

2/8/79 [1]

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THE WHITE HOUSE
WASHINGTON
2/8/79

Frank Moore

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

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

MR. PRESIDENT:

I have just received the attached copy of Sec. Califano's letter to Jim McIntyre. In view of its contents, I feel that it is extremely important that you call Califano as soon as possible.

Frank Moore
2/6/79

THE WHITE HOUSE
WASHINGTON

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ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE *F.M.*
TERRY STRAUB *Terry*

RE: SECRETARY CALIFANO'S INVOLVEMENT WITH THE
DEPARTMENT OF EDUCATION EFFORT

On Wednesday, February 7, we are announcing and sending to the Congress the Administration's Department of Education bill. Senator Ribicoff is holding hearings this week. Jim McIntyre will testify on Thursday, February 8.

We recommend that you call Secretary Califano before our Wednesday announcement to enlist his active support of this effort. His silence could be damaging. The most effective argument for establishing a Department of Education is the greater attention and closer accountability education programs can receive in a separate Department than now "buried" under dominant health and welfare concerns in HEW. Of course, this is treated as a structural flaw that, despite Califano's commendable leadership, should be corrected by a Department of Education. We need to get Secretary Califano on board with this line of argument.

You might also ask him to send letters of support to Senator Ribicoff and Congressman Brooks as soon as our bill goes to the Hill.

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THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

FEB 5 1979

~~CONFIDENTIAL~~

COPY # 1
GWALTNEY

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

Dear Mr. McIntyre:

This responds to your request for our views on the Administration's draft bill, "The Department of Education Organization Act".

While I do not propose to reopen the issue of the desirability of a separate Education Department, before commenting on the draft bill I would like to reiterate for you and the President my basic concerns.

First, separating education from health and welfare will fragment the Federal government's efforts when we should be moving to consolidate and strengthen them.

Second, unlike the President's original position, the proposal for a separate Education Department contained in the current draft bill will not consolidate education programs but rather will leave them scattered among different agencies as they are now.

Third, with the narrow mission of the Department that is proposed in the draft bill, it is likely to be dominated by special interest groups and, therefore, unlikely to develop policies that consider the broad array of interests involved. In particular, a narrowly-based Department could slight the legitimate interests of higher education and private schools.

Fourth, the creation of the narrow Department which the draft bill now proposes, is certain to increase the bureaucracy instead of streamlining it--with no offsetting benefit from consolidation and coordination.

Fifth, with such a narrow mission, the federal effort to expand civil rights in the field of education would be

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~~CONFIDENTIAL~~

COPY #1

G WALTNEY

- 2 -

dominated by the very institutions in which the Federal government is attempting to enforce statutory requirements. As you are aware, the Director of the Office for Civil Rights presently reports directly to me, which allows the office to maintain at least some independence from the institutions it is supposed to regulate. Like me, the Director of that office believes that the proposal will seriously impair and retard the current civil rights effort in education.

Sixth, the creation of the narrowly framed new Department is likely to intrude the central government far too deeply into local and state educational decisions.

Our specific problems with the bill concern the following major issues:

- Section 203 creates an Office for Civil Rights whose Assistant Secretary enjoys a mandatory delegation of civil rights enforcement functions from the Secretary and considerable independence in the management of his office. Despite this independence and the mandatory delegation of functions to the Assistant Secretary, I do not believe that the Secretary of Education would be able to avoid accountability for the enforcement of title VI of the Civil Rights Act of 1964. For this reason, I believe it to be unwise from a management point of view to divest the Secretary of control over civil rights enforcement activities. However, the Director of HEW's Office of Civil Rights, out of concern that civil rights enforcement continue to be vigorous in the area of education, believes that the mandatory delegation of authority to OCR ought to be broader than the draft bill proposes. This issue emphasizes the point I made earlier about the questionable desirability of moving education to a separate department.

CONFIDENTIAL

COPY #1

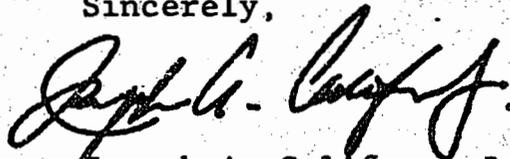
GWANTNEY

- 3 -

- The second section 211(c) authorizes the Secretary of Education to determine which departments and agencies are represented on the Interdepartmental Education Coordinating Committee. Since education will continue to be vitally important to many programs outside of the new department, we believe that it would be more appropriate to have the President designate the members of the Committee.
- Section 509 would redesignate HEW as "Health and Welfare". During the consideration of this issue by the 95th Congress, the Senate adopted a provision renaming HEW as the Department of Health and Human Services. I believe this designation more appropriately describes the Department's mission and strongly recommend that it be used.
- The bill fails to provide excepted appointment authority for technical and professional employees who would perform the functions currently performed by excepted personnel in nonsupergrade-equivalent positions at the National Institute of Education.

In addition to these concerns, there are several technical aspects of the bill which we believe warrant reconsideration. These technical aspects are described in the enclosed paper. But our bottom line is that the bill as now framed makes no sense in terms of education, government organization, civil rights or the general health and welfare. These technical comments are set forth to assist you on the assumption you will go forward with this legislation.

Sincerely,



Joseph A. Califano, Jr.

Enclosure

CONFIDENTIAL

COPY #1

G WARTNEY

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Comments on Administration Draft Bill,
Department of Education Organization Act

We have the following comments on the draft bill:

Sec. 103, line 4. Delete "of any such" and insert "or any such".

Sec. 103. Delete "over any accrediting agency or association". Under provisions of the Higher Education Act (20 U.S.C. 1141(a) and 1085(b) and (c)), and other statutes, institutional eligibility to participate in financial assistance programs is normally based on whether the institution is accredited by an agency or association listed by the Commissioner as a reliable authority as to the quality of education offered by the institution. The Commissioner determines the reliability of an agency or association by judging the agency or association against published criteria which represent a consensus among the accrediting agencies as to the basic elements which would justify such a judgment. Moreover, these published criteria also require that an accrediting agency or association provide due process to an institution before the institution's accreditation is terminated. If the phrase "over any accrediting agency or association" is not deleted, it could raise questions as to the authority to perform this function.

Sec. 202(a)(3). Insert a semi-colon at end.

The second section 210. This section is misnumbered. Also, the reference in subsection (c)(3) to "subparagraph (1)(a)" should be to "subparagraph (1)(A)".

The second section 211. This section is misnumbered.

Section 301(a)(2)(E). The Emergency Insured Student Loan Act of 1969 (not 1965, as incorrectly stated in the bill) was repealed effective October 1, 1977 by section 127(c)(2) of P.L. 94-482.

Sec. 301(a)(2)(J). Title V may also be cited as the "Headstart - Follow Through Act".

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~~CONFIDENTIAL~~

COPY # 1

GWALTNEY

-2-

Sec. 301(a)(2)(R). The authorization for this program has expired.

Sec. 303(a). Title 14 may also be cited as the "Defense Dependents' Education Act of 1978".

Sec. 304(a)(3). Probably should be preceded by "and" and not "or".

Sec. 436. We recommend that the Secretary be required to report biennially after each Congress on the activities of the Department during the preceding two years.

Sec. 503(c)(2). There is a typographical error in "Secretary" and the reference to "subsection (a)" appears to be incorrect.

Sec. 505(b)(1). In the parenthetical, "including" is misspelled. Also, something appears to be missing in the transition from page 40 to page 41.

Sec. 509(a). After the reference to the "Secretary of Health and Welfare", there should probably be inserted "or any other official of the Department of Health and Welfare".

CHRONOLOGY OF THE ADMINISTRATION'S
TEXTILE PROGRAM

The comprehensive program which we have worked out with the textile/apparel industry had its origins in your veto message of November 11, 1978, wherein you refused to take textiles out of the tariff negotiations, but promised that you would do a number of things to help "this beleaguered industry."

On December 13 we assembled representatives of a large number of organizations, from the American Textile Manufacturers Institute (ATMI) through the Work Glove Association, and including the two major unions, Amalgamated Clothing and Textiles Workers Union (Murray Finley) and the International Ladies Garment Workers Union (Chick Chaiken). There we discussed how to move forward after the veto to give the industry the help it needs and is entitled to.

To facilitate working closely, this large group designated a team of five, consisting of the two union leaders and the top-level representatives of the ATMI, the American Apparel Manufacturers Association, and the man-made fiber industry. We held weekly meetings to define what objectives of theirs might reasonably be placed before the entire Administration.

After this process had borne fruit two weeks ago, representatives of the concerned government agencies gathered to discuss and evaluate the proposal; Eizenstat, Schultze, Bergsten, Henry Owen, Julius Katz, Frank Weil and others were there. A series of staff meetings and circularization of papers ensued, with changes contributed by all the agencies. The present product is as close as we could get to a consensus and still keep industry and labor on board.

9:45 AM

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 6, 1979

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MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CLS*
Subject: Proposed Administration Textile Program

This proposal is a significantly restrictive international trade measure. I recommend that you agree to it only on the condition that it goes into effect after the MTN is signed and in hand.

The industry is finally getting in this program what they have been seeking from the U.S. Government for years. It includes a very restrictive mechanistic "ratchet" effect (Import Control #4) that prevents importers from getting back to agreed upon import quotas on any category of imports if they should fall short in a given year. This sets a very bad precedent. This provision virtually guarantees substantial import restraint for many of the textile and apparel categories, because they are subject to large annual fluctuations. It will therefore have a net depressive effect on international trade and increase our inflation rate.

Given the very restrictive nature of this program, we should make it absolutely clear to the industry, as well as in public presentations, that this is a balancing item to the liberalizing effects of the MTN. Our position should be that this program is acceptable only in the context of balancing MTN costs and benefits. If the MTN should fail, we do not want to be saddled with this program. Moreover, we would not want to be on record with this program as the first in a series of very restrictive worldwide trade actions that might be taken if the MTN should collapse.

In short, this program should only be implemented in the context of a signed, sealed, and delivered MTN. If it is presented to the industry in this light, it might also have a chance of making them real allies in the CVD and MTN ratification fights.

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7:45 AM



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

C
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MEMORANDUM FOR THE PRESIDENT

Subject: Proposed Trade Arrangement with Textile Industry

I sympathize greatly with Bob Strauss' effort to work out an arrangement with the textile industry which would help assure passage of the MTN legislation and countervailing duty waiver extension bill. The industry could clearly cause us major problems and the stakes for the Administration are extremely high.

However, it is my judgment that the program which has been negotiated would be extremely costly to a number of key Administration interests:

- It would add to inflation by cutting back import levels, and would be widely perceived and publicly described as inconsistent with the basic policy thrust of the Administration.
- It would be an extremely dangerous precedent, inducing numerous other industries to seek protectionist commitments from the Administration as the price of their support for the trade legislation over the next six months.
- By providing for sharp rollbacks in import quotas, it would reverse the whole history of United States trade (including textile) policy which has always permitted at least minimum growth for foreign suppliers.

Despite these severe problems, I would regard the package as barely acceptable if it were adopted in the context of successful conclusion of the MTN legislation (and the earlier CVD waiver extension).

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In the absence of such an outcome we would get the worst of both worlds -- no MTN and a highly restrictive textile program. In fact, the textile program should go into effect only upon successful completion of the MTN legislation.

I therefore recommend:

- That no textile program be accepted until absolutely essential to assure industry support for the MTN legislation.
- That its implementation be conditioned on successful conclusion of the MTN package, including our implementing legislation.
- In the interim, that further efforts be made to improve the specifics of the program; most notably, its rollbacks of import levels and perhaps the "global import evaluation" which implies a USG commitment to global rather than country quotas.

Mike (per copy)

W. Michael Blumenthal

THE WHITE HOUSE

MEMORANDUM OF DISAPPROVAL

I have decided not to sign into law H.R. 9937. This bill is an amendment to the Bank Holding Company Act which would authorize the General Services Administration to sell certain silver dollar coins at negotiated prices. I have determined that this legislation would not be in the national interest because of an unrelated amendment which exempts all textile and apparel items from any tariff reductions in the Multilateral Trade Negotiations (MTN) now underway in Geneva.

I am determined to assist the beleaguered textile industry. We are committed to a healthy and growing textile and apparel industry. This legislation would not advance that cause, and could even harm the entire U.S. economy.

This bill would not address the real causes of the industry's difficulties. In return for any transient benefits, the bill would prompt our trading partners to retaliate by withdrawing offers in areas where our need for export markets is the greatest -- products such as tobacco, grains, citrus, raw cotton, paper, machinery, poultry, and textile-related areas such as mill products and fashion clothing. The loss of these export areas is too high a price for our Nation to pay.

The cost of this bill might be even higher; at best, it would cost us many opportunities for export; at worst, it could cause the collapse of the trade talks and further restrict the growth of the world economy. If the two and a quarter million workers in the textile and apparel industry are to survive in their jobs, we must work to keep the world economy strong and international trade free.

Just within the last year we have taken a number of steps to improve the condition of the U.S. textile and apparel industry:

- We negotiated a renewal of the international Multifiber Arrangement through 1981, providing more responsive controls over disruptive imports.
- We have negotiated 15 new bilateral export restraint agreements which are firmer and fairer than earlier versions, covering 80 percent of all imports from low-cost suppliers. And we are negotiating more.
- We have improved our monitoring of imports and implementation of restraints, through steps such as the new legislative initiatives I have approved.

more

(OVER)

- We have, despite the proposed small reduction in tariffs, the highest textile and apparel tariffs in the developed world.
- We have begun discussions with exporting countries not now under restraint to seek appropriate levels for their shipments.
- We have established a pilot program to improve productivity in the men's tailored clothing industry, and we have begun an export promotion program for the entire textile and apparel complex.
- And we have begun a review of existing and proposed Federal regulations affecting this industry to assess their impact.

This, however, is not enough. I pledge that we will do more:

- We will intensify our review of existing bilateral restraint agreements to be sure they really work, and if there are harmful surges we will work promptly to remedy them.
- We will not allow the effectiveness of our restraint agreements to be undermined by significant increases in shipments from uncontrolled suppliers, and we will maintain a world-wide evaluation of the imports of textile and apparel into the U.S. and seek appropriate action, country-by-country, where warranted.
- We will be prepared to expand the pilot project underway in the men's tailored clothing industry so that other sectors may benefit from that experience, and we will speed proposals for a similar program in the ladies apparel industry.
- We will negotiate strenuously for removal of non-tariff barriers to U.S. textile and apparel exports, including restrictive "rules of origin."
- The Office of the Special Representative for Trade Negotiations will begin a new policy review and report to me quarterly on developments in the domestic textile and apparel industry, with special emphasis on imports and exports, so that appropriate actions can be taken more promptly.

These steps, like those of the past year, will not be the limit of our assistance to this vital industry. But each step that we take must be directed toward the long-term health of this industry and the United States economy as a whole -- unlike H.R. 9937 which on balance is detrimental to the textile industry, to its two million workers, and to the Nation as a whole.

JIMMY CARTER

THE WHITE HOUSE,
November 11, 1978

11:00 AM

THE WHITE HOUSE

WASHINGTON

February 7, 1979

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/

MEETING WITH MIKE PERTSCHUK AND JOHN SHENEFIELD

Thursday, February 8, 1979
11:00 A.M. (15 minutes)
The Oval Office

From: Stu Eizenstat

She

I. PURPOSE

Mike Pertschuk, Chairman of the FTC, requested this meeting in order to report to you on the various anti-inflation activities being undertaken by the FTC. John Shenefield, Assistant Attorney General for Antitrust, will report on similar activities being undertaken by the Antitrust Division.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: In the October 24 inflation speech, you pledged to "redouble our efforts to put competition back into the American free enterprise system". This meeting would enable the principal federal agencies dealing with anti-competitive practices to describe directly to you what they are doing to make good on that commitment. The attached draft press release, which we would plan to issue after the meeting, provides a brief summary of the activities which Pertschuk and Shenefield will discuss.

B. Participants: The President, Mike Pertschuk, John Shenefield, Fred Kahn, Stu Eizenstat, and Esther Peterson.

C. Press Plan: A White House photographer would be present for the meeting. After the meeting, Pertschuk, Shenefield, and Kahn would brief the press on the meeting, with emphasis on the importance of competition policy as one of the major elements of the Administration's anti-inflation program.

Attachment

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DRAFT PRESS RELEASE

President Carter and his chief inflation fighter, Alfred Kahn, today met with Michael Pertschuk, Chairman of the Federal Trade Commission, and John Shenefield, Assistant Attorney General in charge of the Antitrust Division of the Justice Department, to discuss the role of competition policy in fighting inflation.

Pertschuk and Shenefield reported on actions by the FTC and the Justice Department to keep prices down by challenging private and public restraints on competition. These restraints include collusion, price fixing and excessive regulation.

Pertschuk indicated that the Commission had established health care, food, housing, transportation, energy and clothing as priority sectors in which inflation has taken a heavy toll. In health care delivery, for example, the Commission has barred publication of medical society fee schedules, "ethical" bans against salaried practices by specialists, Blue Shield discrimination against health maintenance organizations, and dental resistance to cost-containment programs. Antitrust Division cases and investigations cover a broad range of industries and commodities affecting the daily lives of consumers, including the construction, energy, mining, paper products, metals and food industries. Shenefield noted that the civil and criminal cases filed by the Antitrust Division in the last year involved over \$9 billion in commerce.

Professional self-regulation and profession-inspired regulation are also undergoing Antitrust Division and Commission scrutiny. Restraints by doctors, lawyers, accountants, and realtors, are currently under investigation. Some professional groups, such as veterinarians and psychologists have recently responded by undertaking voluntary reforms to free up competition.

Additionally, the agencies have been working in close cooperation with concerned state legislators and regulators to enhance procompetitive actions at the state level. The FTC's model state generic drug substitution law (sent last week by President Carter to each state governor) would allow pharmacists to fill prescriptions with lower-cost equivalent drugs unless otherwise specified by the physician.

The President, in his inflation message, noted his support for those regulations "which fight inflation." The Commission's recent eyeglass rule will enable consumers to benefit from price advertising and comparative shopping for eyeglasses. Rules being considered this year would also provide information on insulation and on energy costs of major appliances.

The Justice Department and the FTC are leading advocates for competition in numerous proceedings before federal regulatory agencies and throughout the government. The Antitrust Division has participated in regulatory hearings on energy,

transportation, banking, securities, international trade and communications matters. The Antitrust Division also participated in several important Administrative legislative initiatives concerning competition. These efforts have led to billions of dollars of savings for consumers. The Commission has undertaken a program of competitive advocacy within policy-making councils of Administration, before Congress, and before other agencies, notably the CAB and ICC.

Chairman Pertschuk also told the President that several FTC initiatives illustrate the benefits flowing from a vigorous competition policy. Following the issuance of a complaint alleging that Levi Strauss had fixed retail prices, jeans' prices dropped by \$4. The FTC eyeglass rule could save consumers \$500 million a year.

Without necessarily endorsing each FTC or Antitrust Division initiative, the President and Chairman Kahn expressed broad support for a vigorous national competition policy to be spearheaded by the two agencies.

"Both the FTC and the Antitrust Division," the President said, "are responding vigorously to the call I sounded in the inflation message--to redouble our effort to put competition back into the American free enterprise system."

8:00 AM

THE WHITE HOUSE

WASHINGTON

February 7, 1979

MEMORANDUM TO THE PRESIDENT

FROM: ALFRED E. KAHN

Fred

SUBJECT: Agenda for the Breakfast Meeting on Inflation,
February 8, 1979, 8:00 a.m., Cabinet Room

1. Progress in organizing my office.
2. Recent wage settlements and the guidelines:
 - a. See the attached news release summarizing the results of a survey of 600 large companies.
 - b. The BLS records of collective bargaining settlements affecting 1,000 or more workers (and excluding cost-of-living adjustments, which cannot be valued prospectively) show the following average increases during the four quarters of 1978: 7.1%, 6.3%, 6.4%, and 6.1%. While it is impossible to prove that the improvement in the fourth quarter (all the more impressive in view of the acceleration in the cost of living) is attributable to the standards, we think they probably were a factor.
3. The COWPS program for monitoring the price standards (see the attached description).
4. The development of special price standards for individual industries. See the attached brief descriptions relating to health insurance, petroleum and banking.
5. The inflation outlook. We think it would be useful to discuss with you the outlook for 1979 and some of the problem sectors that concern us. Charlie Schultze will prepare some material on current trends.

Attachments

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Wage Developments

New York (AP) February 5 -- President Carter's wage and price guidelines have caused about three-quarters of the nation's major companies to cut back on wage increases from the assembly line to the executive suite, according to a survey released today.

"The survey indicates the cutbacks are being felt across the board in employee paychecks, bonuses and benefit plans," said Ronald P. Goettinger, President, Gibson & Co., a Princeton, N.J., management consulting firm that conducted the survey of 600 large companies.

Carter's plan puts a voluntary 7 percent limit on the rise in total compensation -- salary, bonus and fringe benefits -- in 1979.

According to the survey, 73 percent of the companies studied have scaled back their pay raises; those that have reduced their budgets for pay increases have cut the raises from an average of 8.5 percent to about 7.1 percent.

Several of the nation's largest firms have said they would change their pay-increase plans to meet the President's guidelines; these include General Motors and American Telephone & Telegraph.

The Nation's oil companies and the Oil Chemical and Atomic Workers Union have reached agreements to keep wage increases below 7 percent a year over the life of the contract, and trucking companies are looking for a similar deal in their current negotiations with the Teamsters Union.

Most of the attention given the guidelines has dealt with their effect on blue-collar workers, many of whom might have to stretch a 7 percent increase to cope with 9 percent inflation -- the rate recorded in 1978. A Carter plan that would grant tax relief to workers whose raises fell within the guidelines, but did not cover inflation, is currently being debated in the Congress.

But increases in executive compensation have also been reduced, the survey showed, in part because many corporate executives feel they are more visible and should set an example.

"Hardest hit by the cutbacks in pay increases are management personnel, with just over half (51 percent) of the companies saying management personnel are affected more dramatically than non-management personnel," Goettinger said.

In the cases of 27 percent of the firms surveyed, original plans called for pay increases that fall within the guidelines. Half of all firms surveyed said they had to make minor modifications to meet the limits, and 23 percent said the changes were "substantial."

For nearly 63 percent of the companies surveyed, that meant reducing budgets for merit increases. Incentive plans and benefit plans were other areas cut to meet the guidelines.

For executives, bonuses are the subject of cuts. According to the Conference Board, a business research organization, top executives of manufacturing companies made an average of \$241,000 each in 1977, the last year for which figures are available, and 45 percent of that was in bonuses.

And while many bonuses do not fall under the guidelines, because they were agreed to before the limits were announced and cover 1978 performance, corporate insiders say they are still being cut back to show good faith in dealing with the guidelines.

COWPS Program for Monitoring the Price Standards

MAJOR ELEMENTS OF THE PRICE MONITORING SYSTEM

The monitoring system of the Council will include the following principal components:

1. A data base for each major company involved in the principal monitoring effort;
2. Systematized information and procedures which will enable the Council to link immediately a potential price problem in a particular market with individual companies active in that market;
3. Procedures for providing companies an opportunity to demonstrate that their actions are consistent with the guidelines.

In addition, the monitoring system will provide information with which to develop policy proposals for ameliorating inflationary pressures in those markets where pay or price increases exceed the standards.

SCOPE OF THE MONITORING PROGRAM

By February 15 the Council will have received base period data from all companies with at least \$250 million in sales or 5,000 employees. This data will serve as the basis for comparison with program year price increases in determining compliance with the price standard.

Companies with sales of \$500 million or more (approximately 750 in number) have been asked to provide rather detailed information, including: base period rate-of-price changes; gross margin or profit margin data, if a firm has decided to use either of these standards rather than the price deceleration standard; and line of business information, to enable the Council to identify major firms in individual markets.

Companies with sales between \$250 and \$500 million (about 600 in all) have been asked to provide much less detailed information, in keeping with our original intention of concentrating the monitoring process on the largest companies. However, we did include companies in this smaller range in the February 15 filing, for three reasons: first, we wanted to increase their awareness of and contact with the program; second, the line of business information they supply will be helpful to us in identifying leading companies in those markets where the larger firms are not dominant; and third, the same information will provide a basic reference point for monitoring any suspected violation by these companies.

The data requests we have made should not impose unnecessary and enormous reporting burdens on the

companies involved. Indeed, we have had relatively few complaints on this score. Where there have been problems, the Council has tried to accommodate the reporting needs of individual companies, so that data for the base period and the program year will be comparable. For example, many insurance companies, regulated by the States, file information by calendar, not fiscal year. The Council has agreed to permit them to continue to do so.

USE OF THE DATA: IDENTIFICATION OF PRICE INCREASES
AND TRENDS

Within the Council the Office of Price Monitoring (which will consist of 83 persons at planned full staff) is organized along industry designations, into five major divisions: (1) metals, machinery and transportation; (2) energy and utilities; (3) health, insurance and other services; (4) food, agriculture and trade; and (5) construction materials, paper and textiles. In addition, there are two supporting units -- one to examine financial and accounting documents and issues, and the other to focus on special projects.

The Consumer Price Index will provide the basic data framework for the monitoring, with supplementary information obtained from the Producer Price Index for commodity groups. The component elements of these indexes will be used to establish target limits or

ceilings on program year price increases for each major product group: the rate of price increase in each of these groups during 1976-77, less one-half percentage point.

The data on sales by major product line, obtained from individual firms on February 15, will enable the Office to construct a list of firms which are active in each of these broad markets. This list will provide a link between market price actions and individual companies.

In addition to these sources of information, the Office will obtain information on price actions from industry trade publications and price data of other government agencies. The Office is receiving assistance in this regard from the Department of Commerce, which has substantial ability in this area.

These and other sources of information, including reports from consumers, newspapers and trade publications, will allow the Office and Council staff to maintain a cumulative record of price increases by major product lines since the beginning of the program year. When the cumulative price increases for a specific product line appear to be rising at a rate in excess of the ceiling rate, either for the program year or for the first six months, the Council will contact those firms

with significant activities in that market, verify the extent of their price actions and determine if their overall price increases are consistent with the price deceleration standard.

Beginning next month, the Council will publish a regular report on the extent of compliance with the price standards. We will also be able to begin to identify specific situations on non-compliance with the standards, and to identify any individual firms that fall into that category.

Standards for Individual Industries

The Council on Wage and Price Stability has nearly completed a series of discussions with individual industries and has developed special standards for those in unusual circumstances. These include food processing, retail/wholesale trade, professional fees, insurance, energy and banking. Some of these standards raise some issues of which you should be aware.

- o The standards for health insurance are consistent with the hospital cost containment program of HEW and a limitation of 6.5 percent (the target overall inflation rate) for physician fee increases. They call for a 15 percent reduction in the rate of increase in health insurance rates.
- o The standards for petroleum refiners have been revised to a control on their gross margins that
 - allows a passthrough of large anticipated increases in crude oil costs, and,
 - prevents a conflict between existing DOE regulations and the price standards.

*Force
to cut
coverage*

- exclude crude oil and natural gas because they are controlled by DOE regulations.
- o We have concluded that it would not make sense to propose a profit margin standard for banks.
 - We had previously excluded interest rates from the price standard to prevent a conflict with monetary policy.
 - Commercial bank profits were extremely high in 1978 and will be again in 1979. Their earnings have increased rapidly in response to the Federal Reserve's policy of increasing market interest rates. Yet, the existence of regulatory ceilings on deposit rates prevents the passthrough of these higher earnings to small depositors.
 - The monetary authorities could raise the deposit rate ceilings for savers; but it is argued that increased competition for deposits would threaten the financial viability of mutual savings banks. The earnings on assets of these institutions

have increased much less dramatically since their investments are concentrated in long-term assets (such as mortgages).

-- COWPS proposes to exclude banks from the profit margin limitation since, within the current regulatory framework, there is no action we can take to reduce their profits which would contribute to reducing inflation and not interfere with monetary policy. We propose to focus attention instead on the need for regulatory reforms that would allow banks to compete for savings, and in this way permit small savers to receive a higher interest return on their savings. Small deposits are currently limited to a maximum 5 percent interest rate. Additional regulatory reforms could then be proposed to improve the competitive position of mutual savings banks.

-- You will be receiving recommendations on the issues of financial reform legislation in a few months from an interagency task force. The decision of COWPS to

exempt banks from the standards, for the reasons I have just summarized, might put additional pressure on your Administration to propose a program to phase out the deposit rate ceilings.

-- An alternative proposal has been suggested that would seek to limit the payout of dividends by banks. This would maintain the appearance of some restraint on them -- and in this way possibly improve the public acceptability and credibility of the standards generally. It would also be favored by some regulatory agencies, who see it as a way to improve banks capital/asset ratio and thus their financial viability. It is opposed by the COWPS staff as having no significant anti-inflation value. We are unable to say, as a matter of economics, whether paying out profits in dividends is more or less inflationary than reinvesting them in the business.

THE WHITE HOUSE

WASHINGTON

February 8, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE *F.M.*

SUBJECT: CHURCH TAIWAN AMENDMENT

Attached are Warren Christopher's minimum requirements for word changes in the Church-Javits-Baker amendment. There is also some difficulty with the wording of Section A (also attached) of the amendment. We suggest that you concentrate on Warren's changes in Section B and have Warren work with Church after your lunch on Section A.

Church is by now probably aware that we have his amendment. You should feel free to show it to him if you find it necessary.

We also suggest that you propose to Church that he and his colleagues work with Warren to find mutually acceptable language which will avoid a veto.

You should call Warren after your lunch with Church to give him instructions. He will contact my office after he hears from you.

For your information: The Staff Director of the Senate Foreign Relations Committee has been told that this language will almost certainly be vetoed.

SECTION B OF THE CHURCH-JAVITS-BAKER COMPROMISE

In order to achieve the objectives of this section:

1. The United States will maintain its capacity in the Western Pacific to resist ~~armed-attack~~ (any resort to force) and other forms of ~~external~~ activities that would jeopardize ~~the-territorial-and-functional-integrity~~ (the security and well-being of the people) of Taiwan, which is deemed, for this purpose, to be Taiwan and the Pescadores;
2. The United States will assist the people on Taiwan to maintain the self-defense capability through ~~appropriate-means-including~~ the provision of ~~sufficient~~ (selective) arms of a defensive character;
3. The President is directed to inform the Congress promptly of any threat to the security of Taiwan and any danger to the interests of the United States arising therefrom.

NOTE: Christopher has crossed out the Church language he wants deleted and where additional language is necessary it is in parenthesis.

SECTION A

- (a) The United States is determined --
- (1) to maintain extensive, close and friendly relations with the people on Taiwan;
 - (2) to make clear that United States recognition of the People's Republic of China rests on the expectation that any resolution of the Taiwan issue will be sought only by peaceful means;
 - (3) to consider an armed attack against Taiwan a common danger to the peace and security of the people on Taiwan and the United States in the Western Pacific; and
 - (4) to provide the people on Taiwan with sufficient arms of a defensive character.

12:00 noon

THE WHITE HOUSE

WASHINGTON

February 7, 1979

LUNCH WITH SENATOR AND MRS. CHURCH (D-IDAHO)

Thursday, February 8, 1979
12:00 Noon (30 minutes)
The Oval Office

From: Frank Moore ^{FM/BB}
Dr. Brzezinski

I. PURPOSE:

For you and Mrs. Carter to have an informal lunch with Frank and Bethine Church.

II. BACKGROUND, PARTICIPANTS AND PRESS PLANS

Background: The lunch developed as a result of your conversation with Senator Church last month congratulating him on his chairmanship. It provides a good opportunity for discussion about his role as Chairman as well as his recent statements on your foreign policy.

As you have heard, Church has some serious reelection problems. His polls have dropped and his eyes are on Idaho. (FYI a recent poll showed Congressman Symms trailing Church 42 - 31 statewide) He also has to deal with an increasingly divided and vocal SFRC. The Republican statements over the weekend did not help. He has been helpful during the Taiwan hearings. He will work to pull Javits back. His most recent jabs at your foreign policy on the following subjects must be understood against this background. You should keep in mind that he is a solid supporter and fighter for SALT.

-- Iran--he believes Bakhtiar is "standing on a banana peel" and that our support is misplaced.

--Saudi Arabia--according to Church the Saudi's could have been more helpful in the peace treaty negotiations and we made a mistake selling them the planes. (Church told Ed Sanders on Wednesday that the press and the Administration had misread his position on Saudi Arabia. Rather than be critical

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he was trying to be helpful by sending a message to the Saudis -- which the President could not. You might want to explore this with him further.)

--Taiwan legislation--he believes the Administration's legislation is inadequate in three ways A) the security it offers Taiwan B) the provisions made for Taiwanese assets in this country C) immunities and privileges for Taiwanese officials remaining ~~the~~ the U.S. Church's problems are exacerbated by Javits insisting that Taiwan be given the same protection it gets now under the mutual defense treaty.

--Senator Church is matched in his zeal and perceived political need for sugar legislation only by Russell Long in the Senate. Church's Idaho beet producers have the highest cost of any in the nation. The two are working close together. If Church brings up sugar, you may want simply to say (1) you understand it is very important to him and (2) we are hoping to work something out.

--if time permits you should discuss the purpose of your trip to Mexico.

In addition to mentioning the above specifics, it would be extremely useful if you were to discuss his general role in foreign policy and Executive-legislative relations in the area.

Participants: The President, Mrs. Carter, Senator Church and Mrs. Church

PressPlans: White House Photographer

III. TALKING POINTS

Iran-- we are supporting the Bakhtiar Government as the legitimate government of Iran. Under the present circumstances, it appears to offer the best prospect for long-term American interests.

-- General Huyser spent a month there working to persuade the army to keep itself intact and to lend its support to the Bakhtiar Government. His success in both of those missions is one of the brightest moments in our policy in Iran.

-- We are making every effort to avoid giving any encouragement to Khomeini and his forces. Khomeini's declared intention to ignore the normal constitutional processes and simply take over the government is not in our interest. It risks a frontal confrontation with the military and a further breakdown of law and order.

-- We do not wish to embrace Bakhtiar so openly that it will impair his credibility or effectiveness, but we are doing what we can to improve his chances.

-- I believe it is in the interests of all of us to keep Bakhtiar's government viable and in place. He may not survive (although he has shown himself to be tough and determined), but we should do nothing to endanger his position.

-- I intend to continue to hold to the policy of not commenting on the internal affairs of Iran, since anything I say can be used in a harmful way by one faction or the other.

Saudi Arabi-- Harold Brown is going out to Saudi Arabia this weekend for in-depth talks with the Saudis about regional security.

-- The Saudis are being pushed in several directions. We have been quite explicit in asking them for help on oil prices and production. It is extremely difficult for them when other nations are selling their excess production at the spot market price--some \$4 or more above the Saudi price.

--We are also pressing them on the peace negotiations and on economic support to Egypt, Sudan, Yemen and other nations which have security problems. We have been quite explicit about our disappointment with their performance at Bagdad.

-- However, the Saudis are also being pressed by OPEC and many of their Arab neighbors to do just the opposite of what we ask.

-- This is a moment of great sensitivity for the Saudis. They see themselves as weak and surrounded by growing hostility. They are seriously questioning

the fundamentals of our relationship.

--Pressure on the rather fragile Saudi leadership at the present time would risk splitting them into factions, polarizing opposition to the U.S. and its policies, and encourage them to look elsewhere.

-- The Soviets are actively courting the Saudis, and we cannot dismiss the possibility that closer relations may be established. For years the Soviets have wanted a toe hold on the Arabian Peninsula.

-- The stakes for the West in Saudi Arabia are enormous. We will continue to press them for closer and more active cooperation with our policies. I am afraid that threats of reexamining the F-15 sale will be counterproductive. That only raises their concern about our reliability on security issues, and tempts them to look for alternatives.

Taiwan-- I continue to believe that the language in the legislation I sent to you is adequate, but I understand the Congressional viewpoint. Could you give me some indication of how the language is shaping up? What the legislation says is of utmost importance to establishing our relations with China in a mutually agreeable way, thereby assuring the security the Congress and I seek for Taiwan. I understand that your people will be talking to the State Department and I encourage you to do so.

His Chairmanship/Role-- I understand that you have many issues with which to deal as a new Chairman and that you also must spend time on your campaign. Clearly there are time when you need to put some distance between us.

At the same time, I do not need to point out to you that you have a unique opportunity to be the most effective Chairman of the SFRC in 30 years. The combination of your background and the Senate's interest in foreign policy will enable you to have a tremendous input. I know how important the SALT Treaty is to you. It is my top priority issue. Your leadership will be vital.

I just want to emphasize that Cy, Zbig and I want to remain in close touch with you and work with you.

9:45 AM

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS

WASHINGTON

20306

February 8, 1979

MEMORANDUM FOR THE PRESIDENT

FROM : Ambassador Strauss



SUBJECT: The Textile Program in the MTN

Enclosed is the final text of the Administration Textile Program which we will discuss again this morning. Its acceptance on our part will give us no less than the support of the textile industry and qualified support of the key unions as we seek first the extension of the authority to waive countervailing duties, and second, approval of the MTN agreements. Support of this bloc will make both tasks significantly easier; their opposition would be fatal. The benefits of having them in a position of support and cooperation will extend beyond these immediate legislative objectives, I am certain.

This industry, employing almost two and a half million people, more than half of them women, and a large portion minorities, has been provided with special programs of various kinds going back to the Roosevelt Administration, and the present type of import-control program has existed for almost twenty years.

Currently the industry is most concerned about rapid surges in specific products from other nations which can cause rapid loss of jobs and production. Their proposal is to allow trade to grow, but not in such disruptive ways--and that is the principal thrust of this paper.

As I explain in an attached outline of how this paper developed, it began after the industry had secured an overwhelming vote in the Congress to take textiles out of our MTN tariff negotiations, which legislation you vetoed on November 11, 1978. Your veto message (which I also enclose) was the starting point for this program.

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Several agencies have expressed a distrust of this industry and its associated unions, fearing that once a program such as this has your approval they will renege on their promises to help us in the Congress. They recommend that failure of the MTN for any reason should immediately terminate the program we have set out upon. I do not believe this is realistic, but I do agree that we should think about how to handle certain elements of the textile trade should the MTN not be approved. I feel certain that a number of agencies would want to review where we stand in that event.

As a whole, the document we have drafted addresses a number of the industry's problems in a coherent way, giving them a degree of certainty for annual planning purposes. This, as you know, is crucial to good business operations. Most of what is in here is already in place or is on the way even without this paper. There are, however, several concepts enunciated which represent the first statement of these policy directions:

- (1) A global evaluation of imports. This is a promise that when we look at potential quantitative restrictions for a supplier we will consider the total volume of imports of the category of goods in question from all sources. This recognizes that a sharp increase from one source which would not cause us to respond if it were the only such increase, would in fact cause action to be taken if it occurred on top of substantial and disruptive levels of imports from multiple sources.
- (2) An evaluation of the growth of imports from our three principal suppliers (Hong Kong, Korea and Taiwan) in the context of the growth of the domestic market. Currently growth accorded these major suppliers is determined without explicitly requiring a review of the condition of the U.S. market, often giving imports a disproportionate share of the market growth. In the next three years we would have an annual review of this relationship and take it into account in our negotiations.

- (3) Avoidance of surges which now can occur when a country substantially underships its quota and then moves to full quota the next year.

To avoid some very significant surges, we would under normal circumstances, limit a country to an increase of half of its unfilled portion in that product, but recovering fully in a relatively short period. This is one of the key points of providing some certainty for business planning.

The remainder of the significant elements of program fall within policies already in effect, and in some instances includes promises which have already been fulfilled.

February 7, 1979

ADMINISTRATION TEXTILE PROGRAM

Pursuant to the President's Statement of November 11, 1978.

The Administration is determined to assist the beleaguered textile and apparel industry and is committed to its health and growth. This industry provides employment for almost two and one-half million people, the largest single source of jobs in our manufacturing economy, and provides our consumers with a reliable, competitively priced, vital source for all the many vital clothing, medical, military, industrial and other products of its modern technology.

In 1978, U.S. imports of textiles and apparel amounted to seven billion dollars. U.S. exports amounted to only 2.6 billion dollars, a differential of almost five billion dollars. This situation, with trade restrictions abroad and our lack of success in exporting, contributed to unemployment at home. It must be improved in the national interest. Accordingly, today, the Administration is announcing a new approach to deal more effectively with the serious problems that face this industry.

GLOBAL IMPORT EVALUATION

--The United States Government will, on a continuing basis, conduct a global import evaluation, consisting of a continuous evaluation of textile and apparel imports, from all countries,

category-by-category. The purpose will be to analyze the impact of textile and apparel imports from all sources in the context of U.S. market growth and conditions in the industry. The results of this analysis will be evaluated for their negative and positive consequences for trade measures, in the light of U.S. rights under the Multifiber Arrangement (MFA).

--A member of the Cabinet, pursuant to a directive from the President, will have personal responsibility for overseeing the global evaluation program, in cooperation with the agencies having responsibilities with respect to textile trade, and will report quarterly to the President on its implementation. The program will begin not later than March 31, 1979.

IMPORT CONTROLS

Based on the continuous global import evaluation of textile and apparel imports from all countries, category-by-category, the following actions will be taken:

1. Import surges that cause market disruption, as defined in Annex A of the MFA, will be aggressively controlled, whether they occur from one source or many, under agreements or otherwise. . In all all of the import control actions, special attention will be paid to the most import-sensitive or import-impacted product categories.

2. There will be aggressive and prompt enforcement of U.S. international rights, including the use of MFA Article 3, and Article 8 (involving circumvention)

where the criteria of these articles are met.

3. Understandings with respect to existing agreements with the leading major exporting countries will be reached to tighten controls for the remaining life of these agreements, and to eliminate threats of further market disruption through import surges which arise from one agreement year to another due to: (i) the use of flexibility provisions; (ii) partially filled quotas in one year followed by more fully filled quotas in the next year; or (iii) surges that occur in the course of a single agreement year when an undue proportion of the year's shipments is concentrated in a short span of time. In order to preclude harmful fluctuations, where quotas have been substantially undershipped in the preceding agreement year, in concurrence with the MFA concept of orderly growth in trade, year-to-year increases in such cases should not normally exceed the previous year's shipment's plus one-half of the unfilled portion of the previous year's quota but in no event more than the current year's quota. Thereafter, the applicable growth and flexibility provisions would apply.

20%
+

7
never
get back

3.
77-100
78-40
79-70

4.
77-100
78-40
79-40(?)

Hong Kong
Taiwan
Korea

4. Where necessary to preclude further disruption from the leading major exporting countries, the Administra-

tion's objective will be to assure that (1) 1979 imports will not exceed 1978 trade levels or 1979 base levels, whichever are lower, and (2) in each of the three following years, import growth will be evaluated

+ 6%?

annually by category (including all flexibility provisions for each category) in the context of the estimated rate of growth in the domestic market in that category, and adjustments made. Particular attention shall be

paid to the most sensitive categories, especially in apparel, where the import to domestic production ratio is high and indicative of market disruption. The industry and government will cooperate to the fullest extent possible so that current data on domestic production on a category or product basis will be available to assure the effective working of this provision.

5. The United States Government has just negotiated a more effective bilateral arrangement with Japan to remove the serious problem of disruptive fluctuations. Strong efforts must also be made by the Government and industry to expand substantially textile exports to Japan.
6. Recognizing the potential for sharp and disruptive growth in textile and apparel imports from any major new supplying country, the United States Government will seek to negotiate import restraint levels with the supplier as close as possible to the most recent levels of trade for heavily traded or import-sensitive products and to secure an effective means to expeditiously deal with disruptive import surges in any other category, in the context of the global import evaluation program described above.
7. There will be improvement in quality and timing of monitoring efforts to provide the information for prompt evaluation and appropriate actions. The present system will be reinforced and, working with industry and labor, means for faster feedback and response will be developed.
8. Consistent with federal practices and procedures, there will be full and prior industry/labor consultation on

strategy, outlook and problems with respect to bilateral agreements.

MTN

--A snapback clause, effective during the implementation of the MTN tariff reductions, which will restore textile and apparel tariffs to their pre-MTN levels if the MFA does not continue to be ineffect or a suitable substitute arrangement is not put into place, will be adopted as part of the implementation of the MTN tariff reductions. In the event the MFA is not renewed or a suitable arrangement is not put into place, legislative remedies will be proposed to allow the President authority to unilaterally control imports of textile and apparel products consistent with the policy enunciated in this statement.

--As a matter of continuing policy, the textile and apparel items included in the Berry Amendment will be excluded from coverage of Government Procurement Code liberalization.

LAW ENFORCEMENT

--A major effort, made possible by a special appropriation of the last Congress, designed to dramatically improve the

administrative enforcement of all our textile agreements, is currently proceeding. This program must be carried through expeditiously.

--U.S. trade remedies against foreign unfair trade practices, including the countervailing duty law and antidumping act, will be improved, their administration made more responsive and their procedures accelerated in accordance with legislation implementing the Multilateral Trade Negotiations.

--Customs will improve and make more thorough its monitoring and enforcement efforts, including the use of penalties available under law where appropriate, with respect to improper transshipments, country of origin requirements, and violations of quantitative limits, with the objective of preventing evasion of restraint agreements and quantitative limitations.

INDUSTRY EXPORT DRIVE

--The industry will initiate a major export drive, with the U.S. Government's commitment of full support, including:

--a market development program

--vigorous USG efforts to tear down foreign trade barriers.

HIGH-LEVEL TEXTILE POLICY GROUP

--The President will appoint a high-level Industry-Labor-Government Policy Group to identify and bring public attention to problems affecting the competitiveness of the industry.

OTHER SPECIFIC ACTIONS

--The pilot program to enhance productivity in the apparel industry will be expanded to include the ladies' apparel industry.

U.S. INDUSTRY COMPETITIVENESS

--The textile and apparel industry indicates its resolve to make maximum efforts to maintain international competitiveness, through promoting efficiency within the industry, to continue to act responsibly pursuant to the President's anti-inflation program guidelines, and to support the national trade policy, which includes as an integral part the program of orderly growth in textile trade outlined above. For its part, the Administration will act expeditiously to put the foregoing program into effect and expects concrete results in sixty days.

| 7

THE WHITE HOUSE
WASHINGTON

2/8/79

The Vice President

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

Rick Hutcheson

FOR ACTION
FYI

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

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

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



OFFICE OF THE VICE PRESIDENT
WASHINGTON

February 6, 1979

*Fritz -
You do it
J*

MEMORANDUM FOR: THE PRESIDENT
FROM: THE VICE PRESIDENT *WJ*
SUBJECT: DEPARTMENT OF EDUCATION ANNOUNCEMENT

On Thursday, Jim McIntyre will testify before the Senate Committee on Governmental Affairs on your proposal to create a Cabinet-level Department of Education.

The White House Task Force established to oversee legislative and public outreach strategy unanimously recommends that you make a brief (3-5 minute) announcement in the Press Room in advance of Jim's testimony either on Wednesday or Thursday morning.

Jerry Rafshoon has expressed reservations about your participation in the announcement on grounds that your public statements should insofar as possible be limited to inflation/budget and SALT. I share the desire to limit as carefully as possible your visibility on non-priority matters. Nonetheless, I would strongly urge your participation in this announcement for the following reasons:

- o In the agenda process, you designated reorganization -- including the Department of Education proposal -- as one of the top Presidential priorities for the year.
- o This is one of the very few public events in connection with the Education Reorganization that the Task Force will ask you to take part in this year.
- o One of the most frequently voiced questions raised by constituent groups and Members of Congress last year, was the depth of the Administration's commitment to enactment of the bill. A short statement by you reaffirming your commitment to press for Congressional approval would substantially allay those concerns.

Memorandum for The President
Re: Department of Education Announcement
February 6, 1979
Page 2

Despite some criticisms last year, I believe there is no reason to back away from the Education Department proposal. Education directly touches the lives of nearly 70 million Americans, and improvements in the management and quality of the federal effort are unquestionably needed. The reorganization proposal helps to break up a Department (HEW), which is generally viewed as too big and unwieldy for effective management. With a strong push from the Administration, I believe this measure can be passed in this Congress -- possibly within the first six months.

I recommend that you make the statement, which would be followed by a detailed briefing by OMB. Stu, Frank, Jim, Anne and Hamilton agree.

Approve _____ Disapprove ✓

*VP do it -
J*

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THE WHITE HOUSE
WASHINGTON
2/8/79

Stu Eizenstat
Bob Lipshutz

The attached was returned in the President's outbox today and is forwarded to you for your information. The signed original letter has been given to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder

THE WHITE HOUSE

WASHINGTON

To Chairman Marvin Cohen

I have reviewed the following orders proposed by
the Civil Aeronautics Board:

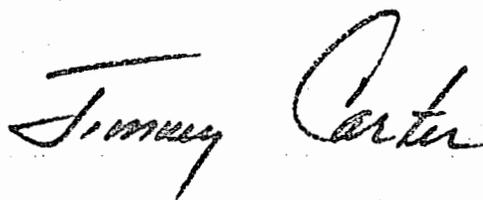
British West Indian Airways, Ltd.
Dockets 13962, 23229, 33183

Lloyd Aereo Boliviano, S.A.
Dockets 33294, 33360

Olympic Airways, S.A.
Docket 33511

I do not intend to disapprove the Board's orders
within the 60 days allowed by statute.

Sincerely,

X 

Honorable Marvin S. Cohen
Chairman
Civil Aeronautics Board
Washington, D. C. 20428

THE WHITE HOUSE
WASHINGTON

9:45 am
Thursday

February 7, 1979

MR. PRESIDENT

Do you want to see
Bob Strauss and Stu
Eizenstat again today
on textiles?

YES NO

PHIL

Only
If
necessary
J

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THE WHITE HOUSE
WASHINGTON

2/8/79

Stu Eizenstat

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

Rick Hutcheson



United States
of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 96th CONGRESS, FIRST SESSION

Vol. 125

WASHINGTON, THURSDAY, JANUARY 25, 1979

No. 7

Senate

Stu-
will be issue
J

PAN AMERICAN-NATIONAL AIR- LINES MERGER

Mr. MOYNIHAN. Mr. President, the proposed Pan American-National airlines merger is a matter of considerable importance to the State of New York. My colleague Senator JAVITS and I both appeared before an administrative law judge of the Civil Aeronautics Board and testified to that effect.

The 34 members of the New York State congressional delegation have submitted their views in support of the merger to the CAB. The mayor and deputy mayor of the city of New York, and the chairman of the Association for a Better New York, have endorsed it in the strongest terms, as have the New York State Senate, the New York State assembly, and the New York City Council.

Given the significance of the proposed merger to my State and to the United States' interest in a strong international air carrier, I am delighted that the Department of Transportation, which has primary authority and responsibility for air transportation matters within the executive branch, has urged the CAB to approve it. The CAB's Bureau of Domestic Aviation and Pricing also announced, at the conclusion of the hearings, that in its opinion the Board has no alternative but to approve the merger.

I was disappointed, but not surprised, that the Department of Justice, in its brief to the law judge, took a different view. The Department has a long history of opposing mergers between trunk carriers, and despite the clear economic realities of this case, despite the action of Congress last year in reducing the burden air carriers must meet when they seek to merge, Justice has adhered to its historical position.

Running through its brief is the notion that Pan American could, if it only would, develop a domestic route system from scratch, and thus avoid what Justice calls the "anti-competitive" alternative of acquiring National Airlines. Executives of Pan American have said unequivocally that Pan American neither can nor will attempt such a thing. The cost of acquiring the necessary aircraft and building the necessary ground stations is much too high. Even if the funds could be found for it, competitive circumstances would not permit it; by the time Pan Am got such a system under

way several years from now, other carriers, in the new deregulated environment, would have already entered and absorbed most of the promising markets.

Mr. President, Pan American's vitality is important to New York and to the Nation. It needs a domestic route system that can feed traffic onto and from its international system, if it is to be and remain economically viable. The only practical way it can obtain such a system is to merge with a going domestic airline. National is the smallest of these. Merging Pan Am with National will eliminate no competition of consequence. On the contrary, it will enable the merged carrier to be more competitive. Thus it is in the public interest.

I sincerely hope that the Civil Aeronautics Board will find it so. I hope that the President, who will also have a role in deciding the matter, will agree.

In this morning's Washington Post there is an excellent editorial that calls on the Board, among other things, to approve the Pan Am-National merger. I ask unanimous consent that it may be printed at this point in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

WHO GETS NATIONAL AIRLINES?

The airlines are responding to deregulation just as the economists said they would. Competition is proliferating all over the place (Air Florida is opening up at Dulles), and lower fares are available to almost anywhere. That's the most visible part of deregulation, as well as the part that provides passengers with the most immediate benefits. But at the Civil Aeronautics Board, the other aspect of deregulation—the question of what the government should do about airlines that want to merge—is grinding along quietly.

The target, in the biggest airline merger case of the last decade, is National Airlines, the most sought after airline in the nation. Pan American World Airways wants to absorb it to get its domestic routes. Eastern Airlines wants it for its international routes. Texas International wants to latch onto it just to get bigger. Within the next two months or so, the CAB will decide who gets it and, in the process, tell airline companies how free of government regulation they really are.

In the days before deregulation, the CAB's job would have been comparatively simple. It would have weighed the anti-competitive

aspects of each proposal as well as the strengths and weaknesses of each airline. Eastern, for example, would have been ruled out automatically because it is one of National's major competitors in the Southeast. But with the new kinds of competition the government is now fostering, the balance is more complex. Eastern argues that the competition that would be eliminated if it merges with National would be replaced almost immediately. It says other airlines would leap into the markets left vacant by National's disappearance, something they can do now but could not do before deregulation.

Eastern may be right, but it is doubtful if the CAB—or anyone other than Eastern's executives—is willing to take that chance so early in the new competitive era. There is too much of an overlap between the routes served by Eastern and National to run the risk of a sudden drop in competition in a growing part of the air network. Indeed, this particular merger proposal is a classic violation of old antitrust theory.

The situations involving Pan Am and Texas International are quite different. Neither is a major competitor of National, although Pan Am is a potential one because of National's newly acquired North Atlantic routes. But there is enough other competition already across that ocean so that the anti-competitive effect of a National merger with Pan Am would be minimal.

Texas International's effort to take over National grows from its desire to be a strong, big airline rather than a strong, regional one. That is certainly a desire the government ought not to squelch. On the other hand, Pan Am needs a domestic route structure in the new competitive climate to stop being a weak, big airline. It can get that structure cheaper by buying National than by building one itself, the course suggested to it by former CAB Chairman Alfred Kahn.

In this framework, the CAB Chairman might be well advised to bless both Pan Am and Texas International and let National's stockholders decide who wins. While such a decision could spur more merger proposals, it would be in keeping with the spirit of deregulation. A decision blocking either or both of these takeover bids would suggest the government is not yet ready to let go of the regulatory reins it has kept on the airline industry much too long.

THE WHITE HOUSE

WASHINGTON

February 7, 1979

ok
J

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER *HC*

SUBJECT: Nixon Visit to China

Former President Nixon's chief of staff, Jack Brennan, called me yesterday and relayed the following message from Mr. Nixon.

Last October, Mr. Nixon accepted an invitation to visit the Peoples Republic of China in March of this year. However, Mr. Nixon told Vice Premier Deng Xiaoping at their meeting last week that in light of the recent normalization of diplomatic relations with China, he felt his March visit should be cancelled until after such time that you go to China. Mr. Nixon told Vice Premier Deng he felt strongly that the next important person to visit China should be you.

Deng's response was that it made no significant difference to them, and that decision should be made by you and Mr. Nixon.

As a result of this conversation, Mr. Nixon has officially informed the Chinese that he does not feel it is appropriate for him to consider a visit to China until after yours.

I told Jack Brennan that I would relay this information to you and would let him know of any response from you.

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for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

2/8/79

Stu Eizenstat

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

Rick Hutcheson

cc: Jerry Rafshoon

THE WHITE HOUSE
WASHINGTON

2/7/79

Mr. President:

Rafshoon and OMB concur with Eizenstat.

Congressional Liaison comments:
"our impression is that advantages of equal time usually accrue to the benefit of non-incumbents; consequently, if benefit to the President's reelection campaign is a factor in the decision making process, we should support eliminating the equal time requirement. However, we have not been approached on the Hill about equal time, and take no position on the merits."

Rick

FOR ACTION
FYI

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

VICE PRESIDENT

JORDAN

/ EIZENSTAT

KRAFT

LIPSHUTZ

MOORE

POWELL

/ RAFSHOON

WATSON

WEXLER

BRZEZINSKI

MCINTYRE

SCHULTZE

ADAMS

ANDRUS

BELL

BERGLAND

BLUMENTHAL

BROWN

CALIFANO

HARRIS

KREPS

MARSHALL

SCHLESINGER

STRAUSS

VANCE

ARONSON

BUTLER

H. CARTER

CLOUGH

CRUIKSHANK

FIRST LADY

HARDEN

HERNANDEZ

HUTCHESON

KAHN

LINDER

MARTIN

MILLER

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

WARREN

WEDDINGTON

WISE

VOORDE

ADMIN. CONFIDEN.

CONFIDENTIAL

SECRET

EYES ONLY

THE WHITE HOUSE

WASHINGTON

February 1, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
STEVE SIMMONS *Steve*

SUBJECT: Equal Time Law Reform for TV and
Radio Coverage of Political
Candidates

The Commerce Department's National Telecommunications and Information Agency (NTIA) has been asked by the House Communications Subcommittee for Administration views on revising the Equal Time Law, and your guidance is needed.

BACKGROUND

Under the so-called "Equal Time Rule," if one political candidate buys or receives free TV or radio time, all other candidates for the same office must be given a precisely equal opportunity. News-type programming is exempt from this requirement. The FCC has ruled that debates between and press conferences by qualified political candidates are exempt "news," provided they are not initiated by broadcasters.

House Communications Subcommittee Chairman Lionel Van Deerlin has proposed fully repealing the Equal Time Rule for Presidential, Vice Presidential and Statewide races (senate, gubernatorial, etc.) in general and primary elections. NTIA has proposed a more limited reform, urging that the Equal Time Rule be repealed only in Presidential and Vice Presidential general elections, and only for free-time broadcasts. Under NTIA's proposal, the Equal Time Rule would continue to apply in these elections for any paid political commercials, but would not affect any political programming a broadcaster aired on his own. NTIA argues that such a repeal would:

- Eliminate the inhibition broadcasters now feel about airing documentary and other programming on the "great issues" of the campaign. Broadcasters claim since these are still covered by the Equal Time Law, they will not air this type of programming since it means they will have to give similar air time to all fringe candidates.

- Allow broadcasters themselves to hold the debates in their own studios, without the "League of Women Voters" or some other outside organization controlling them. NTIA suggests that participation by the League or a similar group is really a "legal charade" to show that "news events" are actually taking place thereby making the debates exempt from the Equal Time Rule.
- Be consistent with your initiative to "deregulate" industry, and is supportive of First Amendment press rights.

RECOMMENDATION

We recommend that the Administration not take any position on the Equal Time Rule reform at this time, and that the NTIA proposal not be approved now because:

- Minority candidates would object to Equal Time Rule reform, and some may charge that you want to deny equal time to other candidates only to politically benefit yourself.
- This commits you further to do debating in 1980, since it may be claimed that your Administration revised the Law in part to facilitate the debates.
- Your challenger in 1980 would get more coverage than he might get otherwise.
- There will be no legal need for the League of Women Voters or some other organization to sponsor the debates, and they will criticize this.
- Aside from Congressional inquiries and the continuing broadcaster preference for revision, there is no great interest group pressure to change the Equal Time Law.

The continuing Congressional inquiry and a prestigious Twentieth Century Fund report on this issue soon to be released may focus attention on our inability to formulate a position. But we think we can have NTIA testify that as an incumbent Administration with a vested stake, we simply do not want to take a position on the issue at this time. Unless you disagree, we will so instruct NTIA.

I agree

ID 790012

THE WHITE HOUSE

WASHINGTON

DATE: 01 FEB 79

FOR ACTION: HAMILTON JORDAN

TIM KRAFT

BOB LIPSHUTZ

FRANK MOORE (LES FRANCIS)

JODY POWELL *nc*

JERRY RAFSHOON *concur*

JIM MCINTYRE *concur w/ Stu*

INFO ONLY: THE VICE PRESIDENT

SUBJECT: EIZENSTAT MEMO RE EQUAL TIME LAW REFORM FOR TV AND RADIO
COVERAGE OF POLITICAL CANDIDATES

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

+ BY: 1200 PM MONDAY 05 FEB 79 +

+++++

ACTION REQUESTED:

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

PLEASE NOTE OTHER COMMENTS BELOW:

ID 79001-2

THE WHITE HOUSE

WASHINGTON

DATE: 01 FEB 79

FOR ACTION: HAMILTON JORDAN

TIM KRAFT

BOB LIPSHUTZ

FRANK MOORE (LES FRANCIS)

JODY POWELL *nc*

JERRY RAFSHOON *concur*

JIM MCINTYRE

concur w/ Stu

INFO ONLY: THE VICE PRESIDENT

SUBJECT: EIZENSTAT MEMO RE EQUAL TIME LAW REFORM FOR TV AND RADIO
COVERAGE OF POLITICAL CANDIDATES

+++++

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

+ BY: 1200 PM MONDAY 05 FEB 79 +

+++++

ACTION REQUESTED:

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

PLEASE NOTE OTHER COMMENTS BELOW:

2/7/79

RICK/BILL:

RE EQUAL TIME MEMO

FROM: CONGRESSIONAL LIAISON

Our impression is that advantages of ET usually accrue to benefit of non-incumbents; consequently, if benefit to the President's re-election campaign is factor in the decision-making process, we should support eliminating ET requirement. However, we havenot been approached on Hill about ET and take no position on the merits. (BT)

THE WHITE HOUSE
WASHINGTON

2/8/79

Mr. President:

Frank Moore told me you were ready to interview Bob Clement for the TVA vacancy. Do you want me to proceed with an appointment for him with you?

yes no

Phil



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