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THE WHITE HOUSE
WASHINGTON

DATE: 19 JUN 79

FOR ACTION: CHARLIE SCHULTZE

INFO ONLY: STU EIZENSTAT

SUBJECT: STRAUSS MEMO RE AMENDMENT BY SENATOR LONG, RELATING
TO SHIPS IN THE MTN LEGISLATION

file not submitted (refer to attachment to Pres file)
2/21 - An Howard Z. credit - This matter was already resolved Strauss' way when the MTN leg'n went forward. "No need to send it in."

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM THURSDAY 21 JUN 79 +
+++++

ACTION REQUESTED:

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

PLEASE NOTE OTHER COMMENTS BELOW:

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MEMORANDUM FOR THE PRESIDENT



19 JUN 1979

FROM: Robert S. Strauss

SUBJECT: Amendment by Senator Long, Relating to Ships,
in the MTN Implementing Legislation

Charlie Schultze in his weekly report of June 9th, (attached) expressed concern over a provision in the MTN implementing legislation, sponsored by Russell Long, relating to foreign subsidized ships. You noted in the margin of the report, that you agreed with Charlie. I would share this concern -- and would agree entirely that the section ought to be deleted -- if the provision were as Charlie described it. Fortunately for the country, the provision differs significantly in several important respects from the provision Charlie described:

- (1) The provision has nothing whatsoever to do with the countervailing duty statute (a mandatory statute).
- (2) It would not call for the imposition of any duties on subsidized ships or the goods carried by such ships.
- (3) The ITC has no role whatsoever in the matter.
- (4) The provision amends section 301 of the Trade Act of 1974 (a discretionary provision) to provide that subsidization of shipbuilding may constitute an activity against which a private party may complain. If the interagency section 301 committee finds and the President determines that the activity constitutes an "unjustifiable or unreasonable burden on U.S.

commerce, then the President must seek removal of the measure and may take such counteraction as he deems appropriate.

- (5) Because the President must determine that the practice is unjustifiable or unreasonable, the fact that the United States is a "major subsidizer of shipbuilding" would, in my view, significantly influence such a judgment.
- (6) Finally, my lawyers have advised me that the provision would only clarify existing law because existing section 301 can be interpreted to apply to foreign shipbuilding subsidies in its present form.

This is not to suggest that I like this provision. We have spent two months trimming this amendment back to something we can live with. Although no one in the Government supports the proposal, no one who understands it feels strongly that in its present form it poses any threat to public policy. I have spoken to Russell Long and Paul Hall several times about this, and Paul, who logically might be concerned, is not. Russell Long has constituent problems, and we have devised this approach to accommodate his needs without substantively changing current law. I, therefore, strongly recommend that the provision remain in the bill you transmit to Congress.

Attachment

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 9, 1979

cc: Bob
X I agree with
Charlie
J

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CLS*

Subject: CEA Weekly Report

Miscellaneous.

- o George Eads was confirmed by the Senate on June 5 as the third Member of the CEA.
- o On June 7-8 representatives from the Japanese Economic Planning Agency were in Washington for a series of fairly technical meetings with the CEA. The Japanese were particularly interested in our inflation outlook.

MTN: I am very concerned about one provision in the MTN package "negotiated" on the Hill. Senator Long has inserted a provision that allows the United States to impose countervailing duties on any good transported in a ship whose construction was subsidized. This raises all kinds of problems. It countervails against a subsidy that isn't even on the good in question. It goes beyond the MTN codes signed in Geneva -- the Europeans and Japanese would be justified in being incensed at this addition, and in retaliating against the United States. Since the United States is a major subsidizer of shipbuilding, we would be dangerously vulnerable to retaliation beyond our control. Since almost all ships are subsidized, essentially any competitor of any imported product that traveled by ship could petition the ITC for a countervail. This could seriously overburden the ITC's workload, even if the President subsequently turned down every case, and could put us in the awkward position of having to use the provision to retaliate against "retaliators" even if we never intended to do so. Since not one member of the Administration supports this provision, it should not be included in the Administration's trade bill. I have spoken to Bob Strauss about this, and he said he would try to talk Long out of it. I do not know if he has had any success.

Electrostatic Copy Made
for Preservation Purposes

International. June 13-15, I will be in Paris for the OECD Ministerials. (Lyle Gramley will be Acting Council Chairman.) Much of the discussion at the Ministerials will be about energy.

Summit Preparation. I am completing a paper for Henry Owen's Summit preparatory group on the overall economic consequences of higher oil prices. It concludes that there is little that traditional economic policy can do in practice to avoid the inflation-raising and unemployment-increasing effects of those price hikes. The major tool we have to fight the problem is concerted action to lower oil demand and oil imports, and thereby reduce the chances of further large price hikes.

THE WHITE HOUSE
WASHINGTON

6/7/79

CL:

Please note Eizenstat's comments
on the Kahn memo. What is your
view/comment?

Rick Hutcheson

ID 792409

T H E W H I T E H O U S E

WASHINGTON

DATE: 01 JUN 79

FOR ACTION: STU EIZENSTAT

FRANK MOORE (LES FRANCIS)

JERRY RAFSHOON

*v/52
will convene
man
attached*

HC

*revised
attached*

INFO ONLY: THE VICE PRESIDENT

JODY POWELL

JACK WATSON

ANNE WEXLER

JIM MCINTYRE

CHARLES SCHULTZE

attached

SUBJECT: KAHN MEMO RE ANTI-INFLATION INITIATIVES TO COMPLEMENT

YOUR MESSAGE ON NATIONAL HEALTH INSURANCE

*MAY be revised to
exclude parts that
are in spec NHI
message per
Dennis Rapp*

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+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM MONDAY 04 JUN 79 +
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ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE
WASHINGTON

6/15

Re: Dennis Rugg.
continue to HOLD. He may rewrite this on only some portions of memo. The President will not have to see until after Japan/Korea.

HOLD
FILE

TRP

THE WHITE HOUSE
WASHINGTON

6/7/79

HOLD

EIZENSTAT COMMENTS ARE
CRITICAL.

DENNIS RAPP CHECKING WITH
JOE ONEK TO SEE IF STU AND
FRED KAHN CAN AGREE BEFORE
THIS GOES TO THE PRES

RICK

*6/7/79 - ST + local for Today
me comments - CC concerns w/ SE
comments w/ Rapp will
change w/ memo to
w/ no 56/row/ky*

THE WHITE HOUSE
WASHINGTON

04 Jun 79

Schultze comment to Kahn memo
re anti-inflation and NHI

"Item 4 (Legislation to provide
competitive...)

is part of the National Health
Plan proposal. NHP Phase I
will combine medicare and
medicaid and will require HEW
to award state wide contracts
for claims processing
on a competitive bidding basis.
Wouldn't sending up separate
legislation on this be an
admission that we do not
~~expect~~ expect the NHP proposal to
pass?"

THE WHITE HOUSE

WASHINGTON

June 4, 1979

MEMORANDUM FOR THE PRESIDENT

FROM:

ALFRED E. KAHN

Fred

SUBJECT:

Anti-Inflation Initiatives to Complement Your
Message on National Health Insurance

My anti-inflation working group on health care costs completed their work several weeks ago. They did a good job. Their report recommends a number of important initiatives we can undertake to hold down the inflation of these costs, improve the cost effectiveness of both Federal and State programs, and create more competitive conditions. Most of these actions can be taken without Federal legislation.

Rather than wait for coordination of the entire report with all the departments and agencies affected, I have decided to peel them off (following your suggestion) individually, and move on each as it becomes feasible to do so.

We are ready now to move on three of the items. They do not require legislation. I'd like to try to move promptly because I am going to propose you announce them shortly after you announce your legislative proposal for National Health Insurance.

It seems to me it would be highly desirable to combine the latter announcement, of a major new expenditure program, with clear evidence of your intention to make full use of such authority as you already have to contain health cost inflation. The three proposed administrative actions are:

1. A policy statement that the Federal government will build no new hospitals in already overbedded areas where Federal program responsibilities to provide high-quality care at reasonable cost cannot be met by contract care or by leasing space in existing community hospitals. A companion announcement would say that the Federal government will provide no financial assistance to other agencies for building new hospitals in such areas either.

I've worked closely with OMB on this item, and we have a draft decision memo to you ready to circulate to the agencies affected (VA, DOD, HEW, HUD, Farmers Home Administration, EDA, SBA, Appalachian Regional Commission, and USDI and Treasury) with a very short deadline for their response.

2. A directive to HEW to limit increases in interim Medicaid and Medicare payments to hospitals to the special 9.7 percent price standard (adjusted according to the method specified in your Hospital Cost Containment legislation).

This action, which would be wholly consistent with your anti-inflationary wage/price program, would put cash flow pressure on hospital administrators to hold down their costs at once, whether or not Congress enacts the Hospital Cost Containment bill. The same device was employed during the period of mandatory controls, and was highly effective.

While I could raise this matter directly with Secretary Califano, who has the lead responsibility for administering the hospital price standards, it would speed the process immeasurably if you expressed an interest in our resolving it promptly, so as to make it possible for you to announce it separately at about the time of your NHI message.

I have worked closely with OMB on this initiative as well and we have a draft decision memo ready for you, which I will want to clear with Secretary Califano. We will consult on whether announcement of the action at this time might jeopardize the Hospital Cost Containment bill, and will advise you before including it in the message I am recommending.

3. A letter from you to the Governors urging them to use their State powers to promote competition and cost containment in the health care industry, along lines already suggested on our formal State and local anti-inflation program.

This would include a brief discussion of specific areas where the States have the legal and regulatory power to create more competitive conditions. It would urge them to examine and revise State laws and regulations that ban advertising by doctors, dentists, and eyecare specialists; that restrict licensing of doctors, nurses, and health care

para-professionals; that prohibit the use of generic drugs in filling prescriptions; and that inhibit or do not require the disclosure and standardization of basic insurance plans by State-regulated health insurance firms -- an essential precondition for effective competition among them. The Governors would also be asked to undertake other cost control measures, including setting up State hospital rate-setting Commissions and improve health planning.

I have been working with the Federal Trade Commission, HEW and Justice in completing this item for you.

In my view, announcing these items at about the same time you send up your National Health Insurance proposal would

- ° Confirm your commitment to a plural (Federal-State-private) health care system rather than one that moves wholly toward federalization. Such a commitment is inevitable regardless of how you resolve the specific issue now before you on HEW's federalized health care proposal.
- ° Reaffirm your determination to do what you can directly to reduce unnecessary hospital costs.
- ° Remind the public that we have a parallel legislative proposal before Congress designed to contain inflation in hospital costs, and prod Congress into moving on it.

Decision

- _____ Approve coordination of the three administrative initiatives with affected agencies for announcement, if this proves possible, at about the same time as the announcement of NHI.
- _____ Disapprove
- _____ Other

If you approve, we will complete the required coordination with agencies and work out with Jody the timing of a separate statement on these initiatives.

THE WHITE HOUSE

WASHINGTON

June 1, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: ALFRED E. KAHN *Fred*

SUBJECT: Anti-Inflation Initiatives to Complement Your
Message on National Health Insurance

My anti-inflation working group on health care costs completed their work several weeks ago. They did a good job. Their report recommends a number of important initiatives we can undertake to hold down the inflation of these costs, improve the cost effectiveness of both Federal and State programs, and create more competitive conditions. Most of these actions can be taken without Federal legislation.

Rather than wait for coordination of the entire report with all the departments and agencies affected, I have decided to peel them off (following your suggestion) individually, and move on each as it becomes feasible to do so.

We are ready now to move on six of the items. Three require legislation; three do not. I'd like to try to move promptly because I am going to propose you announce them shortly after you announce your legislative proposal for National Health Insurance.

It seems to me it would be highly desirable to combine the latter announcement, of a major new expenditure program, with clear evidence of your intention to make full use of such authority as you already have to contain health cost inflation. The three proposed administrative actions are:

1. A policy statement that the Federal government will build no new hospitals in already overbedded areas where Federal program responsibilities to provide high-quality care at reasonable cost cannot be met by contract care or by leasing space in existing community hospitals. A companion announcement would say that the Federal government will provide no financial assistance to other agencies for building new hospitals in such areas either.

I've worked closely with OMB on this item, and we have a draft decision memo to you ready to circulate to the agencies affected (VA, DOD, HEW, HUD, Farmers Home Administration, EDA, SBA, Appalachian Regional Commission, and USDI and Treasury) with a very short deadline for their response.

2. A directive to HEW to limit increases in interim Medicaid and Medicare payments to hospitals to the special 9.7 percent price standard (adjusted according to the method specified in your Hospital Cost Containment legislation).

This action, which would be wholly consistent with your anti-inflationary wage/price program, would put cash flow pressure on hospital administrators to hold down their costs at once, whether or not Congress enacts the Hospital Cost Containment bill. The same device was employed during the period of mandatory controls, and was highly effective.

While I could raise this matter directly with Secretary Califano, who has the lead responsibility for administering the hospital price standards, it would speed the process immeasurably if you expressed an interest in our resolving it promptly, so as to make it possible for you to announce it separately at about the time of your NHI message.

I have worked closely with OMB on this initiative as well and we have a draft decision memo ready for you, which I will want to clear with Secretary Califano. We will consult on whether announcement of the action at this time might jeopardize the Hospital Cost Containment bill, and will advise you before including it in the message I am recommending.

3. A letter from you to the Governors urging them to use their State powers to promote competition and cost containment in the health care industry, along lines already suggested on our formal State and local anti-inflation program.

This would include a brief discussion of specific areas where the States have the legal and regulatory power to create more competitive conditions. It would urge them to examine and revise State laws and regulations that ban advertising by doctors, dentists, and eyecare specialists; that restrict licensing of doctors, nurses, and health care

para-professionals; that prohibit the use of generic drugs in filling prescriptions; and that inhibit or do not require the disclosure and standardization of basic insurance plans by State-regulated health insurance firms -- an essential precondition for effective competition among them. The Governors would also be asked to undertake other cost control measures, including setting up State hospital rate-setting Commissions and improving health planning.

I have been working with the Federal Trade Commission, HEW and Justice in completing this item for you.

Three additional actions I'm urging you to announce require legislation. Each of them is intended to promote more competition in health care, using the Medicare program as leverage. All three have been the subject of extensive discussion between OMB and HEW since last year; HEW has submitted the draft legislation to OMB, and OMB believes that coordination and clearance is possible by early next week.

4. Provide for competitive contracting for Medicare program administration. Under current law, hospitals may choose the insurance company that will audit their Medicare bills; contracts to process physicians' bills are awarded by HEW without competitive bidding on a cost reimbursement basis. Nearly all hospitals have selected the National Blue Cross Association, and the majority of physician billing program administration contracts have been awarded to Blue Shield. The government has thus been forced to employ a single contractor, Blue Cross, on a cost reimbursement basis, to administer over \$100 billion of hospital benefits. This arrangement was vital in Medicare's early days, but it is inefficient, raises conflicts of interest, and further impairs the ability of other insurance companies to compete with Blue Cross.

Government competitive contracting experiments have shown that dramatic reductions in administrative costs can be achieved. Last year, an HEW internal report formally recommended making competitive bidding the normal practice. Blue Cross/Blue Shield, which have the lion's share of the business, oppose competitive bidding. Submission of legislation to change the system to a competitive bid basis should not impair our hospital cost-containment coalition, since it will tend to put commercial insurers in a fairer position to compete with Blue Cross/Blue Shield.

5. Medicare Reimbursement of Health Maintenance Organization (HMO). HMO members have hospitalization rates dramatically below, and total medical costs somewhat below, comparable individuals treated in the fee-for-service sector. Under current Medicare reimbursement systems, beneficiaries have little incentive to enroll in HMOs, and HMOs have little incentive to seek out Medicare patients, since by statute HMOs are reimbursed on a cost basis and receive reimbursement only for Medicare-covered services.

The proposed legislation would pay HMOs for Medicare beneficiaries on a capitation basis, and, if they can provide Medicare-reimbursed services below the capitation rate, the savings would be shared with the beneficiaries.

6. Legislation to make mandatory the present national voluntary guidelines of \$3 billion for hospital capital expenditures over \$150,000. This is an important companion piece to hospital cost containment. Up to now each State and local health planning agency has been asked to make this voluntary guideline effective by limiting approvals of construction and major equipment purchases to two-thirds of the 1976-1977 level. The voluntary system has not been effective: the legislation would make the cap mandatory, and provide for its allocation among the States and health planning areas. In areas where the national guideline of four beds/1000 population and 80% occupancy are exceeded, no new beds could be approved unless two were closed for every one opened.

In my view, announcing these items at about the same time you send up your National Health Insurance proposal would

- o Confirm your commitment to a plural (Federal-State-private) health care system rather than one that moves wholly toward federalization. Such a commitment is inevitable regardless of how you resolve the specific issue now before you on HEW's federalized health care proposal.
- o Reaffirm your determination to do what you can directly to reduce unnecessary hospital costs.
- o Remind the public that we have a parallel legislative proposal before Congress designed to contain inflation in hospital costs, and prod Congress into moving on it.

_____ Approve coordination of the three administrative initiatives with affected agencies for announcement, if this proves possible, at about the same time as the announcement of NHI.

_____ Approve announcement of the three legislative initiatives about the time of NHI announcement.

_____ Disapprove

_____ Other

THE WHITE HOUSE

WASHINGTON

June 4, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: JERRY RAFSHOON 

SUBJECT: Kahn memo on anti-inflation initiatives to
complement message on National Health Insurance

I concur strongly with Fred Kahn. We are getting ready to announce our NHI program which, although way under Kennedy's, is still a spending program. We must seize the opportunity to announce some anti-inflation initiatives in the health area. It will take the President's personal push to get this done immediately because it has been my sad experience to note that anytime this White House attempts to do something visible in cost-cutting areas, the staffing system and the determination of "constituent group" oriented, traditional Democrats either waters them down or delays them to the point of ineffectiveness. Whatever we can do immediately, let's do it.

WASHINGTON

DATE: 01 JUN 79

FOR ACTION: STU EIZENSTAT

JERRY RAFSHOON

B - Please send in to P.

FRANK MOORE (LES FRANCIS)

INFO ONLY: THE VICE PRESIDENT

JODY POWELL

JACK WATSON

ANNE WEXLER

JIM MCINTYRE

CHARLES SCHULTZE

SUBJECT: KAHN MEMO RE ANTI-INFLATION INITIATIVES TO COMPLEMENT
YOUR MESSAGE ON NATIONAL HEALTH INSURANCE

Then to the point of ineffectiveness whatever we can do I am not left do

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

+ BY: 1200 PM MONDAY 04 JUN 79 +

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

I concur strongly with Fred Kahn. We are getting ready to announce our NHI program which, although way under Kennedy's, is still a spending program. We must seize the opportunity to announce some anti-inflation initiatives in the health area. It will take the President's personal push to get this done immediately because it has been my sad experience to note that anytime this White House attempts to do something in cost-cutting areas, that the staffing system is not oriented + quality