

6/19/79

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THE WHITE HOUSE
WASHINGTON

June 19, 1979

MR. PRESIDENT

Frank Raines from Jim McIntyre's staff is departing for the private sector while you're in Japan and would like to get a farewell photo today. May I arrange it before you leave the office today?

YES NO

TIME 12:15

PHIL *J*

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ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

6/19/79

Frank Moore

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

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Stu Eizenstat
Jack Watson

EYES ONLY

THE WHITE HOUSE
WASHINGTON

June 18, 1979

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE
SUBJECT: Weekly Legislative Report

I. DOMESTIC POLICY ISSUES

1. Energy

Windfall Profits Tax -- The Ways and Means Committee continued mark-up last week on the windfall profits tax and took the following actions:

1. Rejected 14 to 21 a Conable motion to conform the Ullman bill (H.R. 3919) to the original Administration proposal.

2. Marginal Oil -- adopted 22 to 13 a Gephardt amendment which would tax marginal oil (which is released to the upper tier under DOE regulations) as lower tier oil. In the Administration proposal, marginal oil was to be taxed as upper tier. It is estimated that the Gephardt motion will increase revenues by \$980 million.

3. Decline Curve -- adopted the Fisher amendment substituting a 1 1/2 percent decline rate for the Administration's 2 percent decline rate for lower tier oil. The amendment would delay the phase out of the lower tier tax to July 1984 rather than May 1983 and is estimated to increase revenues by \$1.3 billion over five years.

4. Tertiary -- adopted without dissent an Archer amendment to restore the Administration's proposed treatment of released "up front" lower tier oil which is used to finance tertiary recovery projects. Under the Ullman bill, the up front oil was taxed as lower tier oil.

-- Adopted the Mikva substitute to the Pickle amendment which would define the incremental production from a qualified tertiary enhanced recovery project as the amount of production in excess of a statutory decline

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curve. The decline curve would be 1 percent per month beginning in January 1979 and 2 1/2 percent per month after production begins on the project. This production would be released on a pro rata basis from the oil on property taxed in the first and second tiers.

Qualifications for tertiary projects would be under a self-certification procedure whereby a producer and a professional engineer certify that a qualified project has been undertaken and that production otherwise would be uneconomical. This certification would be subject to IRS audit.

5. Alaskan Oil -- adopted 22 to 14 the Brodhead amendment that would tax Alaskan oil discovered before 1979. Newly discovered Alaskan oil would continue to be exempt.

For oil produced from reservoirs from which oil production occurred in 1979, the tax would equal 50 percent of the difference between the actual wellhead price and an adjusted base price. The base price initially would be \$7.50 and would be adjusted upward for inflation. In addition, there would be a special adjustment equal to the change in the real value of the TAP line tariff from its 1978 level.

For oil discovered before 1979 from reservoirs from which no significant production occurred in 1978, the base price would equal the average wellhead price of North Slope oil in the two years preceding the start of production from the reservoir. The inflation adjustment and adjustment for changes in the TAPS line tariff would start one year prior to commencement of production.

-- Later rejected 16 to 18 the Fowler amendment to tax Alaskan oil produced after 1979.

6. State Lands -- rejected by voice vote the Corman amendment and the Moore substitute which would have, in the case of Corman, exempted state and local governments from the windfall profits tax on the sale of oil in which they have an economic interest. The Moore substitute would have limited the exemption to states and localities which do not produce or market oil.

-- Adopted 20 to 13 the Pickle amendment which would exempt from the windfall profits tax royalties from public lands which are required to be devoted to

public education. The exemption would not apply to the extent that another party has an economic interest in the production.

7. New Oil -- Adopted 23 to 13 the Jones amendment as amended by Jacobs which makes the following changes to the treatment of newly discovered oil:

- * The tax base is increased from \$16 to \$17;
- * The tax rate for prices between \$17 and \$26 would be 50 percent. Above \$26 the tax rate would be the tier 1 and tier 2 tax rate;
- * The inflation adjustments for the \$17 and \$26 would be the GNP deflator plus 2 percent per year.

8. Rates -- adopted 22 to 14 a Rostenkowski amendment increasing the windfall profits tax rate to 70 percent from the Administration's 50 percent proposal. The Committee made clear for the record that the amendment contemplated the allowance of a deduction for state severance taxes as applicable in March 1979.

-- Adopted 18 to 17 a Shannon amendment to the Rostenkowski motion making the tier 2 tax permanent. The Administration had proposed phasing out the tax by 1990.

-- Agreed by voice vote to the Archer amendment that allows taxable income to be reduced by the deduction for cost depletion and the amount of intangible drilling costs that would have been recoverable had producers capitalized the IDCs for purposes of computing the net income limitation.

Omnibus Energy Supply Bill (The Jackson/Johnston Bill) --

The Energy and Natural Resources Committee hopes to move quickly on this bill. The subcommittees will hold hearings during the next week or two and the full committee will seek to report the bill by July 4. Apparently, Senator Byrd has guaranteed floor action right after the July 4 recess.

This bill is a comprehensive attempt by the Senate to assume policy leadership on energy. It authorizes spending on numerous forms of energy technology. It provides for a "fast track" Federal override of many major environmental and licensing provisions -- both State and Federal -- which might

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*We need to
weigh in
with our
"1st of
energy"
goodies
under
Sec Fund.
& do a good
job with it*

impede development of energy technologies. It mandates reports by the Secretary of Energy to Congress within strict time limits whenever a new technology is presented for the Department's analysis. It provides mandatory annual production goals for gasahol. It provides for solar commercialization earlier and at greater expense than your advisors recommend. It authorizes construction of three Federally-owned oil shale projects without regard to their environmental impact.

The bill is designed to "buy in" a large number of Senators. It was prepared hastily and largely without external consultation. Nevertheless, it is a bill that can pass a Senate in panic quite handily -- probably by the second week in July.

DOE FY '80 Authorization -- The House is not expected to commence floor action prior to the July Fourth recess. The Senate's schedule is uncertain and it is possible that the authorization bill may not come up for consideration on the floor until the Senate has completed action on the Jackson/Johnston Bill.

*Fight hard
Jim help*

The DOE authorization bill passed by the Senate Energy Committee deauthorizes the CRBR. We start staff briefings and meetings with Senators next week urging opposition to an expected CRBR amendment by Jackson, McClure, Johnston and Baker. Senator Bumpers will lead our floor effort. Our preliminary count shows us about even with a quarter of the Senate undecided or not reporting.

2. Appropriations

First on the House's agenda this week will be completion of work on the Energy and Water Development bill. Thus far few changes have been made to the Committee bill.

The bill is under our request in policy terms. But it includes funding for 10 unrequested new water projects starts, and it deletes 3 of our 16 requested new starts. The recommended new starts have a net total cost of about \$150 million over our request. This is significantly lower than the increases in recent years.

Certain large decreases to requests for DOE resulted from committee reductions in appropriations due to the availability of unobligated balances. Other major program changes are as follows:

- * +\$32.4 million for thermal reactor technology.
- * -\$129.4 million for defense waste management, of which \$55 million represents denial of funds for the Waste Isolation Pilot Plant in New Mexico due to a lack of authorization.
- * -\$48.7 million for departmental administration, partially reflecting a reduction of 63 year-end positions. The accompanying report stated that the committee was disturbed at the Department's use of funds to develop a "DOE constituency."
- * -\$26.2 million for basic research to effect a slower rate of growth over 1979 levels than requested.
- * -\$20 million for the NRC. The report states that additional funds will not be provided until the NRC has acted to substantially improve licensing procedures.

Also of note: No funding was provided for CRBR pending action on the authorization bill.

Legislative -- because it contained a 5.5 percent pay increase for Members of Congress and senior Federal employees, the House voted down (186-232) the Legislative appropriations bill last Wednesday. The Leadership has not yet indicated how it plans to reconsider this bill.

Schedule

Any of the following bills may be considered this week:

- * HUD-Independent Agencies: We support the bill, except for the large increases to VA personnel
- * Treasury-Postal Service: We support the bill.
- * Agriculture: We support the bill, although we oppose the increases for the special milk and conservation programs.
- * State-Justice: We support the bill, except for the reduction in funds for the Decennial Census and assessed contributions to international organizations.
- * Labor-HEW: We oppose the discretionary increases for education and health programs.

* Transportation: We support the bill.

* Military Construction: We support the bill, except for the reduction in funds for construction of space shuttle facilities. (See Miscellaneous)

Subcommittee Action

Interior-- The House subcommittee marked-up this bill last Tuesday.

	<u>Budget Authority</u> (in millions)
Request	8,441
Changes not affecting	
1980 programs	-48
Policy changes	+293
Forest Service	(+240)
Exploration of National	
Petroleum Reserve in Alaska	(+142)
Land & Water Conservation Fund	
Assistance to States.	(-159)
State energy management and	
planning	(-107)
Other funding	(+177)
Total changes	<u>+244</u>
Congressional level	8,686

The subcommittee acted to increase funding for the Forest Service in response to what was described by Norm Dicks as a "wholly inadequate" Administration request. Essentially, the subcommittee's action maintains the 1979 program level.

The subcommittee added \$45 million to fund two SRC demonstration plants while denying our \$10 million request for a low-BTU fuel gas small industrial demonstration plant and approving only half of our \$55 million request for a high-BTU synthetic pipeline gas demonstration plant.

Chairman Yates expressed a lack of confidence in the Office of Water Research and Technology's (OWRT) ability to undertake scientific research programs. The subcommittee then recommended transfer of OWRT to the Geological Survey.

Full committee mark-up on this bill is scheduled for June 28. The policy increases of \$293 million make it a significant threat to the budget.

3. Nutrition Savings

Last week, with the help of Bob Giaimo, we were able to pull H.R. 4136 from the suspension calendar in the House. This bill is basically a routine extension of administrative funds for nutrition programs; however, its enactment in this form will likely preclude House consideration of about \$500 million of nutrition savings proposals.

At a meeting in the Speaker's office last Wednesday, Secretary Bergland, WHCL and OMBCL tried to convince Carl Perkins to bring the bill up on the regular calendar so amendments could be offered, or else permit House Members to add our savings proposal to another legislative vehicle. Bob Giaimo and the Speaker also argued for the Administration's position, but we were unable to budge Perkins. The final disposition of H.R. 4136 remains unresolved.

4. Hospital Cost Containment

National Health Plan -- The Senate Finance Committee will continue to mark-up HCC Tuesday following with consideration of health insurance proposals. At present our count indicates that we are two votes away from committee adoption of the Administration's national health plan.

Stu and HEW officials are trying to set up a meeting with Ullman today to find a window for HCC before Ways and Means.

5. Export Administration Act

This legislation could be considered on the House and Senate floors next week. Senate scheduling has been held up by Senator Stevens, who is seeking a way to permit "swaps" of Alaskan oil. House scheduling will depend on the availability of time on the House calendar.

Despite Stevens' efforts, we have no hope of beating the Riegle amendment on Alaska oil swaps. Riegle's amendment, which is in Committee bill, places such strict conditions on your authority as to make exporting Alaskan oil impossible. Maritime labor has done its work well on this issue.

7. Truck Deregulation

We have reached agreement with Senator Kennedy on a bill. As he indicated in his conversation with you, he accepted our bill with only two or three minor, technical changes.

We are handling this very carefully. Our strategy is designed to preserve your leadership and primary identification on the issue while still gaining the political benefit of working closely with one thought to be your opponent.

We did reach Senator Cannon in Europe. He gave his blessing to Kennedy's sponsorship of the Administration's bill. We will brief the Commerce Committee staff today and go over the bill with Cannon himself on Wednesday. On Thursday, you will announce the bill at a press conference attended by Kennedy, Cannon, Congressmen Johnson and Howard, and as many co-sponsors as we can gather together by then. The ceremony must be very carefully scripted.

In the House, opponents of our bill are already reminding members about lost service resulting from airline deregulation.

8. Endangered Species Act Reauthorization

On Wednesday, June 13, by a vote of 91 to 5, the Senate passed S. 1143, authorizing funds for FY '80, '81 and '82 for programs under the Endangered Species Act. Senator Baker's amendment to exempt Tellico Dam from the provisions of the Act was defeated 43-52. Both Interior and EPA did excellent jobs on the Tellico Dam amendment.

9. Amtrak

Senator Frank Church and Congressman Dan Glickman of Kansas have introduced amendments that would void the restructure plan because of mounting energy concerns and reports of increasing Amtrak ridership. Church plans to introduce his amendment to freeze the present route system for another year when the Senate Commerce Committee takes its two-year Amtrak authorization to the floor, probably during the last week in June. DOT is polling the entire Senate membership to gauge current sentiment. In the House, it is possible that Glickman may make his move when DOT's FY '80 Appropriations bill is considered on the floor, as early as this week.

I need an update from Stu or DOT

10. Water Resources Policy and the Omnibus Water Bill

Both the House and Senate authorizing committees are dealing with our water policy requests and may seek to add WRC, independent review and cost-sharing amendments to the Omnibus Water Project authorization.

In the Senate, Senator Gravel, Chairman of the subcommittee, has agreed to enthusiastically cosponsor our cost-sharing and Water Resources Council amendments. This is a big step forward. As subcommittee Chairman, he can move the amendments along procedurally, and help us significantly with Chairman Randolph.

The Omnibus bill will be troublesome on other counts. The current draft authorizes Tug Fork (Robert Byrd) and the second McNary Dam powerhouse (Magnuson) both expensive projects. The bill also authorizes Susitra Dam in Alaska for which OMB has agreed to recommend approval.

11. Alaska D-2 Lands

Secretary Andrus met with Chairman Jackson on Thursday. The Energy Committee will start on the Alaska lands bill in mid-July. The Chairman hopes to have abbreviated hearings and report out a bill similar to last year's bill by the August recess. The Chairman anticipates early September floor action. Baker will be campaigning for your job throughout September, so Senator Stevens will be acting Minority Leader.

Andrus told Jackson we will have at least three strengthening floor amendments. The Chairman will oppose our amendment strengthening environmental protections on the North Slope.

We will ask Senator Tsongas to floor manage our amendments. Chairman Jackson has asked us to discourage the environmentalists from offering a substitute bill.

12. Department of Education

Status -- As of Wednesday midnight we had finished Title 3 of a six-title bill. The second and third titles of the bill were the most troublesome because of the damaging amendments which were offered. We will be back on the floor Tuesday (a late-night session) and we hope to finish this legislation then.

Amendments -- To date we have suffered only three damaging amendments: prayer, anti-busing, and anti-quota language. Each of these carries its own constituency and we were powerless to stop the tides (three to one in favor of the amendments). Beyond these amendments we have been able to beat back all other damaging amendments to the bill.

Activity -- Wednesday night opponents of the bill moved to strip everything after the enacting clause, which would have effectively gutted the bill and sent it back to Committee. The Speaker came back to the House about midnight and spoke in our behalf, and we defeated the measure offered by Obey by 120 votes. However, the wide margin on this vote should not be misleading; we were able to solicit votes on the stripping motion that we will be unable to get on final passage.

Interest Groups -- Civil rights groups, the black leadership conference and others are becoming very nervous about the three troublesome amendments mentioned above. Some (including the League of Women Voters and the ACLU) have already bailed out on the legislation. To date the black caucus and the black leadership conference have held firm, but they have publicly expressed their displeasure with the amendments and have suggested that they will have to oppose any final legislation (inferring a conference committee report) that includes those three provisions. We have given them private assurances that we will work to strip them off in the conference committee. The danger of this of course is that discussion of this issue is likely to prompt our opponents to attempt to instruct the House conferees to hold firm on the House position. This could be a very troublesome vote. We will need intense Leadership involvement if we are to win. The Vice President met today with leaders of the civil rights groups to try to calm their fears.

II. FOREIGN POLICY ISSUES

1. Panama Implementing Legislation

Support for the Panama Implementing legislation continues to grow. Your dinner last Monday and the work of labor, business and other citizens' groups seem to be helping us capture votes. Our most recent count indicates the support of 200 Members with 35 leaning in favor and 30 undecided or unknown.

However, the delay in bringing the legislation to the House floor is beginning to put pressure on a number of sensitive areas. Senator Stennis plans to wait until the House has passed a bill before beginning hearings before the Armed Services Committee. If the House passes the bill this week, Armed Services will have the week of June 25-29 to hold hearings and mark-up could be held July 10 or soon thereafter. This would permit Senate floor action in mid-July and allow two or three weeks for conference before the August recess.

If, on the other hand, House floor action is further delayed and the Senate continues to hold off on its hearings, the chances of getting the law passed before the August recess will be greatly reduced. Armed Services would begin its hearings on SALT in mid-July -- probably about July 16, and the Panama legislation might well get caught in a scheduling bind.

The Speaker has told John Murphy to be ready for floor action June 20. Assuming this holds, we should be able to meet the Senate schedule. Timing aside, the number and types of amendments the House will accept is still very uncertain.

2. Rhodesia

Steve Solarz hopes for a floor vote on his bill by late this week -- his goal being to avoid being blind-sided by our opponents on other pending legislation. We are working with the leadership to delay other target legislation and actively working to broaden support for the Solarz effort.

On Friday the House Foreign Affairs Committee approved 26-0 the Solarz bill requiring you to lift sanctions by October 15 unless you certify that ending the embargo would damage national interests.

3. Treaty Termination

Majority Leader Byrd has postponed indefinitely a final vote on H. Byrd's sense-of-the-Senate resolution calling for a Senate role in future treaty terminations. He took the action because he and Chairman Church feared defeat on Church's effort to exempt the Taiwan treaty. Meanwhile, Senator Goldwater et. al. have resubmitted a motion to Judge Gasch's court in the Goldwater suit arguing that the Senate has already, by a vote of 59-35, taken a position on treaty termination and that, therefore, the Judge should reconsider his decision. State will submit a counter motion by Thursday.

Thursday, State gave the Majority Leader and Church the initial vote analysis. By the preliminary count, a Church/Javits amendment making the H. Byrd resolution prospective should win by a narrow vote. We will recommend that Senate leadership undertake its own whip count. If Church appears to have the votes, we may seek a vote this week in an effort to forestall another adverse ruling from Judge Gasch.

4. Security Assistance

Chairman Zablocki is still seeking an understanding with John Brademas on aid levels for Turkey and Greece prior to naming conferees. Zablocki would like to name conferees on Tuesday but wants to avoid being "instructed" by those in the House who are opposed to grant Turkish military aid. We are not certain what is holding up a Zablocki-Brademas understanding, though it is clear that both key participants are upset that the Administration has not signaled its willingness to join in a compromise. No matter what Zablocki and Brademas decide, a few House Republicans may want to embarrass the Administration by moving to "instruct" conferees in the hope of precipitating an inter-Democratic floor fight. If this develops -- at least a few dozen members led by Solarz and Findley will speak up for grant military aid to Turkey.

5. Foreign Assistance Appropriation

The bill will not go to the House floor before June 26, and could be delayed beyond that date. It contains a prohibition on security assistance for Panama in addition to cuts of 13% in our FMS request, 24% in our IMET request and 5% in our SSA request. It does not contain the \$50 million grant MAP we requested for Turkey.

6. Foreign Aid Authorization Bill (S. 588)

Senate floor action is definitely scheduled for Tuesday. The Helms' amendments of which we are aware are: a) a ban on aid to non-signatories to the Nuclear Proliferation Treaty; b) a prohibition on aid to India or in the alternative approval of aid to Pakistan despite the ban imposed by the Symington/Glenn amendment; c) a ban on direct or indirect use of funds for abortions; and a possible amendment to earmark economic assistance for Rhodesia. The Javits' amendments involve an add-on of military assistance for the Sudan, and one to give Private Voluntary Organizations priority for excess government property. Other possible amendments include prohibition of aid to Nigeria primarily because of reported threats to curtail oil shipments had you lifted the Rhodesian sanctions; an attempt by Byrd (Va.) to cut the UNDP; and the ever-present threat of an across-the-board cut. AID received word that Senator Kennedy will not offer an amendment for rehabilitation aid to Yugoslavia.

7. The FY '79 Foreign Assistance Appropriations Supplemental

This supplemental, containing the funding for the Mid-East Peace package, \$100 million in economic support funds (ESF)

I feel the same

for Turkey and \$103,035,000 for refugee relief will probably be on the Senate floor early this week. Although there are some signs of unease in the Senate over Israeli settlements on the West Bank, we expect the supplemental to pass without difficulty.

The FY '79 Mid-East Supplemental Authorization bill has passed both Houses. Conference is taking place by letter and should be complete in two weeks.

8. Korea Hearings

Sam Stratton's House Armed Services Investigations Subcommittee has requested a hearing on Thursday, June 21 on the revised Korean intelligence assessment. He has asked for Generals Jones and Rogers and wants Defense to call General Vessey back from Korea, etc. Harold Brown has asked Mel Price's assistance in getting it postponed until after your trip. Bill Cable has asked the Speaker's assistance in this regard.

9. FY '80 Defense Authorization Bill

Last Wednesday the Senate passed the FY '80 Defense Authorization Bill by a vote of 89-7. The registration question will be considered as a separate bill which will be called up after the House completes floor action on its FY '80 Defense Authorization Bill which includes registration provisions. No time is set for a vote on the Senate Registration Bill, but John Stennis made it clear that the Senate will express itself on the registration issue before the Conference. Floor action on the House bill is not yet scheduled, but we anticipate action late this month or shortly after the Fourth of July recess.

10. FY '79 Defense Supplemental Authorization Bill

The Conference completed deliberation Friday. They left the House language on the MX in but softened it with a statement by the bill's managers. This should allow us some flexibility if we decide not to select the silo basing modes. The Conference will result in authorization of approximately \$1.9 billion (\$2.1 billion request). The Senate position on the four Iranian destroyers prevailed, and we did well on our other priority programs, receiving the full or near-full authorization request for the MX missile, NATO AWACS, ALCM and most B-52 modifications essential for SALT.

III. MISCELLANEOUS

-- A Member in attendance at Thursday's regular whip meeting said the Speaker led off with "the most aggressive support of the President I have ever heard him give." The Speaker said that he knew Kennedy was not going to be a candidate -- that Jimmy Carter was and he (Carter) was going to win the primaries and be the next President. He continued by saying we all look bad when we fight publicly, and we should stop; we can disagree and even fight behind closed doors but when they are open and in press releases we should remain united. He reminded them that when Members ran against Truman the Members lost and Truman was re-elected. Further reports say that Bill Burlison of Missouri also pitched in strongly to defend you and your chances of reelection.

*Tell by
to brief
Robynin →*

-- Senator Robert Byrd will travel to the Soviet Union during the July 4 recess to discuss the Salt Treaty with Soviet officials. He will be traveling at the invitation of the Supreme Soviet and, in addition to expected talks with the political leadership, has requested extensive meetings with key Soviet military officials.

-- On June 7 the Senate HUD-Independent Agencies Appropriations subcommittee marked-up the FY '79 Supplemental Appropriations Bill which includes NASA's \$185 M request for the shuttle. Aside from the last-minute submission of the shuttle request, we have been roundly criticized for the constant escalations of shuttle cost estimates. The Budget Committee, in particular, believes NASA has deliberately issued unrealistically low cost estimates. We doubt that, but OMB believes NASA must take more care with its cost estimates, and when additional funds are needed, make its request known in a timely fashion.

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-- Senator Kennedy has responded good-naturedly to your "whip his ass" comment. However, the whole affair has thrown his staff into a state of apoplexy. As for your own staff, the remark has done more for morale than anything since the last Willie Nelson concert. !!

-- A Governmental Affairs hearing on Admiral Rowland Freeman's nomination is scheduled for this Thursday.

The program for the House of Representatives for the week of June 18, 1979, is as follows:

Monday, June 18

- H.R. 4393 HUD/Independent Agencies Appropriations, FY '80
 H.R. 3821 Intelligence and Intelligence-Related Activities Authorizations, FY '80

Tuesday, June 19

- H.R. 4387 Agriculture Appropriations, FY '80
 H.R. 2444 Department of Education Organization Act

Wednesday, June 11

- H.R. 111 To Provide for the Implementation of the Panama Canal Treaty of 1977

Thursday, June 21

- H.R. 440 Transportation Appropriations, FY '80
 H.R. 3236 Disability Insurance Amendments of 1979
 H.R. 3917 Health Planning and Resources Development Amendments of 1979
 H.R. 2462 Maritime Authorizations, FY '80

Friday, June 22

- H.R. 4391 Military Construction Appropriations, FY '80
 H.R. 4439 Sanctions on Zimbabwe Rhodesia
 H.R. 3829 International Development Banks

The House will adjourn by 3:00 p.m. on Friday and by 5:30 p.m. on all other days except Wednesday.

THE WHITE HOUSE

WASHINGTON

June 18, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Moore

SUBJECT: Weekly Legislative Report House Schedule

It is uncertain at this writing whether the House schedule for this week will hold. As of 11:00 a.m. today, it appeared that a good deal of slippage this week is likely.

THE WHITE HOUSE

WASHINGTON

20 June 1979

MEMORANDUM FOR:

ATTORNEY GENERAL GRIFFIN BELL
SECRETARY JAMES SCHLESINGER
JIM MCINTYRE
CHARLIE SCHULTZE
ALFRED KAHN
ESTHER PETERSON
STU EIZENSTAT

SUBJECT:

Competition Improvement Bill

With respect to the competition improvement legislation discussed in the decision memorandum submitted on June 12, the President has decided that he does not support a general statutory requirement that agencies choose the least anticompetitive alternative as a mandatory decision criterion, that the Administration should support legislation which assures that agencies consider anticompetitive effects in their decisions, and that the language of such a requirement should follow as closely as possible the approach in the Administration's proposed regulatory reform legislation.



Rick Hutcheson
Staff Secretary

THE WHITE HOUSE
WASHINGTON

6/19/79

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

THE WHITE HOUSE

WASHINGTON

June 19, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Competition Improvement Bill
Decision

We need some clarification of your decision on the competition improvement bill.

In your remarks on the decision memo, you ask whether we can finesse the issue. We can for the moment, but probably not for long. Senator Kennedy's staff postponed last week's hearing, but it is likely that they will re-schedule it soon. Previously, Kennedy had postponed administration appearances three times to enable us to explore modifications which eliminate problems associated with the original proposal. In the very near future, if not in a hearing, then in negotiations over the contents of the regulatory reform bill, we will need to have a position.

For the reasons stated in the decision memo, and in my cover memo, I believe that Option 1 makes the most sense, provided that administration support is conditioned on acceptance of the various limitations noted in the decision memo and in Judge Bell's personal memo.

However, it is clear from your remarks in the initial memorandum that you have substantial problems with the bill. If you decide to reject the basic concept of imposing a mandatory decision requirement that agencies select the "least anticompetitive alternative," I suggest you authorize the Task Force working on the regulatory reform legislation to be flexible, as between Options 2 and 3 in the decision memo. Option 2 would reject Senator Kennedy's basic concept that selecting the "least anticompetitive alternative" should be a mandatory criterion for agency decisions. But it would retain the notion that agencies pay special attention to competition as a hortatory standard, requiring an analysis of competitive effects as a separate bill or a separate title in the regulatory reform bill.

In contrast, Option 3 would mean that we simply stick with the general requirement in our own regulatory reform bill to analyze the economic effects (including competitive effects) of significant proposed regulations (not other types of potentially anticompetitive actions, such as ICC or FMC rate or entry decisions).

In terms of practical effects, the differences between Options 2 and 3 are likely to be slight. But the political differences, with respect to securing Senator Kennedy's support for the regulatory reform bill, could be significant. Agreeing to put some language in the regulatory reform bill, explicitly recognizing the importance of considering competitive effects of regulatory decisions, could be a relatively small price to pay, not only for Kennedy's general support, but for ensuring his opposition to other potential, more harmful, amendments to the regulatory bill.

Hence, I recommend that we view the competition improvement issue as a counter to use in working out the contents of the regulatory reform bill. If you do not wish to adopt Option 1, (as suggested by DOJ and DPS), we should go into this negotiating process with the position you outline in your remarks on the decision memo--stick as close to the language in the current version of the regulatory reform bill as we can. Our negotiators on the regulatory reform task force would then be free to move toward Kennedy's approach, but in no event further than Option 2--i.e., a separate title requiring analysis of anti-competitive effects, but with no mandatory decision requirement that agencies actually choose the least anticompetitive alternative.

As the final page of the decision memo shows, all agencies concerned with the issue recommended Option 2, except for DOE, which preferred Option 3 but expressed its readiness to accept Option 2. So the course suggested here would plainly be acceptable within the government.

Frank Moore concurs in the recommendation that we be given the negotiating room to go to Option 2 both in testimony and otherwise.

✓

Approve

Disapprove

J

THE WHITE HOUSE

WASHINGTON

6/12/79

Stu Eizenstat

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Rick Hutcheson

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THE WHITE HOUSE

WASHINGTON

June 12, 1979

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
SI LAZARUS *Si*

SUBJECT:

Senator Kennedy's Competition
Improvement Bill

*Stu - The bill
seems unnecessary
& ill advised. Can't
we finesse this
one & stick to
our reg. reform
proposal?*

J.C.

This memorandum seeks your decision as to the position the Administration should take on a bill sponsored by Senator Kennedy, the Competition Improvement Act. The memo was prepared by representatives from Justice, DOE, OMB, and my staff, on the basis of agency comments submitted to OMB. The Administration is scheduled to testify before Senator Kennedy on his proposal Thursday, June 14. The Department of Justice has worked with Senator Kennedy's staff in revising the legislation, and strongly supports it, but other agencies, principally the Departments of Agriculture and Energy, oppose it. The fate of the bill is likely to be linked to the development of the Administration's regulatory reform bill.

The Competition Improvement Bill

The competition improvement bill was endorsed by your Anti-trust Review Commission in its January 1979 report. As originally introduced, the bill was very broad and was opposed by all Federal agencies, other than Justice, as well as numerous constituencies concerned with affected programs. Justice and Senator Kennedy's Judiciary Committee staff have developed a narrower version, on which the Administration's position is now sought.

The new proposal does not apply to all governmental actions, but rather to four categories of actions which directly affect competitive processes:

- rate and price setting;
- entry controls and licensing;
- production limitations and allocations;
- approval of private agreements among suppliers of goods and services.

With respect to every action which falls in one of these categories, the bill requires that the agency make a finding that in acting it has chosen "the least anticompetitive alternative legally and practicably available to achieve statutory goals."

Agency Views

Justice argues that, in focusing on those governmental actions which directly affect competitive processes, and in establishing a presumption in favor of procompetitive alternatives, the bill is a natural complement to the other features of your regulatory reform program. When Federal agencies undertake direct economic intervention in markets, they should be made to recognize potential competitive dangers and avoid as many as practicable. The bill will oblige recalcitrant agencies to take competition seriously, and it will assist forward-looking agencies by giving them legal support for procompetitive self-reform.

In narrowing the focus of the bill to particular types of inherently anticompetitive actions, the new version of the bill has eliminated any threats that the original bill posed to the effectiveness of many governmental programs, especially health, safety, and environmental standard-setting. However, two departments in particular--USDA and DOE--have expressed strong continued opposition; their major programs require actions within the four categories which trigger the requirement to choose the least anticompetitive option. In addition to these two departments, the Federal Emergency Management Agency and a number of the independent regulatory commissions, principally FERC, SEC, and ICC, also oppose the bill. CEA and OMB also believe that the bill is unnecessary and ill-advised. It is possible that some other agencies, which may not have fully considered the legislation, administer programs which could be affected by the bill in a manner similar to DOE.

Agencies opposing the legislation make two basic points. First, they make a substantive criticism: that the requirement to choose the least anticompetitive way of dealing with a particular problem elevates this single value--competition--over other factors. For example, DOE has contended that under the bill, it might not be able to cooperate with EPA in maintaining different rates for leaded and non-leaded gasoline to promote clean air. USDA argues that many of its programs are specifically designed to eliminate competition and to shelter agricultural producers from the harsh effects of the unregulated market; it would be illogical, USDA contends, for Congress to instruct it to disfavor competition in one law and to favor it in another.

Second, opposed agencies argue that the bill will create procedural burdens. The language of the bill is necessarily

vague; it would therefore require extensive administrative proceedings to satisfy it, and would generate litigation after any decision was made. This added litigation could delay implementation of many agency decisions, consume agency resources, and threaten the viability of some programs, especially programs or actions designed to deal with emergency situations.

The opposed agencies contend that this bill is a bad way to attain the admittedly desirable goal of promoting competition. A better course, they contend, is simply to stick with the "regulatory analysis" requirement in Executive Order 12044 and in the Administration's regulatory reform bill. This provision requires agencies to analyze the competitive and other economic consequences of proposed major rules--not other, less significant actions--but it does not require agencies actually to choose the least anticompetitive alternative before them in any given instance.

Justice disagrees with these objections. It believes that the bill will not force agencies to ignore legitimate agency objectives other than competition--that it preserves agencies' discretion to act as they see fit, except when a procompetitive alternative exists which would satisfy the agencies' objectives. Justice also discounts the concern about added procedural burdens; most agencies already have to give some consideration to competition in making decisions, and this consideration is already subject to judicial review. Furthermore, passage of this bill would establish a uniform standard and thereby simplify the agencies' task of determining what criteria courts will apply on review.

Impact of the Issue on Regulatory Reform Legislation

The controversy over this bill acquires greater significance than it might otherwise have, because Senator Kennedy has written the new version of the bill in as a title of his regulatory reform bill, introduced this week as S. 1291. It is expected that all or part of the concepts in S. 1291 will be merged in modified form with the Administration's regulatory reform bill when that legislation is marked up either in the Governmental Affairs Committee, or the Judiciary Committee, to which it has been jointly referred. Senator Kennedy's support for the regulatory reform legislation will be influenced by the extent to which the prime features of his own bill are included in the package, and the competition improvements title is one on which he appears to place considerable significance. On the other hand, the net impact of including the competition improvements title could be negative, if it appears in a form which threatens major constituencies and generates new opposition to the overall package. Administration representatives have

expressed a generally favorable attitude toward the Kennedy regulatory bill (which contains several features other than the competition improvement title), without specifically endorsing any of its provisions.

Issues

Discussions among the agencies have eliminated most differences over recommendations needed to improve the legislation. In particular, the Department of Justice has agreed that the Administration should recommend that provisions should be made to exempt emergency actions; we are developing a precise recommendation to make on this point, but there is no need for you to make a decision in connection with this issue. In addition, Justice has agreed that we should recommend that the legislation not apply to some categories of comparatively insignificant actions; the details on this point can also be worked out without your involvement. Finally, Justice has agreed that the bill should specify that an agency need only choose the least anticompetitive alternative among those actually presented to it in the administrative proceeding; it need not devise new options as insurance against a subsequent court decision that it did not look hard enough for the optimal solution. However, the major objections of USDA and DOE remain.

1. Exemption of USDA's major programs from the bill.

USDA has recommended that the Administration propose exemption of its major programs, such as the issuance of marketing orders and the prescription of limitations on the production of various farm products. As noted above, the Department's argument is that favoring competition is antithetical to the central aims of these programs. Justice does not support this recommendation, but has acknowledged that exempting Agriculture could be viewed as consistent with traditional practice and would aid enactment of the bill as a whole; including agricultural programs within the bill would probably guarantee strong opposition from a number of potent constituencies, and would severely complicate passage of the regulatory reform legislation, if the competition improvements title is included in that bill. We therefore recommend that you approve Administration support for exempting agricultural programs from the legislation.

Approve ✓
(USDA, DPS, OMB, CL)

J

Disapprove _____

2. The "least anticompetitive alternative" requirement as a mandatory criterion for agency decisions.

The major issue on which differences remain within the Administration is the basic question whether agencies should actually be required to choose the "least anticompetitive alternative." Justice agrees that the current formulation of the requirement could be interpreted to limit an agency's discretion to promote values other than competition. However, Justice believes that the requirement should be rephrased, not eliminated altogether or turned into a mere requirement to conduct an analysis, as opposed to a criterion for decision. (It does not appear politically feasible to propose exempting additional areas, like energy, from the bill, except for agriculture.)

You must decide this issue. There are three options:

Option 1: Rephrase bill to make clear that the agency may define its own objectives but retain requirement that the "least anticompetitive alternative" to achieve these objectives be selected.

Pro:

- The language of the bill can be clarified so that it will specifically not require balancing competition against other values (environment, energy, cost, national security, etc.). Thus clarified, the bill would only require selecting a less anticompetitive alternative which effectively attains the agency's objectives, however the agency chooses to define them.
- Other limitations which the Administration will recommend could eliminate many of the substantive and administrative difficulties which the current Kennedy staff draft could impose.
- It makes sense to single out inherently anticompetitive types of governmental actions, and subject them to a stiffer, uniform, procompetitive standard than the broader range of actions covered by the regulatory analysis requirement in E.O. 12044 and the Administration regulatory reform bill.
- Senator Kennedy will be unhappy if the Administration in effect rejects his bill, especially after his staff has worked with the Justice Department to narrow its scope, and this could diminish chances for passage of the regulatory reform bill.
- The bill will give legal support to agencies seeking to move their policies in a procompetitive direction.

Con:

- It makes more sense to attack anticompetitive decision

criteria in various statutes and programs exclusively on a case-by-case basis, through proposing targeted legislation (as we have or are considering) for regulated industries like airlines, trucking, rail, banking, and communications.

- It is often unclear which one alternative is the least anticompetitive; and a dissatisfied party could challenge any covered action by claiming that the agency picked the wrong alternative, thus adding tremendous delays and costs in the administrative process.
- It is doubtful that legislative language can be so tightly drawn that it would preclude the possibility that a court might construe it to require a balancing approach in which competition would be given greater weight than other relevant factors.
- Despite the exemption for emergency matters which the Administration will propose, the bill could limit administrative flexibility to deal with some current energy problems on a timely basis.

Option 2. Support a special procompetitive requirement for inherently anticompetitive classes of government action, but only as an analytical requirement, not a decision criterion.

Pro:

- Would eliminate some of the concerns about adverse effects of the bill on programs in the Energy Department and other agencies, while permitting the Administration to maintain that it shares Senator Kennedy's particular concern that competition be given special attention.
- Could soften Senator Kennedy's unhappiness with the failure of the Administration to support his bill.
- Experience with the environmental impact statement requirement indicates that even a hortatory standard can oblige agencies to pay greater attention to the value in question.

Con:

- The practical differences between this position and simple opposition to the Kennedy bill are so inconsequential that, conceivably, the Senator and the press might view this option as hypocritical.
- Experience under the hortatory procompetition standards

governing agencies like ICC and FMC indicates that such requirements have little effect.

Option 3: Oppose the Kennedy bill outright and recommend simple support instead for the Administration's regulatory analysis requirement, perhaps with modifications to specifically mention competition as a factor to consider.

Pro:

- Would be logically cleaner, and more forthright than Option 2.
- Would cut to a minimum the dangers of restricting agency discretion and excess litigation posed by a procompetition analysis requirement.
- Would eliminate added procedural burdens and costs of a separate procompetition standard.

Con:

- Since the regulatory reform bill applies only to major rule-makings, Option 3 would leave other actions wholly exempt from any requirement to consider competition. (These would include ICC rate and entry cases, FCC licensing decisions, and other significant anticompetitive government actions.)
- Could invite the charge from Senator Kennedy that the Administration's regulatory reform bill contains no guarantees to strengthen competition.
- Would probably maximize Senator Kennedy's unhappiness.

DOE prefers Option 3, but would support Option 2, especially if political considerations militate in favor of Option 2. OMB and CEA support Option 2. DOJ, DPS, and Fred Kahn support Option 1. However, Frank Moore and I recommend that, if you support Option 1, the Administration should nevertheless retain flexibility as to whether eventually to support inclusion of the competition improvement provisions in the regulatory reform legislation, and in what form.

Decision:

Option 1 (DOJ, DPS, CL, Fred Kahn) _____

Option 1--but retain flexibility
re inclusion in regulatory re-
form bill (DPS, CL) _____

Option 2 (DOE, CEA, OMB) _____

Option 3 (DOE) _____



Office of the Attorney General
Washington, D. C.

June 11, 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Competition Improvements Bill -
Review of Agency Actions

You are aware of the large number of law suits filed in district courts concerning the adequacy of environmental impact statements under the National Environmental Protection Act. The Competition Improvements Bill has the capacity to cause extensive litigation of a generally similar kind.

I would avoid this possibility by inserting a specific provision in S. 382 to prohibit separate district court suits outside of existing judicial review procedures to challenge agency actions based on the least anti-competitive alternative requirement. In other words, court actions will be specifically limited to those presently existing under available review procedures.

Griffin B. Bell
Attorney General

THE WHITE HOUSE

WASHINGTON

June 12, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Decision memo on competition
improvement bill

Senator Kennedy's support is important for securing Senate passage of our regulatory reform bill. Option 1 will best contribute to that result, while cutting back on the scope of his staff's current draft bill in ways which will substantially reduce the problems described in the decision memo. Option 1 will also enable us to claim that we are supporting a tough measure to reduce unjustified interference with the free market at agencies like the ICC and the FMC. However, if you select Option 1, you should make clear that our support is conditioned on acceptance of the various limitations noted in the decision memo and in Judge Bell's cover memo, and that we retain flexibility on whether to support its inclusion in the regulatory reform bill.

It appears that no one in the Administration strongly supports Option 3, and I think selecting it would be a serious mistake.

THE WHITE HOUSE
WASHINGTON

C

June 19, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: RICHARD HARDEN *Richard*
SUBJECT: Miss Lillian's Trip to
California

I thought you might be interested to know that your mother is flying to California today for the balance of the week. She will spend Wednesday fulfilling previous commitments which had to be cancelled because of her trip last year to the Pope's funeral.

On Thursday, she will do a Carter/Mondale fundraising luncheon and then tape the Johnny Carson Show in the afternoon for airing Thursday evening. She will also be doing two fundraising events on Friday, and will return to Plains on Saturday.

I will be linking up with her on Wednesday evening to ensure that the campaign events go smoothly.

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THE WHITE HOUSE
WASHINGTON
6/19/79

Anne Wexler

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

Rick Hutcheson

FOR ACTION
FYI

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

VICE PRESIDENT

JORDAN

EIZENSTAT

KRAFT

LIPSHUTZ

MOORE

POWELL

RAFSHOON

WATSON

WEXLER

BRZEZINSKI

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SCHULTZE

ADAMS

ANDRUS

BELL

BERGLAND

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BROWN

CALIFANO

HARRIS

KREPS

MARSHALL

SCHLESINGER

STRAUSS

VANCE

ARONSON

BUTLER

H. CARTER

CLOUGH

CRUIKSHANK

FIRST LADY

HARDEN

HERNANDEZ

HUTCHESON

KAHN

LINDER

MARTIN

MILLER

MOE

PETERSON

PETTIGREW

PRESS

SANDERS

WARREN

WEDDINGTON

WISE

VOORDE

ADMIN. CONFIDEN.

CONFIDENTIAL

SECRET

EYES ONLY

THE WHITE HOUSE
WASHINGTON

June 13, 1979

Anne -
good -
AFL-CIO
also
J

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: ANNE WEXLER *Anne*
LOUIS MARTIN *LM*

SUBJECT: Rhodesia Outreach

On June 8, the day after your announcement, we organized a group of organizations who support maintaining sanctions. A list is attached. They took assignments and had a definite impact on the Senate vote.

In the House, in addition to using this coalition for lobbying, we will concentrate on the following elements:

1. Labor: Probably the most effective lobbyists for our position.
2. Major black leaders: Jesse Jackson has offered to bring top black leaders to the Hill to work with the Vice President or the Speaker's office in a direct, one-on-one lobbying effort whenever we ask for it. We will also work with Ron Brown, the Urban League's Washington representative who will help convene and coordinate black organizations.
3. Churches: Important in the House because of the influence of the Catholic churches, particularly in certain districts. We will broaden the base of support to include additional Protestant and Jewish organizations.

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4. Foreign policy organizations: Led by the United Nations Association, will provide troops for the House effort.
5. Business: While we anticipate that business support will be more limited, there are some businesses whose particular investments depend on stability in our relationships with front-line African states. Examples are the oil and mining industries. Some business leaders also serve on boards of organizations which strongly support not lifting the sanctions -- e.g., the Board of the United Nations Association, and the Urban League. We will work one-on-one to develop this support.
6. We will also ask the Democratic National Committee members and Carter supporters in certain states to help.

We understand the House vote is anticipated after the July 4 recess. We had already convened a White House working group for the Senate vote and will now move to the House. Appropriate fact sheets, media backgrounders and the like are being developed and should be ready within a few days.

Zimbabwe - Rhodesia Sanctions Briefing
June 8, 1979 -- 2:00 p.m. -- Room 208 OEOB

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Sister K. C. Young

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THE WHITE HOUSE
WASHINGTON
19 Jun 79

Frank Moore

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

Rick Hutcheson

CL: you need to acknowldge
this letter since the President
has not.



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

FOR ACTION
FYI

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	EIZENSTAT
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✓	MOORE
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	RAFSHOON
	WATSON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	ADAMS
	ANDRUS
	BELL
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	KREPS
	MARSHALL
	SCHLESINGER
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	ARONSON
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	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	HARDEN
	HERNANDEZ
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	PETERSON
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	PRESS
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*Marian -
let CL know
they need to
acknowledge
since Pres visit*

12-2

THOMAS J. DOWNEY
2ND DISTRICT, NEW YORK

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TELEPHONE: (202) 225-3335

DISTRICT OFFICE:
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Congress of the United States
House of Representatives
Washington, D.C. 20515

June 13, 1979

COMMITTEE ON
WAYS AND MEANS
SUBCOMMITTEES:
TRADE
PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION
SELECT COMMITTEE ON AGING

S

President Jimmy Carter
The White House
Washington, DC 20500

Dear Mr. President:

In response to your request for my current thoughts on SALT, here are my ideas on (I) SALT III strategy, with emphasis on points to be taken up with Brezhnev and (II) strategy for the SALT II ratification debate, with emphasis on your coming address to Congress.

SALT III

The overriding urgent question is as before: Will SALT III be doomed to irrelevance and sterility by focus on gray-area Eurostrategic weapons, or will it become the savior of humanity by focus on superpower crisis stability?

Everything I hear indicates that this battle is being lost, and that SALT III is numbly sliding into the mire of MBFR. It appears that this disastrous course can only be reversed by your direct intervention.

My reasoning is explained in detail in my letter to you of December 21, 1978. Briefly --

A) The consequences of superpower nuclear war overwhelm all else, and would destroy Europe in the process. If we do not avoid superpower nuclear war, nothing else matters.

B) While European war could escalate to global war, there is little a feasible Eurostrategic agreement could do to reduce the probability of such a war starting or escalating. But there is much a superpower crisis stability agreement can do to prevent global war from arising from any source.

C) Eurostrategic negotiations, like MBFR, will take forever and may never produce anything. Superpower crisis-stabilizing treaties may, in contrast, be concluded promptly. If the two are coupled, the pace is set by the slowest.

D) Crisis-destabilizing technologies are frequently irreversible.

Page one

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If we don't stop them soon, we lose the opportunity forever. MIRV is the best example from the past.

E) Eurostrategic systems can be dealt with in a separate TALT forum. This can be explained to our allies in a way they will understand and accept.

F) Specific feasible crisis-stabilizing steps include --

- 1) Prohibit depressed trajectory flight testing.
- 2) Prohibit close-in missile submarine deployment.
- 3) Establish SSBN safe zones.
- 4) Prohibit SLBM guidance upgrading. *not verifiable*
- 5) Lower confidence by prohibiting all ballistic missile flight tests.

* * *

I urge you to establish crisis-stabilizing focus for SALT III in your talks with Brezhnev, and to tell your bureaucracy that this is what SALT III will be all about. Left to itself, it will drag SALT into the MBFR mire because that is the kind of thing a bureaucracy understands best.

Finally, I agree completely on the need to bring home SALT III as a series of small packages, rather than holding all items hostage to the pace of the slowest. SALT II has given us a powerful lesson in this matter.

SALT II

These are my suggestions for your talk to Congress, and the subsequent debate:

A) Stress that only issue before us is whether we will be better or worse off with SALT II than without. Time travel back to the "good old days" of U.S. nuclear monopoly is not a realistic option. Neither is Utopia. Emphasize that if the Soviets turn out an additional 500 missiles, double the number of warheads on each, triple Backfire production, and produce a new heavy bomber by the hundreds -- all this will be on the heads of the SALT II opponents because it can only happen if SALT II is defeated.

B) Hit those (Jackson) who concede we will be better off with SALT II, but who want the nation to reject SALT and damage its security for the sake of expressing hate and neurotic fear.

President Jimmy Carter
June 13, 1979
Page three

C) Exploit the MX decision to the hilt. First lay out its capabilities to assuage the fearful. Then threaten to take the carrot away if SALT is defeated. Point out that without a limit on the number of Soviet missiles and warheads we cannot have confidence any ICBM system will survive, and it will make no sense to pour money into a new ICBM or basing mode. The entire Air Force will then run like rabbits to board the SALT train.

D) On verification, resolve the confusion about the five years needed to recover the Iranian capability. Point out that the Iranian capability is nice to have but not essential for SALT verification.

E) Stress the capabilities of the cruise missile, and the unlimited range our negotiators have won for the strategic version. Surprising how many people are unaware of this.

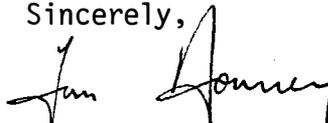
F) State emphatically that those who suggest you would not respond after an attack on U.S. ICBMs are wrong. Let no one doubt that, while we cannot win a nuclear war against the Soviet Union, we can and will insure that they don't win. The argument always used by SALT opponents is "The President would be afraid to respond. . .". Only you can do it, but in fifteen seconds you could cut opponents' favorite argument off at the knees.

G) To illustrate the horrors of nuclear war, you can do better than using one submarine against Soviet cities. I'd refer to the recent Office of Technology assessment study on the effects of nuclear war, which showed that less than 1% of U.S. strategic nuclear warheads could destroy 73% of Soviet oil refining capability, and that less than 2% of Soviet strategic nuclear warheads could destroy 64% of U.S. capacity. With people waiting in gas lines, this will strike home. In addition to demonstrating the huge capacity on both sides, it -- correctly -- shows the U.S. a little superior. Finally, this example can't be criticised as was the Poseidon example.

Together with Bob Carr and our staff expert, Bob Sherman, I will be in Vienna from Saturday morning until the ceremony. Needless to say, we will be at your disposal if we can help in any way.

Finally, a request. We would deeply appreciate any help in gaining admission to the ceremony, and in gaining seats on your plane or the press plane for the ride home.

Sincerely,



THOMAS J. DOWNEY
Member of Congress

TJD/rs

P.S. The best quantitative control is a flat percentage annual reduction. I'm working on a study of this which I will send you next month.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

CHARLES L. SCHULTZE, CHAIRMAN
GEORGE C. EADS
LYLE E. GRAMLEY

June 14, 1979

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Lyle E. Gramley *LEG*

Subject: Industrial Production in May

Tomorrow (Friday, June 15) at 9:30 a. m. the Federal Reserve Board will release its estimate of industrial production.

Total industrial output rose 1.3 percent in May -- a large increase, but only enough to offset the 1.4 percent decline in April. Output in April fell because of the Teamster's strike and other special factors, and the rebound in May is simply a reversal of that decline.

The failure of industrial production to grow between March and May parallels the marked slowdown in employment growth, and the decline in the length of the workweek, in manufacturing over the same period. The recovery in real GNP growth during the second quarter that we had expected a couple of months ago is not materializing. Growth in the second quarter will probably be no larger than the 1/2 percent annual rate of the first quarter, and it may be negative.

With real consumer spending still declining and business cutting back production schedules quickly to prevent an undesired inventory buildup, the near-term outlook for industrial production is weak. One particular source of weakness will come from the auto industry. Sales of large cars, small trucks, vans, and recreational vehicles have fallen sharply, and inventories are huge at today's selling rates. The major manufacturers will be shifting as rapidly as possible to the smaller cars that are in short supply, but the conversion possibilities are limited in the short run. Total motor vehicle production is expected to decline substantially in June.

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for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

6/19/79

Arnie Miller

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

Rick Hutcheson

Mr. President--

I recommend initialing upper corner,
and letting me send to Personnel
(Arnie Miller) for appropriate
acknowledgement/action.

--SSC

Send cc
to Annis

Miller

From The Desk Of
MARGIE DAVIS
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for Preservation Purposes

9
May 30, 1979

Dear "Miss Lillian":

Thank you for your nice letter of May 25. I am indeed interested in the reelection of Jimmy and Vice-President Mondale.

I am a member of what I believe is the "Charter Club" which gives \$1,000 per year to the Democratic Committee, and was fortunate enough to be entertained by VP and Mrs Mondale at a Museum Trustee's Meeting in Washington in their lovely home.

Since I do support your son, and have worked hard for a long time both for his election and since, I am going to ask you for a favor.

My name has been submitted as a prospective member of the "Museum Services Board", headed by Mrs Lee Kimche. I would personally appreciate anything you might be able to do to help me in this appointment as I believe I have something to contribute in this area. I am on the board of three museums, was chairman of the King Tut showing in New ORLEANS AND HAVE been active in civic and cultural activities in this area for many years.

I would appreciate a personal answer from you on this, and I shall continue to support

1819 OCTAVIA STREET, NEW ORLEANS, LOUISIANA 70115

our son with all my heart.

I am asking this of you, since the President is the one who appoints this board . I

I also was mentioned for the Kennedy Center Board for our region, but have heard nothing of either.

I do hope you continue to be the dynamo that you are, and that our president continues to do a good job. I am very proud of what he did with ISrael and Egypt, especially since the Ambassador and his wife are dear friends of ours.

Most sincerely,

Marge D.

(Mrs Walter Davis)

1819 Octavia Street

New Orleans La

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70115

*Sharon - let
Please let
I read this -
"ye gods! Jim Goin'
nuts - Thanks
LC*

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 18, 1979

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CAS by LSH*

Subject: Housing Starts and Personal Income in May;
and Revised GNP Estimates for the First Quarter

This afternoon (Monday, June 18), the Census Bureau released estimates of May housing starts. Tomorrow (Tuesday, June 19) at 10:30 A.M., the Commerce Department will release its estimate of personal income in May. On Wednesday, June 20 at 9:30 A.M., the Commerce Department will publish a revised estimate of first quarter GNP growth.

Housing Starts

Housing starts rose 5 percent in May to an annual rate of 1.827 million units. The increase was in multi-family units; single-family starts declined by 6 percent. Residential building permits also increased by 5 percent.

Housing starts in May were 12 percent below their level in the fourth quarter of last year. This is a moderate decline by historical standards, but some further reduction is likely over the remainder of the year.

Personal Income

Total personal income rose 0.7 percent in May, a somewhat larger increase than the 0.4 percent figure for April. In April, total wages and salaries had risen only 0.2 percent because of the effect of the Teamster's strike and other special factors on employment and the length of the workweek. In May, total wages and salaries went up 0.6 percent.

These May increases in total personal income and wages and salaries are relatively small -- they are less than the probable rate of consumer price increase in May. Declines in consumer purchasing power because of large increases in energy and food prices are the major factor slowing economic growth.

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Revised First Quarter GNP

The new GNP figures for the first quarter to be released Wednesday will show a slightly larger increase in real GNP (0.8 percent at an annual rate) than was published earlier (0.4 percent). There were small upward revisions in net exports and in consumer spending for services.

On Wednesday, we will also receive from the Commerce Department their first, and very preliminary, estimate of second quarter real GNP growth. Commerce has indicated to us that the figures will show a decline in real GNP largely because of weakness in real consumer spending for goods.