

12/6/79 [2]

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THE WHITE HOUSE

WASHINGTON

December 6, 1979

Dear Mr. Ambassador:

Just received your letter.
The Parkinsons were in last week and
I met their lovely daughter.

I'll see if I can't help
arrange for the Golden Knights to
drop in.

Sincerely,



Phil Wise
Appointments Secretary
to the President

Honorable Philip H. Alston, Jr.
The Ambassador of the U.S. of
America to Australia
Embassy of the U.S. of America
APO San Francisco 96404

THE WHITE HOUSE
WASHINGTON

Dear Mr. Aurb -

Just received your letter -

The Parkinsons were in
last week & I met their
lovely daughter.

I'll see if I can't

help arrange for the Golden
Knights to drop in.

Phil

And
get him section
and help him Sweden

With the Compliments
The Secretary of State

P. M.
The Ambassador of
The United States of America



EMBASSY OF THE
UNITED STATES OF AMERICA
APO San Francisco 96404

Phil
Schedule open?
J.

**Electrostatic Copy Made
for Preservation Purposes**

November 27, 1979

Mr. President:

Elkin and I had the great pleasure of seeing two units of the United States military service perform in Perth in connection with the celebration of Western Australia's 150th birthday. I refer to the Old Guard and the Golden Knights. The Old Guard is to look after the President. We sent word to you through some of its members that we were working "on Saturday afternoon." Hope at least one of the young men had nerve enough to step out of line and pass along our message. But there is something about your job that might prevent anyone doing just that. I did guarantee them a smile from you if our message was delivered.

But the main reason I write to you now is to mention the other unit, the Golden Knights, the U.S. Parachute Team from Fort Bragg. They have been in existence over 20 years, I believe, and have never performed for a President. If it is practical, I hope you will arrange for them to drop in on the lawn at the White House. That's what they want to do and you would get a great kick out of seeing them perform. From a plane flying, I guess, at a thousand feet, each of these young folks (one is a girl) - (9 total) - drop on a point in an area which is smaller than my office. A very skillful performance. It would be a boost to the Golden Knights if you called on them.

Let me say with respect to both units that they performed with great credit to the United States military. They not only did well "what they are supposed to do", but they looked good and behaved in a manner that made us very proud of our country.

Needless to say, you are in our thoughts and prayers as you wrestle with the hostage problem.

As ever,

Philip H. Alston, Jr.
Philip H. Alston, Jr.

The President
The White House
Washington, D. C. 20500

THE WHITE HOUSE
WASHINGTON

12/6/79

Alan Wolff --

Please see attached copy of
your note.

Thanks -- Susan Clough

DEC 10 1979
RECEIVED HR

12/5/79

VERNER, LIFFERT, BERNHARD and McPHERSON

SUITE 1000
1660 L STREET, N.W.
WASHINGTON, D.C. 20036
452-7400

To Susan Clough -

Attached is a
brief Thank you note
for the President. You
can tell him for me that
I sat with a pretty
critical bunch of people listening
to the press conference the other
night and they were all very
favorable. He did awfully well.
Best regards, Alan

LAW OFFICES
VERNER, LIIPFERT, BERNHARD AND MCPHERSON
SUITE 1100
1660 L STREET, N. W.
WASHINGTON, D. C. 20036

—
CABLE ADDRESS
VERLIP
(202) 452-7400

Thanks!
J.

December 5, 1979

The Honorable
Jimmy Carter
President of the United
States of America
The White House
Washington, D. C. 20500

**Electrostatic Copy Made
for Preservation Purposes**

Dear Mr. President:

Yesterday when I hung the picture of the July 26 signing of the Trade Agreements Act together with your letter of October 12 which enclosed a pen commemorating this occasion, I realized that I had not responded to your kind note.

I found my service to you as Bob Strauss' Deputy the most rewarding experience of my life and miss being a part of your Administration. The main purpose for my writing, however, is to tell you that the entire country is united behind you in the current crisis in Iran. You have our faith and our hope.

Very truly yours,

Alan
Alan Wm. Wolff

THE WHITE HOUSE
WASHINGTON

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12-6-79

Stu -

What is going
on in Chrysler
negotiations? I
do not want a too
liberal or generous
proposal to be
approved by us.

Brief memo to me
to say -

JC

THE WHITE HOUSE
WASHINGTON

12/6/79

The First Lady

The attached was returned from
the President today and is
forwarded to you for appropriate
handling.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

rick --

how about this one!!!!!!??

would you mind sending
me back a cc of all please

thanks--ssc

Personal Contact

7 Nov. 1979
Dubuque, Iowa

*Rosalynn -
Let them visit
The W.H. - when/how
to play, I don't
know - I'm
sure you can
handle it for these
fine Iowa people
J*

Mr. Jimmy Carter
President of the United States
Washington, D.C.

**Electrostatic Copy Made
for Preservation Purposes**

Dear Mr President,

Kay and I were most happy to hear from you last week, needless to say we very much surprised and happy to get a personal phone call from the President.

As per our phone conversation the Wahlert High School concert band will be in Washington D.C. in the evening of April 25 and all day the day of April 26 1980.

Wahlert High School is the largest Catholic high school in the State of Iowa. They are now conducting a citrus fruit sale to finance their trip to Washington. No tax money spent to help these deserving students.

The band students are really excited that the Kruse's talked to Jimmy Carter, the President. They know now that their dream to play in the White House is within their grasp. This knowledge will spur them on in their endeavor to sell oranges and grapefruit. If I know these kids they will get the job done with flying colors. A fine group of students. Mr. Jack Hartkop, band director is beside himself in anticipation of the Spring Concert Tour. When I told him of our phone conversation he was most happy. He related to me that a nun from Wahlert had been working in the White house during the summer. She also has been in contact with your staff in helping the band to perform in the White House.

Kay and I had the good fortune greeting you and Rosalynn when you when the Carter family was in Dubuque, on your trip down the Mississippi aboard the Delta Queen. we didn't get to see Amy. I hope we can do that in April.

Would it be possible for you or your staff to contact Kay or I or Mr. Jack Hartkop on what has to be done in preparation for our appearance at the White House in April.

Thank you Mr. President for your every consideration. Looking forward to January when we can be of help to Jimmy Carter. Kay and I will be conducting the precinct caucus here in the 8th precinct. Hope to hear from your staff soon. Thanks again

Sincerely,

Mr Jack Hartkop Band Director
Wahlert High School
2005 Kane Street
Dubuque, Iowa 52001

Ed and Kay Kruse
1791 Central Ave.
Dubuque, Iowa 52001

Carlyle

\$10,000

Susan
Dr

THE WHITE HOUSE
WASHINGTON

November 20, 1979 *24*

NOTE FOR GRETCHEN POSTON

FROM: DAN CHEW

Please review the attached letter for special handling.

Thank you.

Gretchen:

*Jan Simpson suggested
we send this to you.
Any problems, please
call.*

*TJ
JC
X2733*

NOV 28 1979
Am

THE WHITE HOUSE
WASHINGTON

06 Dec 79

Stu Eizenstat
Frank Press

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
<input checked="" type="checkbox"/>	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
<input checked="" type="checkbox"/>	PRESS
	SANDERS
	SPETH
	STRAUSS
	TORRES
	VOORDE
	WISE

THE WHITE HOUSE
WASHINGTON

December 5, 1979

MEMORANDUM TO THE PRESIDENT

FROM: Stu Eizenstat *Stu*
Frank Press *FP*

RE: Admiral Rickover's comments on Kemeny Report

Stu -
Add -
Personal responsibility -
Someone must
always be designated
as in charge - at the
Corporate level and
on the plant site -

Admiral Rickover's suggestions are excellent and we propose to place the following recommendations drawn from his letter into your statement, or the Fact Sheet:

- Primary responsibility for safety rests with the utilities
- The utilities should organize themselves in a cooperative fashion to develop standards and specifications for safe design, construction and operation and to develop comprehensive selection, training, and evaluation programs for operators and supervisors
- NRC will evaluate and accredit these programs
- Control room technology should be modernized for better decision-making during an emergency.

and
standardized-
and
simplified

Admiral Rickover recommended that a government representative be in the control room of each commercial nuclear power plant at all times with authority to shut the plant down if necessary for safety. This would require some 600-800 new government employees at a cost of \$60-80M/yr and we are not certain that shut-down authority should be given to this level government employee. We propose to state

- The program to place Federal inspectors at every reactor site will be accelerated
- We will examine the possibility of a stronger Federal presence, for example, through added personnel or on-line monitoring of all reactors by a central government computer facility.

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON
05 Dec 79

Stu Eizenstat
Frank Press

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

Rick Hutcheson

December 1, 1979

The President
The White House
Washington, D.C.

cc Stu & Frank Press

*Incorporate key recommendations
in our message - See me Wed if
you have specific questions. I mark
important points -*

Dear Mr. President:

When you visited me several months ago you asked that, after results of the investigation by The President's Commission On The Accident At Three Mile Island were available, I summarize for you my personal views on the accident.

*JC
12/4/79*

This letter is in response to that request. In what follows I have tried to put the issue in perspective as I see it based on my own experience. In the preparation of this letter I have not consulted with others.

Investigations of catastrophic accidents involving man-made devices often show that:

1. The accident resulted from a series of relatively minor equipment malfunctions followed by operator errors.
2. Timely recognition and prompt correction of any of the equipment malfunctions or operator errors could have prevented the accident from becoming significant.
3. Similar equipment malfunctions and operator errors had occurred on prior occasions, but did not lead to accidents because the starting conditions, or sequence of events, were slightly different. If the earlier incidents had been heeded, and prompt corrective actions taken, the subsequent catastrophic accident would have been avoided.
4. To reduce the probability of a repetition of similar or worse catastrophic accidents, adequate technical standards must be established and enforced, and increased training of operators must be provided.

This pattern has been characteristic of broken dams, aircraft crashes, ship sinkings, explosions, industrial fires, etc. As was predictable, investigation of the accident at the Unit 2 plant at Three Mile Island (TMI-2) by the President's Commission revealed the same pattern.

Enough is known now about the TMI-2 accident for a knowledgeable person to explain what happened. However, it is an entirely different matter to conclude that it is possible to put the corrective actions needed to assure safe operation of commercial nuclear power plants into effect within the present American industrial system; and, if so, to determine what those actions must be and get them implemented. To come to grips with this problem, it is first necessary to understand the greater potential hazards of nuclear power as compared to those of most advanced technologies; to understand the makeup of the nuclear industry-- which has the primary responsibility for designing, building, and operating nuclear power plants; and to understand the limitations of a Government regulatory agency.

The American people accept many risks in order to get the benefits of modern technology. We kill hundreds every week on our highways, but we still want a car for every family that can afford it. Hundreds have been killed in the crash of one airliner, but the airlines are still crowded with passengers. Hazardous chemicals released in a recent train crash caused evacuation of hundreds of thousands, yet we continue to manufacture these chemicals and ship them by train because the people want the products. But many look upon the radiation hazard from nuclear power differently. To them radiation is a particularly frightening danger, since it cannot be seen, felt, smelled, or heard and can cause cancer.

According to the best estimates available, the accident at TMI-2 did not kill anybody. But it threatened millions, will cost over a billion dollars, and focused world attention on what might happen. If a nuclear power plant is not designed, built, and operated properly, it has the potential to release enough radioactivity to kill or injure hundreds of thousands in one accident if it occurs near a highly populated area. Its radioactive wastes must be stored under controlled conditions for hundreds of years. The bulk of deaths resulting from a massive release of radioactivity would be from cancer which might not be detected until 20 to 30 years after the accident. Even in the worst accident possible, only a small fraction of those exposed would die of cancer caused by the accident-- probably a small fraction of those who would die of cancer anyway from other causes. Yet, the exposed would spend their lives in fear that they were the ones affected. It is not like most industrial accidents where the victims and the survivors are clearly identified shortly after the accident. Few areas of industrial technology are potentially so hazardous or can threaten so many people for so long from a single accident.

It is technically practical to design, build, and operate nuclear power plants safely. But the data accumulated by the President's Commission show that major reforms are needed in how commercial nuclear power is now being handled. The basic question is: Is American industry able and ready to take and enforce the steps necessary to handle such a potentially hazardous technology safely?

Although the TMI-2 plant survived a series of equipment malfunctions and operator errors without releasing major amounts of radioactivity, the accident revealed grave weaknesses in design, training, management, operation, and maintenance. To the extent these weaknesses are widely prevalent in the nuclear industry, they must be expeditiously corrected or worse accidents can be expected.

Obviously, the nuclear industry needs to put its house in order. But the nuclear industry is not a homogeneous organization with single lines of authority that can establish and enforce adequate safeguards; it is a heterogeneous collection of companies whose principal concern is profit.

Primary responsibility rests with the approximately 60 utility companies, both privately owned and publicly owned, that individually or in groups have decided to buy, operate, and maintain nuclear power plants. Most of these companies are run by accountants, bankers, lawyers, or other non-technical officials. Few have high-level executives who really understand nuclear technology and its requirements. //

The utilities have bought reactors from five competing manufacturers. Three furnished pressurized water type reactors, one furnished boiling water type reactors, and one furnished gas cooled reactors. A utility or reactor manufacturer generally hires one of several large architect engineering firms for plant design and construction, including design of the plant control room. The utilities employ the operators and maintenance people. Each reactor designer, architect engineer, and utility is a separate corporate entity. In most cases they are the same corporations that design, build, and operate non-nuclear power plants. But the potential hazards from accidents in non-nuclear power plants are not nearly so great as in nuclear plants. Nuclear plants require much greater care in all phases of design, construction, operation, maintenance, and training.

The only organization presently constituted to prescribe and enforce standards for safe nuclear power plant operation is the Nuclear Regulatory Commission (NRC). In the competitive environment in which the nuclear industry operates, there is a tendency to develop a "cops and robbers" syndrome; that is, to do only what is specifically required and enforced by the NRC. But a Government regulatory agency simply cannot hire and train the caliber and number of people required to produce nuclear safety through Government regulation and inspection, especially as nuclear plants and utilities owning and operating them continue to increase. There is not a large enough resource of people with the requisite talents to do it.

The NRC needs to upgrade its standards and enforcement, particularly in the area of operator training and supervision. But the primary reform must come from within the utility industry and its suppliers. I am concerned that the overwhelming emphasis the President's Commission placed on //

reorganizing the NRC may result in inadequate attention being paid to the fundamental changes required in the way industry is handling commercial nuclear power.

Safe design, construction, and operation of nuclear power plants owned and operated by the utilities will not result from expanding the NRC, reorganizing the NRC, or passing more laws. Nor will it be derived from establishing new diverse, non-expert oversight groups. If commercial nuclear power plants are to be operated safely, the organizations that own and operate the plants--the utilities--must know what they are doing and commit themselves to take the steps necessary to achieve nuclear safety. If the utilities do not establish stringent standards, institute rigorous training programs, and police themselves, there is little hope for assured safe operation of commercial nuclear power.

The concept of personal responsibility must be applied. Fundamental to this concept of personal responsibility in nuclear power or any engineering endeavor is understanding and properly interpreting technical facts in making decisions. Reliance on "management techniques" has become rampant throughout Government and industry. So long as the people in charge make decisions without understanding the technical issues, a lack of personal responsibility will obtain. How can anyone who does not understand the technical aspects of what he is doing really be responsible or feel personally responsible? //

The record of the President's Commission shows that persons assigned the great responsibility of operating the TMI-2 plant had not been selected on the basis of their mental abilities, judgment, personal character, or personal motivation. There were no criteria to assure a high level of competence, reliability, and expertise.

Undue reliance had been placed on the mere fact that many of the operators had been involved in the naval nuclear program. The utility did not obtain records of Navy performance for these operators to support such reliance.

There was not a degreed engineer at the plant for nearly an hour after the start of the accident. Important actions were taken and decisions made by high school graduates when sound engineering judgment was needed.

There was an apparent lack of attention and devotion of resources to the training of operators. Site managers did not consider themselves responsible for operator training. The training department was undermanned and was staffed by instructors no more qualified educationally than their students. There was no training for engineers or managers at a level higher than that for control room operators, although during the accident the operators turned to their supervisors for guidance. There was no formally approved training program for steam plant operators although there is a direct interaction between the //

steam plant and the reactor plant. It was the steam plant operators, in fact, whose actions initiated the events which ultimately led to the accident. The training for newly-qualifying control room operators was done essentially on a self-study basis. The curriculum did not cover the principles of science and engineering necessary for understanding the operation of the power plant, nor was it reviewed and approved by people qualified to do so. The requalification program, which served as a continuing training program, was shallow and haphazard. It did not continually upgrade knowledge and understanding through reinforcement of principles and procedures. Course content was not reviewed and approved by management nor did they monitor the conduct of formal instruction.

The utilities must upgrade their technical staffs and give them direct and frequent access to top management. The technical staff should have full responsibility for safety including design and training as well as operational and maintenance matters, and should have the authority to take the necessary actions. Technical decisions must be made on a technical basis. They cannot be made by purchasing agents, comptrollers or lawyers.

For many years I have recommended that the utilities unite to establish a central technical organization which could provide a more coordinated and expert technical input and control for the commercial nuclear power program than is presently possible for each utility with its limited staff. The Electric Power Research Institute, EPRI, is an example of this kind of organization. It performs research and development in technology associated with nuclear power and other forms of power generation, and recently established the Nuclear Safety Analysis Center which is studying the TMI-2 accident. I understand that a similar arrangement is being made in the area of operator training through the recently formed Institute for Nuclear Power Operations. These are good steps--but not enough. The central technical organization I recommend should have a clear mandate for safety aspects as a part of its function and be empowered to apply sanctions to enforce its standards. Among the things such an organization could do are:

- a. Develop the standards and specifications utilities should require for design and construction of their plants. There should be a continuing effort to standardize and, at the same time, incorporate the results of experience and technological advances into power plant design.
- b. Establish staffing requirements for operation of commercial nuclear power plants in terms of numbers, qualifications, and functions. For example, I understand that at times there may be only a single operator with no supervisor present in the control room of an operating plant. Also, operators may be assigned and actually carry out unrelated duties while on watch. These practices are not adequate to prevent or control accidents.
- c. Establish requirements of a standard organization for commercial nuclear power plants, and issue a document spelling out these requirements.

- d. Establish standards for general operating procedures, shift organization, shift change, operating discipline and formality in communications, etc.
- e. Establish criteria for selection of nuclear plant operators, engineers, and managers.
- f. Develop comprehensive training and retraining programs, including lesson plans, qualification requirements for each position, etc., for utilities to use in training operators, engineers, and plant managers. This must be based on what is needed and not geared solely to passing licensing examinations. These programs would require extensive training in the principles of science and engineering applicable to nuclear plants, practical instruction in reactor plant operation, and qualification in the specific plant. Theoretical training would best be conducted in a nuclear power school with a competent, professional staff. Such a school should be operated under the direction of the central technical organization. All operators, engineers, and managers should be required to complete either the graduation requirements of this school or a similar curriculum conducted in a specific utility's training facility accredited by the central organization.

Further, standardized instruction under the direction of the central organization should be required in an operating plant to teach practical understanding of nuclear power plant operation. This would be conducted before an operator commenced qualification in his own specific plant.

- g. Provide trained technical teams to perform periodic in-depth audits of each nuclear power station and critically evaluate the plant's physical condition, administrative procedures, training, and personnel qualification and performance. This is necessary to ensure the standards are being met.
- h. Conduct continuous reviews of operating experience based on reports received from each of the operating plants. The purpose would be to ensure that abnormal events such as operator errors, design deficiencies, and equipment malfunctions are evaluated in depth, that lessons learned are made known to the managers and operators of all plants, and that corrective actions are taken.
- i. Provide direct, in-depth technical assistance to utilities in design, construction, operational, and safety questions.

- j. Have authority to suspend operations of a power plant or impose other penalties, pending remedial action, in those cases where action is warranted.

Other functions probably would become apparent in time.

The contribution such an organization could make would be considerable if given the personnel and authority to concentrate on the technical aspects, without undue concern for issues such as schedules and economics. If it were set up to be just a mouthpiece for justifying whatever the utilities want to do based on profit and loss, as is the case with many industry organizations, it would become a house organ and be a wasted effort. Also, if utility management simply turns over all technical matters to this organization, it will not work. Utilities also need their own in-house technical competence.

In setting up such an organization, care must be taken to get the proper people. It is more important that they have a proven record of actual accomplishment in a practical, successful application of technology than that they be "experts" or "senior statesmen" who have become well known because they have done a lot of talking for many years about the nuclear power field.

I have discussed these points with senior executives of several of the largest utilities, shown them how the naval nuclear propulsion schools are set up, shown them how we go about designing nuclear power plants, how we operate them, and how we train people in an operating plant. So far, I have not seen evidence that they truly understand their problem or how to attack it.

It will not be easy to get the utilities to establish the central technical organization I recommend, nor will it be an easy task to staff it. But I firmly believe it is necessary and the least difficult way out of the present morass. With the limited technical resources available, it is the only way I can see for the utilities to be able to "pull themselves up by their own bootstraps."

If they commit themselves to it, then the Government's regulatory problem will become more manageable. The NRC will, of course, have to satisfy itself that the central technical organization is establishing proper standards, but for the first time the NRC will have a technically knowledgeable group to deal with that can speak for the utility industry

I am concerned that the current argument over whether the NRC should continue as an independent commission or should be restructured as an executive agency under a single administrator, as recommended by the President's Commission, may divert attention from actions needed to improve safety. What is needed is firm direction, and this can be achieved either by an able commission chairman or an able administrator.

The President's Commission identified many areas of fault within the NRC. The NRC is in the process of conducting its own

internal evaluation. Others have pointed out matters needing correction. No doubt major improvements are needed in how NRC carries out its regulatory functions. But there is no assurance that forcing reorganization of the NRC into an executive agency will cure these faults more rapidly or more effectively. In fact, it would probably delay needed reforms because of the uncertainty which would hang over the NRC during the time required to process the legislation needed to change the NRC into an executive agency.

Independent of what other changes are made in the NRC, I recommend, as I have for years, that a Government representative be in the control room of each commercial nuclear power plant at all times it is in operation, with the authority to shut the plant down if he believes this to be necessary for safety. As you may know, I have followed this practice at the Shippingport Pressurized Water Reactor ever since the plant started up in 1957. It provides an independent monitor whose sole concern is safety. The Government monitor can check to see that the control room is properly manned, correct procedures are followed, and that operation is conducted in an alert, formal manner at all times.))

In the naval program we pay careful attention to strict formality. Whenever the plant is operating, there are on duty not just the qualified operators, but also qualified officers who supervise them. One of the supervisor's responsibilities is to assure formality, discipline, and attention. In civilian plants, which operate largely at steady power conditions and where the individuals are on watch for eight hours at a time instead of four as in the Navy, it is more difficult to achieve the proper watch-standing practices.

Much time and energy is required to achieve strict watchstanding practices and to avoid confusion in communications. If these strict practices are not enforced during normal operations, they will not be available when a crisis arises.

Plant designs, equipment, control rooms, training, etc., should be standardized insofar as practicable. For example, it makes no sense that the control room for Unit 1 at Three Mile Island is designed much differently than the control room for Unit 2, even though both reactor plants were designed by the same manufacturer. This apparently resulted from the utility using different architect engineers for the two units.))

To the extent it is practicable to standardize, two distinct benefits would result. The first is that a larger number of engineering man-hours could be applied to the standard designs than to each of many different designs. This should result in better designs. The qualification, test program, development of operating procedures, operating manuals, test procedures, and calibration procedures should also benefit from the increased attention. Further, with a larger number of identical operating

systems, operational experience will provide a valuable source of information that can be used to improve the design and procedures and establish a more effective preventive maintenance program for all plants.

The second benefit of standardization relates to the training of operating and inspection personnel. The use of standard designs would make it possible to train operating personnel more effectively and to conduct more effective audits.

In advocating more standardization I am not saying that there should be one single design. I have standardized in my program as far as practicable. Even then we have a number of designs to suit the different power ratings and ship types and to take advantage of new developments and technology which have become available.

I would put major emphasis on simplifying and reducing the size of control rooms. Even recognizing the differing requirements for naval and civilian nuclear power plants, there are several things I have read about the control room at Three Mile Island which were a surprise to me. In the naval program, we minimize the number and types of instruments and alarms needed. This results in much smaller control rooms. I was appalled to learn from the data gathered by the President's Commission that at TMI-2 during normal operation there were at least 50 alarms activated in the control room, and after the reactor trip there were over 100. How can operators be expected to take effective action under such circumstances? //

It is naive to allow routine operation with many deficiencies such as alarms or abnormal conditions present, and then expect operators to respond properly to alarms which indicate a casualty. Once you learn to "live with" deficiencies such as significant leakage and a number of alarms or abnormal conditions, there ensues a loss of ability to recognize and respond to new problems or new conditions which may actually jeopardize the plant but seem to be just another "acceptable" deficiency. //

It is unusual for naval nuclear plants to operate with any alarms for an extended period of time; extended operation with several alarms is unheard of.

Some have suggested that the success of naval nuclear power is a result of the discipline which can be enforced in a military environment, but which cannot be achieved in a commercial nuclear environment. I do not agree. I believe that adequate discipline can be obtained in commercial nuclear power.

Discipline is an essential characteristic of any successful program and of any successful person. The discipline in the naval nuclear program has been successful not because this involves military applications, but because I have insisted upon staffing the program with intelligent, motivated people,

whom I hold accountable. Achieving the required discipline in the commercial nuclear field will require attention to responsibility and the other things I have suggested, and recognition by all involved that taking part in designing, building, and operating a nuclear power plant is not a "right" given to each American at birth any more than being a surgeon or an airline pilot is such a "right." Selection and retention of people must be based on competence and performance. These must not be subordinated to other goals. Management responsible for safe operation must have the authority to enforce standards.

There has been too much emphasis on research and development in nuclear power and not enough on the daily drudgery of seeing that every aspect of nuclear power is in fact being properly handled every day by each of the organizations involved. That is where the emphasis is needed. //

I am not an expert or specifically knowledgeable about environmental effects of other forms of power generation. However, I am aware that knowledgeable people have concluded that the total risk involved in the use of nuclear power is no greater than that of any alternate source which can be tapped in the next few decades.

I remember the optimistic projections made for nuclear power when it was first being developed. These sprang from hope and from ignorance of the engineering problems that would be encountered in using nuclear power. There is no reason to believe that current optimistic projections for alternate means of providing large amounts of power are more precise. Today, many are talking of the extensive use of coal without addressing the problems of mining, transportation, and safety; many envision solar and other so-called "natural" sources of energy without considering their inherent limitations and the demands they make on other resources; many advocate exploitation of shale oil deposits without mentioning the vast amounts of water required. Any large-scale generation of power involves major engineering difficulties and potential environmental impacts. Nuclear power is not unique in this respect.

I believe that when all alternatives are faced up to, the United States will find that nuclear power is necessary. But the Three Mile Island Accident was a providential warning. We must heed it and implement the painstaking steps necessary to assure safe operation of commercial nuclear power plants.

This letter has been long, but I wanted to be sure that I set forth clearly the basis for my recommendations concerning the matters I consider require the most urgent attention if an adequate level of safety in the operation of commercial nuclear plants is to be achieved.

Very respectfully,

H. G. Richover

THE WHITE HOUSE
WASHINGTON

Mr. President:

Louie Martin and Jim
Free are most anxious to
schedule this endorsement.
May I slip it in this week?

yes no

Phil

1:55 pm

Then
12/6

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THE WHITE HOUSE

WASHINGTON

November 30, 1979

CONGRESSIONAL SCHEDULING PROPOSAL

MEETING: Photo session with Rep. Harold Ford (D-8-Tennessee) and a group of political officials from the Memphis area.

LENGTH: 10 minutes

DATE: Next week - December 3 - 7, 1979

BACKGROUND: The Congressman wants to bring down a group of political officials from his district and the Memphis area to have a photo session with the President and to then publically express their support. The Congressman will spearhead this group and indicate his support at the same time. It would be extremely beneficial to meet with this group.

EVENT DETAILS: Location: Cabinet Room/Oval Office
(depends upon size of group)

Participants: The President, Rep. Harold Ford, political officials from the Memphis area, Frank Moore, Louis Martin, Jim Free.

Press Coverage: Full press

INITIAL REQUESTER: Jim Free *J.F.*

APPROVED BY FRANK MOORE: *F.M.*

DATE OF SUBMISSION: November 30, 1979

cc: Phil Wise

Hufstedler Swearing-In 12/6/79

Shirley HUFSTEDLER

ED - IMP → DEPT

STRONG, CHAR, SCHOLARSHIP -
COMPASSION - JUDGMENT

W'BURG - TET PROPUL -

SYMPH ORCH - ETHICS → CHILD^{REN}

EXCELLENCE & INDIV'S
ED → JOBS

CLASSRM - MUSEUM - LIBRARIET -
CONCERT HALLS - WORKPLACE,
PUB MEDIA

3 YRS FED A → in 1
CUT PAPER WK

SECRETARY → TEACHER
of ENG, SHIT AND, TYPING
MUSIC → SEC

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3:00 PM

THE WHITE HOUSE
WASHINGTON

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December 5, 1979

MEMORANDUM TO: THE PRESIDENT
FROM: GRETCHEN POSTON *Gp*
SUBJECT: SWEARING-IN/RECEPTION FOR
SHIRLEY HUFSTEDLER ON DECEMBER 6
AT 3:00 PM - SCENARIO

2:30 PM Guests arrive Southwest Gate and proceed to East Room via the Diplomatic Reception Room.

2:45 PM Judge Shirley Hufstedler , Mr. Seth Hufstedler, their family, VIP members of the staff and The Chief Justice of the USA arrive Northwest Gate and proceed to Blue Room.

Cabinet members and Members of Congress also meet in Blue Room.

3:00

~~2:50~~ PM

The PRESIDENT enters the Blue Room and greets guests.

Staff members are escorted to reserved seating area in the East Room.

Cabinet members and Members of Congress are escorted to reserved seating area in East Room.

Mr. Hufstedler's sister and her fiance are escorted to reserved seating area in East Room.

Steven Hufstedler is escorted to reserved seating area in East Room.

Mr. Hufstedler is escorted to platform to toe card. The Chief Justice is escorted to platform to toe card.

The PRESIDENT is announced into East Room and proceeds to podium.

The PRESIDENT makes remarks about Judge Hufstedler and then introduces the Chief Justice. The PRESIDENT steps back to his left.

The Chief Justice, Judge Hudstedler and Mr. Hufstedler proceed with Swearing-In ceremony.

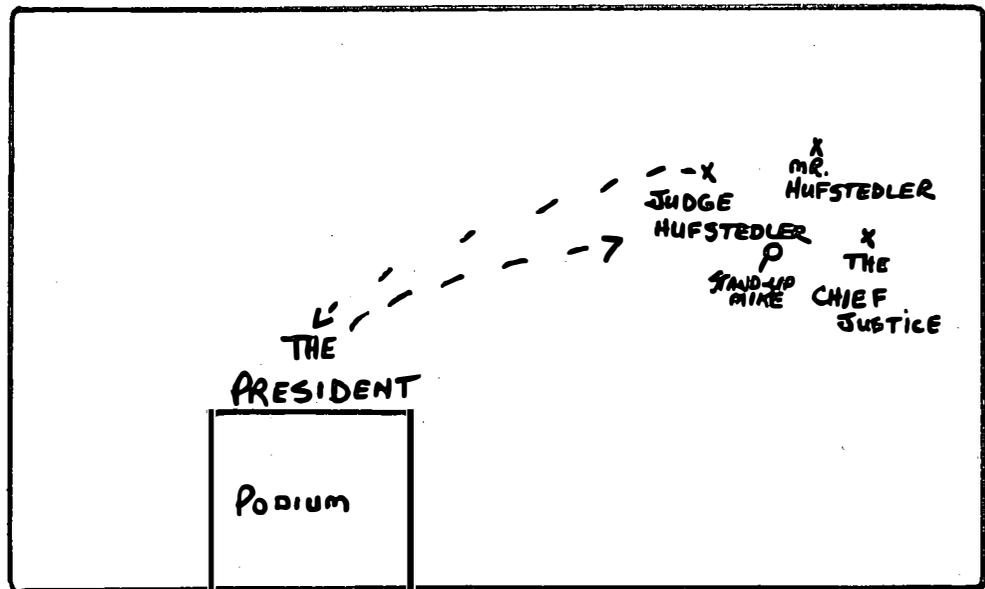
Judge Hufstedler steps to podium for remarks.

The PRESIDENT leaves State floor.

Judge Hufstedler, Mr. Hufstedler and Steven Hufstedler proceed to Cross Hall near entrance to State Dining Room for receiving line.

Reception follows in State Dining Room.

(If MRS. CARTER attends, she will be announced into East Room and seated in reserved seating area.)



THE WHITE HOUSE
WASHINGTON

December 5, 1979

MEMORANDUM FOR THE PRESIDENT

From: Al McDonald *by*
Rick Hertzberg *Rick*
Achsah Nesmith *et al*

Subject: Talking Points:
Secretary Hufstedler

Attached are the talking points for the swearing-in of Secretary Hufstedler. They have been cleared by Stu.

THE WHITE HOUSE

WASHINGTON

December 4, 1979

MEMORANDUM TO THE PRESIDENT

From: Rick Hertzberg *Rick*
Achsah Nesmith *et al*

Subject: Secretary Hufstedler
Swearing-in

1. Our survival as a nation, and the survival of the freedom we hold sacred, depends on our ability to educate our people to meet the challenges of the coming decades. I promised the American people a Cabinet-level Department of Education when I sought the Presidency. I am proud to be able to fulfill that promise.

2. I am proud, as well, to have a person of such strong character, rigorous scholarship and deep compassion as Judge Shirley Hufstedler to serve as the first Secretary of Education.

3. In addition to the law, her interests include Colonial Williamsburg and jet propulsion, symphony orchestras and teaching ethics to children. She has been extensively involved over a period of years with teachers and administrators from the kindergarten to postgraduate levels, and has long worked to strengthen institutions of higher learning.

4. Her work in education, as in the law, has been characterized by two things--her dedication to excellence and her belief in the uniqueness and importance of each individual.

She knows that one good teacher can transform a child's life. She knows that a good teacher can awaken insight and creativity, inspire a love of learning, give that child a sense of self-worth. She understands that a child may be educationally disadvantaged or physically handicapped and at the same time be intellectually gifted.

5. She understands, too, that education comes not just in classrooms, but in concert halls, in museums, in libraries, research institutions, and workplaces.

6. In our society even the best educated must constantly update their knowledge and skills. Both men and women often change occupations in mid-life. New machines, new processes, new discoveries, new conditions require that education not be just for the young, but lifelong learning for living.

7. During the three years of my Administration, federal aid to education has increased more than at any previous time in our nation's history.* Much of this aid has gone to college students from families with low and moderate incomes and to improve the basic skills of disadvantaged youngsters.

We have cut down on paperwork that kept teachers from having time to teach and substantially reduced the backlog of defaulted student loans. We are making federal dollars work for education, instead of making education work for federal dollars.

8. We are currently developing a major legislative package to alleviate youth unemployment through programs that effectively link the schools and the workplace.

9. The new Department of Education will give education a voice at the highest levels of government. It will give the people a simple, accessible, accountable, coordinated management structure for education.

10. I chose Shirley Hufstedler to head it because I wanted someone who was not a part of any faction in our educational system. I wanted someone who understands that the primary responsibility for education lies with the state and communities, and who is determined that the federal role will enhance, not intrude upon, the efforts of teachers and local school boards.

I wanted someone who shares my goals for education--someone who insists that access to education should not depend on the race or income or educational attainments of students' parents, or the language they speak, someone who would demand that all our children learn the basic skills. I wanted someone who would help our schools meet the needs of those with special problems and special abilities, along with those of the millions of average youngsters.

12. Judge Hufstedler began her career as a secretary and a part-time teacher--teaching English, shorthand, typing and music. She has now come full circle, after an 18-year Sabbatical on the bench, and is a secretary again.

#

*Compared to President Ford's last budget request, which cut education funds, our requests are up 60 percent. The Congress passed an appropriation higher than his request, as they did with ours, but the record level is true either way you compare it.

3:00 PM

THE WHITE HOUSE

WASHINGTON

December 5, 1979

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Leads

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

**Electrostatic Copy Made
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December 4, 1979

C

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze

Subject: Thursday morning meeting with your
economic advisers -- agenda

On Thursday morning an "inflation" breakfast is scheduled. With the agreement of Fred Kahn, we would like to use that time to discuss with you -- on a preliminary basis -- some of the major proposals that are now under study by the EPG, encompassing the issues I listed for you Monday.

This memo outlines the principal economic and energy issues that will need decision in the next two-and-a-half weeks. There is also attached a set of briefing papers on a gasoline tax prepared by Treasury staff. The papers were developed for EPG discussion; they do not cover all the issues, and were not developed as a Presidential decision memo. Nevertheless, they do provide background material that you may find useful as preparation for the Thursday breakfast.

In Post

I. An Overall Approach to Energy and Economic Problems in 1980

Over the past year a large part of our economic problems stemmed from the tight oil demand-supply situation and the associated huge price increases. In the next several years our economic fortunes will continue to be closely tied to the state of the world oil market.

In other areas of economic policy our opportunities are limited for dramatic action promising major results. We will find it very hard to pull down the rate of inflation substantially. We cannot avoid some rise in unemployment. But, at some short-run economic and political costs, we

could take dramatic action to reduce oil imports quickly and substantially. We can also take steps that will, in the long run, increase investment and productivity, even though there will be little payoff from these steps in the next several years.

Proposition for discussion: We should consider taking action to reduce oil imports sharply over the next several years, as the center piece of both our energy and our economic policy program for 1980.

II. Reducing Oil Imports

There are two practical ways to get a sharp and immediate reduction in oil imports:

First, a large (say 50¢ a gallon) tax on gasoline;

Second, some form of rationing or mandatory conservation.

(Your advisers have considered and discarded the idea of a general tax on petroleum products, for both economic and political reasons.)

A. A Large Gasoline Tax

1. Results: A 50¢ tax might reduce imports some 700,000 bbls/day (or more) by the end of a year. If the tax were indexed so as not to be eroded by inflation, imports might be cut by perhaps 1-1/2 to 2 million bbls/day after four or five years.
2. Major problems in designing the tax: What to do about diesel fuel, farmers, and commercial trucking? No matter what decisions are made, they cause problems.
3. What to do with the proceeds (about \$55 billion in the first year)? There is a wide range of possibilities, but the following alternatives -- or some combination of them -- illustrate the prominent candidates:
 - (i) Use the proceeds to accomplish a number of things we seek: keep some of them to balance the budget (\$10 to \$15 billion); postpone the 1981 social security tax increase (\$15 to \$20 billion); provide tax incentives for investment, saving,

and R&D (\$5 to \$10 billion); pass back the remainder in personal tax cuts and funds channeled to the poor and aged (\$15 to \$20 billion).

(ii) Keep the gasoline tax separate from other budgetary proposals and return all of the \$55 billion in the form of income tax reductions and rebates to the poor and aged.

(iii) Refund the tax in ways which seek to offset its inflationary consequences (see below).

4. What to do about the inflationary impact of a gasoline tax: The gasoline tax would directly and immediately add 2-3/4 percent to the CPI and indirectly and gradually add another 1/2 to 3/4 percent, as higher trucking and other business costs were passed through into higher prices. To the extent that wages were then raised to cover the higher CPI, additional inflation would be generated. We have considered a number of ways to offset part or all of this inflationary effect:

(i) A negative sales tax: A recycling of the proceeds of the gasoline tax through a federally financed 4 percent rebate on all retail sales would roughly offset the effect of the gasoline tax on the CPI. A brief analysis of this proposal is covered in the attached Treasury paper.

50¢/gal = 4% rebate !!

(ii) A buy-out of states sales taxes: We considered this approach when deciding what to do with the COET proceeds and again last year as a potential anti-inflation measure. We are resurrecting and reviewing the analyses conducted at that time.

(iii) A reduction in social security taxes: Half of social security tax reductions go toward lowering employer payroll costs. If about \$18 billion of the gasoline tax proceeds were used to postpone the 1981

social security tax increases, some \$9 billion would result in lower costs and prices -- i.e., about 1/6 of the inflationary impact of the gasoline tax would be offset. Using the gasoline tax proceeds to go beyond a postponement of the 1981 tax increases would pose some major problems.

- (iv) A comprehensive effort to avoid the escalation and indexing problems that would arise from a gasoline tax. This effort would include: a legislative mandate to BLS to calculate and publish an alternate CPI which excluded the new tax (the current CPI would also be published); a legislative proviso that tied all indexed Federal programs to the new alternate CPI; an agreement with the AFL-CIO and the Pay Advisory Committee to use the alternate CPI as the basis for wage policy (since workers would get the gasoline tax back in some sort of tax rebate).

B. Gasoline Rationing and/or Mandatory Conservation Efforts

1. These comprise the principal alternatives to a large gasoline tax.
2. Imposing rationing on a semi-permanent basis raises formidable administrative and political problems. But rationing would avoid the inflationary and recycling problems raised by a gasoline tax.
3. DOE is completing the design, and evaluation of what could be done quickly if rationing or substantial mandatory conservation measures were ordered. We have not yet had a chance to consider this analysis.

III. Major Fiscal Policy Decisions

1. We are developing our forecast and our estimates of the economic and budgetary consequences of alternative policies. But the analysis is not finished.

2. Decisions on the gasoline tax and the overall budget cannot be fully separated. But holding aside consideration of that tax for a moment, we believe you have two major fiscal options:
 - A. Propose no tax reduction in the 1981 budget. Because of economic weakness the 1981 budget would not be balanced, but the deficit would not be large.
 - B. Propose a moderate set of tax reductions to be effective in 1981, not in the context of immediate economic stimulus, but principally as anti-inflationary and tax restructuring measures.
 - (i) Eliminate most or all of the scheduled 1981 social security tax increases;
 - (ii) Simplify and liberalize business depreciation allowances.
3. If a tax reduction package is to be proposed, your advisers agree that it should have the elements listed in B above. In addition, we are further investigating two other tax reduction possibilities: (i) some form of incentive to private savings; and (ii) some form of additional incentives for private R&D.

IV. Relationship with AFL-CIO and Other Labor Groups

As part of the "Accord" we have begun to consult with labor representatives on a range of economic proposals. Labor will be pressing for:

1. A "stimulus" package as soon as possible, to fight forecasted increases in unemployment.
2. As much as possible of the stimulus to be provided in additional employment-related spending, and as little as possible in tax cuts.

V. Wage-Price Guidelines

We have investigated various ways to tie any business tax reductions to a requirement that business comply with the guidelines. Some move to inject a new element in the guidelines may be needed to keep them alive. Tentatively, we believe that:

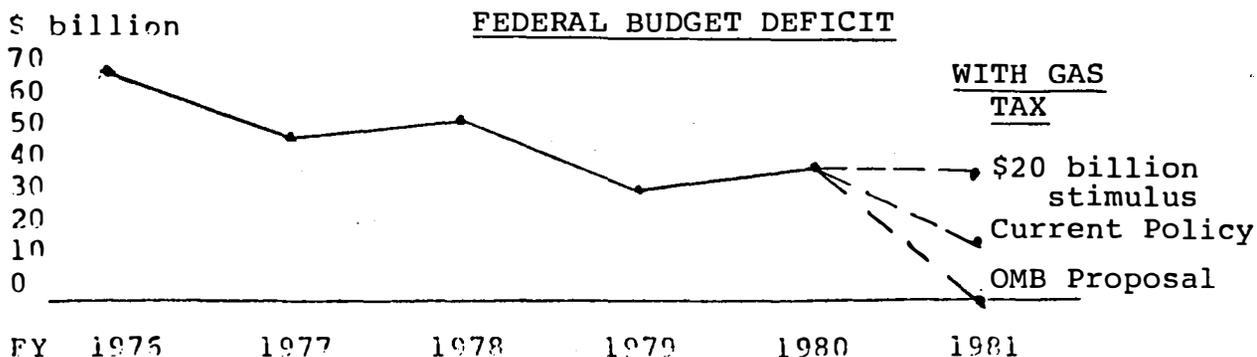
- A. Conditioning depreciation liberalization on compliance is not a good idea. Rather, if we go in this direction, we should levy a corporate surcharge on those who do not comply.
- B. It may well be impossible to levy a tax on business violations of the wage guidelines. Such a measure would probably shatter the "Accord." Moreover, the new guidelines being developed by Dunlop's Committee are most likely to be too complex and flexible to be accommodated in tax law.
- C. There are significant problems in tying violations of the price guidelines to a tax penalty. But it may be possible to overcome them, especially if Congress would give CWPS a good deal of flexibility in designing the price standards, rather than insisting on writing them into the tax law. We will be taking Congressional soundings on this point.

Attachments

1. The energy crisis for national security and the economy is paramount. It requires a 50 cent gas tax, reducing imports by 700,000 -- 1 million barrels per day after one year and 1-1/2 to 2 million barrels per day after several years. This tax would raise about \$55 billion in 1981.
2. If such a gas tax is proposed, the President can also propose a comprehensive program for energy, investment and productivity, and payroll and income tax reductions, which balances (or nearly balances) the 1981 budget:

<u>Current Policy Deficit</u>	\$10 to \$15	20 ^d ↓
<u>Gasoline Tax Receipts</u>	+55	10 ^d
<u>Tax Reductions</u>	-45	
Social Security Taxes.....	-20	40 ^d Tax 10 ^d 10/10 20 ^d Soc
Income Taxes and Transfers.....	-15	
Investment and Savings Incentives.....	-10	
<u>Proposed Deficit</u>	-5 to 0	

3. This is a forward-looking, bold, and possibly risky proposal. It has inflation costs in the short-run. It offers large benefits for energy, productivity and inflation in the long run. It is an extraordinarily strong program for long-term economic policy. The major risk is that it will be perceived as unacceptable on short-term political grounds.
4. With respect to fiscal stimulus:
 - . It will be premature to propose any net fiscal stimulus in the January budget, considering current economic indicators, especially inflation, and the sentiment in Congress and the country. Fiscal stimulus, if necessary, can be proposed later when the need is more evident.
 - . The OMB proposal, although it reduces the budget deficit by \$10 billion, is fiscally neutral. That is, the 50 cent gas tax itself, if completely recycled, has a stimulative impact of about \$10 billion.
5. Politically, action on energy and the budget deficit are critical:



TAX ON GASOLINE



November 29, 1979

One day/week - no drive

Tax on Gasoline

To be effective in reducing consumption, the additional tax would have to be quite large. A 50 cent or \$1 amount should be considered. A 50 cent additional tax would be about a 50 percent retail price increase.

A. Effects of Increased Tax

*Phased? 5¢ or
10¢ increments as
triggered?*

1. Consumption

Gasoline represents about 40 percent of petroleum production. Gasoline supplied averaged 7.4 million barrels a day over the period 3Q1978-2Q1979.

The impact of the tax on consumption of gasoline depends on the elasticity of demand. Empirical studies suggest that the elasticity of demand is quite low, particularly in the near term, but the elasticity may be somewhat higher if gasoline prices are increased 50 to 100 percent. In the near term the elasticity of demand may be about -0.1 . Thus a 50 percent increase in price would lead to a 5 percent decrease in gasoline consumption. In the longer term, perhaps one-year or longer, the elasticity of demand is probably about -0.2 . Thus a 50 percent price increase would

too low?

result in a 10 percent decrease in demand. This would represent about 4 percent of total petroleum demand (9 percent ^of imports) in the first year or two, or about 750,000 barrels a day. After 4 or 5 years the price elasticity may be as high as -0.5 to -0.7 and the reduction in consumption would be correspondingly higher.

	Price Elasticity	% Price Increase	% Reduction in Consumption
Short term (6 mo)	0.1	50	5
Longer term (1 yr)	0.2	50	10
Long term (4 or 5 yrs)	0.5-0.7	50	25-35

2. Revenue

With a -0.2 price elasticity, a 50 cent a gallon tax on gasoline would raise about \$50 billion. The net increase would be \$450 million less due to reduced collections from the present 4 cents a gallon tax which goes to the Highway Trust Fund. The States also would have gasoline tax revenues reduced by \$900 million or so, and this would rise over time.

3. Price Effects

October

As of ~~September~~ 1979 gasoline had a relative importance of 5.5 percent in the Consumer Price Index, so a 1 for 1 pass on of a 50 cent gasoline tax increase (~~the~~ 50 percent increase in retail gas prices) would increase the CPI by 2.75 percent. A good deal of gasoline is used for business purposes, perhaps 20 to 30 percent, so that the CPI will be increased further, perhaps 0.6 to 0.9 percent, as the increased business costs work their way through the price structure. In addition, the wage-price spiral effects could multiply these inflation effects by 1.75 over the long run so the total effect could be as high as 6.4 percent. However, these estimates do not account for the fact that some of the cost increases might be absorbed by producers and not reflected in prices.

4. Regressivity

Direct consumer usage of gasoline is regressive according to the 1972-73 BLS consumer expenditure survey (see Table 1). For the lowest decile the ratio is 6.6 percent of money income before taxes and for the top decile, 2.0 percent.

These figures are based on 1972-73 expenditure levels and are too low to represent current expenditure shares. The relative pattern surely holds today. Any pass through of the business cost portion of gasoline usage is also likely to be regressive.

5. Regional Differences

Per capita gasoline consumption depends not only on personal income, but on the economic activity of a region and residential patterns. Gasoline is 45 percent of the energy consumption in the North East but, 60 percent in the West. The economy of high usage States thus would be affected more by the tax increase. By and large high usage states are concentrated in the South-West and West and low usage states in the East. Per capita usage in some Western states is at least 1.5 times greater than in the East.

B. Disposition of Revenues

The revenue from the tax would have to be recycled back to consumers to offset any drag on the economy and the regressivity. This is discussed in a separate paper. The

question at this point is whether the Highway Trust Fund should be made whole for any decrease in revenues from the 4 cent tax as a result of a cut back in gasoline demands. This, however, is not an immediate problem. The Trust Fund has a large balance of \$12.6 billion at the end of FY 1979. State revenues would also be reduced by about \$900 million. As a first approach, we could let the States consider raising their own taxes which they are free to do in any event.

C. Adjustment for Inflation

A specific tax of 50 cents, or \$1, would soon be reduced in effectiveness if inflation continues at recent rates and gasoline prices increase at anything near the 57 percent annual rate experienced so far in 1979. Also, if the rebate of the tax is a negative ad valorem tax, the rebate would increase automatically with inflation. The combination of a specific gasoline excise and rebate would result over time in increased deficits. To minimize the rate at which the net revenues are eroded, the gasoline tax should be an ad valorem tax or be adjusted periodically as the price level increases. An ad valorem tax almost needs to be a retail

tax to reflect price differentials. (The current 4 cent Federal excise tax is imposed at the wholesale or distributor level.) The Treasury would hope to avoid the work of enforcing a retail gasoline tax on 175,000 stations. A periodic increase in the specific rate reflecting some agreed on index would be better. A periodic adjustment would complicate the problem of the tax due on inventories (or floor stocks) held by retailers. Also, each adjustment would add to the CPI. *as would an ad-valorem tax continuously*

D. Floor Stocks Tax

In the case of past gasoline tax increases of 1 cent a gallon or so, tax has not been collected on the inventories held at retail stations, even though retailers would be expected immediately to raise retail gasoline prices to reflect the replacement cost of these inventories. The dollar amount involved was small relative to the, then, over 200,000 stations to be handled. A 50 cent or \$1 increase is a different matter. Even a small station can store 15,000 gallons, and 175,000 stations could easily store 1.5 billion to 2.0 billion gallons. Under the circumstances, we probably would have to collect tax on the gasoline inventories held by all retail stations.

E. Inclusion of Diesel Fuel and Other Motor Fuels

The present 4 cent fuel tax extends to diesel fuel used in a highway motor vehicle. The tax brings in almost 13 percent of the revenues from the gasoline tax alone. (The diesel tax revenue also goes into the Highway Trust Fund.) If a heavy tax is levied on gasoline, equal treatment of truck operators would lead to a similar tax on diesel fuel. To do otherwise, would place truckers using gasoline at a competitive disadvantage and would lead to excess demand for diesel cars. The diesel fuel tax as now structured would not affect diesel fuel used by railroads and the barge lines (barge lines will be taxed in fiscal 1981 under present law). A case probably can be made on energy grounds for favoring barge and railroad transportation.

A major drawback to a heavy tax on highway diesel fuel is that it is difficult to enforce since number 2 heating oil can be used instead. We would expect little evasion problems with a gasoline tax alone except for gasohol.

F. Exemptions

The present gasoline tax includes exemptions for State and local purchases, purchases by private nonprofit schools,

and use by commercial airlines, buses, and military aviation. The military pays tax on motor vehicle use. Gasoline purchased by farmers for use on the farm is also exempt, though the exemption here is implemented through a refundable credit against farmers Federal income tax liability. In addition, gasoline is exempt if mixed with at least 10 percent alcohol. The same exemptions apply to diesel fuel used in highway vehicles.

While the exemptions are only a small percentage of total usage, carrying them over to the additional tax would provide an unusually large advantage to the exempt activities. If legal reasons require continuation of the State and local exemption, then the school exemption has to stay. To encourage mass transit, the bus and airline exemption could be continued (especially if the railroad diesel fuel is not taxed). Farm use should be subject to tax since this gasoline tax is not earmarked to build highways. To exempt farmers would create a major enforcement problem.

The gasohol exemptions should not be extended to this tax as far as the gasoline content of the mixture is concerned but the alcohol should not be taxed.

G. Decontrol of Gasoline Prices and Allocations

The underlying rationale of a large increase in the gas tax is to use the price system to reduce consumption, and this rationale would also suggest decontrolling gasoline. As a practical matter a substantial gas tax would require decontrol, or, at least, a substantial increase in the ceiling price. The allocation system is admittedly not working equitably. Continued controls will reduce our ability to deal with supply interruptions. DOE does not believe that decontrol would result in significant price increases in the near term absent a curtailment of supply.

H. International Comparison

A significant gasoline tax would bring U.S. retail gasoline prices closer in line with European prices. Such a tax would give OPEC and our allies evidence that we intend to limit our consumption.

	Retail Price Premium Gasoline	Tax (Federal, State, local)
U.S.	\$1.02	\$0.12
Britain	1.99	0.88
West Germany	2.25	1.16
Italy	2.48	1.62
France	2.71	1.69

Source: CIA, International Energy Statistical Review.

Addenda

The above analysis assumes that it has been finally decided that a large tax increase is needed to reduce consumption by some estimated percentage. Two alternatives suggested are: 1) an "emergency" tax to be imposed only when a specified shortfall or "other event" occurs; 2) an excise tax which is "forgiven" upon presentation of a rationing coupon.

A. Emergency Tax

Presumably the decision as to the implementation would be made by the President. Administrative and compliance problems would be much the same as heretofore described. The real problem with this approach would be what to do about the recycling of the revenues. Would we want to implement a complicated negative food tax (or sales tax) for a six month period, or even a year? If we were sure the tax would be temporary, it might be better to give a one time per capita refund.

This suggestion may assume that the petroleum problem is one of temporary supply inadequacy. The long run problem is the excess dependence on foreign sources, price pressures

on world oil markets, and balance of payments deficit. These problems will continue until we permanently drastically reduce our petroleum consumption and imports.

B. Forgiveness of Tax Upon Presentation of Rationing Coupon

The problem with this approach is that it assumes that tax would be collected by 175,000 station operators who would remit coupons and/or tax to the gasoline producers. The paperwork and auditing would be enormous as under any rationing plan. Returning the revenues generated to consumers would be complicated if it were attempted to use a negative food or sales tax because it would be some time before it would be known how much revenue the plan would bring in.

Table 1

Relationship of Gasoline Expenditures
to Income Level*

(by Deciles)

Decile	Mean <u>1/</u> Income (000\$)	Gasoline Expenditures \$	% of Income
1	1,559	103	6.6
2	3,268	141	4.3
3	5,081	223	4.4
4	7,063	293	4.1
5	9,112	365	4.0
6	11,244	429	3.8
7	13,466	491	3.6
8	16,116	527	3.3
9	19,747	579	2.9
10	31,974	626	2.0
All Households	11,945	377	3.2

*Based on information from the 1972-1973 consumer expenditure survey for all families and single person households.

1/ Money income before taxes.

NEGATIVE GENERAL SALES TAX

Negative General Sales Tax

Because a negative sales tax on food for home consumption would require a 23 percent rate to recycle \$50 billion of gasoline tax revenues, consideration might be given to using a broader base for the credit so as to minimize the distortion of relative prices. Total personal consumption expenditures in the 3rd quarter of 1979 were \$1,529 billion as computed by the Department of Commerce. On this basis, it would require only a negative tax of 3.25 percent to recycle \$50 billion. However, the expenditure figures include imputed items and services for which it would be difficult, or undesirable, to give a consumer credit, e.g., taxicab fares, bridge tolls, insurance premiums, etc. If we exclude the imputed items and some services, the base comes only to about \$1.084 billion. A \$50 billion negative tax thus would require a rate of 4.6 percent. As food expenditures are expanding, we will use a rate of 4 percent. A negative sales tax might be considered a more equitable rate than 23 percent on food alone.

*quarter
or
annual?*

quarter

*Why not just
consumer items
those in CPI?*

*Food
clothing
medicine
housing?*

A. Business versus Consumer Purchases

A crucial problem with a negative general sales tax is the determination of which purchasers are to be eligible for

the "price reduction." A retail sale is usually defined as "a sale not for resale." Thus, the sale of a rolling mill to U.S. Steel is a retail sale. The State sales taxes handle such sales to businesses in two ways. In some cases they are taxable. In others they are exempt. Exemption may involve naming specific classes of items or the requirement that purchasers give the seller a certificate that an item is for business use. Naturally, it is to the advantage of the buyer to provide the certificate.

In a negative general retail sales tax, we are dealing with the reverse situation where it would be to the advantage of the business purchaser of an end product to obtain the credit. A 4 percent price reduction on the purchase of a capital asset would be about equivalent to an additional 2 percent investment credit. Since the gasoline is consumed by business as well as individual consumers, it may well be decided that business firms should be permitted the price reduction for purchases of capital assets and consumables. But, so as not favor the less integrated firms, they should not be allowed the credit for materials and parts to be used to make other articles. This rule could be written in the law and regulations, but it obviously would require a lot of

rulings and could not be fully effective. Some articles (auto parts, light bulbs) can be used by the purchaser for operational purposes or incorporated in items he manufactures.

If business purchases are to be eligible for the negative tax, then the rate need not be 4 percent to recycle the \$50 billion of gasoline tax revenues.

If it is desired to limit the reduced price to purchases by individual consumers, the operation becomes somewhat more complicated. Most business purchases are made from sellers who sell only "to the trade," but some are from firms which sell to both businesses and individual consumers (e.g., auto parts to independent garages). Businesses get a trade discount which exceeds 4 percent (it is 40 percent for auto parts), so that it would not pay a business firm to pass up the trade discount for the negative sales tax. In the few cases where a business firm makes emergency purchases at a retail at full retail price and for cash, the seller would be under pressure to give the negative tax.

B. Effect on CPI

While a 50 cent a gallon gasoline tax would raise the CPI by 2.75 percent, or 3.5~~0~~ percent when the business cost portion of the gasoline tax flowed through, it must be

recognized that any negative sales tax would not necessarily exactly reverse the tax increase effect in the CPI because of different consumption patterns for different items. A negative general sales tax which totaled \$50 billion on final sales would reduce the CPI by between 2.5 and 2.8 percent before wage-price spiral effects. In the case of a negative general sales tax, the effect also would depend on whether business purchases were accorded the credit.

C. Effect on Different Business

A generalized negative sales tax -- even though no sales tax is ever truly general -- would avoid the distortion in demand for different products and services caused by a narrowly based negative sales tax.

D. Regressivity

A negative general sales tax would be less progressive than an equivalent negative food tax because food expenditures are more regressive than total expenditures.

E. Administration and Compliance

A negative general sales tax would pose all the problems of a general sales tax. These include definitions, paper work, enforcement, plus in the case of a negative tax, the timing of the payment to the retailer.

1. Coverage. All retail sales of tangible personal property would qualify for the negative tax. Services are the trouble spot. State sales taxes cover services by specific rather than general reference. We could follow the opposite route and include all services except those specifically excluded. The list probably would be long in either case. Even for excluded or included services, there would be definitional questions. Business versus consumer purchases are discussed in A above.

2. Compliance. Sellers of goods and services would add up their bill, including any State sales tax and then deduct the negative tax. This would require a knowledge of excluded services but would be no problem for most retail merchants who handle only tangible property and deal only with final consumers. Records of eligible and ineligible sales would have to be kept.

3. Claim for rebates. A 4 percent rebate would not impose the cash flow bind on retailers that a 23 percent credit would on food retailers. Consequently we might be able to allow businesses to use an offset against FICA and withholding deposits which are due as often as 4 times a month. A quarterly return would be required. However, for

the mom and pop operations which has to file only quarterly for FICA, a direct claim would have to be used. A monthly claim should be sufficient.

4. Processing and auditing of claims. A negative retail sales tax covering consumer purchases would affect some 5 million sellers at retail. The exact number would vary depending on the excluded services. Their returns, quarterly or monthly, would be a significant addition to the 135 million returns now received. Additional manpower would be needed to both process and audit.

5. Lead time. Putting a negative sales tax in place would be a huge task. This tax is even more complicated than the negative food tax, particularly given the problems of business purchases, excluded services, and greatly enlarged number of firms involved. The minimum lead time after date of enactment would be 5 to 6 months, and this assumes that much of the work could be done as the legislation moves through Congress.

F. General Policy Consideration

Negative sales taxes have serious implications for future fiscal policy. Subsidies are extremely hard to

uproot even when all agree the cause therefore has long since disappeared. A 4 percent general negative sales tax would be easier to repeal than a 23 percent food subsidy. Even so, we must evaluate the desirability of giving any negative sales tax as a part of a program of reducing oil imports and energy consumption which requires more than a "patch" to be solved.

Negative Food Tax

A negative food tax could be used to return to consumers the revenues from a newly imposed tax on gasoline, and perhaps diesel fuel, of 50 cents a gallon. The objective would be to return all revenues, except those raised from government purchases.^{1/} The revenue from a 50 cent gasoline tax is assumed to be \$50 billion, with diesel fuel included the revenue would be over \$55 billion.

A. Coverage

1. "At home" use only. To give maximum benefit to lower income individuals the "rebate" would be limited to food bought for consumption off the premises.

2. Definition of food. Alcoholic beverages would not be eligible food. Otherwise, it would be simplest to cover all ingestible products. This is quite close to the food stamp definition of food.^{2/}

^{1/} A 28.9 percent negative tax on food would be required to offset the gas tax effect of 3.5 percent on the CPI. This would require returning about 120 percent of gas tax revenues.

^{2/} For food stamps, hot carryout food is excluded; seeds and plants for use in home garden are included; and in remote areas of Alaska nets, hooks, rods, harpoons, and knives for hunting and fishing are included.

B. Rate of Negative Tax

A sum of \$50 billion is equivalent to close to 23 percent of consumer expenditure for food purchased for off-premise consumption -- including food purchased for meals furnished to employees. The rate would be scaled down if the gas tax rate is lower or if the proceeds are not all recycled through the negative food tax.

If the tax on gasoline is a specific (rather than an ad valorem) tax, while the negative food tax is a fixed percentage, over time the outlays from the negative tax would soon exceed gasoline tax revenues. Even an ad valorem gasoline tax would not solve the problem of equating revenues with the negative food tax since over time expenditures for these two categories will not rise equally. Probably the only way to work some type of correlation would be to have a clause in the law permitting adjustment of the negative rate based on tax collections in the last X months.

C. Regressivity vis-a-vis Gasoline Tax

The negative food tax would affect consumers in a different fashion than the gasoline tax on direct purchases. Food expenditures for home consumption are more regressive

than gasoline expenditures (see Table 1). The lowest income decile spends over 6 times the proportion of money income before taxes for food that the highest decile does. For gasoline, the ratio is about 3 times. ^{1/}

D. Competition with Restaurants

The large price reduction in food for home consumption needed to utilize gasoline tax revenues could draw some business away from restaurants, particularly at the middle price range. In any case, restaurants would argue for the credit for their wholesale food purchases. If their wholesale food purchases were eligible for a 23 percent credit, this would represent roughly 10 percent of the price they charge customers. A 23 percent credit probably would be on the dividing line between buying at full price at wholesale and buying at retail stores with a credit.

E. Effect on Supply and Demand for Food

A negative food credit of the level discussed here would drastically reduce the relative price of food. Some consumers would simply purchase more food, especially the

^{1/} This is based on the 1972-73 consumer expenditure survey by BLS. The growth of the use of food stamps may have changed the ratios somewhat.

very poor. Since the general caloric intake of Americans is more than adequate, however, the more likely result is a shift in the type of food purchased. Beef demand would go up and chicken down, etc. Food production by categories is responsive to demand changes over varied periods of time, but in the short run prices are very sensitive to demand changes. Thus, a negative food tax could lead to noticeable increases in prices for products favored by increased demand and a significant income transfer to farmers, at least in the short run. If the short run demand elasticity for food is .25 and the short run supply elasticity is .15, farmers, processors, and retailers would initially capture about 60 percent of the food subsidy, and thus only 40 percent of the food subsidy would go toward lowering the CPI. Over the longer run, increased production would lead to lower prices but at a higher level than before the negative tax.

F. Procedure for Implementation

1. At the consumer level. When the customer's bill for eligible foods was added up, including State sales tax if any, the clerk then would reduce the bill by the applicable percentage. The store would have to keep records of these

adjustments to obtain payment from the Federal Government. Limiting the tax to food bought for at home use would follow a procedure used in many State sales taxes. It would, however, cause a split tax situation for fast food establishments where people eat in their car. Furthermore, it probably would be necessary to give the credit for food purchased for meals served in institutions, nursing homes, hospitals, colleges, the military, jails, etc.

2. At the store (or firm) level. Theoretically, a system could be arranged whereby the larger food stores could take a credit for the negative tax against their income tax estimate or FICA deposits. Small stores would have to obtain a direct refund. But since a negative tax of 20 percent or more is so far in excess of possible tax liabilities, a separate payment for the negative tax seems to be required.

A direct payment of a negative of the size being reviewed initially requires a prepayment system, or else there will be chaos in the retail food business. Food stores simply don't have a margin of 25 percent or more after cost of goods and wages.

The prepayment should be phased out over a period of time. Details will be complex.

3. Lead time. Putting a negative food tax system in place would be a huge task. Temporary rules will have to be drawn up, forms produced, and all material distributed to the 250,000 firms classified as food stores plus an unknown number of other firms selling food for off-premise consumption -- department stores, drug stores, fast food outlets, restaurants with take out service, etc. Then the stores would have to file for their prepayment. Even if much of the work could be done as the legislation was going through the Congress, the absolute minimum time for implementation after enactment would be 5 or 6 months.

G. General Comment

There are serious implications not analyzed in detail in this paper of a negative food tax, or any equivalent, for future economic and fiscal policy. At the present time food purchases are subsidized through food stamps for lower income individuals. Is it desirable to subsidize food for all individuals for home consumption at the expense of other consumer expenditures? What impact would this have on

farmers versus nonfarmers; what effect on land values? A gasoline tax of \$1 a gallon instead of the 50 cents here discussed would impose substantial problems since the additional \$50 billion could not all be recycled through food purchases. What would we do if for any reason the gasoline tax were subsequently repealed? Let food costs go up 25 percent or more at one fell swoop? Impossible politically. The real question is do we want all this pain for a short term CPI effect.

Table 1

Relationships of Food and Gasoline Expenditures to Income Level*
(by Deciles)

Decile	: Mean 1/ : Income : (000\$)	: Food at Home Expenditures:		: Gasoline Expenditures		: Ratio Food : to Gasoline : Expenditures
		: \$: % of Income	: \$: % of Income	
1	1,559	549	35.2	103	6.6	5.33
2	3,268	769	23.5	141	4.3	5.45
3	5,081	928	18.3	223	4.4	4.16
4	7,063	1,016	14.4	293	4.1	3.47
5	9,112	1,140	12.5	365	4.0	3.12
6	11,244	1,237	11.0	429	3.8	2.88
7	13,466	1,366	10.1	491	3.6	2.78
8	16,116	1,465	9.1	527	3.3	2.78
9	19,747	1,579	8.0	579	2.9	2.73
10	31,974	1,760	5.5	626	2.0	2.81
All Households	11,945	1,181	9.9	377	3.2	3.13

*Based on information from the 1972-1973 consumer expenditure survey for all families and single person households.

1/ Money income before taxes.

GASOLINE TAX--PROS AND CONS

November 29, 1979

Gasoline Tax - Pros and Cons

Pros

1. A large tax, say of 50 cents a gallon, might reduce gasoline consumption by 5 percent in the short run, and after, say, a year by 10 percent. A 10 percent reduction would represent 4 percent of petroleum consumption, or 4.5 percent with the diesel fuel component.
2. Gasoline usage by consumers has the reputation of containing a large discretionary or "luxury" element.
3. Administration and compliance of an additional gasoline tax would be efficient because of the tax collection machinery already in place is quite effective. But, extending the tax to highway diesel fuel would exacerbate evasion because the diesel fuel tax is collected from retailers or users.
4. A large gasoline tax increase would bring retail prices more in line with European prices and help give OPEC evidence of our intention to limit consumption.
5. A large increase could make it possible to dismantle the complicated allocation and price control systems for gasoline.

Cons

1. A 50 cent a gallon tax would immediately increase the Consumer Price Index by 2.75 percent. After the business cost portion of gasoline was later reflected in the Index, the increase would be 3.5 percent.
2. Gasoline expenditures are regressive. With the present location of industry and housing, much consumption is an absolute necessity.
3. A 50 cent tax would raise \$50 billion, or \$55 billion if highway diesel fuel is taxed. To offset the drag on the economy, the effect on the CPI, and the regressivity, the revenues would have to be recycled fairly currently to consumers.

4. A negative food tax would meet the objectives mentioned in (3), but this has other undesirable features as noted in the paper on the negative food tax. ?
5. Per capita consumption of gasoline varies considerably between regions and even within parts of states because of differences in industry and public transportation systems.
6. A heavy tax on diesel fuel would aggravate evasion as Number 2 heating oil can be used in trucks.
7. If diesel fuel for highway use were included within the scope of the additional tax, truckers would have their costs changed relative to railroads and barge lines. To extend the tax to these other media, however, would discourage use of these efficient modes of transportation.
8. Since gasoline represents only some 40 percent of petroleum usage, and with highway diesel fuel about 45 percent, one may question whether only motor fuel should be taxed for conservation purposes.
9. Those owning older less fuel efficient cars are likely to have below average incomes.

EXCISE TAX vs. RATIONING TO REDUCE
GASOLINE CONSUMPTION

November 29, 1979

Excise Tax Versus Rationing to Reduce Gasoline Consumption

There are two primary options to limit the demand for gasoline. One is to substantially increase the Federal excise tax on gasoline. The other is to impose a rationing system.

A. Excise Tax

1. Impact on gasoline consumption. The calculation of demand reduction resulting from a given level of excise tax depends upon the demand elasticity for gasoline. The short run elasticity is about 0.1 and for the longer run, one year or so, it is about -0.2. After 4 or 5 years, the price elasticity may be as high as -0.5 to -0.7.

These estimates of demand elasticities are subject to substantial uncertainty. This is due to the fact that there has been very little experience with gasoline demand when its price was increasing at a rate greater than the inflation rate.

However, using the above rule-of-thumb estimates, an excise tax increase of \$0.50 could result in a decrease in

consumption of about 5 percent in the first year, and 10 percent after one year. Since the marginal barrels of petroleum are imported, the reduction should fall largely on imports.

2. Revenue. A 50 cent per gallon tax would generate roughly \$50 billion.

3. Impact on CPI. Any increase in the gasoline tax would be immediately reflected in the CPI. A 50 cent gasoline tax would increase the CPI by 3.5 percent, before any wage-price spiral effects.

4. Speed of implementation. Once the required legislation is passed, the excise tax can be implemented with relatively little delay. The Treasury prefers to have at least a month to issue instructions and prepare new forms. A large tax would require a floor stocks tax on retail stocks which complicates the preparatory process.

5. Administrative burden. The administrative burden of the excise tax would be minimal as long as diesel fuel were not included. Diesel fuel presents an evasion problem.

6. Equity considerations. An excise tax could have differing effects on different areas of the country because there are regional variations in per capita consumption. The gasoline tax revenue could be recycled to consumers to offset its regressive effect.

7. Impact on crude oil prices. An excise tax on gasoline could have a substantial impact on U.S. demand for imported crude oil. It need not necessarily relieve upward price pressures in world markets as major OPEC producers seek to reduce output so as to achieve higher prices. The major benefit from reduced imports would be reduced foreign exchange costs, provided OPEC does not reduce supply enough to offset the loss of revenues from our decreased imports.

8. Conservation commitment. The excise tax should demonstrate both to the OPEC countries and other consuming countries that the U.S. is serious about reducing its demand for petroleum in general and for imported petroleum specifically. A large excise tax would probably also be favorably received by other consuming countries which already have such taxes in place.

B. Gasoline Rationing

1. Impact on gasoline consumption. Gasoline consumption, theoretically, can be reduced to any level desired under a rationing system.

2. Impact on CPI. The white market for coupons would cause the only measurable impact on the CPI from implementation of a rationing system. The cost of living for some individuals, however, could increase, if ration coupons were transferable.

3. Speed of implementation. Rationing could not be efficiently implemented in an expedited fashion. An inter-agency task force led by DOE is currently working on time estimates for putting a rationing plan into place. A license plate scheme could be put in place almost immediately. However, any plan that involves the use of coupons or stickers would require at least 60 days and will have significant administrative and enforcement problems. The time needed to put a rationing system into place that would satisfy the statutory requirements of the EECA and EPCA is much longer.

4. Administrative burden. Interagency task force estimates, while not yet completed, are that distribution of rationing materials would cost the Government \$250 million. In addition to these direct administrative costs, gasoline wholesalers, retailers, motorists, banks, redemption centers, and anyone else involved in the distribution system will incur substantial costs both in expense and in inconvenience. For example, gasoline wholesalers will have supplemental bookkeeping expenses, and motorists in rural areas might find it extremely inconvenient to get to coupon distribution centers.

5. Impact during shortfall. A rationing plan, in conjunction with price controls, could provide a mechanism to maintain a fairly orderly and equitable distribution system for gasoline during a severe shortfall. If price controls were not in effect during the shortage, consumers would see higher gasoline prices for the same limited gasoline supplies as firms increased their margins to compensate for reduced volume. Any "windfall profit" element of these increased margins would not be returned to consumers, as would occur with an excise tax.

6. Equity considerations. A rationing scheme conceptually can address equity consideration before implementation. However, once the system is in effect, it is likely that the actual allocations will be perceived to be unfair. Making changes will lead to a patchwork which will get worse the longer the system exists.

7. Impact on crude oil prices. Rationing could theoretically be used to decrease gasoline consumption to any specified level. Thus, rationing could also lead to a decreased level of imports in much the same way as would result from a large excise tax. Rationing would have a more predictable consumption effect, however.

8. Conservation commitment. It can be argued that implementation of a rationing system would provide a strong signal to other consuming nations, and producing nations as well, that the U.S. is serious about achieving our stated conservation goals. Others, however, may perceive rationing as a short term measure, not meant to be a lasting part of our energy program.

9. Enforcement. The more complicated the rationing system chosen, the greater the enforcement difficulties that would be expected. A major problem would be counterfeiting of coupons.

2:00 PM

THE WHITE HOUSE

WASHINGTON

December 5, 1979

**Electrostatic Copy Made
for Preservation Purposes**

MEMORANDUM FOR THE PRESIDENT

FROM:

LOUIS MARTIN *LM*

SUBJECT:

MEETING WITH STATE SENATOR WILLIAM OWENS
THURSDAY, DECEMBER 6, 1979, 2:00 P.M., OVAL OFFICE

I. PURPOSE

To meet and be photographed with Massachusetts State Senator Bill Owens.

II. BACKGROUND, PARTICIPANTS AND PRESS

A. Background

State Senator Bill Owens of Boston is the only Black state senator in the history of Massachusetts. He has been a senator since 1975 and is up for reelection in 1980. Owens served as a state representative from 1973 to 1975.

In the Senate, he serves as chairperson of the Federal Financial Assistance Committee and Special Committee on Affirmative Action. He is a member of the Ways and Means, Public Service, Banks and Banking, State Administration, and Taxation Committees. Owens is a member of the Massachusetts Black Caucus and the National Black Political Assembly.

Born in 1937, Owens was educated at Boston University and Harvard University. He is married and the father of four children.

Owens is considered to be very influential in the state. You spoke to him at the Gospel Concert in September and on the phone November 29, 1979. Owens has indicated that he is going to endorse you and lend his support.

B. Participants

Senator Bill Owens and Louis Martin

C. Press

White House Photographer

11:30 AM

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THE WHITE HOUSE
WASHINGTON

December 5, 1979

Meeting with the Board of Directors
of the National Farmers Organization
Thursday, December 6, 1979
11:30 a.m. (15 minutes)
Cabinet Room

FROM: Stuart Eizenstat *Stu*
Lynn Daft *Lynn*

I. PURPOSE

To provide the Board of Directors of the National Farmers Organization (NFO) an opportunity to brief you on issues of concern to their members.

II. BACKGROUND, PARTICIPANTS, & PRESS PLAN

A. Background:

This meeting was scheduled in response to a long-standing request from the NFO. As you know, this group is one of the top four general farm organizations. Their membership is concentrated in the heart of the corn-belt. They are headquartered in Corning, Iowa, which we are told you visited while campaigning for the Presidency. They will be holding their annual meeting in Kansas City, next week. Jim Williams will be representing the Administration at the Kansas City meeting.

Although the NFO has not been an especially strong supporter of the Administration farm policy, they have become supporters as commodity prices have risen. And, in contrast to some other organizations, they have been responsible and constructive in their criticism. We believe this meeting offers an excellent opportunity to mend fences and to develop rapport with the Organization's leaders.

All NFO participants in the meeting, with the exception of their Washington representative, Chuck Frazier, are active farmers. Most are engaged in dairy, livestock, or grain operations. Incidentally, DeVon Woodland, the NFO National President, participated in the recent trade mission to Africa headed by Andy Young.

We understand that they will want to treat the following issues in their meeting with you:

- o Report on what the people back home are feeling with regard to the Iranian situation.
- o Summary of the agricultural situation and outlook . . . the economic picture is looking up although they hope to see a continued improvement in commodity prices . . . inflation continues to be their number one concern.
- o General statement of support and offer to be of help.

B. Participants: List of participants attached.

C. Press Plan: White House photographer only.

III. TALKING POINTS

- o We appreciate your continuing support. I am grateful for the responsible and constructive way in which you have worked with Secretary Bergland and others in my Administration. Bob Bergland has commented several times about your help. He regretted not being able to be with us, but he had an earlier commitment. (He is in Wichita Falls, Texas, conducting the 6th of 10 public meetings to discuss the future of American agriculture. NFO has participated actively in these sessions. Jim Williams will represent the Secretary at your meeting.)
- o We are pleased with the effect of our farm policy. As you know, commodity prices have strengthened, farm income is up, we are exporting record quantities. There are still improvements to be made, however, and that is one reason I welcome the opportunity to meet with you and hear your comments. Inflation continues to be our most serious economic problem and one that we are devoting even greater attention to.
- o As we approach these very difficult policy issues, such as inflation and energy and reducing budget deficits, it will be very important to have the benefit of your advice on an continuing basis. I understand that tomorrow some of my budget advisors will be meeting with representatives of farm organizations, including NFO, to discuss the forthcoming FY 1981 budget. I want to see more of this sort of communication because we are going to need your help in making the very difficult decisions that lie ahead.

B. PARTICIPANTS

National Farmers Organization

DeVon R. Woodland -

Robert Arndt

Melvin Manternakh

Ed Tvrdy

Steve Pavich *W.S.* -

Robert Kessler

Leland Townsend

Walt Albers

Charles Frazier

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for Preservation Purposes**

Executive Branch

Stuart Eizenstat

Anne Wexler

Lynn Daft

Jim Williams

Gregg Suhler

Bill Boehm

THE WHITE HOUSE
WASHINGTON

ADMINISTRATIVELY CONFIDENTIAL

December 5, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD N. CUTLER *LNC*

SUBJECT: SALT - Senator Stevens

①

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I met today with Ted Stevens, with the following results:

1. He believes the SALT debate should not begin until we have resolved the problem of the hostages in Iran. He believes that Senator Byrd is presently thinking of perhaps two days of general debate on SALT just before the Senate recess on December 21, even if the hostage situation is not resolved by that time. He thinks that if SALT is the main business of the Senate when it returns (he predicts a return around the first week of January), a motion to recommit would win within three weeks. If by that time we are cross-ways with the Soviets on Iran, he thinks the recommital would come even faster.
2. For all of these reasons, he is recommending to Senator Byrd that SALT be deferred until the hostage problem is resolved.
3. If the hostage problem is satisfactorily resolved, he thinks the resulting national unity could win a quick passage for SALT. He personally would like to see SALT voted up or down decisively by a bi-partisan majority.
4. As to the Treaty itself, he has two principal concerns which might conceivably be satisfied by one floor understanding. He says the Treaty does nothing for Alaska, which faces a greater threat from the SS-20s and Backfire units now stationed in Siberia north of China than from the inter-continental weapons covered by SALT. He agrees that the idea of a Bering Sea "nuclear-free zone" or theater limitation agreement is probably impracticable as an amendment to SALT II, but he would like to see something along this line included in the Senate's instructions for the negotiation of SALT III. This could be done by a simple addition to the McGovern understanding approved by SFRC.

5. In addition, Stevens joins with Pat Moynihan in wanting some automatic trigger for exercising the right to terminate SALT II if insufficient progress is made in the negotiation of SALT III. I told him we were working with Moynihan on an understanding which would permit the Senate to participate in any decision to terminate SALT II, to the extent constitutionally permitted under the Court of Appeals decision in the Taiwan Treaty case. Stevens is interested in exploring such a compromise.

6. For your information, the current draft of the proposal we are preparing for Moynihan is attached. It does not need your attention or approval now, since it is still under review by Cy Vance and our SALT interagency working group.

On the whole, I was encouraged by the discussion.

I. The advice and consent of the Senate to ratification of the SALT II Treaty is subject to the following:

* * * * *

(_) the understanding that --

(1) If the President decides that extraordinary events related to the subject matter of the SALT II Treaty have jeopardized the supreme interests of the United States, he shall --

(a) in every possible instance consult with the Senate before giving notice to the Soviet Union of withdrawal from the Treaty pursuant to paragraph 3 of Article XIX of the Treaty; and

(b) within 48 hours after giving such notice transmit to the President pro tempore of the Senate a report setting forth the circumstances under which such notice was given.

(2) The President's notice of withdrawal as described in paragraph (1) shall be effective six months after it is given unless the President revokes such notice prior to its effective date because (a) the circumstances no longer require United States withdrawal from the SALT II Treaty, or (b) the Senate, within thirty

calendar days after receiving a report under paragraph (1) (b) above, adopts a resolution stating that it disapproves United States withdrawal from the SALT II Treaty.

(3) If the Senate adopts a resolution stating its view that extraordinary events related to the subject matter of the SALT II Treaty have jeopardized the supreme interests of the United States, the President shall consult with the Senate and, within days after any such resolution is adopted, shall transmit a report to the Senate setting forth his view of the matter and his determination as to whether or not the United States should give notice of withdrawal from the Treaty pursuant to paragraph (3) of Article XIX of the Treaty. If the President gives such notice, the provisions of paragraphs (1) and (2)(b) shall not apply.

(4) If the President determines not to give such notice, and if the Senate adopts a further resolution, two-thirds of the members present concurring, stating its view that the United States should give notice of withdrawal from the Treaty, the President shall reconsider his determination. (President would simultaneously advise Senate that, reserving his own constitutional prerogatives and those of future Presidents, he cannot presently conceive of circumstances in which, if two-thirds of the Senate adopted such a resolution, he would decline to give such a notice.)