

1/3/79

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THE WHITE HOUSE
WASHINGTON

1/3/79

hugh carter--

just so president nixon
knows we know his birthday
isn't on the 2nd (there's
no mention of the 9th within
body of letter)...would you
please forward with a note
from you to the effect that
since president carter is
to be in guadaloupe on N's
birthday, he asked you to
forward greetings and his
personal best wishes.

thanks--susan clough

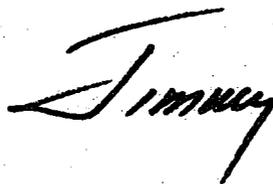
THE WHITE HOUSE
WASHINGTON

January 2, 1979

To President Richard Nixon

Rosalynn and I send you our best wishes
on your birthday. We hope the day will
be an especially happy one for you and
your family.

Sincerely,



The Honorable Richard M. Nixon
La Casa Pacifica
San Clemente, California 92672

THE WHITE HOUSE

WASHINGTON

January 2, 1978

MEETING WITH MIKE SATCHEL - PARADE MAGAZINE

Wednesday, January 3, 1979
11:00 a.m. (20 minutes)
The Oval Office

From: Jerry Rafshoon *JR*I. PURPOSE

As a weekly supplement to Sunday papers, Parade Magazine has one of the largest readerships of any magazine, and this interview will be an excellent opportunity for you to reinforce your determination to deal with the problem of inflation which is plaguing most Americans.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

- A. Background: Satchel may ask "What effect does inflation have on the average American family and what can they do about it?" However, he wants to avoid the "helpful hints for the consumer" slant, and deal with more substantive issues, including the budget. The interview will not be published until the budget is public, probably in early March, but Satchel will probably ask about some specific budget actions for background.

Parade has been supportive of the notion of Hospital Cost Containment in the past, and would be an excellent forum for building public support for this year's bill.

- B. Participants: Mike Satchel and Arthur Rothstein, a Parade photographer.
- C. Press Plan: White House Photographer

III. TALKING POINTS

See Attached.

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THE WHITE HOUSE

WASHINGTON

January 2, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Jerry Rafshoon

SUBJECT: Anti-Inflation Talking Points for
Parade Magazine Interview

-- We have put Americans back to work over the past two years with a record number of new jobs added and the unemployment rate cut by 25 percent. Not only has this meant an end to uncertainty, despair and want for many families, it has meant less government spending on unemployment benefits and welfare payments.

-- We are now faced with an even more difficult problem; one that has been with us for over a decade -- high inflation. Dealing with it will be one of the most difficult challenges we face as a nation. It will not be easy, and we will not see success overnight, or even in a month or a year. Our goal is to top off the inflation spiral and bring it back down -- without either shocking our economy into a severe recession and high unemployment or forcing us into the straight jacket of mandatory wage and price controls.

-- For the average family, inflation means frustration, uncertainty, and a loss of hope in our ability to provide for ourselves and our families in the future.

During the last decade, the average real hourly earnings of the American worker have barely kept pace with the cost of living, despite record growth in earnings before inflation. In the previous decade, 1958-1968, average hourly earnings grew by 3.9 percent compared with 1.9 percent inflation, for a real growth of 2 percent. From 1968-1978, hourly earning grew by 7.2 percent, but inflation pushed the cost of living up 6.7 percent, for a net gain of only 0.6 percent.

We are caught in an inflationary spiral, with high wages pushing up prices, and high prices pushing up wages. The voluntary guidelines will slow down that spiral and in the end, everyone will benefit if the purchasing power of our dollars can be maintained.

-- Inflation hits hardest at the poor, the uneducated, the elderly, and those who have limited choices as to how they can earn income. The poor and elderly spend more of their income on the items which have been hit hardest by inflation.

The elderly spend twice as much of their income for medical care, including insurance and out of pocket costs, as does the general population. A retired couple whose cost was about \$450 in 1973, could be paying almost \$700 for the same care today.

-- Middle income families face similar price increases, even though a smaller share of their income is spent on food and direct payment for medical care. These families frequently have to face the additional cost of educational expenses, which have been rising faster than the general price index.

-- In the last five years, food prices have risen 54 percent, housing by 57 percent, and health care by 65 percent.

-- The success of the anti-inflation program will depend on compliance with the wage and price guidelines; our ability to reduce the federal deficit; balanced monetary policy; a reduction in unnecessary and costly government regulation -- all of which require public support. Our major legislative initiatives will be the budget, real wage insurance and hospital cost control. We will also be giving special attention to the areas where inflation hurts most: food, energy, housing, health care, and transportation.

-- For example, we are told that the price of hamburger is going way up. We will try to increase the supply of beef as much as possible to keep prices down. And while farmers are rebuilding their beef herds, consumers should have increased supplies of other meat, because producers of chicken and pork are expecting record production levels.

-- We will continue to resist excessive increases in the price of sugar. Sugar is an ingredient in so many foods that the impact would be felt throughout the market basket.

-- We have asked hospitals to comply voluntarily with a spending guideline of 9.7 percent and we will introduce legislation which will make that guideline mandatory if it is not achieved. Skyrocketing health care costs have outpaced the general rate of inflation. They have meant higher health insurance premiums, higher government spending for Medicaid and Medicare, higher expenses for business and unions, and too often disaster for those who can not afford adequate insurance coverage. The average hospital bill today is over \$1415, compared with \$812 in 1974, a 74.2 percent increase.

In the medical profession, the person or institution receiving payment also determines to a large extent who should receive treatment, what kind of treatment should be given and for how long, and what that treatment should cost. This kind of monopolistic control requires that government step in. Nearly a dozen states have hospital cost containment programs including Massachusetts, New York, Connecticut, Colorado, Maryland, New Jersey, Rhode Island and Wisconsin. The rate of price increase is down, and the quality of care has not suffered.

-- There are also areas where government should step out of the picture, as we did with airline deregulation. Over-regulation prevents free competition and keeps prices unnecessarily high.

-- We will need the help and support of the American people. They can exert influence at their businesses, with their labor unions, with their Senators and Representatives, with their state and local governments, as consumers and as producers. We have to demonstrate that we have the individual and collective will to face this most difficult problem and the ability to begin to solve it.

8:00 AM

THE WHITE HOUSE
WASHINGTON

C
1

January 2, 1979

MEMORANDUM TO THE PRESIDENT

FROM: A.E. Kahn *Fred*

SUBJECT: Breakfast Meeting on Inflation, January 3, 1979, 8:00 a.m., The Cabinet Room

- I. Crude Oil Decontrol
- II. Gasoline Decontrol
- III. Carry-over Items from the December 21 Meeting

A. DAVIS-BACON

OMB has a group looking into possible changes in the administration of Davis-Bacon which could offer significant anti-inflation benefits.

B. COIN

The meeting Esther Peterson and I had with the COIN group--since I had promised them in your presence to report to you about that meeting, you may wish me to discuss it briefly. I do not feel it is necessary, however, since you are probably aware of the main concerns they raised. We have submitted to you a letter to the COIN people for your signature, generally approving of what they are doing, and asking me--as I have already begun to do--to have them meet with our various working groups in the fields of food, housing, energy, health and transportation to devise specific programs of action to attack spiralling costs in those areas. The main concerns of theirs we are most likely

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to find troublesome related to energy pricing, milk marketing orders, quantitative credit controls, and budget costs.

C. REAL WAGE INSURANCE

This has already come to your attention and you have acted on it.

D. PULP & PAPER WORKERS LAWSUIT AGAINST CWPS

We intend to ask for dismissal of the West Coast paper industry union suit against CWPS within the next few weeks.

The union has refused to participate in the court-ordered hearing before CWPS. The union is also faced with problems at the bargaining table because several of its locals have signed contracts on the lower terms that were on the table at the time the guidelines were announced, and therefore are acceptable (although exceeding the 7% standard).

An ultimate test of Presidential authority in this case now appears unlikely.

THE WHITE HOUSE
WASHINGTON

1/3/79

Anne Wexler

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

Rick Hutcheson

cc: Zbig Brzezinski

FOR ACTION
FYI

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

VICE PRESIDENT

JORDAN

EIZENSTAT

KRAFT

LIPSHUTZ

MOORE

POWELL

RAFSHOON

WATSON

WEXLER

BRZEZINSKI

MCINTYRE

SCHULTZE

ADAMS

ANDRUS

BELL

BERGLAND

BLUMENTHAL

BROWN

CALIFANO

HARRIS

KREPS

MARSHALL

SCHLESINGER

STRAUSS

VANCE

ARONSON

BUTLER

H. CARTER

CLOUGH

CRUIKSHANK

FIRST LADY

HARDEN

HERNANDEZ

HUTCHESON

KAHN

LINDER

MARTIN

MILLER

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

WARREN

WEDDINGTON

WISE

VOORDE

ADMIN. CONFIDEN.

CONFIDENTIAL

SECRET

EYES ONLY

THE WHITE HOUSE
WASHINGTON
January 2, 1979

*Anne -
I just wanted
a few phone
calls. This big
effort implies
desperation -
J*

MEMORANDUM FOR THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI *ZB*
ANNE WEXLER *Anne*

SUBJECT: China -- Recommendations on Presidential
Events Prior to the Visit of Vice Premier
Teng Hsiao-Ping

Following up on your conversation on China support with Anne, attached is a copy of Anne's outreach memo to Hamilton. Anne is contacting prominent business leaders for statements of support.

In addition to the various briefings being held in the next three weeks, we recommend two events prior to the Teng visit which involve the use of the Mansion and your time.

1. A White House reception on January 15 beginning at about 5 or 5:30 p.m., following a briefing at the State Department for approximately 625 corporate chief executives. We recommend that you drop by and make brief remarks at the reception between 5:30 and 7:00 p.m. Gretchen Poston advises that the Mansion is available.

Prior to the reception, Zbig, Cy Vance, Mike Blumenthal and Juanita Kreps will brief about 400 members of the National Council for U.S./China Trade (a group promoting trade with the Peoples Republic of China) and about 225 members of the USA/Republic of China Economic Council (a group involved in trade with Taiwan). This group represents a cross section of American business leaders already concerned with trade with China. They will be an important base for us for legislative and public opinion activities. Your participation in the reception can serve to motivate supporters and neutralize potential opponents. If desirable, the State Department briefing could be adjusted to allow the reception to begin earlier. If you

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decide not to drop by, the reception will be held at the State Department.

Plan reception at White House with drop by.

overkill

Yes _____ No ✓

- 2. We request your permission to use the Mansion next week or the week after for a luncheon briefing for about 50 foreign policy/China opinion leaders drawn from academia, foreign policy organizations and the media. The briefing by Zbig and Cy Vance is intended to assure that these leaders understand our perspective on the issues as well as to seek their active support. They are the people most likely to be interviewed prior to and during the Teng visit. We would, of course, be delighted if you chose to drop by for any portion of the event, but we do not believe your personal participation is essential.

Use the Mansion for luncheon. _____

Do not use the Mansion for luncheon. state dept better

I will drop by for this event. Work out details with Phil Wise. Yes _____ No ✓

cc: Gretchen Poston
Phil Wise

THE WHITE HOUSE

WASHINGTON

December 29, 1978

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR HAMILTON JORDAN

FROM:

ANNE WEXLER *Anne*

SUBJECT:

Outreach Activities on China

This memorandum describes the strategy for short-term activities (through the end of January). Longer term strategy will depend on a number of variables including final determination on the handling of the legislation. You and I need to discuss the latter strategy as well as how to staff it at the White House.

In the short-term, are objectives are to:

- o Expand American knowledge about changes in China, its government, the reasons for normalizing relations and the potential trade, jobs and other opportunities created by normalization.
- o Emphasize our continuing support for Taiwan, and reassure the public (and the Congress) that we are not abandoning Taiwan and that Taiwan security will remain strong.
- o Bring to the attention of relevant Congressmen and Senators that there is strong public support for normalization.
- o Lay the basis for a longer range strategy which will secure the passage of very complex legislation and provide strong public support for normalization.

PLANNED ACTIVITIESBusiness:

1. A series of briefings commencing Wednesday, January 3 for the Washington corporate representatives of the 400 member firms of the National Council for US-China Trade, a group supporting trade opportunities with the PRC.

2. A January 15, 3 hour briefing at the State Department by Vance, Brzezinski, Kreps and Blumenthal for the chief executives of the member firms, followed by a reception at the White House. We will seek the President's participation in the reception. (Based on the recommendations of the NSC and the State Department, the 200 firms which are members of the U.S./Republic of China Economic Council (a business group supporting trade with Taiwan) will also be invited to the January 15 briefing and reception. We see this as an opportunity to assure them that normalization will not adversely affect trade with Taiwan).
3. Further briefings for corporate representatives of other companies and trade association leaders targetted on legislative issues and potential for trade with the PRC. This latter group will include corporate representatives from the Taiwan trade association as well.

Note: We will follow up with corporate representatives after each briefing to assure coordination with Frank Moore's office and targetting of our efforts.

Foreign Policy Opinion Leaders: An early January briefing for about 50 foreign policy experts who are opinion leaders and will tend to be interviewed as the Teng visit approaches. Possibly a dinner in the Mansion.

China (PRC) Organizations, Academia, etc.: We are working with the four leading China organizations (the National Council for US-China Trade, the China Council of the Asia Society, the National Committee on US-China Relations and the Committee for Scholarly Exchange with the PRC) to provide coordination in the use of their networks and their experts as speakers as well as the preparation and distribution of several pamphlets, papers and other materials. Also the Foreign Policy Association has designated China as a "great decision" for 1979 and State will be responsible for coordinating with FPA.

Agricultural: We are working with Doug Hartman of the National Association of Farmer Cooperatives on a briefing for agricultural leaders, probably on January 18 or 19 at the White House. On those dates the agricultural trade advisory committee (composed of the top 150 agricultural leaders) will be meeting in Washington.

Religious Groups: The National Council of Churches has designated 1979 as the year of China. We will work with the NCC on speakers and materials, relying on State for most of the day-to-day contact.

Governors: We are working with Jack Watson's staff to utilize the new foreign trade committee of the National Governor's Association as a basis for developing support in disseminating information. Governor George Busbee is the Chairman of that committee and his staff will be meeting with White House, NSC and State staffs on January 9 to discuss China, SALT, MTN as well as export and other trade issues.

Other Constituencies: The State Department will be responsible for providing speakers to a number of major conventions and to certain cities, possibly tied to the Teng visit.

Working with the NSC and the State Department, we are preparing materials for trade association and agricultural newsletters. We will work with Jim Low and Doug Hartman on placing the materials in newsletters.

Media, etc.: The State Department will be responsible for using their direct line radio and TV interviewing facilities particularly in the mid-west, south, southwest and the west coast. Their public affairs office is now developing other activities to be coordinated with Jerry Rafshoon's office.

Pat Barrio, NSC and State have completed a media backgrounder to be mailed to approximately 7,000 media contacts by January 3. In addition, the State Department will brief editorial page editors January 15 and 16 and the White House will add China to the editorial page editors briefings during January and February.

Materials: Working with State Department and NSC new fact sheets, "Qs & As" covering the most asked questions, and background information are being prepared in order to have a standard information packet for distribution at briefings and in mailings. We have established Mike Oksenberg as a final clearance point for all these materials.

Vice Premier Teng Hsiao-Ping Visit: We are working with Gretchen Poston, Phil Wise, NSC and State on recommendations for this visit. There are two areas of principal concern --- in addition to the White House State dinner, what other activities involving leading Americans should be conducted in Washington; and what events, and with whom, should we schedule outside Washington.

Leonard Woodcock: Since Leonard Woodcock is to return for the Teng visit, we need to determine how his time might best be used in developing public support, particularly labor. On this latter point, we need to consult with Landon Butler about briefings for labor leaders.

Finally, we have established a working group involving White House and State staffs. It will meet at least weekly and probably more often as the Teng visit approaches. Smaller working groups will meet daily on outreach and the Teng visit.

THE WHITE HOUSE
WASHINGTON

Soc Sec vs tax
Oil price decontrol
Gasoline - excessive restraints

Probs ?

Building supplies
Highway Contractors
Food processors

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2:45 PM

THE WHITE HOUSE
WASHINGTON
January 3, 1979

ok
GC

cut by dept memo
Protect Israel

MEMORANDUM FOR THE PRESIDENT

FROM: Jerry Rafshoon *JR*
Greg Schneiders *GS*

SUBJECT: State of the Union Speech

GOAL

Following our meeting yesterday, our goal is to make the second draft shorter, sharper and more thematic than the first. It will begin with a general statement of the theme of your Administration, include a brief mention of top priority legislative initiatives, focus on peace and inflation and close with a restatement of the theme.

We still believe that it is important to limit the scope of the speech to the two basic issues.

THEME

This Administration is laying a new foundation for dealing with problems, domestic and foreign, in the 1980's and beyond. Energy, the economy, the political process, government; Africa, SALT, NATO, South America, China, the Soviet Union are examples. We face a new generation of problems - more complex, more inter-related, more intractable. To deal successfully with these problems we will need patience, persistence and maturity, a re-affirmation of our national will and collective action - partnerships - domestic and foreign.

At home, government can't solve the world's problems alone. Abroad, America can't solve the world's problems alone. But based on the new foundation we are laying, the basic strengths of America provide us with unprecedented opportunities for a stable peace in the world and stable prosperity at home.

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THE ISSUES

1. List of Legislative Priorities from the Vice President
2. SALT. Our greatest commitment is to peace. Peace is more than absence of war - it is stability of world relations. That stability comes from strength and partnership. Based on our military and economic strength and our national will, we are laying the foundation for a stable peace. We intend to include a general discussion of global strategy as well as a discussion of SALT.
3. Inflation. The need to lay a new foundation for a stable and prosperous economy. We've rejected the old answers to inflation - recession or controls. The problem is more complex and so must the answer be. Partnership of government, business, labor, etc. is needed. We are committed to the fight and we will be persistent, tough but fair.

CONCLUSION

The great strength and resiliency of our country. We must debunk these three myths:

1. that we must choose between inflation and recession;
2. that we must choose between competence and compassion;
3. that we must choose between confrontation and capitulation in the world.

If we meet the challenge of this new generation of problems and lay the new foundation for dealing with them, our third century could be our greatest - in which all Americans can realize their full potential in a stable society in a stable world.



OFFICE OF THE VICE PRESIDENT
WASHINGTON

January 3, 1979

C

MEMORANDUM FOR: THE PRESIDENT
FROM: THE VICE PRESIDENT *WJ*
SUBJECT: 1979 AGENDA

Over the next week the Executive Committee will be working to pull together senior staff recommendations on legislative priorities and timing, and to set forth procedures for Cabinet and Congressional consultation prior to your final agenda decisions.

This memorandum is designed to give you a brief overview of the directions in which we are heading in advance of a formal decision paper to be submitted upon your return on January 9th.

The following is the schedule we would hope to follow:

- o January 9th -- Submission of a memorandum to you requesting your tentative decisions on legislative priorities.
- o January 11-12 -- Frank, Stu, Zbig and I to carry out consultations based on your tentative decisions with the Cabinet and key Congressional leaders.
- o January 13 -- Submission of a decision memorandum to you reflecting the results of consultations and requesting your final decisions and also setting forth our recommendations on priority and timing of major non-legislative decisions, the calendar of diplomatic visits to the U.S. and Presidential travel abroad.

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Memorandum for the President
1979 Agenda
January 3, 1979
Page 2

- o January 15 -- Possible communication and discussion of your final agenda decisions with the Cabinet, if you wish to do so at such a formal Cabinet meeting.

In devising priorities recommendations for 1979 we have sought to build on experience from last year in designing priorities categories that can reflect the three central purposes of the decision process: (1) Internal Management, (2) Communication with Congressional Leaders, and (3) Public Presentation.

In our judgment, some initiatives are of such overriding importance that they are bound to consume a significant amount of your time and require direct White House management. These are the initiatives that you will want to present most forcefully as priorities to the public. Other initiatives may require only a modest amount of your time, but should nonetheless be managed by the White House because there is no natural Departmental advocate or because White House management would enhance our ability to present as Presidential priorities popular and successful initiatives. Certain initiatives you may want to identify as "Presidential Priorities" while leaving day-to-day management in the hands of the Departments. You may want to emphasize these initiatives with select constituent groups. Finally, a number of bills may be "must pass" legislation for the Administration but need not be publicly identified as major Presidential priorities.

The priorities candidates that follow are therefore divided into four categories:

1. Strong Presidential Interest -- Group 1. Will require a significant commitment of your time. Should be managed by a designated White House task force with full Departmental participation. Maximum Congressional and public emphasis.
2. Strong Presidential Interest -- Group 2. Will require a modest commitment of your time. Should be managed by a specific White House task force. Strong Congressional and public emphasis.

3. Strong Presidential Interest -- Group 3. Will require a modest commitment of your time. Should be managed by the Departments. Congressional and constituent emphasis.

4. Must Pass Departmental. Will be managed by the Departments, but would appear on any list of priority legislation for discussion with the Congressional Leadership. Unlike groups 1-3 above, legislation in this category would not be stressed for purposes of public presentation of your personal priorities.

In addition, we have identified a number of initiatives on which priorities determinations will have to be postponed until basic policy directions are set (Pacing Adjustments).

The following provides an indication of what you might expect to receive in terms of priorities recommendations. I would like to emphasize that additional staffing is still underway, recommendations may well shift in the paper that is submitted to you on the 9th, and therefore I would urge that no decisions be made at the present time.

Possible Priorities Recommendations

1. Strong Presidential Interest -- Group 1. (White House Management. Maximum Public Emphasis.)

o Major Health Legislation. Could include cost containment (which has also been suggested for grouping under Anti-Inflation Legislation below) and National Health Insurance. The basic scope and content of the National Health Plan to be determined following submission of HEW's draft proposal this week. It could include both CHAP and Medicaid Reforms. A significant amount of decision time may be necessary in the next two weeks, if priority is attached to early announcement and Congressional action on your proposal.

o Anti-Inflation Legislation. Could include: Real Wage Insurance, Hospital Cost Containment (per note above), COWPS Reauthorization, Surface Transportation Deregulation, Antitrust Legislation, Sunset Bill, Federal Pay Reform and a possible initiative to encourage state compliance with the guidelines program. Part of the strategy in grouping these initiatives would be to provide an opportunity for other anti-inflation victories if wage insurance fails.

- o Budget. An OMB-led task force would be responsible for overall coordination in achieving the \$30 billion deficit mark. Either the budget task force or a separate group might be assigned responsibility for supervising the Clinch River Breeder Reactor issue.
- o SALT II. A task force has already been created and is proceeding on public and Congressional strategy.
- o PRC Normalization. Implementing legislation will be needed, primarily to permit continued trade and other relations with Taiwan. A working group has been designated to be led by NSC and State.
- o MTN/Countervailing Duties. Passage of the MTN package, including legislation to resolve problems over countervailing duties, will by definition become a high priority. Up or down votes in both Houses of Congress are provided for by prior statute. While substantial Congressional and interest group opposition is likely, approval is vital to continued U.S. economic leadership and to avoid disruption of our existing trade relations. The earliest that legislation will be officially transmitted to the Congress is next spring, with floor action likely in late summer or fall. Ambassador Strauss has gotten a strong early jump and could co-chair a task force with Frank.
- o Reorganization. (Could be moved to Group 2 below). Priority for reorganization initiatives will depend upon the policy decisions that are made on the Economic Development, Natural Resources, Department of Commerce and Trade and Food and Nutrition Reorganizations. In advance of these decisions, we are inclined to recommend that a slot be created for reorganization. The Department of Education could be the first to move, with other proposals to be considered in sequence for appropriate priority designation.

2. Strong Presidential Interest -- Group 2. (White House Management. Congressional and public emphasis.)

o Urban Policy: National Development Bank. This initiative, involving major new grant and loan authority is the most important urban measure we will seek to push in 1979. Chances appear good for Congressional approval, especially if the measure were attached to an expiring authorization which must be acted upon by the Congress this year (e.g., EDA authorization).

o Alaska D-2 Lands. A legislative strategy will be recommended providing for House action early in the Congressional session, allowing maximum time to defeat a filibuster in the Senate.

o Panama Implementing Legislation. There is an October 1st deadline on this legislation. While a tough fight is expected in the House, U.S. interests would clearly be hurt if enabling legislation is stalled.

o Election Reform. The centerpiece of this initiative would be public financing of Congressional campaigns, which is reportedly number one on Speaker O'Neill's list of personal priorities. Congressional Liaison staff report that the chances of Senate passage are dim in view of solid Republican opposition.

o Solar Energy Initiatives. These are exclusively budget initiatives -- no new legislation will be required. The Administration's FY 80 request will include an increase in the solar budget of roughly \$200 million, primarily for research and technology development and for solar applications and demonstrations. There will be Congressional pressure to increase funding even further. To the extent the Administration is successful in gaining adoption of a strengthened solar program, assigning Presidential priority to these initiatives would provide an opportunity to take credit for a widely popular achievement.

o Welfare Reform. Will probably consist of a \$6 billion package including incremental reforms in cash assistance, 900 million in fiscal relief and expansion of CETA Title II jobs, targeted only for welfare recipients. Like last year, lead responsibility would initially be assigned to Secretary Califano. If it becomes clear that a reasonable bill can pass, the initiative could be upgraded in priority.

o Child Welfare Reform. Includes the adoptions and foster care reform package submitted by the Administration last year. Senator Cranston and Representative George Miller have both expressed strong interest in moving a bill in 1979.

o Lobby Reform. Last year, legislation was approved by the House but not by the Senate. There is an outside chance we might be able to pass a bill in 1979.

o Intelligence Charters. To be introduced in the first session of the 96th Congress, with priority assigned in recognition of the Administration's commitment to cooperate with the Congress in developing charters for the intelligence community.

o Middle East Assistance. Could be moved up in priority depending upon progress in the negotiations. State to take the lead.

3. Strong Presidential Interest -- Group 3. (Departmental Management)

o Labor Law Reform. If organized labor wants to move, and the President concurs, the Department of Labor could take the lead until it is clear that there is a chance for Congressional action.

o Foreign Assistance. An inter-agency working group already exists to handle foreign assistance legislation. It is proposed that this group continue responsibility in view of its successful performance last year.

4. Potential "Must Pass" Bills to be Managed by the Departments.

- o DOD FY79 Supplemental Authorization and Appropriation
- o DOD FY80 Authorization and Appropriation

- o RARE II - Legislative
- o Sugar (ratification of International Sugar Agreement price support legislation)
- o Crop Insurance
- o Extension/expiration of 80% of parity milk price support floor
- o International Emergency Wheat Reserve
- o Child Nutrition Program Reforms (Pursuant to Agreement with Congressional leaders last year)
- o SBA Amendments (unacceptable bill vetoed last year)
- o Economic & Community Development (EDA) Extension
- o State Energy Management & Planning Act
- o Nuclear Waste Management
- o Countercyclical Revenue Sharing
- o ERISA Amendments
- o Standing for Indirect Purchasers (Illinois Brick)
- o Stanford Daily Legislation
- o Home Mortgage Disclosure Act
- o Saccharin Ban Prohibition/Food Safety Act Amendments
- o Health Planning and Health System Reforms
 - HMO Amendments
 - Health Professions Educational Assistance Act Extension
 - Health Planning Act Extension
- o Drug Law Reform
- o Higher Education Act/NDEA Extensions
- o Social Security and Disability Reforms

- o Wagner-Peyser Act (employment service) extension
- o Mental Health, Alcohol & Drug Abuse Amendments
- o Economic Opportunity Extension (Headstart, Follow-Through)
- o Veterans' Legislative Package (Third Party Reimbursement for Veterans' Medical care, Veterans' readjustment counselling, Veterans' Alcohol & Drug Treatment Program)
- o G.I. Bill
- o LEAA Reauthorization
- o Criminal Code Reform
- o DEA Reauthorization
- o Refugee Legislation
- o Efficiency Package:
 - Diversity Jurisdiction
 - Civil Priorities
 - Dispute Resolution Act
 - Arbitration
 - Appeals Court Reforms
 - Supreme Court Jurisdiction
- o Reclamation Act Amendments (160 Acres)
- o Water Policy Legislation (could be impacted by Natural Resources Reorganization)
- o Safe Drinking Water Act Reauthorization
- o Endangered Species Act Reauthorization
- o Toxic Substances Control Act Reauthorization
- o Airport & Airway Development Act Extension
- o Deepwater Port Act Extension (expires 1980)
- o UN Assessed Contributions
- o UN Sanctions of Rhodesia

- o Major Arms Sales
- o Korea
- o Treaty of Tlateloco
- o Turkish/Greek Military Arrangements
- o Philippine Base Agreement
- o IMF Quota Increase
- o Commodity Agreements
- o Extension of the Export Administration Act
- o Jackson-Vanik
- o Renewal of Azores Base Agreement
- o IAEA Voluntary Offer
- o NATO Standardization, Interoperability and Readiness
- o Intelligence Authorization Bill FY80

Pacing Adjustments

As was the case last year, it may not be possible to make priorities assignments for a limited number of potentially important measures, because policy decisions cannot yet be made or because external factors dictate against the designation and/or submission of an initiative in the early weeks of the 96th Congress.

Initiatives which may be proposed for this category include:

o Oil Pricing. Staff and agencies are now unanimous in the view that no action should be taken until the Oil, Chemical and Atomic Workers negotiations are complete -- probably late February or March. It is possible that legislation will not be required.

o Undocumented Aliens. There is staff and agency agreement that no announcement should be made on illegal aliens legislation before your trip to Mexico.

o CTB. There appears to be little chance of movement early in the 96th Congress. If an agreement is reached in 1979, a major Senate fight can be expected. Opposition is likely to crystallize in the Senate Armed Services Committee, with the focus on stockpile reliability, verification, and the prospect of U.S. "scientific atrophy".

o Genocide and other Human Rights Conventions. A decision on timing and priority must probably be deferred until after SALT.

THE WHITE HOUSE

WASHINGTON

January 3, 1978

MEMORANDUM TO THE PRESIDENT

FROM: STU EIZENSTAT *Stu*

SUBJECT: RARE II (Roadless Area Review and Evaluation)

Tomorrow morning Secretary Bergland will announce his tentative recommendations for wilderness and non-wilderness areas in Forest Service roadless areas. This has been an extremely controversial study, but the Secretary's recommendations appear to strike a reasonable balance. He will also announce a 45-day period during which he will solicit the specific comments of elected officials before transmitting his final recommendations to the White House.

The wilderness recommendations will require legislation but the non-wilderness decisions can be implemented administratively. He will also be recommending that certain areas be studied further before final decisions are made, but these areas have been kept to a minimum.

There are 2000 roadless tracts covering 62 million acres in the National Forests which were part of the RARE II study. The breakdown of Secretary Bergland's tentative recommendations is as follows:

Wilderness	15 million acres	(24%)
Non-wilderness	36 million acres	(58%)
Further study	11 million acres	(18%)

The study process has been hampered because elected officials have not come forward with specific recommendations. The 45-day comment period is designed to gather enough information for Secretary Bergland to refine his recommendations based on solid political analysis. This will minimize the role of the White House in serving as arbiter when the final recommendations are transmitted. It is my hope that we will be able to approve Bergland's final recommendations virtually intact.

The reaction to the Secretary's announcement tomorrow will be mixed. The timber industry will be relatively pleased at the overall acreage totals and the conservation community will be relatively critical. However, each interest group will be looking for the fate of specific tracts. The comment period

will allow us to assess the strength of the reactions and to encourage modifications where necessary.

In addition to tomorrow's press announcement, the Agriculture Department will be holding extensive Congressional, gubernatorial and public briefings which have been coordinated with Frank Moore's, Anne Wexler's and Jack Watson's offices.

THE WHITE HOUSE
WASHINGTON

1/3/79

Arnie Miller

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

Sec. Adams will be sent a copy of his memo by us.

Rick Hutcheson

cc: Tim Kraft

FOR ACTION
FYI

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

VICE PRESIDENT

JORDAN

EIZENSTAT

/ KRAFT

LIPSHUTZ

MOORE

POWELL

RAFSHOON

WATSON

WEXLER

BRZEZINSKI

MCINTYRE

SCHULTZE

/ ADAMS - *of his memo*

ANDRUS

BELL

BERGLAND

BLUMENTHAL

BROWN

CALIFANO

HARRIS

KREPS

MARSHALL

SCHLESINGER

STRAUSS

VANCE

ARONSON

BUTLER

H. CARTER

CLOUGH

CRUIKSHANK

FIRST LADY

HARDEN

HERNANDEZ

HUTCHESON

KAHN

LINDER

MARTIN

/ MILLER

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

WARREN

WEDDINGTON

WISE

VOORDE

ADMIN. CONFIDEN.

CONFIDENTIAL

SECRET

EYES ONLY

THE WHITE HOUSE

WASHINGTON

January 2, 1979

*Arnie -
I am approving
these with the
understanding that
DoJ has been
consulted and agrees -
J*

MEMORANDUM FOR THE PRESIDENT

FROM: ARNIE MILLER ~~AM~~
HARLEY FRANKEL HF

SUBJECT: Inspector General Positions

On October 12, 1978, you signed the "Inspector General Act of 1978" establishing Offices of Inspectors General in twelve departments and agencies. The IGs will be responsible for the detection and prevention of fraud and abuse and are given extensive investigatory and audit authorities. In addition, their authority extends broadly into numerous top management areas and includes the review of existing and proposed legislation and regulations and the recommendation of program policies aimed at improving program efficiency and economy. Inspectors General are given independent reporting authority to the Congress and subpoena power. To be effective, they must be perceived as independent, yet still enjoy the confidence of their respective Secretary or agency head. Your decision to make these selections personally has been well received because it correctly reinforces the independent nature of the Inspector General's role.

On November 8, 1978, you indicated your desire to select these Inspectors General and asked that nominations be sought from the departments and agencies and from other sources. Since then, we have engaged in an extensive recruitment process. We solicited recommendations from several auditor associations, the major CPA firms, the Comptroller General, Bar Associations, and others. Working closely with Wayne Granquist, Associate Director for Management and Regulatory Policy, OMB, and Howard Messner, Assistant Director for Management Improvement and Evaluation, OMB, and Chuck Ruff and Paul Michel, two of Ben Civiletti's Deputies at the Department of Justice, and with the heads of each affected department or agency, we have developed detailed selection criteria.

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We have reviewed over 300 applications, and have conducted approximately 125 initial interviews and 60 second round interviews. Approximately 35 people were then referred to the departments and agencies for their review. The first and second round interviews were conducted by senior level officials in DoJ and OMB and by others who are very familiar with the Inspector General concept. Civil Service Commission personnel specialists have helped us to check the references of the leading candidates.

The selection criteria we have developed emphasized judgment, competence, unquestioned integrity, experience, political sensitivity, toughness, balance and managerial breadth. We have found a large number of people possessing these qualities and believe that the final set of 12 nominees will be outstanding. We are hopeful that it will also include an appropriate number of women and minorities.

The first part of this memorandum will recommend Inspectors General for five of the departments or agencies. In each of these cases, we and the respective Secretary or agency head are in agreement. The second portion of this memorandum includes our comments on Secretary Brock Adams' recommendation for the Inspector General position at DoT.

We are completing our recommendations to you on the remaining six agencies -- HUD, Commerce, SBA, CSA, VA and NASA. For reasons of affirmative action and multiple possibilities for some candidates, a few of our recommendations will depend on your decisions in the present group of six.

PART ONE: INSPECTOR GENERAL RECOMMENDATIONS

Ben Civiletti and Jim McIntyre concur with the overall set of recommendations that follow:

good investigative sense, learns quickly and certainly would do the job well at Labor". He gives her a "good solid A". Ms. Knowles has a very impressive legal and academic background (see attached resume). She taught law for six years at the University of Alabama and University Vice President Dr. Richard Thigpen describes her as an "exceptional person". Prior to that she served as an Assistant U. S. District Attorney and has had administrative responsibilities in a number of assignments. She is rated very high in integrity, suitability and toughness, is well respected by others, has a strong personality and would be tenacious as an IG. She is a good judge of people, speaks well and writes well. She has been a board member of a large number of organizations including the Southern Regional Council and in 1975 was chosen as One of Ten Outstanding Young Women in America.

RECOMMENDATION

Nominate Marjorie Knowles as Inspector General of the Department of Labor.

 ✓ approve disapprove

J

General Services Administration

The position of Inspector General at the General Services Administration is a very delicate and important one. The ongoing investigation must be pursued with vigor and integrity in order to turn that agency around and maintain public confidence.

Jay Solomon strongly recommends Irwin Borowski for that position. Mr. Borowski, as Special Counsel at GSA, was recently asked to head up their continued investigations

into fraud and mismanagement. He has had extensive investigative and enforcement experience at the Securities and Exchange Commission (see attached resume). Mr. Solomon believes that Mr. Borowski should be appointed as their IG for two reasons:

- (1) Mr. Borowski possesses the investigatory and administrative competence, the reputation and integrity, and the toughness and good judgment necessary to do the job well.
- (2) His appointment would bring some badly needed continuity to the investigation at GSA.

We, working closely with DoJ and OMB, analyzed these arguments and scrutinized Mr. Borowski's candidacy. As a result of this process, we recommend Mr. Borowski for the IG position at GSA. Chairman Jack Brooks strongly supports Mr. Borowski for this position.

RECOMMENDATION

Nominate Irwin Borowski as Inspector General of the General Services Administration.

of Alben approves - otherwise, see me

 ✓ approve disapprove

J

Department of Interior

We and Cecil Andrus recommend June Brown to be Inspector General at the Department of Interior. All contacts refer to June Brown as a rather remarkable woman. She has an MBA, a law degree, and is a CPA --

earning all three in the evening while working full-time to support several children. She has had considerable managerial and audit experience in both the Department of Interior and in the Defense Department (see attached resume). She is described as bringing a creative approach to audit, being cool under pressure, able to think on her feet, and articulate at Congressional hearings. She can be tough, has good judgment, and possesses an in-depth knowledge of the IG function from her military experience.

RECOMMENDATION

Nominate June Brown as Inspector General of the Department of Interior.

approve disapprove

Environmental Protection Agency

We and Doug Costle recommend Judy Rogers to be Inspector General of the Environmental Protection Agency. Ms. Rogers is a black attorney with an outstanding academic, legal, and governmental background (see attached resume). She has served as an Assistant United States Attorney, in the office of the Deputy Attorney General and for the D. C. Government. For the past six years, she was Mayor Washington's key legislative person and has been asked by Mayor Barry to accept a high level position in his Administration. She would prefer to be the IG at EPA.

Ms. Rogers is a very impressive person. She is bright, mature, thoughtful, poised and has considerable integrity.

RECOMMENDATION

Nominate Judy Rogers as Inspector General of the Environmental Protection Agency.

approve disapprove

PART TWO: DEPARTMENT OF TRANSPORTATION

Secretary Brock Adams has recommended Mr. Gary Gayton to be the Inspector General of the Department of Transportation (see attached memorandum). We are in agreement with the Secretary that Mr. Gayton has the credentials to be an Inspector General somewhere in the government. He is an impressive black attorney with a distinguished record in both the public and private sectors.

However, we recommend against Mr. Gayton for the position at the Department of Transportation. The Inspector General of each department is expected by the Congress, the press and the public to act independently of the Secretary when necessary.

There is a fine line between this requirement of independence of the IG and the necessity that the IG enjoy the trust and confidence of the Secretary. Cecil Andrus and Graciella Olivarez originally seriously considered candidates whom we felt would be perceived as being too close to them. They have subsequently agreed with us and selected other candidates to recommend to you.

Mr. Gayton's relationship with Secretary Adams goes back almost twenty years, and he is currently serving as his Special Assistant. We believe that Gayton's nomination would subject him, Secretary Adams and you to unnecessary criticism. Jim McIntyre and Ben Civiletti strongly share our view.

We would like to recommend Mr. Gayton to be an IG somewhere else, but he has refused to consider any department or agency other than DoT. There is a slight possibility that he might change his mind if you do not nominate him for Transportation. If you support our recommendation on this issue, we are

prepared to refer several outstanding IG candidates to Secretary Adams.

RECOMMENDATION

That Gary Gayton not be nominated as Inspector General of the Department of Transportation.

✓ agree

_____ disagree

J

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THOMAS McBRIDE
2922 - 45th Street, N. W.
Washington, D. C.

Professional Experience

1977 - Present	Inspector General, U. S. Department of Agriculture.
1975 - 1977	Director, Bureau of Enforcement, Civil Aeronautics Board.
1973 - 1975	Associate Special Prosecutor, Water-gate Special Prosecution Force.
1970 - 1973	Associate Director, Police Foundation.
1969 - 1970	Deputy Chief Counsel, U. S. House of Representatives, Select Committee on Crime.
1968 - 1969	Associate Director, The Urban Coalition.
1965 - 1968	Deputy Director, Latin American Region, U. S. Peace Corps.
1960 - 1965	Trial Attorney, U. S. Department of Justice.
1956 - 1960	Assistant District Attorney, New York City.

Education

1952	New York University, B.A.
1956	Columbia University Law School, LL.B

MARJORIE F. KNOWLES
815 C Street, S. E.
Washington, D. C.

Professional Experience

1977 - Present	General Counsel, Office of Inspector General, Department of Health, Education & Welfare.
1972 - 1977	Professor, School of Law, University of Alabama.
1970 - 1972	Executive Director, Joint Foundation Support, Inc., New York, New York
1967 - 1970	Assistant District Attorney for New York City.
1966 - 1967	Assistant U. S. Attorney for the Southern District of New York

Education

1960	Smith College, A.B, Phi Beta Kappa
1962	Radcliffe Graduate School, Ph.D Candidate
1966	Harvard Law School, LL.B

Honors: Cum Laude
Class Standing: 63 in a class of 494

IRWIN BOROWSKI
11211 Bybee Street
Silver Spring, Maryland

Professional Experience

1978 - Present	Special Counsel, General Services Administration.
1975 - 1978	Associate Director, Division of Enforcement, Securities and Exchange Commission.
1972 - 1975	Chief Enforcement Attorney, Division of Enforcement, Securities and Exchange Commission.
1968 - 1972	Branch Chief, Division of Enforcement, Securities and Exchange Commission.
1965 - 1968	Attorney, Division of Enforcement, Securities and Exchange Commission.

Education

1958	Brooklyn College, B.A.
1960	New York University Law School, LL.B

JUNE BROWN
4001 S. Magnolia Way
Denver, Colorado

Professional Experience

1976 - Present	Project Manager, Integrated Pay- Personnel System, Denver Department of Interior.
1975 - 1976	Chief, Financial Systems Design, Denver Bureau of Land Management.
1972 - 1975	Director, Quality Assurance De- partment, Navy Finance Center, Cleveland, Ohio.
1971 - 1972	Instructor, Cleveland State University.
1971 - 1972	Assistant to the Comptroller, S. M. Hexter Company, Cleveland, Ohio.

Education

1971	Cleveland State University, B.A.
1972	Cleveland State University, MBA
1978	University of Denver, College of Law, J.D.

Age: 45

JUDITH ROGERS
111 Third Street, N. E.
Washington, D. C.

Professional Experience

1972 - Present	Special Assistant to the Mayor for Legislation, District of Columbia Government.
1971 - 1972	Counsel, Commission on the Organization of the Government of the District of Columbia.
1969 - 1971	Attorney, Office of the Deputy Attorney General, U. S. Department of Justice.
1968 - 1969	Attorney, San Francisco Neighborhood Legal Assistance Foundation.
1965 - 1968	Assistant U. S. Attorney for the District of Columbia.

Education

1961	Radcliffe College, A.B.
1964	Harvard Law School, LL.B

GARY D. GAYTON

Professional Experience

1977 - Present	Special Assistant to the Secretary of the Department of Transportation.
1965 - 1977	Partner, Stern, Gayton, Neubauer and Brucker Law Offices.
1962 - 1965	Assistant U. S. Attorney for the Western District of the State of Washington.

Education

1955	University of Washington, B.A.
1962	Gonzaga University, LL.B
1967	Gonzaga University, J.D.



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

December 28, 1978

MEMORANDUM FOR THE PRESIDENT
ATTENTION: Mr. Rick Hutcheson, Staff Secretary

FROM: Brock Adams

SUBJECT: Appointment as Inspector General in the Department
of Transportation

As you are aware, I have nominated Mr. Gary D. Gayton, currently my special assistant, as Inspector General of this Department. Mr. Gayton's experience, character and integrity qualify him uniquely for this appointment.

I am of course, mindful of the desirability of avoiding the nomination of anyone with a pre-existing relationship with the agency in which he would serve. In this instance, however, I believe that an over-riding case can be made for Mr. Gayton's appointment to this Department.

Mr. Gayton's responsibilities on my staff have dealt largely with oversight of the Department's minority programs. In this capacity he has shown himself to be tough, but even-handed. He has exhibited extraordinarily sound judgement in dealing with the many elements of the Department and has demonstrated an independence of thought and action which I strongly believe are qualities which are highly desirable for our Inspector General. His credentials for this position are widely recognized. I do not know of another individual whose qualifications and personal character are fitted so well to this appointment.

I should reiterate that Mr. Gayton did not seek this nomination. He agreed to have his nomination submitted as the DOT IG and has steadfastly maintained his position that his interests are confined to the Department of Transportation; he does not wish to be Inspector General of another agency.

Mr. Gayton's knowledge of the Department and its programs would minimize the time-lag which would inevitably occur in the event an outsider were required to assimilate the information needed to effectively assume the responsibilities of the office. Mr. Gayton would be in a position to operate

*Brock -
No. I have
consistently refused
to appoint key aides
to IG positions - We
will consider Gayton
seriously for IG in
another
department
J.C.*

with maximum effectiveness during this crucial period when the integrity of government will be so much in the public focus. Conversely, an inexperienced appointee would not only consume valuable time in learning about the Department, but could conceivably be an embarrassment to your Administration by exercising hasty judgements. We can ill afford a quixotic IG who will pursue peripheral issues.

For these reasons, I strongly urge your favorable consideration of this nomination of Mr. Gayton as Inspector General of the Department of Transportation.



A handwritten signature in cursive script, appearing to read "Paul". The signature is written in black ink and is positioned above a long, thin, slightly curved horizontal line that spans across the width of the signature.

THE WHITE HOUSE
WASHINGTON

1/3/79

Jerry Rafshoon

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

Rick Hutcheson

STATE OF UNION ADDRESS

THE WHITE HOUSE
WASHINGTON

December 19, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: JERRY RAFSHOON
GREG SCHNEIDERS
BERNIE ARONSON



SUBJECT: State of the Union Address

In the middle of January, at the mid-point in your first term, you will deliver your 2nd State of the Union address. We foresee two very different options in the development of this speech:

1. You can make a traditional speech citing the gains we have made at home and abroad, the continuing problems we face, and the legislative proposals you will be sending to the Congress in this session; or
2. You can give a bold and unorthodox speech in which you discuss the real political, economic and social "state of the Union" and address the over-riding challenges facing our nation: getting control of our economy (inflation) and reaching a more stable peace (SALT).

← Better

We recommend that you choose the latter. Such a speech would be Presidential, uplifting and bi-partisan, and it would serve to "define" your Presidency and your vision for America at the mid-point of your first term.

THE ISSUES

1. What is right with the country? We have made great strides in recent years. From a period of division and despair we have entered a period of healing and hope. Our basic strengths are still there: militarily, economically, politically, socially, morally.

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2. What is wrong with the country? We have not fully recovered from two decades of turmoil, division, war, tragedy and scandal. Our spirit is dampened. Our people feel alienated and cynical about their government. The lack of participation by the disaffected leaves a vacuum that is being filled by ever more powerful special interests at the expense of the national interest.

THE THEME

We should continue the basic theme of "getting control" but develop a considerably more visionary aspect of it. America can be confident again, proud again, strong again, great again because we are getting control of our problems. In our third century we have entered a new phase of America's history - beyond territorial, economic, social expansion - that requires a new responsibility, a new maturity in order to realize the true greatness of our country.

*World
peace &
specifics*

This will require: 1) recovering our spirit, our confidence, our resolve; and 2) acting responsibly - in the national interest. It is only through curbing our desires (e.g. inflation) that we can ever hope to fulfill them. It is only through restraining the nuclear arms race and, thus, strengthening America's defenses and security that our nation can be an effective force for freedom and peace around the world. This is not a negative message; it is a mature message.

The future of our nation can be even greater than the past - but only if we recognize these new realities and develop appropriate responses for the new challenges we face. We must not attack today's problems with yesterday's solution.

THE PRIORITIES

There are two over-riding priorities: Peace (SALT) and Prosperity (Inflation). Other important legislation will be sent to Congress in a subsequent message but these will be your issues.

You should discuss each of these issues first in a general way explaining why they are critical to the future of our country and then in terms of specific legislative proposals. These would include: the SALT Treaty, the Test Ban Treaty, Real Wage Insurance, Hospital Cost Containment, the Budget, Surface Transportation Deregulation, reorganization, MTN, anti-waste and fraud initiatives, possibly even NHI and others. These should only be discussed in a general way and not detract from the more thoughtful, thematic nature of the speech. Ideally, the speech should be short - no more than twenty minutes. The rhetoric should be elevated.

Good →

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NEXT STEPS

If you agree in principle with this approach and the attached outline we will proceed with the first draft which could be delivered to you at Camp David by the end of the month. If you do not agree, we should get together today or tomorrow to discuss a different approach. We have attached a draft outline and a related memo from Caddell.

State of the Union Outline

2 --Twelve months since I said from this platform that militarily, politically, economically, and in spirit, the state of the union was sound, I am proud to report to you in every area of our national life, America is sounder tonight.

1 --America is at peace around the world. Our defenses more ready, NATO stronger.

2 --Foreign policy successes: Middle East, Panama Canal Treaties, America a force for peace in Nicaragua, Southern Africa, Cyprus, others. Historic breakthrough with People's Republic of China.

Longest sustained recovery > 50 months
2 --Despite recession two years ago; despite revolutionary changes in workforce, more Americans working than ever before and largest percent of population.

2 --95th Congress compiled excellent record of which you can be proud. But as important as any accomplishment is renewed sense of common purpose; unity as a people, getting control of long-neglected problems.

3 --In the coming session of Congress, action will be needed on many fronts, and I will be sending you a detailed message outlining my legislative goals.

1 --But we must look beyond a single legislative session to larger challenges we face.

3 --Our basic strengths as a nation remain: militarily, economically, politically, socially, morally. But we have not fully recovered from nearly a decade of turmoil, division, war, tragedy, and scandal.

Pat
1 --Our people feel alienated and cynical about their government. Their withdrawal from political process leaves growing vacuum filled by more powerful special interest groups and private money at expense of national interest.

3 --People feel we are at the mercy of forces and events. We will continue to reassert our control. People feel that public interest is lost in national decision-making. We will continue to speak for the public good.

3 --America can be confident, strong, proud again. But we need new maturity to face new realities of changing times. We must not attack today's problems with yesterday's solutions.

1 --We are at historical watershed. We face challenges so fundamental they will determine the kind of future we will face and the values which will guide our nation for the rest of this century.

1 --At home we face challenge of inflation.

2 --It is more than an economic problem, though it threatens jobs, economic growth, strength of dollar, and future of economy.

2 --It is more than a political issue, though American people spoke clearly last November that inflation is their most urgent concern.

3 --At issue is whether government is controlled by the people for greater public good or by narrow special interests; whether a common national interest can defeat a host of private, special interests.

Ignore politics
1 --It is a test of our will and resolve as a people, our ability to act together as a nation, responsibly, and through concerted action to renew strength of our economy and confidence in future.

2 --Requires a new maturity. Unlimited demands bring intolerable inflation which impoverishes all. Irresponsible consumption of energy brings shortages and higher prices.

3 --We have met such challenges before united as a people. Nation suffered historic crisis of confidence in Depression. Business institutions, having produced an unprecedented boom, collapsed. Fortunes were lost. There was panic and despair.

3 --Some looked for easy solutions to complex problems. Political extremism on the rise. Fortunately, we had a government that acted.

3 --FDR, promising a New Deal, began slow process of recovery. His administration experimented. Some attacked it for doing too much. But it restored confidence and strength of economic system which still sets standard for the world.

3 --Today, our nation's challenges and problems are somewhat different. So must be our response. During the 1930's central problem was massive unemployment. Today, inflation is greatest threat.

2 --During the 1930's, people lacked confidence in private institutions; today they have lost faith in public institutions.

2 --During the 1930's, when business was faltering, some offered a simple answer--get rid of private business. Today, with government in disrepute, we hear some say--get rid of government.

2 --The American people did not buy such simplistic answers then or now. Our problems are too complex and too deep-rooted, and American people understand that.

3 --Some claim we have the resources to launch bold new expensive social programs. American people know we do not. Others would have us fight inflation by throwing millions out of work. We reject that solution as inhumane.

2 --We must face inflation together with new maturity as a people. We must make government a lean, efficient, instrument of increased opportunity, not wasteful, bloated, bureaucracy that increases inflation.

3 --Just as some claimed that New Deal turned its back on private capital, some will claim that in our fight against inflation we have turned away from public commitments to social needs.

3 --But if we are successful, we will restore confidence in government institutions just as FDR did in private institutions. No one will benefit more than those dependent on government.

2 --No President, no Congress, no government alone can meet challenge of inflation. Now, as in the past, the state of the American union rests on the will and the commitment and resolve of the American people.

--We will be tested as never before in the months to come in the battle to control inflation. Many steps are called for:

- 2 ● holding budget deficit in line while protecting those most in need
- 2 ● holding down wage-price spiral--guidelines; real wage insurance
- 2 ● energy conservation: oil pricing; solar; other
- 2 ● expanded trade: MTN; Export Administration Act extension
- 2 ● holding down inflation in hospital care
- 2 ● deregulation of economy--surface transportation

Reference to program for major themes - "I told you so"

• balancing social needs and costs of regulation in health and safety; environment.

• re-organizing government; cutting waste and fraud, etc.

• renewal of investment; research and technology; spirit of hard work; productivity

--Most of all, willingness to sacrifice for common good; we must and we will say "No" to special interests as we have done in the past.

--By controlling inflation can renew and strengthen economy; restore confidence and planning; gain resources to attack problems of structural unemployment too long ignored.

--Events around the world shape our fate as much as those at home. We must recognize realities of interdependent world.

--No generation in history has possessed resources we have today for human advancement. No generation has possessed power to wipe out human life.

--For 15 years, through 5 Presidents, America has taken the lead towards nuclear restraint. That process must continue through SALT II.

--We have a sound treaty, the product of six years negotiation; it strengthens America's security and defense capabilities. We have proven means to verify this accord.

--Without SALT II arms spending will increase by \$ ___ billion over next ___ years. That is ___ times total federal commitment to education; ___ housing; cities; etc.

--Escalate chances of miscalculation; widen distrust and suspicion between super-powers; consequences of confrontation.

--Undermine America's credibility in effort to control proliferation of nuclear arms. We must continue to lead this effort. Test Ban Treaty.

--Rejection of Versailles Treaty in 1920 lost best chance for peace. SALT II will enhance our security; prevent dangers of nuclear war; increase hopes for peace.

--We did not create the challenges we face today as a people, but they are ours, and we will solve them as every generation of Americans before us has done. And we will emerge the stronger for having done so.

3 --For we have learned throughout our proud history that great challenges renew our strength, as well as test it. The civil rights revolution liberated the energies of all. The trauma of Vietnam deepened our commitment to human rights and democracy. A constitutional crisis renewed our faith in government by the people and the rule of law.

3 --By meeting the challenge of inflation, we can renew and strengthen our greatest resource, the energies and imagination of a free people in a free economy. And we will.

3 --We can create a society with abundant renewable energy supplies, and we will.

2 --We can renew government's commitment to compassion for those in need: with efficiency unlocking new resources to meet human needs. And we will.

2 --We can restore and renew the confidence of a free people in the workings of their democracy.

/ --By continuing our progress towards nuclear restraint, we can turn the world's resources, and our own, back towards the means for enriching human life, instead of destroying it. A stronger America can continue its efforts throughout the world as a force for human rights, democracy and peace. And we will.

(Conclusion etc.)

*Iran - People
Human Rts*

#

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Cambridge Survey Research

Suite 1250 1775 Pennsylvania Avenue, Washington, D.C. 20006 Telephone (202) 223-6345

MEMORANDUM

TO THE PRESIDENT
FROM PATRICK H. CADDELL
RE STATE OF THE UNION
DATE DECEMBER 14, 1978

ML
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I have been talking to Jerry's staff about the State of the Union, specifically to the question of whether to substitute a bold thematic speech for the normal laundry-list State of the Union. For reasons that I will discuss, I feel that the bold course is not only the right way politically but is absolutely the best course given the situation in the country today. In the last State of the Union we tried to fuse thematic concerns with the laundry-list and, while the thematic approaches got great attention, the impact was deluded by the laundry-list aspects and by the failure to continue or develop the approach.

1. Some Review Points about the Country

Over the last few months I have given enormous time and thought to the state of American attitudes and the political system in a more comprehensive manner than I presented to you in my long memo in April or in my recent brief inflation memos. This is not the place to delve deeply into those thoughts but let me reiterate a few points.

a. The Elections - I am very distressed about the mood reflected in the recent elections. The electorate has become more volatile and responsive to negative personal campaigns than I have ever seen.

→ Two-thirds of the American people did not even bother to vote -- much of it conscious abstention. For those who did, issues were basically irrelevant, particularly in statewide races. Because the public has lost faith that either party can adequately solve our complicated problems, particularly inflation, the traditional anchors of party and ideology have been lost, the vote itself has become more sport than task and the distance between the system and the electorate is growing greater at an alarming pace. The mood is hostile, suspicious, and in many cases, bitter.

IN CAMBRIDGE
10 Moulton Street
Cambridge, Massachusetts 02138
(617) 661-3212

Memorandum to the President
Page 2

b. Pessimism - As I pointed out in the inflation memo, long term pessimism is at a level that exceeds the previous high of 1974. Given the indisputable fact that the country is in much better shape, one can only describe the situation as the result of some free-floating anxiety; a frustration born out of a continued sense of drift in purpose and goals -- a stage of angst that follows the heat and fury of the last 15 years of cataclysmic events.

c. Larger issues - Except for inflation, I have come to believe more and more that the concerns of the American people have to do most with this uneasiness over purpose. The concerns are more abstract and intangible than the normal concerns of government machinery and yet probably far more important.

d. Government vs. Society - As I pointed out in April, your role as Leader of the Government has often been to the exclusion of fulfilling your potential role as Leader of Society. Yet, it can be argued that the latter role is at a minimum as crucial as your government role.

2. The State of the Union

I would recommend a bold thematic speech that provides a context for the monumental inflation/budget struggle and SALT. It would have several components.

purpose/will
Peace!

First, the speech would hinge on the outcome of these two major issues. These are two battles not only of immediate interest but of great historical importance. To a great extent they have become greater than their substance -- their resolution will say much about our resolve, the kind of future we contemplate and the values which will guide the nation the rest of this century. To date we have not cast the inflation/budget struggle in a larger context; that it is an historical struggle for control of the bureaucracy and government, that it truly will decide whether a common national interest can defeat the host of special interests. In SALT we must answer whether we approach the outside world from a perspective of fear and weakness or from a posture of maturity, strength, and wisdom -- a question of fear vs. hope. These issues will ultimately be decided more in the hearts and minds of the American people than in our own excellent lobbying on Capitol Hill and thus deserve to be treated with this kind of complexity of explanation.

Peace/SALT

2 Second, in order to make these contentions credible and to make their transition role to the future understandable, we must candidly address the damage of past events. The country, just like an individual, needs that catharsis. In addition, we need to address the present condition of psychological drift, estrangement from the political process, and disbelief in personal efficacy.

2 Third, we can also address the irrelevancies of conventional ideology and partisanship. In this speech we can challenge the credibility of simple dogmatic answers to complicated and interrelated issues. That in itself could be quite a statement.

Although this memo is brief by definition, I believe that such a speech could establish a tenuous but real union with the American people. It would require not only boldness but some eloquence as well. To be successful it would need to be prepared in some secrecy. Overall, I think this is the course to pursue and I think we should actively explore this possible route.

THE WHITE HOUSE
WASHINGTON

1/3/79

Zbig Brzezinski

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

Rick Hutcheson

Jimmy -

369 -
Handle
routinely
J

Please help to obtain visas for the following -

Nurses
which we
need
very much

Hung Tzying R.N.
3rd Floor, 20, Lane 201
Liao Ming St. Taipei, Taiwan

Yang - Shyh-miin (Theresa) R.N.
19 Lane 358 Chien Kuo 1st Rd
Kaohsiung - Taiwan -

has been approved by
GA. Labor Dept & US Labor
Dept - we are now applying
to US Immigration Service

(Pete owns Plains
nursing home - his son
is mayor)

Also

Mr. Chuang Chen-Liou

Mrs Chuang Gen-chat

Miss Chuang Mei-yen (Chantal)

Chuang - Jong-Long (20yr old son)

Chuang - Jong Gee 17yr old son

375 Kuang Hua 1st Rd

Kaohsiung, Taiwan

Chantal is here on student visa - Her father has advised her
to get permanent visa - She is afraid to go home - thinks she
will be unable to return to U.S - Her entire family wants
to come over - we can provide employment -

THE WHITE HOUSE
WASHINGTON

1/3/79

Frank Moore
Zbig Brzezinski

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

Rick Hutcheson

CALL TO SENS. GLENN AND NUNN

FOR ACTION
FYI

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

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

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

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

THE WHITE HOUSE
WASHINGTON

done
J

January 3, 1979

MEMORANDUM FOR FRANK MOORE

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for Preservation Purposes**

FROM: DAN TATE
Frank Moore
SUBJECT: Presidential call to Senator Glenn

Yesterday Senator John Glenn, who is Chairman of the East Asian and Pacific Affairs Subcommittee of the Foreign Relations Committee, called to ask if the President had any message which he could deliver to Vice Premier Teng while Glenn and a Codel of which he is a member visits Peking.

The Codel is headed by Sam Nunn and includes Gary Hart, Glenn, and Senator Bill Cohen. They will leave today at noon from Andrews and during their two week trip will visit the Phillipines, Thailand, the PRC, Japan, and South Korea. Nunn and Hart are on Armed Services and Glenn is on Foreign Relations. Cohen is trying to get on one of those two committees.

I recommend that the President make the call to Glenn for two reasons: (1) He was piqued that the President did not tell him in advance of the China announcement -- they met the day before -- and (2) He is Chairman of the Subcommittee which has jurisdiction over the Far East and will probably handle the necessary China legislation. You may recall that at the briefing by the President before the China announcement, Glenn expressed open dismay at the absence of ^{consultation} "required" by law and what he felt was a lack of adequate notice and consultation with our allies, particularly Japan. A call from the President could go a long way toward getting Glenn's nose back into joint.

Finally, it should be noted that Glenn is not the head of this Codel -- Nunn is. There is the possibility that Nunn will be miffed if only Glenn is talked to by the President. Nunn got a great deal of mileage out of his report on NATO three years ago, and he could be attempting to become the expert on Pacific affairs ~~that~~ he is on NATO affairs now. Perhaps the President could talk with both either at Andrews or on the plane before they leave.

In any event, I suggest that the call to Glenn be made.

Zbig recommends that both be called.

11:45 Am

THE WHITE HOUSE

WASHINGTON

2 January 1978

TAPING RADIO MESSAGE FOR ST. PATRICK'S CATHEDRAL

Wednesday, January 3, 1978
11:45 A.M. (5 minutes)
Cabinet Room

From: Jerry Rafshoon 

I. PURPOSE

To participate in special New York City radio station salute commemorating the 100th anniversary of St. Patrick's Cathedral.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. WOR Radio of New York City is preparing a documentary to air at the end of January on the history and place of St. Patrick's in the New York area community. You will be in the part of the program containing congratulatory messages. This request for your message came from St. Patrick's via Clifford Evans of RKO Broadcasting's Washington bureau.
- B. Participants: Clifford Evans and radio technicians
- C. Press plan: Official White House photographer only

III. STATEMENT

Statement is attached.

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THE WHITE HOUSE
WASHINGTON

1/3/79

Jack Watson

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

Rick Hutcheson

Dear Jimmy,

Jack -
Handle routinely.
Get Lamar's suggest.
1975 in writing J

I would like to ask for your help in a matter concerning my son David. He has applied for the apprenticeship program for pipefitters at the Bellafonte Nuclear Power Plant at Scotsboro, Alabama.

I have talked to the piping superintendent, John Poarch, about David and we thought it would be very helpful if you would recommend him to Mr. Horace H. Mull. Mr. Mull could then recommend him to the Bellafonte apprenticeship committee.

David graduated from West Rome High School this last June. He has had some experience in pipefitting work and I think he

would be able to do a good job in this field.

He will be 19 in March of 1979.

His social security no is 253-15-3588.

Mr. Mull's address is

Mr. Horace H. Mull
Division of Construction
TVA

Knoxville, Tenn.

We would appreciate it if you would recommend him.

I have been working at Bellafonte through the pipefitters union since July. I would like to talk to you about the TVA Plant from a working man's view. I feel you need to know how this job is progressing and I would like

To recommend some ways
you could save thousands
of dollars on this job before
it is completed.

Please write or call me
if you will.

Thanks

Jamar Paul

108 Chief Vann Dr.

Rome, Ga. 30161

404 - 235 - 3851

THE WHITE HOUSE
WASHINGTON

1/3/79

The Vice President
Hamilton Jordan
Stu Eizenstat
Jack Watson
Jim McIntyre
Charlie Schultze

Alfred Kahn

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

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

Mr. President:

Attached as you requested is the directive to Secretary Califano asking him to prepare a decision memorandum and briefing for you on the National Health Plan on your return from Guadalupe.

Stu
Stu

January 3, 1979

THE WHITE HOUSE

WASHINGTON

January 3, 1979

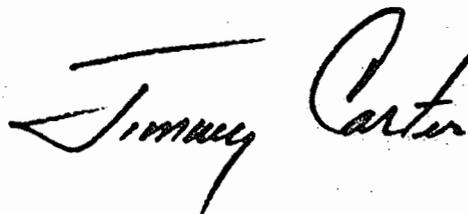
To Secretary Joseph Califano

I need to decide strategy on the National Health Plan before the State of the Union. I know you are working hard on this.

I would like to review a range of options on the scope of the Plan, and on the timing of submission to Congress. In addition, I would like you to develop a strategy for incorporating health initiatives already approved for submission to Congress into the Plan, to the maximum extent possible.

Please work with Stu, Jim McIntyre, Charlie Schultze, and Fred Kahn on a memorandum so that we can meet with you when I return from Guadalupe.

I appreciate all that you are doing on this difficult and critical issue.

A handwritten signature in cursive script that reads "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the typed name below.

The Honorable Joseph A. Califano
Secretary
Department of Health, Education,
and Welfare
Washington, D.C. 20201

the ch CEN

the christian CENTURY

JANUARY 3-10, 1979

JAMES M. WALL
EDITOR

407 SOUTH DEARBORN STREET
CHICAGO, ILL. 60605
312 - 427-5380
HOME 312 - 279-7186



The Emerging Church

John Shelby Spong

St. Alec's Gospel

Janet Karsten Larson



Linda Manz as she appears
in the movie 'Days of
Heaven' (see review).

A Wish for '79

Taiwan's Future

Learning from

the '60s

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THE WHITE HOUSE

WASHINGTON

January 3, 1979

MEMORANDUM FOR THE PRESIDENT

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

SUBJECT: DOMESTIC CRUDE OIL PRICING - INFORMATION

The Issue:

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

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

The options presented have been distilled from an even longer list of approaches which are at least theoretically available to you. We have met several times to discuss the consequences of the various options, and to narrow the range of approaches to those which are most realistic. The choices which you will face in deciding this issue are not easy, and your advisors have widely divergent recommendations. We would be pleased to meet with you to discuss these issues later. We would urge, however, that you not make commitments or statements right away which would tend to prejudice your ultimate decision on crude oil pricing. You need not make a decision until early spring, and we feel strongly that this added time, to

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be used to refine our analyses as well as to consult further with the Congress and others, will be very productive in shaping the final set of recommendations which we will present to you. It will also be of help to the Administration's posture during the upcoming Teamster's negotiations to defer a decision until those are concluded (expected in March).

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

° Energy policy

- replacement cost pricing;
- provision of adequate incentives to stimulate maximum domestic production of oil;
- incentives for conservation and a reduction in oil imports;
- equity in the distribution of any windfalls associated with oil price increases;
- elimination of the current complex system of price controls, allocation, and entitlements.

° Economic policy

- reducing inflation, and holding 1979 increases in the Consumer Price Index as low as possible;
- maintaining the strongest possible posture to urge major unions to remain within Administration guidelines in upcoming contract negotiations;
- maintaining growth in the economy and in employment;
- improving the balance of trade and the strength of the dollar; and
- regulatory reform objectives.

° Foreign policy

- The Bonn pledge to raise the price paid for oil in the U.S. to world prices by the end of 1980
- the general international concern over inflation, including Bonn pledge to make reduction of inflation a top priority of U.S. economic policy.

- reducing U.S. dependence on oil imports, thereby reducing the trade deficit and strengthening the dollar
- maintaining U.S. credibility among our key Summit allies and assuring their continued efforts toward meeting their own Bonn pledges.

The options presented below engage one fundamental issue:

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

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

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

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

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

BACKGROUND

Legal Authority

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

Increases in the old and new categories are statutorily limited through a mechanism known as the "composite" -- a weighted average price of old and new oil. The law has limited increases in the composite to 10% per year, but this restriction expires on May 30, 1979. After June 1,

1979, you may alter or eliminate price controls without Congressional approval. All current authority to control prices of domestic oil lapses on September 30, 1981.

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

Current Sources of U.S. Crude Oil

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

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

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

** Average Landed Price for 1978.

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

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

THE BASE CASE

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

These increases in the base case oil price occur because:

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

THE OPTIONS

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

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

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

Option I -- Decontrol by 1985 with no tax

Under this approach:

- ° newly discovered oil (so-called new, new) would rise to the world price immediately.
- ° upper tier oil would rise to the world price gradually, reaching that level by October 1, 1981.
- ° lower tier oil would remain under controls through January 1, 1985, with gradual increases in price occurring throughout that period.
- ° a legislative extension of EPCA price control authority would be sought in order to control prices after September 30, 1981.

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

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

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

Option IA -- Minimal action at this time

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

- ° newly discovered oil ("new, new oil") would be permitted the world price;
- ° modifications in the definition of lower tier oil would be made to maintain old oil production; and possibly
- ° some additional relief would be provided for so called "marginal (stripper) wells".

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

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

Under this approach:

- ° new, new oil would be allowed the world price immediately;
- ° upper and lower tier oil prices would be increased to close 2/3 of the existing gap between the overall average U.S. price and the world price by September 30, 1981. On October 1, when controls expire, the balance of the gap would be closed.
- ° a tax on lower tier oil (and possibly upper tier oil) would be sought to recoup windfalls which would otherwise go to producers.

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

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

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

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

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

Tax Strategies

Option IIA -- Decontrol contingent upon enactment of a tax

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

Option IIB -- Decontrol not contingent on a tax

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

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

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

ANALYSISA. Economic effects

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

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

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

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

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

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

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

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

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

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

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

** Assumes no real OPEC increase after 1979.

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

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

There are, however, three important caveats to the above statement. First, some believe that sticking with current policy (or Option I) will cause domestic oil production

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

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

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

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

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

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

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

- o Inflation effects in the oil pricing area are difficult to calculate with precision since there is uncertainty about how much of the increase in crude oil costs will be passed on to ultimate consumers. For the purpose of this analysis, we have assumed that 2/3 of the crude price increase is passed on to the ultimate consumer, and to the extent that pass-throughs are actually lower, these inflation effects are overstated.
- o The reaction of international exchange markets to any crude oil pricing decision can have a significant effect on the domestic inflation rate. If, for example, exchange markets were to react adversely to Option I (or IA) and the dollar depreciates further, one bad day (whose effects were continuing) could negate the savings attributable to selection of that policy. By the same token, however, if selection of Option II were to cause a heightening of concern about U.S. inflation rates resulting in a further decline of the dollar, the inflationary effects of that Option would increase.
- o This analysis assumes that OPEC will not increase oil prices by more than the rate of inflation in 1980 and 1981. Depending on the ultimate resolution of the Iranian situation, as well as internal OPEC policies, this assumption may or may not hold. Inflation rates attributable to all options, but particularly to Option II, are sensitive to variations in the OPEC price.

The Bonn Commitment and International Effects.

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

In our discussions, much concern has been raised about the international impacts of failing to meet the Bonn oil pricing commitment. Your advisors now believe, however, the other Summit participants will accept slippage of the date for reaching world price levels from December 1980, to October 1981. However, a program which did not achieve the decontrol commitment until 1985 and which required legislative extension

of the price control authority beyond the present termination date would undoubtedly be greeted with skepticism and disappointment abroad and with possible adverse consequences for international exchange markets.

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

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

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

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

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

any option which does not virtually guarantee decontrol by 1981.

Energy Policy Impacts

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

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

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

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

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

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

Relationship of the Options to Gasoline Decontrol

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

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

Congressional and Political Considerations and Impacts

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

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

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

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

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

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

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

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

SUMMARY

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