ALL OF THE ABOVE, WE SUGGEST THAT YOU PRESS BURNS FOR HIS JUSTIFICATION FOR THE POSITIONS HE TAKES. INDICATE YOU WOULD LIKE YOUR STAFF TO WORK WITH HIS STAFF ON THE TECHNICAL ASPECTS OF THE ISSUES YOU WILL BE DISCUSSING. YOU SHOULD ALSO ASK BURNS FOR A CONFIDENTIAL MEMORANDUM ON THE ISSUES YOU WILL BE DISCUSSING. WE STRONGLY URGE YOU NOT TO MAKE ANY COMMITMENTS TO BURNS' VIEWS IN THIS FIRST MEETING.

II. ECONOMIC OUTLOOK AND THE PROSPECTS FOR CONTINUED RECOVERY

EARLY THIS YEAR THE ADMINISTRATION PREDICTED THAT THE ECONOMY WOULD GROW BETWEEN 6-6½% AND THAT THE UNEMPLOYMENT RATE WOULD BE REDUCED A FULL PERCENTAGE POINT. IT IS EXTREMELY UNLIKELY THAT THIS FORECAST WILL NOW BE REALIZED.

AFTER A VERY STRONG FIRST QUARTER THIS YEAR, REAL GROWTH, AS MEASURED BY GNP, HAS SLOWED CONSIDERABLY. GROWTH RATES OF 4.5 PERCENT IN THE 2ND QUARTER AND 3.8 PERCENT IN THE THIRD, WHILE ADEQUATE IF WE WERE AT FULL EMPLOYMENT, WERE TOO WEAK TO PERMIT ANY REDUCTION IN THE EXTREMELY HIGH UNEMPLOYMENT RATE. IN FACT, THE

UNEMPLOYMENT RATE WAS HIGHER IN OCTOBER THAN IN JANUARY, 1976.

ALTHOUGH THE REASONS FOR THIS SLOWER GROWTH ARE NOT ENTIRELY CLEAR, SEVERAL SECTORS HAVE BEEN WEAKER THAN EXPECTED. FIRST, THE GOVERNMENT SECTOR, BECAUSE OF THE SHORTFALL IN SPENDING DURING BOTH FY 1977 AND THE TRANSITION QUARTER, DID NOT PROVIDE AS MUCH STIMULUS TO THE ECONOMY AS CONGRESS INTENDED. SECONDLY, THE LONG ANTICIPATED RECOVERY IN BUSINESS INVESTMENT CAME LATE AND HAS THUS FAR BEEN VERY WEAK. BUSINESS HAS TAKEN A CAUTIOUS APPROACH TO EXPANSION IN PLANT AND EQUIPMENT, PERHAPS IN PART BECAUSE OF THE SEVERITY OF THE 1974-75 RECESSION, AND IN PART BECAUSE OF THE POLITICAL UNDERTAINTIES IN AN ELECTION YEAR.

THE OUTLOOK FOR THE FOURTH QUARTER OF THIS YEAR IS NOT ENCOURAGING. THE FEW INDICATORS FOR OCTOBER WHICH ARE ALREADY AVAILABLE, EMPLOYMENT, INDUSTRIAL PRODUCTION AND RETAIL SALES, SUGGEST ANOTHER WEAK QUARTER OF GROWTH, IN THE RANGE OF 3-4%. SUCH A RATE OF GROWTH COULD LEAD TO FURTHER SMALL RISES IN THE UNEMPLOYMENT RATE.

YOU SHOULD SOLICIT BURNS' VIEWS ON THE CURRENT STATE OF THE ECONOMY AND HIS EXPLANATION OF WHY THE RECOVERY HAS FALTERED.

WITH RESPECT TO 1977, WHILE MANY FORECASTERS ARE SCALING DOWN THEIR ESTIMATES FOR GROWTH IN 1977, NO ONE IS PREDICTING ANOTHER RECESSION NEXT YEAR. HOWEVER, A GROWTH RATE OF ONLY 4 PERCENT IN 1977 (A NOT UNLIKELY PROSPECT GIVEN CURRENT POLICIES) WOULD LEAVE UNEMPLOYMENT STUCK ON ITS ALREADY HIGH PLATEAU AND WOULD FURTHER LIMIT YOUR ADMINISTRATION'S ABILITY TO FINANCE NEEDED SOCIAL PROGRAMS.

THE APPROXIMATE PARAMETERS OF THE POLICY DEBATE ARE THAT A LIKELY GROWTH RATE OF 4-4½% (OR LESS) IN THE FOURTH QUARTER AND THE EARLY PART OF NEXT YEAR WOULD BE A CLEAR SIGNAL OF THE NEED FOR

IMMEDIATE ADDITIONAL STIMULUS IN EARLY 1977.

BURNS HAS SAID HE BELIEVES WE WILL HAVE A STRONG RECOVERY NEXT YEAR. HIS PREDICTIONS IN THE PAST HAVE NOT ALWAYS BEEN GOOD -- HE MISSED THE TIMING AND MAGNITUDE OF THE 1974 RECESSION. YOU SHOULD ASK FOR THE SPECIFIC REASONS HE BELIEVES WE WILL HAVE A GOOD RECOVERY NEXT YEAR.

III. ECONOMIC GOALS AND COOPERATION ON MONETARY AND FISCAL POLICY

YOU SHOULD MAKE CLEAR TO BURNS IN YOUR CONVERSATION THAT YOUR TENTATIVE GOALS FOR 1977 ARE A 6 PERCENT GROWTH RATE IN REAL GNP, WHICH WILL PERMIT A REDUCTION IN THE UNEMPLOYMENT RATE TO THE 6 1/2 RANGE BY THE END OF THE YEAR. YOU SHOULD FURTHER STRESS THAT THESE TARGETS CAN AND SHOULD BE ACHIEVED WITHOUT ANY SIGNIFICANT ACCELERATION OF THE INFLATION RATE, GIVEN CURRENT UNDER-UTILIZATION OF BOTH LABOR AND PLANT CAPACITY.

THIS IS THE MOST IMPORTANT AREA OF DISCUSSION FOR YOUR FIRST MEETING. IT WOULD BE USEFUL AT THIS POINT TO ASSURE BURNS THAT YOU WANT TO AVOID A SITUATION IN WHICH THERE IS EITHER AN APPARENT OR ACTUAL CONFLICT OVER INCOME GOALS AND THE COORDINATION OF MONETARY AND FISCAL POLICIES.

AS PRESIDENT, YOU WILL WANT TO CONSULT REGULARLY WITH THE SECRETARY OF THE TREASURY, THE COUNCIL OF ECONOMIC ADVISERS, THE OMB DIRECTOR AND THE CHAIRMAN OF THE FEDERAL RESERVE. YOU WILL ALSO WANT TO ESTABLISH A WORKING RELATIONSHIP WITH THE FED CHAIRMAN TO INSURE INFORMAL AND CONTINUING DISCUSSIONS OF IMPORTANT PROBLEMS AS THEY ARISE. YOUR DESIRE FOR A PRODUCTIVE AND COOPERATIVE RELATIONSHIP SHOULD BE MADE CLEAR; AS SHOULD YOUR INTENTION TO ASK FOR AND VALUE HIS ADVICE. IN THIS REGARD, THE FOLLOWING ITEMS SHOULD BE DISCUSSED:

FIRST, YOU SHOULD STATE YOUR BELIEF THAT IT IS THE RESPONSIBILITY OF THE ADMINISTRATION AND THE CONGRESS -- NOT THE FEDERAL RESERVE SYSTEM -- TO ESTABLISH ECONOMIC GOALS. BURNS SHOULD BE ASKED ABOUT THE PROCESS OF SETTING GOALS AND THE FEDERAL RESERVE'S ROLE IN IMPLEMENTING THEM; HE SHOULD ALSO BE ASKED WHAT HE THINKS OUR PRESENT ECONOMIC GOALS OUGHT TO BE.

SECOND, YOU SHOULD ASK HIM WHAT MECHANISMS SHOULD BE USED TO COORDINATE MONETARY AND FISCAL POLICY. DOES HE BELIEVE THAT THE QUADRIAD MECHANISM (TREASURY, OMB, CEA AND THE FED) SHOULD BE REESTABLISHED AS THE MEANS FOR FOSTERING COOPERATION? YOU SHOULD CONVEY TO BURNS YOUR BELIEF THAT YOU HAVE A RIGHT TO RECEIVE HIS POLICY ADVICE IN PRIVATE AND BEFORE AN ISSUE IS RESOLVED, RATHER THAN THROUGH THE PRESS AND AFTER YOU HAVE MADE A DECISION.

THIRD, IT WOULD BE APPROPRIATE TO BRING UP THE QUESTION OF THE FED CHAIRMAN'S TERM OF OFFICE. THROUGHOUT THE CAMPAIGN YOU PROPOSED THAT THE CHAIRMAN'S TERM BE MADE COTERMINOUS WITH THAT OF THE PRESIDENT. IN THE PAST, BURNS HAS SUPPORTED THE CONCEPT OF A 4 YEAR TERM FOR THE FED CHAIRMAN, LAGGED ONE YEAR AFTER THE PRESIDENT TAKES OFFICE. IN OTHER WORDS, IF A PRESIDENT ASSUMES OFFICE IN JANUARY, 1977, HE COULD APPOINT A NEW CHAIRMAN IN JANUARY, 1978. BURNS CLAIMS THAT THE PRESIDENT NEEDS AT LEAST A SHORT PERIOD OF CONTINUITY IN ECONOMIC POLICY FROM ONE ADMINISTRATION TO THE NEXT. WHILE REASSURING BURNS THAT HIS OWN TERM WOULD BE UNAFFECTED BY ANY LEGISLATION YOU INTRODUCE, IT WOULD BE USEFUL TO DRAW HIM OUT IN MORE DETAIL ON HIS VIEWS ON A COTERMINOUS TERM. (INCIDENTALLY, FORMER FED CHAIRMAN WILLIAM McCHESNEY MARTIN SUBMITTED HIS RESIGNATION PRO-FORMA TO PRESIDENT-ELECT EISENHOWER, KENNEDY, JOHNSON AND NIXON.)

IV. MONETARY POLICY AND THE FEDERAL RESERVE'S SUPPORT OF THE RECOVERY

ON FRIDAY, THE FED ANNOUNCED A REDUCTION IN THE DISCOUNT RATE (THE RATE WHICH BANKS PAY WHEN THEY BORROW FROM THE FEDERAL RESERVE) FROM 5½% TO 5¼%. THIS IS A DEFINITE SIGN THAT THE FED IS CONCERNED ABOUT THE STRENGTH OF THE ECONOMY. ITS TIMING IMMEDIATELY BEFORE YOUR MEETING WITH BURNS SUGGESTS THAT HE IS SEEKING TO AVOID CONFLICT AND THAT HE SHARES YOUR CONCERN ABOUT THE ECONOMIC RECOVERY.

IN THE LAST 6 MONTHS, THE MONEY SUPPLY, AS DEFINED BY M₁ HAS INCREASED SLIGHTLY MORE THAN 5 PERCENT (M₁ CONSISTS OF CURRENCY AND CHECKING ACCOUNTS). THIS RATE OF INCREASE HAS PERMITTED THE TREASURY BILL RATE TO FALL SLIGHTLY (IT IS NOW BELOW 5 PERCENT) AND THE PRIME RATE TO DROP TO 6½%. AT THE PRESENT TIME IT WOULD BE FAIR TO SAY THAT WHILE MONETARY POLICY IS NOT IMPEDING THE RECOVERY, NEITHER IS IT PROVIDING STRONG SUPPORT.

IT WOULD BE COUNTERPRODUCTIVE FOR YOU TO ENGAGE BURNS IN A DEBATE ABOUT THE LEVELS OF M₁ OR M₂ AT THIS TIME. HE HAS EFFECTIVELY THWARTED CONGRESSIONAL OVERSIGHT OF HIS MONETARY POLICIES IN THE PAST BY LITERALLY SNOWING CONGRESS WITH HIS MONEY SUPPLY NUMBERS. YOU SHOULD, HOWEVER, EXPLORE WITH HIM WHAT SUPPORT HE WILL GIVE TO YOUR REAL GROWTH AND EMPLOYMENT OBJECTIVES FOR NEXT YEAR THROUGH AN ACCOMMODATIVE MONETARY POLICY.

V. FISCAL POLICY AND TAX CUTS

YOU SHOULD SOLICIT BURNS' VIEWS ON WHETHER HE WOULD SUPPORT ADDITIONAL FISCAL STIMULUS IF THE ECONOMY CONTINUES TO FALTER. THE RECENT STATEMENTS THAT HE IS OPPOSED TO A TAX CUT HAVE BEEN EXAGGERATED

BY THE PRESS. WE UNDERSTAND THAT HE OPPOSES A TAX REBATE BECAUSE HE BELIEVES MOST OF THE MONEY IS SAVED RATHER THAN SPENT, BUT MAY SUPPORT A BROAD-BASED, PERMANENT TAX CUT.

WE SUGGEST YOU ASK HIM:

- a) HOW MUCH THE ECONOMY WOULD HAVE TO FALTER BEFORE HE WOULD CONSIDER A TAX CUT;
- b) THE FORM OF A TAX CUT HE WOULD SUPPORT AND WHY; AND
- c) WHAT EXPENDITURE INCREASES, IF ANY, WOULD BURNS SUPPORT TO STIMULATE THE RECOVERY.

VI. BURNS' PHILOSOPHY

ALTHOUGH CONSERVATIVE, BURNS IS NOT A DOCTRINAIRE MAN. IN THE PAST HE HAS SUPPORTED:

- a) THE GOVERNMENT AS EMPLOYER OF LAST RESORT;
- b) SOME FORM OF VOLUNTARY WAGE AND PRICE POLICIES; AND,
- c) THE USE OF TARGETTED EMPLOYMENT PROGRAMS.

IF THERE IS TIME, YOU MAY WANT TO DRAW HIM OUT ON SOME OF THESE QUESTIONS.

VII. THE NEW YORK CITY SITUATION

IF TIME PERMITS, IT WOULD BE USEFUL FOR YOU TO SOLICIT BURNS' VIEWS ON THE NEW YORK SITUATION, AND WHAT IMPACT THE RECENT NEW YORK COURT ACTION TO INVALIDATE THE \$1 BILLION DEBT MORATORIUM MAY HAVE ON THE FINANCIAL MARKETS AND THE ECONOMY AS A WHOLE.

VIII. RECOMMENDATIONS ON APPOINTMENTS

WHILE THIS HAS LESS PRIORITY THAN THE ABOVE ITEMS, BURNS IS A

- 8 -

PROUD MAN AND HE WOULD BE FLATTERED TO BE ASKED ABOUT RECOMMENDATIONS
FOR SECRETARY OF THE TREASURY AND CHAIRMAN OF THE COUNCIL OF
ECONOMIC ADVISERS.

**CARTER - MONDALE
TRANSITION PLANNING GROUP**

*P.O. Box 2600
Washington, D.C. 20018*

C

MEMORANDUM FOR THE PRESIDENT-ELECT

FROM: HEW Transition Team

SUBJECT: Talking points for your meeting with HEW Secretary,
F. David Mathews

OVERVIEW

The Department of Health, Education, & Welfare has over 157,000 employees and an estimated budget (FY 1977) of \$142 billion -- more than 1/3 of the federal budget. The Department's responsibilities encompass:

1. Administration of most (but not all) federal income security and health insurance programs -- Medicare, Social Security, and the Supplemental Security Income Program for the Aged, Blind and Disabled (under the Social Security Administration), Medicaid and Aid to Families with Dependent Children (under the Social and Rehabilitation Service.) HEW does not, however, have responsibility for unemployment compensation (Labor Department), food stamps (Agriculture), the Federal Employees' Health System (Civil Service Commission), or the Veterans Administration.
2. Administration of federal grant and loan programs (direct and through state and local government) for health, education, and social services.

3. Responsibility for basic and applied research in the human services through the National Institutes for Health, the Alcohol, Drug Abuse & Mental Health Administration, the National Institute for Education, and research programs conducted by the Office for Child Development and other agencies within the Department.

4. Major law enforcement/compliance responsibilities -- including Food and Drug Administration; the Office for Civil Rights, which enforces prohibitions against discrimination based on sex or handicap, as well as race; and the regulatory responsibilities of the Social and Rehabilitation Service for setting and enforcing standards for nursing homes and other health providers.

The Department's activities are so diverse and its structure so complex that the job of the Secretary is often characterized as "impossible."

The consensus among observers is that Secretary Mathews has dealt with the problem by withdrawing to some extent from day-to-day administration to focus on two related overall problems -- simplification of HEW regulations and opening the entire HEW decision-making process to greater participation by the public, state and local government, and other constituent groups. Neither effort has reached its final stages. This withdrawal from day-to-day administration has led to characterization of Secretary Mathews as a "philosopher", as compared to more active recent "administrators" such as Secretaries Richardson and Weinberger.

SUGGESTED STRATEGY FOR THE MEETING

In a short meeting, it may be useful to focus on general policy and management questions, such as:

1. Refining your own "job profile" for the HEW Secretary, Undersecretary and agency team, and exploring alternative leadership models.
2. Exploring the management problems of the agency.
3. Defining interrelationships between a line agency and the White House, OMB, the Congress, and outside constituencies.

Although we have included material relevant to specific areas of federal health, education, and welfare policy, you may find a focus on more general management questions to be most productive.

GENERAL POLICY/MANAGEMENT

1. Role of the HEW Secretary: As you will recall, your current "job profile" for the HEW Secretary indicates that the position requires leadership in three critical areas: (a) political and legislative initiative, (b) management, and (c) program integration. In order to help determine where your own priorities lie among these areas, you may want to explore with Secretary the way he has seen his role, and how he has viewed that of the Undersecretary.

2. Relationship of HEW to the White House/OMB: In view of your desire to delegate primary responsibility for administration of the federal government to your cabinet officers, you may want to ask the Secretary what he would consider to be the most productive or appropriate relationship between the Executive Office of the President and an agency head. What type of support does a Secretary need to run an agency effectively? Most observers agree that there have been increasingly strained relations between HEW and both the White House and OMB over the past eight years.

3. Relationship of HEW to the Congress: Inasmuch as HEW is accountable to more than 30 Congressional committees and subcommittees, you may want to explore the Secretary's views of Hill relationships. You might want to seek his recommendations on ways for HEW to work most effectively with key leaders, particularly Representative Ullman and Senator Long. In particular, how much of his own time should the Secretary devote to Congressional relations; how much to management?

4. Manageability of the HEW enterprise: In view of your administration's priority on management and reorganization, you may want to focus on the critical issue of whether, in fact, the concept of the HEW agency is workable. Ideally, should health, education, and welfare functions be interrelated on the federal agency and/or local service delivery levels or should these agencies be separated? What administrative changes would make the enterprise more manageable? You may want to explore the Secretary's views on a separate Department of Education. Should such a department

consist solely of education functions within the present structure or should portions of other agencies -- such as job training from the Labor Department -- be included, as well?

A related management issue concerns the Secretary's efforts to try to simplify the language of federal regulations and solicit citizen input on federal policy. He has devoted considerable energy to this effort, including holding "town meetings" around the country, directing that staff be trained in the use of simpler language in writing regulations, and inviting persons to review drafts of regulations. His assessment of progress to date and necessary next steps to complete the project could be useful.

5. Intergovernmental Relations: HEW's relationship to states and localities is an area of considerable controversy. For example, what can be done generally to increase the level of cooperation between HEW and state/local government in development and implementation of policy. What should be the federal role in education? In the area of civil rights?

6. Interdepartmental Relationships: As you know, some of the most critical problems facing HEW cannot be handled by the department in a vacuum, e.g., welfare and jobs. Therefore, you may want to explore with the Secretary ways in which interdepartmental issues -- particularly economic and labor market issues -- can be dealt with effectively.

PROGRAM AREAS

1. Welfare Reform: As you know there are two approaches to welfare reform: 1) an incremental approach which attempts to rationalize and build on the existing system, and 2) fundamental redesign and consolidation of income security programs. Proponents of the first method proceed on the assumption that a multifaceted system is necessary to fulfill multiple needs, and that each of the present proposals for major overhaul and simplification of the welfare system involves serious unresolved design problems. Supporters of the second strategy argue that only a total rewriting of income support laws can fully resolve the inequities and inefficiencies of the present system.

During his tenure, Secretary Mathews has focused on the first alternative -- administrative attempts to tighten and improve the existing system (although his policy and planning office has also worked on major reform proposals).

Based on his experience with attempts to reform the present system, Secretary Mathews may have developed definite opinions concerning the feasibility of further tinkering with the system, or he may have firm views on what sorts of reforms or consolidation of programs may be warranted.

2. Social Security Financing: First, there are the short-term deficits that have been generated primarily by recent inflation and unemployment. The most recent projections indicate that, even with steady economic growth, the Social Security Trust

Fund will have net annual shortfalls rising from \$4.3 billion in 1976 to \$8.6 billion in 1981, when the Fund will be bankrupt. The Disability Trust Fund is in even worse shape, with rapidly rising caseloads now projected to drain the system by 1979.

Secondly, there is the long-term demographic problem of the apparent increase in the ratio of retirees to wage-earners in the period following 1990, leading to projections of massive "doomsday deficits" in the trust funds by the end of the century.

The administration last January proposed a .6% increase in the payroll tax rate, combined with minor benefit reductions, and corrections to the overcompensation for inflation in the schedule for payments to future retirees (so-called "decoupling"). Secretary Mathews may be able to recommend whether immediate (i.e., early 1977) action is necessary, given the continued economic pause and the negative macroeconomic impacts of a SS tax increase. He may also have recommendations on alternatives to a tax rate increase.

3. Health:

A. Reorganization and Management: Senator Talmadge has called for administrative reforms of Medicare and Medicaid in S. 3205. Specifically, he seeks to combine the Medicare, Medicaid, Office of Nursing Home Affairs and Bureau of Quality Assurance agencies into a single Administration for Health Care Financing headed by an Assistant Secretary.

It would be useful to learn Mathew's views on these reorganization/administrative proposals and to see if he has alternative proposals.

B. Cost Containment: During the decade from 1965 to 1975 per capita expenditures for health rose from \$198 to \$547, an average annual increase of 10.7 per cent. Health care outlays as a proportion of GNP have risen from 5.9% to 8.3%. The federal percentage of national health expenditures has risen from 12% to 28%.

Based on experience and the experiments undertaken by Social Security and others, what are the most promising cost containment techniques? How far along is HEW in developing prospective reimbursement methods for hospitals and for physicians? Are such methods likely to be more effective than patient cost-sharing?

C. National Health Planning: The National Health Planning and Resources Development Act of 1974 expires in 1977. Are any changes needed in the Act to enable it to accomplish its mission of controlling costs. How do we give local and state planning agencies the incentive and muscle to control construction of new hospital beds and the purchase of new equipment?

D. Immunizations: There has been considerable publicity about the failure of Americans to take swine flu immunization shots, but even better established immunization programs are not being widely utilized. In 1974, 37% of children ages one to four had not been immunized against polio. 44% had not been immunized against Rubella. 40% had not been immunized against measles. Are new efforts needed?

4. Education: During transition, we will be focusing on several areas that you may want to explore with the Secretary. Four

subjects of special importance will be:

A. The Future Direction of Expiring Legislation: These laws include the Elementary and Secondary Education Act, Emergency School Assistance Act, impact aid, libraries, and school lunch.

B. Budget Amendments: We will be focusing on commitments made during the campaign, including increased aid for handicapped, career education, student aid for college students, and for aid to the disadvantaged.

C. Options for a Potential Department of Education

D. White House Conference on Education: This is mandated by law, to be held before December 1977. To our knowledge no preparations for this conference have yet been made.

Most of these subjects relate to the broader question of what constitutes the appropriate role of the federal government in education. Legislative debates will continue to center on categorical-versus-block grants approaches. Since the Secretary is most familiar with problems of higher education, you may want to solicit his views on the federal role with respect to colleges and universities, inasmuch as they must deal with about 70 agencies at present for grants and contracts, without an overall federal policy.

* * * * *

We have been in touch with relevant individuals within the Department, with key congressional committee staffers, and with outside experts, including Tom Joe, John Palmer, Wilbur Cohen, Steve Kurzman (ex-HEW Assistant Secretary for Legislation), Ruth Hanft, and John Molahan (urban Institute.)

November 20, 1976

MEMORANDUM FOR THE PRESIDENT-ELECT

FROM: Jack Watson, W. Bowman Cutter

SUBJECT: Talking Points For Your Meeting with OMB Director
James T. Lynn, Monday, November 22

This memorandum consists of four parts: 1) a suggested strategy for the meeting; 2) a brief profile of Lynn; 3) a list of substantive issues about which you may wish to secure his views; and 4) specific requests for his cooperation.

1. A Suggested Strategy for the Meeting

Lynn can be helpful to the transition in two ways: he can make available to the Budget Analysis Group information and technical assistance in the development of FY 76 and 77 spending estimates—which are needed for your first economic policy decisions in January. He can also facilitate the development of your FY 78 budget package, by authorizing OMB staff consultation and advice to the Budget Analysis Group and the staff of your new OMB Director.

Lynn can refuse to help, on the grounds that OMB is heavily engaged in President Ford's last budget, which is privileged. But he is likely to want to be cooperative. It may help in securing his cooperation to begin your discussion by asking his views on the role and functioning of OMB, and on the operations of the federal government overall. He has a unique vantage point, and you may find his views of some use. Therefore, it is suggested that you approach the meeting in the following sequence:

- o a discussion of his views on OMB and the management and organization of the government. [See Part 3, below].
- o a discussion of the best ways to facilitate a smooth transition. [See Part 4, below].

2. A Brief Profile of Lynn

James T. Lynn is 49 years old, and a native of Ohio. He is a graduate of Western Reserve University and received his law degree from Harvard in 1951. He was appointed Director of OMB in 1975 by President Ford. Before that he was Secretary of the Department of Housing and Urban Development (1973 to 1975). He first joined the Nixon Administration in 1969, as General Counsel, Department of Commerce (later promoted to Under Secretary). Before entering government service he engaged in private law practice, mainly in Cleveland, Ohio.

Lynn has been given generally good marks in management as OMB director, but he has not shown strong skills in economics. He is very bright, reasonably straightforward, and an unabashed administration partisan.

At the meeting he will not agree to anything which will compromise Ford's control over his last budget (and therefore shouldn't be asked). But he otherwise will try to be cooperative and would be flattered if asked his views on government.

3. Lynn's Views on the Role and Functioning of OMB, and the Operation of the Government

You are well acquainted with each of the issues outlined below. Lynn may not contribute to your understanding of them, but it is worth finding out.

A. The OMB Director's relations with the President, the White House Staff and the Cabinet

Lynn has served under two presidents, each with very different styles of operation. It would be useful to know how he views the relationship between OMB and the Domestic Council.

In the Nixon Administration's scheme of things, the Domestic Council was to develop domestic policy and OMB to allocate resources, over-see policy execution, and evaluate results. This division of function has been viewed

with increasing scepticism by observers in and out of government, but it would be helpful to have the perceptions of a direct participant.

Similarly, the National Security Council during the last eight years attempted to preempt the field in national security policy development, with particularly heavy emphasis upon strategic nuclear issues. Recently a budget unit was created in the NSC staff, which enables the NSC to become the principle forum for some of the more important budget decisions—for example, Ford's choices on the Navy's shipbuilding programs last summer. Lynn may shed some light on problems created by this fragmentation of the budget process within the Executive Office of the President.

Lynn may also have interesting and worthwhile views on his relationship with the Cabinet. Every president vows to make extensive use of the Cabinet, yet all eventually have felt it necessary to center policy coordination and the power to shape decision choices in the White House staff. Lynn may offer insights as to the feasibility of reliance on the Cabinet, and the appropriate relationship between the OMB Director and Cabinet officers.

B. Assessment of Agency Competence

Lynn is an organization and management buff, and as OMB Director has principal responsibility for evaluating the organization and management of federal agencies within the Executive Branch. Personalities of the Cabinet officers aside, he may have useful comments on which agencies are organized well to develop and manage their programs; which are organized well but managed badly; and which are in serious trouble and need reorganization.

C. OMB Organization and Management

There are a host of issues regarding OMB which Lynn might like to discuss; given the general thrust of your plans for OMB, five topics should be of particular interest:

First, how well does OMB make use of analysis in its efforts to develop budget options and program alternatives for the President? There is some evidence that efforts to expand OMB's analytic competence beyond budget review and examination have been largely unsuccessful. It would be useful to learn Lynn's views on the possibilities for strengthening OMB capacity for analysis.

Second, how well does OMB's management role work? Lynn has made changes from the original Ash/Malek formula which enshrined management by objectives, though the agencies still view OMB's management initiatives as an unproductive exercise in paper flow.. It would be useful to know what balance Lynn found appropriate and what might be done in the future.

Third, what can be done to restore OMB's role in the defense and intelligence budget process? Unlike other executive branch agencies, the Defense Department's budget is not subjected to the normal independent review by OMB. Instead, there is a "joint review" by DOD and OMB officials, which is thoroughly dominated by the former. DOD determines the agenda, meetings are held in the Pentagon, OMB representatives are drastically outnumbered, etc. OMB does suggest alternatives to the President later in the year, but its position generally is far weaker as concerns Defense vice the other agencies. Changes to this process would permit greater control to be exercised over the defense budget, which is roughly one-fourth of the total Federal budget. Such changes also would permit greater budgetary

control of the intelligence community, most of which is funded within the defense budget. Finally, and aside from procedural changes, it may be desirable to reorganize and strengthen OMB's Directorate of National Security and International Affairs.

Fourth, should OMB control the government reorganization process planned for the new administration? OMB's present budget and management role gives it a potent vantage point from which a reorganization plan might be successfully implemented. Lynn should have a good feel for the feasibility of such a role for OMB.

Fifth, what are the prospects for multiyear budgeting? OMB must produce a report to the Congress on February 24, 1977, on the possibilities for advance appropriations and other forms of multiyear budgeting. Lynn should have a well developed sense about procedures for shifting to a multiyear budget process.

4. Transition Strategies

(Note: You might begin this discussion with a statement that you respect OMB's heavy workload in the coming months, and that you also think it inappropriate for your transition team to seek access to OMB's development of President Ford's FY 78 budget and other activities involving his agenda.)

In this part of the discussion you should raise three issues:

First, how should the new OMB Director relate to Lynn? There obviously will be background books, staff briefings, and lengthy discussions between Lynn and your new director. What is more important are Lynn's views about the most appropriate way for the new director to get up to speed smoothly and

quickly, when OMB more than any other federal agency will be engaged up to virtually the last minute with President Ford's budget--and you must submit your modifications to it a month after the Inauguration.

Second, what kinds of activities should the Transition Planning Group (especially the Budget Analysis Group) undertake to smooth the transition? In the main, the Budget Analysis Group will be busy developing the basis for your budget choices, and assisting the new OMB director until he recruits his staff. But Lynn may have suggestions from his vantage point of other activities which will facilitate a smooth transition.

Third, will it be possible to arrange for immediate staff level contact between OMB staff and the Budget Analysis Group? Direct contact with OMB staff and agency budget personnel is necessary to draw on the unique professional budgeting expertise of the Executive Branch. The Budget Analysis Group needs access to the skills and experience of career budget professionals and to the budget data regarding FY 1976, FY 77, and alternative revenue and expenditure paths for FY 1978 and beyond. OMB and agency budget staff are the best--and in many instances the only--informed source. For the next two weeks OMB staff will not be very busy, as the agency appeal process has not yet started.

November 20, 1976

PERSONAL & CONFIDENTIAL

MEMORANDUM

TO: Jimmy Carter

FROM: Jack Watson
David Aaron
Dick Steadman

RE: YOUR MEETING WITH SECRETARY RUMSFELD
Monday, November 22, 1976

Secretary Rumsfeld has since leaving Congress in 1969 been successively head of OEO, chief staffer for the Nixon Wage-Price operation, Ambassador to NATO, White House Chief of Staff, and Defense Secretary since November 20, 1975. As Secretary, he has not been deeply involved in weapon systems decisions (left largely to Deputy Secretary Clements) and he has not attempted strong centralized management of the Department. He has concentrated on relations with the Hill, the press and the public and on being a political counselor to President Ford. His skillful briefing manner -- especially on what he likes to call "Geo-Strategic" issues -- have been effective with Congress and the media, but he is not a substantive figure like Secretary Kissinger or his predecessor, James Schlesinger.

Accordingly, it is our view and the consensus of your key defense advisors that in this meeting you should seek to concentrate on organizational and staffing issues, not the substance of defense policy or international relations.

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Per: Rac Project

ESDN: NLC-126-1-5-1-5

BY: C NARA DATE 1/29/12

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It would be helpful if at some point you expressed your gratitude for DoD cooperation and constructive attitude on transition matters.

I. ORGANIZATIONAL ISSUES

There are three specific organizational issues that you might wish to discuss with Secretary Rumsfeld:

- Overall National Security Organization
- DoD Organization and Management
- Intelligence Community Organization

A. Overall National Security Organization

A key goal of the national security organization is to mesh foreign policy -- ^{presumably} ~~presumptively~~ the business of the State Department -- with the massive and costly Defense establishment. The President needs to foster effective leadership and decisions in these closely related areas, and to fit the Secretary of Defense in the various major organizational models.

1. Role of the National Security Advisor

The present system has severely reduced the role of the White House National Security Advisor -- General Brent Scowcroft -- and left foreign policy largely in the hands of Secretary Kissinger. There is a view that one of the chief problems of this arrangement is inadequate coordination with Defense on political-military matters (and with Treasury, etc., on international economic matters).

Clearly there have been rivalries and disputes between Rumsfeld and Kissinger over SALT and other issues. No doubt some of these problems (and some of the successes) of the present system are attributable to the personalities of the two men, but there may be general issues as well.

He is unlikely to volunteer comments but if questioned, Secretary Rumsfeld may be prepared to give fairly frank assessments of the present system -- divorced from personality issues.

Secretary Rumsfeld may also be a useful source of observations on the prior system -- which gave great power to Henry Kissinger as the National Security Advisor, (and, in principle, to the elaborate formal NSC machinery) and which made State very much a junior partner.

← ^{this} A particular problem with the more formal NSC machinery is that it puts heavy demands on the time of the senior Defense Department representative. (It was chiefly to fill that role that a second Deputy was created at Defense.)

2. Participation in Defense Program and Budget Decisions by Other Agencies

An issue never successfully addressed under either of the Nixon-Ford/Kissinger systems has been affording other agencies -- notably State, ACDA, and OMB -- a meaningful role in defense program and budget decisions. The Defense Program Review Committee (DPRC) was set up to perform this function within the NSC structure. It is composed of senior Defense Department, State Department, Treasury and OMB officials, and is formally responsible for relating defense programs and resource requirements to overall national priorities, foreign policies, and the federal budget.

The DPRC was given a difficult mission that was complicated by DoD resistance and Nixon and Kissinger's unwillingness to confront DoD on weapons issues. As a consequence, in the words of Secretary Kissinger, review of total defense policy and requirements has "not been distinguished," and the DPRC has fallen into disuse.

We suggest you ask Rumsfeld's views on how to have adequate Presidential and foreign policy participation in defense budget and policy formation without interfering with the Secretary's authority to manage the Department.

B. DOD ORGANIZATION AND MANAGEMENT

There are some internal DoD organization and management issues that you may want to discuss with Rumsfeld, either because of their intrinsic importance or because they affect decisions about the qualities needed by some high-level Defense appointees. Moreover, Rumsfeld has reportedly spent a fair amount of time planning how he would have organized the Department if Ford had won the election -- so he may have useful ideas on this subject.

1. Centralization vs. Decentralization

Office of the Sec/Def

McNamara centralized DoD decision-making in OSD. Laird sought to reverse this process, and from the outset downplayed the OSD/Systems Analysis role in budget and weapon systems decisions. In part, Laird's decentralization was an indirect result of the National Security Council system. The single Deputy Secretary (Packard) was chosen to "manage the building" and particularly to concentrate on procurement issues, but he found that much of his time was taken by the preparation for, and the meetings of, the numerous NSC senior-level committees. This development, combined with Laird's concentration on a few important issues (Vietnam, the All-Volunteer Force), served to decentralize management of the Department perhaps even more than Laird and Packard intended. The result was that the military Services themselves had de facto authority to make decisions in such areas as weapon development

and procurement relatively unchecked by civilian authority. Rumsfeld's actions, reducing further the OSD staff, has continued the trend.

In our opinion, given the nature of interservice rivalries, coherent defense strategy and force structures are unlikely to be achieved on a decentralized basis. Normally, the partisanship of the civilian Service Secretaries and their staffs who have managed the Services has served further to exacerbate the problem inherent in decentralization. On the other hand, the degree of centralization adopted by McNamara also had its disadvantages -- the massive detail to be dealt with at the top and the ill-will and resistance generated among the Uniformed Services.

Some questions you may want to raise with Rumsfeld in this area are:

- What are the strengths and weaknesses of centralized management of Defense? What have been the difficulties he has faced by having a decentralized system?
- What are the major institutional barriers to a Secretary establishing effective control of the Department? Would Civil Service reform, for example, be an important step in improving civilian staff and in reducing the need to rely on the Uniformed Services?
- What organizational changes, if any, are needed at the senior level in the Office of the Secretary of Defense? Are two Deputies desirable? Should there be more? Fewer?

2. The Joint Chiefs of Staff

The Joint Chiefs both direct operations of U. S. Forces, and make recommendations on force structure and policy (e.g, SALT). Most of the problems arise in their latter role. They are frequently said to proceed by log-rolling and to recommend either the highest common denominator (in force structure) of the vaguest one (in policy).

It might be useful to ask Rumsfeld what he thinks about the quality of advice from the Joint Chiefs in these latter areas and how it could be improved. For example:

- What proposals have the Chiefs made for changing the deployments of the existing force structure? Have they intelligently addressed significant changes, such as shifting carriers from the Pacific to the Atlantic, rearming lightly-armed Asian-oriented divisions to make them suitable for the European theater, building mobile strategic missiles, or modifying the amphibious role of the Marines? What could be done to encourage them to be innovative and free of service bias?
- Would it be useful to consider having the promotions of those assigned to the Joint Staff made by that staff rather than their individual Services? (This is often characterized by critics as a step toward a General Staff system).

3. Criteria for a Secretary of Defense

Both as a courtesy, and because of his experience, you

may want to ask Rumsfeld's views on what kind of person you should be looking for as Secretary and for other top DoD jobs. For example, how important are business skills? Prior expertise on defense policy? Congressional and/or political experience? You might also ask about "combinations" of qualities in the top positions, e.g., the need for a "business manager" deputy with a "policy" Secretary. What qualities are needed for the Service Secretaries?

C. Intelligence Community Organization

1. Role of the Director of Central Intelligence (DCI)

The Director has general responsibility under the 1947 National Security Act to coordinate the overall activities of the intelligence community. The Secretary of Defense, however, retains authority for allocating over 80% of the intelligence budget on the asserted ground that the Military Services need to retain control of intelligence activities in peacetime to prepare for wartime operations.

This leaves the DCI to try to rationalize intelligence activities without having the authority to manage all intelligence collection programs, to task the other intelligence agencies, or to direct the allocation of all intelligence resources. The DCI must depend on his personal relationship with the President and his role as Director of the CIA to carry out his coordination responsibilities. However, the DCI has historically not been able to insure overall efficiency in intelligence operations or to avoid unnecessary duplication and waste. Moreover, the DCI has often been viewed by other members of the intelligence community, particularly DoD, as a "biased" coordinator given his role as Director of CIA.

We suggest you ask Secretary Rumsfeld:

- Should the DCI be given greater responsibility for tasking intelligence operations and allocating intelligence budget resources?
- Should the DCI be separated from his role as Director of the Agency?

2. Defense Intelligence Organization

Defense intelligence operations serve the Secretary of Defense while at the same time supplying the Uniformed Services with intelligence necessary for their military operations. A new Deputy Secretary has been established with special responsibility for intelligence, but little seems to have been done to reduce duplication and waste. The Military Services continue to resist any effort to centralize intelligence operations allegedly for fear of downgrading their wartime combat intelligence capabilities. The Defense Intelligence Agency (DIA) continues to serve two masters, the Secretary of Defense and the Joint Chiefs of Staff. As a consequence, DIA does not effectively coordinate defense intelligence activities and has not replaced the intelligence operations of the separate military services. DIA has been accused of perpetuating the very faults it was created in 1961 to avoid -- duplication and inefficiency.

At issue is what degree of centralization of DoD intelligence activities is needed under the Secretary of Defense.

We suggest that you ask Secretary Rumsfeld:

- What should happen to DIA?

- Should DIA be established as part of the Office of the Secretary of Defense and a new small intelligence staff be created to serve the Chairman of the Joint Chiefs of Staff?

3. Objective National Intelligence

The primary purpose of the U. S. intelligence organizations is to provide objective national intelligence for the President and other members of the NSC. In the past, NIEs were reviewed by a Board of senior government officials and scholars assisted by their own staff to insure that the DCI's NIEs were objective and independent of departmental bias. Today, the DCI's staff of National Intelligence Officers coordinate the drafting of the National Intelligence Estimates (NIEs) with the rest of the intelligence community (including analysts in CIA, the Military Services, DIA, and the State Department's Bureau of Intelligence and Research). This solution, however, has raised questions about the objectivity of the NIEs, and it has been suggested that CIA has its own set of institutional biases which sometimes produce high, and sometimes low, estimates.

We suggest you ask Secretary Rumsfeld:

- What is his assessment of the quality and objectivity of the NIEs?
- Should responsibility for producing the NIEs be removed from CIA? Should responsibility be lodged again in an independent Board of senior advisers? Should the DCI appoint a new Deputy for Analysis with responsibility for insuring that all the views of the intelligence community are included in the NIEs?

D. Military Assistant In The White House

Why downgraded?

Traditionally, the Military Assistant in the White House has been a general officer, but Secretary Rumsfeld recently downgraded the position ~~to a colonel~~ strictly on the ground that the tasks were administrative, e.g., arranging ceremonial visits and scheduling aircraft. Apparently, in the past, the job included more substantive responsibilities which are now handled by the NSC staff, and was thought by some to be a potential alternative channel between the uniformed military services, and the President. You might ask Rumsfeld about the reasons for the change.

II. SUBSTANTIVE ISSUES

A. Pending Decisions

There have been press reports of efforts to accelerate Defense decisions to lock up issues before January 20. Areas where such changes have been made include cruise missiles, shipbuilding, a new ICBM ("MX"), some arms sales, and some base negotiations. The Defense Transition Group has been given a long list of decisions likely to be required soon after January 20, which includes most of the items mentioned in the press. In general, you should emphasize that you recognize the need for the Defense Department to continue to operate during the transition, but that you want to be kept informed -- through your transition people and, later, your new appointees. We suggest you ask Rumsfeld directly what major decisions he expects to make prior to January 20.

B. Defense Budget

The budget for the current year (FY 77, which began October 1) is \$112 billion. The budget to be submitted by the Ford Administration in

January for FY 78 probably will total \$10 to \$15 billion more. It will be several weeks before a final figure is determined -- after final decisions within DoD and the White House. Secretary Rumsfeld is likely to raise the issue, at least to give you a status report.

Last January, DoD forecast that its FY 78 budget needs would be about \$120 billion based on its 5-year program and anticipated inflation. It now appears that Defense will propose to President Ford to increase that sum by about \$7 billion. Several reasons are cited: (1) the growing Soviet threat; (2) Congressional actions and omissions; and (3) changed inflation assumptions. We understand that the current state of play on the budget is as follows:

- The Services requested \$133 billion, and the DoD budget "scrub" has reduced it to about \$127 billion.
- Rumsfeld and the Service Secretaries will review the budget this week to make final decisions -- this could reduce or increase the total by \$1 billion or so.
- The OMB Staff has identified further possible cuts totalling over \$10 billion.
- The Ford Administration continues to want to be able to present a program showing a balanced budget by FY 79 -- thus it is likely that efforts will be made to hold the DoD budget to around \$125 billion.

In short, the Defense budget is still very much in a state of flux.

Among the budget related issues that might arise are as follows:

1. B-1 Bomber. The decision to proceed with full scale production would require about \$1.5 billion in FY 78 funds. Defense will

address this issue in the next few weeks, although by statute there will be an opportunity to modify this decision after January 20. There is a very recent press report of an agreement between the Air Force and the contractor to avoid a final decision on the B-1 production until May 1. The probable reason is a judgment that more time increases the chance you will approve production.

2. Other Weapons. Decisions are also imminent on a new Army Tank, new Air Force ICBM ("MX"), nuclear strike cruiser, and the cruise missile -- a Navy and Air Force version or the Air Force version alone.

3. Navy Shipbuilding. This is the largest single area of procurement spending and one where sharp differences exist among the Navy, Admiral Rickover and other nuclear power advocates, and critics calling for re-direction toward smaller, cheaper ships.

If Rumsfeld raises budget issues, we suggest you press him for alternate budgets, to get a sense of the differences between the level requested by the Services (\$133 billion or so) and the lowest OMB alternative (\$115 billion or so). Further, you should know that OMB has not yet shared with the OMB transition group information on DoD budget requests and possible OMB suggestions for reduction. The DoD transition group has not yet faced this issue but it would be helpful if you impressed upon Rumsfeld your desire that your transition teams have a sound basis for understanding budget proposals -- in order that they, you, and the Secretary can be prepared to give alternative choices when you take office.

C. Briefings. Sec. Rumsfeld will offer to provide you with a series of briefings. One you must have not later than the early days of your Presidency. It concerns the Strategic Integrated Operating Plan (SIOP) and deals with Presidential command and the targeting and exchanges in a nuclear war.

At least one other would be useful to have promptly, a demonstration of the National Military Command Center (NMCC), which is in the Pentagon.

We believe that the site for these briefings is of some symbolic importance. The SIOP briefing concerns your role as Commander-in-Chief. Since you will not exercise that role in the Pentagon but from the White House, and to emphasize the principle of civilian control, we believe you should have this briefing at your location, either in Plains or later in the Situation Room in the White House. However, we believe it would be extremely helpful to your relations with the military establishment if you paid a visit to the Pentagon before you become President and must deal with Defense decisions. Accordingly, we recommend that you schedule time to do this and receive the NMCC briefing which would last about an hour. You could include also a short briefing on the structure and deployment of U.S. forces (less than $\frac{1}{2}$ hour) and, if you wished, an informal lunch with the Sec/Def and the Joint Chiefs. You would gain important goodwill from these gestures.

D. NATO

NATO is an area of particular interest to Secretary Rumsfeld since he was Ambassador to NATO for two years. Given this, it may be useful to request his views on key NATO questions:

- The status of programs to enhance U.S. combat power in Europe, including equipment modernization and shifting manpower from support to combat units.
- The adequacy of NATO's war planning with regard to the ability to meet a major Warsaw Pact attack with only limited warning (long vs. short war controversy). You might ask specifically about studies made of alternative strategies, when, by whom and with what findings.
- The implications of the move toward a "short-war" strategy for U.S. force structure -- especially the Navy.
- Status and prognosis for NATO Allies efforts to improve the combat effectiveness of their forces, and, more generally, to sustain their defense efforts in the next decade.

E. Other Issues Sec Rumsfeld may Raise:

Sec Rumsfeld has, we understand, been briefed on a variety of other current issues in preparation for your meeting. They include:

1. The Military Balance: Net Assessment

Sec Rumsfeld may give you a "geo-strategic" briefing, covering a broad range of issues -- presenting the Department's current conclusions on the threat, the balance of forces, and the international political and military situation. On the whole, it would be likely to be fairly pessimistic in tone and conclusions. Rather than being drawn into the substance of these questions, we suggest you emphasize:

- Your determination to base defense policy on a realistic and careful assessment of the threat and our capability (and our allies') to meet threats to our vital interests.

- Your interest in knowing not only conclusions, but the data, judgments, sources of information and uncertainties involved in the process.
- Your desire that your transition people, and appointees as named, have the fullest possible access to work done in this area, both at DoD and on an interagency basis.

2. Foreign Arms Sales. The DoD General Counsel is apparently conducting an investigation into management controls and possible corruption in this area. In addition, the Navy is well along in negotiating with Iran a major co-production agreement for land-based F-18 aircraft.

3. Shipbuilding Claims. There are pending before the Department and in litigation claims -- approaching \$2 billion -- by shipbuilding companies for compensation for cost escalation, and other contract disputes on Navy projects. The companies involved include Newport News Shipbuilding (aircraft carriers) and General Dynamics (submarines) and Litton (LHAs and destroyers) -- each claim totalling several hundred million dollars. Newport News has threatened to halt work on Navy projects if its claims aren't paid. The issue has important implications for the future of Naval construction, particularly of large nuclear-powered surface ships, and the relative roles of private and U.S. naval shipyards.

4. Tank Decision. The choice of a new main battle tank is the principal current ground force equipment modernization issue. Both Chrysler and GM produced prototypes. The Germans have also produced a tank with a larger (120mm) gun than the 105mm mounted on the U.S. tanks. The U.S. agreed to adopt the German tank if it proved better

than U.S. models. As a gesture to NATO standardization, in July the Army said it would explore mounting the German gun on the U.S. tank, and the Germans agreed to consider using the Chrysler engine. The Army recently announced its choice of the Chrysler tank as the U.S. candidate. The issue is complex involving questions of costs, NATO standardization, domestic politics and economics, and military efficiency. For example, the decision is likely to be seen as a symbol of U.S. seriousness about standardization, but the Army is unenthusiastic about attempting to incorporate the German gun on the U.S. tank at this late date.

5. SALT

If Secretary Rumsfeld raises SALT, we suggest that you discuss with him his views and those of the JCS. He will probably argue that the U.S. should not rush into compromises on these tricky issues of Backfire and cruise missiles and that the U.S. needs to hold off signing any agreement until the Soviets make major concessions.

[From your briefing memo for Secretary Kissinger, the following points on SALT are provided as background.]

The SALT negotiations are currently stalled over the specific issues of whether the new Soviet Backfire bomber should be counted as a strategic launcher and whether long-range cruise missiles or the platforms which carry them should be counted against the number of strategic launchers and/or the number of MIRV launchers. The U.S. proposal in January included:

-- Limits on the range of cruise missiles to 2400

kilometers. Heavy bombers carrying cruise missiles of

more than 600 kilometers would count against the 1320 ceiling on MIRV launchers:

- Ban on submarine launched cruise missiles of over 600 kilometers;
- Restrictions on cruise missiles on surface ships to a certain number;
- Limits on the number of Backfire bombers to around 400 in connection with a reduction in Vladivostok 2400 level by around 200.

Following a Soviet response which rejected any "explicit" ceiling on Backfire and a Soviet proposal for a ban on long-range cruise missiles on surface ships, the Defense Department raised a series of objections to the overall U.S. position. Specifically, Secretary Rumsfeld and the Director of ACDA argued that the U.S. should work for a Vladivostok agreement which included limits only on air-launched cruise missiles and for an "interim" agreement on a number of "theater strategic systems" including the Backfire bomber, sea-launched cruise missiles, land-launched cruise missiles, and the new Soviet SS-20 (*mobile*) missile. Since then the Soviets have rejected any interim or partial solutions, most recently at the General Assembly meetings in New York.

A separate SALT issue Secretary Rumsfeld may raise is the question of whether mobile missiles should be included within the Vladivostok agreement. On the table in Geneva is a Soviet proposal to ban deployment of land mobile missiles through 1985, but not to restrict future R&D. Secretary Rumsfeld has consistently opposed any ban on mobile missiles in SALT on the grounds that it would be unwise to constrain future deployments of the U.S. MX mobile missiles.

Suggestions of Senior Advisors (in the order of contact)

(All broadly agreed on the desirability of focusing on organizational issues affecting early personnel decisions, not details of substantive policy or net assessment analyses.)

Cy Vance thinks the Secretary should be questioned closely on combat readiness of our conventional forces with particular emphasis on heavy equipment within the Army, munitions, flyability of tactical aircraft and the status of Navy heavy surface vessels. He feels Rumsfeld might be particularly helpful to you in discussing both the organization within DoD and of the NSC system. Vance questions in particular the desirability of two Deputy Secretaries. He also feels Rumsfeld should be knowledgeable about readiness and balance of forces in NATO and believes he should be questioned carefully on the prospects for increased European contribution to NATO. On the budget, he suggests that you ask Rumsfeld what issues he would be bringing to you if he were your Secretary of Defense. Vance feels that reduction in costs in the personnel areas are probably the major opportunity for budgetary controls in DoD but questions whether an extended discussion of this with Rumsfeld would be useful. In the arms control-SALT area, he feels that you should concentrate on questioning Rumsfeld regarding his ideas on BACKFIRE and cruise missile limitations/verification issues. He noted that the B-1 is an obvious subject for discussion, but questions the usefulness of concentrating on this subject outside the broader context of net assessment/SALT negotiations. He believes you should raise the question of

the organization of intelligence gathering with particular emphasis on the authority for tasking. Should the DCI be given greater authority and budgetary control?

Harold Brown believes you should press Rumsfeld on net assessments and insofar as possible, the details as to how he gets there, although he notes that Rumsfeld may not be comfortable in this area. He believes you should discuss NATO strategy in the context of seeking to learn how much serious consideration has been given to alternative strategies - short versus long war and a discussion of the change in logistics and force structure requirements which would result in a change of a strategy. He also believes you should have Rumsfeld's assessment of the power balances in the Mid-East and his personal (in contrast to institutional) evaluation of the situation in Korea as well. Brown also feels that there are major budgetary opportunities in management of DoD manpower, but is uncertain as to Rumsfeld's ability to address this question in any detail. He feels that internal DoD reorganization possibilities and the organization of the NSC decision-making process are areas where Rumsfeld's comments might be particularly helpful to you.

Paul Nitze prepared a detailed list of possible questions. He suggested questions on "Broad Overview" including the nature of threats to the U.S.; from whom does Rumsfeld feel it is most possible to get balanced assessments of Soviet doctrine, capabilities and net US-USSR assessments; ^{and} ~~and~~ how does he rate the developing strategic, NATO, Naval and Middle East balances. What does Rumsfeld believe are the most time urgent and important policy decisions to be faced by the new administration on

budget and weapons, manpower policies and organization. How does Rumsfeld rate the relationship between OSD, the JCS and the Services on weapons development and acquisition and on operations. How would Rumsfeld recommend setting up a DoD Policy Planning organization optimally designed to work with State/CIA/NSC staff to support the President's foreign policy decisions? What are Rumsfeld's ideas on how best to strengthen procedures to protect the President's Commander-in-Chief role? What are his views on issues involving the Congress, including the possibility of extending the budget cycle to two years, Reserve policy, manpower compensation and retirement policies and repeal of legislation inhibiting efficiency such as Title 8? What are his views on negotiating with the Soviets on SALT, MBFR, sale of conventional arms, non-proliferation? What are his views on how best to organize DoD, including his assessment on the role of two Deputy Secretaries?

Jim Schlesinger thinks you will get little out of the meeting, and that it will be formal, noting that Rumsfeld is cautious and "pretty cagey." He thinks you should steer clear of weapon systems and strategic policy questions and concentrate on questions relating to procedures such as the NSC system and organizing DoD. He also thinks you should raise NATO and see if Rumsfeld might be interesting on this area.

Paul Warnke was located at an odd hour and in Australia and the conversation was thus brief. He thinks you should try to get Rumsfeld to assess the SALT positions of each of the Services and different areas within OSD (ISA, Defense Engineering DDRGE) in order to get a sense of institutional biases even within DoD. He feels you should seek Rumsfeld's views on DoD

organization, with particular reference to there being two Deputy Secretaries and on the NSC decision making process. He believes Rumsfeld's views on the Central European balance would be useful and that he should be questioned closely on the extent to which alternative deployment patterns and war strategies have been studied. Warnke suggests that Rumsfeld be asked how he is shaping U.S. forces to deal with possible contingencies in the Mid-East and Yugoslavia and that he be questioned carefully about the extent of his present dialogue with the JCS on responses the U.S. is capable of undertaking and the plausibility of threats we might make.

SECRETARY OF DEFENSE

DONALD H. RUMSFELD

Donald H. Rumsfeld was sworn into office as the thirteenth Secretary of Defense on November 20, 1975. He had been serving as Assistant to the President of the United States, chief of staff of the White House, and a member of the Cabinet since September 27, 1974, and had chaired President Gerald Ford's transition to the Presidency in August, 1974.

Born July 9, 1932, in Chicago, Illinois, he received a B.A. in Politics from Princeton University in 1954, and served in the United States Navy as an aviator from 1954 until 1957, and in the Naval Reserve thereafter.

Secretary Rumsfeld became active in government in 1958, serving on the staffs of two Congressmen. From 1960 to 1962, he was with a Chicago investment banking firm.

In 1962, he was elected to the U.S. House of Representatives from the Thirteenth Congressional District of Illinois to serve in the 88th Congress. He was re-elected in 1964, 1966, and 1968. In Congress, he served on the Joint Economic Committee, the Committee on Science and Aeronautics, and the Government Operations Committee.

In 1969, during his fourth term, Secretary Rumsfeld resigned his seat in the House to serve as Director of the Office of Economic Opportunity and a member of the Cabinet. In October 1971, he became Director of the Cost of Living Council. In February, 1973, he was appointed United States Ambassador to the North Atlantic Treaty Organization in Brussels, Belgium, where he served as the U.S. Permanent Representative on the North Atlantic Council, the Defense Planning Committee, and the Nuclear Planning Group.

Secretary Rumsfeld has received honorary degrees from Park College, Missouri; Lake Forest College, Illinois; and Illinois College, Illinois; and has been awarded the Opportunities Industrial Center's Executive Government Award and the Distinguished Eagle Scout Award.

Married in 1954 to the former Joyce Pierson of Wilmette, Illinois, they have daughters, Valerie and Marcy, ages 20 and 16, and a son, Nicholas, age 9.