2/5/79 [5]

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and would perceive such a move to be at least premature. We believe that they would perceive such a move to be a downgrading of the importance of small business by this administration and that the major reason for having the White House Conference would have evaporated.

It is my recommendation to the President that the SBA remain a strong, independent Agency.

A. Vernon Weaver
Administrator
THE SMALL BUSINESS ADMINISTRATION COMMUNICATED ORALLY THAT THEY CONSIDER IT VERY IMPORTANT THAT THE FARM-LENDING AUTHORITY BE TRANSFERRED OUT OF SBA TO THE DEPARTMENT OF FOOD AND AGRICULTURE. THEY ALSO INDICATED THAT SBA SHOULD REMAIN AN INDEPENDENT AGENCY.

NO FURTHER WRITTEN COMMENTS ON THE DRAFT DECISION MEMORANDUM WERE RECEIVED.
January 2, 1979

Honorable James T. McIntyre, Jr.
Director
Office of Management and Budget
Executive Office of the President
Washington, D. C. 20503

Dear Jim:

I am enclosing a memorandum to you containing our comments on your reorganization memorandum. We feel very strongly that any major change in SBA's status (that of an independent agency) should await the conclusion of the White House Conference on Small Business.

It is perfectly alright to remove those programs of SBA that pertain to community and economic development assistance and place them in the Department of Development Assistance or any other appropriate place, but the practical, political considerations both of the Congress and the small business community dictate, it seems to me, an independent SBA at this time.

I know that no final decision has been made with respect to Trade and Commerce. However, I think it is imperative that we have input directly to you or to the President before any decision is made to move SBA into another department.

Sincerely,

A. Vernon Weaver
Administrator

Enclosure
Date: January 12, 1979

Reply to

Attn of:

Subject: Additional Reorganization Option

To: Honorable James T. McIntyre, Jr.
Director
Office of Management and Budget

The Small Business Administration opposes Option 3.

We take serious exception to the premise that a consolidation of SBA into the Department of Trade and Business Development would result in giving the small business community a more effective voice within Government. Indeed, we believe that voice would be lessened. In many areas strong differences exist between big business and small business. Each year numerous bills are introduced which impact differently on big business and small business; therefore SBA and Commerce must take different positions. The interest of small business is sufficiently vital for these differences to be resolved by the White House. The President should not be denied the opportunity to receive advice and guidance from an effective representative of small business.

Another example of disagreement exists under SBA's set aside programs. Government procurement is allocated for bidding by small business, excluding big business. When these set asides are challenged, it is up to the Administrator of SBA to make a decision. We think such a decision would be difficult for the Secretary of a Department representing both big business and small business.

The President has called for a White House Conference on Small Business to be held in January 1980. We are holding 57 pre-conference meetings of which 19 have been completed. At these pre-conference meetings, the small business community has been informed that one of the major reasons for the White House Conference is to review the programs and the future of the SBA. If SBA is moved to the larger department, we believe that this constituency would be greatly disillusioned.
and would perceive such a move to be at least premature. We believe that they would perceive such a move to be a downgrading of the importance of small business by this administration and that the major reason for having the White House Conference would have evaporated.

It is my recommendation to the President that the SBA remain a strong, independent Agency.

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Sincerely,

A. Vernon Weaver
Administrator

Enclosure
MEMORANDUM FOR

Director
Office of Management and Budget

January 2, 1979

This is in response to your request for comments and observations on the reorganization memorandum to the Cabinet and affected agencies. Generally, we are pleased with the problem-oriented approach of the proposal. This should streamline service delivery and reduce confusion on where to go for assistance. However, since Part I, Natural Resources, and Part III, Food and Nutrition, do not directly affect this Agency, we are restricting specific comments to Part II, Development Assistance, and Part IV, Trade and Commerce.

A. Development Assistance

In our opinion, alternative (1) of Part II, is the most desirable of the alternatives set forth in the memorandum. We believe that it is sensible to combine economic and community development assistance which will reduce the existing confusion of state and local governments and the general public regarding U. S. Government programs.

We agree that SBA's 501 and 502 programs should be transferred to the new Department of Development Assistance. Additionally, depending upon the specific structure of the Department of Development Assistance, we believe that other SBA programs which are oriented to community, and in some instances, economic development assistance, such as SBA's disaster loan programs, could be incorporated into the new Department. We do not believe that the SBA is, or should be considered to be, an economic development agency. SBA's primary mission is to stimulate competition through a healthy small business community.
The transfer of SBA's farm lending authority to the Farmers Home Administration in the Department of Agriculture is called for on page 16. We would hope that this transfer would be of the highest priority.

We do not favor alternative (2), of Section II, which is set forth on page 19. This alternative would not accomplish the goal of problem-oriented development assistance programs and would not reduce the confusion now existing at the state and local government levels and with the general public.

B. Trade and Commerce

Your memorandum indicated that you were not yet prepared to make a recommendation on Part IV, Trade and Commerce. However, you do list options that are under consideration on page 28. We favor option (3), because this option would provide for a strong national focus on the problems of the balance of trade and balance of payments.

C. Other

We feel strongly, and we believe Congress does also, that the small business community must have a strong, independent agency of the government to address their needs. Big business has the resources and the clout to be heard at the top level of any governmental organization. However, small business, by its nature, must depend more on established lines of communication and organizational structure in communicating its needs. The growth of employment and economic expansion are achieved most efficiently in the small business sector and this growth stimulates competition and technological innovation.

The SBA, as originally conceived, has the mission of stimulating competition and economic growth in the small business sector. In recent years, this focus has been affected to a degree by the addition of programs for community and economic development. The establishment of a Department of Development Assistance and the inclusion in that Department of SBA's community and economic development programs should give SBA an opportunity to refocus on its initial mission. It is our opinion that our business development program (8a) for firms owned and controlled by socially and economically disadvantaged persons is consistent with SBA's mission and should be retained at SBA.
As you know, the President, by Executive Order, has authorized a White House Conference on Small Business, to be held in 1980. This Conference is being preceded by 57 national and state meetings. We have told the small business community that one of the primary purposes of these meetings and the eventual Conference is to give an opportunity to the small business community at the grassroots level to have input into the future structure of the SBA. We believe that our recommendations and suggestions, as discussed above, would not conflict with this commitment. Any major changes at this time, however, may be perceived to be premature and may tend to detract from the purpose and importance of the President's White House Conference on Small Business.

Administrator
Small Business Administration
Honorable James T. McIntyre, Jr.
Director, Office of Management and Budget
Executive Office of the President
Washington, D.C.  20503

Dear Mr. McIntyre:

Thank you for your memorandum of January 11, 1979, with respect to an additional reorganization option. Since the option does not directly affect the Commission, we have no comment to make on this matter.

Sincerely,

[Signature]
Joseph O. Parker
Chairman
THE INTERNATIONAL TRADE COMMISSION HAD NO COMMENTS ON THE DRAFT DECISION MEMORANDUM, BEYOND THOSE MADE ON THE INFORMATION MEMORANDUM.
January 3, 1979

Honorable James T. McIntyre, Jr.
Director, Office of Management
and Budget
Executive Office of the President
Washington, D.C. 20503

Dear Mr. McIntyre:

This letter responds to your request for comments on an information memorandum which includes, as a possible option, the inclusion of the United States International Trade Commission within a new Department of Commerce and Trade. In our view, inclusion of the Commission in an executive department would be inconsistent with the historical functions of this independent, nonpartisan, factfinding agency and contrary to the manifest intent of the Congress. We believe, therefore, that the Commission should be excluded from the reorganization plan.

The Commission was established in 1916 by the Congress, in furtherance of its authority to regulate foreign commerce under article I, section 8 of the Constitution, for the purpose of providing the Congress and the President with expert technical advice on trade matters. From its earliest days, the nonpartisan nature of the Commission was established by a provision that no more than three of the six Commissioners could be of the same political party and a provision for overlapping terms of Commissioners, insuring that no single President could control the Commission.

In 1967, President Johnson submitted a reorganization plan (Reorganization Plan 2 of 1967) which would have given the President more control over the Commission by transferring certain administrative powers to the Chairman of the Commission. Although that reorganization proposal was far less extensive and would have given the President far less control over the Commission than the option now under consideration, it was disapproved by the Congress for the reason that any such attempt "raised a real question as to the propriety of the executive branch attempting to reorganize an agency whose principal function is to assist the Congress in carrying out its constitutional tariff and trade powers." S. Rept. No. 226 (90th Cong., 1st sess.), p. 6.
Congress reaffirmed the importance of the maintenance of the Commission's complete independence in the Trade Act of 1974 and subsequent legislation. It provided additional guarantees of that independence by removing the Commission's budget from executive branch control; authorizing the Commission to be represented in court by its own attorneys; and restricting the President's power to appoint the Commission's Chairman and Vice Chairman.

In summary, the Commission is unique among Federal agencies in its nonpartisanship and independence. The continued independence of the Commission is essential for it to perform its function of providing expert technical trade advice to the Congress and the executive branch. Since the incorporation of the Commission into an executive branch department would fatally compromise the independence which Congress has provided, we recommend that the Commission not be included in the reorganization proposal.

Sincerely,

Joseph O. Parker
Chairman
MEMORANDUM for James T. McIntyre, Jr.

FROM: John L. Moore, Jr.

SUBJECT: Eximbank and the Proposed Economic Reorganization of the U.S. Government

I would strongly oppose placing Eximbank in the proposed Department of Trade and Business Development (DTBD) described in the current Option 3. Eximbank has a unique status and serves a great many different U.S. interests.

For example, the Secretaries of State, Treasury and Commerce make recommendations to Eximbank on loans, where there are considerations of foreign, monetary or trade policy. It is convenient to these Secretaries, however, not to take final responsibility for making the credit judgements. This judgement is best left to an independent Eximbank board. Without this independence, there will be strong criticism from Congress that Eximbank is making loans for political reasons, rather than reasons of good credit. Congress has been extremely sensitive about this issue in the past.

We would oppose the suggestion on page 1 that the Secretary of DTBD "provide policy guidance as one of the 3 directors of Eximbank." Such a proposal would seriously undermine the independence of the Eximbank board. Also, I would oppose reducing our current board of 5 directors, all of whom are Presidential Appointees already confirmed by the Senate and who work well together.

Eximbank now coordinates very well with State, Treasury, Commerce, OMB and the White House, both bilaterally and through the mechanism of the National Advisory Council. Placing us in DTBD would disrupt these relations and inhibit our role in foreign policy and in monetary policy and would not improve the bank's efficiency in facilitating trade.
Eximbank has a large, supportive constituency in Congress, and our best reading is that the move to place us in the proposed DTBD would be vigorously opposed there.

Finally, I believe that Option 3 has been conceived too hastily and has too many diverse entities that do not fit. I believe it would be a disservice to the President to go forward with this Option at this time. It will provide no real benefit and yet will cost a great deal in terms of lost efficiency and increasing difficulty in obtaining budget authorization for Eximbank.
THE EXPORT-IMPORT BANK HAD NO COMMENTS ON THE DRAFT DECISION MEMORANDUM, BEYOND THOSE MADE ON THE INFORMATION MEMORANDUM.
MEMORANDUM

TO: The Honorable James T. McIntyre, Jr.
    Director, Office of Management and Budget

FROM: John L. Moore, Jr.
    President and Chairman

SUBJECT: Presidential Reorganization Memorandum

We support your thesis that there is a problem with the Department of Commerce and that a reorganization of its functions might alleviate the problem.

We have these thoughts about Eximbank's relationship to a new Department of Commerce and Trade.

1) We would prefer to see Eximbank remain autonomous.

2) The most successful integration of Exim into another agency could take place only with a cabinet department strictly of international trade. No such department is contemplated in the three options suggested for reorganizing the Commerce Department.

3) To support the position for an autonomous Eximbank, we would make the following points:

   A) Despite its large authorization ceiling of $40 billion, Exim has only 430 employees, less than half of which are professionals and specialists. Exim is a highly efficient agency, lending as much money as the World Bank with only one-tenth the staff. Integration into a much larger department would not make us more efficient and would probably make us much less efficient if under-employed Commerce Department employees were added to our staff.
B) It is vital that Exim remain politically autonomous because of the large sums it lends. It must never make loans for purely political reasons to an otherwise uncredit-worthy borrower. Several powerful institutions make recommendations to Eximbank on the direction of its loans. These include the White House, State, Treasury, Commerce and Congress. The Eximbank board effectively pursues overall administration policies and guidelines. However, its independent status has served historically as an important check against making loans for excessively political and uneconomic reasons. If the Bank ever did so, Congress would act quickly to terminate us.

C) Eximbank has a large number of supporters in Congress. Many Congressmen and Senators tend to regard Exim (because of its "sunset" status) as a "legislative," rather than an "executive" agency. The Exim portion of a Commerce Department reorganization would be controversial in Congress, and could hold up otherwise sound plans to reorganize the Department of Commerce. This problem could be avoided if Exim remains autonomous. The business community might also lobby through Congress and directly with the White House against an administrative incorporation of Exim into a Commerce and Trade Department.

I understand that your proposals on the options are not yet fully developed, and would look forward both to discussing them and to being of full assistance.

cc: Schaffer, Allen, Sauer
NO COMMENTS WERE RECEIVED FROM THE COUNCIL ON ENVIRONMENTAL QUALITY ON THE ADDITIONAL REORGANIZATION OPTION.
January 8, 1979

MEMORANDUM FOR DICK CAVANAUGH

FROM: Ed Strohbehn

SUBJECT: Reorganization Decision Memorandum

Because I have been unable to reach Katie Beardsley this morning, attached is the most recent copy of the draft decision memorandum which contains in the margin the corrections which I believe should be made in the memorandum. The changes on pages 5 and 6 are substantive changes which state more precisely what is intended to be the water resources options. The recommendation on page 7 that the objective statements of disadvantages be included in the memorandum text is a substantive recommendation because the suggestion that disadvantages are covered in the relevant Cabinet comments could be taken to imply that the disadvantages are only parochial or special interest in nature.

The changes on page 10 are substantive in nature and correct your excellent summary of CEQ's comments so that the summary is precise.

The corrections on page 11 incorporate changes in the presentation of decisions consistent with our conversation on Saturday that the memorandum should inform the President that he is making only a couple of overall conceptual decisions at this time and that other issues which have been raised by the decision memorandum and Cabinet heads could be resolved at some later time.

Give me a call if you have any questions.

Attachment.
January 5, 1979

**MEMORANDUM FOR**

- THE SECRETARY OF AGRICULTURE
- THE SECRETARY OF COMMERCE
- THE SECRETARY OF DEFENSE
- THE SECRETARY OF ENERGY
- THE SECRETARY OF THE ARMY
- THE SECRETARY OF HEALTH, EDUCATION AND WELFARE
- THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
- THE SECRETARY OF INTERIOR
- THE ATTORNEY GENERAL
- THE SECRETARY OF LABOR
- THE SECRETARY OF STATE
- THE SECRETARY OF THE TREASURY
- THE SECRETARY OF TRANSPORTATION
- THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS
- THE ADMINISTRATOR OF VETERANS AFFAIRS
- THE ADMINISTRATOR OF THE ENVIRONMENTAL PROTECTION AGENCY
- THE DIRECTOR OF THE COMMUNITY SERVICES ADMINISTRATION
- THE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION
- THE CHAIRMAN OF THE WATER RESOURCES COUNCIL
- THE CHAIRMAN OF THE INTERNATIONAL TRADE COMMISSION
- THE PRESIDENT OF THE EXPORT-IMPORT BANK
- THE CHAIRMAN OF THE COUNCIL ON ENVIRONMENTAL QUALITY

**FROM:** James T. McIntyre, Jr.

**SUBJECT:** Attached Reorganization Draft Decision Memorandum

Attached is a draft of the reorganization draft decision memorandum. It includes summaries of the comments we received.

We would appreciate your comments on the memorandum, particularly on whether our summaries of your earlier remarks are accurate. Verbal responses are sufficient. Please get in touch with Katie Beardsley at 395-5682 if you want to respond verbally.

If we do not get further written remarks from you, we will send your earlier comments to the President as an attachment to the decision memorandum.

The final memo will be submitted on Tuesday, January 9. Therefore, we need your remarks by noon, MONDAY, JANUARY 8.
MEMORANDUM FOR THE PRESIDENT

FROM: Jim McIntyre

SUBJECT: Reorganization 1979

This memorandum presents the results of our analysis of the major items on the 1979 reorganization agenda awaiting approval.* Four principal projects are described: natural resources, development assistance, food and agriculture, and commerce and trade.

These four areas were chosen with the goal of bringing about visible achievements in government performance and efficiency: more service from the same dollars, reduction in personnel and administrative costs, consolidation and simplification of programs, less overlap and duplication. Together with civil service reform, the Department of Energy, and the pending Department of Education, the initiatives described below would give us a reorganization record affecting most of the domestic Cabinet by 1980:

(1) Natural Resources. The excessive number of Federal natural resources agencies doing much the same thing makes it confusing for citizens to know where to go, costly for businesses delayed by complex permitting requirements, and complicated for the government to develop and implement coherent policy for balancing conservation and development objectives. A natural resources reorganization would simplify this structure and help to solve these problems as well as save money for the government and the private sector.

(2) Development Assistance. The complexity, paperwork, and delay in delivering development grants, loans, and services has long been a complaint of mayors, governors, and businessmen. Federal investment in

* Preparations are underway for education reorganization, which you have already approved.
development programs cannot be focused for optimal payoff. Private sector partners often cannot afford to wait months for Federal action. By reorganizing and consolidating programs in this area, we can begin to address these concerns as well as save administrative costs for Federal, State and local governments.

(3) Food and Agriculture. Nutrition policy is of increasing importance to the quality of the American diet and to agricultural commodity and trade policy. No agency now has lead responsibility for developing and coordinating policy in this area. We believe that the Department of Agriculture should be designated the lead agency for nutrition policy and that we work with Secretary Bergland on internal changes to strengthen USDA's role.

Trade and Commerce. We are not yet prepared to make a recommendation regarding the mission of the Commerce Department. However, our analysis has indicated important deficiencies in the Federal Government's capacities to formulate and implement trade policy and to conduct economic analysis. A major cause of these deficiencies is program fragmentation. We will be able to present carefully analyzed and politically tested Commerce Department options shortly.

In short, these options are designed to modernize the structure of government by focusing resources on today's problems, streamlining government processes, and saving money for the public and private sector. Implementing them will require a combination of reorganization plan and legislation.

The remainder of this memorandum discusses each set of options in detail. Parts I - IV offer options in specific subject areas.

I. Natural Resources

A. The Problem

Managing the Nation's natural resources -- land, air, water, oceans, wildlife -- is a substantial Federal responsibility. But organizational fragmentation and overlap make it difficult to do a good job. Exhibits I and II summarize natural resources programs and the current jurisdictional fragmentation of resource programs. This program dispersion creates real problems.
<table>
<thead>
<tr>
<th>Department of Forestry</th>
<th>Bureau of Land Management</th>
<th>Clients</th>
<th>Budget (K)</th>
<th>Personnel</th>
<th>Mission</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Hunters, miners, citizens, reclamation, timber industry</td>
<td>644.0</td>
<td>6,782</td>
<td>Manage 400,000 acres of publicly-owned lands including forests, manage oil and gas leasing on the state forested lands. Conduct research on timber and water management technology. Complete annual reclamation benchmarks and assessments.</td>
</tr>
<tr>
<td></td>
<td>Bureau of Mines</td>
<td>Mines, mineral industry, government agencies</td>
<td>406.4</td>
<td>2,148</td>
<td>Research on mining and water resources, conduct surveys and studies related to mining and water needs.</td>
</tr>
<tr>
<td></td>
<td>Bureau of Reclamation</td>
<td>Farmers, ranchers, municipalities, industrial water users</td>
<td>806</td>
<td>2,461</td>
<td>Focus on water resource management and development projects in 17 Western States, primarily for irrigation and hydropower.</td>
</tr>
<tr>
<td></td>
<td>Fish &amp; Wildlife Service</td>
<td>Public-at-large, hunters, fishermen, conservationists</td>
<td>685.3</td>
<td>9,115</td>
<td>Manage 200,000 acres of wildlife refuges. Conducts research on fish and wildlife. Protects endangered species. Operates fish hatcheries.</td>
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<td></td>
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<tr>
<td></td>
<td>Geological Survey</td>
<td>Government agencies, State geologists, surveyors, planners</td>
<td>688.1</td>
<td>2,623</td>
<td>Perform surveys and research on mineral and water resources, topography, geology. Prepare maps and charts. Manage databases and GIS systems.</td>
</tr>
<tr>
<td></td>
<td>Heritage Conservation &amp; Restoration Service</td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>Office of Minerals Policy &amp; Research Analysis</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Office of Surface Mining</td>
<td>Mining industry, farmers, landowners</td>
<td>155.6</td>
<td>652</td>
<td>Perform surface and mining and reclamation of abandoned mine lands.</td>
</tr>
<tr>
<td></td>
<td>Office of Geologic Research &amp; Technology</td>
<td>Government agencies, museums, state, water resource planning</td>
<td>25.6</td>
<td>78</td>
<td>Administrative staff and contractors. Provide grants to universities for research.</td>
</tr>
<tr>
<td></td>
<td>Office of Territorial Affairs</td>
<td>Government agencies, State</td>
<td>150.7</td>
<td>163</td>
<td>Responsible for Guam, American Samoa, the Virgin Islands and the Trust Territories of the Pacific.</td>
</tr>
<tr>
<td></td>
<td>Bureau of Indian Affairs</td>
<td>Citizens of territories, Indian, tribal industry</td>
<td>1,000</td>
<td>12,777</td>
<td>Manage 10,000 acres of BIA forest lands. Provides assistance to State and private forestry programs. Conducts forest and range research.</td>
</tr>
<tr>
<td></td>
<td>Agriculture Foods Service</td>
<td>Farmers, timber industry, conservation</td>
<td>1,624</td>
<td>31,335</td>
<td>Manage 10,000 acres of BIA forest lands. Provides assistance to State and private forestry programs. Conducts forest and range research.</td>
</tr>
<tr>
<td></td>
<td>Soil Conservation Service</td>
<td>Farmers, ranchers, landowners, planners</td>
<td>200.3</td>
<td>6,449</td>
<td>Provide assistance to landowners for conservation efforts.</td>
</tr>
<tr>
<td></td>
<td>Service (partial)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Army Corps of Engineers (US)</td>
<td>State and local govt., farmers, ranchers, hunters, island shipping interests</td>
<td>4,453</td>
<td>20,600</td>
<td>Perform, construct, and operate water development projects, primarily for irrigation, flood control, hydropower, and recreation. Provide emergency responses to natural disasters and coastal emergencies. Perform research to design, dredge, and construct water resources projects in the U.S.</td>
</tr>
<tr>
<td></td>
<td>Civil Service</td>
<td>State governments, citizens, and mining industry, public-at-large</td>
<td>777</td>
<td>11,826</td>
<td>Manage ocean fishing resources; administers state coastal zone management planning program; protects marine mammals and endangered species; conducts research and assessments of the marine environment; monitors and predicts weather and climate, conducts research on oceanography and climate; and prepares marine charts and ocean maps.</td>
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<tr>
<td></td>
<td>Natural Resources Planning</td>
<td>Government agencies, State &amp; local planners</td>
<td>8</td>
<td>105</td>
<td>Develops federal water policy; administers state &amp; river basin comprehensive water planning programs; establishes guidelines for water project planning; conducts independent review of project plans.</td>
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</table>
No one official, short of you, can take an overview of resource matters; set policies and priorities; or make decisions with a perspective balanced between conservation and development.

No one addresses natural resources comprehensively, even though extensive interactions in the physical world exist. Even when policy is developed, often no one has clear authority to carry it out. For example, the Secretary of Interior has been assigned to implement water policy reforms, but he has no authority for Corps project planning. Relating natural resource programs to other areas, such as international relations, energy, and environmental protection, is difficult.

Numerous confusing field systems make it difficult to coordinate policy decisions with State and local governments, respond to regional differences, and provide efficient service delivery.

Responsibilities for each resource area (land, oceans and water) are badly fragmented. For example, water resources policy planning and construction responsibilities are assigned to three operating agencies and the Water Resources Council.

Today's problems will intensify in the future with increasing population, economic growth, and increasing demand for outdoor recreation.

Unclear assignment of responsibilities leads to interagency competition, duplication of skills, and failure to take advantage of economies of scale.

Interior and NOAA have several areas of contested jurisdiction and overlap, including hydrology, marine biology, mapping and charting, and deep sea mining. Despite numerous coordinating committees, the problems remain.

Interior and the Forest Service manage public land for the same multiple purposes. Yet each has its own experts, investment levels, field structure, and systems for dealing with the public, including timber, cattle and recreation industries.

The three water development agencies independently pursue their own project planning studies to support
their own construction program levels. This causes unnecessary expense, poorly conceived projects, and extra pressure from hopeful beneficiaries.

All the natural resource agencies have research and data programs but there is no central clearinghouse, making it difficult for agencies and the public to take advantage of each other's knowledge.

Inconsistent regulations and procedures make it difficult, time-consuming, costly, and confusing for natural resources users.

Recreation services are provided by several agencies. Different priorities in funding levels result in some overdesigned and overstaffed facilities while others are neglected.

Interior and the Forest Service, both managing similar public lands, have different regulations for permits, fees, accounting methods, recreational usage and environmental regulation. This situation is particularly troublesome when the two agencies have adjacent or intermingled land, and users seek permits for grazing, access roads or other uses that cross jurisdictions.

Responsibility for management of the Outer Continental Shelf is vested in Interior. NOAA has most other ocean-related responsibilities and expertise, such as oceanography, fishery regulation and coastal zone planning. This division of closely related programs causes duplication, confusion for developers and environmental groups, and fails to take full advantage of complementary skills.

B. Principal Alternative: Department of Natural Resources (DNR)

Built on a reorganized Interior, a DNR would incorporate the Forest Service, NOAA, the Soil and Snow Surveys of the Soil Conservation Service, the Water Resources Council, and the Water planning functions of the Soil Conservation Service and the Corps of Engineers. If the Forest Service is not included in the package, our principal Congressional supporters would withdraw their active support. DNR would be responsible for managing the Nation's natural resources and ensuring their protection and wise use. Once consolidated in a single department, these programs would be realigned into major program components as follows:

NOAA (Commerce) and Outer Continental Shelf (Interior):

In the new Department, a major component including NOAA and the oceanic programs of Interior would be created, giving these functions higher priority and eliminating duplication.
Public Lands:

Forest Service (Agriculture) and Bureau of Land Management (Interior): The experience and professional staff of the Forest Service make it the premier multiple use land management agency in the Federal Government. Within the new Department, the Forest Service would provide the base for this component and, over time, would absorb the Bureau of Land Management.

Geological Survey (Interior) and Soil and Snow Surveys (Agriculture): Most of the resource agencies gather information and do research. Their data and research findings are often in different formats and difficult for States and other agencies to use. By locating these support programs in a science and minerals component of DNR, they can be made more useful.

Outdoor Recreation:


Science and Minerals:

Water Resources Council, parts of the Corps of Engineers (Defense), parts of the Soil Conservation Service (Agriculture) and Bureau of Reclamation (Interior): Water resources problems are being addressed by the water policy reforms. However, these policy directives can be more effectively and permanently implemented with accompanying organization improvements.

To accomplish this, Option 1 would transfer to and consolidate in DNR the Water Resources Council and the policy, planning and budgeting functions of the three water development agencies. Detailed project design and construction functions of the Bureau of Reclamation and Soil Conservation Service would be transferred to and consolidated in the Corps, which would become the government's water project construction arm.

This step would redefine the mission of the Corps, making it essentially a construction agency capable of performing work for DNR and other Federal agencies. The DNR would plan and budget for all water development activities, and the Corps would act as construction agent under strong policy and review controls. The Corps would have an increased design and construction capability to undertake assignments for other agencies. Separating
project planning from construction would greatly reduce the incentive to generate plans to support a construction program. Although some inefficiencies may result from separating planning and construction functions, there would be net personnel cost savings of $38 million annually. About 3,000 planners would transfer from the Corps to DNR and about 6,000 Reclamation and Soil Conservation construction personnel would transfer to the Corps.

The DNR would exercise budget, planning and policy oversight of the operations and maintenance activities for water projects. To this end, the Corps would continue the day-to-day maintenance and operation of its projects (under DNR guidance), while the DNR would operate and maintain current Interior projects. This arrangement would be subject to future adjustment as DNR develops experience in this area.

We evaluated other options for handling water resources. For example, Option 2 would consolidate in DNR all the functions of the Corps’ civil works, Bureau of Reclamation, Soil Conservation Small Watersheds, and Water Resources Council, thereby providing stronger executive direction and greater savings. However, this option would impair the Corps’ military construction and mobilization capacity and its ability to take on alternate missions.

A sub-option that could be instituted with either Option 1 or Option 2 would be to transfer the Corps of Engineers’ navigation and transportation policy functions to the Department of Transportation. Thus, DOT would have comprehensive transportation planning. This sub-option, however, could further fragment water policy and requires further analysis as to how DOT interests can best be met.

A third option is to strengthen the Water Resources Council by providing an independent and full-time chairman and making it the lead agency for water policy. The strengthened Water Resources Council would provide policy leadership, independent review of projects, coordination with States, and advice to OMB on budget proposals. This option creates a minimal organizational change and offers some improved management of water resources programs. In the past, however, interagency coordinating groups have not been effective.

Once the new Department is created, a comprehensive organic act would help to complete the reorganization and define the mission of the new Department. Exhibit III graphically depicts the resource and manpower transfers for a Department of Natural Resou...
DEPARTMENT OF NATURAL RESOURCES
BUDGET AUTHORITY BY SOURCE
(MILLIONS)

DEPARTMENT OF AGRICULTURE
$20,000

USFS 9% $1,824
SCS 1% $298

DEPARTMENT OF INTERIOR
$4,565

DEPARTMENT OF COMMERCE
$2,524

31% $778 NDAA

100%

WATER RESOURCES COUNCIL
$60

CORPS OF ENGINEERS (civ) $2,623

31% $778

WATER RESOURCES COUNCIL

SAVINGS $151

DEPARTMENT OF INTERIOR
$54,850

USFS 26% 21,325
SCS 3% 2,097
CORPS OF ENGINEERS 29,000 (civ)

10% 3,000

DEPARTMENT OF COMMERCE
29,600

100%

DEPARTMENT OF COMMERCE
90,142

NDAA 42% 12,540

WATER RESOURCES COUNCIL 105

SAVINGS 3,700

FY 1979 ESTIMATES
Advantages of DNR

The functions can be performed at the same levels with an estimated savings of $151 million and 3,700 positions (obtained over several years). These savings result from merging similar functions, streamlining internal organization, unifying field systems, and improving service delivery, and abolishing or curtailing unnecessary programs.

- Services will be delivered faster and better. Commercial firms interested in oil and gas leasing on the Outer Continental Shelf or public lands will benefit from a unified regulatory structure and faster decisionmaking process. Recreation users will have easier access to information and special interpretive services. Grazing, timbering, tourism, and fishery interests, permit seekers, and State and local governments will have a simpler relationship with the Federal Government, dealing with only one agency, rather than two or more. Environmentalists and conservationists will have easier access to Federal policymaking as well. Faster rulemaking and consistent regulations for endangered species will benefit both conservation and commercial interests. Better coordinated data collection and consolidated mapping and charting services will make better data available to public and commercial users at lower cost.

- A uniform data collection system and exchange of research results will provide a better basis for informed decisionmaking.

- Policy and case decisions will be balanced better in an institution having an overview of all resource areas and a broad constituency spanning both development and preservation perspectives.

The disadvantages of DNR are covered in the relevant Cabinet comments. Main disadvantages should be presented here — agency comments can be read as partial or special interest objections stated from representing objective management/organization type disadvantages. Then note that other objectives and disadvantages do not fit in the Cabinet comments summary, which are provided at —
Other Alternatives Considered

We considered four other alternatives and consulted widely on them.

(a) Department of Agriculture and Renewable Resources --

This option would consolidate USDA's land and water functions, primarily the Forest Service and Soil Conservation Service, with public land management, water resources, and ocean fisheries from other departments. Consolidating in Agriculture would appear to give a greater production emphasis to resource management. For example, development, marketing and use of fish as a food source would become a primary focus of the ocean fisheries program. Merging the Bureau of Land Management and the Forest Service would solve the problems associated with having two separate land management agencies and build on the Forest Service, the stronger of the two units. Agriculture has experience both in managing public lands and assisting private owners with private land management. Interior has experience with public land only. On the other hand, public lands are managed for many uses other than the production of food and fiber emphasized by Agriculture. Federal responsibility for those other uses, such as recreation, mineral development and management of fish and wildlife, would remain in Interior and continue the fragmentation in these areas.

(b) Improved Coordination Without Major Realignment --

This option would retain the existing structure and establish a Natural Resources Council, or individual councils for land, water, and oceans to develop policy and coordinate actions. This option would avoid disruption but would create additional layers of government, especially in the Executive Office. Accountability would be confused, and previous results with this type of approach have been poor.

(c) Department of Natural Resources and Environment --

This option would join most natural resource management programs, plus environmental regulatory programs of the Environmental Protection Agency (EPA). It is not feasible because EPA's jurisdiction goes well beyond resource management to include regulation of many other areas, such as urban and industrial waste. EPA is increasingly oriented toward public health.
(d) Department of Oceans and Atmosphere —

A Department of Oceans and Atmosphere would be responsible for oceans, and coastal and atmospheric affairs and would consolidate the bulk of the programs associated with those activities (except for military programs). The Department would include the National Oceanic and Atmospheric Administration (NOAA) and the Maritime Administration from Commerce and the U.S. Coast Guard from Transportation. The option would recognize the growing importance of the oceans and ocean resources to the Nation. It would also improve coordination among Federal activities relating to the oceans. However, the Department addresses only a part of the total natural resource issue and would leave other fragmented resource areas unaddressed.

Agency Comments

Commerce believes DNR should not be created unless it has a clearer policy focus. It states that the concept fails to view the affected programs as economic and social issues as well as natural resource issues, particularly NOAA’s fisheries programs. Commerce further believes that NOAA is working well at Commerce and that DNR will be primarily a land and water use agency and, therefore, not a good home for NOAA.

Finally, Commerce believes that the benefits — which in its view cannot be obtained without consolidating policy authorities (including regulatory programs) — will be outweighed by the costs in program disruption and controversy.

Army addresses only the water development options and favors Option 3, a strengthened Water Resources Council. It believes that with strong leadership, coordination could work and that it would be a less costly alternative. Army believes that the recommended option would jeopardize politically the implementation of other water policy reforms; that the loss of planning and policy functions would cripple the Corps, particularly in giving military support during times of emergency, and in recruiting; and that the change would result in delays and increased project costs. Some argue that separating water resource planning from construction functions means that the planners may be out of touch with the construction personnel. The Corps may have to redevelop a planning capacity to link planning and construction and maintain the skill to discharge regulatory responsibilities.
CEQ supports the DNR and believes the water resources recommendation is particularly important both in solving current problems and in providing the Corps a new mission. CEQ believes:

(i) that the DNR should have clear authority to deal with private land use, protection and conservation issues; that a "Life Sciences Center" should be formed to provide scientific opinion on ecological issues; that the Corps navigational transportation functions should be transferred to DOT; and that Energy Department responsibilities for regulating energy minerals leasing activities should be a part of DNR. CEQ also suggests that two disadvantages of DNR be raised: (1) having two or more agencies doing the same thing encourages creative competition and leads to better public information, and (2) one agency may not be able to balance policies and resolve conflicts regarding use of natural resources; negotiation among Cabinet level officials may produce a better result.

Justice supports DNR, but believes that the water resources option will not give DNR sufficient control over the Corps, in view of its close relations with the Public Works Committees. It also warns that BLM should not be allowed to down-grade the Forest Service professionalism.

Transportation favors the transfer of the Corps' navigation and transportation policy functions to DOT.

Agriculture believes that the Forest Service and BLM should be combined and that a new agency should be built around the Forest Service. Some argue that separating the Forest Service from Agriculture would break links between the agencies and force some farmers to deal with an extra department. Agriculture supports the portion of the recommended water resources option that would merge water policy and planning functions, but opposes the portion that would merge construction functions in the Corps.

Energy supports natural resources consolidation, but believes that management of non-renewable resources on public lands should be given more attention, that Outer Continental Shelf leasing and regulatory functions should be streamlined, and that Energy and other agencies should continue to be involved in water resource decisions.
Interior strongly supports the DNR concept and most of the recommendations. However, Interior believes that water resources Option 2 — moving to DNR all planning, budgeting, construction, operation and maintenance functions of the Corps and Soil Conservation Service — should be recommended. Interior believes this option would be most efficient and would not affect adversely the Corps' military functions like CEO. Interior believes that the Energy mineral leasing regulatory functions should become a part of DNR.

Decisions

(1) Should a Department of Natural Resources be created including all of Interior, the Forest Service, NOAA, and the Soil and Snow Surveys of the Soil Conservation Service?

________ yes, include all recommended programs
________ yes, but do not include Forest Service
________ yes, but do not include NOAA
________ no

(2) If you have chosen to create DNR, how should water resources be handled?

Option 1: Have DNR plan, budget, and develop policy for water development including the water resources council functions; Make the Corps the construction agent, including relevant portions of the Soil Conservation Service and Bureau of Reclamation.

OR

Option 2: Consolidate in DNR all Corps civil works programs; Soil Conservation Service, small watershed, and the Water Resources Council.

OR

Option 3: Strengthen the Water Resources Council and make no program transfers. Make no program transfers.
II. Development Assistance

A. The Problem

This country will continue to experience subnational development problems and needs that jeopardize the fulfillment of national social and economic goals. These problems take the form of (1) large pockets of chronically unemployed people left behind by changing economic circumstances in urban and rural areas; (2) inadequate public and private facilities in rural areas and small towns, and deteriorating infrastructure in cities; (3) problems caused by base closings, regulatory actions, rapid growth, the decline of particular economic sectors, changes in transportation or production technology, trade problems, and the like.

General economic policies are too broad to address subnational problems without causing difficulties. Nor do outright cash transfers provide a long-term solution, since they generally fail to affect the underlying causes of distress and thus increase local dependence on the Federal Government.

What is needed instead, as reflected in your urban message and elsewhere, is an integrated development approach aimed at strengthening the long-term social and economic base and encouraging private job creation in local areas.

To be effective, such an approach requires:

- The harnessing of a critical mass of the limited resources available;
- The integrated use of a variety of development tools, especially business assistance, public facilities, planning, and housing;
- Streamlined program delivery and the capacity for timely decisions;
- The effective involvement of different levels of government and the private sector;
- A policy and program mechanism broad enough to take account of the increasing interdependence of urban and rural areas; and
- A solid analytical capacity to identify problems and formulate adequate responses.
Unfortunately, however, the organization of Federal development assistance programs diverges from what is needed in almost every respect:

**Programs and resources are severely fragmented.**

Economic development assistance is splintered among ten programs in five different agencies (Economic Development Administration (EDA); Department of Housing and Urban Development (HUD); Farmers Home Administration (FmHA); Small Business Administration (SBA); and Community Services Administration (CSA)). The proposed National Development Bank would create a sixth.

General community facilities assistance is scattered among four agencies (HUD, FmHA, EDA and EPA) and the Title V Regional Commissions.

Nine programs in three agencies (HUD, EDA and FmHA) and the Title V Regional Commissions provide funds for development planning.

The long-term economic development programs have no effective links with employment and training programs that are preparing people for jobs.

**Program procedures conflict.**

Each of these many programs has its own funding cycle, its own planning requirements, its own eligibility standards, and its own application process, making coordinated use of Federal tools difficult.

**Delivery systems diverge widely.**

For example, EDA relies on six regional offices and a network of "development districts."

HUD has 10 regional offices, 40 area offices, 37 insuring offices and eight valuation stations.

The Title V Regional Commissions rely on the States for development planning and programming, while HUD and EDA largely bypass the States.

The FmHA has 42 State offices and 2,445 county offices.
Authority does not match responsibility.

The current structure has no consistent organizing principle. Agency responsibilities are split along both geographical and functional lines so that Cabinet secretaries frequently lack program authority to carry out their responsibilities, and no Cabinet official has the authority or responsibility to devise and carry out overall subnational development policies.

For example, although USDA has the rural development lead, 75 percent of rural development grant funds are in HUD and Commerce. Commerce, which has major economic development responsibilities, spends most of its EDA funds on public facilities, while HUD, which has major community facilities responsibilities, spends more on economic development projects through its UDAG and CDBG programs (10 percent of which goes for economic development) than all of EDA.

This fragmentation causes major administrative and programmatic problems, including:

- Confusion and excessive administrative burden and cost at the State and local level. Each program has its own separate regulations, requirements, and management procedures. This causes tremendous confusion at the local level. Small cities and rural areas, in particular, complain that only cities with extensive grantsmanship operations can sort out the maze and get adequate development funding.

- Limited ability to involve the private sector. The number of agencies and procedures to be followed for packaging complex projects results in long lead times before projects can get underway. Private investors often cannot afford to wait. One agency's refusal can jeopardize the project, making businesses reluctant to get "tied up" in government red tape.

- Inefficient use of Federal personnel and resources. Opportunities to save administrative costs and use more effectively scarce technical talents now spread among the agencies are being lost. In fact, there is a trend toward further entrenchment of the waste and overlap. Three agencies are expanding staffs to conduct similar economic development functions (FmHA, HUD, and EDA), and a fourth is about to be created (The National Development Bank). EDA is hiring urban specialists from HUD. Meanwhile, HUD EDA, and FmHA are reviewing plans and applications from the same communities, often for the same project and while coordination to minimize this overlap is being undertaken, it is very costly and wasteful.
Unnecessary rigidity in the system; lack of flexibility to respond to local needs and opportunities; inability to pool and focus limited funds effectively to implement national policy. Each categorical program has a slightly different viewpoint and set of requirements that must be met. Each community must attempt to tailor its strategy to react to the changing mix of often narrow and not always consistent agency viewpoints and corresponding funding levels. Each program has slightly different targeting criteria determining which communities or parts of communities can receive funds.

Lack of policy focus and direction. Fragmented programs and agency responsibilities make it difficult to devise and implement coherent national policies. No one agency can formulate development strategies that balance the needs of communities of different sizes or set priorities among different types of tools.

Difficulties in comparing and evaluating the effectiveness of different approaches because of wide variations in data collection and interpretation among programs and agencies. No agency can evaluate the total impact of development assistance programs.

Gaps and overlaps in geographic coverage resulting from the widely different definitions of urban and rural used in different programs and the presence of three different agencies (HUD, EDA and FMHA) providing virtually identical kinds of assistance to smaller communities. With lines of demarcation so blurred (because of the haziness of the underlying demographic distinctions) and the responsibilities so confused, some types of communities find themselves sent from agency to agency to get the aid they need.

Exhibits IV, V, and VI describe the programs and depict the organizational fragmentation.

B. Principal Alternatives:

Option 1. A Department of Development Assistance (DDA) and program consolidations that would streamline Federal development assistance. The organizational and programmatic changes are highly interrelated since the major program reforms are not possible without program transfers.
<table>
<thead>
<tr>
<th>Program Name</th>
<th>Appropriation</th>
<th>Total Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development</td>
<td>$6,500,000</td>
<td>$7,000,000</td>
</tr>
<tr>
<td>Community Development</td>
<td>$5,000,000</td>
<td>$5,500,000</td>
</tr>
<tr>
<td>Social Services</td>
<td>$4,000,000</td>
<td>$4,500,000</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>$3,000,000</td>
<td>$3,500,000</td>
</tr>
<tr>
<td>Transportation</td>
<td>$2,000,000</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Education</td>
<td>$1,000,000</td>
<td>$1,500,000</td>
</tr>
</tbody>
</table>

**Note:** The above information is for illustrative purposes only and may not reflect actual data.
Organizational changes: The central concept underlying DDA is the need to bring into a single organization a core of development tools aimed at improving the long-term economic health and vitality of local areas. The concept builds on two premises: first, that an effective development approach requires the coordinated use of a variety of tools since business location decisions are affected by far more than the availability of only business assistance; and second, that the interdependence among urban and rural areas requires an organization that addresses the needs of all types and sizes of places within a unified framework while still allowing for program variations geared to local needs and capabilities.

To achieve this, the DDA would absorb the following Federal program responsibilities:

<table>
<thead>
<tr>
<th>Current Agency</th>
<th>Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Community and economic development programs (non-farm and non-housing) of the Farmers Home Administration</td>
</tr>
<tr>
<td>Commerce</td>
<td>Economic Development Administration, Title V Regional Commissions</td>
</tr>
<tr>
<td>CSA</td>
<td>Community Economic Development Program</td>
</tr>
<tr>
<td>HUD</td>
<td>All programs</td>
</tr>
<tr>
<td>SBA</td>
<td>501 and 502 programs (loans to State and local development companies)</td>
</tr>
<tr>
<td>National Development Bank (proposed)</td>
<td>All</td>
</tr>
</tbody>
</table>
These changes would group the major Federal economic development, community development and development planning programs, as well as many of the housing programs, in one place.

So constituted, the DDA would become the central focus of Federal efforts to encourage the long term viability of States, regions, and local areas of all sizes. It would become the principal Cabinet advocate of balanced subnational development.

Within the Department, economic development would be organizationally distinct from housing and community development, thus preserving its emphasis on job creation. The Department would establish organizational representation for urban and rural responsibilities and provide for the special delivery system needs of small towns and rural areas.

Exhibit VII depicts the transfer of resources and personnel in this option. Exhibit VIII depicts the simplified delivery of Federal development assistance under this option.

Programmatic Changes. The Department of Development Assistance would make possible program changes to help solve the problems caused by the current fragmentation. Many of these program changes would require separate legislation and could be pursued simultaneously with the creation of the DDA or be phased in over a period of time.

Consolidated Economic Development Assistance Program:

Combine 11 individual economic development grant and loan programs into:

(1) a consolidated economic development grant program (EDA Title I, IV, IX, Secs. 301 and 304; HUD UDAG; FmHA Industrial Development grants; National Development Bank grants);

(2) a consolidated economic development loan program building on the proposed National Development Bank. (National Development Bank credit programs; EDA Title II Business loans; FmHA Business and Industry loan guarantee program; SBA 501 and 502 loans to State and local development corporations).

Both of these would be discretionary programs and would be administered by an expanded Economic Development Administration within the Department of Development.
Assistance. Separate urban and rural pots would be provided. The consolidated program could be introduced as the Administration's EDA reauthorization bill, which comes up this year.

Planning Assistance and Planning Requirements

Replace the seven existing development planning assistance programs with a single program that would fund an integrated development priority-setting process. Existing planning requirements of the programs within the DDA, as well as some programs left outside it (e.g., transportation, EPA water and sewer, and employment and training) would then be changed to respond to these priorities and to reduce overlapping planning requirements.

Rural Development

Create a unified, flexible and more efficient rural community facilities program by merging four existing programs into two:

- One for rural community development loans (FmHA water and waste disposal and community facilities loans); and
- one for rural community development grants (FmHA water and waste disposal grants, and Community Development Small Cities Grants).

The two programs would be administered by a rural community development unit that would form part of the core of the DDA.

Housing Simplification:

Work with HUD, the Veterans Administration, and FmHA to streamline application forms, appraisal procedures, and related requirements in the housing programs administered by these three agencies.

Labor/Economic Development Links:

Create a system of links between the Federal employment and training programs and Federal development assistance programs.
Advantages and Disadvantages

- Equipping a single Cabinet Department with a critical core of development tools and programs will help upgrade economic development as a focus of Federal policy and improve development partnerships with State and local governments.

- Locating urban and rural development programs in a single department will reduce gaps and inequities and permit the establishment of coherent and balanced Federal development policy while preserving the possibility of variations in urban and rural development programming.

- By providing "one-stop shopping" for a basic core of Federal development assistance, this option will improve program coordination and permit significant program consolidation. It will also improve Federal responsiveness to local strategies.

- This alternative would simplify the Federal planning assistance programs and more closely tie them to development funding decisions.

- By clarifying authorities and responsibilities for Federal development assistance, this option would make Federal development efforts more understandable and accountable.

- Federal-level consolidation will help reduce fragmentation at State and local levels.

- The structural change will permit program reforms to create consolidated development loan and grant programs, simplified planning programs and a streamlined ... rural community facilities program comparable to the existing urban program.

- While permitting better use of program monies, this proposal will reduce administrative costs at Federal, State and local levels and make better use of scarce Federal and local technical staffs. Federal savings annually will be approximately $43 million, State and local savings can total approximately 30 percent of the current administrative costs of these programs.
This option will strengthen the analytical foundation for subnational development decisions and create the capacity to anticipate development problems and opportunities in advance.

For the first time an integrated approach will be possible by the Federal Government for "adjustment problems" ranging from base closings to trade adjustment to disaster recovery.

This option will facilitate the use of housing programs as an integral part of development programs.

Disadvantages of the proposal are included in the agency comments.

Option 2: Consolidate Economic Development Programs in Commerce Leaving Community Development in HUD and USDA.

This alternative would make a sharp division between economic development programs and community development and housing programs. It is based on the presumption that economic development and community development are really different and that economic development must be closely associated with the trade, information, and sectoral analysis functions in the Commerce Department. It would group the major economic development programs together in EDA in Commerce, and leave the community development and housing programs in HUD and FmHA.

Organizational Changes

The expanded Department of Commerce and Economic Development would absorb the following Federal program responsibilities:

<table>
<thead>
<tr>
<th>Current Agency</th>
<th>Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce</td>
<td>All programs</td>
</tr>
<tr>
<td>HUD</td>
<td>UDAG</td>
</tr>
<tr>
<td>Agriculture</td>
<td>FmHA Business and Industry Loan; FmHA Industrial Development gr</td>
</tr>
<tr>
<td>SBA</td>
<td>501 and 502 programs (loans to State and local development companies)</td>
</tr>
</tbody>
</table>
Within the Department, economic development would remain organizationally separated from the other business assistance, trade, and information functions to preserve its emphasis on job creation in distressed areas. Within the Economic Development Administration there would be an enlarged Development Bank to provide credit assistance to businesses, and a division to provide economic development and public facilities grants to States, communities and other current recipients.

Exhibit IX depicts the transfer of resources and personnel in this option.

Programmatic Changes

Like Option 1, this option would make possible the consolidation of Federal economic development programs, housing simplification and labor/economic development links, but not rural community facilities consolidation or planning assistance consolidation.

A limited form of this option would consolidate all these programs except UDAG in Commerce. UDAG will be due for reauthorization in 1980 and a decision on its ultimate placement would be deferred until then. This sub-option would not allow full consolidation of economic development grant programs and would not achieve the benefits of full consolidation of economic development programs. However, it would avoid some of the disruption and cost associated with attempting to move UDAG.

Advantages

- This option would concentrate economic development program resources at the Federal level, much as Option 1 would. Option 1 would thus permit better evaluation of Federal economic development programs, streamline economic development assistance, and provide a home for the National Development Bank. (It would not, however, include the substantial economic development funds spent under the HUD CDBG program.)

- The Federal Government could save $7 million by consolidating scarce technical expertise, and standardizing and simplifying economic development program requirements (versus $4.3 million in Option 1).
This option would allow the Administration to build on the pending EDA reauthorization and use it as a vehicle for consolidating economic development programs, as does Option 1.

Some contend that by separating economic from community development, this option may help to ensure the business focus of economic development programs, although most of EDA's funds now go for community facilities.

This option also builds on EDA's reputation for responsiveness to Congress.

Expanding economic development functions in Commerce increases their potential for targeting economic development funds to trade and productivity problems.

Other Alternatives Considered

(a) Seek procedural change only: Some of the problems with Federal development programs could be relieved through better coordination and detailed procedural changes. In fact, the Interagency Coordinating Council has already made a start in this direction. Even if the reforms proposed above were adopted, this mechanism would still be needed to coordinate the numerous agencies and programs untouched by reorganization.

To rely on procedural coordination alone, however, seems unpromising. A long history of previous efforts to relieve program and organizational fragmentation through procedural change and coordination demonstrates few lasting successes.

(b) Create separate Departments of Urban and Rural Development: This option would place all community and economic development programs for rural areas in Agriculture and all community and economic development programs for urban areas in HUD. It would appeal to rural groups and achieve some simplification. However, this option would be the most disruptive because it would require that EDA and CDBG each be split in two. It would raise programmatic problems because urban and rural areas are interdependent and because many communities, as their demographics change, would have to shift from one agency to another for funding.
(c) Create a broader Department of Development Assistance: A number of other programs would fit well within the DDA concept and may be candidates for eventual inclusion. Because they are politically unfeasible or because their links to the agencies in which they now reside are too substantial to disturb, we have not included them in Option 1.

- Employment and Training Administration (Labor)
- Highway and Transit Programs (Transportation)
- Wastewater Treatment Construction Grant Program (Housing)
- Veterans Administration Housing Programs

Agency Comments

Commerce opposes DDA and recommends that economic development functions be consolidated in Commerce and that trade functions in Commerce be strengthened. Commerce believes that economic and community development are fundamentally different—that economic development is aimed at stimulating private investment, and community development is aimed at promoting the social welfare of communities and their residents. Commerce strongly feels that the inclusion of the economic development function with housing and community development would make the economic development function impotent—that these funds would quickly be contaminated by community development activities. This is based on the expressed fear that HUD's constituents and "social welfare ethos" would predominate. Commerce also feels that reorganization alone will not achieve administrative and program efficiencies in a new Department and that a new Department would be an awkward amalgam of activities. Commerce feels that sectoral problems are increasingly important and that sectoral analysis, trade, and economic development must be linked organizationally. Commerce argues that EDA is working well at Commerce. They believe that economic development should remain at Commerce and be strengthened by adding the National Development Bank program. They further believe that the EDA reauthorization is a good vehicle to accomplish this end.

Others argue that community and economic development will not necessarily be better integrated because urban community development will still be dispersed by formula while economic development funds are discretionary.
HUD supports the creation of DDA but reserves judgment on the program consolidation recommendations until further information is available. They argue that community development, economic development, and housing must be administered in the same department to make development assistance work and therefore oppose the Commerce-based option because it would split these functions. Recipients often use community and economic development funds for the same purposes and do not distinguish among them in practice. In fact, much economic development assistance goes for community facilities. HUD also opposes the Commerce-based option because it would make it more difficult to consolidate planning assistance for rural community facilities. They also believe that the DDA option will provide a necessary critical mass of resources and significantly streamline the process. They also state that HUD's purported shortcomings mentioned in the memorandum are exaggerated and out of date and that many criticisms of HUD are for actions that result from legislative rather than departmental restrictions. HUD argues that FmHA multi-family assistance programs should be included in DDA.

USDA believes that community development, economic development, and housing should be combined, and therefore opposes the Commerce-based option because it would split these functions. Agriculture is particularly concerned that rural assistance be delivered through multi-county district offices of the sort that FmHA is creating and therefore urges that any reorganization plan incorporate these offices.

SBA supports the DDA, seeing little difference between community and economic development. It endorses the proposed shift of its Section 501 and 502 programs. SBA opposes the Commerce-based option.

Treasury takes no position on structural change, except to suggest that the National Development Bank need not be separate if reorganization takes place.

CSA supports the DDA concept but believes that its programs should not be included.
Decisions

Do you wish to reorganize development assistance, including both structural and program reforms?

_____ yes, construct a Department of Development Assistance and pursue the associated program reforms.

_____ yes, construct a Department of Commerce and Economic Development and pursue the possible program reforms.

_____ yes, construct a Department of Commerce and Economic Development but do not include UDAG; pursue possible program reforms.

_____ no.

III. Food and Agriculture

Our food system is big, complex, and constantly changing. These changes reflect trends in consumer habits, advancing technology, growing knowledge of the relationships between diet and health, and changing world economic conditions. By historical standards, the food system has performed well. But new problems and new standards for evaluating the system are emerging. We now expect the food system to help meet national health goals, aid in world diplomacy, contribute to wise resource use, and help meet other domestic and international needs.

The conflicts in the food system are many: farm prices versus retail prices, processing costs versus food safety, product promotion versus nutrition information, and food aid and foreign trade versus domestic supplies and costs. Each of these conflicts must be dealt with in forging a food policy.

Nutrition research, education, and surveillance are scattered throughout USDA and HEW and other Federal organizations. There is currently no place within the Federal Government where these important nutrition activities are integrated to develop more consistent and effective Federal programs. As a result, we have a weak policy (some would say no policy at all) and even minor program controversies sometimes rise to the White House for resolution. The Federal nutrition effort has been criticized as follows:
It is unresponsive to consumer concerns and long-term public needs.

It has low status and visibility in the Federal Government.

It has limited accountability in terms of technical accuracy and measures of effectiveness.

There is poor coordination among organizations conducting nutrition-related activities.

Enhancing consumer and nutrition functions in a separate and clearly identifiable unit in a Department of Food and Agriculture has the following advantages:

- Permit conflicts between food and nutrition policy and commercial agriculture (over food safety, price, labelling, chemical additives, etc.) to be worked out within a department.

- Provide a close relationship between nutrition research and farm production decisions.

- Give the Secretary of USDA greater balance among his production and consumer constituency groups.

- Provide a strong Cabinet voice for a national food and nutrition policy.

We recommend the following organizational and process changes to improve the management and focus of domestic and international food and nutrition policy:

(1) Designate the Department of Agriculture as the lead agency responsible for developing a national food and nutrition policy.

(2) Direct the Secretary of Agriculture to work with OMB and DPS in developing administrative and legislative proposals to give greater emphasis to nutrition policy in USDA. Among the changes to be considered are:

- Change the name of USDA to the Department of Food and Agriculture to symbolize the Department's broader mission.

- Organize the Department internally as follows:

  - Create two Deputy Secretaries -- one representing agricultural, trade and marketing interests, one representing consumer and nutrition interests.
- Internally segregate consumer-oriented programs for traditional agricultural "promotion" programs.

- Consideration of proposals for consolidating authorities for promotion of agricultural trade with authorities for control and development of agricultural production.

We expect these activities, if approved, to produce administrative and possible legislative proposals for consideration later this year.

Agency Comments

Agriculture believes that these proposals need further development. They suggest more attention to consolidating authorities for promotion of trade in agricultural products and to improving delivery of nutrition assistance and agricultural development aid to other nations. Agriculture believes that more complete consolidation of food production and safety functions will be required in the long term but does not recommend consolidation of all food safety programs at this time.

Decisions

(1) Designate USDA as the lead agency for nutrition policy

Yes ________  No ________

(2) Direct the Secretary of Agriculture to work with OMB and DPS to develop proposals to enhance information policy in USDA.

Yes ________  No ________
V. Implementation and Next Steps

A. Using Reorganization Authority

As you know, reorganization authority cannot be used to abolish a Department or all its functions. It can, however, transfer parts of Departments and can be used to rename departments.

Because reorganization authority is a much quicker and easier way to accomplish our objectives, we want to do as much as possible by plan. Two plans should be enough to implement the structural changes in the natural resources and development assistance options. If you choose to implement the Development Assistance program reform, follow up legislation will be required.

B. Timing and Announcement

If you choose to attempt substantial reorganization, this project merits a State of the Union announcement for two reasons:

(1) It should have broad popular appeal and fit well with the economy/anti-inflation themes planned for your address.

(2) Including the proposal will signal that you regard it as a high priority that you and your White House staff will work to pass.

Decision

Work toward a State of the Union announcement.

[ ] Yes  [ ] No
January 3, 1979

MEMORANDUM FOR JAMES T. McINTYRE

FROM: Charles Warren

SUBJECT: Reorganization 1979

Our comments concern only the Department of Natural Resources (DNR) proposal.

Overall, the proposed DNR brings together the major natural resources functions performed by the federal government and, in our judgment, includes all agencies that should be included. Organizing the basic functions of the department into the five proposed divisions seems sound -- public lands; oceans; water resources; outdoor recreation; natural resources sciences.

We strongly support the preferred option for reorganizing the federal government's water resources responsibilities. We believe that achieving the water resources reorganization proposal is the highest priority issue in the natural resources area. Moreover, we believe that accomplishing only the water resources reorganization proposal would be worth the effort. This accomplishment, when coupled with the President's June 6, 1978 Water Resources Reform initiatives, would represent full achievement of the President's campaign commitments in this area and would result in significant reform that should have long-term beneficial effects in conserving water, saving money, protecting the environment, and constructing better projects. We believe that the memorandum should make clear that the new Corps of Engineers would be provided with a new mission -- because this was one of the President's specific campaign goals. The memorandum should state explicitly that the Corps will be an omnibus construction agency performing work on contract for DNR and other federal agencies and that the Corps will be involved in new projects only after they have been approved as new starts by the Congress (see pages 5-6 of the memorandum).

We believe that the Cabinet memorandum could be improved in a number of respects for the President. Our comments and recommendations follow.
A. The Basic DNR Concept

We believe that five basic DNR reorganization issues are not addressed adequately in the Cabinet memorandum:

- "Centers-of-Excellence" reorganization concept
- Corps of Engineers navigation functions
- Water resources projects operation and maintenance functions
- Economic regulatory functions
- Marine Mammal Commission

1. "Centers-of-Excellence"

One of the key organizing concepts proposed by the President's Reorganization Project (PRP) staff is to base each major functional unit of the DNR on an existing "center-of-excellence," for example, the Forest Service in the public lands area. Discussion of this approach is not included in the memorandum. It should be.

The approach is an important one. It underscores the merits of several aspects of the reorganization proposal by ensuring that well managed federal agencies can expect to be rewarded for their performance and that good performance is the central goal of the reorganization proposal. The approach also helps to provide support for the proposal from interests which fear that good agencies like the Forest Service, for example, might lose their status as a result of the reorganization.

2. Corps Navigation Functions

Under the proposal, the Corps of Engineers would retain its navigation/transportation responsibilities. We believe that these functions should be transferred to the Department of Transportation. This transfer would bring together in DOT all major transportation responsibilities and require all transportation modes (air, highway, water, rail, etc.) to compete directly with one another for federal aid and related benefits. Thus, transportation modes would be treated more equitably one with another, federal transportation subsidies could well be reduced, and fewer water resources projects that are designed to meet transportation purposes might be funded. Transferring water resources related transportation functions from the Corps to DOT would, along with the preferred water resources proposal, complete a comprehensive and effective water resources reform package, which is an important Presidential goal.
3. **O&M Functions**

No mention is made in the memorandum about how water resources projects operation and maintenance (O&M) functions will be performed. We believe that the O&M functions ought to be reorganized in accordance with the same principle that governs the basic water resources projects reorganization proposal. Thus, O&M policy making and planning functions should be DNR's responsibility (while O&M contract construction type work would be performed by the Corps. This allocation of responsibility would accomplish the same benefits as the water resources projects reorganization proposal.

4. **Economic Regulatory Functions**

When the Department of Energy was formed, responsibilities for developing so-called economic regulatory regulations for energy minerals leasing activities were transferred from the Department of the Interior to DOE. Careful analysis of these "economic regulatory functions" demonstrates that they are primarily land use functions which determine how land is developed, mined, reclaimed, etc. These land use planning decisions should be DNR's responsibility, not DOE's.

The DNR memorandum does not address this issue. It should and should propose the transfer of these functions from DOE back to Interior (DNR).

5. **Marine Mammal Commission**

Although not addressed in the Cabinet memorandum, the DNR proposal recommends abolition of the Marine Mammal Commission. The Commission is a small agency with very important wildlife protection responsibilities. Moreover, the Commission is one of the few federal agencies that has consistently produced excellent work, is highly respected for its professional expertise, and deals competently with very controversial issues. It has provided the Administration with essential services in helping draft the international treaty on Living Marine Resources of the Antarctic Convention. The Commission provides a real public service and its excellence should be recognized and protected. The Commission should not be abolished.

B. **DNR Land Use Responsibility**

The Cabinet memorandum does not discuss the concept that DNR will apparently not have any responsibilities for "privately held lands used for commercial farming and lands developed for residence, urban, and
industrial uses." (quoted from more detailed PRP Staff Analysis of the DNR). This land use issue is an extremely important issue which, if not resolved properly at the outset, could cause DNR to have serious problems in implementing its broad natural resources protection responsibilities. While this exclusion of land use responsibility is probably geared to allocating responsibilities to the Department of Agriculture and Housing and Urban Development, the proposed approach would tend to eliminate careful consideration of important environmental and related natural resource factors when federal actions are undertaken that affect or involve private lands. For example, land protection proposals such as those for the Santa Monica mountains in California and the Pine Barrens in New Jersey involve federal actions which should be DNR's responsibility. Britain and several states have used a variety of land protection techniques for unique "private" lands, such as the Adirondack Preserve in New York State. Responsibility for developing, experimenting with, and implementing these new types of land protection techniques that involve private lands should be DNR's responsibility. DNR's responsibility and authority to deal with private land use protection and conservation issues should be established in the Presidential decision memorandum.

C. Full Discussion of All Views

The discussion of the DNR in the Cabinet memorandum is essentially very upbeat, emphasizing the beneficial aspects of the proposal. Although the proposal is a good one, there are responsible and serious opposing points of view which should be discussed in the Presidential memorandum. For example, it is unlikely that the most important or serious or controversial reason for not transferring the Forest Service to DNR is that: "The Forest Service provides services to farmers who grow trees" (see page 7 of Cabinet memorandum).

The discussion of Cons should present the basic and best arguments and data that would support actions contrary to those proposed so that the President will have a thorough understanding of the decisions he is being asked to make. For example, the following three Cons ought to be included in the Presidential memorandum:

But: There are those who question whether it is possible or desirable for one agency, and one Secretary, to balance policies and resolve conflicts regarding the use of the nation's natural resources. Decisions on these matters should reflect negotiation between various Cabinet level officials that the creation of a single DNR would not permit.
But: There is value in having several similar agencies developing management approaches for natural resources protection purposes. For example, the land planning and environmental assessment processes developed by the Forest Service have contributed greatly to changes in BLM practices. This creative "competition" will be discouraged or eliminated by the DNR proposal.

But: Public information on federal decisions and participation in decisionmaking could be significantly reduced by the creation of a comprehensive natural resources department. In practical terms, public participation in environmental decisions is enhanced and encouraged by having several similar agencies involved in decisionmaking because, for example, one agency may be more interested in involving citizens in the effort. Creation of a comprehensive DNR could eliminate or reduce formal and informal opportunities for public involvement that now exist.

D. Discussion of Problems Addressed and Resolved

The Cabinet memorandum discusses problems addressed by the DNR proposal in only the most general and conceptual manner and speaks only of generic problems which are not unique to DNR. No doubt every functional area in which the federal government operates involves more than one federal official with relevant responsibilities and a lack of clarity about who is responsible for what decisions and inconsistent regulations and procedures (see pages 2-4 of Cabinet memorandum). The Presidential memorandum ought to discuss several specific, concrete problems which are addressed by the reorganization proposal and, in theory, resolved. The memorandum should also discuss how reorganization resolves these problems.

E. Discussion of Interest Group Positions, Politics, Etc.

The Cabinet memorandum does not discuss the very important information about which interest groups, including political groups and Members of Congress, support or oppose the proposal and why. An accurate and fairly detailed discussion of this information is essential for the Presidential decision memorandum. In a similar vein, there is no discussion about how and why Congress' organizational structure affects the proposed DNR, in particular whether Congress' own committee jurisdictions may enhance or limit the effectiveness of the DNR proposal.
F. Organic Acts/Legislative Proposals

The Cabinet memorandum does not discuss the organic acts or other legislative proposals which are proposed for development, such as a DNR and a NOAA (oceans) organic act. It is important that the memorandum list and discuss all legislative proposals that will be part of the overall DNR proposal, including their importance to achieving an effective DNR and their likelihood of success, so that an informed decision can be made between using a reorganization plan or a legislative proposal.

G. Center of Life Science and Technology Expertise

In the DNR proposal, ecological responsibilities are stated or implied with respect to each major functional division. However, no "Life Science Center of Excellence" is proposed. It is important that such a center be established within the DNR so that informed scientific opinion can be provided in these areas on a level similar to that which the DNR proposal already provides for the physical sciences. A bureau level group in the Natural Resources Science area is probably the best location.

H. Other Comments

1. It is quite unclear what is meant by the term "clients" in Exhibit I and whether the purpose of the reorganization is to serve those clients better. If that is the case, then there is apparently little interest in providing better organization for environmental and conservation minded citizens and groups. There is a need for clarification.

2. On page 3, the memorandum states: "two agencies spent over $1 million determining who has jurisdiction over the sea turtle, an amphibious endangered species." If this is the cost of studies, it is unlikely that the subject of the studies was agency jurisdiction. If this was the cost of the dispute, this should be made clear, including what kinds of costs are being counted.

3. On page 7, the memorandum states that "simplification and consolidation of fish and wildlife project review and dredging permit review will speed the regulatory process." It is unclear how reorganization can accomplish this and what the simplifications are. This process should be stated more explicitly since, at a minimum, it appears to involve changes in existing regulations. Moreover, no mention is made about whether this simplification can be accomplished without reorganization.
THE CABINET INFORMATION AND DRAFT DECISION MEMORANDA WERE NOT SENT TO THE OVERSEAS PRIVATE INVESTMENT CORPORATION. THEY WERE ONLY SENT THE ADDITIONAL REORGANIZATION OPTION.
MEMORANDUM

TO: Honorable James T. McIntyre
Director
Office of Management and Budget

SUBJECT: Department of Foreign Trade and Business Development -- Comments of the Overseas Private Investment Corporation (OPIC)

We have reviewed your memorandum concerning the proposed reorganization option to create a Department of Trade and Business Development (DTBD) that would include the Overseas Private Investment Corporation (OPIC). Because of time constraints these comments will be brief and will focus only on the most salient issues.

General Comments

In spite of assertions to the contrary, there does not appear to be a sufficient basis in economic rationale, similarity of mission, or mode of operation to justify integration of the disparate organizational elements proposed for the DTBD. The amalgamation of these heterogeneous agencies might be viewed as an invitation to bureaucratic disaster.

We do not believe that any improvement in programs or efficiency would result from combining agencies like OPIC and the Export-Import Bank, with their international business focus, together with a number of other agencies whose orientation and programs are overwhelmingly domestic. As discussed below, the proposed DTBD appears to be a strange meld of programs--with basic programs covering a wide range including domestic assistance, export and trade promotion and assistance of foreign economic development resulting from private sector investments.

It is notable that the two pages of asserted advantages to be yielded by the formation of the new Department contain not one that directly stems from OPIC's inclusion. This, coupled with the fact that international problems were mentioned only once, suggests that OPIC and the Export-Import Bank are envisaged to be very insignificant components of the new Department.
OPIC's Purpose and Operations

OPIC is an independent, self-sustaining corporation established to encourage economic development, especially of the least developed countries, by facilitating appropriate private investment through making available political risk insurance, guaranties and some direct loans. OPIC does not require annual appropriations, and thus does not contribute to any budget deficit, as its operations are funded by its earnings from insurance premiums, interest and guaranty fees. Fiscal 1978 earned income was $53 million and administrative expenses were $7.7 million.

OPIC was established in corporate form in 1970 and placed under the policy and operating authority of an eleven-person Board of Directors, comprised of the Administrator of AID as Chairman, Assistant Secretaries of Commerce, State and Treasury, the President of OPIC and six private-sector Directors appointed by the President with Senate confirmation. The private sector Directors are required by law to include representatives of cooperatives, organized labor and small business. When the programs were moved out of AID this corporate form was chosen deliberately as a vehicle to make OPIC more business-like in its structure and responsiveness to the private businessmen whose investment decisions are the basis for OPIC's success in promoting economic development of less developed countries (LDCs). Any decision that placed the OPIC program in a broad operating agency would be a regression to a previously proven unsatisfactory operating structure.

OPIC's mission is strongly developmental. Its programs are limited to the LDCs eligible for assistance from world-wide or regional development agencies and, since the Administration's 1977 policy review, have been fully available only in the lower income LDCs and have been restricted in the "upper income" LDCs -- those with per capita GNP's in excess of $1,000 in 1975 dollars. In its 1978 extension of OPIC's operating authority Congress emphasized OPIC's developmental focus and required by law that the OPIC Board act, as it already had, to restrict OPIC's programs in the "upper income" LDCs.
The Specific Proposal as to OPIC

The option memo fails to discuss how the proposed DTBD would be organized or would operate. A footnote states that the Secretary of DTBD would replace the AID Administrator as Chair but gives no further clues.

OPIC's self-sustaining operations and its need to build up its reserves make its incorporation into a unified budget inappropriate and impossible. Its mandate is so different from those of the other proposed components as to preclude any policy integration advantages. OPIC presently operates under the foreign policy guidance of the Secretary of State. It is not clear how this relationship would continue under the DTBD proposal.

We have recently responded in great detail to similar issues involving the proposed reorganization of foreign assistance programs. Since turnaround time on this proposal is short, we attach those memos for your information.

Even if this proposal is meant only to change the Chair of OPIC's Board while maintaining OPIC's present independent operating structure under the policy direction of its Board, OPIC would oppose it as counter-productive. However, if the proposal means to create some sort of unified operating agency, we think it would be disastrous. (We would appreciate an opportunity to comment about the details of any plan to create a unified integrated agency.)

A Foreign Trade Agency

At times there have been suggestions that a reorganization should create an agency to promote foreign trade. We believe that if the Administration were to decide that foreign trade is of a high order of priority it might want to consider creating an agency to concentrate on that. Such an agency should, in our opinion, include the present Office of Special Representative for Trade Negotiations, the Department of Commerce's Industry and Trade Administration, Export-Import Bank and OPIC (as an independent corporation). The foreign business and trade emphasis of such an agency would make OPIC an appropriate member. The high priority given to foreign
trade that would result in formation of such an agency might cause reexamination of OPIC's purposes with some resulting widening of its present developmental mandate.

Attachments:
1) Peter Szanton Memo 1/3/79
2) Peter Szanton Memo 12/11/78
3) Peter Szanton Memo 11/17/78
January 3, 1979

MEMORANDUM

TO: Peter Szanton

SUBJECT: Foreign Assistance Reorganization -- Comments of OPIC

Your draft memo of December 27 does a good job of setting out the alternatives and their pros and cons. We do have, however, a few comments and suggestions concerning its treatment of OPIC. Some of them are editorial, while some go to the heart of the substance.

1. On page 2, in the description of OPIC please add "self-sustaining" so that the phrase is "an independent, self-sustaining government corporation."

2. On page 5 change the "bullet" line to read "Agreed to make OPIC part of IDCA, under the loose association arrangement provided in the bill." This change clarifies the thrust of the original decision.

3. On page 6 the discussion of the "Full integration" alternative says that this alternative is "along the lines of the Humphrey proposal." This, of course, is not accurate insofar as the Humphrey proposal would not have integrated OPIC, but would have left OPIC intact as an independent corporation under the policy direction of its Board of Directors. Thus, the first sentence should be modified by adding: "although it would go far beyond that proposal in integrating OPIC into the IDCA."

4. On page 15, to clarify that OPIC's relationship to a partially integrated IDCA would be that contemplated by the Humphrey proposal, please change the first two sentences to three that read: "This model ... be substantially autonomous and OPIC would continue to operate under the policy direction of its Board of Directors. The Administrator would serve as Chairman..."
of OPIC's Board. His authority over Peace Corps, OPIC and FITC would be limited to general policy guidance and, as to Peace Corps and FITC, control over their budgets..."

5. On pages 32 and 33 please make the following changes:

a. In the description of the OPIC decision change the third sentence to read "OPIC was separated ... initiative and given corporate form under the policy direction of a board of directors appointed by the President with a majority of private sector members."

b. Add a new fourth sentence to read "Significant Congressional (Javits) support for this structure continues."

c. On page 33 add a new argument against OPIC's inclusion to read: "If you choose the fully integrated model including OPIC would completely change its structure and operating method, going far beyond any recommendation."

d. Change the first decision option to read: "(Supported by AID and acceptable to OPIC, Commerce, and Treasury if adequate policy and operating autonomy under a policy-making Board of Directors is assured.)"

J. Bruce Llewellyn
President
November 17, 1978

MEMORANDUM

TO: Peter L. Szanton, Associate Director for Organization Studies
   Edward Jayne II, Associate Director for National Security
   and International Affairs

Office of Management and Budget
Room 3223, New Executive Office Building
Washington, D.C. 20503

FROM: J. Bruce Llewellyn, President

SUBJECT: Foreign Assistance Reorganization -- Comments of Overseas Private Investment Corporation

I. General Statement

Including the OPIC program in an integrated economic assistance agency, no matter the degree of integration, will have no positive impact on improving budget planning and allocation, coordination of executive branch presentations to Congress or greater cohesion and effectiveness of bilateral and multilateral programs. OPIC's function is to encourage economic development, especially of the least developed countries, by facilitating appropriate private investment by making available political risk insurance, guaranties and some direct loans. OPIC does not require annual appropriations, and thus does not contribute to the budget deficit, as its operations are funded by its earnings from insurance, interest and guaranty fees.

Since OPIC is required by law to operate its programs so as to make them self-sustaining and this self-sustaining nature is important to political support for OPIC's private sector-oriented program, OPIC's inclusion in any form of integrated agency would not lead to better budget planning allocation among the development assistance instruments. In addition, since OPIC's program is the one element of the economic assistance structure that is not, by its very nature, subject to the "New Directions" thrust of the other bilateral and multilateral assistance programs, consolidation of OPIC into a unified program and Congressional presentation is of no apparent benefit. Integration of OPIC into the IDCA would not result in enhancing more systematic consideration of U.S. interests in LDC development during the formulation of administration policies on trade, monetary affairs, etc. Finally, as discussed below, there is no reason to think that integration of OPIC into IDCA would result in a reduction either in the number of Federal employees or in the budget deficit.
On the contrary, the IDCA proposal now before us seems to increase both the cost of operations and numbers of personnel attributable to the OPIC program rather than streamlining them. OPIC believes it is now benefitting fully from those economies of scale that are appropriate by reason of its purchase of several services from AID and other agencies.

II. The Three Models

A. Option One - Complete Integration

A completely integrated line agency that included OPIC would make no sense. As stated above, the very nature of OPIC's programs distinguishes it from the other economic assistance programs and OPIC's operations do not require annual appropriations. A reorganization that would fully integrate OPIC into a large government line agency would constitute a reversion to the unsatisfactory previous experience that led to OPIC's creation in corporate form. The OPIC insurance and guaranty programs were administered by AID prior to OPIC's establishment as a separate corporation. There is extensive legislative history detailing why the present corporate form was considered to be a vast improvement over the prior structure, and we believe history has proved Congress correct in establishing OPIC as a separate government corporation. The need to provide direct and prompt service to the private sector is, if anything, more pronounced at present because of the Congressional mandate that OPIC increase small business involvement in its programs. Effective involvement of smaller businesses requires the direct, personal contact that would be impeded by a large bureaucratic structure.

The corporate structure with a governing board of directors composed of representatives from private industry and public officials has functioned as an efficient and effective means for airing viewpoints, resolving differences and reaching final decisions. The corporate structure is one that businessmen can understand and deal with. It encourages the OPIC staff to be businesslike in the conduct of its programs and in general presents a more satisfactory means of operating the program than would its integration into a vast bureaucracy. As can be seen from the footnote text, the problems of the business community in dealing with the bureaucracy were the basis for the creation of OPIC as an independent agency.
The different skills required of personnel who operate the OPIC program, with its business-oriented emphasis, the different nature of the legal problems encountered and the need for different and completely separate accounting procedures, seem to preclude effective integration of OPIC into an overall economic assistance line agency. In fact, such integration would unquestionably result in duplication of staff functions by OPIC and IDCA and add an extra clearance process to what is now a relatively direct functional operation. Recognition of OPIC's unique business involvement and its need to attract professionals with private-sector experience led to the statutory authority to appoint, compensate and remove up to twenty administratively determined ("AD") employees without regard to Civil Service laws and regulations. This AD authority and OPIC's business-oriented separate character have proved effective devices for attracting qualified professionals with business experience who would not otherwise have considered working for the Government. We strongly believe that OPIC's integration into a line agency would destroy its ability to attract and retain professional employees with pertinent private-sector experience.

Another inherent contradiction to complete integration of OPIC into a line agency involves OPIC's need to function as a self-sustaining entity. Upon its establishment OPIC received appropriations comprised of the assets attributable to the prior guaranty and political risk insurance programs, which were accompanied by the transfer to OPIC of all liabilities under AID's outstanding insurance and guaranty (other than housing) portfolio. 2/ OPIC has been able to satisfy all claims and increase its insurance and guaranty reserves without requesting Congress to appropriate any additional funds. OPIC is authorized to invest its earnings in U.S. Government obligations and, if necessary for claims management, to borrow up to $100 million from the U.S. Treasury. It is difficult to imagine a fully integrated line agency with one constituent element that has such individualized functions.

Any attempt to incorporate the OPIC programs into a fully integrated line agency could anticipate substantial Congressional disapproval. On the one hand, there are several members of Congress who have strong convictions
that the present OPIC corporate structure is the appropriate delivery system for the private investment program. On the other hand, those who are opposed to any government functions that assist business would oppose an integration that might result in cost to taxpayers. The separate character of the corporation and its self-sustaining nature are important considerations in presenting to Congress the desirability of a private sector-oriented economic assistance program.

B. Option II - Decentralized Confederation

We believe that OPIC could successfully function as part of a loosely integrated confederation of economic assistance programs. For example, as in the arrangement contemplated in the Humphrey-Case IDCA bill, 3/ OPIC could function as an independent corporation with the Administrator of IDCA serving as chairman of OPIC's Board of Directors, just as the Administrator of AID now does. The OPIC Board, with its representation from the Departments of State, Treasury, and Commerce as well as AID, presently provides ample opportunity for consideration of OPIC projects and programs in the context of overall U.S. Government considerations. Whatever overall benefits in terms of coordination with other economic assistance programs and some coordination of Congressional presentation that might accrue from some form of reorganization could be accomplished under a loose confederation.

At the same time, it should be noted that the principal agency with which OPIC works is the Department of State. All our cable traffic goes through State. All OPIC projects are cleared with appropriate embassies before contracts are signed. Human rights consultation is with State. This direct relationship works smoothly and effectively and should not be interrupted by the creation of additional bureaucratic paraphernalia.

OPIC has very deliberately contracted for certain support functions that could more economically, yet satisfactorily, be performed by other government agencies or private contractors. OPIC has "shopped around" to secure the best available arrangements. As a result, OPIC purchases certain services from the Departments of State and Labor, the National Institutes of Health and the General Accounting Office as well as from AID. These include
processing payroll and travel vouchers, making international travel arrangements, giving engineering advice, data processing, medical care and performing the security, auditing and investigation functions. Thus, those services that are appropriately carried out by a larger, more unified structure are now performed for OPIC by AID and other agencies, an arrangement that could continue under a loose confederation arrangement. OPIC believes that its present arrangements represent the optimum terms of functional economy and that no further economies would result from a complete integration because the services that OPIC now performs for itself are those which it would have to perform for itself, whatever the structure.

A loose confederation would enable OPIC to function exactly as it now does, with a President as its Chief Executive Officer, subject to bylaws and policies established by the Board of Directors. No Congressional problem would be presented by an independent OPIC that is a constituent element of a loosely confederated IDCA with the IDCA Administrator serving as OPIC Board Chairman.

C. Option III - Partial Integration

The partial integration model described in Option III would not be satisfactory insofar as it affects OPIC. However, some form of partial integration of the bilateral and multilateral programs that would leave OPIC in a much looser relationship, such as that described in Option II above, could be satisfactory. We are unaware of any particular reason for uniformity in the degree of integration of all the components of IDCA.

Essentially we see the Option III proposal as very close to that of the full integration described in Option I and as resulting in the shortcomings of Option I. Option III would make the Administrator of IDCA the Chief Executive Officer of OPIC, making the President of OPIC the equivalent of a bureau head or an assistant secretary of a line agency. It would remove from the Board of Directors its present management and policy authority, converting the Board into an advisory group. Such integration into IDCA would make it difficult for OPIC to continue to function on a self-sustaining basis.
The proponents of Option III state that inclusion of OPIC in IDCA "will facilitate the use of private sector investment in overseas development, an increasingly important tool for assisting "middle income" countries." However, OPIC has been directed by both Congress and the administration to emphasize its developmental role by giving preference to investments in the least developed countries and by restricting its operations in countries that have per capita GNPs in excess of $1,000 in 1975 dollars. This contradicts any notion of a "development arsenal" in which OPIC's programs would play an increasingly important role in those same "middle income" countries.

In evaluating the asserted streamlining effect of the Option III proposal, it is necessary to examine its Table VI which depicts the effect on operating expenses and full-time permanent personnel of a variety of hypotheticals, including that of an Option III IDCA. The Table VI figures for OPIC need correction.

Our FY 1979 full-time permanent personnel ceiling is 130, with a reduction to 128 proposed by OMB for FY 1980. OPIC requested a FY 1980 ceiling of 132 for its current level of operation, and estimated operating costs for that year at $7.3 million. We assume that the ceiling of 147 that appears in Column II as OPIC's proposed FY 1980 ceiling was taken from OPIC's second-enhanced Zero Based Budget schedule for FY 1980—an obviously "pie-in-the-sky" number. Thus, any personnel savings that start from the 147 figure are significantly over-stated.

We do not understand why the separate agency version differs from OPIC's own present request since there is no reason to believe that OPIC could not continue its present contractual relationships and obtain services from AID and other agencies. However, even if that were not the case, Column III, which we assume is based on the premise that OPIC would perform for itself those services now performed for it by AID, implies that 28 additional full-time employees would be required for that. That number is not supportable. OPIC's experience in purchasing services from AID has cost an average of $52,000 a year over the last three years. The cost in FY 1978 was $65,000. If OPIC had to perform for itself those services that AID is now performing, our estimate
is that it would take a maximum of 6 additional persons and no more than $250,000, including overhead, for operating costs. Thus, the $1.1 million additional operating costs shown for OPIC as a separate agency in 1980 (Column III as compared with Column II) cannot be supported.

We similarly question the personnel and operating costs given for the Option III proposal (Column IV) showing reductions of 26 full-time permanent employees from the inflated 147 number, or 7 from the OMB FY 1980 ceiling, with an accompanying operating cost saving of $1 million. We do not understand from what functions those "lost" personnel could come since the Option III proposal appears to add additional clearances and layers of input at the IDCA level, rather than streamlining procedures.

Table VI itself shows that IDCA will result in more overall employees working on economic assistance, not fewer, and with many of those added presumably coming in at an overall supervisory and policy coordination level, it can be expected to increase the ratio of high-level employees to overall employees.

III. Some General Comments on the Board of Directors Structure

We consider the present arrangement, with the OPIC Board of Directors exercising the powers and authority conferred by Section 233(b) of the Foreign Assistance Act, essential to the effective operation of the Corporation. The Inter-Agency Economic Policy Group considered the question of continuing OPIC’s present structure with its mixed Government and private Board last year as a prelude to the presentation to Congress of the Administration bill to extend OPIC’s authority. The Group concluded that the Board has facilitated administration policy control over OPIC because Board meetings provide a convenient forum to discuss policy questions, particularly those involving highly technical issues. In addition, the review concluded that the Board structure provides distinct advantages for the OPIC program because it gives both management and business input from the private-sector Board members and because the businesslike structure and decision-making process assure prompt resolution of issues. This structure allows OPIC officials to describe our decision-making procedure in a way that is easily understood by business. The conclusions of the Economic Policy Group made over 18 months ago are equally relevant today.
In addition, it should be noted that the OPIC Board presently functions actively with consistently high levels of attendance and interest by both public and private-sector members. An advisory board would not attract this caliber of membership nor the interest of its members and, as with many advisory committees, would probably disintegrate into a mere forum for the government members to present their viewpoints to tired listeners.

When Governor Gilligan described the IDCA proposed board structure at the last OPIC Board meeting, the reaction from both private and public-sector members was very strong. None thought switching to an advisory board was a good idea. They pointed out that responsible preparation, genuine interaction between public and private members and consistent attendance could not be expected from an advisory board.

An additional value of the present Board structure is its role in facilitating prompt and irrevocable decisions that involve five Government agencies. The Board has functioned over the years as a place for testing ideas, giving the various government departments an opportunity to explain their viewpoints, but also has resolved any conflicts by majority vote. (There has been no instance of a public-private split as to any decision). OPIC's ability to function responsibly in a private-sector timetable, to make commitments to insure, lend or guarantee within relatively short periods, depends upon the efficacy of its decision-making processes. If clearances were needed from additional echelons and other government departments before OPIC could commit, the decision-making process would be much longer, and OPIC's role as a facilitator of developmental private investment would therefore be substantially lessened.

IV. Reorganization or Legislation

OPIC strongly prefers that any action affecting OPIC be limited to that possible under the President's reorganization authority. Our experience in both 1974 and 1977 was that consideration of OPIC's legislation became the occasion for Congressional scrutiny of broad issues of international economic policy, especially regarding the activities of multinational corporations. There is every reason to believe that this debate would be rekindled if OPIC authorization were again before Congress in 1979, particularly since we may predict continued AFL-CIO opposition to both OPIC and its programs. This could have a disruptive effect not only for OPIC but also on other aspects of the proposed legislative package.
We believe that the effort to eliminate "barnacles" from the Foreign Assistance Act could better be addressed by a direct attempt to repeal the "barnacles." Although we do not have a political judgment as to the likely success of such an approach, we do not think it would be more difficult than that of the proposed repealing of existing legislation and passing of "barnacle"-free comparable legislation.

V. Several Potential Problems in the Proposed Mixture of Reorganization and Legislation under Option III

AID has informed us that it has not drafted either the proposed reorganization plan or the new legislation, so this comment is directed to issues that appear to be inherent in the general description.

A. The Proposed New Legislation

The IDCA proposal states at page 32 that the sections of the statute to be contained in Title 8 are "those programmatic sections which are currently contained in Title IV of Chapter II of Part I of the FAA." We are not sure exactly what "programmatic sections" means. In addition to authority to operate the political risk insurance and guaranty programs, our present legislation includes, among other things, authority to: lend from the Direct Investment Fund, invest our earnings in U.S. Government securities, hire up to 20 persons outside of civil service laws and regulations, arbitrate disputes arising under insurance contracts, sue and be sued in OPIC's own name, and give full faith and credit guaranties in settling claims. We would want to be sure, if a legislative approach were taken, that any new legislation continued all of these and other authorities specified in Section 239(a)-(d) of the Foreign Assistance Act of 1961, as amended.

B. OPIC's Corporate Structure

OPIC is now one of the named corporations subject to the Government Corporation Control Act, 31 USC 846. As such it is subject to various budgetary requirements, 31 USC 847-849; it must be audited by the General Accounting Office, 31 USC 850; and the Comptroller General must send audit reports on OPIC to
the Congress, 31 USC 851. It is not at all clear from the described proposed reorganization plan and bill under Option III whether OPIC would continue to have this corporate status and, if so, how it would conform to the statutory requirements of the Government Corporation Control Act as a part of the IDCA. OPIC believes that it can best operate the programs under its self-sustaining mandate as a Government corporation subject to the provisions of the Government Corporation Control Act with annual audits by the General Accounting Office.

VI. Possible OPIC Operation of Other Programs

The summary of the reorganization plan presented on page 23 groups together "the investment insurance and guaranty programs of the Overseas Private Investment Corporation (OPIC), the housing investment guaranty programs and other guaranty programs." We do not know whether this implies that OPIC would be the entity responsible for operating the housing guaranty program or any other guaranty program. We note that the housing guaranty program, which tends to deal primarily with government entities in the LDCs, is significantly different from OPIC's programs, which concentrate on the private sector. We see no inherent advantage to the operation of either OPIC or the housing guaranty program in giving that program to OPIC to operate.
The need for OPIC's corporate structure and management independence was first considered in the late 1960's by the International Private Investment Advisory Council (IPIAC), an advisory board established by the Foreign Assistance Act of 1966. After a comprehensive study of the AID investment incentive programs, the IPIAC published its findings in a report of December 1968, entitled, "The Case for a U.S. Overseas Private Enterprise Development Corporation." The findings and recommendations of IPIAC were refined by the Executive Branch and Congress and ultimately resulted in the formation of OPIC.

The IPIAC report vigorously recommended the formation of an independent U.S. corporation similar to the Export-Import Bank, IFC, and similar entities in other countries, as the best form of agency to manage the investment incentive programs. The critical elements of the corporate form were its legal flexibility as a government agency and the unique relationship that would be engendered by a mixed government-private sector Board of Directors with management responsibility for the corporation. The Council concluded that this structure would achieve both greater administrative and financial flexibility, more business-like operating methods, and would be beneficial in developing both a professional staff of experienced, business-oriented career personnel and a more entrepreneurial-minded management.

These recommendations were vigorously supported by the private sector, which had been grumbling about bureaucratic inertia and delays in handling insurance and finance applications. For example, in 1969 testimony before the House Committee on Foreign Affairs, the National Association of Manufacturers argued as follows:

"Above all other benefits, we believe that establishment of the corporation, OPIC, brings something new into the foreign economic development field simply because of its character as a business-managed institution. . . . In a tangible way, it will be relieved of the built-in delays that characterize a typical public agency function. The coordination of various government agency views will be accomplished, not by slow pushing through levels of several agencies, but simultaneously at the conference table of the Board of Directors. The application of experienced business judgment by the Board and its business staff will help reduce the long and costly duplication of studies and reviews, first by private technicians and then by government staffs."
Through the operation of the corporation by a Board of Directors, the possibility of instant veto by a single government agency will be lessened. The vacillations, traditions and regulations of a bureaucracy will not be so rigidly imposed on an executive team geared to taking decisive action. Past loan applications have required up to a year and a half for their final clearances by four or five internal or interagency committees and in some cases by the White House.

"The corporate structure implies a distinct advantage over the existing agency procedures in the confidence it will inspire in the business world. The prospect of submitting a proposal to cover a capital risk to a Board comprised largely of business peers should go far to overcome any reluctance an entrepreneur may have in dealing with a purely government agency. The confidence will extend not only to the sponsor of the enterprise, but to the lending institution whose judgment will further be reinforced by the experience of the Board and its top business staff. The involvement of individuals of stature at high levels both within the government and private business will make this organization a well-supervised element of our foreign aid program."


In its report on the Foreign Assistance Act of 1969, the House Committee on Foreign Affairs also emphasized the government-business partnership aspect of OPIC's Board of Directors. The report states as follows:

"One of the major advantages of the corporation structure, in the Committee's view, is that it would create and apply a partnership of U.S. private managerial know-how and official policy decision-making to the business of international development. This joint effort should result in greater efficiency in the administration of investment incentives within the confines of U.S. foreign policy and a broadening of U.S. private participation in the development process."

2/ The transfer of these assets was completed by subsequent appropriations in 1972, 1973 and 1974 that effectively transferred to OPIC the $50 million of program-related assets that had been held back originally to fund the AID housing guaranty program.

3/ The section-by-section analysis of the Humphrey-Case Bill prepared for the use of the Senate Foreign Relations Committee provided in relevant part in the discussion of proposed Section 311 [corresponding to Section 231 of the Foreign Assistance Act of 1961, as amended (the "FAA")]:

"This section continues the existence of the Overseas Private Investment Corporation (the "Corporation"). The basic purpose, authorities and structure of the Corporation continue unchanged, as the existing statutory charter remains intact... the Corporation will retain its identity as an independent agency of the United States, with all powers of the Corporation remaining vested in its 11-person Board of Directors..." p. 39.

The analysis of Section 313(b) of the Humphrey-Case Bill provided that Section 232(b) of the FAA, regarding OPIC's Board of Directors, would remain intact except that the Administrator of IDCA would be specified as Chairman of the Board rather than the Administrator of AID. p. 42.
December 11, 1978

MEMORANDUM

TO: Peter L. Szanton, Associate Director for Organization Studies
Office of Management and Budget
Room 3223, New Executive Office Building
Washington, D.C. 20503

FROM: J. Bruce Llewellyn, President

SUBJECT: Foreign Assistance Reorganization — Comments of OPIC

We have reviewed your proposed memorandum and have several comments as to the general approach and the statement of the options that specifically concern OPIC.

The memorandum does not address what problems, if any, would be reduced or eliminated by the foreign-assistance programs' reorganization and how any improvements would be accomplished. Nor does it address what, if any, reductions of personnel or expenditures would result. The discussion of the pros and cons of some options seems to assume that there are relative efficiencies but, as far as we can determine, there is no basis for those assumptions. In fact, all of the options presented for the MDBs and international organizations seem to continue the need for at least three agencies to have input (and therefore staff requirements), but merely rearrange the relative roles of the agencies in decision making. There is no indication that any efficiency, streamlining or even improved coordination would result from the suggested changes.

The memorandum's message seems to be that, in response to the Humphrey-Case bill, the President decided last March that the proposed IDCA should be created and that in September he communicated to Chairman Zablocki that he intended to create IDCA. The net result comes very close to a reorganization that has no demonstratable effectiveness aside from that of a vehicle that some proponents of the FITC deem necessary for its creation.

Inclusion of OPIC in IDCA

The memo accepts the March decision that OPIC should be a component of the IDCA while re-opening the simultaneous decision as to the Peace Corps (at least if there is not "substantial authority") in the IDCA. We believe that the decision to include OPIC should also be reconsidered.
The March decision and interagency reaction described on page 6 of your memo were predicated on the OPIC-IDCA relationship delineated in the Humphrey-Case bill. This specifically provided for OPIC's continuation as a separate, self-sustaining government corporation under the policy direction of a Board of Directors appointed from both the private and public sectors. The only change in OPIC's structure was to be the substitution of the Administrator of IDCA for the Administrator of AID as Chairman of the OPIC Board of Directors. Thus, it would be neither accurate nor appropriate to represent that the decision to include OPIC in the IDCA, under whatever of the optional structures should be chosen, was made or supported by the consulted agencies. There was a condition to the decision as to OPIC just as there was as to Peace Corps.

Furthermore, we believe that at no point in the consideration has there been realistic examination of the way OPIC functions as a development agency—one that accomplishes its developmental mission only if and when businesses make business decisions to invest in developing countries.

The "New Directions" and "Basic Human Needs" policy emphases that govern the other economic assistance agencies are inappropriate for OPIC. Congress specifically recognized this inappropriateness this year. Recognition of the business-related nature of OPIC's role in the foreign assistance program was the basis for the 1969 decision to separate the program from the bilateral assistance program and to create a separate, independent agency. The corporate form with the mixed private-public Board of Directors was deliberately chosen as a more efficient and business-like structure than that of a traditional government agency.

Congress has given further recognition to the business-supporting aspects of OPIC's mission in requiring OPIC to give preferential consideration to assisting investment by smaller U.S. businesses in the developing countries. Additional evidence of OPIC's business-related role is demonstrated by its participation with the Department of Commerce, Export Import Bank and Small Business Administration in conducting a nation-wide program to encourage smaller U.S. businesses to consider entering export markets and, in furtherance of export development, to consider appropriate investments in less developed countries. Thus it is not at all clear that including policy decisions for OPIC as part of the policy for bilateral and multilateral assistance makes any sense or is even possible.
Therefore we urge that, at least as long as there is any question as to the degree of integration of the component agencies, the question of OPIC's inclusion be considered open. Suggested language for presenting this option is:

"OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC activities support economic development in the Third World. Since its role depends on its encouragement of private U.S. investment of capital, technology and management skills, it can assist development only where businessmen make business decisions to invest. It is a Government corporation under the policy and management direction of a Board of Directors and is required by law to run in a self-sustaining manner. Its operating funds are provided from its insurance premiums, guaranty fees and interest and it does not receive appropriations. It is therefore subject to different policy and budgetary considerations than those affecting bilateral and multilateral assistance programs. Effective coordination of OPIC policies with overall U.S. development policies is accomplished through the chairing of OPIC's Board of Directors by the Administrator of AID and membership on the Board of Assistant Secretaries of Commerce, State and Treasury.

The arguments for including OPIC in IDCA are principally that:

- It is a development agency and should be included to the extent practical and appropriate in any overall development agency, provided it can retain its independence as to policy and budget.

- Identification with an overall economic assistance agency may be beneficial in obtaining renewal of authority from Congress.

The major arguments against including OPIC in IDCA are:

- OPIC's policy, program and budgetary considerations differ so markedly from those of the other economic assistance agencies that any benefit from coordination is somewhat illusory.

- If the eventual IDCA structure provided for anything other than a continuation of OPIC's present independent status under a broad "policy umbrella" OPIC's effectiveness and efficiency would be severely hampered.
OPIC Decision

1. Consolidate OPIC into IDCA. (Supported by AID and acceptable to OPIC, and provided that adequate policy and operating autonomy for OPIC is retained — this issue is discussed below.)

APPROVED ________________________

2. Retain present arrangements. (Supported by OPIC unless adequate policy and operating autonomy for OPIC is retained).

APPROVED ________________________

The Presentation of the "Degrees of Integration" Options

The discussion as to degrees of integration ignores completely that AID would be a component of IDCA and seems to assume certain efficiencies that are not adequately articulated and that, in our opinion, cannot be substantiated. Although the introductory paragraph indicates that "some variations would be necessary among components" there is no exploration of the specific possibilities for variation within the general models. It is surprising that only the second option, "Full Authority, Partial Integration," depicts the IDCA Administrator as acting as the chief advisor on development to the President and Secretary of State. That function is possible under all of the possible variations of integration and we assume that it is a sine qua non of the organization of IDCA. Since we believe that anything but the loosest arrangement would have an extremely negative effect on OPIC, we believe specific recognition of this will be necessary in presentation of these options. We suggest the following changes in the presentation of this issue:

a. Full Integration —

1. Change the "supporting" arguments to note that neither is true insofar as integration of OPIC is included. (We are not convinced that they otherwise can be substantiated.)

2. Change the first "opposing argument" to read:

"IDCA would contain components, such as Peace Corps and OPIC, which have sharply contrasting functions and constituencies, and, as to OPIC, significantly different policy considerations. Their current . . . preserved."
3. Add a new "opposing argument" as follows:

"This option would revert to a situation previously tried and discarded. OPIC was created because 'full consolidation' of the OPIC programs in AID was determined to be unsatisfactory."

b. Full Authority, Partial Integration —

On the basis of the pro and con arguments given for this option we would urge that it be deleted. All of the "pro" arguments are equally true as to the "Policy Supervision and Partial Integration" option and thus cannot be said to be arguments for the full authority option.

1. The first "against" argument again implies that full integration would be more economical. Our comments as to Option 1 are again relevant.

2. We would also add as an additional "against" argument:

"It would require substantial changes in the OPIC structure if OPIC were included in that it would deprive the public- and private-sector Board of Directors of its significant policy function, thus making it more an advisory group than a corporate Board of Directors."

c. Policy Supervision and Partial Integration —

1. The Administrator would be the chief advisor on development under this option as well.

2. We would make the following additions and changes to the "for" arguments:

A. Amend the second argument to read "useful policy and operating latitude."

B. Add:

"Produce fewer morale and program disruption problems than Options 1 and 2."

"Does not preclude greater consolidation if that should later seem desirable and feasible."
"o Gives best recognition to the diversity of program purposes and means of execution."

3. The "against" arguments imply that this option is weakest of the three from an economy viewpoint. There is no reason to assume that this is true.

The decision section on Degree of Integration should reflect more strongly that no agency recommends the Full Integration option.

OPIC's Recommendations for the Options

A. MDB Decision:
   Option 1. Supported.
   Option 2. Not supported.
   Option 3. Not supported.

B. IO Decision:
   Option 1. Supported.
   Option 2. Not supported.
   Option 3. Not supported.

C. P.L. 480 Title III Decision:
   Option 1. Supported.
   Option 2. Not supported.

D. Peace Corps Decision:
   OPIC concurs with the Peace Corps' positions as to these options.

E. Proposed OPIC Decision:
   Option 1. Acceptable to OPIC only if there is a "substantial" IDCA and provided that adequate policy and operating autonomy for OPIC is retained.
Option 2. Supported by OPIC unless there is a "substantial" IDCA and adequate policy and operating autonomy for OPIC is retained.

F. Degree of Integration Decision:

Option 1. Not supported.
Option 2. Not supported.
Option 3. Supported provided adequate policy and operating autonomy for OPIC is retained.

G. Relationship to Department of State Decision:

Option 1. Supported.
Option 2. Not supported.