

10/31/79 [2]

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THE WHITE HOUSE
WASHINGTON

10/31/79

Stu Eizenstat

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

Rick Hutcheson

ADMINISTRATIVELY CONFIDENTIAL

Please inform Trea.

THE WHITE HOUSE
WASHINGTON

October 30, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
RALPH SCHLOSSTEIN

Stu
J
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for Preservation Purposes**

SUBJECT: Chrysler

The attached memorandum from Secretary Miller outlines the two principal options for responding to Chrysler's financial crisis. This memorandum provides my analysis and recommendation.

Analysis:

Substantively, the issue of whether to support aid to Chrysler is a difficult one. On one hand, I am concerned about the precedent of assisting a major corporation, and the possibility that the company will fail even after we have made public our intention to help. On the other hand, the effect of a Chrysler bankruptcy on Detroit would be absolutely devastating and the short-term costs to the Federal government in welfare, unemployment compensation, pension guarantees, food stamps and additional aid to Detroit would be quite large. On balance, I believe that there is substantive merit in helping Chrysler, provided the other interested parties -- the banks, labor, the States, dealers and suppliers -- participate on an equal basis.

Politically, it is extremely important that you support aid to Chrysler. Chrysler's bankruptcy would be a devastating blow to Detroit's economy and would have a significant effect on the full State of Michigan. It is the highest priority of Coleman Young, the UAW and the entire Michigan delegation and will be a critical issue in the Michigan primary. In my judgement, support of Chrysler aid will be as important in Michigan in 1980 as support of New York City aid was in New York in 1976.

Moreover, it appears probable that Chrysler aid legislation will pass the Congress in some form anyway. The House Subcommittee intends to mark-up this week and the votes probably are there for a \$1.2 billion aid package, considerably more than the company formally requested. While the battle will be tougher on the Senate side, there is strong bi-partisan support (Sens. Williams, Riegle and Lugar) for an aid package. Since the House Subcommittee intends to mark-up this week, we must move quickly.

Recommendation:

I strongly recommend Option #2 in Secretary Miller's memorandum. I support this option because it offers the only opportunity to save Chrysler Corporation, yet ensures that we obtain substantial contributions from other interested parties before any Federal loan guarantees are provided. I believe it will be strongly supported by Coleman Young, Doug Fraser and the other proponents of Chrysler aid.

Strategy for Announcing Decision:

If you decide to support Chrysler aid, it is essential that we obtain the maximum political benefit from your decision. To do this, we must carefully orchestrate the release of your position. Doug Fraser, Coleman Young and key members of Congress should be called by you or key members of the Administration. In making these calls, I believe the following points should be made:

- o The President currently is considering the recommendations of his advisors on the Chrysler situation.
- o It is a very difficult decision since the amounts of aid involved are substantial and the prospective negative reaction from unaffected parts of the country is large.
- o The President is inclined to support (describe the decision), but feels that it is very important that all proponents of Chrysler aid strongly support this approach and stick to it through the legislative process.
- o Can I assure the President that you would strongly and actively support such an approach?

*arrange
to do
this
J*

ID 794804

THE WHITE HOUSE

WASHINGTON

DATE: 31 OCT 79

FOR ACTION:

INFO ONLY: THE VICE PRESIDENT

STU EIZENSTAT

FRANK MOORE

JACK WATSON

JIM MCINTYRE

CHARLIE SCHULTZE

SUBJECT: MILLER MEMO RE FEDERAL AID TO CHRYSLER CORPORATION

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

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:



THE SECRETARY OF THE TREASURY

WASHINGTON

October 30, 1979

MEMORANDUM FOR THE PRESIDENT

Subject: Federal Aid to Chrysler Corporation

An early decision on possible federal aid to Chrysler has become necessary. First, unless banks and other creditors are convinced that federal aid is forthcoming, it now appears possible that they will force the company into Chapter XI reorganization within a short time. Second, unless the Administration supports aid legislation soon, it will not be possible for legislation to be enacted in this session of the Congress. Action in the next session could come too late. Third, Congressional sponsors and interested parties strongly recommend prompt action.

Present Condition of Company

Against this background, the Treasury and its consultants have done considerable work (although it is not complete) and have arrived at the following conclusions:

- A Chrysler failure would have little impact on overall U.S. employment, U.S. gross national product, financial markets or U.S. balance of payments. //
- A Chrysler failure would have a very significant adverse impact on the Detroit area, leading to a loss of perhaps 40,000 to 50,000 jobs. However, because of the aged condition of the Detroit area plants, a Chrysler rescue plan will not avoid significant reduction of Chrysler facilities in the Detroit area over the next several years.
- A Chrysler failure would lead to diminution in competition in the auto industry, depending on who takes over Chrysler facilities and its market share.
- Chrysler has estimated a 1980-1983 financing need of \$2.1 billion of which it has requested \$750 million in the form of federal loan guarantees from the U.S. (with the hope of another \$700 million on a contingent basis). Its total

needs are more likely to be \$3 billion or more, which would indicate needs from the federal government in the range of \$1.5 billion (assuming contributions by creditors and sales of assets by Chrysler aggregating \$1.5 billion or more). Even that may not be adequate to maintain Chrysler as a full-line company.

- Chrysler has made no significant progress in the last two months in developing a comprehensive financing plan as Treasury has repeatedly requested. It refused to consider shrinking its product line until last week, and now says it will need at least 60 days to do a study on that subject. We do not have Chrysler's third quarter figures yet, and the company has no operating budget for 1980. Hence evaluating its near-term losses and related financing needs is difficult.

- Chrysler has received no significant commitment of aid from any other source--banks, state governments, suppliers, dealers, etc. UAW has temporarily deferred a small portion of its wage increases in the next three years, but that would be recovered if an Employee Stock Ownership Plan being considered by Chrysler is adopted.

There would appear to be two general options available. They are:

Option 1: No Direct Financial Aid for Chrysler

Treasury would announce that Chrysler has not been able to develop a plan which meets the stated conditions for federal financial assistance. It is then likely that before too long the company would go into Chapter XI. The appropriate way to provide federal aid to Chrysler under such circumstances would be in the Chapter XI proceedings or directly to impacted localities, as was done for Conrail.

Reasons for:

- The prospects for a viable Chrysler emerging after aid are uncertain, and therefore any guaranteed loans might not be repaid. In such a case, the aid program would be viewed as a failure.
- Instead of assistance to the company, federal aid could be targeted directly to Detroit through existing or new programs.

- Unemployment insurance, pension benefit guarantees, welfare, etc., would moderate extreme hardships, although income sacrifices would be required of many.
- By letting the market work, a more rational auto industry could emerge; the risk of resource misallocation would be avoided.
- No new precedent will have been established that would later lead to aid to other industries (rubber, steel, etc.).

Reasons against:

- Detroit would be severely and adversely impacted in the short run.
- If Chrysler can be saved by federal financing assistance, it will be cheaper to give the financing assistance than to pay significant amounts for unemployment, pension benefits, welfare, etc.
- In the past, there have been programs (Lockheed, New York City) that are arguably a precedent for a rescue plan.

Option 2: Direct Financial Assistance for Chrysler

Under this option, federal guarantees in amounts up to \$1.5 billion would be provided to Chrysler. However, if we are to obtain adequate contributions from the banks, UAW, suppliers, etc., this option must be subject to strict conditions precedent including a requirement that their new contributions, when combined with sales of existing assets by Chrysler, must equal at least \$1.5 billion. Chrysler and its associates may not be able to meet these requirements; if they are not, Chrysler might eventually file under Chapter XI.

Reasons for:

- No federal loan guarantees would be issued without significant contributions to the rescue plan from the banks, UAW, suppliers, dealers, etc.
- Aid in this magnitude might produce a viable company provided it is possible to obtain the needed concessions.

- If successful, this approach will be cheaper for the federal government than paying unemployment claims, unfunded pension benefits, welfare, etc.
- The Detroit area would be spared a significant dislocation, and some scattered economic dislocation and loss in areas other than Detroit may also be prevented.
- Competition in the auto industry should be enhanced-- as opposed to possible reductions should Chrysler's facilities either be discontinued or end up in the hands of Ford or GM.

Reasons against:

- It would set a generally undesirable precedent.
- There can be no assurance that Chrysler can be saved, even with \$1.5 billion of federal guarantee aid. If it is not, the federal government will end up paying unemployment, pension benefits, welfare, etc., on top of making good on the guarantees.
- Because of the precarious condition of the company, it may not be possible to work out a comprehensive plan, and the company could fail before we could put a plan in place.
- Because a number of creditors (particularly banks) do not have large present exposure, they may find it preferable to force Chrysler into bankruptcy rather than participate in a long and uncertain negotiation of a rescue package.
- Because Chrysler's plants in the Detroit area are aged and inefficient, it is likely that some will be closed over the next decade or earlier, even if the rescue effort is successful.


G. William Miller

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

October 31, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: DAVID AARON 
SUBJECT: Iran Demonstrations

Thursday is a religious holiday in Tehran, and the authorities have called for a massive religious/political demonstration to protest U.S. policy and the presence of the Shah in the United States. Police in Tehran anticipate up to one million demonstrators. The program calls for public prayers and a rally in the working-class district in South Tehran, followed by a march into town. It appears that the rally and march will terminate at some distance from the U.S. Embassy, but the chances of demonstrations or an attack there are considerable.

We have reviewed contingency plans for protection of the embassy, and we are confident that the personnel at the Chancery building itself will be safe even in the event of a concerted attack. The security of the building has been greatly reinforced since February and is nearly impregnable short of a heavy weapons attack. The Iranian police have promised to provide security for the compound. Of possibly greater concern are American civilians in Tehran (about 700) at hotels and the like if mobs begin rioting. We will be monitoring the situation on a real-time basis from the State Department Operations Center throughout the night.

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

October 29, 1979

CONFIDENTIAL

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~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

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SUBJECT: Social Security Beneficiaries

Under economic forecasts prepared recently by private forecasters and by CEA, the Social Security Trust funds will face severe cash flow problems which threaten benefit payments in the early 1980's. Specifically:

- O Under the CEA's pessimistic set of assumptions, the OASI fund will have cash flow problems in 1981, and the combined funds will face cash flow problems in 1982 and will be exhausted in 1983. I believe it is appropriate to plan on the basis of pessimistic assumptions when managing a fiduciary program for 35 million beneficiaries.
- O Under the pessimistic assumptions, trust fund balances remain negative through most of the decade.
- O Even under the CEA's optimistic forecast, the OASI fund will have cash flow problems in 1982, and the combined OASI and DI trust funds will face cash flow problems in 1983. There is no way to avoid addressing the problem.

I met with the EPG on October 22 to review these developments and begin a joint planning process to prepare timely recommendations for you. I expect that as a result of that process this Department will have a thorough analysis and set of preliminary proposals ready for White House review in mid-November.

Patricia Roberts Harris
Patricia Roberts Harris

DETERMINED TO BE AN ADMINISTRATIVE
MARKING BY *Jas*

DATE *7/13/90*

1. I AM TODAY ANNOUNCING A PROGRAM WHICH WILL SIGNIFICANTLY ENHANCE
OUR NATION'S INDUSTRIAL INNOVATION CAPACITY
AND THEREBY HELP TO REVITALIZE OUR INDUSTRIAL BASE.
2. THIS PROGRAM
-- THE RESULT OF A THOROUGH, 18-MONTH STUDY AND OUT-REACH EFFORT
THAT I ORDERED UNDER THE DOMESTIC POLICY STAFF
AND THE DEPARTMENT OF COMMERCE --
3. REPRESENTS THE MOST WIDE-RANGING INITIATIVE EVER MADE
TO SPUR INNOVATION AND UNLEASH AMERICA'S CREATIVE GENIUS.

(=OVER=) (INDUSTRIAL INNOVATION,.....)

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for Preservation Purposes**

1. INDUSTRIAL INNOVATION

-- OR THE DEVELOPMENT AND COMMERCIALIZATION
OF NEW PRODUCTS AND NEW PROCESSES --

2. IS AN ESSENTIAL BUT INCREASINGLY OVERLOOKED ELEMENT
OF A STRONG AND GROWING AMERICAN ECONOMY.

3. IT HELPS ENSURE ECONOMIC VITALITY,

IMPROVED PRODUCTIVITY,

INTERNATIONAL COMPETITIVENESS,

JOB CREATION,

AND AN IMPROVED QUALITY OF LIFE

FOR EVERY AMERICAN.

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(=NEW CARD=) (FURTHER, INDUSTRIAL.....)

1. FURTHER, INDUSTRIAL INNOVATION IS NECESSARY

IF WE ARE TO SOLVE SOME OF THE NATION'S MOST PRESSING PROBLEMS:

2. RESTRAINING THE COST OF PRODUCTS AND THEREBY INFLATION;...

3. PROVIDING NEW ENERGY SUPPLIES AND BETTER CONSERVING EXISTING SUPPLIES;...

4. ENSURING ADEQUATE FOOD FOR THE WORLD'S POPULATION;...

5. PROTECTING OUR ENVIRONMENT AND NATURAL RESOURCES;...

6. AND IMPROVING HEALTH CARE FOR EVERY AMERICAN.

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7. OUR NATION'S HISTORY IS FILLED

WITH A RICH TRADITION OF INDUSTRIAL INNOVATION.

8. FOR OVER A CENTURY AMERICA HAS BEEN THE WORLD LEADER

IN DEVELOPING NEW PRODUCTS, NEW PROCESSES, NEW TECHNOLOGIES,
AND IN ENSURING THEIR WIDE DISSEMINATION AND USE.

(=OVER=) (WE ARE STILL.....)

1. WE ARE STILL THE WORLD'S LEADER.
2. BUT OUR PRODUCTS ARE MEETING GROWING COMPETITION FROM ABROAD.
3. MANY OF THE WORLD'S LEADING INDUSTRIAL COUNTRIES
ARE NOW ATTEMPTING TO DEVELOP COMPETITIVE ADVANTAGES
THROUGH THEIR OWN INNOVATION CAPABILITY.
4. THIS IS A CHALLENGE WE CAN NO LONGER AFFORD TO IGNORE.
5. TO RESPOND TO THIS CHALLENGE WE MUST INITIATE OUR OWN POLICIES
TO FOSTER THE NATION'S COMPETITIVE CAPABILITY
AND ENTREPRENEURIAL SPIRIT
IN THE DECADES AHEAD.

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(=NEW CARD=) (THE ACTIONS I AM.....)

1. THE ACTIONS I AM ANNOUNCING TODAY MEET THAT GOAL:
2. --THEY WILL LOOSEN SOME OF THE STIFLING RESTRAINTS
TO INDUSTRIAL INNOVATION IMPOSED BY GOVERNMENT.
3. --THEY REPRESENT A FIRST STEP
IN FORGING A NEW PUBLIC-PRIVATE PARTNERSHIP
WHICH WILL RALLY COOPERATIVE EFFORTS TO SPUR
OUR INDUSTRIAL GROWTH.
4. --THEY WILL ENHANCE OUR ECONOMIC POSITION
BY ENABLING AMERICA'S INDUSTRY TO DEVELOP AND MARKET
NEW PRODUCTS AND PROCESSES, BOTH HERE AND ABROAD.

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for Preservation Purposes (OVER) (THESE ACTIONS, . . .)

1. THESE ACTIONS, WHICH WILL BE DETAILED FOR YOU SHORTLY, INCLUDE:
2. +--THE DEVELOPMENT, FOR THE FIRST TIME IN OUR HISTORY,
OF A UNIFORM GOVERNMENT PATENT POLICY
THAT WILL FOSTER THE WIDEST USE OF THE RESULTS
OF GOVERNMENT-SUPPORTED RESEARCH.
3. --THE WIDE DISSEMINATION IN THIS COUNTRY
OF TECHNICAL INFORMATION DEVELOPED IN GOVERNMENT LABORATORIES,
IN OTHER INDUSTRIALIZED NATIONS
AND BURIED IN OUR OWN PATENT FILES.

PROTECT GOVT INT.

(=NEW CARD=) (PROGRAMS TO ENCOURAGE.....)
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- 1.--PROGRAMS TO ENCOURAGE THE COOPERATIVE DEVELOPMENT
OF VITALLY NEEDED TECHNOLOGIES NOW LARGELY IGNORED.
- 2.--THE ESTABLISHMENT OF TWO CORPORATIONS FOR INDUSTRIAL DEVELOPMENT
TO ASSIST SMALL BUSINESSES
-- A MAJOR TARGET OF OUR INNOVATION EFFORTS --
WITH THEIR START-UP PROBLEMS.
3. THESE ACTIONS, ALONG WITH THE OTHERS THAT ARE PART OF THIS PROGRAM,
WILL MAKE A MAJOR DIFFERENCE IN OUR NATION'S ABILITY
TO DEVELOP AND PURSUE INDUSTRIAL INNOVATION.

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(=OVER=) (BUT THEY WILL NOT.....)

1. BUT THEY WILL NOT ALONE SOLVE THIS PROBLEM,
WHICH HAS ARISEN OVER A PERIOD OF YEARS AND WILL TAKE SOME TIME
-- AND A SOUND ECONOMIC CLIMATE --
TO OVERCOME FULLY.

2. BUT TODAY'S ANNOUNCEMENT REPRESENTS AN IMPORTANT FIRST STEP
IN DEALING SPECIFICALLY WITH THE PROBLEM
OF INDUSTRIAL INNOVATION AND, MORE GENERALLY,
WITH SIMILAR TYPES OF ECONOMIC PROBLEMS
THAT WILL BE FACING OUR COUNTRY IN THE 1980's.

(=NEW CARD=) (WITH THE COOPERATION.....)

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1. WITH THE COOPERATION OF THE PRIVATE SECTOR AND THE CONGRESS
2. THESE PROBLEMS OF TODAY, WHICH ARE DIFFERENT IN MAJOR WAYS
FROM THOSE WE HAVE EXPERIENCED BEFORE,
CAN BE SOLVED.
3. I AM COMMITTED TO WORK TOWARD THEIR RESOLUTION.
4. SECRETARY JUANITA KREPS WILL NOW PROVIDE SOME ADDITIONAL WORDS
ABOUT THE PROGRAM.
5. THIS IS ONE OF HER LAST DAYS IN OFFICE,
AND I WANT TO TAKE THIS OPPORTUNITY TO COMMEND HER
FOR THE WORK SHE HAS DONE ON THIS PROJECT
AND FOR THE OUTSTANDING SERVICE SHE HAS GIVEN THE NATION
OVER THE PAST 34 MONTHS.

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President's Statement on InnovationElectrostatic Copy Made
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I am today announcing a program which will significantly enhance our nation's industrial innovation capacity and, thereby help to revitalize our industrial base. This program - the result of a thorough, 18-month study and out-reach effort that I ordered under the Domestic Policy Staff and the Department of Commerce - represents the most wide-ranging initiative ^{ever} [any Administration has] made to spur innovation and unleash America's creative genius.

Industrial innovation -- or the development and commercialization of new products and new processes -- is an essential, but increasingly overlooked, element of a strong and growing American economy. It helps ensure economic vitality, improved productivity, international competitiveness, job creation, and an improved quality of life for every American.

Further, industrial innovation is necessary if we are to solve some of the nation's most pressing problems -- restraining the cost of products and thereby inflation; providing new energy supplies and better conserving existing supplies; ensuring adequate food for the world's population; protecting our environment and natural resources; and improving health care for every American.

Our nation's history is filled with a rich tradition of industrial innovation. For over a century, America has been the world leader in developing new products, new processes, new technologies, and in ensuring their wide dissemination and use. We are still the world's

leader. But our products are meeting growing competition from abroad. Many of the world's leading industrial countries are now attempting to develop competitive advantages through their own innovation capability.

This is a challenge we can no longer afford to ignore. To respond to this challenge, we must initiate our own policies to foster the nation's competitive capability and entrepreneurial spirit in the decades ahead.

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The actions I am announcing today meet that goal:

- o They will loosen some of the stifling restraints to industrial innovation imposed by government.
- o They represent a first step in forging a new public-private partnership which will rally cooperative efforts to spur our industrial growth.
- o They will enhance our economic position by enabling America's industry to develop and market new products and processes, both here and abroad.

These actions, which will be detailed for you shortly, include:

- o The development - for the first time, in our history - of a uniform government patent policy that will foster the widest use of the results of government-supported research.
- o The wide dissemination, in this country, of technical information developed in government laboratories, in other industrialized nations and buried in our own patent files.

- o Programs to encourage the cooperative development of vitally needed technologies now largely ignored.
- o The establishment of two Corporations for Industrial Development to assist small businesses - a major target of our innovation efforts - with their start-up problems.

These actions, along with the others that are part of this program, will make a major difference in our nation's ability to develop and pursue industrial innovation. But they will not alone solve this problem, which has arisen over a period of years and will take some time - and a sound economic climate - to overcome fully.

But today's announcement represents an important first step in dealing specifically with the problem of industrial innovation and, more generally, with similar types of economic problems that will be facing our country in the 1980's.

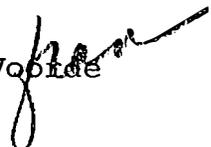
With the cooperation of the private sector and the Congress, ^I ~~know~~ these problems of today, ^{which} are different in major ways ^{to} from those we have experienced before, ^{and} can be solved, ~~and~~ I am committed to work toward their resolution.

Secretary Juanita ^{Kraus} will now provide some additional words about the program. This is one of her last days in office, and I want to take this opportunity to commend her for the work she has done on this project and for the outstanding service she has given the nation over the past 34 months.

THE WHITE HOUSE

WASHINGTON

Meeting with Dick Barker and Family
Wednesday, October 31, 1979
The Oval Office
(3 minutes)
11:25 a.m.

by: Fran Voorde 

I. PURPOSE: personal visit - photo opportunity

II. BACKGROUND, PARTICIPANTS, PRESS:

- A. Background: Dick Barker and his family are in Washington on business; the President invited him to stop by whenever he was in town.
- Dick provided the sailboat for the President's use while on vacation at the Grand Tetons in Wyoming - August 1978.
- B. Participants: The President
Dick Barker
Dick's wife, Barbara
Barbara's parents,
Paul and Shirley Huckin
- C. Press: White House photographer only.

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THE WHITE HOUSE
WASHINGTON

31 Oct 79

FOR THE RECORD:

EIZENSTAT AND MOORE RECIEVED
COPIES OF THE ATTACHED.
THE SIGNED ORIGINAL WAS
GIVEN TO EIZENSTAT FOR DELIVERY.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: FRANK MOORE
STU EIZENSTAT *Stu*

The cash side of the Welfare Reform proposals (H.R. 4904) is now expected to be on the House floor tomorrow. We strongly recommend that you send the attached letter to Speaker O'Neill for use in the debate. The bill has been reported to the floor with a closed rule. The first and most crucial vote will be on an effort led by conservative republicans to defeat the rule.

It would be very helpful if we were able to send this letter by this afternoon.

The attached text has been cleared by the Speechwriters.

THE WHITE HOUSE

WASHINGTON

October 31, 1979

Dear Mr. Speaker:

I strongly urge members of the House to support H.R. 4904, the Social Welfare Reform Amendments of 1979, when the legislation comes to the floor.

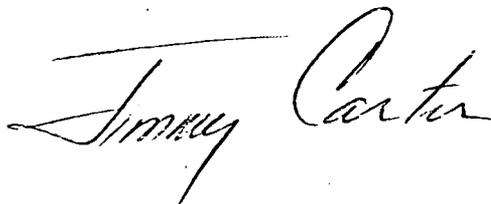
The legislation would be a major step toward the reform of this nation's welfare system for which we have all been working for over a decade.

- o It is strongly pro-family, providing help to two-parent families in every part of the nation.
- o It requires and rewards work, by expanding the earned income tax credit. Companion work legislation will expand the availability of jobs for those required to work.
- o It helps the elderly, by providing cash instead of food stamps to SSI recipients.
- o It will substantially reduce fraud, error and abuse.
- o It provides for fiscal relief to state and local taxpayers.
- o And it provides, at long last, for a national minimum benefit level that will help two million of the very poorest Americans who now live far below the poverty level.

Even in a period of austerity and fiscal stringency, our nation can and must afford basic justice to its most needy citizens. We must do what we can as soon as we can.

I urge the House to support the Rules Committee's modified closed rule and I look forward to favorable House action on the bill as reported by the Ways and Means Committee.

Sincerely,

A handwritten signature in cursive script that reads "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

THE WHITE HOUSE

WASHINGTON

31 Oct 79

Frank Moore /DANTATE

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

Rick Hutcheson

FOR STAFFING
FOR INFORMATION
<input checked="" type="checkbox"/> FROM PRESIDENT'S OUTBOX
LOG IN/TO PRESIDENT TODAY
IMMEDIATE TURNAROUND
NO DEADLINE
FOR APPROPRIATE HANDLING
LAST DAY FOR ACTION

ADMIN CONFID
CONFIDENTIAL
SECRET
EYES ONLY

ACTION
FYI

	VICE PRESIDENT
	JORDAN
	CUTLER
	DONOVAN
	EIZENSTAT
	MCDONALD
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	POWELL
	WATSON
	WEDDINGTON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	ANDRUS
	ASKEW
	BERGLAND
	BROWN
	CIVILETTI
	DUNCAN
	GOLDSCHMID'T
	HARRIS
	KREPS
	LANDRIEU
	MARSHALL

	MILLER
	VANCE
	BUTLER
	CAMPBELL
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	FRANCIS
	HARDEN
	HERTZBERG
	HUTCHESON
	KAHN
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PRESS
	SANDERS
	SPETH
	STRAUSS
	TORRES
	VOORDE
	WISE

*Dan - I had
agree - I had loop for
the call - I had loop for
me to acknowledge
error - He seems
to be ok
J*

THE WHITE HOUSE
WASHINGTON

*To: The President
F. G. I.*

MEMORANDUM FOR FRANK MOORE

FROM: DAN TATE

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In my judgment, there is only one way for us not to get a strong windfall profits tax, and that is for us to blow it.

The President's remarks yesterday came close to attacking the Finance Committee and the Chairman. Putting the matter in historical perspective, the bill reported by the Committee was not all that bad. Usually, the Committee butchers legislation to impose taxes on anyone.

We can blow our chances by attacking the Chairman. We must contain our rhetoric.

Secondly, we must be sure that every statement we make can withstand the closest scrutiny. The President's claim yesterday about the bill possibly becoming a trillion dollar giveaway is being questioned in the press and in the Senate. If it is discredited, then we have suffered a major psychological setback because opponents could claim that we do not know what we are talking about.

Both of the above points are fundamental to our getting a good tax. Any help you can give in talking to the right people would be greatly appreciated.

8:00 AM

THE WHITE HOUSE

WASHINGTON

October 30, 1979

C
/

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*
SUBJECT: Domestic Policy Breakfast
October 31, 1979
8:00 a.m.
Cabinet Room

The following persons will be present at this breakfast meeting:

Bob Bergland
Patricia Harris
Moon Landrieu
Ray Marshall
Neil Goldschmidt
Jim McIntyre
Hamilton Jordan
Stu Eizenstat

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The Vice President will be out of town and I will be in southern Illinois attending a fundraising event.

There are three items I believe are important for the agenda -- grants and their announcements, aid to Chrysler, and the FY 1981 Budget.

Grants/Announcements

At the last Domestic Policy Breakfast meeting, Pat Harris suggested that the White House "stay out" of the Brooklyn Jewish Hospital's financial crisis. An agreement has been reached between the State of New York and HEW on an interim solution which keeps the hospital open until a longer-range solution is developed.

HEW and the State announced the agreement with no credit being given to Congressman Fred Richmond and Charles Rangel (who helped lobby this behind the scenes) or the Administration. (A copy of the announcement is attached with references to HEW and New York circled. There is no reference to you or the Congressional delegation.)

You should mention to Pat that you have promised Fred Richmond a personal announcement of the final grant award. You should ask her to coordinate it with me.

This would also be a good time to mention to the Secretaries that responsibility for coordinating grant announcements will be switched from Frank Moore's office to mine. They should await White House notification, but be ready to respond as quickly as possible.

Chrysler

The decision memorandum on aid to Chrysler raises basic political and policy issues. Without discussing the substantive options, this breakfast meeting is a good opportunity to discuss the overall policy/political questions.

As you know, this issue affects many cities where there are plants and suppliers, not just Detroit.

Whatever the outcome of your decision, there should be coordination among agencies and within the White House on how it is announced. You should designate a single office in the White House to coordinate the overall announcement.

Budget Overview

This afternoon you will have your first FY 1981 budget overview meeting. While there are many specific decisions to be made the overall issue for FY 1981 is a common government-wide approach to constructing the budget which will be your last before the election. I suggest the tension between constituent demands, a balanced budget goal and the economic assumptions for the coming year be frankly discussed at the breakfast. The domestic agency Cabinet members will be critically important to gaining support among Democratic groups for the difficult decisions you will have to make over the next 60 - 90 days.

cc: Hamilton Jordan

Attachment

THE WHITE HOUSE
WASHINGTON

October 30, 1979

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**Electrostatic Copy Made
for Preservation Purposes**

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT *Stu*

SUBJECT: Answers to Your Questions on
Domestic Policy Staff Status Report

1) \$1,000 Money Market Certificates

You requested further information about the feasibility of reducing minimum denominations on money market certificates (MMC's) offered by banks and savings institutions from \$10,000 to \$1,000. We are supporting language in the Senate Regulation Q phaseout bill requiring the regulators to take this step in two years. Despite our public support, I share Treasury's doubts about the substantive merit of giving the regulators a statutory directive to take action that may or may not be appropriate two years from now. However, the provision is extremely controversial and will almost certainly be eliminated before final passage. Our objective is to keep it alive as long as possible to strengthen our bargaining position on Regulation Q in conference.

The regulators have existing authority to lower MMC's to \$1,000 or any other amount. However, I share the view of Treasury and the regulators that lowering the minimum denomination would be impractical at this time, for several reasons:

o Since many depositors would transfer funds from lower yield accounts to \$1,000 market rate certificates, the introduction of this new instrument would significantly raise the average cost of funds for savings institutions. Such cost increases would threaten the viability of many institutions. We already anticipate that the Bank Board and FDIC will have to take special protective actions with several hundred institutions to preserve their solvency in 1980.

o The \$1,000 certificate would reduce the availability of mortgage funds and dampen housing starts, which the Bank Board predicts will drop to 1.3 million units on an annualized basis during the second and third quarters of next year. Banks are better structured than savings institutions to relend high-cost deposits at a profit, and thus banks would aggressively seek and obtain the lion's share of these deposits. This would siphon funds out of savings associations and the housing sector and into commercial banks.

- o Housing constituencies reacted sharply to the Reserve Board's October 6 actions. They would vigorously oppose any further steps resulting in a decrease in the availability of mortgage credit.

As you know, mutual funds offer fair market rates on \$1,000 investments. Investments in these funds have jumped from \$8 billion to \$35 billion already this year, and are expected to reach \$50 billion by yearend. These funds offer greater liquidity and yield than the \$10,000 MMC, but unlike the MMC, they are not federally insured.

2) McFadden Act Study

You questioned whether your November report to Congress on the McFadden Act will be pro-competitive. We will give you an options paper as soon as we receive final agency recommendations. However, Treasury and DPS believe our report should:

- o Indicate that the McFadden Act restrictions on bank branching reduce competition in certain markets, and are being eroded by market forces and regulatory exceptions.

- o Suggest a phased liberalization of the existing restraints.

- o Make some modest legislative recommendations but avoid seeking legislation on the core structural issues. A major deregulation package would be opposed by all but the largest banks and would face certain defeat in 1980. Consequently, we believe our report should serve as a vehicle for discussion within the Congress and the industry as to what sort of restructuring might be sought in 1981 or thereafter.

THE WHITE HOUSE

WASHINGTON

31 Oct 79

Stu Eizenstat
Frank Moore

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

Rick Hutcheson

THE WHITE HOUSE

WASHINGTON

October 30, 1979

1

MEMORANDUM FOR

THE PRESIDENT

Electrostatic Copy Made
for Preservation Purposes

FROM:

STU EIZENSTAT *Stu*
SIMON LAZARUS *Si*

SUBJECT:

Status of Legislative Veto
Proposals

After receiving our most recent weekly report, you asked for information about the status of legislative veto initiatives on the Hill. This memo will bring you up to date on that issue.

FTC Authorization

Of the several bills with legislative veto provisions before the Congress, two present the most likely prospect of visible conflict over the issue. The first involves the authorization legislation for the Federal Trade Commission. As you know, last year the House and the Senate reached an impasse over the question of whether to attach a one-House veto provision to the Commission's authorization bill. This year, anti-FTC sentiment has increased in both Houses. Efforts in the House Appropriations Committee to deny funding for several controversial FTC rule-making projects resulted in adoption by both Houses of a compromise continuing resolution under which the Commission would be funded through mid-November, on condition that no new rule makings would be initiated and no current proposed rule would be made final during that period. The House Interstate and Foreign Commerce Committee has reported an authorization bill, which imposes on the FTC both a modified one-House veto provision and various regulatory management reforms which parallel Executive Order 12044 and the Administration's regulatory reform legislation. The authorization bill is expected to pass the House overwhelmingly, as it did last year, sometime in early November. Floor fights may occur over amendments to bar the Commission from issuing certain pending proposed rules.

In the Senate, the authorization legislation is technically on the calendar and ready for action, and contains no legislative veto provision. However, Senator Ford, sponsor of the bill, has felt obliged to develop regulatory reform amendments for the bill, in order to hold a Senate majority in opposition to adding legislative veto. Whether he will succeed is now an open question. Senator McGovern and other

liberals may shift this year in response to heavy business lobbying. If Ford wins, another House-Senate confrontation will occur in the conference.

Both the Senate and the House are expected to vote on the authorization bills during November (though there have been some indications that anti-FTC Senators may seek to filibuster the bill past November 30, to permit the continuing resolution to lapse and the agency to go unfunded).

Generic Legislative Veto Legislation

The second major legislative veto item before Congress is the generic proposal to impose legislative veto procedures on substantially all Executive Branch and independent agency regulations. The key bills are S. 104 in the Senate, sponsored mainly by Senator Schmitt, and H.R. 1776 in the House, sponsored by Elliott Levitas. Both these bills propose in essence a kind of one-and-one-half House veto. Under their provisions, if one House vetoes a regulation, the regulation would nevertheless take effect if the other House votes in favor of it within 30 days.

Efforts will be made in both Houses to attach these generic legislative veto provisions to either the Administration's regulatory reform bill or another suitable vehicle. Right now, as you know, in the Senate, the regulatory reform legislation is before Senator Culver's Administrative Practices Subcommittee of Judiciary. A markup is expected there during November. According to current plans, a version of S. 104 will be brought up as an amendment to the overall package. It is expected to fail in Subcommittee. In the full committee, however, the issue will be close. In the Governmental Affairs Committee, to which the regulatory reform legislation was jointly referred, legislative veto is expected to be defeated fairly handily - though it has some significant proponents on that Committee, including Senators Nunn and Levin. In general prospects are now fairly good for keeping a generic legislative veto off the Administration's bill in the Senate.

In the House, Congressman Levitas has said that he intends to attach legislative veto to the Administration bill (in other respects he has been supportive of our legislation). However, another potential vehicle could reach the House floor before the Administration bill. This is H.R. 4660, a small business regulatory reform bill sponsored by Congressman Russo and a large number of other members recently reported by the Small Business Committee.

Administration Activity

With Frank's staff, Esther's staff, OMB, the Regulatory Council, and the Commission staff, we are working to line up votes in support of Senator Ford's position for the FTC authorization bill in the Senate. We will continue to work toward this objective, and to urge the Senate, if it defeats the veto on the floor, to hold firm in conference. Nevertheless, the fact must be faced that you are likely to be presented with a choice between vetoing the FTC authorization bill, or signing it with a strong statement attacking its legislative veto provision.

With respect to the threat of a generic legislative veto amendment to the regulatory reform legislation we are working to defeat such a proposal in the Senate committees which may mark up these bills before the end of the session. We expect to succeed. In the House, no hearings have yet been held on the regulatory reform bills, so it is premature to map a strategy for countering Congressman Levitas on the House floor. We are beginning to work with Congressman Danielson and the Speaker's staff on the possible problems raised by the small business regulatory reform bill.

*Vetoes are a
real possibility
J*

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THE WHITE HOUSE
WASHINGTON

31 Oct 79

Doug Costle

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

Rick Hutcheson

The signed original has been
given to Bob Linder for
appropriate handling.

cc: Bob Linder

4706

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

cc Costello

ACTION
FYI

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EYES ONLY

VICE PRESIDENT
JORDAN
CUTLER
DONOVAN
EIZENSTAT
MCDONALD
MOORE
POWELL
WATSON
WEDDINGTON
WEXLER
BRZEZINSKI
MCINTYRE
SCHULTZE
ANDRUS
ASKEW
BERGLAND
BROWN
CIVILETTI
DUNCAN
GOLDSCHMIDT
HARRIS
KREPS
LANDRIEU
MARSHALL

MILLER
VANCE
BUTLER
CAMPBELL
H. CARTER
CLOUGH
CRUIKSHANK
FIRST LADY
FRANCIS
HARDEN
HERTZBERG
HUTCHESON
KAHN
LINDER
MARTIN
MILLER
MOE
PETERSON
PRESS
SANDERS
SPETH
STRAUSS
TORRES
VOORDE
WISE



THE REGULATORY COUNCIL
Washington, D.C. 20460

①

OCT 23 1979

CHAIRMAN
Douglas M. Costle

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for Preservation Purposes**

MEMORANDUM FOR: THE PRESIDENT

SUBJECT: The Small Business Administration's
Membership on The Regulatory Council

We have received a request from A. Vernon Weaver to admit the Small Business Administration (SBA) to membership on the Regulatory Council. Although SBA is not a regulatory agency, there are several reasons for admitting it:

- o The SBA Office of Advocacy has been very active in pursuing various regulatory reform projects.
- o One of the options to enhance small business interests being presented to the regional conferences of the White House Conference on Small Business is SBA's membership in the Regulatory Council.
- o Admitting SBA would be another visible signal of your concern for the special problems that regulation creates for small businesses.
- o The Council should welcome the participation of any agency that is interested in and can contribute to regulatory reform.

Because the Council was established by your memorandum, only you may add to or otherwise change the membership.

THE WHITE HOUSE

WASHINGTON

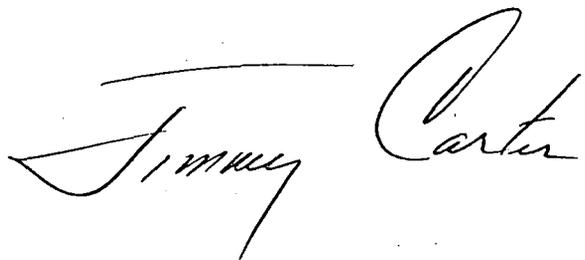
MEMORANDUM FOR A. VERNON WEAVER

SUBJECT: The Small Business Administration's (SBA)
Membership on The Regulatory Council

When I established the Regulatory Council last year I directed that it be the focal point of efforts to assess the cumulative impact of regulation and to coordinate Federal regulatory activity. I hope that many of the improvements in government regulations that the Council is instituting will be of direct benefit to our nation's small businesses.

Government regulation sometimes poses special problems for small business. The Small Business Administration has done a great deal to make us aware of these problems and has worked closely with regulatory agencies to resolve them. This is an appropriate time to acknowledge formally the importance of the Small Business Administration's role in the Administration's regulatory reform effort by including SBA as a Council member.

I am pleased to grant your request for membership and I look forward to SBA's participation in the work of the Regulatory Council.

X


THE WHITE HOUSE
WASHINGTON

31 Oct 79

Frank Moore

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

Rick Hutcheson

The Vice President
Hamilton Jordan
Stu Eizenstat
Jack Watson
Al McDonald

4808

	FOR STAFFING
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	FOR APPROPRIATE HANDLING
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/	MOORE
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/	WATSON
	WEDDINGTON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	ANDRUS
	ASKEW
	BERGLAND
	BROWN
	CIVILETTI
	DUNCAN
	GOLDSCHMIDT
	HARRIS
	KREPS
	LANDRIEU
	MARSHALL

	MILLER
	VANCE
	BUTLER
	CAMPBELL
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	FRANCIS
	HARDEN
	HERTZBERG
	HUTCHESON
	KAHN
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PRESS
	SANDERS
	SPETH
	STRAUSS
	TORRES
	VOORDE
	WISE

THE WHITE HOUSE
WASHINGTON

October 27, 1979

C
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ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

SUBJECT: Weekly Legislative Report

**Electrostatic Copy Made
for Preservation Purposes**

I. DOMESTIC POLICY ISSUES

1. Energy

Windfall Profits Tax

The two most significant actions taken by the Senate Finance Committee last week were:

1. Adoption of a modified Roth proposal to set aside a "Taxpayers Trust Fund" account in the windfall trust fund to pay for a possible one year social security tax freeze. The amendment leaves the specifics of how the monies would be allocated to later Senate action.
2. Rejection of a Dole amendment under which tier one oil would be released to tier two at a rate of 2% instead of 1-1/2%. The amendment would have resulted in a \$1.6 billion revenue loss over the 10 year period.

As reported last week the Committee changed its assumptions about the price of oil thereby substantially increasing the revenues in the bill. Switching from \$22 oil rising at 2% over the inflation rate, the Committee now assumes \$30 oil rising at 2%.

The Committee bill raises \$142 billion instead of \$77 billion. The House bill would raise \$273 billion instead of \$184 billion and the Administration version raises \$292 billion instead of \$273 billion.

Based on the new assumptions, the total revenues resulting from decontrol under the Finance Committee bill amount to \$1.1 trillion from 1979-90. From that amount \$388 billion goes to the Federal Government in the form of increased corporate taxes, \$142 billion is paid in windfall tax (assuming the Committee bill), \$177 billion is paid in state and local taxes and \$21 billion is paid in royalties. This leaves \$374 billion to the oil industry.

It will take the committee staff about 10 days to put together the report language and the bill.

Energy Mobilization Board

EMB legislation in the House is proceeding much better than we had expected. Both Udall and Dingell are struggling to get their proposals as close to ours as possible so as to get your support. With the latest adjustments to the Udall bill, it is now apparent that if either bill passes we could claim victory.

Jim Free was successful in getting Congressman Eckhardt to offer an amendment to Dingell, which would make that bill virtually identical to the Senate-passed measure. We support the Dingell bill with the Eckhardt amendment.

The rule is a good one. It allows an early vote on the Eckhardt amendment. We are well-positioned for House floor action on Tuesday.

Utility Oil Backout

A meeting between Deputy Secretary Sawhill, Mike Galeta of the Coal Commission, staff of the coal state senators, and staff of the Energy Committee occurred Friday. Discussion focused on general progress made towards a backout bill and some specific problems facing it. Legislative and regulatory improvements which would speed coal conversion under the framework of existing law were also discussed. The Senate staff seemed satisfied with DOE efforts toward coal conversion thus far. Sawhill promised to consult with the Congress on needed improvements and to consult before the backout bill is transmitted.

Low Income Energy Assistance

House Action

On Thursday, the House adopted a \$1.35 billion appropriation for low income energy assistance 290-105. The House action essentially ratified the full Appropriations Committee action with one important exception--an amendment by Congressman Panetta of California was adopted to make the appropriation refundable from the windfall profits tax.

The legislation tracks the Administration's proposal very closely except for the formula which would tilt funds away from warmer States to colder States. Major provisions are:

- o \$150 million to CSA for crisis assistance;
- o \$400 million to be distributed by HEW as cash payments to SSI recipients; and,

- o \$900 million to be distributed as cash payments to AFDC recipients, or upon State option, allocated to the State for use according to an HEW approval plan.

Senate Finance Committee

The Senate Finance Committee completed action yesterday on its version of the low income and lower middle income assistance bill for the out-years rather than for this winter. The provisions are:

- o \$3 billion per year for low income assistance to be funded from WPT proceeds
- o \$2 billion per year in tax credits for lower middle income assistance financed by WPT

Upcoming Action

Both the Senate and House have now passed low income energy assistance legislation for this winter's program; the Senate as an amendment to the Interior Appropriations bill (the Javits amendment), and the House as a Joint Resolution. Since the two cannot be joined in conference, one vehicle must prevail. At the present time, our inclination is to work with the Interior Appropriations Conference thereby avoiding a Senate floor fight on the formula. Senator Byrd (Chairman of the conference) and Senator Magnuson have expressed a strong preference for this route. The conference is scheduled to begin next week.

Dan Tate will approach Senator Byrd about incorporating the House passed language, which is acceptable to us, in his bill.

Energy Security Corporation

Senate

The Energy Coordinating Council made the following decisions on Friday:

1. Conservation -- The Administration will not oppose the conservation grants on the floor, but will work to have this approach removed in conference. We will support efforts to lower the \$40,000 income ceiling for loan eligibility on the floor. Senator Johnston has indicated he, too, will support lowering the ceiling; and, in addition, will work for a "house doctor" program.
2. GoCos -- a statement on GoCo's has been drafted which indicates your willingness to support an amendment that (1) removes authority from the Corporation for either gogo or goco plants; (2) would require the Corporation

to secure from Congress a specific authorization and appropriation for any corporation-owned plants; and (3) would clearly indicate that the Corporation would seek such an authorization or appropriation only as a last resort and would submit to the Congress a report to that effect.

Senator Jackson is aware of the Administration's position and understands its motivation. Senator Metzenbaum, on the other hand, deplores the Administration stand, and has vowed to fight it.

2. Second Budget Resolution

The conference was reconstituted this week as required by House parliamentary procedure. There was no significant action. House staff is optimistic that the conferees will be able to reach agreement next week on all the money issues. They may take the reconciliation principle back to their respective Houses in disagreement.

3. Appropriations

Schedule

Monday Joint meeting (Senate Appropriations Military Construction Subcommittee and Armed Services Military Construction and Stockpiles Subcommittee) to review the \$57 million supplemental request for MX testing

Tuesday Senate Appropriations HUD Subcommittee hearing on the space shuttle

Thursday Senate Appropriations Military Construction Subcommittee markup

Significant action last week:

Defense

The full Senate Appropriations Committee has completed all major action. Senate floor action has not been scheduled.

(in millions of dollars)

	<u>Budget Authority</u>	
	<u>House</u>	<u>Senate Committee</u>
Request considered.....	132,341	132,341
Policy changes.....	-2,367	-245
Operations and maintenance.....	(-1,679)	(-695)
Military personnel.....	(-386)	(-246)
Research and development.....	(-211)	(-176)
Procurement.....	(-90)	(+874)
Other funding.....	(-1)	(-2)
Congressional level.....	<u>129,974</u>	<u>132,096</u>

The recommended increase in Defense procurement includes \$809.6 billion for two SSN-688 Class nuclear submarines. We requested, and the House provided, \$461 billion to buy one submarine at this time and to provide only limited initial funding for a second.

The Committee bill also includes:

- o \$127 million for the purchase of 144 MX48 torpedoes, which were not requested;
- o \$104 million for three of the five requested T-AGOS SURTASS ships;
- o \$95 million for the procurement of 43 requested tactical fire direction (TACFIRE) systems. The House had provided no funds for the last two items and \$57.4 million for the MX48.

The bill reflects agreement with the House addition of \$2.1 billion for a CVN nuclear aircraft carrier. This action results in an increase of \$500 million to the budget. Several Committee members voiced objection to the commitment of such a large sum to one system, although they favored a nuclear carrier over the conventional one. Senator Bumpers said he may propose a floor amendment to delete funding for the carrier.

The Committee estimates that its recommendations will hold real growth in operations and maintenance to 1-2%, while the House version would allow no real growth in this area.

During Committee action, a Hatfield amendment to delete the requested \$670 million for MX missile R&D and to substitute \$20 million for underwater Minuteman R&D was defeated by a vote of 9 to 18.

The Committee agreed to delete House language relating to the use of Defense funds for abortions.

4. Endangered Species

The Endangered Species Reauthorization passed the House last week with the compromise language the Administration worked out with Breaux. Environmental groups and others seem to be satisfied. We hope to reconcile the remaining matters in conference.

5. Alaska Lands

The Senate Energy Committee is expected to report the Alaska Lands Bill by the middle of this week. Senators Tsongas and Stevens have reached agreement in principle regarding the U.S. Borax molybdenum mine (one of the most controversial issues remaining in the bill).

6. Hospital Cost Containment

The HCC bill probably will be on the House floor shortly after the November 6 recess. Our present count shows 165 for or leaning for and 66 undecided. The major snag at this point is the opposition of veterans groups to the bill. An amendment that would place all federal hospitals under the provisions of HCC was attached to the bill by our opponents during markup. We expect the amendment will be dropped on the floor. Nevertheless, the VFW and others are now opposing the entire bill.

7. Welfare Reform

Welfare Reform is scheduled for House action this week. Under the rule, a single amendment, allowing persons over 65 and living alone to receive cash instead of food stamps, will be permitted.

8. Sugar Bill

Despite strong support by Representatives Foley and Ullman, the House Tuesday defeated the sugar price support bill (249-158). A coalition of consumer-oriented liberals, fiscal conservatives and labor worked to defeat the bill.

Among other provisions that died along with the main legislation was a section implementing the International Sugar Agreement. Representative Vanik says he soon will introduce a new bill dealing only with the International Sugar Agreement. He and other members have indicated strong interest in meeting with the Administration this week to resolve the International Sugar Agreement question.

9. Chrysler

The House and Senate Banking Committees have held preliminary hearings on the Chrysler situation.

The House Banking Subcommittee probably will approve assistance -- perhaps even more than \$1 billion. The likely outcome in the House is uncertain. The Senate is almost certain to pass some sort of assistance bill.

Treasury reports increasing concern about the timing and nature of the Administration proposal. Staff of the House Banking Subcommittee are thinking about going ahead with a markup in advance of receiving our proposal. Staff of the Senate Democratic Policy Committee are anxious, as are Senate and House members from Michigan. Most members appreciate our concern that the matter be handled responsibly and that reasonable standards be met before aid is offered; however many who are sympathetic with Chrysler's predicament would like to act this session and are worried that time is running out.

10. Fair Housing

The House Judiciary Committee started markup of the bill last Tuesday. Work was stopped when it became clear that the Committee Republicans had all lined up in support of the Sensenbrenner amendment to gut the enforcement process.

Civil Rights leaders met with Don Edwards, and representatives from DPS, WHCL, HUD and Justice on Friday to discuss possible compromises. No agreement was reached; instead Civil Rights groups are contacting McClory and Railsback over the weekend in an effort to bring them around. If they're successful markup will resume on Tuesday.

II. FOREIGN POLICY ISSUES

1. SALT

Markup of the SALT Treaty continued last week and we still have hope that it will be concluded this week. All "killer" amendments have been defeated thus far. We have also been successful in discouraging many category 3 (items which must be submitted and agreed to by the Soviets) proposals. The Committee met in executive session Thursday to discuss several verification issues including pre-notification of all Soviet ICMB missile tests, an absolute ban on telemetry encryption and on-site inspection. Attempts to place these proposals in category 3 were defeated.

Next week the SFRC will consider the Protocol, the Backfire assurances, SALT III, Cuba and miscellaneous issues. A number of reservations are already pending on these items and more can be expected.

Senator Robert Byrd's announcement of support for SALT without amendments might trigger announcements by other Senators pro and con. In any case, he will now be able to lead the battle with gloves off.

Byrd also announced that the Senate would consider all the energy bills before taking up SALT. This may well delay consideration of SALT until after Thanksgiving.

At this stage neither supporters nor opponents have the votes they need. Acknowledging this, Byrd said he would try to schedule a vote before Christmas whether or not he could count 67 votes in the aye column. He feels, as do we, that the only way to achieve that goal is to make Senators face up to their votes.

2. Foreign Aid Appropriations Bill

The conference committee on the foreign aid appropriations bill is scheduled to meet Tuesday. Administration spokesmen have met with Senator Inouye and House conferees to review the differences between the two bills. The major point of disagreement in conference will be the indirect aid restrictions contained in the House bill but eliminated from the Senate version. Inouye has said that the Senate cannot accept these restrictions and Representative Long is equally adamant that the House will not back down.

Congressman Obey has suggested that the conference make this issue the first order of business, considering the issue simultaneously with funding levels for the multilateral development banks (MDB's). This suggests a possible trade-off between MDB funding levels (where the Senate bill is higher) and the House restrictions.

While we are sticking to our position that indirect restrictions are unacceptable, our House supporters are floating proposals, with an eye on floor passage of the conference report, which might prematurely compromise our approach. One would cut \$20 million from our IDA IV contribution -- the amount of their assistance to Vietnam -- as a signal of the House's determination. Vietnam is clearly the target of the proponents of restrictive language. There is a move afoot to remove restrictions on Cambodia so relief efforts will not be hindered. We are not encouraging any retreat from our maximum position.

The outlook for the security assistance programs is good. The difference between House and Senate levels for grant military aid (MAP) is small and we hope that the conferees will do better than splitting the difference between House and Senate levels for military education and training (IMET). For foreign military credit sales (FMS), the differences are greater and we may take a cut from the higher Senate level.

Overall, the Senate bill exceeds the authorized budget ceiling by \$457 million in budget authority and \$90 million in outlays. Efforts will be made, therefore, to cut the bill back to conform to the budget ceiling. If substantial cuts are made in some accounts, such as the Eximbank appropriation where the Senate greatly exceeded the Administration's request, there may be room to accommodate the Central American supplemental request.

3. Kampuchean Relief

Your announcement on October 24 outlining a program for assistance to Kampuchea was well received on the Hill. Congressional concern about the mounting tragedy in that country is increasing. Everywhere on the Hill voices are being heard suggesting that the United States do more -- and quickly. Senator Kennedy's suggestion of an airlift was nicely put down as a bad idea by Senators Baucus, Danforth and Sasser, who are promoting the "land bridge" concept. The following are the more modest efforts which will be before the Congress in the next week:

- o The House Foreign Affairs Committee approved an authorization for \$30 million for Cambodian relief which was appended to the Indochinese Refugee Authorization bill. Both passed the House overwhelmingly on Thursday.

- o The Senate Foreign Relations Committee included in its \$207 million Indochinese Refugee Authorization a McGovern Amendment which would allow reprogramming of up to \$30 million in foreign assistance funds for Kampuchea.

- o The House Appropriations Committee is considering seeking a rule which would permit adding new money in the foreign aid conference for Kampuchean relief.

o Agriculture Appropriations conferees have agreed to consider your request to increase the Public Law 480 appropriation by \$148 million. Of this amount, \$20 million from the Food for Peace program will be made available for Kampuchean relief.

4. Central America Package

The \$80 million Central America supplemental will soon start on its path through the legislative process. We have already begun widespread informal consultations on the package. The biggest question mark is whether there will be sufficient authority in the foreign affairs category of the congressional budget to accommodate the supplemental after the Foreign Assistance Appropriations bill is finalized. If we are close to the budget mark, a delay may be likely.

Our samplings indicate that Congressional opposition to aid to Nicaragua may have softened in recent weeks; but we still anticipate that a major selling job will be necessary. Our objective is to get action on authorization and appropriations bills before the Christmas recess, but this may be difficult under the best of circumstances. We will be conferring in the next few days with the involved committees to urge early hearings and prompt action.

5. Morocco Arms Sales and Western Sahara Negotiations

After your decision to sell military equipment to Morocco and to link such sales to progress on negotiations on the Western Sahara issues, key Congressional leaders were informed last Monday and Tuesday. Two issues have emerged: (1) whether, at the time of notification of the sales of OV-10 and Cobra/TOW to the Congress, we will be in a position to state that serious negotiations are anticipated; and (2) whether we are planning on immediate delivery of the equipment or whether delivery might be stretched out depending on the diplomatic situation. If we are able to address these issues in a manner which will be persuasive to key Congressional opinion-makers, such as Lee Hamilton, we will have gone most of the way in preventing what could be a bruising battle. <

6. China Trade Agreement Hearings Set

The State Department has been contacted by both the Vanik Trade Subcommittee and the Senate Finance Committee requesting hearings on the Trade Agreement before those Committees on November 1 and 6 respectively. We anticipate that the major focus on those hearings will be on our plans for Soviet MFN and the nature of the emigration assurances which we have received from the PRC. Although both Committees, for a variety of reasons, have been willing to move quickly in scheduling hearings, we have several indications from

Vanik's staff that he may let the prescribed clock (45 legislative days for hearings, 15 for floor action) run its course, thus pushing the vote into the next session. If this happens, the Senate may also be unwilling to vote. We therefore cannot predict at this time whether we will have final action this year.

7. Refugee Legislation

The House Judiciary and Foreign Affairs Committees appear to have resolved their jurisdictional dispute over aspects of the Administration's comprehensive refugee legislation. In return for HFAC retreat from its insistence on sequential referral of the bill, Judiciary has agreed to entertain floor amendments to restore provisions omitted in the Judiciary markup and some other amendments of special concern to Dante Fascell. The Judiciary Committee will now file its report and move the bill to the House floor, perhaps by early November. Differences between the Senate-passed version and the House bill should be easily and quickly resolved in conference, thus making it possible to think about final enactment of this major reform of the Immigration law before the December 15 expiration of the Attorney General's parole program for refugees from Indochina and Eastern Europe.

III. MISCELLANEOUS

Giaimo is considering whether to legislate a Jim Jones proposed spending limit based on a percentage of GNP.

House Schedule for Week of October 29Monday

HR 5262 Navajo-Hopi Relocation Act
 HR 2742 Indiana Dunes
 HR 4308 Legionville, Pa., National Historic Site
 HR 2583 Annuity Payments to Judges
 HR 24 General Accounting Office Act of 1979
 HR 2196 Congressional Award Act
 HR 5192 Education Amendments of 1980
 HR 4167 Milk Price Support Act

Tuesday

HR 5505 Miscellaneous Changes in Internal Revenue Code
 HR 5461 Martin Luther King Birthday Bill
 HR 5472 Passenger Ship Industry Revitalization Bill
 HR 3343 D.C. Civil Rights Suits
 HR 5537 Extend Treasury Borrowing Authority for D.C.
 HR 5645 Land Title Rights for Little Sisters of the Poor
 HR 4546 D.C. Redevelopment Act Amendments
 HR 4985 Priority Energy Project Act of 1979

Wednesday, Thursday, Friday

HR 4985 Priority Energy Project Act of 1979
 HR 4904 Welfare Reform Amendments of 1979
 HR 2313 Federal Trade Commission Authorization
 HR 5192 Education Act Amendments of 1980
 HR 4007 Repayment of Loans Made to State Unemployment Funds
 HR 3398 Agriculture Adjustment Act of 1979
 HR 4167 Milk Price Support Act
 HR 2727 Meat Import Act of 1979
 HR 2603 National Security Applications of Nuclear Energy
 Authorizations, FY '80
 HR 3948 Experienced Pilots Act of 1979
 HJ Res. 341 Milwaukee Railroad Service Continuation

THE WHITE HOUSE
WASHINGTON
31 Oct 79

Jack Watson
Arnie Miller

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

Rick Hutcheson

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	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	ANDRUS
	ASKEW
	BERGLAND
	BROWN
	CIVILETTI
	DUNCAN
	GOLDSCHMIDT
	HARRIS
	KREPS
	LANDRIEU
	MARSHALL

	MILLER
	VANCE
	BUTLER
	CAMPBELL
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
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	MOE
	PETERSON
	PRESS
	SANDERS
	SPETH
	STRAUSS
	TORRES
	VOORDE
	WISE

THE WHITE HOUSE
WASHINGTON

October 29, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*
ARNIE MILLER *AMM*

SUBJECT: Betty Jo Christian, Reappointment to the
Interstate Commerce Commission
Office Telephone Number (202) 275-7541

done
J
"Will seriously
consider staying -
not for full
term
J

On October 17, you approved our recommendation to reappoint Commissioner Christian to the Interstate Commerce Commission.

Secretary Goldschmidt, Stu and Fred Kahn have urged her to accept reappointment. Commissioners Gaskins and Trantum have encouraged her to accept. Gaskins believes that she can provide crucial support for deregulation initiatives, and we strongly agree.

Commissioner Christian is nearing a decision between accepting reappointment and accepting a lucrative offer from the private sector. Gaskins, who will be designated Chairman in January, has indicated that a telephone call from you could tip the balance in her decision-making process. We recommend that you have a brief conversation with Commissioner Christian in which you emphasize the importance of her continued service on the ICC.

Secretary Goldschmidt, Stu and Fred Kahn join in the following recommendation.

RECOMMENDATION

Call Commissioner Christian and urge her to accept reappointment to the Interstate Commerce Commission.

✓ approve _____ disapprove

(White House Operators have the phone number.)

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Background

The ICC is in a critical transition period, particularly with respect to trucking reform measures. Senator Cannon has promised to have trucking reform measures on your desk no later than June 1. While the legislation is pending, the ICC will have many difficult and sensitive votes that can help build a record in support of reform. Senator Cannon has agreed not to object to such votes, as long as the Commission defers actually putting major reforms into effect until after June 1.

Commissioner Christian has indicated that if she accepts reappointment she would be willing to serve for another two or three years, but will not commit to a full seven year term.

Commissioner Christian's Office Telephone Number is (202) 275-7541.

Talking Points

1. You feel it is important that she accept reappointment.
2. The next year will be critical to transportation policy.
3. It is important to move forward on reform measures, particularly for the trucking industry.
4. Her experience and viewpoints are needed as the ICC moves forward. Mention the excellent and productive work by her in the past.
5. She shouldn't leave now when the opportunities for reform are finally so great.

THE WHITE HOUSE
WASHINGTON

10/31/79

Stu Eizenstat

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

Rick Hutcheson

cc: The Vice President
Jody Powell
Jack Watson
Jim McIntyre

THE WHITE HOUSE

WASHINGTON

October 31, 1979

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MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*
ELLEN GOLDSTEIN
DIANA ELMES

SUBJECT:

Exempting the Handicapped from Gas Rationing Plans

The recent nationwide gasoline shortage created a serious problem for handicapped people whose disabilities prevent them from using public transportation. Those severely handicapped individuals who must use specially-adapted automobiles are, for the most part, totally immobilized when gasoline is unavailable.

Exempting automobiles with wheelchair tags or stickers from ~~future gasoline rationing and~~ purchase restrictions would greatly benefit the severely handicapped without hampering effective operation of overall rationing plans. Such tags and stickers are issued only to severely disabled persons upon medical certification. Language to this effect has been included in the Conference Report of the Standby Motor Fuel Rationing Bill.

If you approve the attached draft, which has been cleared by the speechwriters and the Department of Energy, letters will be sent to governors requesting exemption of the severely handicapped from gasoline rationing plans which may be implemented because of future gasoline shortages. Issuance of such a letter would further highlight sensitivity to the needs of the severely disabled. The Advisory Committee to the White House Conference on Handicapped Individuals has recommended such an action; DOE and Jack Watson's office agree.

Agree

Disagree

*Be Sure This does not extend to
unlimited gasoline purchases in the event
of rationing. A special right to meet
necessary travel requirements is adequate*

J

To Governor _____

During the recent gasoline shortage, all drivers suffered inconveniences, but one group endured a particular hardship. I refer to severely handicapped persons who must rely exclusively on their own specially-adapted automobiles for mobility.

Because of the special problems handicapped people face, I request that any future end-user purchase restriction plans you develop exempt disabled persons who have wheelchair tags or stickers on their automobiles. This would be a great help to severely handicapped persons, yet it would not significantly hinder the overall effectiveness of your State's allocation programs.

I appreciate your commitment to energy conservation and your consideration of the handicapped.

With warmest regards,

Sincerely,

THE WHITE HOUSE

WASHINGTON

31 Oct 79

Frank Moore

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

Rick Hutcheson

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MILLER
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HUTCHESON
KAHN
LINDER
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MILLER
MOE
PETERSON
PRESS
SANDERS
SPETH
STRAUSS
TORRES
VOORDE
WISE

4:00 p.m.

THE WHITE HOUSE
WASHINGTON

Frank
J

MEETING WITH SENATOR BELLMON

Wednesday, October 31, 1979
4:00 p.m. (20 minutes)
The Oval Office

From: Frank Moore *Fm/pd*

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I. PURPOSE

Byrd believes it is very important for you to meet with Bellmon to persuade him not to come out against SALT at this time. His apparent opposition has had a chilling effect among undecided Senators, particularly Republicans.

Bellmon is a thoughtful man, and it is our hope that eventually he will be persuaded on the merits. He needs to be persuaded that you do not have to trust the Russians or like them to ratify SALT. He needs to know that you have a clear idea of our national security policy. He also must be persuaded about the consequences of rejection.

II. BACKGROUND, POLITICAL CONCERNS, PARTICIPANTS, AND PRESS ARRANGEMENTS

- A. Background: Ever since his trip to the Soviet Union in January, he has been negative about SALT. He came back with a basic dislike and mistrust of the Russians.

He has not hidden his skepticism and has appeared on a number of television programs. In May he appeared with Seignious and expressed his concerns about verification, loss of Iran, importance of Turkish bases, and BACKFIRE limits. He said he did not want to rely on the SSCI report and wants to examine the information himself.

Later in the summer he began to argue that SALT had to be evaluated in broader political context of U.S.-Soviet relations and changing global process and Third World countries. He was concerned about the Administration's "unclear" foreign policy record and wanted to know the realistic implications of rejection.

After the onset of the Defense spending arguments and the Cuban troops episode, he began to propose consideration of the Treaty until March 1, 1980, allowing time for a Senate-appointed Select Committee on Foreign and Defense Policy to make recommendations on U.S. national security policy to 2000. He believes the Administration's 3% real growth increase now is "quick fix." Because of his Budget Committee role, he voted against 3% and 5% Defense increase.

After Byrd's meeting with key Senators three weeks ago, he seems to be willing to listen and has been less vocal.

- B. Political Concerns: Of all Senators, Bellmon's apparent opposition to SALT has caused us the greatest problem in terms of finding votes for ratification. He is considered a leader among Republican Senators and is seen as a man of impeccable integrity. We often hear the comment, "If Henry Bellmon doesn't think SALT is good for the nation, then something must be wrong with it." In order to secure the 14-16 Republican votes we believe we will need for ratification, Bellmon is critical. He obviously will not take a leadership role in favor of SALT, but some indication from him now that he will consider voting for SALT would be extremely helpful to us in at least neutralizing Republican opposition.

We are attaching the Downy memo (TAB A) to you on recent discussions with Bellmon which we believe is very informative. What Bellmon says to the press after his meeting with you will be listened to very carefully by individual Senators.

- C. Participants: Senator Henry Bellmon (R-Oklahoma)

- D. Press Arrangements: White House photographer

III. ISSUES FOR DISCUSSION

As appropriate

Attachment

I believe I answered all his ?'s & he may become an ally. He should not be pushed any further, and we should not let it be known that he has changed or that we take him for granted. Bob Byrd (or someone else) can assess later & independently from us.

MEMO ON MEETING WITH SENATOR HENRY BELLMON RE SALT II

TO: PRESIDENT CARTER
FROM: TOM DOWNEY

OCTOBER 30, 1979

Sen. Henry Bellmon is clearly one of the key swing votes on SALT II. Having built an agreeable personal relationship with him during a trip to Japan last year, I met with him on October 24 to discuss his public statement that SALT II is "unacceptable on the technical merits." Also present were Sen. Pat Moynihan, Robert Sherman of my staff, Gordon Prather of Sen. Bellmon's staff, and Robert Helm of the Senate Budget Committee staff. Sen. Moynihan said essentially nothing during the discussion. Mr. Helm and Mr. Prather talked at some length, emphasizing linkage and showing some antipathy toward SALT II.

SEN. BELLMON'S VIEWS

While Sen. Bellmon mentioned "the Soviets having build heavy first-strike missiles under SALT I, while we didn't", this did not seem to bother him greatly. On the contrary, he passed over it so quickly that it seemed inappropriate to respond by discussing the heavy missile issue in detail. Other than that, he did not respond to my request that he lay out the technical issues which disturbed him, and he expressed the thought that we probably wouldn't and shouldn't build "first-strike missiles" in any case. I was left with the impression that he is not deeply concerned about presumed technical deficiencies in SALT II.

He expressed strong support for the concept of linkage, although not the usual self-serving variety. He regards it as a two-way street pertaining as much to U.S. behavior as to Soviet behavior. He does not regard the brigade in Cuba as of much consequence. But he is dismayed by the continuing antagonism between the Soviet Union and the U.S., and regards it as particularly inappropriate that two nations contemplating signing an arms limitation treaty should act in such a manner. He cited Soviet military aid to Algeria and U.S. military aid to Morocco as an example.

He hopes that SALT will not be dealt with isolation, but that it will be used as a catalayst for "an era of peace." Several times he expressed concern that quick approval of SALT II would cause us to miss this chance for an era of peace.

He is concerned that we have bought weapons for their own sake, rather than to serve a specific foreign policy. This is the basis for his desire for a thorough review of U.S. foreign, military, and arms control policies as an integrated whole. He wants to use SALT II as a device to force this review.

When it was suggested that, because of the onrush of technology, we might be better off to pass SALT II quickly and make his review part of the foundation for SALT III, he responded that he didn't

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want to "put it (the study) off". He pointed out that 1980 will be his last year in the Senate, and clearly implied that he wanted to be part of the review. It is noteworthy that he did not at this point express any objection to SALT II per se, although our suggestion would presumably provoke a SALT opponent to do so.

He indicated that SALT would probably not be voted upon before the first of the year in any case, and that possibly his review resolution (S.Res. 235) was becoming outdated.

He mentioned his trip to Moscow and his unfortunate meeting with Kosygin. While he clearly did not look back on the memory with fondness, neither did he display any trace of animosity toward the Soviet Union. On the contrary, on several occasions he described the ongoing grain sales to the USSR in glowing terms.

As we left, he suggested another meeting once the treaty had reached the floor.

MY CONCLUSIONS

I am left with the clear impression of a man who is not going to go out and wave the flag for SALT but who, when faced with an up-or-down vote, will vote aye.

This is based both on his explicit statements and on his non-verbals; his nods, smiles, and "uh-huhs" all came at highly pro-SALT points in our conversation.

The foregoing conclusion is sharply at variance with his public statements, e.g. in the Record of September 17. This is difficult to explain, but here are two possibilities:

1. The public statements may have been prepared by staff who are considerably more hawkish and critical of SALT than he is. He may have placed their statements in the Record and issued their press releases without fully accepting them. This can only be conjecture, but it is supported by two things: First, during somewhat anti-SALT statements by his staff -- two of whom attended the meeting -- he was entirely impassive, expressing no agreement or support. Second, it was the staff man who eagerly handed me a reprint of his September 17 statement; Bellmon himself displayed no visible enthusiasm for it.
2. Face to face, he is a highly effective politician; direct, straightforward, and attractive, in contrast to his wooden TV manner. Possibly, he just snowed me and would have been equally agreeable to an anti-SALT visitor. I do not believe this to be the case.

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THE WHITE HOUSE
WASHINGTON

10-31-79

To Jack Watson

Arrange for Gov.
Carcy to come down
for a visit with
me - a meal or
possibly overnight.

He's waiting for you
to call Bob
Morgatha (?) or him

JQ

THE WHITE HOUSE
WASHINGTON

10-31-79

To Jack Watson

Arrange for Gov.
Carcy to come down
for a visit with
me - a meal or
possibly overnight.

He's waiting for you
to call Bob
Morgatta (?) or him

Phil Wise
cc: Tom Voorde
A. Jordan

JW

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 31, 1979

①

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MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *cls 4 25 7*

Subject: Mortgage Market Developments Since The Fed Action

Overview

During the past several days, we have done an informal phone survey to obtain anecdotal information on the impact of the recent Fed actions. Little firm data will be available for three to four weeks, and even then we may only be able to pick up the initial "shock" reaction to the Fed's package -- not its longer-term consequences. However, the discussion at yesterday's meeting of the Interagency Committee on Housing and Housing Finance confirmed the impressions we had received from phone calls both to mortgage lenders across the nation and from their various trade associations.

It is clear that the initial reaction to the Fed package has been a severe disruption of mortgage activity. The wide fluctuations in interest rates, which have been a feature of the new Fed policy, have caused a paroxysm of uncertainty in housing finance institutions. Unsure about future interest rates and fearing a curtailment of savings flows, lenders are cutting back commitments sharply or making commitments only at interest rates to be determined at the time the loan transaction finally occurs.

While some of the dramatic reduction in mortgage commitments of recent weeks is a temporary phenomenon, there is a consensus that, even when markets settle down, we may now be entering a more classical recession pattern led by sharp drops in housing sales and starts. Even when mortgage lending institutions get used to greater fluctuations in short-term interest rates, the much higher level of rates will substantially inhibit the flow of funds into housing construction. It is, however, simply too early to say how far this could go. Institutional changes have clearly made the housing sector more resilient this time around. Starts in the last six months have been much stronger than we or anybody else expected. But the recent rapid movement to an unprecedented general level of interest rates may lower housing starts next year by a substantial amount.

Soundness of Mortgage Lending Institutions

Some institutions may experience severe earnings and liquidity problems in the current situation. The liquidity problems are likely to be temporary, but the squeeze on earnings will be longer lasting. However, few, if any, otherwise healthy institutions are expected to go under as a result of the recent actions.

- o The regulators agree that the savings and loans and mutual savings banks could withstand six months to a year at the high rates which they currently have to pay to keep their deposits from shrinking rapidly.
- o Most mortgage bankers could survive on the profits from servicing existing loans, even if they shut down new lending completely.

The most serious problems are likely to arise with those mutual savings banks which are not part of the Federal Home Loan Bank system. These are heavily concentrated in New York and a few other states. Mutual savings banks have undergone a long period of little or no deposit growth and face biting usury ceilings in a number of states. The Comptroller of the Currency believes, however, that they too can squeak by for perhaps a year.

Cost and Availability of Mortgage Credit

There are two ways in which the higher interest rates affect housing construction: (1) Sharply higher mortgage interest rates discourage home buyers or put the monthly payments at levels so high they can't qualify for a loan. (2) Savings and loans and other institutions specializing in home mortgages can't pay high enough deposit rates to keep old deposits and attract new ones; the availability of mortgage funds shrinks, even for home buyers willing to pay high rates.

Higher Mortgage Interest Rates and Stiffer Terms

There are currently marked differences in mortgage quotations, even within the same local market. Most institutions are quoting rates between 12 percent and 14 percent. Construction loans, which are generally based on the prime rate, are now going for 16 percent to 19 percent or more.

- o Up until now demand has been strong because buyers and builders believed the rate of increase in housing prices and construction costs would outstrip even the relatively high rates of interest prevailing before October. This may no longer be the case.

- o Furthermore, current rates have pushed monthly payments so high that many families simply will not be able to afford a new home, or not be able to qualify for a new mortgage without a substantial downpayment.

We would, therefore, expect to see a drop in mortgage demand and housing starts at current interest rates, even if there were no problems of credit availability.

During the past few weeks many lenders have also tightened eligibility requirements for mortgage loans.

- o Downpayment requirements have been raised from 20 percent to 30 percent, in some cases, even to 50 percent.
- o Maximum mortgage amounts have been reduced.
- o Some lenders are making commitments only to "regular customers" -- depositors or builders with whom they have a long-standing relationship.

Supply of Mortgage Credit

Even if demand for housing finance remains relatively strong at the higher mortgage interest rates, the supply of mortgage funds from all sources may be curtailed sharply over the next few months.

- o Mortgage bankers have slashed commitments and are unlikely to re-enter the market in force until the rate picture becomes much clearer.
- o Life insurance companies, concerned about potential demands for policy loans and about possible cash flow problems, are also withdrawing from the market. (When money is tight many people borrow on their insurance.)
- o Commercial banks are still writing mortgages, but the new Fed policies will mean slower growth in all types of lending.

The willingness and ability of thrifts to compete for funds at the current higher rates will, of course, be the crucial question for housing finance.

- o Preliminary data indicate that savings and loans had a net deposit inflow (before interest was credited to depositors' accounts) of \$600 million

during the first 20 days of October. Although this was a less than seasonal improvement from the September performance, it does not indicate a massive outflow of funds ("disintermediation"). Aggregate figures, of course, hide more severe problems being faced by individual institutions and in certain areas.

- o The 26 largest mutual savings banks in New York experienced a net outflow of \$500 million, again before interest credited, during the first 23 days of October. These same banks had net outflows of about \$200 million both in September and in August.

All of the funds which were raised by savings and loans and mutual savings banks during October were from high-interest instruments, jumbo certificates of more than \$100,000 or \$10,000-minimum money market certificates. The existence of these instruments should enable thrifts to avoid massive disintermediation. But the costs are so high that the thrifts may try to invest the proceeds in other short-term assets (such as large CD's) with still higher interest rates. This is particularly true in states with binding usury ceilings. The situation will have to be monitored very carefully and further improvements in deposit powers may have to be considered.

Usury Ceilings

Even if there were no major nationwide contraction in funds available for mortgage lending, there would be severe problems in states with biting usury limits. At the current structure and level of rates, mortgage lending may be shut off not only in the 18 states that have fixed usury ceilings of 13 percent or less, but also in 10 states that have floating ceilings tied to a market-determined interest rate. Floating ceilings are adjusted with lags of from one to three months and, in some states, the formula may leave mortgage ceilings below current market rates even after adjustment. Unless laws can be changed rapidly, which is unlikely, usury ceilings may be a major factor depressing mortgage lending and housing starts over the next few quarters.

Impact on Housing Starts

Mortgage funds are generally committed from 30 to 90 days before a transaction and many builders arrange their financing well in advance of beginning a project. There is also a backlog of HUD subsidized housing, committed in September and scheduled for start over the next few months. We do not, therefore, expect to see the full impact of the recent Fed actions until the first half of 1980. In the absence of offsetting actions, we currently expect that impact to be sharp, but less dramatic, than in past housing cycles.

- o In our last forecast, we were projecting starts to fall to a range of 1.5 to 1.6 million units at an annual rate in the first half of 1980.
- o Most participants in yesterday's meeting broadly agreed with the FHLBB forecast of starts dropping to 1.45 million in the first quarter and falling further to about 1.30 to 1.35 million in the second quarter.
- o In the wake of the Fed action, DRI revised downward its starts forecast to 1.5 and 1.35 in the first and second quarters, respectively. Chase Econometrics expects starts of 1.35 and 1.25 in those two quarters.

If starts were to fall to about 1-1/4 million, annual rate, next spring, this would be above earlier troughs. During the worst quarters of both the 1966/67 and the 1974/75 contractions, housing starts dropped below 1 million.

Preparing a Contingency Plan

We are now preparing an inventory of actions the Executive Branch or the regulators could take to support the housing sector. These actions fall into three broad categories:

- o Federal Home Loan Bank borrowing from private capital markets and/or the Treasury to relend funds to member thrift institutions; ✓
- o Diverting funds to thrifts from banks and, possibly, from short-term money market instruments by actions such as reestablishing a differential rate -- MMC's of thrift institutions relative to those of banks. ✓
- o HUD subsidies to conventional housing. ✓

The EPG is examining these options and will bring you its recommendations shortly.

Domestic Policy Breakfast 10/31/79

40,000
20,000

800,000,000

THE WHITE HOUSE
WASHINGTON

Domestic breakfast 10/31/79

Grants - Brooklyn Jewish Hosp

Chrysler #2-B → #3-B +
Insert Ad(?)
Aid #1-B + 12 other
Budget overview

Housing

Dairy price supports

Innovation

CETA → PIC

Strategy { Jobs for '80's
 { Partnerships

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