

**4/4/79 [2]**

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THE WHITE HOUSE  
WASHINGTON

4/4/79

Jim McIntyre  
Stu Eizenstat

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

Rick Hutcheson

cc: Frank Moore



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

9

7  
April 3, 1979

MEMORANDUM FOR: THE PRESIDENT  
FROM: Jim McIntyre *Jim*  
Stu Eizenstat *Stu*  
SUBJECT: Energy Security Fund Policy and Strategy

It is our understanding, based on last Thursday's discussion with you, that the Energy Security Fund programs set out in the attached table would be presented to the Congress as activities which we cannot afford to undertake without additional tax revenues and that you therefore view the Energy Security Tax as a sine qua non: no tax, no programs. Obviously, if certain of the proposals are passed by the Congress in the absence of a tax, you can decide then whether to approve them. Depending on the program and the politics, you may want to use your veto to emphasize the necessity of the tax.

The one exception to this policy would be the tax credit for oil shale production. As far as our own internal policy is concerned, you said you would be willing to accept a limited oil shale tax credit whether or not the Energy Security Tax and Fund were enacted. We will work with the Department of Energy, ~~Governor Lamm~~ and Senator Hart to agree on an acceptable tax credit proposal. For tactical political reasons, however, we believe that publicly we should link the oil shale initiative to the tax; we should not make a public exception to our overall strategy. Our posture with the Congressional oil shale proponents should be guarded; that is, we should take the position privately with them that we need and expect them to support the tax, and that if they do, you will approve an acceptable oil shale tax credit regardless of the outcome of the tax fight.

*emphasize*

Decision

Agree with approach

Discuss with me

*prefer to leave Lamm out*

Attachment

*As much as poss.ble, tie everything to tax*

*J*

ENERGY SECURITY FUND INITIATIVES

I. Assistance to Low Income Households

- \$100 cash per annum per household with incomes below \$7,580 per annum. Cash grant would be increased by GNP deflator.

II. Assistance for Mass Transit

- Increased grant assistance for bus purchases.
- Increased rail rehabilitation assistance to cities with existing rail (subway, trolley, commuter train) transit service.
- Increased interstate transfer funds.

III. Energy Initiatives

- Incremental facility costs of regional petroleum storage for Hawaii and New England (23MMB).
- Funding for a second SRC plant.
- Shale oil tax credit.
- Agricultural/industrial solar equipment tax credit.
- Wood stoves tax credit.
- Residential and commercial passive solar tax credits.
- Petroleum substitutes program.
- NEA solar financing program (SUNNY MAE).
- Additional funding for coal R&D.
- Loan guarantees for synthetic fuels production.

1:45 PM

THE WHITE HOUSE

WASHINGTON

April 3, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: LOUIS MARTIN

SUBJECT: Meeting with Reverend Jesse Jackson, President of People United to Save Humanity (PUSH), Oval Office, Wednesday, April 4, 1979, 1:45 PM

I. PURPOSE

To meet with Reverend Jesse Jackson for a brief exchange of views.

II. BACKGROUND, PARTICIPANTS AND PRESS

A. Background: Jesse Jackson, President of People United to Save Humanity (PUSH), was born in Greenville, South Carolina on October 8, 1941. He buried his father, Charles Henry Jackson, on Monday, April 2, 1979, in Greenville. A telegram of condolence was sent from the President.

Jesse was graduated from North Carolina A & T College and studied at Chicago Theological Seminary. In college he was a member of the Young Democrats Club and active in the civil rights movement. He joined the Southern Christian Leadership Conference (SCLC) in 1963. In 1966 Jesse helped unite SCLC and the Chicago Coordinating Council of Community Organizations. He was appointed National Director of Operation Breadbasket the economic arm of SCLC, in 1967.

Jesse was with Dr. King in Memphis when he was assassinated at the Lorraine Motel, April 4, 1968. Jackson split with the Reverend Ralph Abernathy of SCLC in 1971 and organized PUSH.

In recent months, Jesse Jackson has won national acclaim for his efforts to motivate young Blacks in school with his message of Black Excellence. Jesse preaches that every Black youth should seek to hold a high school diploma in one hand and a voter registration certificate in the other.

B. PARTICIPANTS: Reverend Jesse Jackson

White House Staff: Louis Martin

Talking Points: See attached

C. Press: White House Press Opportunity

THE WHITE HOUSE

WASHINGTON

April 3, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*  
SUBJECT: NATIONAL COMMISSION ON NEIGHBORHOODS  
Meeting, April 3, 1979

The National Commission on Neighborhoods will make principal recommendations concerning:

- o Reinvestment - strengthening programs;
- o Economic Development - targeting incentives to neighborhoods;
- o Self-Reliance - eliminating legal and fiscal obstacles to "self" improvement of neighborhood housing and commercial properties;
- o Human Services - coordinating programs at the local level;
- o Minority Issues - eradicating racism;
- o Governance - increasing citizen participation.

I thought it would be helpful to reference some of the things we're already doing in these areas.

Reinvestment

- o Established in Federal Home Loan Bank Board new Office of Community Investment which administers Community Investment Fund to attract \$10 billion of private investment.
- o Reconstituted the Neighborhood Housing Services as the Neighborhood Reinvestment Corporation and doubled their budget from \$4.5 to \$10 million.

- o At your direction, created a Commercial Reinvestment Task Force headed by the Comptroller of the Currency to interest financial institutions in revitalizing commercial activity in neighborhoods.

### Economic Development

- o Created in the Economic Development Administration an Office of Special Projects which administers a community-based job creation and economic development program (budget was increased from \$30 million in FY 78 to \$50 million in both FY 79 and 80).
- o Use approximately 30% of Urban Development Action Grants for neighborhood revitalization purposes.

### Self-Reliance

- o Extended investment tax credits to include the rehabilitation of existing structures in addition to new equipment.
- o Provided a \$150 million increase in HUD's Section 312 Housing Rehabilitation program which provides 3% loans to homeowners who rehabilitate their central city houses.

### Human Services

- o Support the Cities in Schools program which integrates human services in urban schools and combines the resources of the private sector and federal, state and local governments.
- o Raised Title XX budget by \$200 million to \$2.9 billion in FY 79.
- o Through an interagency demonstration project involving HUD, LEAA, HEW and Labor, will combine social services with anti-crime and employment initiatives in a select number of public housing projects.

### Minority Issues

- o For the first time, established dollar goals for projects that aid minority groups in each of EDA's basic programs.
- o Established in DoT a five-point "Transportation Urban Policy" which includes minority employment set-asides for neighborhood residents adversely affected by urban construction.
- o Established Interagency Council on Minority Business Enterprise to increase minority participation in construction grant programs.
- o Requesting legislation that HUD be given enforcement power in housing discrimination practices.

### Governance

- o Implemented stronger citizen participation requirements in Community Development Block Grant program.
- o Through an interagency effort, developed a how-to book for neighborhood groups to use in economic development planning.
- o Awarded \$2.8 million in HUD contracts to provide technical assistance for 21 advanced neighborhood development groups.

1:30 PM

THE WHITE HOUSE

WASHINGTON

April 4, 1979

MEETING WITH NATIONAL COMMISSION ON NEIGHBORHOODS

Cabinet Room 1:30 p.m. (10")

by: Tim Kraft TK

Stu Eizenstat Stu

I. PURPOSE:

To receive Final Report from the National Commission on Neighborhoods.

II. PARTICIPANTS, BACKGROUND, PRESS:

A. PARTICIPANTS:

Patricia Harris, Secretary of Housing and Urban Development  
Father Geno Baroni, Assistant Secretary for Neighborhoods, Voluntary Associations, and Consumer Protection, HUD  
Carl Holman, President, National Urban Coalition  
Randy Kinder, Executive Assistant to Secretary Harris  
State Senator Joseph Timilty, Chairman National Commission on Neighborhoods  
Commission Members - list attached

B. BACKGROUND:

The National Commission on Neighborhoods, appointed by you in December of 1977, completed its Final Report this March. The Commission was originally established as a result of lobbying efforts by neighborhood groups across the country testifying before Senator Proxmire's Banking Committee.

At issue were serious concerns about redlining by the public and private sectors and bureaucratic inertia at all levels which impeded neighborhood revitalization efforts. The Commission has made over 200 recommendations for action by the public, private, and community sectors to promote neighborhood improvement.

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for Preservation Purposes**

The Domestic Policy Staff is in the process of setting up an Interagency review of the Report's recommended new initiatives. HUD, as liaison to the Commission, will play the lead role in staffing out the Interagency effort.

The White House will set the final review deadline for mid-summer, 1979.

C. PRESS:

Pool/ MA Press/ White House photo

III. TALKING POINTS:

1. Welcome the Commission to the White House and thank them for the time and effort they have put into this Report in the last year.

2. Indicate Administration support of the Commission's recommendation to renew the Home Mortgage Disclosure Act, the major piece of anti-redlining legislation which expires in May, 1980.

3. You may wish to express your desire to visit, over the next year, some of the neighborhoods the Commission highlights in its Report and indicate that you will encourage members of the Cabinet to do the same.

4. You may, if time permits, pose for individual photographs with the members of the Commission.

NATIONAL COMMISSION ON NEIGHBORHOODS  
April 4, 1979

Joseph F. Timilty, Chairman  
Ethel D. Allen (R) - General Public - Pennsylvania  
Anne Bartley (I) - Local Govt - Arkansas  
Gale Cincotta (I) - Neighborhood Organization - Illinois  
Mayor Maynard Jackson (D) Local Govt - Georgia  
Norman Krumholz (I) - Local Govt - Ohio  
Victoria M. Mongiardo (I) - General Public - Maryland  
Arthur J. Naparstek (D) - General Public - District of Columbia  
Robert B. O'Brien, Jr. (R) - General Public - New Jersey  
Macler C. Shepard (I) - Neighborhood Organization - Missouri  
Peter S. Ujvagi (D) - Neighborhood Organization - Ohio  
Bathrus B. Williams (R) - General Public - District of Columbia

Members of Congress:

Senator Jake Garn (R) - Utah  
Congressman Joel Pritchard (R) - Washington

Absent:

Nicholas R. Carbone (D) - Local Govt - Connecticut  
Harold W. Greenwood (D) - General Public - Minnesota  
David C. Lizarraga (D) - Neighborhood Organization - California  
John McLaughry (R) - Neighborhood Organization - Vermont

Senator William Proxmire (D) - Wisconsin  
Congressman James Blanchard (D) - Michigan

THE WHITE HOUSE  
WASHINGTON

4/4/79

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and is forwarded to you for  
appropriate handling.

Rick Hutcheson  
cc: The Vice President

THE WHITE HOUSE  
WASHINGTON

4/4/79

Mr. President:

Stu requests that you note in writing on p. 10 your decision whether or not to "reverse your earlier decisions supporting tax incentives for new energy supplies."

Rick

THE WHITE HOUSE

WASHINGTON

April 3, 1979

MEMORANDUM FOR THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*  
KITTY SCHIRMER

SUBJECT:

WRAP-UP OF CRUDE OIL PRICING ISSUES

We have reached final agreement among ourselves on a recommended oil pricing path, tax design and scheme for use of the tax revenues. We recommend the following to you for your final approval.

I. The Decontrol schedule

- newly discovered oil receives the world price on 5/1/79
- 80% of marginal wells are released to the upper tier price on 5/1/79; the remaining 20% goes to world levels on 1/1/80.
- lower tier oil receives a decline rate of 1 1/2% per month for the period 5/1/79-12/31/79; thereafter the decline rate is 3% per month. Technical changes in the regulations (update of BPCL's and elimination of cumulative deficiencies) would be done on 5/1/79.
- upper tier prices rise to the world price in monthly increments beginning on 1/1/81.
- incremental production from tertiary wells may receive the world price, and beginning on 1/1/80, producers may release volumes of lower tier oil to upper tier levels to help finance qualified tertiary projects. The amount of oil released may not exceed \$10 million per project, and total expenditure under this provision are limited to \$1.4 billion over the 1980-1981 period.
- controls expire on 10/1/81

We believe that this pricing path meets the concerns which you expressed at last Thursday's meeting in that upper and lower tier oil which does not qualify for special production incentives does not begin to receive increases until January 1980. This gives Congress time to put the tax in place before decontrol steps which are not directly related to new supplies are taken. The actions which are taken right away (permitting marginal wells, new new oil and tertiary to receive the world price) are directly related to production of new supplies.

This pricing path also addresses Fred Kahn's and my concerns about the inflation effects in 1979. The macroeconomic impacts of this approach are outlined below:

Impacts on:	4 quarters of	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Inflation</u>		+ .13	+ .22	+ .26
<u>Growth</u>		- .14	- .20	- .22
<u>Unemployment</u>		- .05	- .12	- .21

Changes in Producer Revenues

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
before income & decontrol taxes	1,375	6,435	12,588	14,994	14,727	14,531	14,374
after income & decontrol taxes	760	2,769	4,870	5,791	5,999	6,012	5,997

## II. The tax scheme

We continue to recommend to you the tax scheme which we described to you in our memorandum last Thursday. That tax would:

- o recapture 50% of all increases in producer revenues above the current landed price of imported oil which may result from future OPEC increases.
- o recapture 50% of all increases in the price of lower tier oil (except that which qualifies for tertiary or marginal well treatment) and upper tier oil due to decontrol.

The net increase in federal tax receipts due to this tax are shown in the attached charts (estimates were prepared on both a calendar year and fiscal year basis).

In response to your phone call on Friday morning concerning the level of the tax, Treasury has also:

- o prepared estimates of the revenue effects of an OPEC tax rate of 75%, and
- o suggested substantial tightening of the foreign tax credit as it affects oil and gas activities abroad.

The increases in federal tax receipts due to a 75% OPEC tax would be as follows:

	(Calendar Years)						
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
increase	32	154	204	232	273	313	347
total	303	2,211	4,775	5,687	5,319	5,199	5,130

We do not, however, recommend that you adopt this approach because it represents a marginal tax rate on new production which is excessively high when state taxes, royalties, and other expenses are taken into account. If the OPEC tax were set at the 75% rate, producers would receive only 13¢ of every dollar of OPEC increases. We believe that this could operate as a production disincentive.

Revenue Effects of Compromise X Oil Pricing and Tax  
 Calendar Year Liabilities, 1979-85

	(\$ millions)						
	Calendar Years						
	1979	1980	1981	1982	1983	1984	1985
Change in tax receipts before arbitrage tax:							
Increase in oil producers' income taxes .....	550	2,574	5,035	5,998	5,891	5,812	5,750
Reduction in other taxes <u>1/</u> .....	<u>-344</u>	<u>-1,609</u>	<u>-3,147</u>	<u>-3,748</u>	<u>-3,682</u>	<u>-3,633</u>	<u>-3,594</u>
Net change .....	206	965	1,888	2,250	2,209	2,179	2,156
Arbitrage tax:							
Gross receipts .....	108	1,820	4,471	5,342	4,728	4,511	4,378
Income tax offset .....	<u>-43</u>	<u>-728</u>	<u>-1,788</u>	<u>-2,137</u>	<u>-1,891</u>	<u>-1,804</u>	<u>-1,751</u>
Net receipts .....	65	1,092	2,683	3,205	2,837	2,707	2,627
Total receipts effect <u>1/</u> .....	<u>271</u>	<u>2,057</u>	<u>4,571</u>	<u>5,455</u>	<u>5,046</u>	<u>4,886</u>	<u>4,783</u>

Office of the Secretary of the Treasury  
 Office of Tax Analysis

April 2, 1979

Addenda:

Change in producers' revenues:

Before income and arbitrage taxes ..	1,375	6,435	12,588	14,994	14,727	14,531	14,374
After income and arbitrage taxes ...	760	2,769	4,870	5,791	5,999	6,012	5,997

1/ Assumes no change in nominal GNP.

Revenue Effects of Compromise X Oil Pricing and Tax

Fiscal Year Receipts, 1979-85

(\$ millions)

	Fiscal Years						
	1979	1980	1981	1982	1983	1984	1985
Change in tax receipts before arbitrage tax:							
Increase in oil producers' income taxes .....	248	1,461	3,681	5,468	5,950	5,855	5,784
Reduction in other taxes <u>1/</u> .....	<u>-220</u>	<u>-1,154</u>	<u>-2,593</u>	<u>-3,532</u>	<u>-3,706</u>	<u>-3,651</u>	<u>-3,608</u>
Net change .....	28	307	1,088	1,936	2,244	2,204	2,176
Arbitrage tax:							
Gross receipts.....	--	1,147	3,570	5,367	4,918	4,579	4,419
Income tax offset .....	<u>--</u>	<u>-371</u>	<u>-1,205</u>	<u>-1,945</u>	<u>-2,026</u>	<u>-1,852</u>	<u>-1,780</u>
Net receipts .....	--	776	2,365	3,422	2,892	2,727	2,639
Total receipts effect <u>1/</u> ...	<u>28</u>	<u>1,083</u>	<u>3,453</u>	<u>5,358</u>	<u>5,136</u>	<u>4,931</u>	<u>4,815</u>

Office of the Secretary of the Treasury  
Office of Tax Analysis

April 2, 1979

1/ Assumes no change in nominal GNP.

On the other hand, we do recommend adoption of Treasury's proposed changes in the foreign tax credit treatment for oil and gas related expenditures. This change would increase U.S. tax revenues by \$500 million in 1979, and these payments would come principally from major oil companies.

Briefly, the Treasury proposal would strictly limit the U.S. credit for a foreign country's oil and gas extraction income to the income on which those taxes are imposed. Excess credits "earned" on foreign oil and gas extraction income would not be able to shelter other income from low-taxed income such as shipping. Further technical changes would be made to tighten the foreign tax credit for oil and gas income.

A more detailed explanation of this proposal is included at Tab A. We, Treasury & DOE believe that this proposed change in foreign tax credit treatment should be approved because:

- o it will move existing tax law closer to the intent expressed by Congress in 1975 and 1976;
- o it closes loopholes which are not needed for continued exploration and production abroad; and
- o it affects principally the major oil companies -- who stand the most to gain from decontrol in the U.S. since they are the primary holders of old oil.

This proposal would also be well-received by many liberals and moderates who have consistently called for changes in this area of the tax laws.

Decision

1.  Adopt a 50% OPEC tax (Recommended by DOE, Treasury, OMB, DPS, CEA)  
 Adopt a 75% OPEC tax (not recommended)
2.  Approve Treasury's proposed changes relating to treatment of foreign investment tax credits. (Recommended by DOE, Treasury, OMB, DPS, CEA)  
 Do not approve Treasury's changes.

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### III. Use of the revenues

The attached charts, prepared by OMB, show the breakdown of expenditures within the three major categories of assistance to the poor, mass transit and the energy fund. Within the energy fund, the charts also show that which would be outlaid in each fiscal year, and that which would be held in reserve to fund projects such as the petroleum substitute program which are expected to be very costly in later years, but incur only small expenditures at first. For public presentation purposes, however, the fund will be shown as the total of actual outlays and reserves.

EXHIBIT A - ENERGY SECURITY FUND ESTIMATES

	<u>FY 80</u>	<u>FY 81</u>	<u>FY 82</u>	<u>FY 80-90</u>	<u>Program Totals</u> <u>3/</u>
<u>Revenue</u> <u>1/</u>	\$ 1.6	\$ 4.0	\$ 5.7	\$ 28.9	\$ 28.9
<u>Disposition</u> <u>2/</u>					
Assistance to the Poor	0.7	0.8	0.9	13.9	13.9
Mass Transit	0.2	0.2	0.3	3.1	3.1
Energy Investments	0.7	3.0	4.5	11.9	11.9
- Current Fiscal Year Outlays/ Tax Expenditures	(0.4)	(0.5)	(0.6)	(4.5 to 13.6)	(6.6 to 45.9)
- Reserve for Outlays/Tax Expenditures for Proposed Initiatives	(0.3)	(2.5)	(3.9)	(7.4 to -1.7)	(5.3 to -34.0) <u>3/</u>

1/ Estimated revenues for the proposed OPEC rents tax additional producer income taxes and the proposed closing of the foreign tax credits loophole. Revenues are estimated for 80-85. New revenue estimates will include revenues through 1990.

2/ Outlays and expenditures are estimated for the period 80-90 for all items except those energy initiatives involving plants such as oil shale where estimates under low world prices would result in tax expenditures beyond 1990.

3/ Note that many programs initiated during the FY 80-90 timeframe (e.g., oil shale, petroleum substitute subsidies) will incur commitments which must be funded beyond 1990. Thus, the Energy Security Fund could show at the end of its program life (sometime after 1990) anywhere from a \$5.3 billion surplus to a \$34 billion deficit, depending on 1) the nature of the programs enacted, 2) the world price of oil, and 3) tax revenues generated after 1985. ( See note 2.)

EXHIBIT C - DESCRIPTION OF INITIATIVES INCLUDED IN OPTIONS FOR DISPOSING OF ESTIMATED TAX REVENUES

CATEGORY

Assistance to Low Income Households

Assistance for Mass Transit

Additional Energy Initiatives

Option I Provide:

- \$100 cash per annum per household with incomes below \$7,580 per annum. Cash grant would be increased by GNP deflator.

Provide:

- grant assistance for bus purchase.
- rail rehabilitation assistance to cities with existing rail (subway, trolley, commuter train) transit service.

Provide:

- regional petroleum storage (23MMB).
- funding for a 2nd SRC plant.
- subsidy for shale oil development.
- 10% tax credit for agricultural/ industrial solar equipment.
- 15% tax credit for wood stoves.
- 20% tax credit for passive solar for residential.
- tax credit for architects fee of \$20/MMBTU saved on commercial bldgs.
- subsidy for petroleum substitute program (to be defined).
- funding for NEA authorized solar financing program (SUNNY MAE).
- additional funding for coal R&D (\$50 million/yr.) and possible loan guarantees for synthetic plants

Finally, we are attaching Secretary Blumenthal's memorandum on tax credits, delivered on Sunday. This paper raises again many of the tax related decisions you have already made. We do not recommend that you reopen these issues. However, should you want to, the Blumenthal memorandum is attached at Tab B, along with Secretary Schlesinger's rebuttal memorandum, Tab C.

We strongly oppose the Blumenthal position and would make several specific points concerning his memo:

- o In many cases (e.g. woodburning stoves, passive solar) grants are not a feasible alternative to tax credits. A program which requires individual purchasers of this equipment to apply to Washington for a \$20-\$50 grant, as would be the case with woodburning stoves, would not be used and would not be administerable. Consumers do, however, have ready means to avail themselves of tax credits since income taxes must be prepared in any event.
- o You have already disapproved the cogeneration tax credit and that issue has been dropped. With the exception of the oil shale credit, all other credits are contingent upon enactment of the overall decontrol and OPEC tax, and would be funded only if the Energy Security Fund is established.
- o The estimates in the Blumenthal memorandum are 1985 estimates. The actual impact on FY 1980 and 1981 is very small.
- o Without these tax credits, we have very little chance of gaining the support which we will need for the crude oil deregulation taxes. Our new Energy Security Fund effort will not contain the necessary new programs to make it the bold, exciting new initiative we believe you are seeking. The availability of these credits is very closely tied to our chances of getting the tax on crude oil.

I strongly recommend that you not reverse your earlier decisions supporting tax incentives for new energy supplies, namely, woodburning stoves, incentives to develop petroleum substitutes, and oil shale. I further urge you to approve the offering of credits for passive solar, agricultural and industrial process heat use of solar, and architects fees where substantial energy savings are achieved, contingent upon enactment of the crude oil tax.

approve                       disapprove

*no reversal of previous decision*  
J



CHANGE IN THE LIMITATION ON THE FOREIGN TAX CREDIT  
FOR OIL AND GAS EXTRACTION TAXES

Present Law

Under present law, a U.S. taxpayer can claim a foreign tax credit for oil and gas extraction taxes of up to 46 percent of its current "foreign oil and gas extraction income." However, "foreign oil and gas extraction income" has a special definition for the purpose of this rule: if the taxpayer has a loss with respect to foreign oil or gas extraction activities in one or more countries, such losses do not reduce "foreign oil and gas extraction income". Thus, the amount of foreign oil and gas extraction taxes available for credit may be substantially greater than U.S. tax liability on such income, because the latter takes such losses into account, and the former does not.

Present law also provides that foreign oil and gas extraction taxes equal to an additional 2 percent of "foreign oil and gas extraction" income may be carried back or carried forward to other years in which the taxpayer has such income.

Taxes available for credit either currently or by reason of a carry back or carry forward can be offset only against the U.S. tax liability on "foreign oil related income." Such income includes foreign oil and gas extraction income plus income from transporting, processing, and marketing oil and gas.

Reasons for Change

This change would close a loophole in present law. It would strictly limit the U.S. credit for a foreign country's oil and gas extraction taxes to the income on which those taxes are imposed. Under present law, excess foreign tax credits from one extraction country can still spill over and shelter income from other countries and other activities from U.S. taxation. This change, which is technical in nature but important in substance, will bring U.S. law into closer conformity to the thrust of Congressional intent as expressed in prior changes in the tax law in 1975 and 1976.

Under present law, foreign tax credits with respect to oil and gas extraction activities in Country A may easily be greater than the income from such activities; the excess will offset dollar-for-dollar the U.S. tax on:

- oil and gas extraction income from Country B, which does not impose an income tax in the U.S. sense of the term (e.g., because it uses a posted price); or
- shipping or refining income from any country to the extent the taxpayer has loss with respect to his extraction activities in one or more countries.

#### Explanation of Proposal

The proposal would revise the limitation on foreign tax credits for foreign oil and gas extraction income. The proposal would: repeal the loophole allowing per country losses to generate extra useable credits; repeal the special limitation percentage and carry forward percentage on foreign oil and gas extraction income; and, limit foreign oil and gas extraction income in a new, more effective manner. The new limitation for foreign oil and gas extraction taxes would equal the lesser of:

- the U.S. tax tentatively due with respect to overall foreign oil and gas extraction income (net of losses); or
- the U.S. tax tentatively due with respect to such income calculated on a country-by-country basis.

This double limitation prevents excess credits from foreign oil and gas extraction activities in one country from spilling over to offset U.S. tax with respect to similar activities in other countries and, second, from sheltering other income from U.S. tax. The proposal would also remove the separate limitation with respect to the broader category (foreign oil related income), and the 2-percentage-point limitation on carry forwards and carry backs of excess credits. Foreign oil related income will be included in the same limitation or other business income. It would still be

necessary to determine on a case-by-case basis whether any particular payment to a foreign country is a creditable income tax. Finally, it will be necessary to review the definition of "foreign oil and gas extraction income."

Revenue Estimate

This change would result in an increase in U.S. tax revenues of approximately \$500 million in 1979.

Effective Date

The proposal would be effective for fiscal years beginning after December 31, 1978.

TAB B

THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

March 31, 1979

## MEMORANDUM FOR THE PRESIDENT

Subject: Inclusion of Tax Subsidies in the Uses  
of Energy Security Tax Proceeds

When we deal with uses of the revenues from the oil tax, we would be well advised in all cases to propose direct expenditure programs and to avoid proposing any tax credits. This strategy is dictated both by general considerations and by specific reasons with respect to each tax subsidy proposal.

A. In General

We are once again considering an energy program in which new taxes are to finance new subsidies. New crude oil tax revenues are to offset relief for the poor, support for mass transit and beyond that, new energy tax subsidies costing \$3 billion for the period 1980 through 1985.

If the 95th Congress is any precedent, the legislative response to the proposal will include new tax subsidies far in excess of new taxes. The proposed National Energy Act, with its mixture of new taxes and tax subsidies, was estimated to raise \$47.9 billion between 1978 and 1985. The energy tax bill you signed loses \$6.5 billion from 1978 to 1984.

It is, therefore, likely that we will get our tax subsidies, and then some. In fact, we will be hard pressed to avoid being inundated with tax subsidies. These subsidies may well exceed in cost the amount of the oil tax that is likely to be enacted. If this occurs, the resulting bill will require budget cuts to be made elsewhere. Despite this, you will be under pressure to sign the bill. Thus, proposing tax subsidies is likely to end up costing money.

Other major deficiencies of tax subsidies are well known:

- ° Tax subsidies avoid any semblance of fiscal control.

No direct budget accountability in any agency. No appropriations. No authorizations. Open-ended.

- ° Tax subsidies are extremely wasteful. Most of the subsidies go to those who would undertake the activity anyway. Since IRS audit coverage is low (2 percent) mistakes and fraud are unavoidable.
- ° Using the tax system disguises the real costs. Distribution and impact of tax subsidies become blurred in a system that raises \$485 billion currently, and through which almost 100 tax expenditure programs are being run. IRS bears the burden of running the new programs. We all bear the burden of a more complex and less efficient tax system.

It seems reasonably clear to me that a grant program having the identical characteristics would be laughed out of the Cabinet Room.

Since acceptance of the tax subsidies is premised on alleged political advantages, let me point out some political liabilities:

- ° If the Administration proposes tax subsidies, tax subsidies become fair game for everyone. The Finance Committee converted our entire energy tax bill into a tax subsidy bill. Tax subsidies not adopted last year will be proposed again. Treasury and IRS have already been deluged with requests to add items to existing energy credits. Much of this will appear on Congressional agenda.
- ° Fighting to win the subsidies we propose and defeat the ones we oppose will have real political costs. Why should you bear this cost in pursuit of ineffective and inefficient tax subsidies? At the very least we ought not to announce support for the tax subsidies until we receive unqualified promises of support for the tax.
- ° It is difficult to discern a coherent program from scattered subsidies to wood stoves, passive and agricultural solar, shale oil, gasohol and cogeneration.

Since additional tax subsidies entail substantial political costs, and run directly contrary to your basic goals for spending and inflation control, the tax system and sound government management, I urge you not to support these tax subsidy measures unless absolutely essential. Whatever

political benefits accrue from supporting subsidies will follow just as surely from direct subsidies. At a minimum, the new subsidies must satisfy the same criteria that would apply to direct expenditure programs. If we have to accept some tax subsidies, they are discussed below from least to most objectionable.

B. Specific Proposals

1. Solar Investment Tax Credit for Agricultural/  
Industrial

Present law allows an additional 10 percent investment tax credit for solar property used to generate electricity, or heat or cool (or provide hot water for use in) a structure. The proposal would extend the present credit to the process use of solar as for meat processing, food drying and textiles. The annual revenue cost of the tax credit is \$255 million by fiscal 1985.

Reasons for excluding this credit from the list of energy tax initiatives are:

- ° The technology involved is undeveloped. The 1980 DOE budget allocates \$30 million for solar commercial process technology of which \$15 million is for R&D and \$15 million is for demonstration projects. This represents a more sensible use of Federal subsidies.
- ° The increase in the price of oil currently being experienced provides the best incentive for conversion to solar. Under those circumstances tax credits provide windfalls.

\_\_\_\_\_ Approve tax credit program.

\_\_\_\_\_ Approve grant or loan equivalent to develop technology.

\_\_\_\_\_ No subsidy.

2. Cogeneration Equipment

DOE proposes to add cogeneration equipment to items eligible for the additional 10 percent energy investment tax credit. The annual revenue cost of the tax credit is \$34 million by fiscal 1985.

Reasons for excluding this item from the list of energy tax initiatives are:

- ° A number of questions have arisen concerning cogeneration.
  - Does it create pollution problems in urban areas?
  - What is its impact on public utilities and the burden imposed on other consumers?
  - Is cogeneration more efficient than purchasing electricity from public utilities? Some argue it is not.
- ° No commitment to cogeneration should be made until a study of these issues (which would solicit the views of EPA and utilities) has been conducted.
- ° It appears that many industrial users that cogenerate have, or are in the process of, incorporating cogeneration into their operations anyway. This should be verified. To the extent additional cogeneration would be induced by a Government subsidy, DOE is in the best position to administer a grant program, rather than allowing unnecessary windfalls through the tax credit.

\_\_\_\_\_ Approve the tax credit program.

\_\_\_\_\_ Approve a grant program by DOE where it will actually induce additional cogeneration.

\_\_\_\_\_ Defer any proposal to subsidize cogeneration.

### 3. Tax Exemption for Gasoline with 10 Percent Synthetic Fuel

The 1978 Energy Tax Act exempted gasohol, which is a blend of motor fuel and alcohol, from the 4 cents Federal excise tax on motor fuels, if the blend contains at least 10 percent alcohol, other than alcohol made from petroleum, natural gas or coal. DOE proposes making gasohol made from alcohol produced from coal eligible for exemption from 2 cents of the 4 cents excise tax. The annual revenue cost of the exemption is \$165 million by fiscal 1985.

Reasons for excluding this item from the list of energy initiatives are:

- ° This is a very significant subsidy for gasohol. For every barrel of oil saved, the Government would be paying \$8.40. (Given that gasohol contains only 10 percent alcohol, the exemption from the 2 cents Federal excise tax is a 20 cents subsidy for every gallon of motor fuel saved. Since there are 42 gallons to the barrel of oil, the subsidy is \$8.40.)
- ° The subsidy for alcohol produced from agricultural products probably does not make gasohol economically viable. Thus, the subsidy costs very little in Federal revenues. If extended to coal, which is close to being economically viable because of OPEC price increases, there would be a significant revenue impact. Potentially there would be significant windfalls to producers.

\_\_\_\_\_ Approve synthetic fuel exemption for coal derivatives.

\_\_\_\_\_ Approve a grant program for development of synthetic fuel.

\_\_\_\_\_ Defer any program proposal.

#### 4. Oil Shale Tax Credit

DOE proposes an oil shale credit for producers of oil shale equal to \$3 per barrel. The credit is to phase out as the world price of oil exceeds \$20 per barrel and terminates as it exceeds \$23 per barrel. However, those amounts are adjusted for inflation so that in 1985, for example, it is projected that the \$3 credit would not begin phasing out until the world price exceeded \$29.5 per barrel and would no longer be available when the world price of oil exceeded \$34 per barrel. The annual revenue cost is \$62 million by fiscal 1985.

Reasons for excluding this item from the list of energy tax initiatives are:

- ° The DOE tax credit proposal (even with a phase out) is a cumbersome and less efficient method of delivering financial assistance. As to some producers the credits may turn out to be higher than necessary to initiate production (and, hence, provide windfalls) as to others they may be too low and accomplish nothing.

- Financial assistance can be provided most efficiently by direct supports other than tax subsidies.

-- For example, shale oil can be purchased on a bid basis from producers for the Strategic Petroleum Reserve. Such a program would:

- (1) Encourage production of oil shale at an assured profit thereby reducing dependence on imported oil.
- (2) Assist in setting aside substantial reserves of oil in order to diminish the vulnerability of the United States to the effects of severe energy interruptions.
- (3) Assure that expenditures for oil are at levels which elicit production but are not wasteful.

- Seeking oil shale tax credits may well lead to a repeat of Senator Long's demand of last year that if there is an oil shale credit, a credit must also be provided for geopressurized methane production.
- The companies have raised the strawman that guaranteed prices do not give the same assurance for business planning as a tax provision. An agreement to purchase shale oil would assure that continuing appropriations would be subject to budgetary review. However, producers would be protected from the risk of changes in policy by the DOE purchase contracts that would provide for long-term acquisition of shale oil at an agreed upon price.

\_\_\_\_\_ Approve tax credit program.

\_\_\_\_\_ Approve purchase guaranty program.

\_\_\_\_\_ Defer decision on program.

##### 5. Wood Stoves Residential Tax Credit

DOE proposes that airtight woodburning stoves qualify for the 15 percent, \$300 maximum, residential tax credit. The annual revenue cost is \$45 million by fiscal 1985.

Reasons for excluding this item from the list of energy initiatives are:

- ° The credit represents a windfall to at least 80 percent of recipients.
- ° The credit goes directly counter to the Administration's rationale in the NEP for providing conservation tax incentives. We insisted that credits should provide financial assistance only for retrofitting existing heating and cooling equipment and not for replacement equipment.
- ° The credit does not significantly cushion the blow of decontrol except in certain urban areas where the cost of wood is low.
- ° The credit is difficult to administer as a tax credit. It can be more readily administered by DOE as a grant program.

-- Recipients would not have to be taxpayers, so the poor would benefit.

-- DOE has the expertise to provide specifications for airtight stoves.

-- Payments can be made to purchasers who forward manufacturer's certificates to DOE.

\_\_\_\_\_ Approve tax credit program.

\_\_\_\_\_ Approve a grant program of subsidies.

\_\_\_\_\_ Defer any decision on incentive.

## 6. Passive Solar Credits

### A. 20 percent credit for builders.

DOE would provide a credit of 20 percent of the first \$10,000 spent on buildings (single-dwelling units and up to four-unit housing) which contain certain qualifying solar systems.

Examples of the administrative decisions that IRS would have to make to determine eligibility can be seen from the specifications attached as Appendix A. The annual revenue cost is \$298 million by fiscal 1985.

Reasons for excluding this item from the list of energy initiatives are:

- ° The credit is unadministrable. IRS agents cannot inspect houses to determine the angle a window faces, the hours of sunlight it admits on December 21, the cost of bracing as opposed to beams, etc.
- ° The credit is a windfall payment for normal building costs that would be incurred anyway.
- ° The effective way to ensure energy efficient design is through building codes, architectural education, public education.
- ° The cost may exceed the cost of the total credit available for solar under the National Energy Act.

\_\_\_\_\_ Approve tax credit program.

\_\_\_\_\_ Approve expenditures for education and other encouragement of use.

\_\_\_\_\_ Defer decision on program.

#### B. Tax credit for architects fees

The credit would be equal to \$20 per million Btu's saved on the design of commercial buildings. The annual revenue cost is \$271 million by fiscal 1985.

Reasons for excluding this item from the list of energy initiatives are:

- ° The proposals contain no description of how the program will function, what criteria are to be applied, and no explanation of how the IRS or any other agency could verify installations, allocations of costs, conformity with standards, etc. For these reasons, as well, it is impossible to estimate accurately the potential revenue loss. The ultimate cost will depend upon DOE's specifications for qualifying equipment.

° The same objections to the builders credit apply.

\_\_\_\_\_ Approve tax credit program.

\_\_\_\_\_ Approve alternative grant program for  
encouragement of use.

\_\_\_\_\_ Defer decision on program.

A summary table of revenue estimates is attached as Appendix B.



W. Michael Blumenthal

Attachments

## APPENDIX A

An illustration of the criteria for one type of passive solar investment is the following (Others are similarly unadministrable.):

1. Collection Apertures.--All of the following criteria must be met:

- a. Collection apertures must consist of a solar glazing (glass, fiberglass or similar transparent or translucent material), and must be single glazed with movable or transparent insulation; or double glazed with or without movable or transparent insulation. Sunspace and solarium may be single glazed without movable insulation as long as the sunspace or solarium are outside the insulated shell of the residence. No conventional back-up heating or air conditioning shall be provided to the sunspace or solarium.
- b. Solar glazing must face true south, plus or minus 30° and is fully exposed to direct sunlight for at least 4 hours on December 21. The solar glazing may be tilted at any angle from horizontal to vertical.
- c. The solar glazing is shaded so as not to allow direct solar radiation into the building between 6 a.m. and 6 p.m. on June 21 unless mechanical cooling is not normally required in the building from June through August.
- d. For existing buildings that are retrofit with solar glazing, the full costs of the solar glazing shall be an eligible expenditure. For new residences (constructed after April 20, 1977), the eligible expenditure for solar glazing shall be based on the following equation:

$$\frac{SG - 1/3 OG}{SG} (SGC) = EE$$

Where:

SG = Area of south facing solar glazing plus or minus 30°.

OG = Area of glazing that does not meet SG glazing requirements.

SGC = Solar glazing cost

EE = Eligible expenditure

- e. Bracing components, such as, heads sills, and jambs used to support or brace the solar glazing may be included in the solar glazing cost (SGC). Structural members of the residence such as columns, beams and studs are not eligible.

APPENDIX B

Revenue Costs of Proposed Energy Tax Credits

(\$ millions)

	Fiscal Year					
	1980	1981	1982	1983	1984	1985
Subsidy for shale oil development .....	--	--	--	8	26	62
10 percent credit for Agriculture/Industrial solar equipment .	4	10	21	86	183	255
15 percent credit for wood stoves .....	6	42	44	43	45	45
20 percent credit for passive solar devices on residential homes .....	21	150	200	247	277	298
Tax credit for architects fees .....	--	9	33	75	155	271
2 cent tax exemption for partially synthetic gasoline .....	--	--	--	27	70	165
10 percent credit for cogeneration equipment .....	13	27	29	31	33	34
<b>Total .....</b>	<b>44</b>	<b>238</b>	<b>327</b>	<b>517</b>	<b>789</b>	<b>1,130</b>





Department of Energy  
Washington, D.C. 20585

April 3, 1979

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JIM SCHLESINGER 

SUBJECT:

Mike Blumenthal's Memorandum on Tax  
Credits

Mike Blumenthal argues against all the decisions you made for tax credits for the upcoming energy message. This memorandum deals with each of Mike Blumenthal's contentions.

#### GENERAL

Secretary Blumenthal argues that any tax credits proposed would encourage a host of new proposals, and cites congressional action on the National Energy Act as an example. Although there was a big difference between the tax revenues expected from the National Energy Plan and the actual revenues lost in the final version, there were two overriding factors:

- the oil and gas users tax, which would have generated large revenues, was defeated because of strong industry opposition,
- the Finance committee then attempted to develop a tax incentive package equal in impact to your original proposal

Nevertheless, the ultimate revenue loss from the tax incentive package passed by the Congress was less than the one you proposed, excluding the revenues that would have been obtained from the oil and gas users tax. It is not fair from this history to conclude that Congress will add an expensive tax credit package.

Secretary Blumenthal then argues that tax subsidies avoid any semblance of fiscal control, are extremely wasteful and disguise the real costs. First, although in theory Secretary Blumenthal is correct, the fact is that the tax code is full of tax provisions that reflect social preferences. It would be foolish to preclude use of tax credits in high priority

activities such as energy, while lower priority activities continue to receive them. Second, tax credits can provide the certainty for investment that is impossible to achieve with annual appropriations and authorizations. Finally, grant programs can be inefficient, particularly where grantees depend on Federal contracts for their profits, rather than on providing final products that are economic in the marketplace.

There are strong reasons for each of the tax credits you have approved. These are discussed in the following section.

o OIL SHALE

The Administration proposed an oil shale tax credit last May as an alternative to the funding of two government-owned demonstration oil shale plants. Since that time, the State of Colorado and a number of influential Senators, e.g., Talmadge and Hart, now support an oil shale tax credit. If the Administration were to change its strategy for promoting oil shale at this time, the reaction would be very negative.

Secretary Blumenthal's suggestion of a purchase of shale oil for the Strategic Petroleum Reserve is unworkable for two reasons. First, by the time appreciable production of oil shale were available, the Strategic Petroleum Reserve should be filled. Second, the Strategic Petroleum Reserve has particular quality requirements that would not be met by oil shale.

o WOOD STOVES

The wood stove tax credit has been advocated by solar groups and the New England delegation. Considering that New England will bear a disproportionate share of crude oil price increases, it is highly desirable to advocate a wood stove tax credit as a way to help reduce heating bills in this part of the country.

The wood stove tax credits should not be difficult to administer. As with the National Energy Act tax credit, DOE would provide Treasury technical specifications for the purpose of determining eligibility.

o GASAHOL

In the National Energy Act, Congress eliminated the 4 cents gas tax for gasahol (10% ethanol/90% gasoline blends). Because that credit is only in effect through 1984, there is little incentive for investments in new ethanol facilities. Your decision to eliminate the 1984 date expiration will create the necessary investment incentives, and will be immensely popular with solar advocates and farm state Congressmen and Senators.

o PASSIVE SOLAR AND INDUSTRIAL PROCESS HEAT TAX CREDITS

Tax credits for passive solar and for industrial process heat were two major recommendations that came from the Solar Domestic Policy Review. Passive solar energy offers substantial advantages in saving energy and reducing costs, but will not move forward quickly without providing builders an incentive to construct such facilities. The tax credit would provide that incentive.

The industrial process heat tax credit would stimulate greater use of solar energy in a very large potential market. Because there is virtually no current use of solar energy in the industrial sector, the tax credit should be small in early years. The credit will result in revenue losses only if it is successful in stimulating greater use of solar energy in industrial facilities.

These two tax credits are strongly advocated by large segments of the Congress and by outside solar advocates. They would result in minimal revenue losses in early years, and even through 1985, revenue losses would only be about \$800 million. Moreover, because these incentives would be funded from the Energy Security Fund, a strong incentive would be created for the over 100 members of Congress that advocate solar energy to support a tax on oil company profits.

CONCLUSION

DOE has been selective in recommending use of tax credits for promoting energy objectives. In these particular areas, however, DOE analyses indicate that tax credits would provide the best form of incentive. In addition, these

proposals all have strong political appeal and constituency support. To drop them from the energy message because they purportedly violate some abstract principle of tax policy, in my opinion, would be a great substantive and political mistake.

WASHINGTON

DATE: 02 APR 79

FOR ACTION: STU EIZENSTAT

JIM MCINTYRE

CHARLES SCHULTZE

INFO ONLY: THE VICE PRESIDENT

HAMILTON JORDAN

*[Handwritten signature]*

JODY POWELL

SUBJECT: BLUMENTHAL MEMO RE INCLUSION OF TAX SUBSIDIES ON THE USE  
OF ENERGY SECURITY TAX PROCEEDS - ADMINISTRATIVELY  
CONFIDENTIAL

+++++  
+ RESPONSE DUE TO RICK HUTCHESON. STAFF SECRETARY (456-7052) +  
+ BY: 1200 PM WEDNESDAY 04 APR 79 +  
+++++

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

ADMINISTRATIVELY  
CONFIDENTIAL

WASHINGTON

DATE: 03 APR 79

FOR ACTION:

INFO ONLY: THE VICE PRESIDENT

STU EIZENSTAT

HAMILTON JORDAN

JODY POWELL

JIM MCINTYRE

CHARLES SCHULTZE

SUBJECT: SCHLESINGER MEMO RE BLUMENTHAL MEMO RE INCLUSION OF TAX

SUBSIDIES ON THE USE OF ENERGY SECURITY TAX PROCEEDS

+++++

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

+ BY: +

+++++

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

WASHINGTON

DATE: 03 APR 79

FOR ACTION:

INFO ONLY: THE VICE PRESIDENT

STU EIZENSTAT

HAMILTON JORDAN

JODY POWELL

JIM MCINTYRE

CHARLES SCHULTZE

SUBJECT: SCHLESINGER MEMO RE BLUMENTHAL MEMO RE INCLUSION OF TAX  
SUBSIDIES ON THE USE OF ENERGY SECURITY TAX PROCEEDS

+++++

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

+ BY: +

+++++

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

Hosp Cost Cont 4/4/79

One month - hearings

now mark-ups

Critical time

Loc/ST/lab/elderly/consum

vs

Hospital lobby

Vital - anti inflation

> 90% reim INS or Govt

Dis - hosp - patients  
little incentive

2x infl. \$120/auto

fed \$1 ± b. 7480

\$536 - 5 yrs

Reasonable - NEM 8-70

9 states

constituent briefing 4/4/79  
hospital cost containment

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Vol → St → Fed

Minimal fed up

No new reporting system

Partner - will fight

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april 4, 1979

(?)

meeting with  
Marilyn Black

THE WHITE HOUSE

WASHINGTON

MARILYN BLACK  
HENRY ADAMS

J. Cole

Sch Bd - 50 - Cab -

HANOVER

ART - COLONIAL HOUSE -

GIFTS - AMI -

Comm - PRES SCHOLARS -

REC'D EXCELLENCE

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THE WHITE HOUSE  
WASHINGTON

7:45 a.m. 4-4-79

- a) Herman de Camp now in charge  
(Bill Lee) (680) - clear authority -  
@ make some help.  
60-70 industry experts advising
- b) Flow prefers natural circulation  
- continue de gas, determine  
best temp 280° → ~ 200-280  
Secondary system solid H<sub>2</sub>O  
turn off pumps; temp then  
drop to ~ 100°, pressure drop  
10 days from now
- c) Cause - flux feed H<sub>2</sub>O pumps  
were blocked out with shut valves  
cut H<sub>2</sub> press - no cooling

THE WHITE HOUSE  
WASHINGTON

- Sub:
- d) Flow Xmtbr  
Pressurizer level indicated - man  
have putting two standby - putting  
in others
- e) Total off site radiation  
1800 <sup>man-rem</sup> ~~man-rem~~ - 85 mrem at  
gate  
10000 man-rem = more two  
latent cancer
- f) Cleanup time - many months  
H<sub>2</sub> Xe<sub>133</sub>, etc 6 or 7 1/2 hrs  
Bldg. admittable

THE WHITE HOUSE  
WASHINGTON

Mr. President:

Attached is the information  
you requested.

Frank Moore  
4/3/79  
6:00 p.m.

*Fm/pd*

THE SPECIAL REPRESENTATIVE FOR  
TRADE NEGOTIATIONS

WASHINGTON

20506

MEMORANDUM FOR THE PRESIDENT

FROM: Ambassador Robert S. Strauss

SUBJECT: Implementing Tokyo Round Agreements

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for Preservation Purposes

You have authority to implement tariff agreements by proclamation. Non-tariff agreements, however -- on such matters as export subsidies -- become effective only if the Congress approves them and enacts any legislation that is necessary to carry them out. Special procedures call for us to notify the Congress at least 90 days before signing a non-tariff agreement (done January 4) and to consult with all interested Congressional committees.

Under these procedures, agreements and their implementing legislation cannot be amended by Congress, and must be voted upon within 90 working days (probably September). The agreements and legislation may be discharged from committees after 45 days, unless they are reported out earlier.

We hope to enter into Tokyo Round agreements on April 11, and to submit these agreements and implementing legislation to the Congress at the beginning of May. We hope for Congressional action on this package by late July, at the earliest.

For several weeks, we have been consulting about the agreements and their implementing legislation with the Finance and Ways & Means Committees, and with other committees that are interested in particular parts of the package (House and Senate Commerce Committees, on product standards, Government Operations, Government Affairs, and Small Business Committees, on government procurement, and the Agriculture Committees.)

In these consultations Ways & Means and Finance (and in a few cases the other committees) have reviewed our preliminary proposals for implementing legislation and have made policy decisions about the content of that legislation. We expect to follow their recommendations very closely in drafting the final legislative package, if at all possible.

We expect to finish these consultations in the next week or ten days, and to devote the rest of the month to producing draft legislation that reflects the Committees' decisions. If all falls in place these legislative proposals will be ready for submission by the end of the month.

Parenthetically, the Finance Committee is very responsible and making real progress. The opposite is true with Vanik's sub-committee in the House.

THE WHITE HOUSE  
WASHINGTON

4/4/79

Tim Kraft

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

Please tell Phil re lunch.

Rick Hutcheson

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

*Tell Phil re lunch*

ACTION  
FYI

ADMIN CONFID
CONFIDENTIAL
SECRET
EYES ONLY

VICE PRESIDENT
EIZENSTAT
JORDAN
KRAFT
LIPSHUTZ
MOORE
POWELL
WATSON
WEXLER
BRZEZINSKI
MCINTYRE
SCHULTZE

ARAGON
BOURNE
BUTLER
H. CARTER
CLOUGH
COSTANZA
CRUIKSHANK
FALLOWS
FIRST LADY
GAMMILL
HARDEN
HUTCHESON
JAGODA
LINDER
MITCHELL
MOE
PETERSON
PETTIGREW
PRESS
RAFSHOON
SCHNEIDERS
VOORDE
WARREN
WISE

ADAMS
ANDRUS
BELL
BERGLAND
BLUMENTHAL
BROWN
CALIFANO
HARRIS
KREPS
MARSHALL
SCHLESINGER
STRAUSS
VANCE

JANE BYRNE

*done  
J*

THE WHITE HOUSE

WASHINGTON

April 3, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: TIM KRAFT *TK*  
SUBJ: Election Night Call to Jane Byrne

---

Ms. Jane Byrne  
Chicago, IL  
312/280-7979

Today is election day in Chicago and Jane Byrne is expected to win by about a 7:1 margin. The Chicago Organization is pulling out the stops today in a conciliatory effort and it is important that the White House commence a strong relationship with her.

It is currently anticipated that she will call the shots in her Administration. She and her husband, Jay McMullen, a real-estate reporter for the Chicago Sun Times, attended the Peace Treaty Dinner last week. Her Transition officer, Lew Massati, was here in mid-March and met with Jack Watson and Tim Kraft.

TALKING POINTS: Offer your congratulations and ask her to come to the White House in the very near future to meet with you, Jack Watson, Tim Kraft, Jim Johnson, etc.

NOTES:

*82%*  
*Going on vacation*

---

*Enjoyed Peace banquet*

---

*Will come to WH for lunch later*

---

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THE WHITE HOUSE  
WASHINGTON  
4/4/79

Tim Kraft  
Arnie Miller

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

Rick Hutcheson

cc: The Vice President

THE WHITE HOUSE  
WASHINGTON

Q

April 4, 1979

MEMORANDUM FOR THE PRESIDENT

Electrostatic Copy Made  
for Preservation Purposes

FROM:

TIM KRAFT *TK*  
ARNIE MILLER *AM*

SUBJECT:  
Director

Appointment of New Census Bureau

As you know, Manny Plotkin has submitted his resignation as Census Bureau Director, effective April 1. The next Director should be a good manager who knows the operations of the Bureau and can provide leadership. The new director should also reassure those interest groups who are deeply concerned with the census.

Our search has narrowed to one candidate who clearly fills all these requirements. He is Vincent Barabba, Plotkin's predecessor, who is universally respected as a good organizer and manager, and who possesses credible experience with minorities and others concerned about the problem of an undercount.

Barabba is prepared to take the appointment if offered, however, only if he can work out a leave of absence with his employer, the Xerox Corporation.

Bob Lipschutz agrees that Barabba should be allowed to work out a leave of absence arrangement.

We might receive some criticism because Barabba is a Republican. However, he has a very good reputation in the statistical community, among the staff at the Bureau and with Senator Glenn, who chairs the Oversight subcommittee. In fact, the appointment of a Republican could be a plus, since it's a clear indication of our commitment not to politicize the operations of the Census.

If you agree with this recommendation, we are planning to ask the Vice President to contact Xerox on the leave of absence issue. Juanita Kreps and Jim McIntyre concur with this recommendation.

RECOMMENDATION:

Nominate Vince Barabba to be the Director of the Census Bureau.

approve  disapprove *J*

THE WHITE HOUSE  
WASHINGTON

9  
4/3/79

Mr. President:

Dr. Lukash feels he needs to go ahead with your annual physical by doing it here instead of Bethesda. He needs one hour which can be arranged thursday morning. May I schedule this?

yes  no

6 am blood

Phil

J

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3:00 PM

THE WHITE HOUSE

WASHINGTON

April 3, 1979

BRIEFING ON HOSPITAL COST CONTAINMENT FOR COMMUNITY LEADERS

Wednesday, April 4, 1979

3:00 p.m.-3:15 p.m.

The East Room

From: ANNE WEXLER *Anne*  
STU EIZENSTAT *Stu*

I. PURPOSE

To encourage community leaders from certain key states to work in support of hospital cost containment legislation.

II. BACKGROUND, PARTICIPANTS, & PRESS PLAN

A. Background:

1. In the month since you announced the hospital cost containment legislation, hearings have been held in all of the major subcommittees of the House and Senate, and mark-up sessions are in progress. Now is the critical time, therefore, for Members of Congress to be contacted by interest groups and constituents. During the upcoming April recess, contacts at home will be particularly important.

Broad-based support has been demonstrated for hospital cost containment legislation. It has been endorsed by state and local officials, major trade unions (including the AFL-CIO), consumer and elderly groups, public health organizations, part of the insurance industry and others. There have been numerous favorable editorials and strong Congressional support. The hospital industry, however, remains a formidable opponent, and we will need substantial outside assistance in order to succeed.

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2. Anne Wexler will open the meeting and will introduce the remainder of the program. Charlie Schultze will discuss the need for hospital cost containment as an anti-inflation tool. Joe Califano will then brief on the legislation and take questions. When you arrive to close the meeting, Joe will be answering questions. After you speak, there will be a reception in the State Dining Room. (See attached agenda.)

B. Participants: About 300 community leaders have been invited from key states. Names were suggested to Anne Wexler's office by several members of the supporting coalition. The audience will include mayors, county officials, state legislators, insurance executives, directors of health maintenance organizations, elderly and consumer group leaders, and local and regional union officials. The audience as a whole should be quite supportive of hospital cost containment.

C. Press Plan: White House photo and press pool will be present for your remarks. In addition, several press representatives will have been in the room for the entire briefing. They are health trade correspondents, and representatives of newspapers in the hometowns of some of the participants.

### III. TALKING POINTS

Suggested talking points are attached.

THE WHITE HOUSE

WASHINGTON

HOSPITAL COST CONTAINMENT BRIEFING

The East Room -- The White House

April 4, 1979

AGENDA

2:00 p.m.	Opening Remarks	Anne Wexler Assistant to the President
2:05 p.m.	Inflation and Hospital Cost Containment	Charles Schultze Chairman, Council of Economic Advisors
2:15 p.m.	Hospital Cost Containment Legislation	Joseph A. Califano Secretary, Department of Health, Education, and Welfare
2:30 p.m.	Questions and Answers	Joseph A. Califano
3:00 p.m.	Closing Remarks	The President
3:15 p.m.	Reception in State Dining Room	

TALKING POINTS FOR THE PRESIDENT FOR MEETING WITH  
COMMUNITY LEADERS -- 3:00 P.M., APRIL 4, EAST ROOM

- o Hospital Cost Containment legislation is a vital part of the overall anti-inflation program. Legislation is necessary to contain hospital costs because of the inefficient and wasteful nature of the hospital industry and because of the extremely high inflation rate which has characterized this industry in recent years.
  - More than 90 percent of hospital expenses are reimbursed by government or insurance companies. Whatever hospitals spend, they are paid. This reimbursement system provides little incentive to hospitals, physicians, or patients to ensure that services are provided in an efficient manner.
  - Hospital cost inflation has reflected the inefficiencies built into the system. Over the past decade, hospital costs have increased at a rate more than twice that of the CPI generally -- faster than food and fuel.
- o By providing hospitals with an incentive to eliminate waste and inefficiency, Hospital Cost Containment legislation can lead to substantial savings. These savings will in turn mean reduced inflation, less Federal spending, and a decreased tax burden.
  - This legislation will reduce federal spending by \$1.4 billion in 1980 alone.
  - Over the next five years, Federal spending will be reduced by \$22 billion, state and local spending by \$6 billion.
  - Total savings in hospital costs over the next five years will be \$53 billion.
  - If we pass this legislation this year, by 1984 the cost of an average hospital stay will be \$500 less than it would be should the legislation fail. This saving will mean decreased taxes, decreased insurance premiums, and decreased out-of-pocket costs for health care.

- o The goals we have set in this legislation are reasonable. They can be met without any decrease in the quality of hospital care.
  - In fiscal 1978, the entire New England region (Connecticut, Rhode Island, Massachusetts, Vermont, New Hampshire, Maine) averaged an 8.3 percent rate of increase in hospital costs. This rate was achieved despite considerable inflation in energy costs in the New England region.
  - One-third of all hospitals in the country had an inflation rate of less than 9.7 percent in 1977. These hospitals represented all types -- small and large, urban and rural, teaching and non-teaching. A similar performance by all hospitals in this country on a voluntary basis in 1979 would make mandatory controls unnecessary.
  - Nine states already have mandatory state cost containment programs. These programs have successfully cut hospital cost inflation.
- o This program seeks to minimize federal regulation of the hospital sector. It calls for voluntary cost savings by the hospital industry. If this fails, the legislation encourages states to adopt their own mandatory programs. Only if voluntary and state efforts do not succeed does the legislation call for mandatory federal controls.
  - No costly new reporting system will be required to implement the provisions of this bill. Hospitals will be asked to add only a single piece of information to what they already report to HEW.
- o Public support is essential to overcome the powerful and well-financed hospital lobby which defeated this bill last year. It is encouraging that there is a broad coalition of groups supporting the legislation this year -- a coalition that includes consumer organizations, senior citizen groups, business, labor unions and elected officials from state and local governments. [Many of these groups will be represented at the meeting.] It will take your dedication and active participation -- as community leaders -- to pass this legislation.
- o There is no surer way for the Congress to demonstrate its commitment as our partner in the inflation fight than to pass this bill. Congress needs to know that the American people are with us in our determination to win this battle. We need your help, your commitment, your voice.

THE WHITE HOUSE  
WASHINGTON

04 Apr 79

Frank Moore

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

Rick Hutcheson

Tim Kraft

1352



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

ACTION  
FYI

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EYES ONLY

VICE PRESIDENT
EIZENSTAT
JORDAN
✓ KRAFT
LIPSHUTZ
△ MOORE
POWELL
WATSON
WEXLER
BRZEZINSKI
MCINTYRE
SCHULTZE

ARAGON
BOURNE
BUTLER
H. CARTER
CLOUGH
COSTANZA
CRUIKSHANK
FALLOWS
FIRST LADY
GAMMILL
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PRESS
RAFSHOON
SCHNEIDERS
VOORDE
WARREN
WISE

ADAMS
ANDRUS
BELL
BERGLAND
BLUMENTHAL
BROWN
CALIFANO
HARRIS
KREPS
MARSHALL
SCHLESINGER
STRAUSS
VANCE

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J*

THE WHITE HOUSE  
WASHINGTON

Nell:

Regarding the President's call from  
Congressman Sam Stratton (D-New York):

Jim Free talked to Stratton to  
determine the subject of the call.  
Stratton wants to urge the President  
to establish a "blue ribbon" panel  
to study the Harrisburg accident.  
He wants to recommend that the  
President appoint Admiral Rickhoveer  
to head the panel.

Although, Jim told Stratton he  
would be sure the President was  
aware of his suggestion, Stratton  
indicated that he sure would like  
to speak to the President personally.

Jim advises that Stratton has come  
a long way in terms of supporting  
the President and wants to help  
in New York in 1980. He advises  
that the President return the call.

Patti *PD.*  
4/3  
5:50 p.m.

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