

9/25/78 [1]

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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	Brzezinski to Pres. Carter, w/attachments 2 pp., re: Cabinet Official's travel to China <i>Serialized 5/20/88, BAE, 06 117</i> <i>opened per RAC NLC-126-14-25-1-8, 6/12/13</i>	9/23/78	A
Memo	Economic Policy Group to Pres. Carter, w/attachments 60 pp.,	9/19/78 <i>Open 10/24/96</i>	A
Memo	Robert Strauss to Pres. Carter, w/attachments 5 pp., re: Political Assesment of Tokyo Round <i>opened per RAC NLC-126-14-25-1-8, 6/12/13</i>	c.9/22/78	A
Memo	Brzezinski to Pres. Carter, w/attachments 3 pp., re: Committee on Angola rpt.	9/22/78	A

FILE LOCATION

Carter Presidential Papers-Staff Offices, Office of Staff Sec.-Presidential Handwriting File, 9/25/78 [1] Box 103

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ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

ZBIGNIEW BRZEZINSKI

SUBJECT:

Senate Select Committee Report

23

6



Per your request, I asked Stan Turner to review the letter you signed to Senator Bayh (Tab B) concerning the Senate Select Committee's report [redacted] before dispatching it. Stan suggests minor changes to make sure the committee is not left with any possible impression that you agree with its highly controversial findings.

RECOMMENDATION

That you sign Stan's revised letter at Tab A.

Attachment

Z. Brzezinski

CLASSIFIED BY
EXEMPT FROM GDS, RA, DECLASSIFICATION
SCHEDULE OF EXECUTIVE ORDER 11652 AND
EMERGENCY DECLASSIFICATION AUTHORITY
AUTHORITY: 25 USC 552 (a)
DATE: 11/30/07
(effective date of event, if any)

~~TOP SECRET~~

~~TOP SECRET~~

SANITIZED

per 11/30/07 NSC 16.
NL JC-06-117
BY BAR NARA, DATE 3/25/08

THE WHITE HOUSE

WASHINGTON

Sept 23, 1978

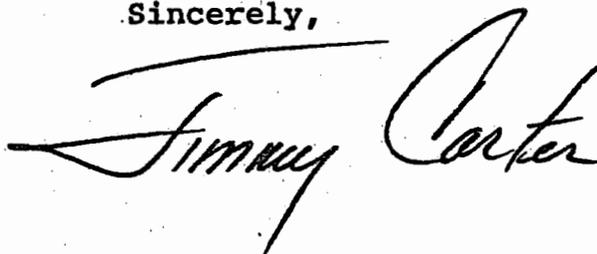
CA

To Chairman Birch Bayh

Thank you for sending me a copy of the Senate Select Committee on Intelligence report entitled [REDACTED]

[REDACTED]. The issues the report raises are fundamental. I want to reiterate to you and the Committee my personal commitment to effective oversight of the Intelligence Community. I know that Stan Turner will cooperate with you in that endeavor.

Sincerely,



The Honorable Birch Bayh
Chairman, Senate Select Committee
on Intelligence
United States Senate
Washington, D.C. 20510

SANITIZED
per 11/30/67 NSC 14r.
NLJC-06-117
BY BAS NARA, DATE 3/25/08

THE WHITE HOUSE
WASHINGTON

9/19/78

Mr. President:

Comments from Eizenstat,
Schultze, Marshall, Kreps,
and Owen are attached.

McIntyre's comment is
expected shortly.

In addition to the distri-
bution mentioned in Secre-
tary Blumenthal's note, a
copy of the memo was given
to Hamilton Jordan.

Rick

THE SECRETARY OF THE TREASURY
WASHINGTON, D. C. 20220

Sept 13th

Mr. President -

It is important that you meet with a very small group of your economic advisers on this, as soon as possible.

There are many potential benefits and also considerable risks in this program, which you will wish to consider in depth. But speed is important.

Given the sensitive nature of this - and the propensity for leaks - I am sending it to you sealed. Only the V.P., Charlie and Stu have copies.

Mike



CABINET ECONOMIC POLICY GROUP

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 13, 1978

Need long process

MEMORANDUM FOR: THE PRESIDENT

FROM : W. MICHAEL BLUMENTHAL, CHAIRMAN
ECONOMIC POLICY GROUP

SUBJECT : STRENGTHENED ANTI-INFLATION PROGRAM

WHB

This memorandum outlines an inflation program that your economic advisors would like to discuss with you. The program is significantly stronger than the existing one, but stops well short of controls.

The objective of the program is to reduce inflation in a fashion that is consistent with maintaining real incomes.

This objective can be achieved by instituting

- o an explicit numerical standard (trigger point) for wage increases
- o a strengthening of the current price deceleration standard consistent with the wage standard.
- o specific government measures that would be triggered when the standards are exceeded.

The need for a stronger program is illustrated by a summary of the inflation outlook in Part I. Part II outlines the program and Part III contains an evaluation, concentrating on the economic and political risks of adopting it. Two attachments describe the administrative costs of the program and the details of the use of Federal procurement to induce compliance with the wage price standards.

I. RECENT COST AND PRICE DEVELOPMENTS

Since late last year, inflationary pressures have worsened substantially. During the first 7 months of 1978, consumer prices have risen at a 10 percent annual rate. Part of the problem has stemmed from special factors -- the rapid rise of food prices, the effects of dollar depreciation on import prices and prices of domestically-produced substitutes, large increases in mortgage financing costs, and the effects of the

increase in the minimum wage and social security taxes on costs. But the problem goes beyond special factors. Quite apart from the effects of the rise in the minimum wage, wage rate increases are higher than a year ago; productivity growth has been lower than expected; and cost increases have been widespread. Moreover, in a few sectors of the economy, demand pressures have been pulling up prices.

The rise in food prices has begun to abate, slowing the rise in the overall consumer price measure to a 6-percent annual rate in July. Continued moderation in food prices is likely; in August, wholesale food prices dropped 1.5 percent, following a 0.3 percent decline in July.

Outside the food area, however, there has been no significant price deceleration. At both the wholesale and consumer levels, price increases outside the food area in July were at or above the 8 percent annual average of the first half of 1979. The August wholesale price report indicated some moderation of finished goods price increases, but it was not evident in intermediate products now moving through the pipeline.

Nor is there much prospect of a deceleration of nonfood prices in the months ahead. Recent sharp increases in materials costs will carry through subsequent production stages. While wage rate increases appear to have slowed somewhat in recent months, the pace is likely to quicken again as recent increases in consumer prices work their way into cost of living adjustments in wage contracts. Hourly wage rates in the private nonfarm sector already show year-over-year increases of around 8 percent.

At the same time, the productivity performance of the economy continues to be dismal. In the second quarter of the year, productivity was less than one percent above a year earlier.

The setting in which we approach the heavy calendar of labor negotiations for 1979 -- the Teamsters' negotiations begin in early November of this year -- is one of strong pressures on prices, higher wage rate increases, and sluggish productivity. And another boost to production costs will occur from scheduled increases in the minimum wage and in social security taxes at year end.

Inflation has been a major factor contributing to the weakness of the dollar. Continued declines in exchange rates are, in turn, adding to the inflation pressures through higher prices for imported items. Thus, the two problems are feeding on one another.

The current anti-inflation program must be strengthened. The concept of deceleration is too vague to encourage compliance by companies and workers. Moreover, the lack of an explicit numerical standard for wages and prices creates problems of defining a noninflationary wage increase in specific situations. We also believe, however, that efforts to influence wage-price decisions in the private sector should stop well short of mandatory controls.

II. OUTLINE OF THE PROPOSED PROGRAM

The wage and price standards have been designed to meet the following criteria:

1. They must be equitable, explicit, and easy to calculate with precision.
2. The standards should be stated in a form such that they appear to be a logical extension or firming up of the current program.

We have attempted to balance the conflicting objectives of administrative and conceptual simplicity with equity, economic rationality, and policy continuity. Admittedly, no standard can be perfectly fair. The only way to make a proposed standard more fair is to make it more complex -- to make exceptions for special situations. With complexity comes lawyers, hearings, delays, and confusion in the minds of the public. A simple standard, such as the one proposed here, administered in an enlightened way, would be best in political terms and would have the lowest administrative costs.

The standards listed below would distribute the anti-inflation burden as fairly as possible.

A. Wage Standard in 1979

1. The wage standard would be an explicit number.
 - o It would be expressed as a 7 percent limit on annual increases in wages plus private fringe payments.
 - It would be consistent with maintaining the real incomes of workers over the next year.

-- Under this program, annual productivity improvements would be applied to reducing inflation rather than being reflected in higher money wages.

- o In new collective bargaining situations, a contract in which wage and fringe increases average no more than 7 percent annually over the life of the contract would be consistent with the pay standard. Alternatively, a 100 percent cost of living adjustment would be acceptable.
- o Wage agreements signed prior to announcement of the program and government-mandated wage changes would be exempt from the pay standard.
- o Productivity bargains would be allowed where workers trade demonstrable improvements in work rules for wage increases higher than the standard.

B. The Price Standard in 1979

The price standard for 1979 would continue to be one of deceleration based on a target for economy-wide price increases, consistent with the 7 percent wage standard, of 5-3/4 percent.

1. This economy-wide objective is derived by adjusting the wage standard for increases in employment taxes and a projected 1-3/4 percent increase in productivity (7.0 +0.5 -1.75)
 - o It would be a deceleration of about 2 percentage points from this year's inflation rate.
2. This inflation objective is translated into explicit price deceleration standards for individual firms.
 - o Individual firms would be expected to limit their price increases to one-half of a percentage point below the firm's average annual rate of increase for the base period of 1976-77.
 - o In addition, if increases in wages and fringe benefits paid by a firm decelerate by more than 1/2 percentage point, prices should decelerate by commensurately more than 1/2 percentage point.
3. Firms that cannot meet the deceleration standard because of uncontrollable cost increases (for example, energy or raw materials cost increases) would be required to

show that their before-tax profit margin (on sales) is no higher than the average of the firm's two fiscal years ending before the inception of the program.

C. Multi-year Implications

If the program is successful both wage and price standards could be reduced each year. The annual reduction would be equal to the increase in economy-wide productivity less the slippage between the standards and realized results. Slippage would arise from true shortages (such as food); government actions that increase costs; and deviations from the wage and price standards.

<u>Annual Increases In</u>	<u>FY 1978</u>	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>
Wage Standard		7.0	6.0	5.0
Plus Employment Taxes		0.5	0.5	0.5
Equals Realized Wage Cost	9.0	7.5	6.5	5.5
Less Productivity	1.0	1.75	1.75	1.75
Equals Unit Labor Cost	8.0	5.75	4.75	3.75
Equals Price Objective	8.0	5.75	4.75	3.75
Plus Projected Slippage <u>1/</u>		0.5	0.5	0.5
Equals Price Forecast	8.0	6.25	5.25	4.25

1/ Wage and price actions above the standard.

D. Expected Inflation Outlook

We cannot realistically expect actual rates of wage and price increases during 1979 to match the standards.

- o Even under the best of circumstances there will be some upward "drift" of the average wage increase above the standard because of prior contract agreements and noncompliance.
- o On the basis of experience during the guidepost and controls eras, we would optimistically estimate an average rate of wage increase one-half of 1 percentage point above a 7 percent standard.

- o Thus, assuming this program is successful, the rate of increase of hourly labor compensation (inclusive of employment taxes) is likely to be around 8 percent under a 7 percent standard for wages plus private fringes.
- o If food-price inflation matched that of other items, the projected CPI increase for 1979 would be between 6 and 6-1/2 percent.
- o This program, if successful, would reduce 1979 inflation by about one percentage point from our current projections; and change the pattern from one of acceleration to deceleration.

E. Monitoring

1. CWPS would monitor industry price performance by following trends in the component items of the Wholesale and Consumer Price Indexes.
 - o Significant departures from a path of deceleration would trigger an investigation of individual firms in the industry.
 - o CWPS would use its existing powers to require firms to supply information on prices, costs, and profit margins.
2. CWPS would also monitor major industries (e.g., steel, aluminum, and autos) on a continual basis.
 - o The specific price targets for these industries would be publicly announced.
3. In addition, CWPS would undertake investigations of major product-line increases above 9-1/2 percent.
 - o This will help to prevent firms from taking advantage of the fact that the standard applies to companies rather than products in order to rationalize inordinate increases in some individual product lines.
 - o Because the price standards apply to companies rather than individual product lines, this monitoring activity would not be a focus of the program but it is a means of responding to specific problems.

F. Countermeasures

At the time that the wage and price standards are announced, the Administration would also announce that, unless extenuating circumstances suggest a different interpretation, wage or price increases above the standard would be interpreted as a sign of the existence of particularly inflationary conditions in the markets concerned -- shortages, excessive market power, shelter from competition, etc. The government would be prepared to take such steps as were within its power to alleviate such conditions.

The potential actions would include:

- (1) A Federal procurement policy that would require individual firms who do business with the government to certify compliance with the standards for wage and price increases on their total line of business.
 - o You have the general authority (with no additional legislation) to limit government purchases and contracts to firms that satisfy its definition of "responsible bidders." "Responsiveness" can be defined to require compliance with wage/price standards.
 - But, this authority has limitations which are discussed in Appendix A. In particular, these actions must be within the context of efforts to improve Federal procurement rather than as a tool for controlling economy-wide inflation.
 - o Compliance with the standards can similarly be required for Export-Import Bank loans. We are examining the situation for other government loan programs.
- (2) A set of ad hoc actions that the government is prepared to undertake in response to inflationary conditions in specific industries. These actions, which could be taken at any time after the announcement of the program, would include

- o requesting that the regulatory agencies, in their rate-setting functions, examine not only rates of return, but also the reasonableness of cost increases, using, as a general criterion, the Administration's wage and price standards;
 - o examining various restrictions on import competition and, where actions were administratively possible, taking them (e.g., ITC 201, steel trigger, and Buy America);
 - o examining the application of various regulations that set floors under wages or prices and, where administrative discretion was available, modifying such regulations (Davis-Bacon, Service Contract Act, etc.); and
 - o subjecting individual inflationary situations to public scrutiny and review through public hearings and reports by CWPS.
- (3) The government would also be prepared to apply the deceleration principle in guiding its own policy decisions that affect private sector prices.
- o For example, the Administration would examine the impact of its administrative and legislative proposals on agriculture and other markets with heavy government involvement.

This general approach is being used in Great Britain and France.

G. Other Government Actions

This program for private-sector behavior needs to be accompanied by some explicit government contributions to slowing the inflation. We cannot rely solely on standards for private sector behavior when the public believes that government is the primary villain. At the same time, we believe it would be a mistake to propose new legislation during this session of Congress or to call them back after the election. The options for current actions are limited. We are considering the following:

(1) 1980 Budget Objectives

An explicit statement on the 1980 budget could take two forms:

- (a) Reaffirmation of your prior statements that the deficit will be reduced to the \$30-\$40 billion range; that your objective of reducing Federal expenditures from 23 to 21 percent of GNP is ahead of schedule; and that the pattern of deficit reduction from \$66.4 billion in FY 1976 will continue; or
- (b) A statement that the budget will be reduced in FY 1980 to the low 30's.

While the second option is obviously stronger, it would restrict your freedom to propose revenue measures (e.g., social security tax reductions, tax incentives) with a direct impact on inflation as part of your January budget.

In citing the gains that have been made on employment and economic growth, you could indicate that continuation of the expansion is threatened by inflation and that we can make no further progress on unemployment until inflation is brought under control. This would signal a clear change in our policy priorities.

(2) Employment Limitation

You could enact a Federal employment freeze for an indefinite period of time. In practice, this would mean agencies would only fill 3 out of 4, or alternatively, 2 out of 4 existing vacancies as they occur. For the first three months, the 3-out-of-4 option would reduce Federal employment by 11 thousand, and the 2-out-of-4 option would reduce Federal employment by 22 thousand.

(3) Federal Regulation

You can cite initiatives that have been taken by the Administration and reaffirm your support for the deregulation efforts of the CAB (which have already substantially reduced air fares). You can also press other regulatory agencies to provide you with examples of their efforts to "sunset" old regulations. Finally, you could announce the postponement of one or two proposed regulations.

There are more significant steps that can be taken on deregulation, but they require legislation and announcement now would be premature.

(4) Legislative Proposals

You could state that in framing all future legislative proposals the problem of inflation will be given paramount importance.

(5) Monetary Policy

You could request that the FRB support the program by bringing interest rates down in step with reduced inflation. Because of prior experience during the Nixon price controls era, the FRB will be very leary about any specific commitment (the post-controls inflationary surge is attributed in part to an excessively loose monetary policy). They would probably respond with a generally supportive statement.

(6) Agriculture Policy

Although food processing and marketing are covered by the program, competitive agricultural markets will in practice be exempted from the wage/price standards. As most food-price fluctuations are due to developments at the farm level, this program does not respond adequately to the concerns of organized labor and the general public. We are therefore examining the possibility of appending to the program an explicit program for stabilizing farm prices.

III. EVALUATION

It is imperative that the current inflation program be strengthened.

- o Although the most recent price developments appear favorable, the improvement is largely in food prices. There is little evidence that the basic rate of inflation is decelerating.
- o Continued inflation is increasing the chances of recession. In the absence of other strong anti-inflation measures, the Federal Reserve will tighten monetary policy significantly further.

- o The decline in the dollar has momentarily halted, partly because foreign exchange markets anticipate new anti-inflation actions. Unless some action is announced shortly, the decline in the dollar is likely to resume.
- o Your willingness to address the inflation problem directly and firmly is increasingly being taken as evidence of this Administration's economic stewardship. The esteem we have earned for the significant progress your policies have achieved in reducing unemployment is offset by our failure to date on the inflation front.

All of these points argue for adoption now of a program to strengthen what is already underway. It must be recognized however, that a program such as that outlined above would have potentially far-reaching economic and political consequences. The major concerns are: (1) the implications of this decision for your future options on economic policy, and (2) the political impacts that will follow its announcement and implementations.

1. Implications for Future Policy Options

Your advisors believe this program has the potential for making a start on reducing the rate of inflation. But since it will rely heavily on voluntary cooperation of business and labor, its success is uncertain.

- o The ad hoc measures might be effective in specific situations, but they fall short of ensuring a uniform response to the standards.
 - The regulatory and Davis-Bacon measures are directed at a few specific industries.
 - The trade actions could be very important; but politically, it will be very difficult to use them in more than a few situations.
- o The government procurement policy of requiring adherence to the guidelines is, in principle, fairly broad.

- The procurement conditions could in some cases be applied to activities of a firm not directly related to its business with the government. This would be true for a firm whose governmental and non-governmental business were so intermingled as to make cost separation impossible.
- Subcontractors as well as prime contractors could be required to adhere to the standards on the portion of their business directed to the government contractor.
- Firms complying with the standards would create pressures for compliance by others through normal competitive forces.
- In practice, the major enforcement pressure would come from private auditors who will not certify financial statements that do not recognize challenged contracts.
- Those divisions of large corporate conglomerates whose output is principally directed toward Federal contracts would press hard for adherence to the standards as a matter of corporate policy.
- o But, the application of the procurement policy will be limited by several factors.
 - There will be a need for exceptions because of national security requirements, sole-source suppliers, and excessive impacts on individual firms (implying bankruptcy).
 - And many firms do little business with the government.
 - Thus, while the sanction will affect many firms, the magnitude of the potential impact on any one firm will vary enormously.
 - Most importantly, the legal authority requires that this policy be directed at improving Federal procurement rather than a general objective of reducing inflation within the overall economy. (This is a complex issue that is discussed more fully in Appendix A.)

- Finally, the Department of Defense is opposed to placing further burdens on the procurement process.
- o The anti-inflation program will work only if we enforce the standards with vigorous and effective countermeasures.
 - In the absence of strong and persistent follow-up, the public will be quick to infer that the program is a sham. Individual groups will cooperate only if they are convinced that others will be required to do the same.
 - Unlike mandatory controls, this program does not provide for an automatic sanction against every violation. Many sanctions will be undertaken on an "ad hoc" basis and there will be a political battle in every situation.
 - Hence, "jawboning" and applying public pressure are important parts of the program, and the successful operation of the program will require a heavy commitment of your time and prestige.
- o The alternative of a tax incentive program (TIP) cannot be implemented in time to meet the major inflationary threats in the next nine months, nor will it be responsive to the type of inflationary pressures we face in this period. It might, however, be a useful adjunct as part of a legislative program we could announce next January.
- o Other legislative options might be viewed as complementary to the proposed program but they would not stand alone as an anti-inflation program.
 - Deferral of minimum-wage increases and reduction in excise or employment taxes would encounter substantial opposition in the Congress; it is therefore unlikely that they would be passed promptly and without radical, perhaps debilitating revisions.

-- If some form of a general tax cut passes in this session of the Congress, there may be insufficient revenue for any major reduction in employment or sales/excise taxes.

- o Thus, you should realize that this program is the last step short of a commitment to high unemployment or legislation for wage/price controls as a means of containing inflation.

2. Political Benefits and Risks

Recent polls indicate that a majority of the public favors a strong anti-inflation policy that includes numerical wage/price guidelines. Moreover, general sentiment in favor of a strengthened program appears to be swelling as the inflation situation worsens and as the press speculates on the emergence of a stronger program. Hence, the general public reaction to the program should be highly favorable.

On the other hand, the announcement and implementation of this program will severely strain relations with major political interest groups.

- o Announcement and implementation of the wage and price standards might result in a sharp political split with organized labor and the business community.
 - If the program includes some action to postpone government regulations, there will be added opposition from environmental, health, and other special-interest groups.
- o The program could be viewed as an attempt to circumvent the Congress on the issue of controls.
- o As there is an enormous variation in the importance of Federal procurement to individual firms, the program could be viewed as highly inequitable.

There are many details of this program which we are refining. And there are concerns: for example, some of your advisors are worried about anticipatory price increases by those who interpret this program as a prelude to controls. We urge that you meet with us soon to review the program.

Attached at Tab A is an explanation of the procurement sanction. Several legal and administrative details connected with the procurement section will need further clarification this week. We discussed the program with the Justice Department, but there are some procedural details that we must explore further.

Tab B outlines the program's administration.

Appendix A: Procurement Policy

We have had extensive discussions with the Justice Department and others with respect to the relationship between procurement policy and anti-inflation policy. There are two basic questions that influence the structure of the program: (1) the extent of your authority to establish procurement policy and (2) the extent to which a contractor's activities can be subjected to a requirement to adhere to general wage and price guidelines.

I. Basic Authority

The Procurement Act gives you the general authority to condition government purchases on such terms that you consider appropriate.

- o However, those terms cannot conflict with other sections of the act or other legislation. For example, you do not have the authority to use these measures as a form of indirect wage and price controls.
- o Furthermore, the conditions that you establish must be consistent with the objective of making procurement cheaper for the government.
 - Thus, the procurement policy changes we propose must be kept separate from the general anti-inflation effort and should not be characterized as a general sanction within the anti-inflation program.
 - The two policies can be linked publicly by statements that the government is setting an example by following its own guidelines or that the government is trying to act as a prudent buyer should.
- o We are following a conservative interpretation of your authority in designing the procurement policy changes.
 - For example, this interpretation stops short of that used to justify minority hiring and equal employment requirements, which were subsequently upheld by the courts.
 - If this program is interpreted as controls, it is possible that a court would rule against the procurement conditions.
 - Justice believes that this case is defensible.

II. Who Would be Subject to the Procurement Conditions

Prime Contractors

The program could legally reach only those activities of a firm which have a reasonable accounting connection to the good or product purchased by the government or are likely to affect its price.

The principles can be illustrated by consideration of a company with separate products: bread, truck parts, auto parts and trucks. Only trucks are sold to the government.

- o The fact that the truck parts are components of trucks produced by that firm is sufficient to reach those parts even though most trucks are sold in the private sector.
- o The connection to auto parts and bread is an administrative one. It depends on the extent to which the costs and profits on these products cannot be administratively separated from the product sold to the government, but are instead commingled with the government product. There are three types of commingling, or sharing:
 - shared services or overhead,
 - inter- or intra-company transfers, and
 - shared accounting as a single profit center.
- o Shared services or overhead exist to some extent in all conglomerates. For example, the salary of the conglomerate president is always allocable, to some extent, to all subsidiaries in the conglomerate; however, assuming a reasonable allocation of this overhead can be made, it is not a basis for lumping separate divisions together.
- o The inter- or intra- company transfers may be a basis for treating a company as a consolidated unit and applying sanctions to the whole company. But if the company can account for its transfers at a price which can be independently verified, (for example, by reference to a market price) these transfers alone would not serve as sufficient connection to treat two otherwise separate parts of the company as a unified whole.
- o The fact that a unit is treated by the company as a common accounting unit (that does not have the potential for shifting costs to other units) may suffice to limit the application of the wage and price standards to that unit.

- o In the case of our example, the bread division, located separately and accounted for separately in terms of profit and loss accounts, intra-company transfers, and overhead, would have to be treated as a separate unit for the purposes of our program.
- o Whether the auto parts would be considered separate from truck parts would depend on the degree to which the company makes a reasonably separate accounting for each operation.

We propose to handle the problem initially by defining the coverage in such a way that an entire conglomerate is covered; but it may obtain separate treatment for parts of the conglomerate by demonstrating to CWPS that the company divisions, subsidiaries, etc., are in fact reasonably separate in terms of overhead, intra-company transfers, and profit and loss accounting.

- o The underlying principle is that the company will not be allowed to separate its operations in a way that distorts the economic realities of its production.
- o This approach has the important advantage that a company must exhaust its administrative remedies before appealing to the courts.
- o Most importantly, a court ruling against the government will only affect the applicability of the procurement condition to that specific firm. Thus, a negative court ruling on a specific case will not destroy the entire program.

Subcontractors

The firm contracting with the government would obtain certification that its major subcontractors and suppliers were in compliance with the program. As a theoretical matter this could reach as many divisions of a subcontracting firm as of a prime contractor. However, as a practical matter, since the enforcement must be directed through the prime contractor, the remedies for noncompliance by a subcontractor will be more limited. The prime contractor would not be responsible for enforcing actions against subcontractors nor would it be responsible for the accuracy of the certification.

III. Sanctions

The basic sanctions are those of (i) barring persons who are in violation of the contract from bidding and (ii) terminating, for breach of contract, a contract presently in force. A sanction type of action short of termination is to negotiate some anti-inflation concession from the company under threat of termination.

There are some limitations and problems with these sanctions.

- o Disbarment and termination require a due-process type of administrative hearing and will use some extra legal resources.
- o Some account must be taken of the needs of the procuring agency when a firm is in violation of the guidelines or can't agree to abide by them (e.g., national defense needs where the sole-source supplier is not in compliance).

The specific procedures would be as follows:

1. Government contracts would contain a clause that a firm will abide by the guidelines during the accounting year in which it signs the contract, and that it will obtain certificates of compliance from subcontractors. A procuring agency could determine for specific reasons to exclude such a clause in an individual case. Such reasons would be:
 - small contracts (under \$10,000)
 - small business firms
 - serious harm to national defense
 - substantial administrative inconvenience to the government if the clause were included.
2. If a firm violated that clause, it would be in default of of the contract. The procurement agency would become aware of the probability that a firm was in violation of the guidelines by reviewing a general list of noncomplying firms prepared by CWPS as part of its monitoring activities. The procurement agency would determine whether or not to terminate the contract for cause. Some latitude would be allowed to terminate a contract even where a firm is default. This would be for reasons such as:
 - serious harm to national defense,
 - substantial administrative inconvenience, and
 - substantial inability of the contractor to prevent violation.

3. A firm found in violation would in reality be unable to obtain any future contract during the accounting year until it came back into compliance. At some point this would constitute disbarment in a legal sense and the bidder would have to be given a hearing.

We anticipate an early legal challenge to the program. However, once the basic concepts of the program are upheld, the interpretation of the guidelines are straightforward.

- o The determination that a firm has breached its contract should not require any large increase in trial attorneys or similar legal staff.
- o Similar sanctions and their attendant procedures are already in place within procuring agencies.
- o The initial enforcement effort by a coordinating agency (such as the procurement office of OMB) could be limited to a monitoring of actual enforcement practices by the agencies of these contract clauses, with the initial focus of attention on the larger procurement contracts.

IV. Administrative Structure

There is a legal need to maintain the compliance requirement of federal procurement as an integral part of procurement policy rather than an aspect of the general anti-inflation effort.

- o Thus, the enforcement staff that monitors compliance with the procurement requirements should be separate from the monitoring and investigative groups involved with evaluating general compliance with the standards.
- o We suggest that the enforcement group be situated in the Office of Federal Procurement Policy in OMB.
- o In addition, CWPS should not use a list of procurement firms as a basis for guiding its monitoring and investigation activities.
- o A general list produced by CWPS of firms out of compliance with the standards can be used by the enforcement group.

This section is illustrative of our current views. Further staff work may lead to some modification of the procedures.

Appendix B: Administration of the Program

The Administration of the program is guided by several principles:

- o The administrative program should not entail the creation of a new agency because this would require Congressional authority and could foster fears of controls.
- o One advantage of a voluntary program is the discretion involved in enforcement activities; there is considerable latitude in the number of wages and price situations that are pursued. We recommend a relatively low-key effort that is consistent
 - with the desire to allay fears that the program is disguised controls
 - and with the Administration's policy of controlling the size of the Federal bureaucracy.
- o For legal reasons, the monitoring and enforcement activities should be housed in different agencies.
- o To avoid confusion, monitoring activities alone should be coordinated through a single agency. This is an important lesson that all of the studies of prior programs emphasize.

The monitoring of private sector wage and price actions would be coordinated by the Council on Wage and Price Stability (CWPS).

- o This is necessitated by their authority to subpoena and protect confidential data.
- o The Council's membership coincides with the EPG task force on inflation. This group would need to meet frequently to make basic policy decisions during the first few months.

The enforcement could be handled by the Office of Federal Procurement Policy (OFPP) in OMB.

- o This is the only government agency that oversees all Federal procurement.

The monitoring procedure would work as follows:

- o Large firms in major industries would be monitored on a continuing basis.
 - The CWPS subpoena powers could be invoked to require periodic reporting on prices, costs, and profit margins by these firms.
- o Wider coverage would be achieved by monitoring industry price performance by following trends in the component items of the Wholesale and Consumer Price Indexes.
 - Significant departures from a path of deceleration would trigger an investigation of individual firms in the industry.
 - CWPS would use its existing powers to require firms to supply information on prices, costs, and profit margins.
- o In addition, CWPS would undertake investigations of major product-line increases.
 - This will help to prevent firms from taking advantage of the fact that the standard applies to companies rather than products in order to rationalize inordinate increases in some individual product lines.
 - Because the price standards apply to companies rather than individual product lines, this monitoring activity would not be a focus of the program but it is a means of responding to specific problems.
- o A CWPS study of the data supplied by an individual firm would determine whether the firm is noncompliant with the wage/price standards.
 - Typically, the firm would be invited to discuss the situation prior to a finding by the CWPS staff.
- o CWPS would publicize cases of noncompliance and would bring them to the attention of OFPP, who would in turn distribute the list to procuring agencies.

- o The procuring agency would be expected to take appropriate action against the delinquent firm.
 - The first step would be an informal hearing in which the firm could present its case.
 - If the CWPS finding is confirmed, the procuring agency would determine whether to
 - (1) invoke the penalty for noncompliance with the contract,
 - (2) negotiate a way for the contractor to come back into compliance, or
 - (3) exempt the contractor from the penalty in order to avoid serious disruption of of the procurement process or because of extenuating circumstances that render exemption equitable.
- o The procuring agency would be expected to consult with OFPP on its decisions.
 - In addition, procuring agencies would file regular reports with OFPP regarding the decisions that it has made during the report period.

The CWPS and OFPP staff are not currently adequate for credible monitoring and enforcement efforts. A credible effort for a voluntary program could be achieved with an initial staff addition of 35 people that was built-up over six to nine months to an ultimate addition of 100 individuals.

- o Since direct contact will be limited to a pool of about 300 large companies, small staffs can carry out fairly vigorous monitoring and enforcement efforts within a basically voluntary program.
- o Aspects of the program that do not involve confidential data (from individual firms) can receive considerable assistance from the Department of Labor and Commerce if some priority is placed on the program.
- o Most of the initial staff would be assembled by detailing individuals from existing agencies.

- Outside sources of professional manpower (universities and research centers) are limited at this time of the year.
- There are several individuals, experienced with administration of the former controls programs, who could be induced to work on the effort.

The initial staff increment would be apportioned as follows:

	<u>CWPS</u>	<u>OFPP</u>
Analysts	13	10
Lawyers	2	3
Public Affairs	2	0
Secretaries	3	2
Total	<u>20</u>	<u>15</u>

- o The initial staff buildup could be financed out of your emergency fund and would not require Congressional action until the Spring of 1979.
- o We estimate that the annual cost of adding these 35 people would be \$1-3/4 million.

The ultimate staff increment would be apportioned as follows:

	<u>CWPS</u>	<u>OFPP</u>
Analysts	40	14
Lawyers	3	3
Public Affairs	4	0
Secretaries	13	3
Clerical	20	0
Total	<u>80</u>	<u>20</u>

- o When this staff is achieved, we could ask the largest 200 firms to establish a regular data-reporting system.
- o This level of staff would require about \$5 million.
- o This staff does not compare to the staff involved in the Nixon controls programs.

-- Phase II required 4,000 people.

-- Phase IV required over 1,000.

Two high-level (e.g., Executive Level IV) administrators will have to be recruited to direct the program.

- o The functions of these individuals could be strictly administrative.
- o Alternatively, the administrator of the monitoring program could also serve as your chief spokesman on inflation policy.

THE WHITE HOUSE

WASHINGTON

September 18, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*
BOB GINSBURG

SUBJECT: Anti-Inflation Program -- Memorandum on EPG
Proposal and in Preparation for Meeting with
Key Economic Advisers

The Anti-inflation program proposed may be the most important economic initiative you will undertake during your first term. It may also be the most complex. Accordingly, I have raised in this memo a number of basic questions and issues we ought to consider before going this route. I basically believe that we must have a much tougher anti-inflation program than we do now. This program is it. But there are imponderables, risks, and uncertainties which must be clearly on the table.

By way of background, the basic proposal for this program came a few weeks ago from Secretary Marshall. It is still within the general parameters suggested by Ray. In general, it seems to have the support of most of your economic advisers, with varying degrees of enthusiasm -- and skepticism.

1. Will this program work? The objectives of this program for 1979 would be to bring the underlying rate of inflation down from its present level of $7\frac{1}{2}\%$ - $7\frac{1}{2}\%$ to about $6\frac{1}{2}\%$. If food and energy prices also increase at that rate in 1979, the overall CPI would be up in 1979 at about $6\frac{1}{2}\%$ -- down from its expected 8% to $8\frac{1}{2}\%$ rate for this year.

- (a) Since this program will antagonize labor and management and may lead to anticipatory wage and price increases (based on the belief that the next step will be controls), you should find out from your economic advisers what prospect this program has to succeed and what it is likely to accomplish.
- (b) You should determine if this is being proposed only as a necessary step to go through on the way to wage and price controls or because it has a reasonable likelihood of succeeding. It may well be (and I think it is) better to go forward with this program than to maintain the status quo, but you should be certain of this before embarking on it.

2. Do we really have a general procurement sanction? The backbone of this program consists of specific wage-price standards or triggers and the use of government action where appropriate -- most importantly procurement policy -- to back these standards up. The inflation paper states (at p. 13):

"The anti-inflation program will work only if we enforce the standards with vigorous and effective countermeasures.... Individual groups will cooperate only if they are convinced that others will be required to do the same."

But there are serious legal and economic questions concerning the viability of the procurement sanction. I have met again Saturday with Strauss, Schultze, Bosworth and the Justice Department to resolve them but there are no totally clear answers.

- (a) The first page of Appendix A of the inflation paper states that (for legal reasons) the procurement policy "should not be characterized as a general sanction within the anti-inflation program." It must be tied to achieving procurement policy objectives -- not to limiting society-wide inflation.

This clearly implies that neither you nor your spokesmen could state that the government will not do business with those who violate the inflation standards in order to fight inflation -- although this would be the strongest public statement to make. Justice feels you can say that to set an example, the federal government will follow these standards (with some exceptions, such as national security and sole source suppliers) in its procurement practices by being a prudent buyer and by insisting that firms certify compliance with the program in their contracts with the government in order to insure the lowest priced procurement for the government in the long run.

- (b) There is the possibility, which Bob Strauss has pointed out, for public ridicule of this program -- both because of its necessarily uneven enforcement, and because it may lead to the government turning down the lowest bidder for its procurement if that bidder violated the standards in other related products it does not sell to the government.

Thus, Appendix A of the inflation paper states that the procurement rules established "must be consistent with the objective of making procurement cheaper for the government". The government might be in the anomalous position of breaking a contract with a low-priced supplier -- all in the name of anti-inflation policy -- because the former supplier's overall product - line violated the standards.

- (c) COWPS will semi-annually probably publish a list of the companies which violate the standards. But our procurement policy will not enable us to take action against all -- or perhaps even the bulk -- of these companies, because of the many exceptions. That could pose a barrier to public acceptance and compliance by others.
- (d) The inflation paper states that the procurement sanction could legally reach only those activities of a firm which are closely related to the product being purchased by the government. That requirement seems to considerably limit the reach of the sanction.
- (e) In those cases where unions bargain with an industry-wide group of companies, the procurement sanction probably would not work because an excessive collective bargaining agreement would affect federal purchasing for all the companies in the industry.
- (f) You may get involved in many of the decisions because the procuring agencies will frequently want to go forward with contracts which COWPS feels violate our standard. These agencies will seek every excuse to avoid "punishing" contractors with whom they regularly deal. To avoid this problem you should send a stiff directive to each agency upon announcement of this program. You should also consider permitting a majority vote among the principals who sit on COWPS (essentially the EPG Group) to determine the outcome in most cases, (if this is legal), so you are not drawn into every controversy.

What all this amounts to is the possibility that we may have a wage/price standards program which creates high initial public expectations, but without strong teeth to back the program up. This does not mean giving up on the program

but it does mean it should be approached with caution and open eyes.

The lack of effective sanctions to back up the wage standard may not be terribly important in the non-unionized sector -- merely announcing an explicit 7% wage cap may be very helpful to those employers (e.g., the large insurance companies, retail stores, etc.) who have substantially greater power over their employees' wages and salaries. In addition, the procurement sanction might sound sufficiently tough and its application sufficiently complex that the fact that it may turn out to be more bark than bite may not undercut its usefulness.

3. Political Defense of the Program. We must be able to explain and "sell" this program to the public because we are unlikely to get favorable responses from the leadership of organized labor or much of the business community.

- (a) We have to be certain that we can explain this program in simple enough terms for it to be easily understood. Equally important, Charlie and Bob Strauss both strongly--and correctly--believe this program should not be oversold as a new panacea but rather as a tightening and elaboration on our deceleration program. In effect, these standards define what we mean by deceleration program. If this program is held up to too high a plane it will seem inadequate. If cast as an extension of our existing program, it will seem a more meaningful and an important step.
- (b) We will have to be prepared to defend against charges that this is itself a controls program or that this takes us down the road toward controls. Such perceptions may lead to anticipatory price and wage hikes. You should ask Charlie, Barry and others about the likelihood of this occurring and the best way to avoid it.
- (c) Since violations of the price standard will be inherently more difficult to monitor than those of the wage standard (particularly in the case of collective bargaining agreements), we will have to be able to defend against the charge that this is essentially a program designed to control workers' wages but not prices. It is important that this be perceived as equally tough on prices and wages. Ray Marshall -- and the EGP memo -- are correct in indicating that the programs should be sold as a way to maintain the real income of America's workers.

4. The productivity Assumption: The anti-inflation program assumes that productivity will increase by 1-3/4% in 1979. This assumption is basic to the bottom-line objective of a 6½% underlying rate of inflation. Any shortfall from this figure must be added to the underlying rate. If, for example, productivity grows at only 3/4% to 1%, the underlying rate of inflation under this program would rise to 7¼% to 7½%, meaning no deceleration from the underlying rate that we presently have. The press is certain to question this productivity assumption. If we cannot adequately defend it, they will be able to do the arithmetic calculation and will claim that even if our program "works", it will not reduce the underlying rate of inflation. You might ask Charlie and Barry how confident they are about this productivity assumption.

5. Announcement of a Number for the Budget Deficit. Some members of the EPG suggest that any inflation statement announce either a specific number or a narrow range of numbers (e.g., the low 30's) for the deficit we will propose for the FY 1980 budget. In my view, that would be a serious mistake. The deficit number for 1980 represents a major political/economic decision governing the growth we will have in an election year. That decision should be reached, as it normally is, late this year when we can make our best guess about the performance of the economy in 1980. A very low deficit number proclaimed now could also eliminate our ability to help reduce inflation by designing Social Security rollback and TIP programs for next year.

I would favor a statement indicating you have taken the budget deficit from \$66 billion to \$43 billion for FY 1979 and FY 1980 will bring it down "to the 30's of billions of dollars." This is essentially what you have said. This will seem to the American people -- as it is -- a major accomplishment in two years and would add structure to the anti-inflation announcement since most Americans see the budget as a key ingredient in inflation.

The EPG paper represents a good work product in a short period of time. But we should all be certain about what we are getting into -- substantively and politically -- before we go forward. We should not take critical steps just because there is an inflation problem and we have to "do something," without a visible prospect that they will work.

6. Additional Points: Charlie Schultze and I began Congressional consultations on the general outline of this program last week so that we would be able to report these back to you. Thus far we have seen The Speaker, Congressmen Bolling, Reuss, Moorhead and Ullman and Senators Bentsen and Proxmire -- the key Committee and Subcommittee chairmen. This week Charlie has arranged for additional consultations on the Senate and House side. Thus far the reactions have been generally positive and supportive. Most seem to feel that it would be useful to get much of the legislation out of the way before announcement so as to interfere as little as possible with the ongoing legislative process.

7. In many respects, the initial press reaction will depend on the reaction from George Meany. Ray has talked to him at some length. If labor is perceived to be solidly against this program it will get off to a poor start. Meany's chief concern -- and with some historical justification given the operation of the Kennedy-Johnson guidelines and Nixon's wage and price controls -- is that our program will come down harder on the wage than the price side.

I think that it is terribly important well before your public announcement (if you adopt this program) that you meet personally and privately with Mr. Meany to assure him that you intend for this program to be implemented on an evenhanded and fair basis; that you will keep him advised of difficult decisions along the way; and that you will be tough on the price side of this program. I strongly urge you to make half an hour available for such an Oval Office meeting as early as possible.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

September 18, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze ^{CLS}
Subject: Anti-Inflation Memo

The EPG memo of September 13 provides, I think, most of the information and discussion you need. There are two points on which I can add a few words:

1. Federal Procurement

On the basis of further legal analysis by the Department of Justice and others, it now appears that we will have to be very careful in how we present and justify the procurement actions proposed in the memo.

- o The procurement program cannot be described as a general "sanction" or penalty used to enforce the wage and price standards; withholding of procurement or cancellation of contracts on that ground cannot be legally supported;
- o rather, the procurement action must be justified in terms of the government acting as a prudent buyer, seeking to get the most for the government's dollar;
- o withholding of contracts or contract cancellations applied to firms which violate the standards -- even if they are low bidders -- must be justified as a way of reducing the long-run cost of procurement.



We are getting a formal opinion from Justice this week which will spell out more precisely the constraints under which we shall have to operate in using the procurement tool.

2. Risks

Labor -- or at least the AFL-CIO leadership -- is not in sympathy with the program. To the extent businessmen take the wage standard seriously, the consequence may be an increase in the number and duration of strikes. Indeed, this may be a necessary cost of success in the program. And where labor is, in effect, striking against the standard, we will necessarily be in the public position of siding with management against labor.

In each specific case, applying the "sanctions" will require some difficult decisions; for example:

- o The Defense Department, understandably, will resist cancelling any important defense contract or barring an important supplier from participating in a new contract.
- o Any specific action to ease up on import restraints -- steel, television, shoes -- will be strongly resisted, and may lead to Congressional attempts to override the President.

If several major union contracts are signed significantly above the 7 percent standard, the program will be identified as a clear failure, even if those contracts are somewhat lower than the previous ones. A numerical standard makes scorekeeping by the press much easier than is the case under the existing deceleration standard.

Some firms -- especially those not affected by Federal procurement -- may raise prices in the fear that this is the last step on the road to controls.

After reviewing all of the options, I believe it is necessary to take these risks. If we do nothing, inflation will continue to poison the economic and political climate of our country. We cannot lick inflation solely by tight money and highly restrictive budgets, except at huge cost in high unemployment and low investment. Wage and price controls cannot be obtained from the Congress, or if so only after a bitter and protracted struggle. And even if

they could be enacted, they would themselves -- after a year or so -- equally poison the political and economic climate.

MARSHALL

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

18 SEP 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF LABOR *for*

SUBJECT: The Anti-inflation Program

I support the basic anti-inflation program recommended to you by the EPG. Fundamentally, the program is based on the principles I recommended to you in the concept paper dated July 15. I believe that a program of voluntary compliance with well defined indicators of behavior will be successful if the Administration takes forceful countermeasures where wage and price increases are excessive.

The wage-price program should be bolstered by other governmental actions to reduce inflationary pressures where these actions are thought to be truly effective. Reducing social security taxes, for example, will moderate inflation. But the program need not be garnished with ineffective measures that are adopted only to "show that the Administration is serious about inflation."

This memo deals with two policy issues on which your advisors are divided and also on ways to tailor the presentation to gain greater acceptance from organized labor. Some of labor's acceptance will be tacit and it is unlikely to be universal. But widespread private and public rejection by labor can be avoided.

The Employment Freeze

A Federal employment freeze is an example of an ineffective symbol; it would leave inflation unaffected while disrupting program administration. Your economic advisors would be embarrassed if

a reporter should ask what effect such a freeze would have on the CPI (less than 0.01 percent). I believe that the American public has more sense than to be impressed by a freeze.

A freeze would postpone my ability to hire claims processors as required by the Black Lung Reform Act; nor could I move forward with the investigators for the Office of Special Investigation designed to eliminate fraud in CETA, or with the department's participation in the expanded effort to eliminate the influence of organized crime in the labor movement.

The symbol, furthermore, teaches the wrong lesson. Our current inflation is not the result of too much employment. A freeze would send the wrong signal to other employers.

There is an alternative. Your budget process will set employment ceilings for all agencies at levels intended to carry out your programs during fiscal 1980. It might be useful to hasten the transition from current employment ceilings to those you wish to achieve in 1980.

Reducing the Deficit

A prematurely announced and excessive reduction in the Federal deficit is an even more dangerous symbol. The EPG has not yet made a forecast for 1980, but a fiscal 1980 deficit set at \$30 to \$35 billions may well lead to an unemployment rate of 6 1/2 percent by this time in 1980. At a minimum, all the risks would be on the side of rising unemployment during 1980. Such a policy would do nothing less than ask hundreds of thousands of lower income Americans to carry the unnecessary and tragic burden of unemployment. It is understandable--and, indeed necessary--to ask for sacrifice as part of an effective attack on inflation; but, it would be tragic to ask for this sacrifice in an attempt to provide a false symbol to the "market."

Presentation of the New Program

There are a number of aspects of the new program that are critical to organized labor. Some are merely symbols, but the manner in which they are treated is important.

Organized labor is anxious to avoid the blame for originating the current inflation. I recommend that your speech place the blame on "exogenous" factors--oil prices, food shortages, health costs, and the falling dollar. The current inflation did not begin with excessive wage increases or oversized profit margins. But, the inflationary situation of the last decade has been sustained by labor and business trying to keep pace. Both will have to sacrifice now to wind down the inflation that was started from other sources. As some labor leaders have said privately: "We are not the cause but we are certainly part of the cure."

The second item is equal restraint for non-labor costs. Here you need only emphasize what is inherent in the program. Prices and profits will be monitored as vigorously as highly visible union wage increases. Generally, profit margins will not increase. Those who influence interest rates, health costs and food prices will be asked to carry their fair share of the burden.

Other union concerns are more related to policy. In most cases, careful phrasing will suffice, but there may be significant policy implications.

The unions dislike and distrust guidelines. Union thinking runs as follows. Voluntary wage controls will be effectively policed by employers. Breaches of the price standard, however, may go unnoticed or unpunished. Additionally, if policy weakens later, businessmen can always change their prices on a moment's notice and without having to negotiate with any other party. Once a decision on wages is made in the unionized sectors, however,

it is usually made for three years. Your speech should deal with and show an understanding of these concerns.

The statement that "we will establish guidelines or standards" is much more difficult for the unions to accept than the equivalent statement "we need explicit indicators of appropriate wage and price behavior." Similarly, the statement "wage increases should be limited to 7 percent" is much less acceptable than "the trigger point for wage behavior is the expected inflation rate." The latter can be translated into a precise standard by noting that inflation in 1979 is expected to be substantially less than 7 percent and, therefore, "we are setting the 1979 trigger point for wages at 7 percent."

It is important that you establish a mechanism whereby the labor movement can obtain a fair hearing and understanding of their special problems. We should avoid unilateral or arbitrary decisions.

The administrative structure, including the personnel and process for implementing the program, will be an extremely important factor in program success. I believe this needs much more thought and discussion. As you know, organized labor has been sharply critical of CWPS' role in the current program.

For the proposed program, I suggest that Bob Strauss remain as the spokesman, that my collective bargaining group be available for consultation with labor, that CWPS' role be one of monitoring wage and price behavior, and that policymaking remain with the EPG sub-group that has developed this policy. These steps will emphasize the continuity of your inflation policy.

The unions will be irate if protective labor legislation is used as an explicit weapon. They can much more readily accept the idea that Federal construction in San Francisco will be halted if wage rates for construction workers are excessive than the idea that Davis-Bacon will be used to discipline wage rates. Protective labor standards are not

viewed as discretionary parts of Federal policy. I believe that construction wage increases will generally continue at their present level (5.7 percent for the first six months of 1978), well below the 7 percent trigger point. In cases of flagrant disregard of the standard, withholding new government contracts will be persuasive. Thus, I recommend that the Davis-Bacon issue not be utilized until we determine whether it is needed rather than unnecessarily raising union "red flags" at this time.

There are other "red flags" that we should carefully avoid. The EPG recommends that the government not involve itself directly in negotiations except to express its general interest and quietly mention the leverage at our disposal. It would be helpful if your speech would explicitly make this point. Establishing an early contest to see who can be tough and declare victory will only create unnecessary and bruising battles, encouraging many more strikes than is necessary. Our posture should be "you do what you have to do and we will do what we have to do." Specific public threats will generally be counterproductive.

Points could be gained by stating that we have no intention of recommending any delay or cancellation of scheduled minimum wage increases-- especially if this was stated in the context of equity for those at the lower end of the wage distribution.

During our subsequent discussion with you on the program, I can provide a fuller review of my formal and private discussions with labor leaders.

KREPS



MEMORANDUM TO THE PRESIDENT

FROM: *Juanita M. Kreps*
Juanita M. Kreps

SUBJECT: Anti-Inflation Policy

There are timing and substantive questions about the proposed anti-inflation program that you should consider before making this important decision. Although I support strengthening our anti-inflation policies, there are significant downside risks to the guideline program that need to be stressed in addition to its probable benefits:

- Those who insist that you do something now because of political pressure usually fail to add that an ineffective program will do you more harm than good. If this new effort is deemed a failure, the public perception that this Administration doesn't know how to fight inflation will be reinforced; and our options for future action will be primarily reduced to wage and price controls.
- There are legitimate questions about the effectiveness of this program in reducing the rate of inflation. Both business and labor will oppose guidelines. Labor in particular will argue that the program would result in reducing the real wages of workers in the short-run. In addition, the sanctions are weak because they fall on a narrow band of industries; are exceedingly difficult to administer; and will not, in most cases, be enforceable for at least one year.
- Further, I believe that the staff resources and administrative burdens of this program have been seriously underestimated. The smallest Nixon controls effort required 1,000 people yet we are projecting an increase of only 100 staff members. Numerous administrative questions need to be better resolved:
 - a) How many people will be required? Will there be new slots provided or will staff be drawn from the Departments?

b) Are key procurement agencies such as Defense and GSA on board?

c) How will this new effort relate to CWPS and the role of Bob Strauss? Do we need an overall administrator for the program and who shall it be?

- Although we know that labor and business will oppose this program, I fear that labor will oppose it so forcefully that its failure will be ensured. We need to look more carefully at the dimensions of the possible split with labor in order to consider negotiated changes that would at least bring some of them closer to the program.
- In order for the program to have credibility, we need to specify the actions we are willing to take to reduce government contribution to inflation. We should consider specific cuts in the deficit; action on regulatory reform; and rollback of the social security increase.

These shortcomings and unanswered questions about the program as drafted argue for delaying an announcement until the end of the Congressional session or possibly until the first of the year.

- An additional period of time would afford us the opportunity to work out the technical details of the program and weigh more carefully any adjustments that should be made in light of the expected strong opposition from business and especially from labor.
- Postponement at least until the Congress returns home has the support of key Congressional leaders. In addition, negative reaction from business and labor could be translated into opposition to initiatives in Congress that are very important to your Administration including energy, taxes, and civil service reform.
- Because of the importance of demonstrating government's contribution to fighting inflation, it may be that the January Budget and Economic Report are the best vehicles for announcing concrete actions on cutting the budget, improving the regulatory process and other actions. It is unlikely that these governmental actions could be detailed now in order to convince the public that government is a full partner with business and labor.

In summary, there are enough risks associated with this program to merit moving ahead with caution. I do not support announcing this program before Congress adjourns. I believe the program should be announced only when we are reasonably satisfied that we can make it effective.

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL GDS~~

INFORMATION

September 13, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM McINTYRE
HENRY OWEN *Jim*
SUBJECT: Economic Policy-Making Procedures

1. This memorandum suggests that the launching of a new anti-inflation program should be the occasion for an improvement in present economic policy-making procedures.
2. At present several talented people are involved in specific and sometimes overlapping aspects of anti-inflation policy, but no one of them has responsibility for laying out a long-term strategy and coordinating the diverse actions needed to carry it out. The effectiveness of the anti-inflation program suffers as a result. This is also the perception of observers in the media and the business community, and this perception is hurting us. This problem will become more evident and important when a new and more ambitious anti-inflation program is launched.
3. We suggest that you make one person responsible to you for the formulation and execution of all anti-inflation policies. This doesn't mean that the other members of your economic team would be working for him. It does mean that he would bring them together to address key problems, arrange to lay their views (including dissent) before you, coordinate the execution of decisions you make on the basis of these views, and serve as your chief spokesman on these issues.
4. From a bureaucratic standpoint, this responsibility could be lodged in any one of several places. The main requirement is that the Coordinator should enjoy your full confidence. Only you can decide who best meets this requirement.
5. If you made this appointment known at the same time as you proposed a more effective anti-inflation program, both the public impact and the operational effectiveness of that program would be enhanced.

~~CONFIDENTIAL GDS~~

Jim 10/29/78

~~CONFIDENTIAL GDS~~

THE WHITE HOUSE

INFORMATION

WASHINGTON

September 18, 1978

~~CONFIDENTIAL~~
~~CONFIDENTIAL~~

MEMORANDUM FOR: THE PRESIDENT
FROM: HENRY OWEN *HO*
SUBJECT: New Anti-Inflation Program

1. I believe that the new anti-inflation program should be adopted, for reasons outlined in the memo that Mike Blumenthal has sent you, but in the context of a wider anti-inflation effort. Only such a wider effort will impress Europeans and Japanese sufficiently to strengthen the dollar; and only a wider program will impress Americans sufficiently to reverse inflationary expectations in this country. The general view, both at home and abroad, is that inflation is largely the result of US Government policies; people will be skeptical of any program that does not address these other causes of inflation. Moreover, only a wider program is likely actually to reduce inflation: Peacetime incomes policies have traditionally worked best, in the US and in Europe, when other governmental policies limited the inflationary pressures that they had to cope with.

2. These considerations suggest that:

a. We should adopt the most rigorous fiscal option in the EPG paper: indicating that you have in mind an FY 1980 deficit in the low thirties. Jim McIntyre says that such a low deficit need not preclude postponement of increased social security taxes next year; this postponement could be accommodated by cutting expenditures still further.

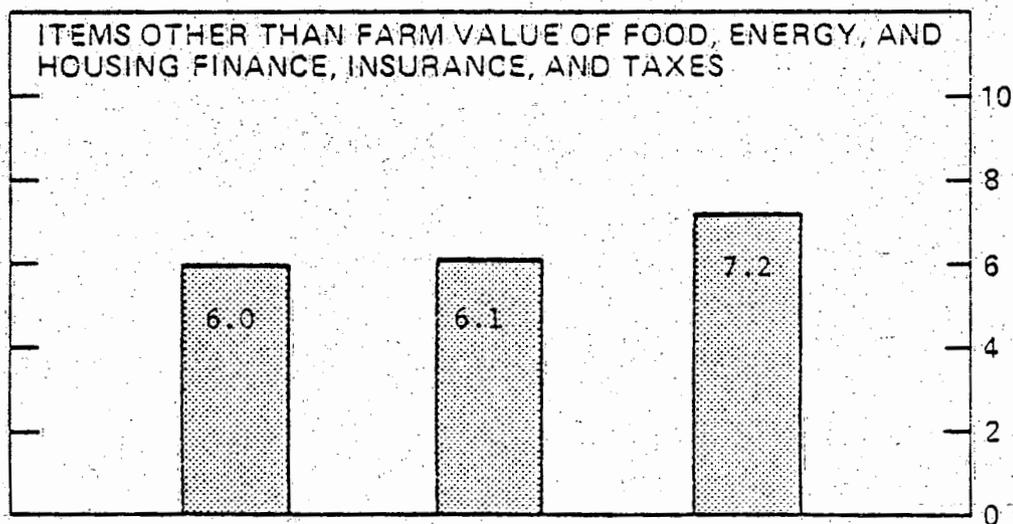
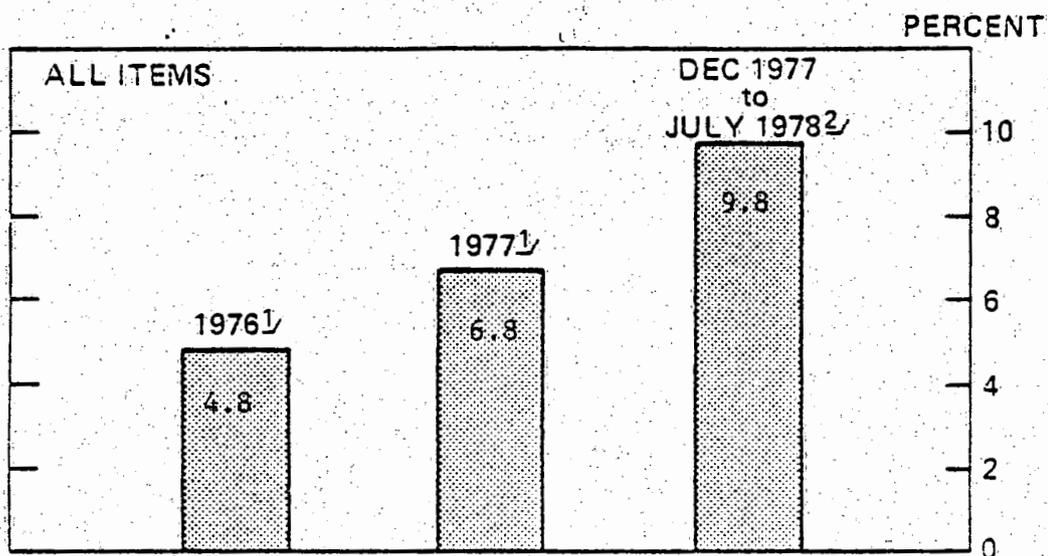
b. To dramatize your tight fiscal policy, I would recommend the most rigorous hiring freeze in the EPG memo: filling only two out of every four federal vacancies. This would make your pledge to reduce government expenditures convincing, since most people believe that there is some connection between the government's size and its propensity to spend.

c. The other main need is to reduce the mass of health, safety, and environment regulations that increase costs and hence prices. We have been talking about how to reduce these regulations in the EPG for as long as I can remember. I doubt we will get needed progress until you appoint a strong-minded person to spend his full time overseeing the effort, presumably as an OMB associate director. If you could announce this move at the same time as you announced that one or two specific regulations were being struck down, this would add greatly to the new anti-inflation program's credibility.

JOH 10/29/78

~~CONFIDENTIAL GDS~~~~CONFIDENTIAL~~

INCREASE IN CONSUMER PRICES



HIGH INFLATION ITEMS (DEC. 1977 to JULY 1978^{2/2}):

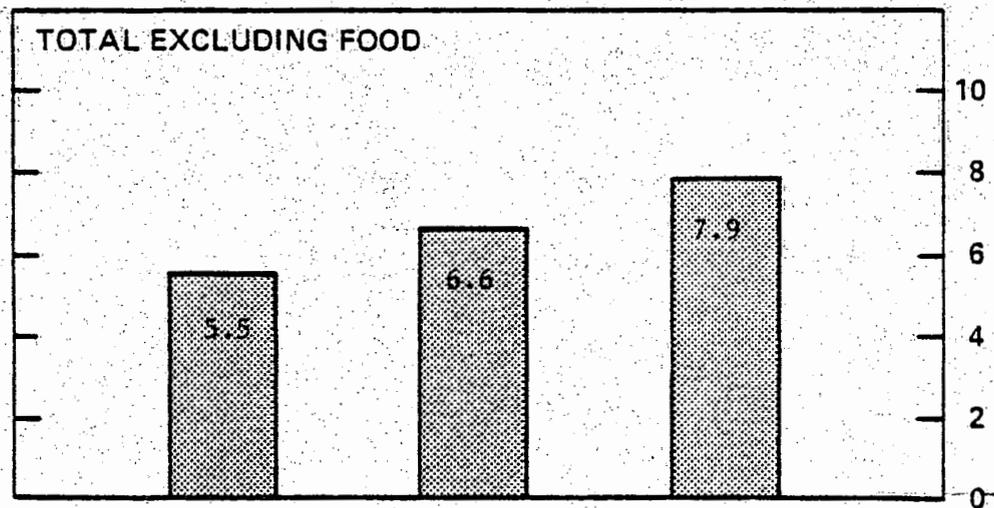
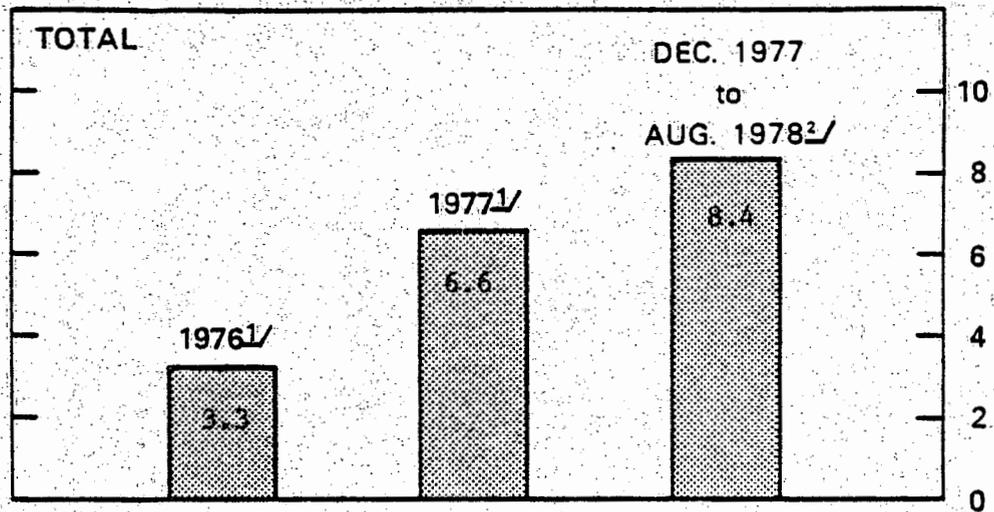
FOOD	15.5
FARM VALUE	(20.4)
FARM-RETAIL SPREAD	(7.7)
HOMEOWNERSHIP	13.5
MEDICAL CARE	7.8

^{1/2}DECEMBER TO DECEMBER

^{2/2}SEASONALLY ADJUSTED ANNUAL RATE

INCREASE IN PRODUCER PRICES OF FINISHED GOODS

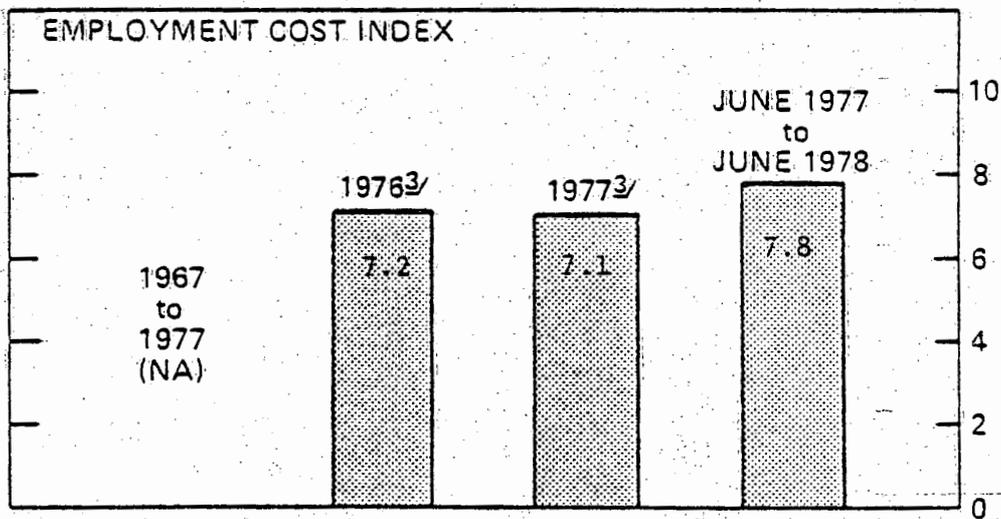
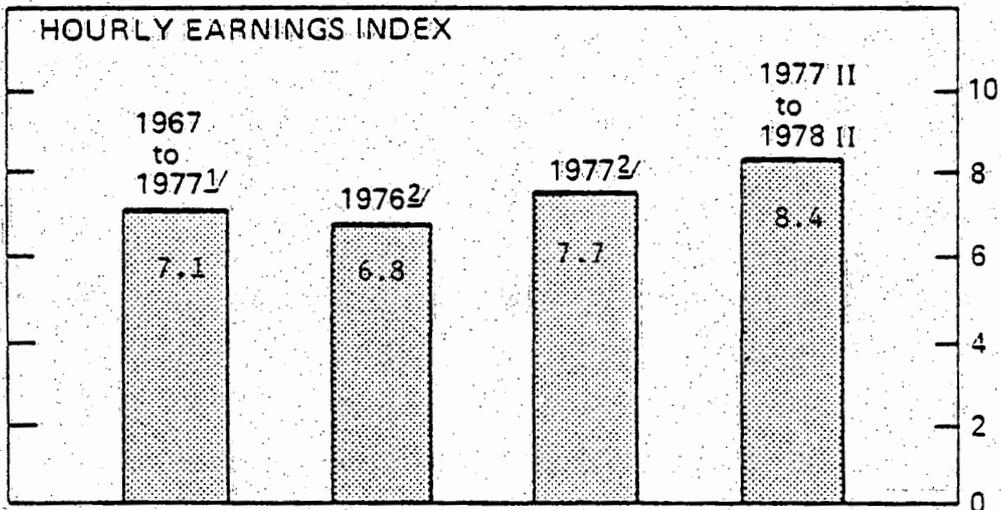
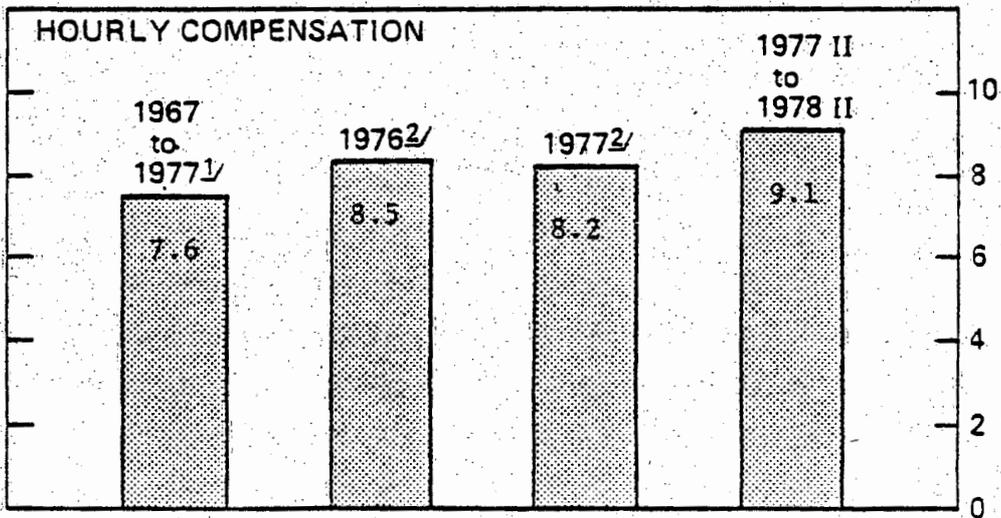
PERCENT



^{1/}DECEMBER TO DECEMBER
^{2/}SEASONALLY ADJUSTED ANNUAL RATE

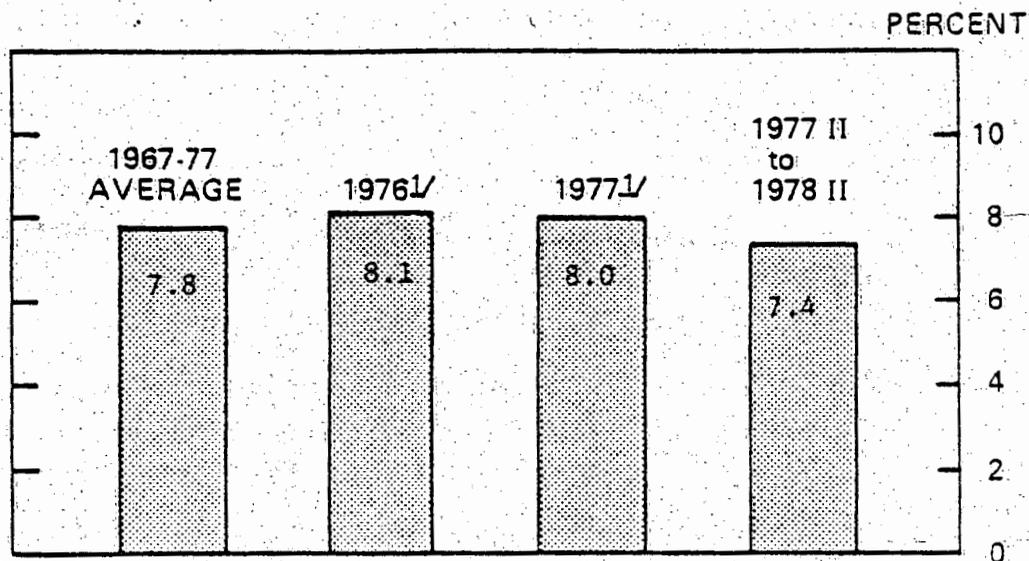
MEASURES OF WAGE RATE INCREASES (PRIVATE NONFARM BUSINESS, ALL EMPLOYEES)

PERCENT

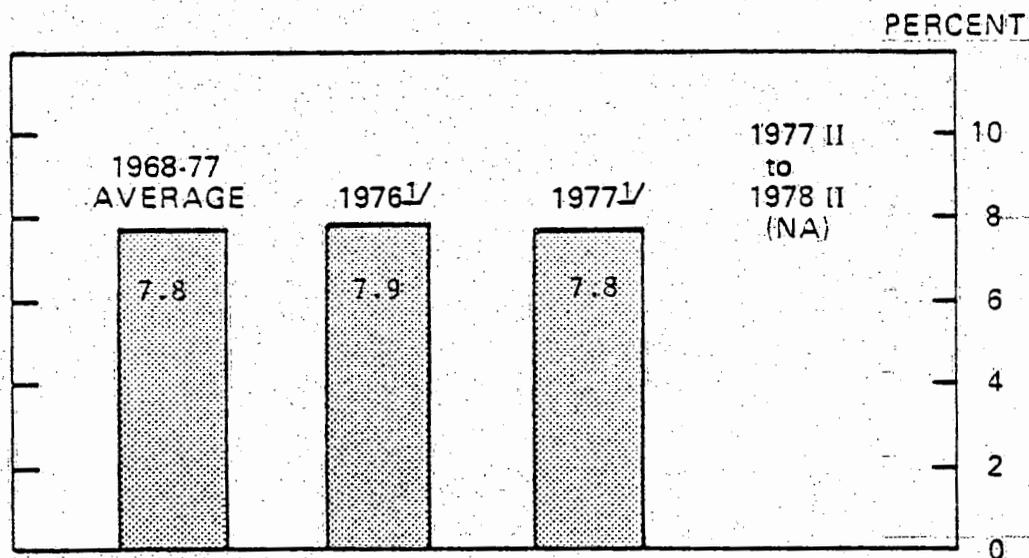


^{1/}AVERAGE ANNUAL RATE
^{2/}FOURTH QUARTER TO FOURTH QUARTER
^{3/}CUMULATIVE 4-QUARTER CHANGE

EFFECTIVE WAGE RATE CHANGES
(COLLECTIVE BARGAINING UNITS OF 1,000 OR MORE)



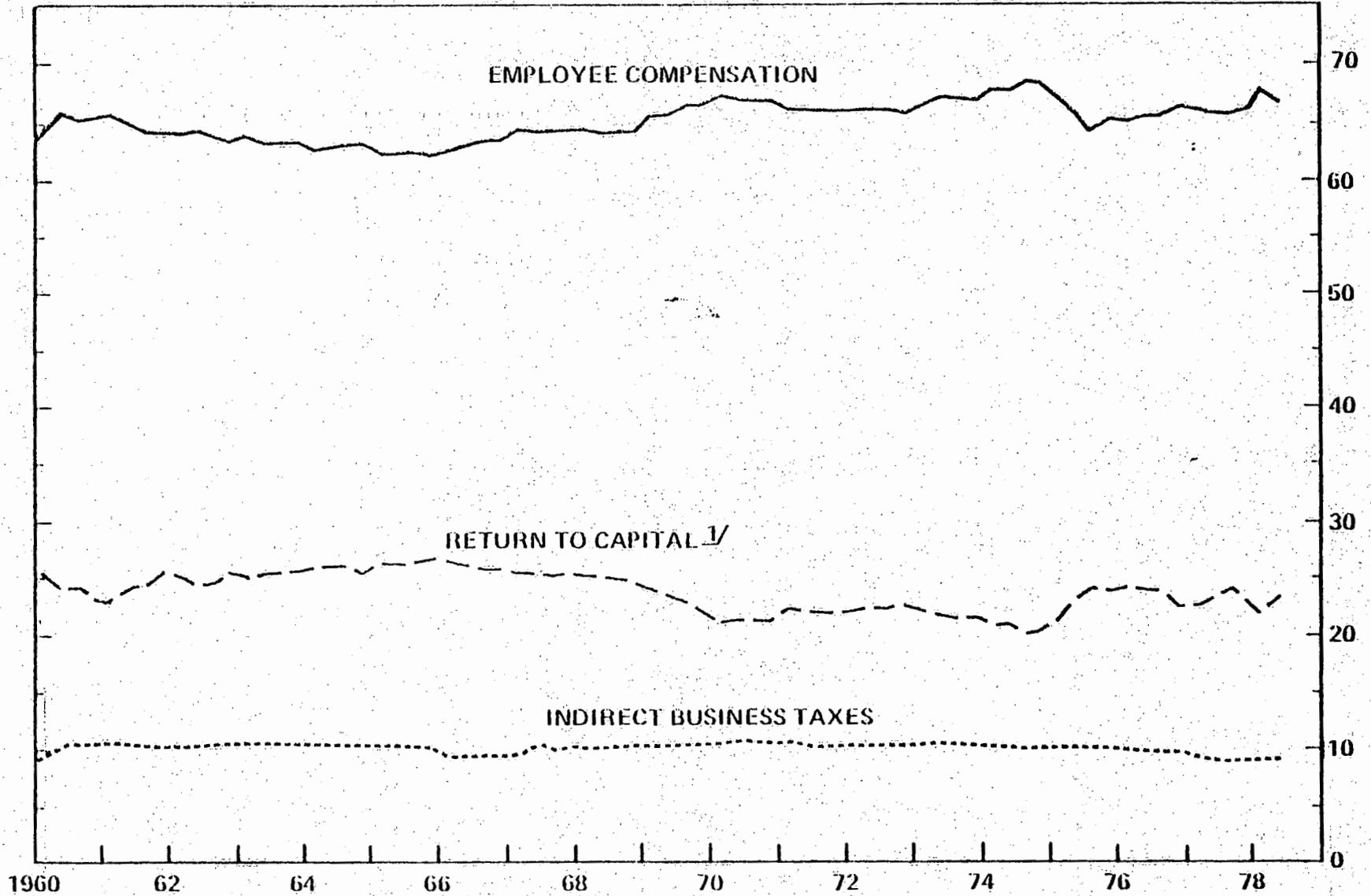
EFFECTIVE CHANGES IN
HOURLY COST OF WAGES AND BENEFITS
(COLLECTIVE BARGAINING UNITS OF 5,000 OR MORE)



1/4 CUMULATIVE 4-QUARTER CHANGE

INCOME SHARES OF NONFINANCIAL CORPORATE OUTPUT

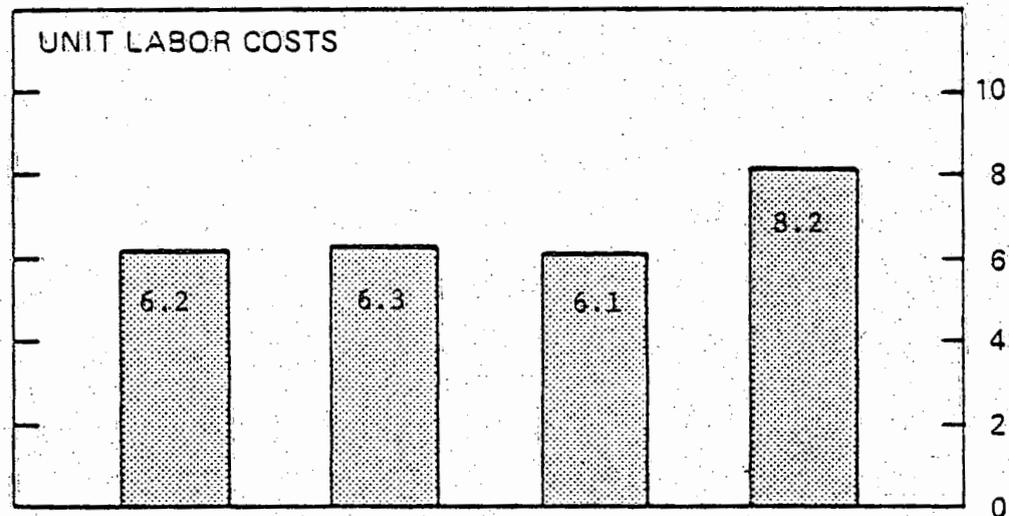
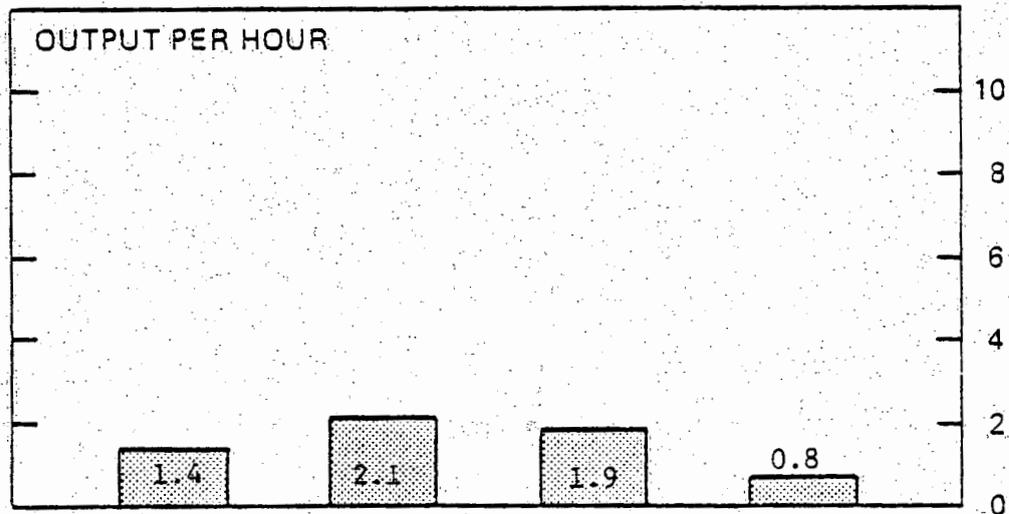
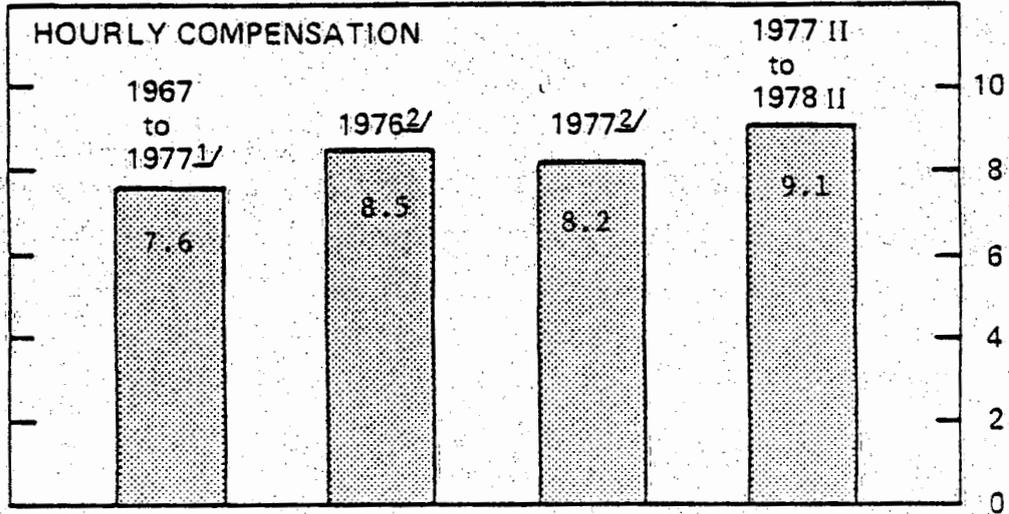
PERCENT



^{1/}PROFIT PLUS DEPRECIATION PLUS NET INTEREST.

INCREASE IN HOURLY COMPENSATION, PRODUCTIVITY, AND UNIT LABOR COSTS (PRIVATE NONFARM BUSINESS, ALL EMPLOYEES)

PERCENT



^{1/}AVERAGE ANNUAL RATE
^{2/}FOURTH QUARTER TO FOURTH QUARTER

Hypothetical Price Projections
for 1979

(Price Deflator for Private Nonfarm Business Product)

Compensation per hour	9 to 9-1/2	9 to 9-1/2	9 to 9-1/2
Output per hour	1	1-1/2	2
Prices, if profit margins are unchanged	8 to 8-1/2	7-1/2 to 8	7 to 7-1/2
Prices, if profit margins decline 5%	7-1/2 to 8	7 to 7-1/2	6-1/2 to 7

most likely
↓

*no \$20 B.I. tax cut = 1% growth rate
minimal help on inflation*

THE WHITE HOUSE
WASHINGTON

Path -

Original cc of package
(including letter to TBG)

Given to TB for
dating & delivery 9/23.

T Beer

THE WHITE HOUSE
WASHINGTON

5650

~~CONFIDENTIAL~~-GDS

September 23, 1978

*Zbigniew
Jack Watson
I agree with
this -
implement
J*

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: ZBIGNIEW BRZEZINSKI
SUBJECT: Cabinet Officials' Travel to China

With the Schlesinger and Bergland trips as examples, Cabinet Secretaries are demonstrating eagerness to beat a path to Peking. Several have approached the Chinese directly requesting invitations. Others have gone to Holbrooke requesting his patronage. One senses the beginning of jealousies as to who goes next. (C)

To nip this problem in the bud, I recommend that you take this issue up at the next Cabinet meeting. Here are the talking points I recommend:

-- You welcome the forthcoming trips by Schlesinger and Bergland to China. They are part of our burgeoning relationship with the People's Republic, which has your support. (U)

-- You can see some merit in considering additional Cabinet-level visits to China, either singly or perhaps joint trips of more than one Secretary at one time. (LOU)

-- However, until one can assess the value of the Schlesinger and Bergland trips, it is premature to schedule dates. Until we have a clearer sense of the direction of our China policy, it is premature to think about the timing and sequence of such visits. (C)

-- Moreover, our policy interests are not well served by individual Cabinet members approaching the Chinese either directly or indirectly. (LOU)

-- Therefore, you request all Cabinet members to hold any plans for travel to China in abeyance until after the Schlesinger and Bergland trips.

-- Anyone wishing to go, or invited, should check first with NSC (Zbig) which will coordinate with State.

~~CONFIDENTIAL~~-GDS

~~CONFIDENTIAL~~

DECLASSIFIED
Per, Rac Project
ESDN: NLG-126-17-25-1-B
BY KS NARA DATE 6/10/13

THE WHITE HOUSE
WASHINGTON

9/25/78

Ambassador Strauss

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

Rick Hutcheson

cc: Hamilton Jordan
Stu Eizenstat
Zbig Brzezinski
Frank Moore
Jim McIntyre
Charlie Schultze

~~SECRET ATTACHMENT~~

DECLASSIFIED
Per, Rac Project
ESDN; NLG-12C-14-25-1-8
BY KS NARA DATE 6/4/13

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

~~SECRET~~

22 SEP 1978

*Bob. The harder
& better we bargain
now, (obviously) the
better in Congress
next year*

J

MEMORANDUM FOR THE PRESIDENT

FROM: Ambassador Robert S. Strauss *RS*

SUBJECT: A Political Assessment Of The Tokyo Round.

This memorandum will enlarge upon the brief reference to the Tokyo Round and its negative aspects in last week's summary. For sometime now, I have wanted to give you a personal report on the negotiations. I have been reluctant to add to your concerns, which I know are many, but I sense that the time has arrived to give you my judgment of where we are and where we are heading.

Background.

Twenty months ago, as you know, the Tokyo Round was in danger of foundering. The political will of key participants -- an indispensable ingredient for such an ambitious undertaking -- had been sapped by the oil crisis and the ensuing global recession. Repeated efforts by the previous Administration to revitalize the negotiations had failed. Many governments, faced with growing protectionist pressures, wished the negotiations would go away.

At the Downing Street Summit, under your leadership, we began the task of moving the negotiations from a state of inertia to one of action. In the past sixteen months, I can report, we have continued to make slow but steady progress. The status of each phase of the negotiations was described in detail in the "Framework of Understanding" which was reported to the recent Bonn Summit.

Our work has been painstaking, because of the recalcitrance of many of our trading partners. Concessions have been difficult for everyone concerned. Trade liberalization

Electrostatic Copy Made
for Preservation Purposes

~~SECRET~~

DECLASSIFIED

Per, Rac Project

ESDN; NLC-126-14-25-1-8

BY *K5* NARA DATE *6/14/13*

~~SECRET~~

- 2 -

is never easy, but never so difficult than in the face of domestic economic problems and the resulting mounting protectionist pressures. Many serious issues remain, including several which could jeopardize the entire negotiations. I am far from certain, but nevertheless, I am hopeful that with luck it will be possible to conclude the international negotiations by December 15 -- or 60 days thereafter -- and then turn our full attention to the task of domestic implementation.

Domestic Implementation.

Our present plan is to submit the domestic implementing legislation to Congress by mid-March of next year, for consideration and decision under the up-or-down-vote-no-amendments procedures set forth in the Trade Act. If such a schedule is adhered to, the legislation will likely be voted on by the House and Senate next summer.

The package of implementing legislation which we would send to the Hill next spring would, under the most favorable circumstances, be as complex and controversial a piece of legislation as any to be considered by the next Congress. Because of the nature of the negotiations, it is not yet possible to describe with precision what the final package will contain. There still exists the risk that in some critical areas, most notably agriculture and subsidies, we will fall unacceptably short of what we must have to sell the deal at home. The reason would be simply that our trading partners, despite their sincere efforts, have been unable to deliver the necessary concessions to satisfy our agricultural constituents even though it will exceed what has been done before or what they expected this time.

If there is to be a deal, there is no question that it will contain both pluses and minuses. It will address subjects which are both politically sensitive and disparate, ranging from tariffs to government procurement policies, from customs valuation to the difficult problem of subsidies and countervailing duties.

~~SECRET~~

~~SECRET~~

- 3 -

Throughout these negotiations I have consulted closely with the Congress, and sought to respond to the needs of individual Members. Wherever possible, we have attempted to include in the package features to add political buoyance to offset those negative aspects we could not avoid. At the present time, because we do not yet know fully what concessions our trading partners will be able to deliver, it is not possible to say whether the package is a net plus or net minus in terms of domestic political acceptability. It is probably one of those issues that will hurt in the short run and be praised in later years.

As our consultations with Congress have progressed, I have noted a steady chilling in the atmosphere on Capitol Hill, exemplified most recently in the soundings we have taken regarding obtaining an extension of the waiver on countervailing duties. Congressional concerns over import penetration in sensitive sectors, such as steel and textiles, combined with large trade deficits, have created an atmosphere which is the worst imaginable in which to seek approval of the results of the Tokyo Round. I cannot overemphasize this negative attitude that prevails, even among some of the most ardent supporters of a liberal trade policy.

It is my present view that the final package will be adopted, but only after a bruising and costly fight. It will pit the relatively small and disorganized, although highly respected, constituency which supports liberal trade against a formidable coalition of labor and management from numerous industries, most notably textiles, steel, dairies, and chemicals. It will require an effort on the part of the Administration not a great deal less than was mounted in the case of the Panama Canal Treaties and the natural gas compromise, and the chance of success is little, if any better. Needless to say a failure would be a major setback for the Administration and for the credibility of the United States in its international economic relations. It could also trigger a worldwide protectionist retrenchment that would endanger the western world's economic prosperity as well as political stability. Obviously, we must go forward. While the agreements themselves certainly will not dramatically change the patterns of world trade they will help move in the right direction.

~~SECRET~~

~~SECRET~~

- 4 -

I assure you we are going forward aggressively and will continue to press for the best result possible but you should be aware of the probable domestic political costs that Congressional consideration will entail.

All of this, of course, must be evaluated by you in the broader context of Administration policy, and from a longer, historical perspective. In the coming weeks and months as we proceed we must evaluate, and re-evaluate, the results of the Tokyo Round and reach our decision as to how best to proceed. It was to alert you to the problems I foresee and to encourage such an evaluation by the appropriate advisors that I have written this memorandum. Accordingly, I am sharing copies of this memorandum with Blumenthal, Brzezinski, Owen, Cooper and Eizenstat.

~~SECRET~~

THE PRESIDENT'S SCHEDULE

Saturday - September 23, 1978

9:00

Dr. Zbigniew Brzezinski - The Oval Office.

12:35

Depart South Grounds via Helicopter en route
Andrews AFB, Pennsylvania and Ohio.

THE PRESIDENT'S SCHEDULE

Sunday - September 24, 1978

- 9:50 Depart South Grounds via Motorcade en route
The First Baptist Church.
- 10:00 Sunday School.
- 11:00 Morning Worship Service.

THE WHITE HOUSE
WASHINGTON

Phil has
Seen

THE WHITE HOUSE
WASHINGTON

9/25/78

Mr. President:

Frank Moore said you were interested in talking with the "liberals" in the House who were against the natural gas bill. If that's the case a majority of those attending a breakfast tomorrow morning at the White House fall into this category. They meet from 8 am until 10 am in the Diplomatic Reception room. You could stop by after your congressional leadership breakfast at 8 am.

Phil

done
J

THE WHITE HOUSE
WASHINGTON

9/25/78

The Vice President
Frank Moore
Jody Powell
Anne Wexler
Joe Aragon
Landon Butler
Dick Moe
Phil Wise
Betty Rainwater
Rick Hernandez

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

Rick Hutcheson

DEMOCRATIC

NATIONAL COMMITTEE 1625 Massachusetts Ave., N.W. Washington, D.C. 20036 (202) 797-5900

John C. White
Chairman

MEMORANDUM
September 22, 1978

TO: PRESIDENT CARTER

THROUGH: RICK HUTCHESON

FROM: JOHN C. WHITE *Jc White*

RE: WEEKLY STATUS REPORT ON DNC OPERATIONS

DEMOCRATIC PARTY EUPHORIA

State Chairs are, without exception, cheering your peace efforts. This should carry us into a successful Midterm Conference in Memphis.

WASHINGTON PRESIDENTIAL FUNDRAISER - SEPTEMBER 27th

Table sales are going well. Evan Dobbelle is an exceptionally gifted person and is a credit to the Party and to your Administration.

CAMPAIGNS

Upsets in Massachusetts and elsewhere confirm my feeling expressed in previous memoranda that this is an unusual year. Pollsters are not able to read the public mood with any consistency.

C

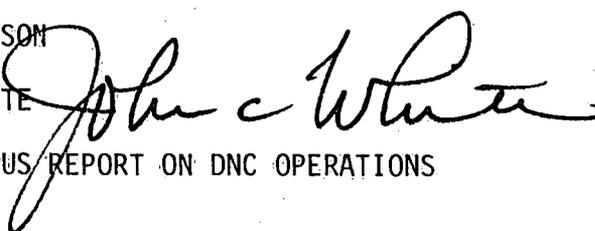
DEMOCRATIC

NATIONAL COMMITTEE 1625 Massachusetts Ave., N.W. Washington, D.C. 20036 (202) 797-5900

John C. White
Chairman

MEMORANDUM

September 15, 1978

TO: PRESIDENT CARTER
THROUGH: RICK HUTCHESON
FROM: JOHN C. WHITE 
RE: WEEKLY STATUS REPORT ON DNC OPERATIONS

PUBLIC WORKS

Governor Lamm of Colorado came by to express concern of Western Governors if the Public Works Bill is vetoed. He acknowledged that his and other public officials rhetoric concerning water projects had not been helpful to a satisfactory resolution of the differences between the Administration and local interests. Obviously, the Western Governors - led by Lamm - want you to sign the Public Works Bill as passed by Congress. Without consideration of the merits of the bill, which must have first priority, obvious major political implications are involved if the bill is to be vetoed.

I would suggest that the Vice President be asked to take lead in conferences with Governors, congressional leaders etc. to minimize the negative impact in the West. Of course, I would like the opportunity to discuss the political implications-- plus--and minus-- at the appropriate time.

WHITE HOUSE ENTERTAINMENT

I'll take Willie Nelson any time.

THE WHITE HOUSE
WASHINGTON

9/25/78

Frank Moore

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

Rick Hutcheson

cc: Tim Kraft
Jim Gammill

TVA

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

ACTION
FYI

ADMIN CONFIDENTIAL
CONFIDENTIAL
SECRET
EYES ONLY

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

	ARAGON
	BUTLER
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FALLOWS
	FIRST LADY
X	GAMMILL
	HARDEN
	HUTCHESON
	LINDER
	MARTIN
	MOE
	PETERSON
	PETTIGREW
	PRESS
	SANDERS
	VOORDE
	WARREN
	WISE

Expedite
J

THE WHITE HOUSE

WASHINGTON

September 22, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE *F.m.*

SUBJECT: Letter to you from Senator John Stennis on TVA

The bottom line on this is that we need to hurry with the nomination of our 3rd candidate for TVA because the Senate will not act on Richard Freeman until we do so.

This candidate should be someone from the Valley. We have a number of good candidates who are from the Valley.

You will be receiving a memo from Tim Kraft next week on this subject.

SUMMARY OF CONGRESSIONAL MAIL TO THE PRESIDENT

DATE: SEPTEMBER 11, 1978

PAGE: - 6-

FROM -----	SUBJECT -----	DISPOSITION -----	COMMENTS -----
SEN. JOHN STENNIS (D) - MISSISSIPPI	SUGGESTS THAT IT WOULD BE HELPFUL AND USEFUL IF THE SENATE KNEW WHO WOULD BE NOMINATED FOR THE REMAINING POSITION ON THE BOARD OF DIRECTORS OF THE TENNESSEE VALLEY AUTHORITY BEFORE IT ACTS ON RICHARD FREEMAN'S NOMINATION.	ACKNOWLEDGED BY FM REFERRED TO PRESIDENTIAL PERSONNEL	<i>to me</i>
REP. HAROLD FORD (D) - TENNESSEE	ENCLOSES HIS RECENT NEWSLETTER, PROMOTING THE ENERGY BILL IN HIS DISTRICT.	ACKNOWLEDGED BY YOU CC:FREE	
REP. WALTER FAUNTROY (D) - WASHINGTON D.C.	HANDWRITTEN LETTER: "THE JOY THAT WE HAVE BECAUSE OUR FULL VOTING REPRESENTATION RESOLUTION HAS NOW PASSED BOTH THE HOUSE AND THE SENATE, IS DUE IN LARGE PART TO YOUR COURAGEOUS LEADERSHIP AND SUPPORT. PLEASE ACCEPT MY SINCERE AND HEARTFELT THANKS TO YOU AND THE FINE TEAM OF FRANK, VALERIE, BOB THOMSON, JIM DYKE, AND BUNNY, WHO HELPED BRING HOME THE BACON FOR US. P.S. I'M TAKING MY TENNIS LESSONS."	REFERRED TO CENTRAL FILES CC:PINSON, THOMSON, MITCHELL	

JOHN C. STENNIS, MISS., CHAIRMAN

HENRY M. JACKSON, WASH.
HOWARD W. CANNON, NEV.
THOMAS J. MC INTYRE, N.H.
HARRY F. BYRD, JR., VA.
SAM NUNN, GA.
JOHN C. CULVER, IOWA
GARY HART, COLO.
ROBERT MORGAN, N.C.
WENDELL R. ANDERSON, MINN.
PAUL HATFIELD, MONT.

JOHN TOWER, TEX.
STROM THURMOND, S.C.
BARRY GOLDWATER, ARIZ.
WILLIAM L. SCOTT, VA.
DEWEY F. BARTLETT, OKLA.
JESSE HELMS, N.C.
JAKE GARN, UTAH

United States Senate

COMMITTEE ON ARMED SERVICES

WASHINGTON, D.C. 20510

FRANCIS J. SULLIVAN, STAFF DIRECTOR

September 5, 1978

ACK.Fm/PP
CONGRESSIONAL
LIAISON

SEP 11 1978

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am writing you with respect to the two vacancies which exist on the Board of Directors of the Tennessee Valley Authority. You have nominated Mr. Richard Freeman, of Chicago, Illinois, to fill one of these vacancies, but have not yet announced whom you plan to nominate for the other.

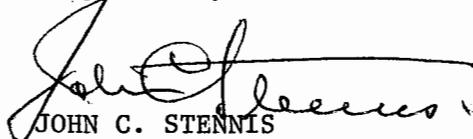
I know that I do not have to stress to you the importance of the Tennessee Valley Authority. As you know, it is a government-owned corporation that includes a unified program of resource development and supply of electric power for the advancement of economic growth in the Tennessee Valley region.

The Tennessee Valley Authority is the wholesale power supplier for approximately 160 local municipalities and cooperative electric systems serving about 2.5 million residential customers in parts of seven states, including Mississippi. It also supplies power to serve Federal installations and industries in its area whose power requirements are large or unusual. In fiscal year 1979 TVA's operating budget for its power program will be about \$2.8 billion and its power program capital budget will approximate \$1.7 billion. For other programs it will receive appropriated funds of about \$154.5 million.

It is difficult to overstate the importance of the Tennessee Valley Authority to the region which it serves. In addition to its electrical power program, its activities include flood control, navigational development, fertilizer development, recreational improvement, and forestry and wildlife development. This brief summary of the Tennessee Valley Authority's activities indicates the impact it has on the states in which it operates and particularly the rural area of these states.

I understand that the Senate Committee on Environment and Public Works hopes to hold hearings on Mr. Freeman's nomination sometime during the month of September. Under the circumstances and in view of the advisability of having complete information about the matter, I would like to take this opportunity to suggest to you that it would be very helpful and useful if the Senate knew who would be nominated for the remaining position on the Board of Directors before it acted on Mr. Freeman's nomination.

Respectfully,


JOHN C. STENNIS

United States Senator

JCS:krc

SUIB
APOO

THE WHITE HOUSE
WASHINGTON

9/25/78

Hamilton Jordan
Phil Wise

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

Rick Hutcheson

cc: The Vice President
Fran Voorde

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

ACTION
FYI

ADMIN CONFIDENTIAL
CONFIDENTIAL
SECRET
EYES ONLY

<input checked="" type="checkbox"/>	VICE PRESIDENT
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<input checked="" type="checkbox"/>	JORDAN
-------------------------------------	--------

	EIZENSTAT
--	-----------

	KRAFT
--	-------

	LIPSHUTZ
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	MOORE
--	-------

	POWELL
--	--------

	RAFSHOON
--	----------

	WATSON
--	--------

	WEXLER
--	--------

	BRZEZINSKI
--	------------

	MCINTYRE
--	----------

	SCHULTZE
--	----------

	ADAMS
--	-------

	ANDRUS
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	BELL
--	------

	BERGLAND
--	----------

	BLUMENTHAL
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	BROWN
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	CALIFANO
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	HARRIS
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	KREPS
--	-------

	MARSHALL
--	----------

	SCHLESINGER
--	-------------

	STRAUSS
--	---------

	VANCE
--	-------

	ARAGON
--	--------

	BUTLER
--	--------

	H. CARTER
--	-----------

	CLOUGH
--	--------

	CRUIKSHANK
--	------------

	FALLOWS
--	---------

	FIRST LADY
--	------------

	GAMMILL
--	---------

	HARDEN
--	--------

	HUTCHESON
--	-----------

	LINDER
--	--------

	MARTIN
--	--------

	MOE
--	-----

	PETERSON
--	----------

	PETTIGREW
--	-----------

	PRESS
--	-------

	SANDERS
--	---------

<input checked="" type="checkbox"/>	VOORDE
-------------------------------------	--------

	WARREN
--	--------

<input checked="" type="checkbox"/>	WISE
-------------------------------------	------

THE WHITE HOUSE
WASHINGTON

Q

September 25, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: HAMILTON JORDAN *HJ*

It has been some months since your meeting with the informal senior advisers groups, and I wondered if you are ready to schedule another session any time in the next several weeks?

Soon

YES NO DISCUSS

I also wondered if you would like to schedule a luncheon with the senior staff next Monday or the following Monday? As you will recall, you suggested we try to do this every month or so, but, again, it has been some months since we had the original luncheon.

YES NO DISCUSS

HJ

THE WHITE HOUSE
WASHINGTON

9/25/78

Frank Moore

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

Rick Hutcheson

cc: The Vice President
Stu Eizenstat
Anne Wexler

THE WHITE HOUSE
WASHINGTON

September 25, 1978

*C -
Susan - give
me a copy*

J

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER
FRANK MOORE
STU EIZENSTAT *Stu*

SUBJECT: Attached Memorandum and Fact Sheet for Congressmen Wright and Bevill

In your meeting with Congressmen Wright and Bevill, you indicated that we would supply them with a specific list of the Administration's objections to the bill. We believe that this information should be sent as a fact sheet with a cover letter from Frank Moore. Draft materials are attached.

There is one issue of potential concern in the Public Works Appropriations bill which is not addressed fully in the letters or fact sheet. This deals with the CRBR. We feel strongly that the letters and fact sheet should be sent as drafted, but wanted you to be aware of the potential problem posed by the bill.

Background

- The Public Works Appropriations bill provides funding for the CRBR, but Report language makes clear that these monies may be spent on such other projects or facilities as may be authorized in the Department of Energy Authorization bill.
- If the CRBR issue is resolved in the DOE Authorization bill along the lines discussed with Senator McClure, the CRBR may be discontinued, and funds directed to the conceptual design study and the breeder base program.
- We have long maintained that the Authorization bill, not the Appropriations bill, is the correct legislative vehicle for resolution of the CRBR issue. The Appropriations Committee action making this appropriation subject

to authorization is a good step forward in accomplishing this goal. (You will recall that last year, the appropriation for the CRBR was not subject to authorization, thereby nullifying your veto of the authorization bill.) As drafted the attached letter reflects Administration appreciation of this positive step.

There is however, a potential danger in this approach. If no Department of Energy Authorization bill is enacted this year, the Appropriation bill as it now stands would require continuing expenditures for the CRBR. That is, no authority to discontinue or terminate the CRBR would be expressly available, and funds would have to be spent on the project until such time as an Authorization bill could be enacted. The consequences of such a circumstance would be:

- Continuation of the current level of expenditures on the CRBR (about \$14 million per month). No construction activities would be required, however.
- A lower level of expenditures on the breeder base program than agreed to in discussions with Senator McClure.

If this contingency were to arise, the sentence in the attached letter to Bevill and Wright that the issue should be resolved in the context of the Authorization bill, would support continued legislative efforts next year. It would also permit you to press a legal case which we believe may be available to begin discontinuation of the CRBR, if it were to become clear that no DOE Authorization bill will be forthcoming next year.

We have discussed this matter carefully with Frank Moore's staff and DOE. Jim Free and Schlesinger feel strongly, and we agree, that raising the CRBR as an issue in the Public Works Appropriations bill will virtually guarantee an override of your veto. The Administration position on the CRBR has been extremely unpopular in the House, and raising it is highly likely to cost us the votes which will be needed to sustain a veto. Similarly, this action could jeopardize our chances for sustaining a veto in the Senate, although most of your legislative advisors feel that an override in the House will inevitably lead an override in the Senate (regardless of whether the CRBR issue is raised).

Since raising the CRBR issue can only hurt your position on both the CRBR and water projects, we are convinced that it should not be raised. The assertion that the CRBR should be resolved in the Authorization bill gives you the maximum protection we can reasonably expect if the DOE Authorization bill is not enacted this year.

✓

APPROVE

DISAPPROVE

Attachments

A large, stylized handwritten signature in black ink, appearing to be a cursive 'J' or similar character, located to the right of the 'DISAPPROVE' line.

ADMINISTRATION'S CONCERNS ABOUT H. R. 12928

Summary

The President supports most of the items in the bill, including:

- the bill's provisions for energy research and development funding;
- \$2.5 billion in FY1979 funding for water projects with total costs of more than \$35 billion, including 26 new water project starts which will cost \$640 million.
- the Committee action which permits final resolution of the breeder reactor issue in the context of the Department of Energy Authorization bill.

Specific Objections

- The bill restores funding for six water projects halted last year in a compromise between the Congress and the Administration.
 - These unsound projects would cost more than \$580 million to complete.
 - Three are funded for "study" just to keep them alive. No further study is needed to determine they are unjustified investments.
 - Three are funded for construction.
 - All six projects have been exhaustively reviewed.
- The bill funds excess new water project construction starts:
 - The President proposed 26 new construction starts costing a total of \$640 million.
 - After extensive study and review of agency procedures, the President's water policy emphasized the need for consistent criteria to assure that sound projects are funded. The 26 new starts were selected on the basis of economic soundness, readiness for construction, environmental quality, public benefit and budget limitations.

- The bill funds 27 additional new construction starts costing a total of almost \$1.2 billion, making a total of 53 new projects costing more than \$1.8 billion.
- Many of the 27 added projects have not been fully planned, are excessively expensive, are not economically sound, cause unnecessary environmental damage or are very low priority investments.
- The bill appropriates funds to accelerate schedules for certain ongoing projects, disrupting planning and allocation of resources.
- The bill mandates hiring 2,300 additional Federal employees in excess of agency needs.
 - This is a 6% increase in personnel for the Corps of Engineers (civil functions) and a 6% increase for the Bureau of Reclamation (full-time permanent employees).
 - Hiring of unneeded personnel is expensive (over \$50 million per year for 2,300 new employees) and permanently increases the size of the bureaucracy.
- The bill abolishes the Water Resources Council by deleting all funding (\$1.3 million).
 - WRC is made up of all the agencies with water programs and is thus better suited than any single agency to coordinate water programs.
 - WRC has been given important new assignments to help implement the President's water policy, including the development of consistent water project planning requirements, reviewing project planning to facilitate selection of new projects and implementing grant programs for State water planning and conservation.
 - WRC is a vital link with States, funding State water planning programs.

-- A small investment in coordination can save much more by making the government's water programs more efficient and consistent.

● The bill rejects the full funding approach for new water projects, disguising their true total cost.

-- New construction starts are begun -- inextricably committing the Federal government to project completion -- on the basis of funding for only one year.

-- The President proposed appropriations of \$640 million to fully pay for 26 new water project starts.

-- This bill adds 27 more new projects with a cost to complete of almost \$1.2 billion.

-- But this bill provides only the first year's funding for all 53 projects -- appropriating only \$103 million. While the bill provides less funding this year than requested by the President, it actually triples the government's financial obligation.

-- Full funding gives more certainty that projects will proceed on optimum schedule, since their full costs are considered at the outset.

THE WHITE HOUSE

WASHINGTON

September 25, 1978

Dear Mr. Majority Leader:

The President has asked me to follow up on your meeting with him last Friday by providing you with a summary of the Administration's objections to the Public Works Appropriation bill. Our concerns are enumerated in the attached.

I would emphasize that the Administration supports the energy portions of H.R. 12928. We are also pleased that the Statement of Managers permits resolution of the Clinch River Breeder Reactor issue in the context of the Department of Energy Authorization legislation.

I hope the attached is helpful to you. If you have further questions, I would be happy to discuss them with you.

Sincerely yours,

Frank B. Moore
Assistant to the President
For Congressional Liaison

The Honorable James C. Wright, Jr.
Majority Leader
U.S. House of Representatives
Washington, D.C. 20515

Attachment

THE WHITE HOUSE
WASHINGTON
September 22, 1978

C

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER *HC*

SUBJECT: Weekly Mail Report (Per Your Request)

Below are statistics on Presidential and First Family:

<u>INCOMING</u>	<u>WEEK ENDING 9/15</u>	<u>WEEK ENDING 9/22</u>
Presidential	14,950	16,240 <i>↗</i>
First Lady	1,290	1,295
Amy	85	125
<u>Other First Family</u>	<u>35</u>	<u>20</u>
TOTAL	16,360	17,680

BACKLOG

Presidential	2,300	4,400 <i>↗</i>
First Lady	200	230
Amy	0	0
<u>Other</u>	<u>0</u>	<u>0</u>
TOTAL	2,500	4,630

DISTRIBUTION OF PRESIDENTIAL MAIL ANALYZED

Agency Referrals	10%	9%
WH Correspondence	38%	48%
Unanswerable Mail	19%	18%
White House Staff	5%	6%
Greetings Requests	26%	18%
<u>Other</u>	<u>2%</u>	<u>1%</u>
TOTAL	100%	100%

NOT INCLUDED ABOVE

Form Letters	4,179	4,117
Form Post Cards	1,800	2,025
Mail Addressed to White House Staff	18,026	15,947

cc: Senior Staff

MAJOR ISSUES IN
CURRENT PRESIDENTIAL ADULT MAIL
Week Ending 9/22/78

ISSUES	PRO	CON	COMMENT ONLY	NUMBER LETTERS
Support for President's Success at Middle East Summit Conference (1)	95%	3%	2%	1,235
Support for Appointment of Sarah Weddington	7%	93%	0	190
Support for Treatment of Jehovah's Witnesses in Argentina (2)	0	100%	0	174
Support for Middle East Summit Conference at Camp David	82%	12%	6%	148
Support for Indictments of Members of the Church of Scientology	0	100%	0	<u>80</u>
			Total	1,827

(1) SUPPORT FOR PRESIDENT'S SUCCESS AT SUMMIT
CONFERENCE (95% Pro)

Nation-wide applause is accorded the President for his tremendous accomplishment at the Summit Conference. He is highly commended for his "commitment and perseverance for the cause of peace."

(2) SUPPORT FOR TREATMENT OF JEHOVAH'S WITNESSES
IN ARGENTINA (100% Con)

Reacting to recent articles in Awake! magazine and emphasizing the President's stated concern for human rights, writers urge him to intervene on behalf of the Jehovah's Witnesses in Argentina, who are being denied their rights to religious freedom.

Phi has

all

THE WHITE HOUSE
WASHINGTON

9/23/78

Mr. President:

When Anne Wexler met with you
this past week did you o.k. your
attendance at a briefing for agricultural
and rural interests on natural gas
during this coming week?

Phil

yes no

Yes
Last minute -
Very brief
J

THE WHITE HOUSE
WASHINGTON

Original cc of
Order given to
Linda 9/23.

Beep

THE WHITE HOUSE

WASHINGTON

September 19, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER 

SUBJECT: Sarah C. Weddington

Attached for your signature is the salary order affixing Sarah Weddington's salary at \$51,000 per annum effective October 1, 1978.

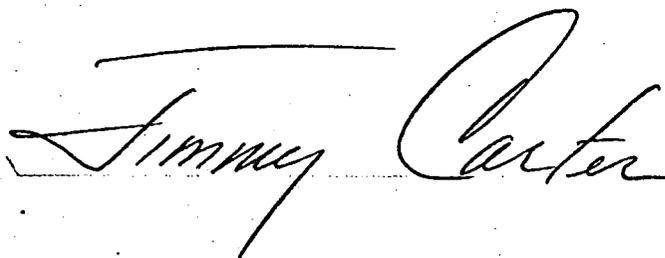
O R D E R

I hereby fix the compensation

of Sarah C. Weddington at the rate

of \$51,000 per annum, effective

October 1, 1978

A handwritten signature in cursive script that reads "Jimmy Carter". The signature is written in black ink and is positioned in the lower right quadrant of the page.

Sept 23, 1978

THE WHITE HOUSE,

THE WHITE HOUSE
WASHINGTON

9/25/78

Jerry Rafshoon

The attached was returned in the
President's outbox over the weekend.
It is forwarded to you for your infor-
mation.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

President's comment
conveyed to Jany
9/23.

Call, also send Jany
a cc of PSI.

Thanks,

Bill

THE WHITE HOUSE
WASHINGTON

September 22, 1978

*Basically,
I agree
J*

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: JERRY RAFSHOON *Jerry*

Following the euphoria of Camp David, the press and public are waiting to see how you are going to translate your magnificent foreign policy achievements into the realm of domestic policy and the tone of your actions. The two areas, in order of importance are:

- 1) Inflation -- the competence issue
- 2) Vetoes -- the toughness issue

I would like to deal briefly with these two in reverse order.

I. Vetoes.

Your competence rating has certainly gone up since the Summit. But the jury is still out on toughness because the Camp David job was one of negotiation, diplomacy, mastery of details, etc. The toughness part was in the way you kept the two other leaders locked up, etc.

However, it is true that the press and public is looking at you to see if you will stand up to Congress in the areas of pork barrel projects, inflationary legislation, special tax credits, and things of that nature. I am not advocating vetoes in order to show your toughness; and I know that the veto should really be used as a way of shaping legislation. But, as I felt in the case of the defense veto, if your instincts are such that you do not like the legislation before you, then by all means, veto it. If you don't and then have to defend why you don't you cannot do it as credibly as you can when you do veto something you don't like. The reason your defense veto press conference was so good was because you believed so strongly in what you were doing. If you'd

gone the other way, you would have looked silly explaining why it "wasn't such a bad bill after all."

On the other hand, we don't want to indiscriminately pick fights and send vetoes that are difficult to sustain. For these reasons, I recommend that you veto the following bills that would be economically sound and for which we can make a good dramatic case:

Public Works Appropriations

Tuition Tax Credit

Sugar (Washington is waiting to see if you will stand up to Russell Long)

Public Works and Sugar are highly inflationary. Tuition Tax Credit has gotten a lot of publicity and most people think you will veto it. Not to would look like a flip-flop. Also, the Treasury Appropriations Bill should be vetoed if it still contains the Dole Amendment.

II. Inflation.

The inflation program that you announce soon should contain the toughest options possible. Certainly in the area of governmental actions, we should be able to point to the hardest, most austere measures. A freeze on governmental hiring, some regulatory reforms, and a very austere budget. I have already sent you a memo outlining how we should handle it. An announcement from the East Room was recommended. Since we used the East Room for the Camp David announcement, perhaps, we should change this to the Oval Office and have you address the nation from there.

As for timing, I think you should do it no later than October 15 and earlier depending upon when the natural gas bill passes the House.

I think you should also give some thought to whom you would appoint to administer the inflation program. I am not certain that your present people are the best ones to run this and I have some thoughts about this that I would be happy to share with you.

THE WHITE HOUSE
WASHINGTON

9/25/78

Stu Eizenstat

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

Rick Hutcheson

cc: Jack Watson

CABINET STATUS -- OPM

THE WHITE HOUSE
WASHINGTON

9/25/78

Mr. President:

Watson disagrees with Stu, and thinks that expanding the Cabinet is not a wise way of dealing with a tactical legislative problem. Jack thinks that the high regard in which Scotty Campbell is held is an insufficient reason for making the OPM job a Cabinet position. Others (Costle, Cleland, Solomon) head major departments but lack Cabinet rank. Jack doubts that Scotty needs Cabinet rank to 'secure cooperation from the line agencies.' Finally, Jack points out that you have been trying to reduce the number of people attending Cabinet meetings.

Stu responds that the problem of assuring presidential control of the OPM is a serious one; for this reason, "on the merits," it makes sense to accord Cabinet rank to the OPM. Also, the OPM is analogous to OMB in the personnel field, "a right arm for the President in managing the Federal personnel system," with cross-cutting responsibilities.

--Rick

THE WHITE HOUSE

WASHINGTON

September 21, 1978

C
/

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
SI LAZARUS
STEVE SIMMONS

SUBJECT: Cabinet Member Status for OPM Director
under the Civil Service Reform Bill

When you originally determined the contents of our civil service reform proposals last February, you decided, in accord with our recommendation, not to treat the Director of the new Office of Personnel Management as a member of the cabinet. As the civil service House-Senate conference begins, we now feel that you should reverse that determination, for reasons briefly set out below.

First, treating the OPM Director as a cabinet member will increase the chances for effective implementation of the reform bill, by underscoring the continued high priority you place on promoting major changes in the civil service. This step will help show the press and the public that you care about making the new law work as well as getting it passed. In addition, cabinet status will enhance the OPM Director's leverage to secure cooperation from the line agencies as he moves to implement the reforms -- critically important if we are to be able to show that we have followed through on enactment of the bill a year or two from now.

Second, in designing and enacting the bill and reorganization plan, Scotty Campbell has shown outstanding leadership ability. It is widely assumed that he will be named OPM Director. Adding him to the cabinet would recognize the contribution he has made to the administration to date, and would enable him to make broader contributions in the future.

Third, your intention to treat Scotty as a member of the cabinet when he assumes command of OPM could help our representatives at the House-Senate conference remove two objectionable provisions from the Senate bill. These provisions would:

- provide that the OPM Director serve a four-year term coterminous with that of the President, and that he be removable only for "inefficiency, neglect of duty, or malfeasance in office." This could mean, in effect, that the OPM, originally supposed to serve as the President's "right-arm" for personnel management, would turn into an independent agency like the ICC or the Federal Reserve Board, and that the entire personnel system would become insulated from Presidential control, much more than it is now under the Civil Service Commission.

- cut the pay-level for all the Presidential appointee positions created by the bill by one grade -- so that the OPM Director would be a Level III instead of a Level II, the MSPB chairman would be Level IV instead of Level III, etc. This amendment would downgrade the importance of personnel management, in derogation of the major aims of the reform program.

Your intention to treat Director Campbell as a cabinet member would underscore the incongruity of making this key member of your official family beyond your control to remove and direct, as well as the incongruity of downgrading this key official to Level III (OMB Director is Level II; Department heads are Level I).

In light of these considerations, we believe it makes sense to treat the OPM Director, if it is Scotty Campbell, as a member of the cabinet. Frank's staff concurs in this recommendation. (This step would involve no formal legislative provisions, but would simply be an informal decision by you.) We have not yet determined at what point or in what form it would be most useful to communicate this point to the conferees, but it may become necessary to do so on short notice; hence, we are asking for your decision now.

Agree _____

Disagree _____ ✓

*no reflection on
Scotty
J*

ID 784746

THE WHITE HOUSE

WASHINGTON

DATE: 21 SEP 78

FOR ACTION: JACK WATSON

*- attached +
by SE [unclear]*

INFO ONLY: THE VICE PRESIDENT

HAMILTON JORDAN

SUBJECT: EIZENSTAT MEMO RE CABINET MEMBER STATUS FOR OPM DIRECTOR
UNDER THE CIVIL SERVICE REFORM BILL

+++++

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

+ BY: 1200 PM SATURDAY 23 SEP 78 +

+++++

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

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

ACTION
FYI

ADMIN CONFIDENTIAL
CONFIDENTIAL
SECRET
EYES ONLY

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

	ARAGON
	BUTLER
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HUTCHESON
	LINDER
	MARTIN
	MOE
	PETERSON
	PETTIGREW
	PRESS
	SANDERS
	VOORDE
	WARREN
	WISE

THE WHITE HOUSE

WASHINGTON

September 23, 1978

MEMORANDUM FOR RICK HUTCHESON

FROM: JACK WATSON

SUBJECT: Eizenstat Memorandum regarding
Cabinet Member Status for OPM
Director under the Civil Service
Reform Bill

I do not concur in the recommendation. The President has recently expressed concern over the number of people attending Cabinet meetings and has taken steps to reduce that number. To handle a tactical legislative problem by expanding the size of the Cabinet seems to me to be a wrong and unnecessary approach.

Similarly, although I, too, have extremely high regard for Scotty Campbell, I do not think that that constitutes a good reason for making the OPM job a Cabinet position. (What about Doug Costle and Max Cleland and Jay Solomon, all of whom head major departments of government and none of whom holds Cabinet rank?) Although Cabinet rank would, of course, enhance the prestige of the job (as it would any job), I do not think Scotty (or whoever is to be OPM Director) would need the Cabinet rank in order to "secure cooperation from the line agencies."

CC: Stu Eizenstat

THE WHITE HOUSE
WASHINGTON

Sept. 25, 1978

Jack Watson

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

Rick Hutcheson

WEEKLY REPORT

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

ACTION

FYI

ADMIN CONFIDENTIAL
CONFIDENTIAL
SECRET
EYES ONLY

VICE PRESIDENT

JORDAN

EIZENSTAT

KRAFT

LIPSHUTZ

MOORE

POWELL

RAFSHOON

WATSON

WEXLER

BRZEZINSKI

MCINTYRE

SCHULTZE

ADAMS

ANDRUS

BELL

BERGLAND

BLUMENTHAL

BROWN

CALIFANO

HARRIS

KREPS

MARSHALL

SCHLESINGER

STRAUSS

VANCE

ARAGON

BUTLER

H. CARTER

CLOUGH

CRUIKSHANK

FALLOWS

FIRST LADY

GAMMILL

HARDEN

HUTCHESON

LINDER

MARTIN

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

VOORDE

WARREN

WISE

THE WHITE HOUSE
WASHINGTON
September 23, 1978

Jack
C
/

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*

SUBJECT: Weekly Report

Cabinet Reports

Attached are the weekly reports of the Cabinet Members.

Office Activities

Inter-Agency Coordinating Council

- ° The new Council is meeting on a regular basis and is working well. Numerous specific developments are flowing from its work.
- ° Your announcements in North Carolina on Friday and the follow-through are the product of interagency work led by Larry Gilson of my staff.
- ° The Vice President, Secretary Bergland, and Secretary Califano will be participating in a White House announcement of Administration rural health initiatives on October 2nd. A good cross section of rural American leadership will be in attendance. With existing HEW, USDA, and DoL funds we will build, or substantially renovate, 200-300 rural health clinics over the next four years. 1500 CETA slots are being held in reserve to provide partial staffing for the clinics.

- Similar announcements of interagency initiatives to improve rural housing and transportation will be ready shortly. The housing plan will be of great assistance in rural mountainous areas and, thus, will be ready for your announcement during your proposed trip to West Virginia.
- The Interagency Council is developing plans for responding to the special problems in Youngstown, Ohio, deriving from the closure of the steel plant there one year ago.

Major Legislative Initiatives

- My office has become deeply involved in working with Frank's office in getting effective State and local support for your legislative program.
 - Governor Hunt, as Chairman of the Democratic Governors, personally wrote each of his colleagues and enlisted his/her active support for the civil service reform bill.
 - Our work with the Governors on natural gas continues. Nearly thirty Governors are now writing their House delegations in anticipation of Senate passage.
 - We are working with Western Governors (O'Callaghan of Nevada, Apodaca of New Mexico) to develop support in the West if you decide to veto the Public Works bill.
 - Nearly 100 county officials will be in town next week to be briefed on the hospital cost containment issue and the Nelson Amendment. They are being invited from targeted States and will spend all day Wednesday lobbying their Senators.

He wants to help with state education testing program. Encourage him -

where is letter re Governors international trade Committee?

This effort is paying rich dividends both in effective lobbying and in giving our friends an important and substantive role to play in helping you. The Governors especially are pleased and are asking for more.

Speeches

I have been traveling a good deal and giving a lot of speeches this month, e.g.:

- Joint session of the Missouri Legislature on our rural development initiatives;
- International Textile and Apparel Manufacturers (meeting in Atlanta) on U.S. trade policy and the MTN;
- National meeting of bond attorneys in Chicago on your urban policy and its incentives and implications for the private sector.
- Plus the usual talks to various State and local groups.

I am also continuing the series of small, informal dinners with chief executive officers of major corporations that you and I spoke about last fall. The most recent one was on Wednesday night and included the CEO's of General Telephone & Electronics; Alcoa; Burroughs; Cummins Engine; Goldman Sachs; Wheelabrator-Frye; B.F. Goodrich; Dow Chemical; and Phil Caldwell, the new President of Ford Motor Co.

The subjects we discussed most were inflation and government regulation and what to do about both problems. I believe that if we really stress all the actions you are taking on the government side to deal with inflation (e.g., the 5.5% pay cap, the hiring freeze, budget restraint, etc.) the "guidelines" we suggest for the private sector will be much more acceptable to the business community. I think that we need to do something more dramatic and visible to demonstrate your determination to reduce unnecessary and non-cost/beneficial government regulations. In my opinion, we need more focus on that effort, for both substantive and political reasons. I have some ideas on this subject that I shall include in the inflation decision memorandum that is coming to you shortly.

sk

THE WHITE HOUSE
WASHINGTON
22 September 1978

C

MEMORANDUM FOR THE PRESIDENT

FROM: RICK HUTCHESON *See Simon for RH*
SUBJECT: Status of Presidential Requests

MCINTYRE:

1. (6/16) Work on Strauss suggestion that all departments develop plans for cutting back on travel expenses by 20-25% -- Done. *done*

LIPSHUTZ:

1. (8/7) Call Fred Gregg regarding the copyright of the President's Sunday School lessons; it's ok to distribute and use them, but no commercialization -- In Progress, (Bob is scheduled to meet with Gregg on 10/4).

KRAFT:

1. (8/8) Have Rafshoon talk to Howard Baker regarding one Republican appointment for the Advisory Commission on International Communication, Education and Cultural Affairs -- Done, (Frank has discussed this with Baker). *done*

VOORDE:

1. (8/7) Will the President be in Washington on 9/24? -- Done. *done*

EIZENSTAT:

1. (8/17) Don Riegle called; you or Lynn Daft call Coleman Young to double check the accuracy of the recommended turn-down for disaster assistance -- Done. *done*

POWELL:

1. (9/2) a) Expedite Dresser statement -- Done; b) Advise on White House involvement in GSA investigation -- Done. *done*

JORDAN:

1. (9/2) Move on Tom Bryant -- In Progress, (Hamilton and Stu met with him 9/7, Hamilton talked with him again on 9/19).

RAFSHOON:

1. (9/2) Emphasize hospital cost containment early and strongly -- In Progress, (Jerry will discuss with you).

SANDERS:

1. (9/21) Get Jews to try to constrain comments being made by Prime Minister Begin -- Message Conveyed. *done*

WATSON:

1. (8/31) Draft a letter from the President to Governor Carroll regarding setting up a governors committee on international trade and other foreign interests. Check it out with Cy and Zbig; then see the President -- In Progress, (draft letter with State and NSC, expected 9/27).

SECRETARY VANCE:

1. (9/2) Do you know the source of the 8/29 WASHINGTON POST article entitled, "Administration Divided on Spy Arrests," concerning the disputes between Justice and State -- Done, (the Secretary reports that he has discussed this with you and that no written reply is necessary). *done*

DR. LUKASH:

1. (8/31) Please call Frances Donnelly of Macon, Georgia concerning patients at the Veterans Hospital -- Done. *done*

VICE PRESIDENT:

1. (9/20) Check with Tim and comment on the Lipshutz/Eizenstat memo concerning the President's Holocaust Commission -- In Progress.
2. (9/21) Do the phone calls for me that were submitted by Moore and Kraft concerning the primary elections -- In Progress, (calls to all those listed were placed, but some have not returned the calls yet).

3. (Mrs. Mondale) (9/21) See the President concerning the Arts Medal -- In Progress, (Phil and Fran will recommend a time in the next two week schedule).

BRZEZINSKI:

1. (8/16) Prepare a personal message from the President to President Portillo to urge him from making any statements concerning selling of Mexican gas to the US in his 9/1 speech -- Done. *Done*
2. (8/16) Advise the President on how best to suggest to Prime Minister Begin that he refrain from doing US television talk shows or his visible meeting prior to the Camp David Summit -- Done. *Done*

THE WHITE HOUSE
WASHINGTON

9/23/78

rick --

please send me cc

thanks - susan

lasti - give me our copy -
I'll give to Bill
after reading

THE WHITE HOUSE
WASHINGTON

comments/changes--EIZENSTAT

THE WHITE HOUSE

WASHINGTON

MR. PRESIDENT:

I have just seen for the first time a copy of your proposed remarks to the IMF this afternoon. Attached are my substantive comments on pages 4 and 5.

I am concerned with the seeming endorsement given to the proposed German-French monetary arrangement at the bottom of page 6. While in general, we have endorsed the principle of such an arrangement, it does hold out certain risks for us unless it recognizes the role of the dollar, since it can become a competing monetary arrangement. Henry Owen feels that this language is not too strong an endorsement but I am concerned that it is.

Last, I question at the time of budget stringencies whether to commit to increases in foreign aid in FY 80. I am also leary of the difficulties that may be caused in the current bill by calling it "the largest appropriation for both multi-lateral and bi-lateral aid in our history." I think that this can be stated in a way which gives Congress less trouble by simply saying that the House and Senate are living up to their responsibilities in the foreign aid bill.

After conveying my concerns to Henry Owen, he in turn talked with Tony Solomon at Treasury. They have suggested, as an accommodation to my concerns that the paragraph in question on page 6 be changed as shown on the attached page.



Stu Eizenstat

25 Sept 78

Address by the
President of the United States
before the 1978 Joint Annual Meeting
of the Board of Governors of the
Fund and Bank

Mr. Chairman, Managing-Director deLarosiere, President McNamara, Governors of the Fund and Bank, and distinguished visitors. On behalf of the American people I want to welcome you once again to Washington for your thirty-third annual meeting.

We meet as a group dedicated to the cause of international cooperation.

In the political field, you and I share the belief that cooperation can lead to peace. We have learned that lesson once again very recently. I know that you will join me in saluting the statesmanship and courage of President Anwar Sadat and Prime Minister Menachim Begin.

In the economic field, too, cooperation brings large benefits. Three decades of the Fund's and Bank's existence have brought progress and a better life for the world's people.

Like you, I want to build on that record -- to achieve still further economic cooperation.

Since your meeting here last year, our countries -- acting together -- have made tangible progress on world economic problems. The issues that remain are difficult; but they are not insoluble.

You are the world's economic leaders. The task before you is to consolidate past gains and then to push ahead -- in ways that will foster economic growth in both developing and industrial nations. Our goal is to achieve progress for all peoples.

The basic strategy has been agreed. In Mexico City at the IMF Interim Committee agreement was reached on the general directions that economic policy should take. Progress has been made. The outlook for improvement is good. We must not falter.

A contribution to this strategy is needed from every country represented here. In this effort the United States

has a major responsibility. Two months ago, at Bonn, I made specific promises to our major trading partners about the actions that my country would take to this end: I pledged that the United States would fight inflation, reduce oil imports, and expand exports. Let there be no doubt about how seriously I take these pledges. Taken together, they encompass the most urgent priorities of my Administration -- and the ones I am most firmly determined to fulfill. I have come here today to underline that determination and describe the next steps we will take:

-- I will soon announce the first phase of a long-term program to expand American exports. Removing disincentives to exports and encouraging exports are over-riding tasks for my Administration.

-- I have intensified my efforts to obtain legislation that will curtail U.S. imports of oil. The U.S. Senate is scheduled to vote the day after tomorrow on the key bill. -- *natural gas pricing. This bill will save 1.4 million barrels of imported oil per day by 1985.*

I am confident that the Senate *will do its duty to our nation and then the House of Representatives* by approving this bill. I hope to have a [*strong* complete] package of energy legislation enacted before the Congress adjourns. This is essential to a sound dollar.

-- I intend very shortly to announce a series of important and specific new measures to strengthen our fight against inflation. These next steps will not be the end of our effort. Every nation represented in this room understands how difficult the struggle against inflation is and what sustained commitment it demands. My Administration will continue that struggle on a wide variety of fronts until we succeed. There will be obstacles and objections from special interest groups along the way. But I will not shrink from the hard decisions and persistent effort that are needed.

I am determined to maintain a sound dollar. This is of primary importance to us, as it is to you. We recognize that our currency plays an international role, and we accept the responsibilities that this involves.

Other countries are acting to meet their responsibilities to the system, consistent with the directions set by the IMF's Interim Committee in Mexico and as pledged at the Bonn Summit. The United States will do the same. Through programs such as I have described, we will achieve the strong U.S. economy and non-inflationary U.S. growth that must underlie a sound dollar and a stable international monetary system.

The outlook for progress is good. Our current account position ^{should} will improve significantly next year. The United States will remain an open, vigorous economy and an attractive place to invest.

Other steps are also required to achieve the economic progress we all seek. In these steps, the IMF and the World Bank have a vital role to play. These two institutions are the core

and symbol of the international economic order that was built after World War II. They have shown a high capacity to adapt to new needs. Strengthening and enlarging them is a prime goal of U.S. policy.

The United States is firmly committed to a strong International Monetary Fund, exercising effective surveillance over the system and with adequate resources to meet official financing needs. The United States will support an increase in IMF quotas and a new allocation of Special Drawing Rights. I am pleased that legislative consideration of U.S. participation in the Supplementary Financing Facility is nearing completion. I expect final action to be taken shortly.

I ~~am confident~~^{trust} that our European friends will fashion the proposed European monetary arrangements in a way that will also strengthen the international monetary system -- and that will facilitate growth, trade, and investment ^{and the central role of the I.M.F.} Current European efforts to these ends are a logical step toward the greater European integration the United States has long supported.

We also support proposals to enlarge the resources of the World Bank and its soft-loan affiliate, the International Development Association, as pledged at the Bonn Summit. Expanded help to developing countries contributes to a healthy world economy and to world peace. Last week the U.S. Senate passed, as the House of Representatives had earlier, the largest appropriation for both multilateral and bilateral aid in our history. I will seek next year the further increases that are needed, as part of a growing international effort to eliminate the worst aspects of human poverty.

The U.S. Governor for the Fund and Bank, Secretary of the Treasury Mike Blumenthal, will outline our policies in more detail when he addresses your session tomorrow.

You are gathered in Washington to address formidable challenges in both the monetary and development fields. The future of all peoples, in both developing and developed countries, depends upon the outcome. I reiterate my nation's commitment to the common effort that is required.

I am confident this effort will succeed.

3:20 *Departure*
3:30 PM
5658

THE WHITE HOUSE
WASHINGTON

September 23, 1978

INFORMATION

MEMORANDUM FOR: THE PRESIDENT
FROM: HENRY OWEN *HO*
SUBJECT: Remarks to IMF-IBRD Meeting

Attached at Tab A is a draft of your remarks to the IMF-IBRD meeting, which reflects inputs from Treasury, State, and Jim Fallows.