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THE PRESIDENT'S SCHEDULE

Saturday - January 13, 1979

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9:00 Dr. Zbigniew Brzezinski - The Private Study.

9:30 Interview with Mr. John Chancellor. (Mr. Jerry  
(60 min.) Rafshoon) - The Oval Office.


THE WHITE HOUSE

WASHINGTON

January 12, 1979

INTERVIEW WITH JOHN CHANCELLOR (NBC)

Saturday, January 13, 1979  
9:30 a.m. (45 minutes)  
The Oval Office

From: Jerry Rafshoon 

I. PURPOSE

John Chancellor will be conducting a one-hour interview with you to be shown in five parts on the evening news "Segment Three." The series will be shown from January 15 through January 19 and each segment will last from five to ten minutes.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: John Chancellor's interview with you in Bonn was one of your best. Chancellor is both thoughtful and fair. The subjects which will be covered are 1. Budget and Inflation; 2. Sino-Soviet Relations; especially China and Salt; 3. Other Foreign Policy subjects particularly Egypt/Israel and Iran; 4. Domestic Policy, especially your Legislative Priorities; 5. The Presidency, a general and personal view.

B. Participants: John Chancellor.

C. Press Plan: White House Photographer.

III. TALKING POINTS

See attached materials.

Budget

TALKING POINTS FOR THE PRESIDENT  
IN HIS INTERVIEW WITH JOHN CHANCELLOR

-- The fiscal 1980 budget is the right budget for these times. It restrains the growth in spending so as to help ease inflation. But at the same time, it is designed to permit continued growth.

-- This budget meets the goals I set for it last year. My deficit target of \$30 billion is met. Firm limits are placed on spending. A balanced fiscal policy is a central element of the budget, as I directed. This is an honest budget without gimmicks or mirrors.

-- The decision to restrain the rate of spending growth was not made casually. Restraint is imperative to stem inflation. Restraint reflects the Administration's leadership in the fight against inflation.

-- While the budget is tight, it does not neglect the needs of the poor, the disadvantaged, the unemployed youth. As a compassionate society, we cannot and will not turn our backs on those who must rely on Federal programs for help.

-- The budget also assures a strong defense. The defense budget will permit continued modernization of our strategic forces and improvement of our tactical forces. But the defense budget also calls for important economies in the armed forces.

-- The budget makes sure that Federal tax dollars will work harder and better, that government will be more efficient. The American people have made clear they want more efficiency from their government.

-- So the budget will propose eliminating some marginal programs. It will propose changes in programs to make them work better. It will propose reorganizing and consolidating some Federal activities to eliminate inefficiency and end waste and abuse.

-- The budget calls for sacrifices. Some will be disappointed by this lean budget. The budget places the public interest in controlling inflation above the interest of any particular group.

-- As part of our development of a national health plan, the budget will provide better access to health services for those most in need and will bring new health care services to people who live in areas poorly served.

-- In 1978, the Administration put a number of reorganization plans into effect, to improve efficiency. The Administration will propose further reorganization this year, including the proposal to establish a Department of Education. This continued improvement in government management is not just desirable, it is essential.

-- The Administration will work closely with Congress on this budget. I know that Congress, as well as the

Executive Branch, is sensitive to the people's concerns over the burden of taxes and scope of government.


-- In summary, the fiscal 1980 budget places the nation on the long-run path to relatively full employment, reduced inflation, and a balanced budget.

# # #

THE WHITE HOUSE  
WASHINGTON

Mr. President:

The attached document replaces the economic briefing materials prepared for your interview tomorrow. CEA has found it necessary to revise considerably the data in the earlier memo. We apologize for the confusion.

Peter Gould   
Special Assistant  
to the Chairman

## BACKGROUND MEMORANDUM

### Developments and Prospects for the U. S. Economy

#### I. Recent Economic Developments and the Outlook

##### A. Recent Developments -- An Overview

The revised estimates for real GNP growth in the third quarter show it to be 2.6 percent (annual rate). It now appears that the current quarter will be much stronger -- probably over 5 percent. Furthermore, current indicators suggest that this momentum will carry over into the early months of next year.

- o In retail markets, strength that developed early in the fourth quarter was sustained throughout the end of the year. Retail sales for the quarter averaged 4 percent above the third quarter pace. New car sales remain fairly flat, but overall consumption spending is likely to show substantial strength in the fourth quarter.
- o Housing starts are holding up well, remaining on a plateau of about 2 million units through November. Sales of new homes began to taper off very slightly during the third quarter, but were higher in October and November than the third quarter average.
- o New capital goods orders, excluding defense, declined in November, but they had risen strongly during the previous three months. These orders are now more than one-fourth above a year ago.



Construction contracts have also been decisively stronger in the three months ending in November. The results of the Commerce Department's latest survey suggest a moderate slowdown in the rise of business fixed investment this year.

- o Industrial production continues to rise more rapidly than GNP. Its rate of growth over the three months ending in November was 6.7 percent at an annual rate.
- o Employment increased remarkably in October and November and rose somewhat further last month. Despite strong growth in the labor force, the unemployment rate dipped to 5.8 percent in October and November and was little changed at 5.9 percent in December. Total employment in nonagricultural establishments rose by about 370,000 persons per month during the past three months.

#### B. The Outlook for Real Growth

The Administration's economic forecast, incorporated in the economic assumptions underlying the budget, shows real growth over the four quarters of 1979 of 2.2 percent, and positive in every quarter. Some modest strengthening in 1980 is likely if inflation moderates. Interest rates might then decline somewhat, and confidence would strengthen.

There is broad consensus that the pace of economic activity will slow next year; the question is how much. Many private forecasters expect a somewhat weaker economic situation than we do, with real GNP declining slightly in the second half of the year.

At the present time there is considerable momentum in the economy which is likely to carry over into the first part of next year. The areas clouded by uncertainty and the possibility of weakening later in the year are:

- o business fixed investment, which we believe will slow somewhat but remain stronger than GNP as a whole. The signals are mixed.
- o consumption spending, which we believe will hold up reasonably well relative to income. However, in view of the current low level of the saving rate, the substantial debt burdens of households, and the possibility that more rapid inflation will create concern about the real value of savings, consumer spending could be weaker than we expect.
- o housing is likely to taper off because of the substantial rise that has already occurred in mortgage interest rates. We believe the continuation of deposit inflows to thrift institutions and extensions of new mortgage loans will protect housing from the sharp drop that has occurred in past periods of tight money. But we are sailing in uncharted territory.

A gradual slowing of growth would be desirable to moderate inflation and also from the point of view of international balance. It will bring the growth rates of the major industrialized trading partners more closely into line. Achieving gradual but not excessive slowing is, however, a delicate task and it is not surprising that the uncertainties are unusually large at this time.

### C. Price Developments

Price developments continue to be discouraging. Food prices at wholesale accelerated once again in December, after a brief slackening in November. Meat supplies continue to be limited. We expect food prices at retail to rise about 8 percent next year. Outside of food, price increases at both the wholesale and consumer levels have been running in the last six months at an annual rate of 8 to 10 percent.

Business response to the anti-inflation program appears to be quite positive and, on the basis of extensive contracts, we believe that most businesses will abide by the price standards. Compliance by labor will be made more difficult to achieve if consumer prices accelerate. There is reason for hope that the petroleum workers will sign a 2-year contract that is within the guidelines; if that happens, prospects will be improved that the Teamsters settlement may come in at or very close to the pay standards. That would be a major achievement, and it would increase greatly the chances of securing compliance in other large collective bargaining contracts next year.

Price Changes at Annual Rates

	<u>Latest Month</u>	<u>Last 6 Months</u>	<u>Last 12 Months</u>
<b>Producer Prices</b>			
All Finished Goods	10.7	7.6	9.1
Food	11.8	6.1	11.9
Other	9.7	8.2	8.2
<b>Consumer Prices</b>			
All items	6.8	8.4	9.0
Food	3.9	6.5	11.2
Other	6.9	8.9	8.4

Note: Latest month is December for producers prices and November for consumer prices.

In view of the strong likelihood of (a) continued pressures on food prices through next spring, (b) increased energy prices due to the OPEC price increase and the implementation of our own energy policy and (c) continued poor productivity growth which will raise labor costs, it will be very difficult to reduce the inflation rate to 6-1/2 percent by year end. Over the four quarters of 1979, the inflation rate is likely to be around 7-1/2 percent, even with widespread compliance with the pay and price standards. Such a performance would, however, be a substantial improvement over 1978.

## II. Financial Markets

Interest rates have risen sharply since the dollar defense package was announced on October 31. At that time, the discount rate was raised a full percentage point from 8-1/2 percent to 9-1/2 percent. The target for the Federal funds rate was also raised, and that rate moved quickly from 9-1/4 to 9-3/4 percent. Most other short-term rates followed the funds rate up. Following the November 22 meeting of the FOMC, the Federal funds rate moved somewhat erratically in a 9-3/4 to 10 percent range and it has fluctuated near 10 percent since year end.

Concern had been raised earlier in the fall that despite increases in interest rates -- which, even before the October 31 move had risen by about 2 percentage points since the beginning of the year -- monetary restraint was not "biting". This concern was the result of continued strong growth of all of the monetary aggregates through the third quarter. Since the middle of October, however, growth of M1 (the narrowly defined money supply) and of M2 (which includes time and saving deposits) has slowed substantially (see charts).

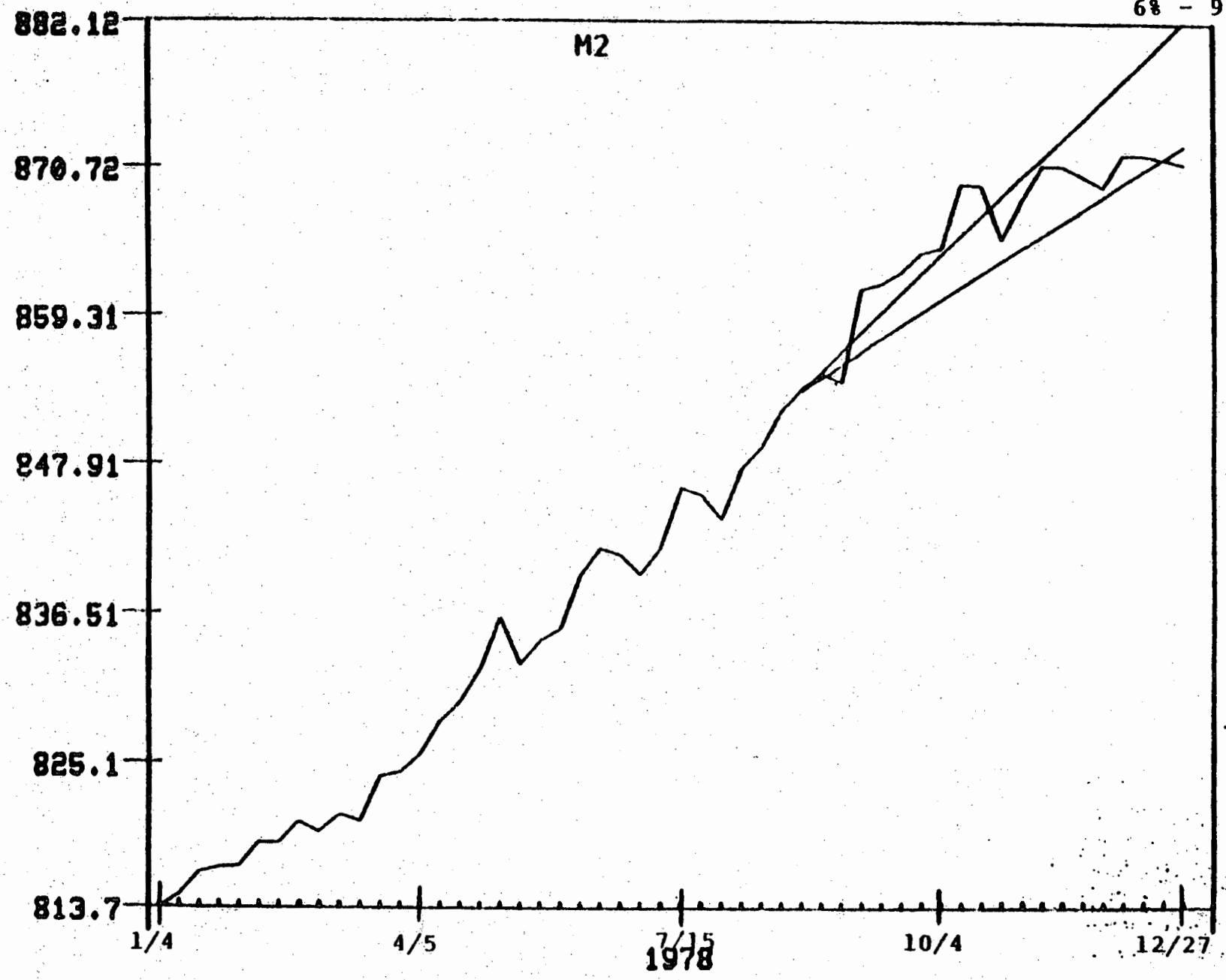
In addition to this recent slowing of growth of the monetary aggregates, there has been some slowing of credit growth. Growth in the outstanding volume of consumer installment credit appears to have peaked last spring. The net increase in home mortgage debt outstanding levelled out in the first half of the year even though the dollar value of residential construction kept rising. Business loans at commercial banks have continued to grow fairly rapidly until recently; growth slowed in the past two months, however.

Consequently, there is reason to believe that monetary restraint is nibbling if not biting. The response is probably occurring more gradually and with a longer lag than in previous periods of restraint.

### Growth of M2 Relative to Target Range

billions of \$

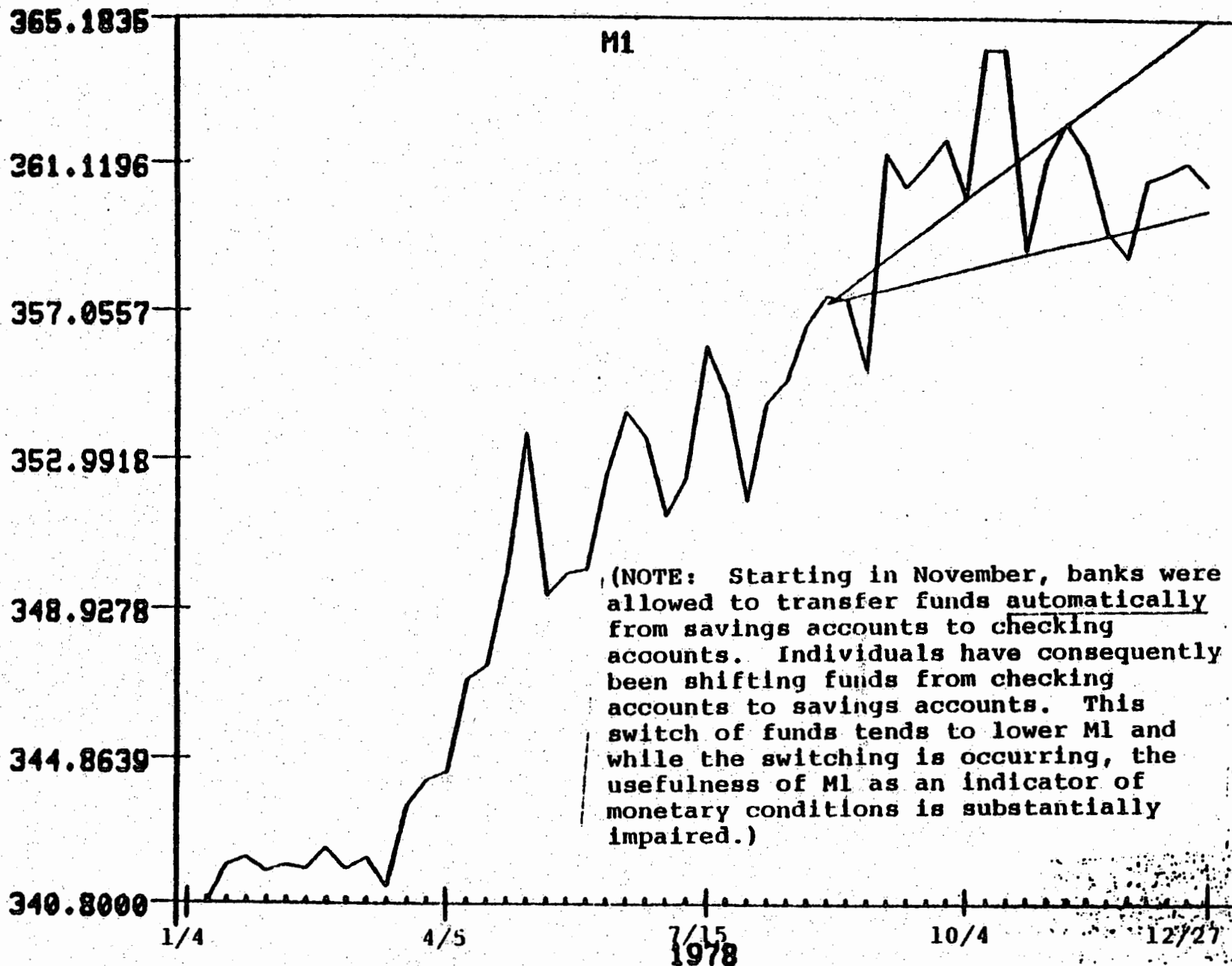
Target Range  
6% - 9%



Growth of M1 Relative to Target Range

billions of \$

Target Range  
2% - 6%





Recent Economic Indicators  
 Seas. adj. except as noted

	Latest Data	Last Month	Last 3 Months	Last Year
Percent Change in				
Retail Sales	December	1.0	3.8	11.4
New Orders for Durable Goods	November			
Total	"	-.7	6.8	21.7
Nondefense Capital Goods	"	-8.8	4.7	25.9
Personal Income	November	1.0	3.1	12.0
Aggregate Hours Worked by Production Workers				
Total Private Nonfarm	December			
Economy	"	.2	1.4	4.3
Manufacturing	"	0.6	3.1	4.1
Producer Prices				
	December			
All Finished Goods	"	.8	2.5	9.1
Food	"	.9	3.3	11.9
Other	"	.8	2.2	8.2
Consumer Prices				
	November			
All items	"	.5	2.1	9.0
Food	"	.3	1.6	11.3
Other	"	.6	2.2	8.4

Change in Thousands:

Total Civilian Employment	December	104	845	3046
Employment in Nonfarm				
Establishments	"			
Total	"	250	1107	3551
Manufacturing	"	124	438	740

		Latest Data	3 Months Earlier	Year Earlier
Housing Starts (Millions, Annual Rate)	November	2.1	2.0	2.1
Unit Auto Sales (Millions, Annual Rate)	December	9.4	8.9	9.2
Unemployment Rate (Percent)	"	5.9	5.9	6.3

**MONETARY AND FINANCIAL OVERVIEW**

Updated 1-12-79

1977

1978

**Interest Rates**

	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Federal Funds	6.47	6.51	6.56	6.70	6.78	6.79	6.89	7.36	7.60	7.81	8.04	8.45	8.96	9.76	10.25
Treasury Bill (3-Mos.)	6.19	6.16	6.06	6.45	6.46	6.32	6.31	6.43	6.71	7.07	7.04	7.84	8.13	8.79	9.34
3 Yr. U.S. Govt.	7.19	7.22	7.30	7.61	7.67	7.70	7.85	8.07	8.30	8.54	8.33	8.41	8.62	9.04	9.59
10-Yr. U.S. Govt	7.52	7.58	7.69	7.96	8.03	8.04	8.15	8.35	8.46	8.64	8.41	8.42	8.64	8.81	9.14
Commercial Paper (4-6 mo.)	6.55	6.59	6.68	6.79	6.80	6.80	6.86	7.11	7.63	7.91	7.90	8.44	9.03	10.23	10.61
AAA Corp. Bonds	8.04	8.08	8.19	8.41	8.47	8.47	8.56	8.69	8.76	8.88	8.69	8.69	8.89	9.03	9.27
Mortgages (FHLBB)	9.07	9.07	9.09	9.15	9.18	9.26	9.30	9.37	9.46	9.57	9.70	9.73	9.83	9.87	10.02
Municipal Bonds (S&P)	5.53	5.38	5.48	5.60	5.51	5.49	5.71	5.97	6.13	6.18	5.98	5.93	5.95	6.03	6.44
Prime Rate*	7-3/4	7-3/4	7-3/4	8	8	8	8	8-1/2	9	9	9-1/4	9-3/4	10-1/4	11-1/2	11-3/4
Discount Rate*	6	6	6	6-1/2	6-1/2	6-1/2	6-1/2	7	7	7-1/4	7-3/4	8	8-1/2	9-1/2	9-1/2
CD's (3 Mos.)	6.66	6.65	6.79	6.82	6.77	6.73	6.84	7.20	7.66	8.00	7.86	8.34	9.12	10.15	10.96

**Stock Prices**

Dow-Jones Indust.	823.96	828.51	818.80	781.09	763.57	756.37	794.66	838.56	840.26	831.72	887.93	878.64	857.69	804.29	807.94
NYSE Composite	51.37	51.87	51.83	49.89	49.41	49.50	51.75	54.49	54.83	54.61	58.53	58.58	56.40	52.74	53.69
S&P Composite	93.74	94.28	93.82	90.25	88.98	88.82	92.71	97.41	97.66	97.19	103.92	103.86	100.61	94.71	96.11
Dividend/Price Ratio	4.97	5.02	5.11	5.32	5.49	5.62	5.42	5.20	5.19	5.25	4.93	4.97	5.11	5.45	5.39

**Credit Flows; seasonally adjusted as noted**

Commercial Banks Total Loans & Invest (bil. \$)	860.0	866.2	870.6	881.2	887.7	894.1	909.0	921.7	932.2	940.7	944.6	952.4	960.9	966.5	967.3
Comm. & Ind. Loans (bil. \$)	198.7	200.2	201.4	203.8	205.8	209.8	212.4	217.9	219.0	220.8	222.8	224.6	227.0	228.9	228.9
Consumer Installment Debt, net change (mil. \$)	3207	3596	3579	2437	2862	4076	4106	4280	4207	3466	3632	3680	3374	4099	n.a.
Res. Mortgage Debt, net change, (bil. \$)		107.2			89.0			93.0			n.a.			n.a.	n.a.
FHLB Advances (mil. \$; not s.a.)	17747	18492	20171	20421	20845	21278	22957	23636	25271	26606	27867	29158	30104	30974	n.a.

**Growth Rate of Deposits (daily average for M's); Seasonally Adjusted Annual Rate**

M1	11.0	1.1	8.5	12.0	0.4	3.9	21.5	7.5	7.8	4.9	8.8	15.1	3.7	-4.5	1.0
M2-M1	9.2	10.0	4.7	8.5	8.1	6.2	5.4	7.2	8.2	10.8	12.4	12.0	9.7	11.2	2.1
M3-M2	15.6	11.8	11.0	9.0	7.2	8.0	7.3	7.7	9.6	12.0	14.6	17.4	14.2	10.6	9.9
MSB's 1/ S&L's 1/	11.6	4.7	4.7	3.1	3.3	4.0	3.0	4.8	4.3	8.5	10.7	11.4	10.8	2.7	n.a.
	12.2	11.7	10.6	6.2	6.8	8.7	6.5	9.1	10.3	15.4	15.9	17.7	12.0	12.9	n.a.

\*End-of-month number

\*\*Latest full year

\*\*\*Average for latest 4 weeks from preceding 4 weeks

1/ End-of-month to end-of-month data.

January 11, 1979

SINO - SOVIET RELATIONS

Background

Owing to the Vietnamese invasion of Cambodia, Sino-Soviet relations are now more tense and dangerous than at any point since the military clashes on the Sino-Soviet border in 1969.

-- The Chinese are deeply concerned about increasing Soviet influence in Indochina, about Soviet efforts to encircle China, and about growing Soviet military power in general.

-- The PRC has had trouble with Vietnam over ethnic Chinese in Vietnam, and identified with the regime in Cambodia. Now it sees the USSR backing the Vietnamese invasion of that country with military aid and propaganda.

-- The Soviets have been highly irritated by the successes of China's foreign policy toward Japan and Europe. They fear the longer-term consequences of improved U.S. relations with China.

-- Sino-Soviet relations are burdened by deep hostilities and fears that run back centuries. Emotions reinforce enmity arising from political and military concerns.

Neither the USSR or China gives evidence of seeking a direct clash. The danger is that military moves by one or the other country could precipitate an escalating confrontation.

-- China has reinforced its military units on the border with Vietnam to serve as a constraint on Vietnamese action, or, failing that, to retaliate in some way against Vietnam's invasion of Cambodia. China has also shown evidence of concern that military trouble with the USSR might arise on her northern borders.

-- But, contrary to press reports, we have not seen evidence that Soviets are taking unusual steps to increase their military preparedness on the border.

-- Because of its superiority over China in nuclear forces and modern conventional weapons, the USSR is the stronger party in the Sino-Soviet context. But the Soviets know that taking on the Chinese in a military confrontation would be a costly and dangerous adventure, both in military terms and in terms of the adverse impact on its foreign policy interests with the West.

You Might Want to Stress

-- The U.S. seeks no worsening of Sino-Soviet relations, least of all increased military tension between the two countries.

-- We do not seek to improve cooperation with the USSR to injure China, but to work for a more stable and secure world.

-- Nor have we improved our relations with China for the purpose of harming or isolating the USSR. Rather, we seek to encourage the emergence of a secure and cooperative China on the world scene.

-- We are, therefore, watching developments in Indochina with concern for their potential impact on Sino-Soviet relations. How the two communist giants get along cannot but affect the wider pattern of relations between the nations of the East and the nations of the West.

January 12, 1979

CHINA

-- A major reason for moving China up on my list of priorities is that as the prospects for a SALT agreement improved through 1978, I wished to ensure that our relations with both China and the Soviet Union moved forward simultaneously. We want to improve our relations with both of the communist giants, and not allow one to use us against the other. (By the way, all the European leaders at Guadeloupe agreed with me on this point and welcomed normalization.)

-- Timing then was determined by the pace of negotiations in Peking, which began in the summer. In the fall of last year, I indicated a willingness to normalize by this January 1, but only if a mutually acceptable formula could be worked out. The Chinese then moved rapidly forward to accommodate our concerns.

-- These concerns were:

- That Taiwan continue to have access to the purchase of defensive military equipment in the United States, as they have in the past.

- That at a minimum Peking not contradict my statement that the United States retains an interest in the peaceful resolution of the Taiwan issue and that we expect the issue to be resolved peacefully. In recent days, Peking has clearly gone on record indicating its patience on the Taiwan issue and its preference to deal with Taiwan peacefully.

- That we would retain commercial, cultural and other appropriate ties with Taiwan through unofficial means. This includes OPIC, MFN, Ex-Im Bank financing, and so on.

- That we go no farther than restating the formula used in the Shanghai Communique in which the U.S. acknowledged the Chinese position on the oneness of China.

- That I terminate our Defense Treaty with Taiwan in accordance with its provisions.

- That our many other treaties and agreements with Taiwan would remain in force.

-- We bargained hard and the Chinese accommodated all of our concerns. We reached a basic agreement on December 13, and rather than see our accord leak out, I decided to announce it right away.

## Benefits

-- In weighing the pros and cons of normalization now, I found the benefits to be overwhelming. They are:

### Peace, security, and trade

-- Peace. Because we have significantly improved our relations with the most populous country in the world, a country of growing importance.

-- Security. Because we can now have good relations with both Japan and China in East Asia.

- We have enormous security interests around the rim of Asia: in Japan, South Korea, all the Pacific Islands down to the Philippines, and in Southeast Asia as well. Asia is one of the most dynamic regions in the world today.

- That is why we keep a strong military presence out there.

- But nothing will contribute to the security and stability of our important positions on the rim of Asia than a constructive involvement with China. As we improve our relations with Peking, it will wish to keep us out there, and not try to drive us away, as in the past.

- That is why normalization actually improves the prospects that Taiwan, as now, will continue to enjoy peace and prosperity.

-- Trade. Because China is a growing market and we want to get in on the ground floor. Normalization facilitates that.

## Taiwan

-- We are confident about the future of Taiwan. American business now engaged there should continue their activities.

-- The military balance now and in the future will deter efforts to take Taiwan by force.

-- China knows that an effort to take Taiwan by force would upset its relations with both Japan and us, and Peking now sets great store in its ties with Tokyo and Washington.

-- Finally, the United States is and will be an Asian and Pacific power, capable of acting upon its interests. And we have an interest in the peaceful resolution of the Taiwan issue.

January 12, 1979

SALT

-- At the recent Vance/Gromyko meetings we moved very near agreement on a number of key issues.

-- While there are a number of issues that remain to be resolved, at the present time we see no major impediments to completion of the SALT TWO agreements. Work at the delegation level in coming weeks will, we hope, lead to final agreement in the very near future. We can then set a date for a Summit.

-- The U.S. and the Soviet Union have reached fundamental agreement on SALT II. However, some minor, but not insignificant points relating to language and definitions will still have to be agreed upon before the treaty can be signed.

-- The emerging agreement maintains the stability of the U.S.- Soviet strategic balance. The agreement does this by putting a cap on the numbers of strategic weapons, rather than forcing both sides back into an expensive, wasteful, and dangerous new arms race.

-- The agreement reduces the risk of nuclear war by stabilizing the relationship between the United States and the Soviet Union.

-- SALT II enhances our security by putting equal ceilings on nuclear arms for the first time. This will require the Soviets to dismantle or destroy 250 (more than 10 percent) of their strategic weapons while we will remain at or slightly above our present level.

-- The agreement puts strict limits on the areas where the Soviets are currently strongest -- multiple warhead ICBMs -- and limits the development of new missile types to one in the next seven years.

-- The agreement will have no impact on our plans for either cruise missiles or the MX mobile ICBM program.

-- SALT II is not based on trust of Soviet good faith. It is verifiable and strongly protects the means we use to make sure the Soviets are not cheating.

January 11, 1979

EGYPT - ISRAEL PEACE NEGOTIATIONS

-- Achievement of Egypt-Israel peace treaty remains high priority.

-- Peace between Egypt and Israel would open the way for negotiations to resolve West Bank/Gaza/Palestinian question in conformity with Camp David framework.

-- U.S. role remains that of an active mediator, friend of both parties.

-- Remaining issues to be resolved are of varying degrees of difficulty. We would like to see a rapid resolution of the differences on Articles 4 and 6 of the treaty.

-- This would leave us with the problem of finding a way of expressing the commitment of the two parties to carry out that part of the Camp David framework relating to the West Bank and Gaza.

-- Peace between Egypt and Israel should be seen in the broad context of bringing stability and security to the Middle East. We are convinced that a peace treaty will not only benefit Egypt and Israel, but will also enhance the prospects for peaceful development and progress in the region as a whole.



IRAN

-- Our interest in a free, stable and independent Iran is strong and continuing. The strategic region of the Persian Gulf, where more than half the world's oil supply originates, cannot avoid being affected by events in Iran. The population, size and location of Iran make it a dominant factor in an area of vital importance to the entire world.

-- Our efforts in the recent crisis have been focused on the restoration of order, which is essential if a political solution is to be reached. We have encouraged solutions within the constitutional framework of the nation, as the best means of preserving maximum stability in a time of change.

-- The Shah has now decided that he should leave Iran, on vacation. That was his decision, which only he could make as the head of state of a great nation. We understand the circumstances which led him to take that step, and we agree with his judgment.

-- We have told the Shah that he would be welcome in this country if he should wish to visit.

-- Our understanding of the next steps in the crisis is that a Regency Council will be nominated to act in the Shah's absence. We expect it to be presented to the Majlis (Parliament) in the next few days. The debate on the new government of Mr. Bakhtiar will begin this weekend.

-- We believe that the new government should be given every possible opportunity to seek a resolution of the many problems which have disrupted the normal life of the Iranian nation and its people. We urge all parties to avoid extremism and to seek a new national reconciliation that will heal the wounds of the past.

-- The Iranian military has a vital role to play in the process of national reconciliation. It is the guarantor of the security and independence of the nation. It is essential that its integrity be preserved and that it retain the support of the Iranian people. We urge the military and civilian leaders to work together for the common good of the Iranian nation to find peaceful solutions to the present problems.

-- No outside government should interfere in this process. The decisions on Iran's future should be made by the Iranians themselves.

-- We are prepared to cooperate with the new government as it faces its difficult tasks. We wish to maintain the traditionally good relationship between the United States and the Iranian people. There are many thousands of Iranians living, working and studying in this country, just as there are many thousands of Americans who live and work in Iran. Those contacts are precious to us and underscore the strong links which underlie our relations at the government level.

## 1979 Legislative Priorities

In the first two years, I worked closely with the Congress to face up to and solve a wide range of problems that had been ignored for many years. For example:

- We reached agreement on major elements of a national energy policy, to reduce our dependence on imported oil, to help stimulate domestic production and to conserve energy supplies for the future.
- We put Social Security System back on a financially sound course.
- We passed critically needed reforms in the Civil Service System to provide better federal management and service to the public.

*employment*

Now we must look beyond today's needs, so that we can strengthen our ability . . . as communities, as families and as a people . . . to build for the future.

- First and foremost we must control and reduce inflation. I will ask Congress to work closely with me in this effort:

-- by restraining federal spending and reducing the intollerably high budget deficits we inherited.

-- by enacting proposals to remove costly and unwarranted forms of federal regulation, (surface transportation deregulation) and simplify the regulatory process;

-- by controlling skyrocketing hospital costs; and

-- by adopting legislation (Real Wage Insurance), to support and strengthen the voluntary guidelines program;

● Second, we must continue and strengthen our leadership in foreign policy. (Insert NSC).

● Third, we must lay the foundation for a stronger domestic economy, through a solid economic development program, which enables our cities and rural areas to stand on their own and to prosper. We must use our economic development programs to encourage needed investment and private sector job opportunities. I will ask the Congress to pass the National Development Bank to help fulfill this important goal. I will ask the Congress to expand and strengthen federal efforts to develop solar energy, and to promote advanced research in the sciences and technology. I will also press for approved legislation providing new opportunities for the United States in international trade, and reforming the structure of our international trading system.

● Fourth, we will continue to press for legislation to preserve our national heritage, with heavy emphasis on our unique and priceless wilderness in Alaska.

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● Fifth, I will ask the Congress to work with me on legislative efforts to help restructure our government to meet the needs and problems of the future. We must crack down on waste, and fraud and abuse, wherever it exists, but we must also create the organizational framework that can permit government to respond quickly and efficiently to the needs of our people.

● Sixth, we must work toward enactment of major health legislation, so that families and individuals in this country can plan their own futures, without fear of economic ruin if they, or their parents or children, become seriously ill.

● Finally, our future is in our people, in our children and in young men and women who are for the first time entering our workforce. We will continue to work toward better education opportunities and toward the training that is needed for people to stand on their own and lead productive lives. And to reach this objective, the federal government must continue to work vigorously to eliminate discrimination, to reform our welfare system and break the cycle of dependence, and to enable every citizen to participate as fully as he or she can in helping us to build a stronger and more prosperous country.

### III. TALKING POINTS - THE PRESIDENCY: GENERAL

Our goal in this section should be twofold: to convey a sense of purpose - a theme and to preview some of the major points from the State of the Union address. Our assumption is that Chancellor will focus on:

1. Why the America people still don't fully understand who Jimmy Carter is?
2. How the Presidency is different today from the past?
3. What you consider your greatest successes and failures?
4. How you feel about your critics particularly on the question of competence?
5. What you think about 1980, Kennedy, Brown, et al.

#### A. Who is Jimmy Carter? What is the theme of your Administration?

Getting control of problems; stability at home and abroad; laying new foundations for the future; moderation, long view.  
It is not surprising that that many people still have some trouble understanding who Jimmy Carter is. You have never fit comfortably into any of the convenient labels. Also it will be a long time before much of what you are doing will be clear to people. Public figures and Presidents tend to become identified with specific programs or political philosophies. You have invested much of your energies as President in improving process - restoring confidence in the integrity and competence of government, trying to make the government, the economy, our foreign policy work better, not just today but for our future and our children's future.

These efforts are not always exciting to the press or the public but, in the long run, they are probably more important than proposing a new program or attacking some short-term but high visibility problem.

You promised a competent and compassionate government and one deserving of the support of the American people. You have never lost sight of these basic goals. We have made substantial progress in these areas; ultimately people will see the value in what you have been trying to do. (Will it be in time for the 1980 elections?" - "Maybe, maybe not. That's not my principal concern right now.")

B. How is the Presidency different today from the past?

Events of the last two decades have made it extremely difficult to lead in this country. The public trust has been abused so often and so seriously that a President today must operate in an atmosphere of great skepticism - from the press and the public. The skepticism is not limited to the Presidency - it affects all our institutions. Restoration of that trust is, in the long run, more important than anything else you can do - except for keeping peace. We need to regain our ability to act as a people, our confidence in ourselves and our institutions. Our system is based on trust with built-in safeguards - which have proved to work rather well. Without that trust, however, very little can be accomplished.

Also the problems you face are of a different kind from those faced by earlier Presidents. They are much more complex, subtle, interrelated. Problems like inflation and energy require, not just changing our policies, but changing our behavior as a people. This is far more difficult to bring about than issuing an executive order or even passing a bill.

C. What are your greatest successes and failures?

Successes: We are at peace. Our economy is basically strong. People are at work. We have made some progress at restoring trust in our institution, making government work better and meeting human needs.

We should not lose perspective. The fighting in Cambodia is terrible. But this time, we are not involved except to keep it from escalating.

Inflation is a very serious problem. But we're in a position to do something about it now because our economy is strong and growing. The issues we're now discussing have to do with making our future better - not extricating ourselves from some disastrous situation.

Failure: By focusing too much on specific problems you haven't done enough to convey a coherent sense of purpose to the American people. The people need this kind of leadership as much as they need the specific problems of the country solved. You're going to redouble your efforts in this area.

D. Your critics? Competence?

All the issues you've involved yourself in have been controversial. You expected a lot of criticism. You will be satisfied to be judged by the results of your efforts.

There is a tendency among many in public life to want to apply yesterday's solutions to today's and tomorrow's problems. They want you to choose between extremes. Recession or continued inflation. Competence or compassion. Confrontation or capitulation. It's easier to think and talk on these terms than to seek the synthesis. You will not be pressured into making decisions for the short run that will fail to lay foundations for our futures and future generations. "As long as I'm being criticized about equally from both ends of the ideological spectrum, I figure I'm probably on the right track."

On competence: "I'm content to let history judge my competence."

E. What about 1980? Kennedy? Brown?

"I prefer to live my Presidency one term at a time. I wasn't elected by the American people so that I could spend four years trying to get re-elected."

"If I run in 1980 I will be judged on what I have done for this country. Anyone interested in criticizing my record is welcome to join the race. About the worst thing I could do to the American people now would be to start making decisions that affect the future of this country based on who I thought might want to run in 1980."



THE WHITE HOUSE  
WASHINGTON  
January 13, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: *F.M./LESFRANCIS* *Jim*  
Frank Moore/Jim McIntyre

SUBJECT: Reorganization Proposals

In light of today's article in the Washington Post (attached) concerning alleged senior staff reactions to the reorganization proposals, we thought it necessary to put forward our own comments in reaction to the article, and issues that the article raises.

As you know, the White House Congressional Liaison staff and OMB have been involved in extensive consultations over the last few months with dozens of Members of the House and Senate regarding the reorganization plans in the economic development assistance and natural resources areas. As was expected, the Congressional reaction has been mixed. There is both substantial opposition and substantial support for individual reorganization plans. We are currently reviewing the data in order to provide you with an accurate assessment of Congressional sentiment. This assessment will accompany a forthcoming decision memo from Jim McIntyre.

It is completely erroneous, however, to suggest, as the Post article has done, that the senior staff has drawn any final conclusions regarding the political viability of the proposals. Obviously, each individual has his or her own preference for or against specific parts of the reorganization plans, but the senior staff itself has NOT reached any collective opinions as the article suggested.

It is totally inaccurate to suggest that our Congressional Liaison staffs have concluded that these plans (economic development and natural resources) CANNOT secure Congressional approval; nor have the CL staffs concluded that passage is guaranteed. Further, it is our opinion that these press statements impact negatively on the Hill. The article has a tendency to suggest that we have discounted out of hand all the Congressional advice we have received. Perhaps most damaging of all were the quotes "It won't work, it won't pass Congress, and there's no support for it". This not only inaccurately summarizes our findings from the Hill but tends to further limit your options in the final selection process.

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Both of us believe that you must consider major reorganization to meet your campaign pledge and that the issue can be framed to be politically advantageous. When we embarked on this effort to pursue reorganization, you instructed OMB/PRP to give you a full range of options and not to prematurely compromise your decisions. We realize that any worthwhile reorganization will be controversial and that you should ultimately balance the substantive merits with political costs and benefits, as well as with other domestic legislative priorities.

To give you this opportunity, we must consult with the Hill and interest groups in an objective environment. Unfortunately, some persons within the Administration have, apparently through their conversations with the press, interest groups and the Hill, effectively sought to foreclose at least some of your options. The front page Post story is the latest example.

This kind of story is very destructive of our efforts to preserve a healthy political climate to test your major options. We recommend:

1. That at Monday's Cabinet meeting you admonish the Cabinet and your staff against foreclosing your options due to their dealings with the press, the Hill and interest groups.
2. That you inform all that you will shortly be receiving and deciding reorganization recommendations and that you do not want that decision process prejudiced or otherwise sabotaged.

# The Washington Post

Washington Post Co.

SATURDAY, JANUARY, 13, 1979

## Sweeping Reorganization Plan Rejected

By Susanna McBee

Washington Post Staff Writer

A sweeping reorganization of federal programs that would have created a new Department of Development Assistance has been rejected by senior White House officials.

Top White House aides Hamilton Jordan, Stuart E. Eizenstat, Frank B. Moore, Jack H. Watson Jr., Robert Lipshutz and Anne Wexler reportedly agreed yesterday that the bold plan had no chance on Capitol Hill.

"It won't work. It won't pass Congress. And there's no support for it," said one source.

The Office of Management and

Budget had worked on the plan for nearly two years.

Instead, OMB Director James T. McIntyre was considering last night a scaled-down plan that would take programs from other agencies and add them to both the Commerce and Housing and Urban Development departments. It is designed to streamline the government's lending and grant-making authority to businesses and to state and local governments, an administration official said.

The plan has not yet gone to President Carter for a decision.

One urban lobbyist said the effect of the decisions would be "no real reorganization at all," but an administration aide said the new option

"would be a significant change from present operations."

Carter came to office on a pledge to reorganize the federal bureaucracy and eliminate waste and duplication. To date, his efforts have resulted in the creation of a new Energy Department, a proposal for a new Education Department, the reorganization of the civil service system and several minor program changes.

Besides economic development, OMB's reorganization staff has studied proposals to expand the Interior Department into a new Department of Natural Resources.

Once the development and resources decisions are made, OMB will

See REORGANIZE, A6, Col. 4

### REORGANIZE, From A1

be finished with major reorganization efforts, a spokesman said yesterday.

Sources said the senior White House officials seemed "open" to the idea of a Natural Resources Department, but they stressed that no decision has been made on that subject.

The proposal for a new development department would have consolidated nearly all of the government's economic and community development programs into a vastly expanded HUD.

The less sweeping option would separate federal programs aimed at aiding government entities from those that aid private business.

A new HUD, which would be called the Department of Housing and Community Development, would manage various grants and some loans to state and local governments. These would include some programs, such as public works grants and planning and technical assistance, now in the Commerce

Department's Economic Development Administration.

They also would include the community development functions now in the Agriculture Department's Farmers Home Administration.

A new Commerce Department, called the Department of Trade and Business Development, would retain those EDA loan and grant programs for business and industry and would acquire the Small Business Administration, the Export-Import Bank and the Overseas Private Investment Corp.

McIntyre has not decided what he will recommend on a proposal to create a National Development Bank that would provide loan guarantees and some grants to stimulate business activity in distressed rural and urban areas.

The senior White House officials were said to feel it should not be pro-

posed as a separate entity. Instead, according to one option, its loan guarantee functions would be placed in an enhanced EDA, which is up for congressional reauthorization this year. The bank's grant functions would be assumed by the beefed up EDA and also by an enhanced Urban Development Action Grant program in HUD.

That option, one source stressed, is a White House proposal and not one from OMB. McIntyre prefers to put the bank in the Commerce Department and authorize it to provide loan guarantees up to \$11 billion and grants up to \$550 million to businesses locating in distressed areas, the source said.

As proposed last year the bank would have been a separate entity administered by the heads of HUD, Commerce and the Treasury. But the proposal, a cornerstone of Carter's urban program, never got out of a congressional subcommittee.

THE WHITE HOUSE  
WASHINGTON

1/13/79

Mr. President:

A \$1,000 check is given with the King Peace Award on Sunday. It is suggested that you donate the money to the Freedom Hall campaign at the King Center. This is the project to raise funds for a conference center to be built at the King center. Henry Ford is chairman of the effort. You hosted a White House reception for this venture this past year.

approve donating check to  
Freedom Hall campaign

other

Phil

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THE WHITE HOUSE  
WASHINGTON

1/13/79

Mr. President:

Charlie Schultz, Frank Press,  
Alfred Kahn and Stu would like to  
meet with you as soon as possible  
to discuss a regulatory matter.  
Charlie estimates a 20 minute  
meeting. I suggest this morning  
after the Chancellor interview.

approve this morning

work in next week

Phil

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THE PRESIDENT'S SCHEDULE

Sunday - January 14, 1979

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9:40

Depart South Grounds via Helicopter en route  
Andrews AFB and Atlanta, Georgia.

5:10

Return to the White House.