5/22/79 [1]

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

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

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

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

		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

THE WHITE HOUSE

WASHINGTON

22 May 79

JIm McIntyre

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

Rick Hutcheson

Re: FT. Belvoir Laundry 2173

Jim McG

from Rudolph McDuffie -
Ft Belvoir laundry. Claiming
that contracting costs more!

J

YEAR	Laundry D/C Pieces processed	Total Revenue	Total Labor cost	Total Cost	Profit/Loss	Cost per piece	Revenue Per piece	Contractor Fee
In House 1975	46,949,750	$8,551,544	$8,941,888	$11,830,643	- $3,279,099	$.2520	$.1821	
In House 1976	46,190,150	10,006,949	8,504,629	11,712,254	- 1,705,305	.2536	.2166	
In House 1977	12,616,991	3,091,405	2,629,338	3,768,864	- 677,459	.2987	.2450	
GOCO 1977	27,380,938	6,490,876		7,675,456	- 1,184,580	.2803	.2371	$6,490,876
TOTALS	39,997,929	9,582,281		11,444,320	- 1,862,039			
In House 1978	2,816,061	775,782	894,713	1,528,629	- 752,847	.5428	.2755	
GOCO 1978	35,643,500	8,045,560		13,584,296	- 5,538,736	.3811	.2257	11,561,365
TOTALS	37,829,561	8,821,342		15,112,988	- 6,291,583			
In House 1st Qtr 79	674,361	188,887	257,137	383,794	- 204,907	.5893	.2801	
GOCO 1st Qtr 79	8,767,880	1,950,472		3,494,049	- 1,543,577	.3985	.2224	2,979,506
TOTAL	9,442,241	2,193,369		3,887,843	- 1,748,494			
Projected 1979	37,768,964	8,557,476	1,028,548	15,551,372	- 6,993,936			11,918,024

	Fort Richardson FY 77 In House	Fort Wainwright FY 77 In House	Fort Richardson FY 78 Contract	Fort Wainwright FY 78 Contract	Fort Richardson 1st QTR 79 Contract	Fort Wainwright 1st QTR Contract
Pieces Processed	3,013,338	1,452,444	2,162,624	1,398,622	465,586	212,854
Cost Per Piece	$.426	$.496	$.365	$.541	$.394	$.767
Total Pieces Processed	4,465,782		3,561,246		678,440	
Average Cost	$.449		$.446		$.507	
Projected Pieces * FY 79 Contract					1,862,344	851,416
Total Projected Workload FY79*					2,713,760	
Decrease in Workload FY 77-78-79			-904,536 (20.2%)		-847,486 (23.8%)	
Total decrease in Workload					-1,752,022 (39.2%)	

* projected FY 79 workload based on 1st Quarter x 4.
Note - In FY 78 contractor was costed for utilities - In FY 79 government will absorb utilities cost.

THE WHITE HOUSE

WASHINGTON

May 22, 1979

TO THE 1979 GRADUATES OF
THE UNITED STATES COAST GUARD ACADEMY

Our Nation has placed special emphasis on education because we believe in each individual's worth and potential. Your years of education have added skills and knowledge to your innate abilities, through which you have developed your talents. I hope those years have also developed your powers to think independently and your ability to discipline yourself to work toward important goals, as well as preparing you to bring new perspectives and fresh insights to the challenges of today and the future.

As educated citizens, you have a special responsibility to the United States and to a world in which not all people have the freedom, opportunities or material blessings our people enjoy. It is necessary to safeguard and preserve the heritage we value and to extend the frontiers of human knowledge, understanding and human rights. There is much exciting and important work to be done, and I encourage you to explore thoroughly all the avenues open to you.

I congratulate you all on your achievements and wish you well.

Jimmy Carter

THE WHITE HOUSE
WASHINGTON

5/22/79

Stu Eizenstat

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

Rick Hutcheson

cc: Jim McIntyre

THE WHITE HOUSE

WASHINGTON

5/22/79

Mr. President:

OMB concurs; CL has no comment.

Rick/Bill

THE WHITE HOUSE

WASHINGTON

May 12, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT
ELLEN GOLDSTEIN

SUBJECT: FEDERAL EMPLOYEE RETIREMENT PROGRAM

You requested information about the status of an initiative to reduce the twice yearly cost of living adjustment for federal retirees to an annual increase.

Retired federal employees, unlike other retirement beneficiaries, receive a twice yearly cost of living increase. This double adjustment was enacted only a little over two years ago. Depending on when implemented, moving to an annual cost of living adjustment for federal retirees would save between $175-700 million annually in FY 1980, with significant out-year savings.

The proposal to eliminate the twice yearly adjustment was considered briefly by OMB late in the 1980 budget process, but was dropped. While the Labor Department and the Office of Personnel Management supported the initiative, Defense and State both vigorously opposed the idea because of its negative effect on their retirement incentives for their non-civil service employees. Defense also argued that submission of this proposal to the Congress would make passage of our proposed military retirement reforms more difficult. Under the reforms, the current force would be grandfathered and their benefit structure protected. The proposal for an annual cost of living adjustment would directly affect those protected benefits.

It was also suggested that the administration propose elimination of the twice yearly cost of living increase only for civil servants. OMB rejected this suggestion on the basis of equity for all federal employees. There is some interest in having the Pension Commission advance this proposal. The Commission, however, will probably not make recommendations this specific. The study group on universal social security coverage will probably consider this proposal as part of their broader mandate.

In both the Senate budget resolution and in the proposed House resolution, the initiative to annualize the cost of living adjustment for federal retirees has been included. The Administration did not testify in favor of the proposal. There is no enthusiasm for this proposal among the appropriate civil service committee leaders in the House and Senate. Federal employee unions will express their strong opposition to this proposal.

I believe that we can support annualization of cost of living adjustments for federal retirees. I will meet with Jim, John White and Bo Cutter and attempt to resolve our differences and discuss legislative and political strategies on the issue.

22

ID 792001

THE WHITE HOUSE

WASHINGTON

5/16 – may not need to go to Pres. Wh k will discuss w/ SE. – ~~Fold – to Pres~~ revised pgm coming in Thurs $ – should take care of OMB's problem

DATE: 14 MAY 79

FOR ACTION: FRANK MOORE (LES FRANCIS) nc JIM MCINTYRE

INFO ONLY: THE VICE PRESIDENT — JACK WATSON

ANNE WEXLER — CHARLIE SCHULTZE

ALFRED KAHN

SUBJECT: EIZENSTAT MEMO RE FEDERAL EMPLOYEE RETIREMENT PROGRAM

+++

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

\+ BY: 1200 PM WEDNESDAY 16 MAY 79 +

+++

ACTION REQUESTED:

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

PLEASE NOTE OTHER COMMENTS BELOW:

In both the Senate budget resolution and in the proposed House resolution, the initiative to annualize the cost of living adjustment for federal retirees has been included. The Administration did not testify in favor of the proposal. There is no enthusiasm for this proposal among the appropriate civil service committee leaders in the House and Senate.

I believe that we can and should support annualization of cost of living adjustments for federal retirees. If you agree, I will meet with Jim, John White and Bo Cutter and attempt to resolve our differences.

Decision

Agree__________

Disagree_______

Patti –
see if you can
find P's argument

Thanks,
Elly

X	FOR STAFFING
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	FROM PRESIDENT'S OUTBOX
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FOR ACTION	FYI	
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		JORDAN
		EIZENSTAT
		KRAFT
		LIPSHUTZ
X		MOORE/Les
		POWELL
		RAFSHOON
	X	WATSON
	X	WEXLER
		BRZEZINSKI
X		MCINTYRE
	X	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
X	X	KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

5

THE WHITE HOUSE

WASHINGTON

March 15, 1979

MEMORANDUM FOR: JIM McINTYRE

FROM: STU EIZENSTAT Stu

SUBJECT: Federal Employees Retirement Program

An OMB initiative to move back to an annual cost of living increase for retired federal employees, from the current biannual increase, was briefly considered and dropped late in the budget process. I understand that the potential savings ranged from $175-700 million in FY '80 alone, depending upon implementation. The outyear savings would be substantial.

Interest in pursing this idea has been expressed by some in Congress. The President recently called my attention to this proposal (see attached), indicating his interest as well.

In my judgement, it is not too late for the Administration to advance this initiative, considering the interest expressed and the potential savings involved. We could develop a sound proposal that excludes non-civil service employees and thus eliminate State and Defense Department opposition.

Please let me know if we can be of assistance to you and your staff in developing this proposal.

to: Burt

Harry

Ellen

THE WHITE HOUSE
WASHINGTON

FYI
Harry

Sue -

Status?

J

The Federal Diary

By Mike Causey

Pension Price Tag Worries White House

Inflation is driving the cost of the federal civilian pension program up at the rate of $80 million to $90 million every 12 months.

The pension price tag will jump $37.9 million today when a cost-of-living raise for retired civil service and postal workers goes into effect. Costs for military retirees, who also will get the increase, could add another $25 million or so to the federal retirement package.

Federal civilian retirees living in Washington, Maryland and Virginia will get a before-taxes annuity increase of $5.9 million effective today. The extra money will show up in checks mailed to the 100,000-plus retirees in the immediate metro area for delivery in early April.

Although federal retirees are suffering from the effects of inflation and high cost of living, they are fortunate to be linked to the Consumer Price Index, which measures living cost changes. Retirees get two automatic raises each year, effective March 1 and Sept. 1. The March 1 increase of 3.9 percent reflects the increases in living costs for the previous six months as measured by the Consumer Price Index.

Carter administration officials, worried about the cost and compounding effect of the semi-annual retiree raises, had planned to ask Congress to cut it back to one raise a year.

But Defense Department officials protested the plan, arguing that with all the problems of the all-volunteer military, and various military retirement studies going on, this is not the time to act.

In effect that left the administration with the option of asking Congress to eliminate the twice-yearly raises for civilian retirees while keeping them for the military.

Insiders expect the White House, perhaps next year, to revive the pension cutback proposal to include both civilian and military retirees. In the meantime, both groups will continue to get two raises a year based on living cost changes.

2177

THE WHITE HOUSE
WASHINGTON
22 May 79

Stu Eizenstat
Jim McInytre

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

Rick Hutcheson

The original message has been given to Bob Linder for handling (12:00).

	FOR STAFFING
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I've called

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

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

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		FIRST LADY
		GAMMILL
		HARDEN
		HUTCHESON
		JAGODA
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		PRESS
		RAFSHOON
		SCHNEIDERS
		VOORDE
		WARREN
		WISE

Hold til
Orin Kramer
calls – prob go
to Hill Tues
He will make
AM some changes in
The message

Rick – I gave Peg
changes –

THE WHITE HOUSE
WASHINGTON

5/21/79

Mr. President:

Congressional Liaison concurs with DPS on all issues. However:

"Passage of any financial institutions reform will be extremely difficult. In the past six years two such efforts have bogged down when the Banking Committees were unable to resolve disputes between the thrift industry and the bankers.

"Removal of the rate differential will be opposed vigorously by the thrifts. Variable rate mortgages may provide stronger than anticipated opposition by consumer groups and the AFL-CIO."

Rick

THE WHITE HOUSE

WASHINGTON

C

May 17, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT
JIM McINTYRE
ORIN KRAMER

SUBJECT: Regulation Q Task Force Recommendations

In late 1977 you directed that the Treasury Department chair an interagency study of Regulation Q deposit rate ceilings. The task force produced the attached report, which was the product of extensive negotiations and is extremely complex. This memorandum, which Treasury has reviewed, summarizes the task force's findings and identifies the issues you must resolve. You need not read the attached report but may want to refer to it for more detail.

The task force members were Treasury, HUD, CEA, OMB, DPS and the President's Adviser on Consumer Affairs. The bank regulators also participated actively but while their views are described in this memorandum, they are independent agencies and are not bound by the Administration's decisions.

I. Description of Existing System

The United States financial system includes two classes of depository institutions: general lenders (commercial banks), which have broad deposit-taking and investment powers, and specialized "thrift" lenders (savings and loan associations and mutual savings banks), which have more limited depository powers and are required to invest primarily in residential mortgages. In today's environment thrift institutions, which basically make fixed-rate mortgage loans, cannot generate the portfolio yields achieved by commercial banks, whose portfolios are structured to produce higher returns during periods of rising interest rates. Unless thrift powers were expanded, in the absence of deposit rate controls thrifts could not successfully compete against banks for deposits during periods of high interest rates. The system of deposit rate ceilings was developed to compensate thrifts for their restricted deposit-taking and investment powers, to insulate them from commercial bank competition for deposits, and thus to protect the flow of housing credit.

In 1933 the Congress imposed rate ceilings on time and savings deposits at commercial banks. In 1966 Congress broadened the ceilings to cover thrift institutions. Although the authority under the 1966 act to set ceilings (Regulation Q) was limited to one year and viewed as temporary, it has been successively renewed for periods ranging from two months to two years. The latest Regulation Q extension expires on December 15, 1980

The present system of controls has three principal elements:

(1) the Federal Reserve Board, the Federal Home Loan Bank Board and the FDIC each set ceilings for the respective classes of financial institutions (i.e., the Fed sets ceilings for Fed member banks, etc.);

(2) the regulators set ceilings on all savings and time deposits under $100,000, while $100,000 certificates of deposit fluctuate at market rates; and

(3) generally, the regulators are required to keep ceilings on thrift deposits 25 basis points above the rates that can be paid on comparable deposits by commercial banks.

II. Evaluation of Regulation Q

The traditional rationale for rate ceilings is that they: (1) prevent "excessive" competition for deposits between thrifts and banks, (2) reduce mortgage rates by lowering the thrifts' cost of funds, and (3) compensate the thrifts for their forced specialization in fixed-rate long-term mortgages. The thrifts' 25-basis point differential is designed to (1) protect the thrifts' deposit base and thereby increase the steady flow of housing credit, and (2) compensate thrifts for the absence of services (such as checking accounts) which are offered by banks.

Several previous Presidential commissions have reviewed Regulation Q's record in meeting these objectives, and all recommend that the system be phased out. In each instance a coalition of thrifts and homebuilders defeated legislative reform. In recent months, however, significant changes in the financial services marketplace have forced the homebuilders and thrifts to re-evaluate their positions. We have been informed that the National Association of Homebuilders will drop its long-standing support of the present system when its new leadership assumes office this fall. There is also a growing consensus within the financial community, including the more sophisticated thrifts, that marketplace realities have led to a persistent erosion of rate controls, and that thrifts must be given new powers if they are to have the earnings flexibility to compete for the funds of increasingly rate-conscious depositors. A recent National Journal cover story predicted the elimination of Regulation Q and stated that "prospects for quick action have increased dramatically during the past few months."

Nonetheless, Regulation Q remains highly controversial, and any effort to move toward a market-rate environment will be fiercely opposed by the majority of thrifts. While consumer groups have become avid disciples of higher interest rates for savers, they will join the AFL-CIO in opposing some of the compensating powers that thrifts must receive as part of a reform package. In short, the outcome of a major legislative effort is unpredictable, but it is clear that the probability of success is greater today than at any prior time.

You must make two basic decisions: (1) should the Administration endorse a phased transition to a system involving little or no control over deposit interest rates; (2) if so, what changes in thrift asset and liability powers are necessary to permit thrifts to compete in a market rate environment? The remainder of this memorandum addresses these two issues.

Except for HUD, all members of the task force recommend an orderly transition to a market-rate environment, for these reasons:

A. Forcing the small saver to accept a sub-market rate on his deposit is unfair.

- Purchasers of $100,000 certificates are exempt from ceilings and receive a rate of 10.5 - 11%, purchasers of $10,000 money market certificates receive a market-related yield of 9.5%, but the small saver with a commercial bank passbook account is stuck with 5%. The Gray Panthers and other consumer activists peg the loss at over $15 billion annually although we believe this figure is significantly overstated. Especially during a period of high inflation, it is difficult to justify forcing the small saver to accept an artificially lower yield than that which is available to the large or sophisticated saver.

- In the 13 years since the system was established, the passbook rate has been raised by only 1% for commercial banks and 1/2% for thrifts. This inequity is most severe during periods of high inflation. For example, the present spread between market rates (a 3-month Treasury bill) and the Regulation Q savings rate is over 4%. Unless the thrifts receive new competitive powers, the bank regulators, which are charged with assuring the safety and soundness of depository institutions, will not significantly reduce this spread for fear of destabilizing the least profitable sector of the thrift industry.

- It is unclear who benefits from this "tax" on the small saver. Some of the subsidy is lost through inefficiency, and the large profits of commercial banks during high interest rate periods suggest to some that bank stockholders may benefit. It is unclear whether lower deposit costs actually reduce mortgage rates. To the extent that they do, however, it is regressive to force low-and-moderate income individuals (particularly the elderly) who hold savings accounts to subsidize the relatively more affluent homebuyers.

B. Regulation Q has only been partially successful and at times has undermined its primary objective: a stable thrift deposit base which will provide a steady flow of mortgage credit.

- While the present system effectively eliminates rate competition between banks and thrifts, it does nothing to protect thrifts from competition from non-bank competitors not subject to the ceilings. In fact, deposit controls have fostered the dramatic growth of new intermediaries offering market rates to the erst-while depositor. For example, banks and thrifts have lost a significant market share to the money market funds, which have grown from $3.9 billion to

$19.1 billion in less than two years. These funds offer market rates for investments as low as $1,000.

o Our recent success with the six-month money market certificate should not disguise the underlying reality: the inability of thrifts to pay higher rates assures depository instability during prolonged periods of tight money. It is estimated that in April thrifts suffered deposit outflows of $2.0 billion, which would be the most severe deposit loss in five years. The money market certificate delayed the onset of deposit outflows, but we are now seeing the historic pattern of serious disintermediation.

o The outflows during high interest rate periods affect the safety and soundness of thrift institutions. Many savings and loan institutions will endure very narrow spreads later this year, and the mutual savings bank industry faces the most serious problems in its history.

C. Purely from a housing perspective, Regulation Q is increasingly ineffective and inflationary.

o A major cause of housing inflation is the cyclicality of the housing industry. The "stop and go" nature of the housing industry forces labor to demand higher wages and builders to seek higher profits. That cyclicality is primarily a function of the thrifts' inability to attract funds when interest rates are high. There have been seven full housing cycles since World War II, and the magnitude of the swings has increased over the past decade. This is why the National Association of Homebuilders is expected to withdraw its historic support of Regulation Q: they believe that stabilizing housing prices requires a steady flow of mortgage credit, which in turn requires that thrifts be able to match the increasingly aggressive competition for deposits from intermediaries not subject to Regulation Q ceilings.

o The destabilizing effect of Regulation Q on deposit inflows has forced the Federal government to supplant much of the private market role in assuring the flow of housing credit. Home Loan Bank Board advances have become increasingly significant in meeting residential mortgage demand.

D. Regulation Q fosters inefficiency.

- Deposit ceilings protect inefficient banks and thrifts from the consequences of rate competition. Beyond that, they force institutions to engage in what may be wasteful non-price competition. Institutions open unnecessary branches or merchandise "gifts" to customers who might prefer an increased yield.

E. The timing is correct for a transition from the existing system.

- The most salient characteristics of today's financial services market are its increasing competitiveness and the accelerating rate of innovation. We are witnessing a blurring of distinctions between traditional institutions, as roles and product lines which were once the province of one class of financial institution have now become highly competitive areas in which different classes of institutions compete. In brief, the thrifts face increasing competition on both the lending and the deposit-taking sides. If depository institutions cannot offer depositors a market-related rate, they will be left with a steadily decreasing share of the financial services market. Both thrifts and banks serve critical roles as intermediaries, and deregulation is necessary to permit them to generate the funds to perform those functions effectively in today's marketplace.

- The political force field surrounding this issue is changing rapidly. The Chairmen and Subcommittee Chairmen of the Banking Committees are now seeking Administration support for deregulation. Only two months ago, Senator Proxmire regarded a Regulation Q battle this year as futile. The "small saver" argument has always been most potent during a period of high interest rates, when the inequity is greatest. But the fear that we face a long period when interest rates will remain high by historic standards has made the Gray Panthers and others seeking "small saver equity" more vocal and effective than in previous years. In short, this is a difficult but winnable issue as well as one that will be readily understood by the public.

<u>HUD opposes moving to a market rate environment and favors only modest changes in deposit rates.</u> <u>HUD's arguments are set forth below</u>.

A. <u>Deregulation of the ceilings will be inflationary</u>.

o The major impact of eliminating the ceilings will be to raise interest rates on mortgages and other debts.

B. <u>There is already sufficient competition within the financial services industry</u>.

o It is alleged that there is no proof that lifting the ceilings would have any pro-competitive impact. In fact, deregulation might achieve the opposite result: small- and medium-sized institutions that serve a substantial part of our communities might not survive.

C. <u>Lifting the ceilings will not help low income or elderly persons, and it is likely that they will be hurt</u>.

o Since it is argued that a substantial portion of those families do not have savings accounts, they could not benefit from the increased rates paid on those accounts. But to the extent that they are borrowers, they will be worse off because they will have to pay higher rates on the funds they borrow.

D. <u>The differential is necessary to protect the small- and medium-sized thrift institutions</u>.

o Since these institutions are located predominantly in the South and the West, there could be a severe regional impact. In addition, it is politically unwise to raise interest rates at any time.

E. <u>Certain changes need to be made because of what HUD calls "the emerging crises in mortgage credit," but these should be changes which can be controlled as to their effect</u>.

o HUD opposes basic structural changes because it argues that no alternative system of mortgage finance has been proposed, and the changes proposed by the remainder of the task force could seriously undermine mortgage credit markets and the institutions that serve them. Because of the highly uncertain nature of housing and mortgage finance, and the importance of housing to the economy in particular, HUD believes that the timing could not be worse (politically and economically) for precipitous action.

III. Options

Thrift institutions lack the earnings flexibility to pay market-related rates for most of their deposits today. There is agreement among the task force members, including HUD, that if deposit ceilings are to rise substantially over time, the deposit-taking and lending powers of thrifts must be expanded. There is also agreement that after new powers were authorized, it would take time for thrifts to increase the yield on their existing portfolios of fixed-rate mortgages. Thus the transition to a market-rate deposit environment must be phased in gradually, and the concept of rate deregulation must be perceived as part of a broader package. The majority of the task force is agreed on the appropriate elements of that package. The alternatives for changes in the deposit-taking (liability) and investment (asset) powers of depository institutions are described below.

A. Liability Powers

1. Interest-bearing checking accounts

All agencies recommend a proposal to authorize nationwide interest-bearing checking accounts for all individuals. Under existing law, banks cannot pay interest on checking accounts, and savings associations cannot offer checking accounts at all.

Decision

Propose interest-bearing checking accounts (Unanimous task force recommendation) ____✓____ J

Do not propose accounts __________

2. Deposit rate ceilings

Alternative #1 - Recommend transition to a period where all deposit rates are permitted to rise to market rates, and urge the bank regulators immediately to increase the interest rates payable to small savers (Treasury, DPS, OMB, CEA, Fred Kahn, Federal Reserve Board, Comptroller of the Currency, and National Credit Union Administration).

Alternative #2 - Go further than Alternative #1 and recommend that all ceiling rates, except the money market certificate, be raised by 50 basis points (Esther Peterson).

Alternative #3 - Make limited upward adjustment on ceilings (HUD).

Alternative #1

The eight task force members cited above recommend that you propose (1) that at the end of an orderly transition period all deposit rates should be permitted to rise to market rate levels and (2) that you encourage the bank regulators to take immediate steps to increase interest rates payable to small savers. The regulators would retain standby authority to lower ceilings if the stability of depository institutions were threatened.

Pro:

o This approach will achieve the reforms the majority of the task force believe are necessary: equity for the small saver, a steadier flow of mortgage credit, and more efficient financial markets.

o For both substantive and political reasons, we prefer a general commitment to deregulation to a detailed proposal specifying the timing of deregulation, the order in which different deposit instruments would be deregulated, and the timing of the removal of the differential. Substantively, a statutory requirement that ceilings be raised and ultimately eliminated on a fixed timeframe strips the regulators of the flexibility to respond to changed market conditions which might affect the stability of financial institutions. Tactically, our commitment will be sufficiently explicit to win the support of opponents of the ceilings, but will be general enough to permit us to work with the Banking Committees and constituencies to identify the best legislative vehicle. It is important to establish Presidential leadership on this issue now, but it is premature to specify our tactical approach on the Hill.

o The bank regulators will respond quickly and affirmatively to your suggestion that they increase deposit rates for small savers. While the steps they will take will be modest, for the first time they are expected to provide a market-related deposit instrument for the small saver.

o Given the timing of possible Congressional action and incremental nature of the legislation we are considering, there is no real possibility that deregulation would affect mortgage credit flows in the period prior to 1981.

o All key Banking Committee staff have reacted favorably to this alternative, although all regard the outcome of this issue as unpredictable.

Con:

o While the homebuilders are expected to shift their position this fall, at this time this legislation would be vigorously opposed by most of the thrift industry and homebuilders. The AFL-CIO will also be opposed, although this is not a first order issue for them.

Alternative #2

Esther Peterson endorses Alternative #1 but would go further by recommending that all ceiling rates, except the money market certificate, be raised by 50 basis points.

Pro:

o This would provide the small saver with immediate relief from the effects of ceilings which were estblished during a less inflationary period.

Con:

o The majority of the task force recommends deregulation over a period of at least several years. The financial condition projected for the thrift industry in late 1979 does not afford us the luxury of imposing significant across-the-board costs on them at this time. The statutory duty of the bank regulators to assure the safety and soundness of depository institutions would guarantee that they would reject such a recommendation from the Administration.

Alternative #3

HUD recommends that:

o The regulators should authorize so-called rising rate certificates, which give the saver a higher rate each year that his funds are left on deposit, but which can be cashed in without penalty (the regulators have published this proposal for comment, but the comments have been universally negative);

o A system be devised creating higher yield deposit instruments with maturities of six years or more; and

o HUD "would not strongly oppose" eliminating the differential on deposits longer than four years.

Pro:

o This alternative avoid the transition to a market-rate environment which HUD views as undesirable.

o This would avoid antagonizing proponents of Regulation Q.

o The objective of shifting to longer maturities is sound, since it would permit a better match between thrift assets and liabilities.

Con:

o If the majority of the task force is correct in its view that the existing system is defective and that a long-term solution is required, then this alternative is inadequate. If the Administration did nothing whatsoever, on their own initiative the bank regulators are expected to go further than HUD has recommended.

o By themselves, these actions would be perceived as cosmetic and subjected to criticism from the press, consumer and elderly groups, and the banking industry.

Decision

Alternative #1 -- Transition to market rates (Treasury, DPS, OMB, CEA, Fred Kahn, Federal Reserve Board, Comptroller of the Currency, and National Credit Union Administration) ✓ J

Alternative #2 -- Raise all ceilings 50 basis points (Esther Peterson) ________

Alternative #3 -- Limited upward adjustments on rates (HUD) ________

B. Assets

As noted above, thrifts borrow short-term on the liability side but lend long-term on the asset side. This causes severe imbalances when interest rates rise. As rates rise, mortgage portfolio yields increase slowly, since the average portfolio includes mortgages made years ago at lower rates. Thus the thrift's cash flow increases only marginally as rates go up. This modest cash flow increase is insufficient to permit thrifts to bid aggressively for funds during a period of high interest rates. For example, in 1978 the rate for six-month Treasury bills rose from 6.18% to 9.39%. Yet it takes about eight years for a thrift institution to turn over completely a portfolio of long-term mortgages. Thus thrifts will be unable to pay market rates on deposits unless their investment portfolios are restructured so that their cash flow increases when interest rates rise. The majority of the task force recommends two ways to provide thrifts with a more "rate-sensitive" investment portfolio:

o thrifts could invest a portion of their funds in higher yielding short-term assets that reflect market rates, such as consumer loans; and

o thrifts could be authorized to issue variable rate mortgages (VRM's), where the mortgage rate is tied to the movement of market rates.

The Federal Home Loan Bank Board already authorizes VRM's for Federally-chartered thrifts in those states where state-chartered institutions offer such instruments, and where they are found by the Bank Board to have a competitive impact. Federally-chartered banks may offer VRM's in any state where state law does not prohibit their use. California, however, is the only state in which Federally-chartered thrifts may offer VRM's.

Consumer loans are offered by commercial banks nationwide, but Federally-chartered thrifts are not authorized to make such loans.

1. Consumer lending powers

The Proposal. The Administration would recommend that Congress permit Federally-chartered thrifts to invest up to 10% of their assets in consumer loans. Treasury, HUD, DPS, OMB, CEA, Fred Kahn and all the bank regulators support this change.

Pro:

o Authorizing Federally-chartered thrift institutions to extend this limited amount of consumer credit would give them a high yielding, shorter-term asset in which to invest some of their funds. The thrifts would be better able to compete for expensive money and to retain customers they might otherwise lose. This asset would help thrifts maintain their mortgage commitments and financial stability at interest rate peaks.

o Offering consumer loans would make thrift institutions more competitive with commercial banks. They would be more of a "one stop" banking facility for individuals. Serving more customers would generate more funds that could be devoted to housing -- the thrifts' primary business.

Con:

o Some believe that broadening the asset structure of thrift institutions may involve some trade-off between a gain in the short-term stability of housing finance at the expense of a relatively lower long-term commitment of funds to housing.

Decision

Authorize consumer loan powers (Treasury, HUD, DPS, OMB, CEA, Fred Kahn and all bank regulators. HUD differs from the others in restricting the loans to housing-related purposes, and would phase-in this power). ✓ J

Do not extend consumer loan powers (Esther Peterson) ________

Other ________

2. Variable rate mortgages

Alternative #1 -- Nationwide VRM's
(Treasury, DPS, OMB, CEA, Fred Kahn, Federal Reserve Board, Federal Home Loan Bank Board, Comptroller of the Currency, National Credit Union Administration)

Alternative #2 -- VRM's at local option
(Esther Peterson)

Alternative #3 -- Status quo
(HUD, FDIC)

Alternative #1 -- Nationwide VRM's

All Federally-chartered thrift institutions and commercial banks would be permitted to offer VRM's on a phased-in basis. Such authorization would include consumer safeguards: (1) rates could not increase (or decrease) by more than 50 basis points a year and 250 basis points over the life of the mortgage; (2) the borrower could elect to extend the maturity of the loan rather than increase his monthly payments; and (3) the borrower would have the option of selecting a conventional fixed-rate mortgage. Congressional action would be necessary to implement this alternative.

Pro:

o The majority of the task force believes that nationwide VRM's are necessary both to the enactment and successful implementation of deposit rate deregulation. The basic obstacle to the thrifts' inability to compete with commercial banks for deposits in a free market environment is that when interest rates rise, the yield on the thrift's portfolio rises less rapidly than the yield on a bank's portfolio.

o VRM's are necessary if thrifts are to provide a steady flow of mortgage credit through the interest rate cycle.

o Consumers will benefit from the increased availability of mortgage funds when interest rates are high.

o VRM's have been widely available in California, and although in recent months rates have been rising, polls have failed to reflect significant consumer disenchantment. The homeowners' right to stretch the maturity of his mortgage and avoid higher monthly payments probably accounts for the high level of consumer acceptance.

Con:

o The AFL-CIO and many consumer groups are firmly against VRM's. They argue that what we perceive to be the problem with thrift institutions -- that they borrow short and lend long -- represents a good system. They believe that no amount of disclosure can adequately convey to consumers the risk of increased rates.

o It is also urged that VRM's tend to facilitate inflationary increases in interest rates and the cost of housing. The long-term trend of rates has been upward in recent years. VRM's make the transfer of these rates to the borrower much easier than would be the case with fixed-rate mortgages.

Alternative #2 -- VRM's at local option

Federally-chartered thrifts and banks would be permitted to offer VRM's only in those states where state law permitted state-chartered institutions to do so. This proposal differs slightly from the status quo. Existing Bank Board regulations permit Federal institutions to offer VRM 's where there is a "competitive inequality" created by the fact that state-chartered institutions are offering them.

Pro:

o A slower expansion of VRM use would probably placate some critics of these instruments.

Con:

o The majority of the task force and the preponderance of private economists believe that thrifts cannot compete with banks for deposits in the absence of rate ceilings unless thrifts have the VRM. If this view is correct, it is simply not responsible to support a package that would jeopardize the survival of thousands of thrifts in states which might not permit VRM's. Although HUD opposes both deposit rate deregulation and VRM's, it shares the majority view that one cannot do the former without the latter. From a political perspective, most of the thrift industry will oppose any package, but most of them regard the demise of Regulation Q as inevitable. If the elimination of the ceilings is not accompanied by nationwide VRM's, they will fight the package with the degree of vengeance to be expected from an industry which sees its survival at issue.

o If the failure to extend VRM's nationwide creates the serious financial impact on the thrift industry described above, the consequence will be pressure for the reimposition of Regulation Q ceilings.

Alternative #3 -- Preserve the status quo

Under this option, existing Bank Board regulations would govern. Thus Federally-chartered institutions could offer VRM's wherever there is a competitive impact. The arguments pro and con have been stated above.

Decision

Alternative #1 -- Nationwide VRM's
(Treasury, DPS, OMB, CEA, Fred Kahn, Federal
Reserve Board, Federal Home Loan Bank Board,
Comptroller of the Currency, National Credit
Union Administration)

Alternative #2 -- VRM's at local option
(Esther Peterson)

Alternative #3 -- Status quo
(HUD, FDIC)

Message to Congress

If you approve a reform package, we recommend that you send a message to Congress. The attached message is based on the recommendations of the majority of the task force; if you reject any of those recommendations, we will modify the message accordingly. On balance, we believe this is a popular and timely issue. We believe it appropriate to give visibility to your involvement and have you receive some of the credit for the "small saver" actions the bank regulators will approve shortly. Bernie Aronson has approved the statement.

Decision

Send Message

Do not send Message

PROPOSED MESSAGE

TO THE CONGRESS OF THE UNITED STATES:

For over a decade, the Federal government has limited the interest rates that savers can receive on their deposits in banks and savings institutions. In keeping with my commitment to eliminate inequitable and unnecessary regulations, I directed an Administration task force, chaired by the Treasury Department, to review the fairness, effectiveness and efficiency of these interest rate controls.

Based on the task force's findings, I am today recommending that the Congress enact comprehensive financial reform legislation. I am asking that the Congress permit an orderly transition to a system where the average depositor can receive market-level interest rates on his or her savings. I am also proposing measures to protect the long-term viability of savings institutions so that they can pay fair and competitive rates to depositors and continue their traditional role in meeting our nation's housing needs.

These actions will reform a system which has become increasingly unfair to the small saver. The present rate ceilings are costing the American people billions of dollars in lost interest annually. Our senior citizens, and others whose savings are concentrated in passbook accounts, have suffered the most. During a period of high inflation, it is particularly unconscionable for the Federal government to prohibit small savers from receiving the return on their deposits that is available to large and sophisticated investors.

The present ceilings have also contributed to sharp fluctuations in the flow of housing credit. Large cyclical swings in the availability of mortgage funds have increased housing costs and forced many prospective homebuyers out of the market during periods of high interest rates. The actions I am recommending today will help assure a steadier flow of mortgage credit for homebuyers.

Savings and loan associations exist to channel household savings into mortgages. Mutual savings banks are also major suppliers of housing credit. Because these institutions invest in long-term, fixed-rate mortgages, they are limited in their ability to meet competitive rates for savings when interest rates rise.

In 1966, interest rates rose sharply, and depositors fled many of these institutions to those able to pay higher interest rates. To prevent the failure of savings institutions and the disruption of the mortgage and housing markets, deposit rate ceilings covering commercial banks were temporarily extended to thrift institutions. The ceilings generally have been administered to permit thrift institutions to pay higher rates of interest than commercial banks.

Conditions have changed dramatically since these limitations were first imposed on thrift institutions. In the current economic and financial environment, the ceilings have the following effects:

- They discriminate against the small saver, who often lacks sufficient funds to purchase market-rate securities which are available to the large investor.
- They are increasingly ineffective in maintaining deposit flows to thrift institutions. The financial marketplace is becoming adept at creating new investment alternatives, such as the money market mutual funds, which induce the small saver to withdraw his funds to obtain benefits similar to those enjoyed by the large investor. While the six-month money market certificate has succeeded in maintaining the flow of housing credit since last year, it has imposed serious pressures on thrift institutions, and it is not a long-term solution.

o They avoid the discipline of competition and create inefficiencies in the financial marketplace. Financial institutions are limited to non-price competitive practices such as merchandising gifts, although the consumer might prefer a higher yield on his savings.

These problems cannot be solved overnight. They are rooted in the structure of our financial system, and their resolution will require a careful and deliberate approach which takes account of the realities facing our thrift institutions.

Our savings institutions have been required by law and influenced by tax incentives to invest primarily in residential mortgages. In most states, the law confines them to long-term fixed-rate mortgages. Their sources of funds -- deposits -- have considerably shorter maturities. When short-term interest rates rise sharply, revenues are limited by their earnings on the existing longer-term mortgages. Since their deposit liabilities are more volatile than their assets, they must pay depositors market rates or they start to lose their deposits.

While raising or removing the ceilings would give savings institutions the legal power to pay market rates to depositors, their economic ability to do so is still limited by the earnings from their mortgage investments. Savings institutions must be given new investment powers so that they can afford to pay higher rates and maintain the flow of mortgage credit. The transition to freer deposit rates and to new asset powers must be orderly, to avoid major shocks to the financial system.

The disparity between market rates and the ceilings is greatest during periods of high interest rates. Yet that is the time when it is most difficult for the regulatory agencies that set the ceilings to raise them substantially. These agencies are also responsible for the safety and soundness of financial institutions. If deposit interest rates rise sharply, the institutions' earnings come under great pressure unless, at the same time, their earnings are made more responsive to changing interest rates.

Accordingly, I shall ask the Congress to:

- provide that through an orderly transition period all deposit interest rates be permitted to rise to market-rate levels. This will be subject to emergency action on the part of the responsible regulators if the safety and soundness of financial institutions is threatened or the implementation of monetary policy so requires;
- grant the power to offer variable rate mortgages to all Federally-chartered savings institutions, subject to appropriate consumer safeguards. This authority, which would be phased in, would permit thrifts the earnings flexibility to pay competitive rates throughout the business cycle;
- permit all Federally-chartered savings institutions to invest up to 10% of their assets on consumer loans; and
- permit all Federally-insured institutions to offer interest-bearing transaction accounts to individuals.

These steps will bring the benefits of market rates to consumers, promote a steadier flow of mortgage credit and improve the efficiency of the financial markets.

In the interim, I support the efforts of the Federal Reserve, the FDIC, the Federal Home Loan Bank Board and the National Credit Union Administration to take steps to increase the interest rates payable to small savers. I urge them to pursue the direction begun with authorization of the six-month money market certificate, with the goal of increasing the responsiveness of the interest rate ceilings to market rates.

Jimmy Carter

THE WHITE HOUSE,

12:25 PM

THE WHITE HOUSE

WASHINGTON

Meeting with William Harper
Tuesday, May 22, 1979
The Oval Office
(3 minutes)
12:25 p.m.

(by: Fran Voorde) Fran

I. PURPOSE: personal visit - photo opportunity

II. BACKGROUND, PARTICIPANTS, PRESS:

A. Background: Bill Harper will be in Washington on business; the President invited him to stop by whenever he was in town.

Bill is currently U.S. Attorney for the Northern District of GA.

B. Participants: The President and Mr. Harper

C. Press: White House photographer only

12:20 PM

THE WHITE HOUSE

WASHINGTON

22 May 1979

MEMORANDUM TO THE PRESIDENT

FROM: ANNE EDWARDS Anne

RE: THE OLSONS OF PORTLAND, OREGON

This afternoon at 12:20, the Olson family of Portland, Oregon, will come in to say hello.

PURPOSE: They are on a long-planned, one-month vacation around the country to see relatives and friends. The trip through Washington is deliberate to see you. This is their first visit to D.C.

BACKGROUND: You stayed overnight in the Olson home in Portland on May 5-6, 1978, and said hello to them, again, on your trip through Portland in late October, 1978.

Paul is still working with a home contractor as the consultant for installing solar energy devices for home use. He has also become involved with the White House Conference on Small Business as an alternate delegate from Oregon.

They will have just seen your residence when they see you. Tonight, they will be in your box for "The Wiz" at National Theatre, and they're very grateful for that. They are also big fans of yours.

PARTICIPANTS: Paul and Janet Olson, and their children, daughter, Kristin-6 yrs., son, Ehren-4 yrs., and Caroline, 9 months (the baby they were expecting when you stayed with them, born August 4, 1978).

PRESS PLAN: The AP, UPI and White House photographers will come in briefly at the beginning.

THE WHITE HOUSE
WASHINGTON

Phil has seen

THE WHITE HOUSE

WASHINGTON

May 22, 1979

Mr. President -

Frank Moore has requested three separate 10 minute meetings this week for Members of the House Ways and Means Committee who are swing votes on Hospital Cost Containment. They expect a mark-up on the bill next week. Congressmen are Pickle, Cotter & Gibbons. We will work out tomorrow and Thursday with your approval.

Phil Phil

✓ _______approve _______disapprove

J

2:15 PM

THE WHITE HOUSE

WASHINGTON

May 21, 1979

Briefing on SALT for Community Leaders
Tuesday, May 22, 1979
2:15 p.m. - 2:30 p.m.
East Room

FROM: Anne Wexler AW
Hamilton Jordan

I. PURPOSE

To educate a group of prominent opinion-makers on SALT in the overall context of U.S.-Soviet relations and global implications.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background

1. This will be the second group of national leaders to be briefed exclusively on SALT since the announcement of the summit.

2. After lunch in the State Dining Room, the group will move into the East Room for the briefing. Anne Wexler will open the briefing and Zbigniew Brzezinski will be principal briefer. In addition, senior officials from the White House, State Department, Defense Department, and National Security Council will be present throughout the luncheon and briefing. When you arrive, a question and answer session will be in progress. (See attached agenda)

B. Participants

(See attached list)

C. Press Plan

White House photo and press pool will be present for the first five minutes of your remarks. The rest of the briefing is closed to press.

III. TALKING POINTS

(See attached)

THE WHITE HOUSE

WASHINGTON

WHITE HOUSE SALT BRIEFING

MAY 24, 1979

STATE DINING ROOM AND EAST ROOM

1:45 - 3:00 P.M.

I.	12:00 (noon)	Luncheon served	State Dining Room	
II.	1:00 p.m.	Move to East Room	Anne Wexler - Announcement	
III.	1:15 p.m.	Opening Remarks	Anne Wexler	3 mins.
IV.	1:18 p.m.	Briefing	Zbigniew Brzezinski	25-30 mins.
V.	1:45 p.m.	Questions & Answers		30 mins.
VI.	2:15 p.m.	Remarks	The President	

NOTE: White House Press pool will cover first 5 minutes.

THE WHITE HOUSE

WASHINGTON

EXPECTED ATTENDEES--SALT BRIEFING
May 22, 1979
STATE DINING ROOM

11:45 a.m.

Stephen Ailes
Steptoe and Johnson

Jay Berman
Berman & Associates

John Bowles IV
Kidder Peabody

Andrew Brimmer
Brimmer & Company, Inc.

David Brody
Anti-Defamation League, B'nai B'rith

Admiral Arleigh A. Burke

Berkeley Burrell
National Business League

Catherine Camp
Women's International League for Peace & Freedom

Ray Chesonis
Lithuanian Leader

Dr. Kenneth Clark

Lt. Gen. Arthur Collins

Lloyd Cutler
Wilmer, Cutler, Pickering

General George Decker

Alfred Delbello
County Executive, Winchester County, NY

Douglas Dillon
U.S. & Foreign Securities Corporation

Henry Dudley, Esq.
McNutt, Dudley, Easterwood, & Losch

Amb. Robert Ellsworth
St. John International, Inc.

The Honorable Peter H.B. Frelinghuysen

Dr. William C. Friday
President
University of North Carolina

Alton Frye
Council on Foreign Relations

The Honorable John Gardner

Lou Gerber
Communications Workers of America

Charles Gilchrist
Montgomery County

Albert Gore
Chairman of the Board
Island Creek Coal

Thaddeus Gromada

Paul Hallingby
Vice Chairman
Merrill Lynch

Armand Hammer
Chairman of the Board
Occidental Petroleum Corporation

Dr. Philip Handler
National Academy of Sciences

Dorothy Height
National Council of Negro Women

Christian Herter
Corporate Policy Services

Benjamin Hooks
NAACP

Archbishop Iakovos

Dr. George Kennan
Princeton University

Bill Kincaide
Arms Control Association

Laurence P. LeFebre
Mayor of Laurence, Massachusetts

Ted Leszciewicz
National Commander
Amvets

Ambassador Sol Linowitz
Coudert Brothers

The Honorable Henry Cabot Lodge

Radford Lovett

Ms. Naomi McAfee
President
Federation of Business and Professional Women

J. D. McKevitt

Bill McSweeney
President
Occidental Petroleum

The Honorable Mary Helen Madden
Executive Director
National Council of Catholic Women

Dr. Charles Meredith
Atlanta University

Ambassador Set Monjian
United Nations

Admiral Thomas H. Moorer

Hans Morganthau
Retired academic

Thomas Murphy
President and Chief Executive Officer
General Motors

Alfred Murrer
Gleason Works

Frank Pace
President
International Executive Service Corps.

David Packard
Chairman of the Board
Hewlett-Packard Corporation

William S. Paley
Chairman of the Board
Columbia Broadcasting System

General Bruce Palmer, Jr.

Dr. Edward Pellegrino
Catholic University

John J. Plumides
Chairman
AHEPA Cyprus and Aegean Affairs Committee

John Post
Business Roundtable

Mary Elizabeth Quint
General Federation of Women's Clubs

Admiral William F. Raborn, Jr.

Randall Robinson
Executive Director
Trans Africa

Rabbi Bernard Rosenweig
President
Rabbinical Council of America

The Honorable John P. Rousakis
Mayor
City of Savannah

Kenneth Rush

Rodolpho Sancez
Hispanic Mental Health Organization

Rabbi Alexander M. Schindler
President
Union of American Hebrew Congregations

The Honorable Arthur Schlesinger, Jr.
City University of New York

Dr. Herbert Scoville

Donald Seibert
Chairman of the Board and Chief Executive Officer
J.C. Penney

John A. Sengstacke
President
National Newspapers Publishers Association

Irving Shapiro
Chairman of the Board
DuPont Corporation

J. Stanford Smith
Chairman of the Board
International Paper Company

Rabbi Saul I. Teplitz
President
Rabbinical Assembly

General Lewis W. Walt

Martha Wallace
Executive Director
The Henry Luce Foundation

Alice H. Weber
Association of Junior Leagues

Minerva Johnican
Memphis, Tennessee

Peter Krogh
Dean
Georgetown School of Foreign Service

Anthony A. LaCroix
President
Advest, Inc.

Nathan Landow
President
Landow and Company

TALKING POINTS

SALT briefing for national leaders
Tuesday, May 22, 1979
2:15 p.m.
The East Room

We believe you should talk along the lines of your remarks to the retailers. Here are some suggested points to cover, which we've worked up with Rick Hertzberg of Jerry Rafshoon's office:

1. The SALT II treaty was hammered out by the sustained work of three Administrations: President Nixon's, President Ford's, and yours. It builds on the work of every American President since the end of World War II.

2. SALT must be examined realistically. It is not a panacea. It will not end the arms race. It is a supplement -- not a substitute -- for a strong national defense. But it is a major step in the long, historic process of bringing nuclear weapons under rational control.

3. SALT II is based on self-interest, ours and the Soviet Union's. Although the competition between us will continue as far into the future as anyone can see, we share a mutual interest in survival and in steering our competition away from its most dangerous element, an uncontrolled strategic nuclear arms race.

4. SALT II is not based on trust. The treaty will be adequately verifiable by our own national technical means of verification. In addition, it is in the interest of the Soviet Union to abide by this treaty. Despite predictions to the contrary, the Soviets have observed the terms of the SALT I treaty.

5. Whether or not the treaty is ratified, we must be able to make accurate assessments of Soviet capabilities. But SALT II will make this task much easier -- not only because the treaty forbids concealment measures and interference with means of verification, but also because the treaty gives us basic standards with which we can compare the information we derive independently from our satellites and other methods.

6. The details of ICBMs and SLBMs, throwweight and yield and all the rest are important. It was largely because of these details that the treaty took seven years to negotiate. But these details should not blind us to the real significance of the treaty as a contribution to stability, security and peace.

7. The treaty must be judged on its merits, but we must consider the consequences of rejection:

--radical departure from the process of arms control that began with the atmospheric test ban and SALT I and will continue with SALT III and a comprehensive test ban;

--heightened possibility of confrontation in each local crisis;

--triggering an expensive, dangerous race for a nuclear superiority that each side has the means and will to prevent the other from attaining, with a loss of security for both;

--calling into question our ability to manage a stable East-West relationship, thus undermining our leadership of the Western alliance;

--implications for nuclear proliferation;

--gravely compromising our Nation's position as a leader in the search for peace.

8. Importance of the coming debate; solicitation of support.

# # #

12:15 PM

THE WHITE HOUSE

WASHINGTON

May 22, 1979

PHOTO SESSION FOR THE FIVE MILLIONTH
PRESIDENTIAL PHYSICAL FITNESS AWARD

Tuesday, May 22, 1979
12:15 p.m.
Cabinet Room

From: Stu Eizenstat Stu
Bob Berenson

I. PURPOSE

Photo Session to award the five millionth Presidential Physical Fitness Award to Lisa Branchina, a 15-year old from Hampton, Virginia.

II. BACKGROUND

The Presidential Physical Fitness Award, which was established by President Johnson in 1966, is given to boys and girls who score at or above the 85th percentile on each of six performance tests. The program is administered by the American Alliance for Health, Physical Education, Recreation and Dance for the President's Council of Physical Fitness and Sports and uses no tax monies and is self-sustaining financially. During the 1977-78 school year the number of winners exceeded 700,000.

Lisa Branchina, a ninth grader, is the winner of the five millionth Presidential Award. Lisa has won the Presidential Award each of the five years that she has been eligible. If she should win it during each of her three high school years, she will join a select handful who have won the award eight consecutive years.

III. FORMAT AND PARTICIPANTS

Jerry Apodaca will introduce the award winner and the other members to you. You will then make the award to Lisa and have the opportunity to make comments while photographs are being taken. The award will be brought to the ceremony by Mr. Conrad.

Participants

Lisa Branchina - Award winner
Minnie Branchina - Lisa's mother
George Nailor - Lisa's physical education teacher
Dr. George Anderson - Executive Secretary, American Alliance for Health, Physical Education, Recreation, and Dance
Jerry Apodaca - Chairman, President's Council on Physical Fitness and Sports
Casey Conrad - Executive Director, President's Council on Physical Fitness and Sports
Dr. Leroy Walker - Past President, American Alliance for Health, Physical Education, Recreation, and Dance

TALKING POINTS

-- Congratulations to Lisa. You understand that she has won the Award five years in a row. You encourage her to become one of the few who win the Award eight consecutive years. You especially are pleased to note that Lisa is a girl, making the point that physical fitness and sports are for everyone.

-- You note that last year there were over 700,000 Award winners, indicating that millions of boys and girls participated in this physical fitness activity. You acknowledge the efforts of Dr. Anderson, Dr. Walker and Mr. Conrad, who, along with many others, have worked over the years to make this program a success.

THE WHITE HOUSE
WASHINGTON

22 May 79

Zbig Brzezinksi

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

Rick Hutcheson

The Vice President
Hamilton Jordan

SECRET ATTACHMENT

~~SECRET~~

2175

6/25/90

~~SECRET~~

C

THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

May 18, 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Significant Actions, Secretary and Deputy Secretary of Defense (May 12-18, 1979)

Turkey Aid: As you requested, yesterday General Lou Allen (Acting Chairman, JCS) met with Warren Christopher, Senator Robert Byrd, and other concerned Senators to coordinate efforts to restore the $50 million MAP funds for Turkey that were converted to concessionary term FMS funding by the Foreign Relations Committee. As we discussed, the approach adopted will be to emphasize the essential nature of this aid from a military perspective. The Service Chiefs have been contacting key Senators and, thus far, are getting generally positive reactions.

Diplomatic Immunity for U.S. Military Personnel in Iran: Last Sunday the Iranian Foreign Ministry announced "abolition" of a 1964 law that provided specific immunities and legal protection to our military advisors in Iran. Although the actual legal status of our personnel is unclear, the U.S. Embassy has been instructed to deliver a diplomatic note to the Iranian Foreign Ministry advising that we are issuing diplomatic passports to all U.S. military personnel assigned to Iran and requesting their accreditation to the U.S. Embassy staff. Hopefully, this will resolve the issue. If it doesn't, we will have to consider other alternatives.

NATO Ministerial Meeting: Harold attended NATO's semi-annual Defense Ministerial meeting in Brussels this week. We appear to have accomplished our major objectives from the meeting--a strong endorsement of SALT II in the communique, programmatic follow-through on the Long Term Defense Program, approval of an increased Infrastructure Program, and building support for the modernization of the Alliance's long-range theater nuclear forces. The U.S. will need to continue to take the lead to produce decisions this year on TNF force plans (including the hard issue of non-German participation in the program) and on an arms control element to our TNF policy. New Ministerial Guidance, which covered these topics and reiterated the commitment to 3% real growth in defense outlays, was agreed to by the Ministers for 1981-86.

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<u>ICBM Rebasing</u>: On Tuesday, Under Secretary of Defense Bill Perry testified before the House and Senate Armed Services Committees on ICBM rebasing and strategic force modernization. He reviewed the five notional options presented at the first PRC, and the two options (and related alternatives) being considered for further evaluation. The hearings went well, with considerable interest expressed in the options, particularly the Hardened Open Trench (HOT) concept and its advantages relative to other basing modes. Such sessions are useful in keeping the Congress abreast of the options being considered and our progress in reaching a decision. As Harold mentioned in last week's report, he hopes to provide you with an evaluation of two or three final options and recommendations by the end of this month.

<u>FY 1980 Defense Authorization Bills</u>: As expected, the House Armed Services Committee's final markup of the FY 1980 Defense Authorization Bill is $2.1 billion above your request. The Bill includes a nuclear powered aircraft carrier, numerous additional aircraft, and elimination of funding for the ROLAND air defense missile. The Committee also included a provision to require registration on January 1, 1981 of males who become 18 years of age after December 31, 1980. Floor action is not expected until after the Memorial Day recess. On the Senate side, little progress has been made, but it appears the Senate will include authorization for the ROLAND air defense missile, and will not address registration.

CW Duncan