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THE WHITE HOUSE
WASHINGTON

December 14, 1979

**Electrostatic Copy Made
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Dear Mr. President:

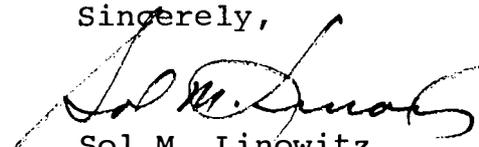
Further to our conversation this morning, I want to stress my strong belief that a significant increase in aid to Israel would manifestly serve our interests in the West Bank and Gaza Autonomy Negotiations.

During my just concluded trip to the area, I found profound concern in Israel over the economic situation and particularly over the great additional burden of payments for oil that Israel will have to make as a result of its withdrawal last month from the Alma fields. Prime Minister Begin raised the question of aid with me and asked me to tell you how important the level of aid is to him personally and to Israel. I believe that a simple straight-lining for FY 1981 of the \$1.785 billion figure will be viewed in Israel - because of the loss of Alma, the effects of inflation and the very high military supply payments Israel faces next year - as signaling a diminution of American support. This would come when we are preparing to go forward with an expanded military supply program for Egypt which also worries the Israelis. I fear that the convergence of these moves will focus Israeli governmental and public attention on the issue of US support for Israel just at the time when we need the Israelis to focus seriously on the difficult decisions that they must take to make a success of the Autonomy Negotiations.

Accordingly, I respectfully suggest that it is in our own vital interest in the Middle East to add \$200 million in FMS to the regular FY 1981 budget request for assistance to Israel, thereby bringing the total package to very near \$2 billion, and to hold in reserve for February or March a supplemental request for a further \$300 million in FMS.

I realize the tremendous budgetary problems, but I thought I should convey to you as candidly as I can my own views of the relationship of our aid levels for Israel and the Autonomy Negotiations.

Sincerely,



Sol M. Linowitz

The President
The White House.

THE WHITE HOUSE
WASHINGTON

December 14, 1979

MEMORANDUM FOR THE PRESIDENT

FROM : RICK HUTCHESON

R.H.

We have just learned from the Justice Department that the Court of Appeals has granted our request for a stay in the Iranian students deportation case. The Court set the case for oral argument next Thursday.

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Office of the Attorney General
Washington, D. C. 20530

December 14, 1979

MEMORANDUM FOR: The President

FROM: The Attorney General **BRE**

SUBJECT: Iranian Student Case

Judge Green's opinion in Narenji v. Civiletti is generally muddled and confusing. We believe we have a strong case for a reversal of her decision in the D. C. Circuit Court of Appeals and probably even a stronger case in the Supreme Court. However, the injunctive nature of the decision not only stops the immigration process with regard to Iranian students in its tracks but prohibits us from using the product of the reporting and proceedings in any manner. Therefore, we have asked the D. C. Circuit Court to stay the effect of her order immediately and to expedite the appeal. If the Circuit Court refuses to stay, we will seek such a stay from Chief Justice Burger. We expect to hear from the D.C. Circuit Court on the stay request today or by Monday.

One clear import of the opinion is that the regulation would have been sustained if it had been expressly authorized by Congress. But even there, Judge Green's view is that the Congress cannot retrospectively approve the regulation so that we may benefit from the work done to date. It is our view that curative legislation expressly providing for retrospective application would ratify all the actions taken so far and the Congress may ratify otherwise unauthorized Executive Branch action provided it could have authorized the action initially.

I recommend:

(1) If we obtain a prompt stay from either the Circuit Court or Chief Justice Burger, we not introduce curative legislation.

(2) If we fail to get a stay, and if the Congressional assessment is favorable, with minimum risks of amendments inconsistent with the Administration's policy, then I recommend

we submit the joint resolution (Bill) to the Congress the first of next week after positive consultation with the leadership. In the event that the stays are denied and we submit legislation, we would still proceed with the case on as expedited a basis as possible in order, (a) to ultimately obtain a favorable result if the legislative process broke down, and (b) to resolve at the higher court level the issue raised by Judge Green's opinion as to the power of Congress to ratify prior unauthorized Executive Branch action.

We have prepared a every simple straight-forward Bill in the event the legislative route must be taken.

Addendum: I have just been handed an Order from the D. C. Circuit Court of Appeals -- ". . . Under the circumstances, the Court is of the view that consideration on the merits should proceed with maximum expedition. . . , it is ORDERED by the Court that a special merits panel be drawn today to hear this case and that the motion for stay be referred to that panel. (copy attached)

Although this is a very favorable indication, it means probably that the special merits panel may pass on the stay on Monday or Tuesday or may hear argument on the merits of the stay at the same time some time next week.

We will analyze the order. At first blush, I recommend that we not proceed legislatively until after word from the special merits panel on Monday or Tuesday.

We will keep you advised.

cc: Dr. Brzezinski
Lloyd Cutler

United States Court of Appeals

FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 79-2460

September Term, 19 79

Gholamreza Narenji
Behzad Vahedi
Cyrus Vahidnia

Civil Action No. 79-3189

v.

Benjamin Civiletti, Attorney
General, et al.,
Appellants

United States Court of Appeals
for the District of Columbia Circuit

FILED DEC 14 1979

No. 79-2461

GEORGE A. FISHER
CLERK

Confederation of Iranian Students

v.

Civil Action No. 79-3210

Benjamin R. Civiletti,
Appellant

BEFORE: Wright, Chief Judge, Tamm and Wald, Circuit Judges

ORDER

The government represents that this case is one of major importance relating to the crisis in Iran. The appellees represent that they will suffer significant constitutional injury if the regulation is reinstated. Under the circumstances, the Court is of the view that consideration on the merits should proceed with maximum expedition. On consideration thereof, it is

ORDERED by the Court that a special merits panel be drawn today to hear this case and that the motion for stay be referred to that panel.

Per Curiam

Circuit Judge Tamm did not participate in the foregoing order.

THE WHITE HOUSE
WASHINGTON

17 Dec 79

Sarah Weddington

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

Rick Hutcheson

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

ADMIN CONFID
CONFIDENTIAL
SECRET
EYES ONLY

ACTION
FYI

	VICE PRESIDENT
	JORDAN
	CUTLER
	DONOVAN
	EIZENSTAT
	MCDONALD
	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
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THE WHITE HOUSE
WASHINGTON
17 DEC 79

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The attached was returned in the
President's outbox today and
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Rick Hutcheson

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	PRESS
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	VOORDE
	WISE

THE WHITE HOUSE

WASHINGTON

December 13, 1979

Mr. President --

I feel very strongly that we should not threaten to veto this bill.

-- While there are problems on its merits, the Senate bill does not merit veto, and I doubt your advisors would in the end recommend one.

-- Key members of Congress will not believe a veto threat -- especially in an election year -- so it will not really strengthen our bargaining power.

-- While members of Congress will not be impressed, a veto threat will hurt badly in key farm states such as Iowa, and we do not have the time to correct bad impressions.

Threatening a veto will most certainly not help us get the comparatively minor changes we want. It will just make the members mad and hand all your 1980 challengers a campaign issue that can be ours.

I suggest that you instruct USDA and OMB to accept the \$3.63 target price and not to threaten a veto over the other provisions we want changed.

Stu
--Stu

THE WHITE HOUSE

WASHINGTON

December 13, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
LYNN DAFT *Lynn*
SUBJECT: Target Price Legislation

The Senate Agriculture Committee has reported a bill that would raise target prices for wheat and feedgrains for the 1980 and 1981 crops. The Committee reported bill is close to the position we recommended but differs on four points:

- (1) 1980 Wheat Target Price. We proposed an increase to \$3.50 per bushel; the Senate Agriculture Committee adopted \$3.63. The level adopted by the Senate Committee for 1980 is the same as the level that the full House passed for the 1979 crop. It compares with an estimated average total production cost of \$4.40 and an average short-run cost of \$3.44. (A brief description of the procedure used to estimate these costs is attached.) As a percent of total production cost, the Senate approved level is slightly less than the level we accepted for the 1977 crop in the 1977 Farm Bill.
- (2) Target Price Adjustment for Normal Crop Acreage. A provision of the Senate bill would authorize the Secretary of Agriculture to increase target prices to compensate producers for planting within their normal crop acreage (NCA). We supported a provision requiring farmers to plant within that acreage as a condition of farm program eligibility but did not testify on the provision that allows us to increase target prices as a result. We oppose such authority on grounds that it creates pressure for further target price increases and is not required to accomplish the conservation intent of the original proposal. Since this provision was not discussed or voted on by the Committee, we are uncertain of its support but believe it can be removed without difficulty. Some of your advisors consider this to be the most serious defect of the Senate bill.
- (3) Disaster Payment Extension. We requested an extension of 6 to 9 months; the Senate Committee adopted a 1 year extension.

- (4) 1981 Target Price Adjustments. The language contained in the Senate bill is discretionary, but does not permit target prices in 1981 to fall below the 1980 levels. However, the description of this authority is vague. Although USDA lawyers say that it permits us to set 1981 target prices that approximate short-run costs -- as we requested -- we fear the language is subject to an interpretation that could result in target prices in 1981 that we would consider excessive.

The Senate is expected to act soon and follow quickly with a Conference. Your advisors are divided on the approach we should take in Conference. Some believe that we should continue to take a strong stand, reminding the Conferees that the Senate bill deviates from the position we took before the Senate Agriculture Committee (as described above) and that the bill accordingly is "in jeopardy." Others believe that the Administration should take a more conciliatory position. They recommend that we accept the \$3.63 target price for wheat and the one year extension of the disaster payments program but work to clarify the 1981 target price adjustment language and eliminate the target price adjustment for the normal crop acreage. In the attached memorandum, Secretary Bergland explains why he favors the latter approach.

In brief, the arguments for these alternative approaches are as follows:

Option 1 - Indicate that a bill deviating from the Administration testimony is in jeopardy.

- * There could be some budget savings from a lower target price for wheat. OMB projects that this would add another \$100 million to budget cost although it is difficult to estimate since the season average price is expected to be very near this level.
- * A tougher position might give us more leverage on the Conference for achieving the desired changes. A preemptive retreat would undermine any leverage we might have. Unless we get these changes, we could face significant pressure to raise target prices again for 1980 (as a consequence of the NCA provision) and to even more excessive levels in 1981.
- * This would be consistent with our earlier position, which some of your advisors think was itself generous to farm interests.

- * The \$3.63 target price exceeds the USDA estimate of short-run cost (which OMB and CEA think excessive) by 20 cents per bushel and is out of line with the target prices for other crops.
- * An "in jeopardy" message does not attach to any single provision and does not foreclose signature of the bill. Even a decision on your part to veto this bill does not preclude your increasing target prices for 1980 and 1981 to levels that go part way toward covering short term costs. As noted in our earlier memo on this subject, existing legislation, coupled with an administrative change, permits you to establish 1980 target prices of about \$3.30 and \$2.20 for wheat and corn respectively -- an approximate 7 percent increase from the levels generated using the formula in the 1977 Act and past procedures.

Option 2 - Recommend changes in the 1981 adjustment language and the normal crop acreage adjustment, but accept the other provisions, including a 1980 target price for wheat of \$3.63.

- * The differences between the Senate bill and our earlier position are not major. We anticipate no inflationary effect. As noted above, the budgetary effects are uncertain, but will probably be about \$100 million.
- * If we embrace the Senate bill, which is largely based on the Administration proposal, we can take political credit for being responsive to the need for changing 1980 target prices. And none of your advisors disagree that some change was required. The \$3.63 level is what Foley had recommended earlier. Acceptance of \$3.63 will put us in a strong position in the coming months to argue that we:
 - (a) responded to the need for higher target prices,
 - (b) were responsible in the level we accepted and refused excessive proposals, and
 - (c) worked cooperatively with the Congress in reaching this position.
- * There is little chance that the Congress will accept a 1980 target price for wheat of less than \$3.63. The House bill provides this level for 1979. The Senate Committee considered several options that were considerably higher. They feel this is a rock-bottom level.

- * The Senate bill will pass by a wide margin, regardless of our position. Some of your advisors believe the only way to exert leverage on this bill is to threaten a veto. And then we must be prepared to exercise that veto. If we veto the bill, we will almost certainly face a more ambitious bill next year, a year in which the USDA now estimates a significant drop in net farm income.
- * To many observers, the Senate bill is surprisingly reasonable, given the options they were considering. The Senate Budget Committee today voted unanimously to grant the necessary budget waiver. Congressman Glenn English, the sponsor of the House passed measure, has told us that he will recommend deletion of the higher target prices for 1979 contained in his bill if we accept \$3.63 for wheat for 1980.
- * This is only a 2 year authority. It will be subject to modification in 1981.

All your advisors agree that target prices should not be adjusted for NCA (point (2) above) and that we should seek to delete that authority from the Senate bill. Failing this, there is agreement that we should clearly indicate that it is our intention not to use this discretionary authority. Likewise, there is agreement among your advisors that 1981 target prices should approximate short-run costs (point (4)). If the Congress fails to clarify the language in the bill, your advisors agree that we must clearly state our intention to set 1981 target prices at levels that approximate short-run costs. Thus, the only real differences among your advisors concern the acceptance of the \$3.63 figure and, less importantly, the 1 year extension of disaster payments.

DECISION

Option 1--Adopt a strong stand in dealing with the Conference. Indicate that any bill containing the objectionable features, including the \$3.63 for wheat, is in jeopardy. (OMB, CEA, Treasury, Kahn, OCA)

Option 2--Adopt a more flexible stand with the Conference. Accept the \$3.63 for wheat and work to remove the NCA target price authority and clarify the language dealing with 1981 increases. (USDA, Vice President, DPS)

*We can't get
3.50, even with a
veto. Get the other
features - on a deal,
if necessary.*

NOTE: White House Congressional Liaison recognizes the substantial political advantage of the \$3.63 but prefers to not take a policy position on the options.

Estimating Agricultural Production Costs

The costs cited on page one of the covering memorandum are based on a new concept developed by Howard Hjort, a concept that is subject to further refinement and improvement. Some of your advisors have serious problems with parts of this concept. We are working to resolve these differences and will report on our progress at a later point. In the meantime, we are using estimates based on this concept as reference points. Thus, we thought you might be interested in the methodology used to derive these estimates.

The short-run cost estimates represent those expenditures an established farm family has to pay to stay in business. They include:

- o Operating expenses (seed, fertilizer, fuel, etc.),
- o Interest on debt (for land indebtedness, land is valued on the basis of its acquisition value),
- o Rental payments (generally on the basis of a share of the crop but, where appropriate, cash rent), and
- o Family living expenses.

The difference between total cost and short-run cost, under this concept, is the allowance for machinery replacement. It is reasoned that this is an expenditure that can be postponed, if necessary. The major differences between this concept and the one adopted in the 1977 Farm Act are that:

- the new concept values land on the basis of acquisition value while the 1977 Act valued land on a current value basis.
- the new concept includes a family living expense category while the 1977 Act treated this by fixing a value on family labor and a return for management (they total about the same).

The 1977 method for establishing base-year target price levels results in values somewhat higher than the new concept, mostly because of the difference between current value and acquisition value of land. It is about 70¢ per bushel higher for wheat and 40¢ higher for corn for the 1980 crop.

Another major difference relates to the procedure used in determining year-to-year target prices. Under the 1977 Act, target prices for the 1977 crop were set on the basis of essentially the same set of production factors included in the new concept, except that land was costed on a current value basis. (Also, the levels that were ultimately negotiated in the bill for 1977 represented the equivalent of a 3.5 percent rate of return to land.) In subsequent years (1978-81), target prices were to be adjusted by a formula

that reflected changes in operating costs, general farm overhead, and machinery ownerships costs -- but excluded changes in land values. Due to passage of the Emergency Agricultural Act of 1978, which allowed for the adjustment of target prices to compensate for the effects of set-aside, the formula determined levels were never in effect for wheat and only once for corn (in 1978).

Under the procedure suggested by USDA, target prices would be set each year at a level equal to estimated short-run costs. As noted above, this is total cost minus an allowance for machinery replacement and it includes a return to land at acquisition value. As a proportion of total costs, target prices for 1980 under the new concept (and under the Senate approved bill) will be slightly less than was the initial level determined under the 1977 Act.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

December 10, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Bergland

SUBJECT: Target Price Legislation

On November 27, the Administration's proposal on target price levels for wheat and feedgrains was presented to the Senate Agriculture Committee. The Committee voted to report a bill that contained the provisions we requested with two exceptions. The Committee bill would raise the wheat target price for 1980 to \$3.63, rather than the \$3.50 we proposed, and it would extend the Disaster Payments Program for a full crop year, rather than the six-month period we proposed.

The purpose of this memorandum is to seek your guidance in dealing with these issues on the Senate floor and in the Conference.

The Committee was considering a House-passed bill to increase target prices 7 percent for 1979, and amendments to increase prices by as much as 20 percent for 1980. The bill reported eliminates any 1979 increase and specifies the target prices we requested for 1980, with the exception of wheat, as mentioned above. It authorizes the Secretary to require producers to plant within their Normal Crop Acreage in order to be eligible for program benefits, whether or not set-aside or diversion programs are in effect--a provision we supported. Furthermore, it has the flexibility we requested to increase target prices for 1981. If we can hold the Committee bill's provisions on the Senate floor and in the Conference, we will reduce FY 1980 budget exposure by as much as \$194 million by eliminating the 1979 increases.

The Committee bill was reported by a 14 to 2 vote. Chairman Talmadge officially reported it Tuesday and expects it to come to a Senate vote next week. I believe we have an excellent chance for a quick conference and final passage before Christmas.

We must now decide whether to accept the package as passed by the Senate Committee or to try to amend it on the Senate floor or in Conference. I expect only two important issues: the 1980 target price for wheat and the length of the extension for the Disaster Payments Program.

1980 Target Price for Wheat. In 1978, we raised the target price for wheat to \$3.40--40 cents above the level specified in the 1977 Act--in an effort to increase participation in the 1978 wheat set-aside program. It was held at that same level in 1979. Farmers and the Congress tend to look on the

base level for 1980 as \$3.40. With no set-aside and without new authority, however, the 1980 target price determined by the formula would be about \$3.06.

Some members of the Senate Committee argued that the Administration proposals favor feedgrains—that we are proposing a 15-cent, 7-percent increase for corn and only a 10-cent, 3-percent increase for wheat. However, the appropriate comparison is not to the \$3.40, 1979 target price established to compensate for a set-aside, but to the target price established by the formula in the 1977 Act, without set-aside compensation. On that basis, the Administration proposal implies a percentage increase for wheat for 1980 that is virtually identical to that proposed for corn. However, per unit costs of production as a share of total costs have been rising more rapidly for wheat than for corn.

The 1978 target price for wheat in the 1977 Act covered 91 percent of the full cost of production with land valued at the acquisition price. By 1980 the formula-derived target price for wheat would cover only 72 percent of the full cost of production, while the formula-derived corn target price would cover 81 percent of the full cost of producing corn. The Administration proposed to cover 91 percent of full cost for corn for 1980 but only 83 percent for wheat. The \$3.63 target price in the Committee-passed bill would increase that share to 86 percent, a level still below the share covered for corn, and well below the 91 percent coverage Congress wrote into the 1977 Act. Comparisons of target prices and full costs of production by crops for 1980 and earlier years are shown in tables I and II. On that basis, a 1980 wheat target price of \$3.63 is not out of line with the same comparisons for corn and cotton.

By proposing \$3.50 as the appropriate 1980 target price for wheat, we are recognizing that land and machinery costs that wheat farmers cannot postpone are a smaller share of their cost than are similar costs for corn or cotton farmers. Our estimates support that conclusion. But that is a difficult argument to make to Congressmen who have important groups of wheat-producing constituents.

The Administration proposals are consistent with the Administration policy that target prices should be an economic safety net to help farmers if production exceeds both current year demands and reserve needs. However, such cost estimates are very difficult and imprecise. The Senate Committee accepted the argument that \$3.50 does not adequately cover even short-term costs for wheat and that a target price of \$3.63 is necessary.

Disaster Payments Program Extension. The Disaster Payments Program expired with the 1979 crop. We proposed that it be replaced by a subsidized Crop Insurance Program, and that the Congress extended it through April 1, 1980, to give the House time to take up the subsidized Crop Insurance bill this winter. An acceptable version of a subsidized Crop Insurance bill has already passed the Senate.

I believe that the House will come back after the first of the year and pass an acceptable Crop Insurance measure. A short extension of the Disaster Payments Program keeps pressure on Congress to pass our bill, but avoids leaving farmers unprotected from crop disasters.

We will continue to work for the insurance bill and against a full year's extension of the Disaster Payments Program. However, as long as the Congress is moving toward passage of a subsidized Crop Insurance bill, I recommend we not reject an otherwise good bill on the grounds that it extends the Disaster Payments Program several months longer than we proposed.

FY 1981 Budget Costs. The bill the Senate Agriculture Committee passed would raise target prices for the 1980 crop. As a result, its cost depends heavily on next year's crops and the export demand during the marketing year that begins next June--the 1980/81 crop year. If prices remain at current levels, or if they strengthen, neither the Administration proposal nor the Committee-passed bill would lead to any FY 1981 expenditures for wheat or corn deficiency payments.

Corn and feedgrain prices will average higher during 1980/81 unless weather is very good. The average corn price should be well-above the corn target price in the Committee bill. We project no corn deficiency payments for the 1980 crop, although we do expect about \$91 million for sorghum and barley. These payments would be slightly higher than the \$74 million we will make for barley and sorghum this year and \$91 million more than under current legislation.

There is, however, uncertainty around any production, price, or cost projection so far into the future. If corn prices next fall were only slightly lower than this fall, deficiency payments for corn would be paid. For each cent the October-February corn price falls below the target price, we would expect to pay \$55 million in corn deficiency payments.

Wheat prices, in contrast to corn, are expected to average lower during 1980/81 than for 1979/80. More acres are being planted this fall and exports next year are not expected to equal this season's level. We have been projecting a 1980/81 farm level wheat price of \$3.63--by coincidence, exactly the level written into the Committee bill. We expect seasonal low prices during the first 5 months of the 1980/81 crop year, and the \$3.63 target price now in the Committee bill could result in about \$97 million in wheat deficiency payments in FY 1981. We paid no wheat deficiency payments this year, and would expect to pay none next year under either the current legislation or the Administration proposal.

If weather is unusually good, or if demand weakens, wheat prices would average below \$3.63 and deficiency payments would increase. For each cent the June-November 1980 wheat price falls below \$3.63, deficiency payments would increase by \$18 million. We would not expect prices to fall below the current reserve release level of \$3.50 because at that level wheat would move into the reserve rather than be offered for sale in the market. As a result, our budget exposure from wheat deficiency payments with a \$3.63 target price for 1980 would be limited to about \$250 million for FY 1981.

We can reduce that exposure by the rules we use to manage the farmer-owned reserve. We are considering increasing the reserve release price for wheat and making other changes in the operating rules for the reserve. A decision on those changes will come in February. We have announced that the wheat release price will be not less than \$3.50. For each cent that release price is increased; our FY 1981 budget exposure from price deficiency payments under unusually good weather would be reduced by about \$18 million.

A table comparing budget costs by years for the Committee bill and the Administration proposal with the current program is attached.

Recommendations. I believe we should support the bill as reported by the Senate Committee with the 1980 wheat target price at \$3.63. My reasons are:

1. I do not think we will get a better bill. I thought the Senate Committee would pass a much more lavish bill, but they did not. It is important to have a bill this year, both in order to make needed changes in the law and to prevent having to deal with a farm price bill during an election year.

We felt earlier that Senator Bellmon might lead a Bellmon-Muskie Budget Committee effort on the Senate floor to lower the wheat target price to \$3.50. However, he is not enthusiastic about such a prospect. We now expect no effort on the Senate floor by the Budget Committee to reduce the wheat target price or to oppose the Committee bill.

Congressman Glenn English is the author of the House bill. He says he will support the Committee bill even though it eliminates the 1979 increases he proposed and give the Administration credit for the initiative provided we support a \$3.63 target price for wheat for 1980.

Chairman Foley has repeatedly advocated a \$3.63 wheat target price for 1980.

It is my judgment that it would be necessary to veto an otherwise very good bill in order to avoid a \$3.63 target price for wheat for 1980.

There is a drawback to a \$3.63 target price for 1980 beyond its budget exposure. By increasing the target price for wheat for 1980 more than we proposed, we increase the odds of not being able to justify as great an increase as Congress might wish next summer when the 1981 target price is considered. We would have broad authority for a substantial increase under the Committee bill, but most likely the economic justification would support only a small increase from the \$3.63 base, and perhaps none at all. That risk would be reduced if we had a \$3.50 target price for 1980.

2. Per unit costs have risen more rapidly for wheat than for corn, and the \$3.63 for 1980 is not out of line relative to total costs when compared with the target price established for 1978 in the 1977 Act.

Notwithstanding our concerns and our proposal, the \$3.63 target price has a lot of support in Congress and among farmers, and the \$3.50 level has very little. We will be lucky to get Congress to spend much time just now fighting to push target prices down 13 cents for 1980.

3. Although the official USDA "best guess" is that wheat prices will average 5 cents below the \$3.63 season average for the period June-November 1980, I want to assure you that I will use the authorities I already have to keep that from happening. I intend to manage our programs next year in such a way that wheat prices will not fall below \$3.63. Unless we have exceptionally good weather, I believe our budget exposure with a \$3.63 target price is practically zero.
4. The political credit for this bill would be very considerable, and unless we get into a fight with the Hill over these differences, the credit would go to the Administration. The increase for 1980 would be properly seen as an Administration initiative.

Attachments

Government Outlays--Fiscal 1980-1982
(Million dollars)

Item	FY 1981			FY 1982			
	FY 1980	Current: Program	Admin. : Proposal	Senate: Bill	Current: Program	Admin. : Proposal	Senate: Bill
<u>Deficiency payments</u>							
Corn	---	---	---	---	---	---	---
Sorghum	57	---	32	32	128	76	76
Barley	17	---	59	59	94	120	120
Total feed grains	74	---	91	91	222	196	196
Wheat	---	---	---	97	---	80	341
Total	74	---	91	188	222	276	537
<u>Disaster payments</u>							
Corn	20	---	---	185	---	---	---
Sorghum	20	---	---	46	---	---	---
Barley	7	---	---	11	---	---	---
Total feed grains	47	---	---	242	---	---	---
Wheat	60	---	50	145	---	---	---
Total	107	---	50	387	---	---	---
Cotton and rice				129			
<u>Reserve storage payments:</u>							
Corn	155	128	131	131	55	58	58
Sorghum	17	9	9	9	2	2	2
Barley	8	7	8	8	2	2	2
Total feed grains ^{1/}	187	146	150	150	59	62	62
Wheat	38	82	82	82	90	89	89
Total	225	228	232	232	149	151	151
<u>Total payments</u>							
Corn	175	128	131	316	55	58	58
Sorghum	94	9	41	87	130	78	78
Barley	32	7	67	78	96	122	122
Total feed grains ^{1/}	360 ^{2/}	146	241	483	281	258	258
Wheat	98	82	132	324	90	169	430
Total	458	228	373	807	371	427	688
<u>Net loan and inventory</u>							
Total feed grains ^{1/}	+168	+403	+385	+385	+578	+558	+558
Wheat	99	380	380	380	175	160	160
Total	+69	+23	+5	+5	+403	+398	+398
<u>Total Government outlays:</u>							
Total feed grains ^{1/}	192	+257	+144	98	+297	+300	+300
Wheat	197	462	512	704	265	329	590
Total	389	205	368	802	+32	29	290
+ Cotton & rice disasters				129			

^{1/} Includes oats.

^{2/} Includes \$52 million of corn and sorghum diversion payments from the 1979 feedgrain program which will be paid in FY 1980.

Note: "+" indicates net receipt.

12/3/79

Table 1: 1980 Target Prices Compared to Total Cost of Production

	<u>Wheat</u>	<u>Corn</u>	<u>Sorghum</u> (Dollars)	<u>Barley</u>	<u>Cotton</u>
Full cost:					
Current land value	4.93	2.96	3.41	4.06	.730
Acquisition land value	4.23	2.57	3.10	3.59	.692
Reenter only	4.18	2.65	3.07	3.55	.705
Target price	3.63	2.35	2.50	2.55	59.5
	(Percent)				
Share of Full Cost					
New land owner	.74	.80	.73	.63	.82
Old land owner	.86	.91	.81	.71	.86
Renter	.87	.89	.81	.72	.84

Table II. Target Prices as a Proportion of Full Costs

	<u>Owned Land Valued at Current Price</u>															
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1977</u>	<u>1978</u>	<u>1/</u>	<u>1978</u>	<u>2/</u>	<u>1979</u>	<u>1/</u>	<u>1979</u>	<u>2/</u>	<u>1980</u>	<u>1/</u>	<u>1980</u>	<u>3/</u>
Wheat	59	60	65	77	76		86		69		79		62		74	
Corn	56	64	67	79	90		90		77		82		70		80	
Sorghum	49	56	67	94	89		89		86		86		72		73	
Barley	42	46	48	75	75		75		62		67		58		63	
Cotton	70	72	84	--	73		73		85		87		82		82	
	<u>Owned Land Valued at Acquisition Price</u>															
Wheat	65	69	78	92	91		103		81		93		72		86	
Corn	62	73	77	91	104		104		90		96		81		91	
Sorghum	53	62	74	104	98		98		96		96		79		81	
Barley	48	53	57	88	88		88		76		79		65		71	
Cotton	74	76	89	--	78		78		91		92		86		86	

1/ Based on 1977 Act.

2/ Announced target prices.

3/ Senate Committee bill.

THE WHITE HOUSE
WASHINGTON
17 Dec 79

Secretary Hufstedler
Jack Watson

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

Rick Hutcheson

5733

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

ADMIN CONFID
CONFIDENTIAL
SECRET
EYES ONLY

ACTION
FYI

	VICE PRESIDENT
	JORDAN
	CUTLER
	DONOVAN
	EIZENSTAT
	MCDONALD
	MOORE
	POWELL
	WATSON
	WEDDINGTON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE
	<i>Hufstader - not cover memo</i>
	ANDRUS
	ASKEW
	BERGLAND
	BROWN
	CIVILETTI
	DUNCAN
	GOLDSCHMIDT
	HARRIS
	KREPS
	LANDRIEU
	MARSHALL

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

THE WHITE HOUSE

WASHINGTON

December 14, 1979

MEMORANDUM FOR THE PRESIDENT

FROM:

JACK WATSON *Jack*

SUBJECT:

Under Secretary of the Department of Education

The option Shirley and I propose in the attached memorandum is attractive because it will defuse pressure from the black community that has developed from our decision not to appoint Mary Berry Under Secretary. Lisle Carter's immediate involvement as Senior Adviser for the Education Department transition will place a black person in a visible, key role.

If Lisle agrees to ultimately join the Department, it will involve a significant financial sacrifice for him. We are working with Lloyd Cutler to work out some options within the rules, but we need time.

We hope we can find a solution which will enable him to join the Department. As we are investigating financial options he can help now, however, both substantively and politically in the Senior Adviser role he and Shirley have discussed.

We also believe that if Lisle gets actively involved now and develops a vested interest in the Department's success, he will be more likely to come on board.

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for Preservation Purposes**

THE WHITE HOUSE

WASHINGTON

December 14, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: JACK WATSON *Jack*
SHIRLEY HUESTEDLER *Shirley Hustedler*

SUBJECT: Under Secretary of the Department of Education

As Jack informed you last Friday, we attempted to persuade Lisle Carter, the President of the University of the District of Columbia (UDC), to consider the Under Secretary for Education position. (A copy of Lisle's resume is attached.) We wanted someone who:

- . is a strong, capable administrator
- . has had experience managing in a transition situation
- . possesses previous Federal experience
- . has had direct involvement in education

Lisle measures up well against these criteria, and would bring experience on higher education, civil rights, youth unemployment and other major policy issues to the Department. He is highly respected by the black community. No other candidate we have examined yet approaches Lisle on all these counts.

Lisle told Shirley he is not able to assume the Under Secretary's job now. He has unfulfilled obligations at the University and some personal issues he cannot currently resolve. He wants to help, however, and he has agreed to serve as the Secretary's Senior Adviser for the transition. In this role, he will help recruit the Department's senior leadership, provide advice on organizational and management issues and assist with outreach and consultation efforts.

After ninety days he will make a final decision on whether or not he can untangle himself from UDC. In the interim we will initiate a new search for the best qualified Under Secretary possible concentrating on identifying promising black candidates. This would allow us to recommend someone other than Lisle if he is not available in three months.

We favor this approach because it:

- . enables us to use Lisle's talents when we need him the most -- at the beginning of the transition
- . keeps open the option of ultimately attracting Lisle to the Department
- . places immediately a black person in a senior role in the transition

If you approve, we will:

1. Announce Lisle has decided he cannot be considered for the Under Secretary position now, but he will join and devote substantial time to the transition effort as Senior Adviser to the Secretary.
2. Initiate a new search for the best possible Under Secretary, focusing on identifying black candidates
3. In not later than ninety days, we will recommend an Under Secretary candidate to you.

In the interim we will continue to recruit the Department's senior officials. We intend to send you a recommendation next week on several Assistant Secretary positions.

90 days seems too long

Approve

Dissapprove

J

LISLE CARTER

Age - 54

B.A. - Dartmouth, LL.B. - St. John's

Current - President, University of the District of Columbia,
1977 - present

Prior - Chancellor, Atlanta University Center, 1974 - 77

Director, Cornell U. Public Policy and Administration
Program, 1971 - 74

Vice President for Social and Environmental Studies,
Cornell, 1969 - 71

Professor, Cornell, 1968 - 74

Vice President for Program Development, National Urban
Coalition, 1968

Assistant Secretary for Individual and Family Services,
HEW, 1966 - 68

Assistant Director for Interagency Relations, Office
of Economic Opportunity, 1964 - 66

Deputy Assistant Secretary, HEW, 1961 - 64

Legal Counsel, National Urban League, 1959 - 61

Member, NYC Board of Corrections, 1957 - 61

Private law practice, NYC, 1956 - 61, 1950 - 54

Executive Director, Washington Urban League, 1954 - 56

Other Activities:

Member, President's Pension Commission

Chairman, Children's Defense Fund

Trustee: Aspen Institute, National Academy of Public
Administration, National Manpower Institute, Urban
League United Nations Association

Advisory Committee to Director, National Science Foundation

Member, Urban Coalition Executive Committee

Member, United Way Board of Governors

(all above are current)
numerous other advisory posts and numerous publications

Dinner Toast for Prime Minister Thatcher, 12/17/79

It is my great pleasure to welcome you to the White House on your first visit to the United States as head of Her Majesty's Government.

As you know, one difference between your job and mine is that the American President also gets all the ceremonial duties -- one of which is to remind every British visitor that during the War of 1812 your troops tried to burn this place to the ground!

In fact, one of the most famous treasures in this house is the portrait of George Washington which hangs in the East Room. The story is told that Dolley Madison, with British troops fast approaching, cut the painting out of its frame, rolled it up, and rushed out of the White House.

I'm glad we can welcome you tonight under happier circumstances. In the first place after our productive meetings today I can assure everyone that you came with the friendliest of intentions. And second, I can also assure everyone here that I have absolutely no intention of being rolled up and rushed out of this house by anyone at all!

I spoke, upon your arrival, about the natural close relationship between our two governments and our people.

You and I have met three times now: once in London, once in Tokyo; now in this house. Each time I have been impressed by your candor, your intelligence, by the depth of your convictions -- and by the great warmth and courtesy you have shown toward our government and to me personally.

As Charles Dickens said of someone in the Pickwick Papers --

"She knows what's what, she does."

Our discussions have taken place at a particularly

difficult time in world affairs. In such times The United States is especially grateful for the friendship and the leadership of the United Kingdom.

We have been most heartened at the progress you have made in bringing a just and peaceful settlement to the conflict in Zimbabwe. We pray for the ultimate success of your efforts.

Last week, the members of the NATO Alliance took an important step for Western security by choosing to move ahead with modernization of theater nuclear forces. At the same time, the Alliance has expressed clearly our willingness to engage in comprehensive arms control negotiations to limit wider deployment of these weapons. Again, your leadership on both these initiatives has served the Alliance well.

On the other side of the world, millions of Indochinese

refugees are still homeless, sick and starving. The United States and the United Kingdom have been at the forefront of international efforts to relieve these terrible conditions. We recall, Prime Minister, your own personal leadership, so soon after taking office, in mobilizing the world community to meet these problems.

We must each lead increasingly vigorous efforts to expand world food production, particularly in the developing countries, so that threats of future starvation can be averted. As we noted at the Tokyo Summit, increased aid to poor countries for this purpose should receive high priority.

In recent weeks we have been confronted by a new form of international terror, involving the seizure of diplomatic personnel and premises -- in flagrant violation of international law and civilized conduct. These unprecedented illegal actions call for the strongest condemnation by all nations.

The firm support of the British people and government has been a great help to us in this crisis.

Prime Minister, we know that your own country is faced with the problem of terrorist violence in Northern Ireland.

We know that the overwhelming majority of the people in Northern Ireland reject such violence. We ardently hope that the ways to peace and reconciliation can be found.

For our part, we will continue to act in every way possible to discourage support by Americans for the terrorists in Northern Ireland who seek to disrupt the search for peace. We welcome your current initiatives to bring the conflict and violence to an end, and as peace comes we pledge our material assistance as well.

As we enter the 1980s, all nations must face the reality of increasing interdependence. Cooperation among nations must replace confrontation and blind competition.

In this endeavor our two countries can show the way. Our long tradition of close ties, based on shared values and aspirations, can be a model for relations between sovereign states.

One of our most deeply 'American' of poets, Walt Whitman, said: "I hear the running of the Thames river in my speech." Now you all may think you have to listen very closely to hear the Thames river in my speech -- but I can assure you it is very much there -- as it is in all of us here tonight.

And I also expect and hope that Margaret Thatcher's fellow citizens -- our friends -- can hear a little bit of the Potomac rushing in hers.

Prime Minister, you modestly proposed that we have a simple working visit, but I would not have been true to my own and my country's feeling if I had not insisted that you

stay and join us for dinner. Not only because your nation is one of our oldest and closest friends -- but because I welcome this opportunity to let Americans get to know you better.

And so Ladies and Gentlemen, in that spirit of friendship and respect, I ask you all to honor our distinguished guest this evening, and her nation, by joining me in a toast to Her Majesty the Queen. The Queen.

#

THE WHITE HOUSE
WASHINGTON

12/17/79

Jack Watson
Arnie Miller

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

Rick Hutcheson

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THE WHITE HOUSE

WASHINGTON
December 17, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Jack Watson *Jack*
Arnie Miller *AAA*

SUBJECT: Commissioner of Education

Jack
ok, provided
he will be taking
orders from Hufstedler.
Otherwise, see me
J

You agreed on December 10 that we should rapidly fill the Commissioner of Education vacancy. We had hoped the Under Secretary-designate of the new Education Department could fill this role. Lisle Carter's inability to join us full-time now precludes that option, however.

Shirley Hufstedler and Pat Harris recommend that Dr. William Smith, 50, be appointed. Smith, who is black, currently directs the Teacher Corps, located within HEW's Office of Education. He has served in several other senior Office of Education positions since joining the government in 1969. Smith was a teacher, principal, and director of an independent organization promoting innovation in Cleveland schools before he came to Washington. Although he is not the highest ranking official in the Office he is respected by his colleagues, education interest groups and Congress. Smith is a good manager and a team player. His appointment during the interim period before the Department is established would be a good signal to the black community.

Appointing a Commissioner during the transition period will enable HEW, working with Shirley, to issue necessary regulations and approve pending State plans. Under existing law only the Commissioner has authority to sign these documents. As you know, the Commissioner's position will be abolished when the Education Department is activated and the authority transferred to the Secretary of Education.

RECOMMENDATION

We recommend that William Smith be appointed Commissioner of Education. Shirley Hufstedler, Pat Harris and Louis Martin concur.

✓
_____ approve _____ disapprove

In view of the need for pending regulations and State plans to be signed, we also recommend a recess appointment be made if necessary FBI checks can be completed quickly. Frank Moore and Lloyd Cutler concur.

✓
_____ approve _____ disapprove

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT'S ATTENDANCE AT THE
LIGHTING CEREMONY OF THE NATIONAL MENORAH

December 17, 1979

- 6:55 pm The President departs Residence enroute Menorah Lighting Ceremony.
- 6:59 pm The President arrives ceremony area, proceeds to stage and takes his seat.
- 7:00 pm Greetings from Rabbi Abraham Shemtov on behalf of the Lubavitchers, concluding in the introduction of the President.
- 7:03 pm The President will be invited to illuminate the Middle Menorah Candle.
- 7:04 pm Jay Eizenstat gives the Blessing of Hanukkah.
- NOTE: The following persons will light the four Candles of Hanukkah:
Jay Eizenstat
Phillip Klutznick, Secretary Designate of Commerce
Stu Eizenstat
Brian Eizenstat (Son)
- 7:06 pm Presidential remarks.
- OPEN PRESS COVERAGE
- 7:09 pm Remarks conclude.

NOTE: A small Menorah will
be presented to the President
by Rabbi Shemtov.

7:10 pm The President thanks his hosts and departs
lighting ceremony area enroute Residence.

7:13 pm The President arrives Residence.

Lighting of the Menorah

December 17, 1979

THE WHITE HOUSE
WASHINGTON

Tonight I am privileged to take part in Hanukkah,
December 17, 1979

the Feast of Lights. Hanukkah commemorates the victory of the

MEMORANDUM FOR THE PRESIDENT for the celebration of freedom, in a very

FROM Al McDonald
Rick Hertzberg
Achsah Nesmith *AK*

SUBJECT: Lighting of the Menorah

After the victory there was only enough oil found in

Attached is the above text for your lighting ceremony this evening. The original light burn for one night,

but miraculously it continued to burn for eight nights.

Clearance:

The light is a symbol of the way to meet our
Stu Eizenstat
Ed Sanders

needs, that when we have faith in God, we can do more

than we ever thought possible.

Hanukkah is a celebration of courage, of hope that holds

the promise of renewing old, age-old dreams and

the spirit of liberty, the will to survive. It is these very qualities that bind all Americans of every faith together at this moment when our people held hostage in Iran can not be with us.

The Shammes (shah-muss) candle* is used to light the others each night. It is a symbol that we can give love and light to others without diminishing what each of us has, and that in sharing the radiance grows.

It is in this spirit of hope and of sharing that I join with you tonight and pray with you for peace and freedom for all mankind.

#

* the ninth candle

CQ

CONGRESSIONAL QUARTERLY
Weekly Report

Vol. 37, No. 50

• Pages 2813-2868

• Dec. 15, 1979

Windfall Profits (2818)

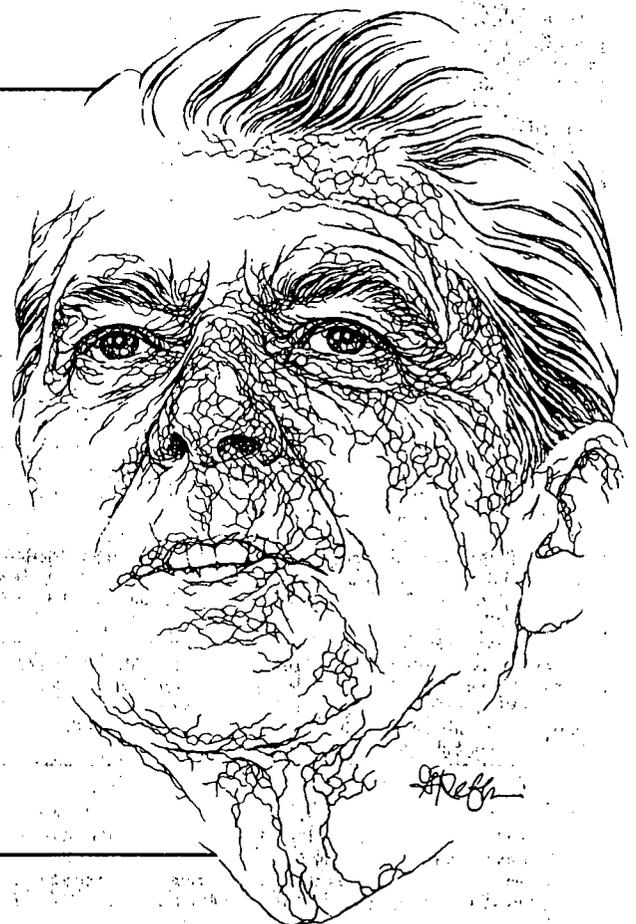
Chrysler Aid (2820)

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Defense Spending (2815, 2851)

**Ronald
Reagan**

*The original TV candidate
working to protect his lead*
(2823)



United States Senate

WASHINGTON, D.C. 20510

December 17, 1979

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

Dear Mr. President:

For some months now the Senate Foreign Relations Committee, the Armed Services Committee, and the Intelligence Committee have been carefully examining the SALT II agreement to determine if it meets our nation's national security interests. Public hearings on the Treaty have been accompanied by numerous private meetings among Senators of both parties, Administration officials, and other individuals possessing experience and expertise in arms control and related matters.

From the hearings and from those individual meetings, a number of important issues have emerged regarding both the proposed SALT II Treaty and the state of our nation's defense posture.

With respect to the Treaty, we as individual Senators are deeply concerned over certain provisions of, and omissions from, the Treaty. We hope that during the course of Senate deliberations our concerns can be met. We are concerned over the Protocol terms and their precedential effect. We are also concerned over the Treaty provisions relating to "heavy" missiles, verification, limitations on potential basing modes for the MX missile, the threat posed to the United States by the Backfire and other Soviet weapons not limited by the Treaty, and other issues. We are hopeful that these problem areas can be resolved in a manner that strengthens the SALT Treaty and improves the SALT process.

In addition to these Treaty issues, we are also concerned over the ongoing slippage in America's comparative military position, awareness of which has been accentuated by the Senate's deliberations on SALT and by recent international events. In the last decade, the Soviet Union has attained at the very least essential equivalence in strategic weapons, has eliminated NATO's longstanding superiority in theater nuclear forces, and has expanded an already preponderant advantage in ground forces and civil defense capability. Furthermore, the Soviets are reducing our qualitative edge in tactical air

forces and have constructed a navy that, for the first time in modern history, threatens traditional Western supremacy on the high seas. These trends have been accompanied by a growing Soviet and Soviet-sponsored threat to the West's sources of energy and raw materials.

The erosion that has taken place in the East-West military balance can be principally attributed to the failure of the U.S. and our Allies to compete effectively with Moscow in the military arena in the past 15 years. While diverting substantial conventional forces to the conflict in Southeast Asia in the 1960's and early 1970's, we remained, in the category of nuclear arms, basically content to live off of capital invested in the 1950's and early 1960's. In so doing, we provided the Soviet Union the opportunity to steal a massive military march on the West. That the Soviets took advantage of that opportunity is no longer questioned.

During the period 1970-1978, the Soviet Union invested a total of \$104 billion more than the United States in military equipment and facilities, and \$40 billion more in research and development. According to the CIA, the Soviet Union is still militarily outspending the United States overall by at least 40 percent annually; in the critical categories of investment in weapons procurement and research and development, they are outspending us by a 2:1 ratio.

We do not believe that the SALT II agreement currently before the Senate can be held directly responsible for this erosion in America's military position. However, during the seven years that the agreement was in negotiation, the hopes for significant arms control did influence our force planning and the support for defense initiatives. Thus, efforts which may have been needed to counter the mounting Soviet threat were delayed, curtailed, or even abandoned. Ratification of a SALT II Treaty will not reverse trends in the military balance adverse to the United States.

We applaud the statements by both you and Secretary of Defense Harold Brown relating to the Five-Year Defense Program. We reserve the right to examine the submittal in detail, but it does represent a positive step in acknowledging the Soviet buildup and in committing to real increases in defense spending and capability.

We have ourselves met on several occasions to discuss those considerations that will be foremost on our minds as the Senate approaches its full floor debate on the Treaty. All of

us are agreed that the Treaty issues mentioned above are important and that the manner in which they are resolved will influence our final decision on Treaty ratification.

We are also agreed that the SALT II Treaty cannot be judged in a vacuum. In our view, the Treaty represents but one facet of a much broader East-West relationship that encompasses political and economic, as well as military dimensions. Our final judgment on the Treaty will therefore not be confined solely to the merits or flaws of the Treaty alone. We regard the following considerations as crucial:

1. The absence of definitive Administration proposals designed to narrow the strategic nuclear window of vulnerability which will occur during the early and mid-1980's.
2. The longstanding adverse trends in our own defense posture, and the extent to which the Administration's proposed Fiscal 1981 Defense Budget and Five-Year Defense Plan establishes a firm foundation for reversing those trends, in both conventional and nuclear forces. We believe that an objective review must be made in the immediate future as to our manpower procurement problems.
3. The plans and programs envisioned by the Administration to improve our intelligence capabilities, with particular emphasis on investment in high-technology collection systems and professional analytic resources. The need is also apparent to reconstitute our sensitive operational intelligence capabilities.
4. The impact of the SALT II Treaty on our ability in concert with our NATO allies, to modernize European-based nuclear and conventional forces. We are particularly interested in the Administration plans as to the deployment date for ground-launched cruise missiles.
5. The global military and political climate, particularly the increasingly aggressive activities in the Third World of the Soviet Union and its proxies. We are interested in the Administration plans to deter and counter such behavior over the coming decade. We regard such behavior as inconsistent with the underlying spirit of the SALT process.
6. The effect of the Treaty on long-term prospects for meaningful arms control, with respect not only to the

attainment in SALT III of "deep cuts" in existing levels of strategic armaments, but also to significant progress in our other arms control efforts such as the negotiations on Mutual and Balanced Force Reductions in Europe. The SALT process so far has failed to restrain the momentum of the Soviet Union's ongoing military buildup.

We believe that the Salt II debate will provide a unique opportunity not only to examine the Treaty itself, but also to seek a bipartisan consensus on long-range national security strategy and arms control.

Further, we attach great value to the pursuit of arms control, provided it enhances our nation's security. Should circumstances arise in which there are insufficient votes either to strengthen or to ratify the Treaty, we believe that serious consideration should be given to postponement. In view of the unforeseen delays in the Senate debate, persistent worldwide tensions, and national political considerations, any such postponement should be effective through the Presidential and Senatorial elections of 1980. As we have indicated, we regard an effective SALT process as being in our nation's interest.

Each of the undersigned, of course, gives different weight to these individual items but this letter expresses our general concerns. Because of our concerns, largely covered by this letter, we are uncommitted as to how we will cast our votes on the SALT II Treaty and proposed changes.

We look forward to discussing these issues in detail with you and members of your Administration.

Sincerely,

Sam Nunn

John W. Warner

Laura Chiles

Henry Bellmon

John C. Danforth

Judy Roschowitz

Harmon Schmitz

Peter Domessier

Paul Young

John Lewis

David Boren

Richard (Dick) Cheney

Lloyd Bentsen

S. I. Hayakawa

W. Frank

Larry Sanders

Dennis DeConcini

Paul Simon

R. Simpson

UNITED STATES ARMS CONTROL AND DISARMAMENT AGENCY
WASHINGTON

cc 26.5
get comments
from Cy & Hansen
J
cc 1026
12/17/79
M

OFFICE OF
THE DIRECTOR

December 14, 1979

Dear Mr. President:

Despite the present stall in the SALT II ratification process, I am optimistic that the agreement will be approved by the Senate. In view of the need for early preparation for SALT III, I believe that it would be advantageous to start consideration of leadership for our delegation in the next stage of SALT.

Bill Colby -- if he is willing -- would be a superb Chief SALT negotiator. From wartime service as a member of OSS behind German lines to Director of Central Intelligence, Bill's life has been dedicated to the security of our country; his integrity is unquestioned. Furthermore, he has had, as CIA Director, prior experience with SALT at the highest level of our government and, equally important, extensive experience with verification. In this aspect of SALT -- which grows evermore complex and important -- no other appointee could bring with him more understanding and credibility. Added to these assets would be his legal training -- a consideration of no small import given the detail and the negotiating rigor of the talks themselves.

Finally, as you may know, Bill has worked tirelessly, taking time from his law practice with no recompense, to speak in favor of SALT II around the country. Before many audiences, his performance has been essential to the successful presentation of our case for SALT II. He clearly understands that SALT today must be won at home as well as at the negotiating table. He has already proven to be a most effective spokesman.

The President
The White House

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Additionally, he is tough, forceful, dedicated, and wise. He would be an excellent addition to your team as we enter a new and highly demanding era in national security and arms control.

Very truly yours,

A handwritten signature in black ink, appearing to read "Seignious". The signature is written in a cursive, slightly slanted style.

George M. Seignious II

Frank Moore

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

Rick Hutcheson

PM

NAME Bob Giaimo

128

TITLE Congressman

CITY/STATE Connecticut

Phone Number--Home ()

Work 202)225-4286

Other (309) 368-9295

Requested by Frank Moore *F.M.M.*

Date of Request 12/13/79

Call to be made on
Friday, December 14 or
Saturday, December 15

INFORMATION (Continued on back if necessary)

Jim McIntyre went to see Giaimo to brief him on the budget assumptions and the issue of a tax cut. As a result of that meeting, Giaimo, Chairman of the House Budget Committee, feels it is essential to express his strong opinions on the inadvisability of a tax cut to the President. He called Thursday night and we strongly advise you call him back. You have not spoken to him since he endorsed last week.

NOTES: (Date of Call 12-15)

*No tax cut -
in loco latera*

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THE WHITE HOUSE
WASHINGTON
17 Dec 79

Stu Eizenstat

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Rick Hutcheson

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THE WHITE HOUSE
WASHINGTON
December 11, 1979

Good memo
J

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MEMORANDUM FOR THE PRESIDENT

FROM: Stuart Eizenstat *Stu*
SUBJECT: Major Economic and Energy Decisions

As you know, you will face a series of economic and energy decisions between now and December 21 which are of critical importance both substantively and politically and which must be reflected in the January Budget. Broadly, these include:

- o Whether (a) to propose at this time a major stimulus program in view of our projection of a major decline in economic growth, or (b) (in view of the demonstrated inaccuracy of recent economic forecasts and the high inflation rate) to wait for visible signs of recession before making this decision.
- o Whether (a) to propose major new legislation (a gas tax) to achieve further restraint in energy demand, or (b) to propose a major demand restraint program administratively (through a highly restrictive quota, fee, or rationing system), or (c) to combine a program of moderate demand restraint with standby measures designed to allocate a severe shortage should it occur.
- o Whether to propose a moderate program of investment in long-term economic health (accelerated depreciation, incentives for savings, youth employment and training). This program could be justified as a component of a stimulus package, or as a way to recycle revenues gathered from a major energy demand restraint program, or as a free-standing investment initiative.

The purpose of this memorandum is to set forth my own views and recommendations after hours of discussion on the Hill and with members of the Administration.

My own recommendations are as follows:

- I agree*
1. I recommend against a major economic stimulus program at this time. While our projections and those of most private forecasters do show a major downturn next year, these forecasts have not proved accurate in the recent past. Largely for that reason, and given the high inflation rate, there is little enthusiasm among Congressional leaders for a major stimulus program. I do not believe you should advance a major stimulus program with its impact on the deficit until (a) actual experience indicates a need for it and (b) there is clear evidence of Congressional support.

At the same time I do believe that the Budget document should clearly state, in general terms, your willingness to take appropriate action if economic circumstances warrant. I believe that several stand-by options should be prepared centering on deferral of the 1981 Social Security tax increases, a small targeted public works program, housing programs (we need immediate authorization but not an immediate appropriation) and increases in countercyclical CETA employment and training. While I do not recommend making the details of these options public, it may be advisable to state publicly that you will consider Social Security tax relief if circumstances warrant -- to keep others from preempting the issue.

2. I recommend a modest human and capital investment program. The absence of economic and political support for a major stimulus package is convincing. But there is strong pressure on the Hill and in the country for measures to stimulate productivity -- and a very real need for your Budget, State of the Union and Economic Message to lay out a strategy of long-term hope. Part of this message must be a continued effort to reduce the deficit. Part can be a strong commitment to future tax cuts as and when we can afford them.

I would add:

- o A very modest proposal for accelerated depreciation (\$5 billion). This will address a component of our productivity problem by encouraging modernization of equipment and help to head off more expensive and less justifiable proposals on the Hill.
- o A small tax credit to encourage personal savings (\$1.5 billion). While there is disagreement over its practical effectiveness, this proposal in more expensive form has a substantial following on the Hill and

in the public. A small credit can be an important symbolic recognition of the clear need for a shift from personal consumption to savings, and does provide a benefit to the average citizen and family.

- o A small credit to encourage research and development.

To compliment these investments in economic capital, I would stress two human capital initiatives designed to improve the quality of our workforce:

- o The youth employment initiative (\$2 billion in budget authority, \$800 million in outlays) to improve the basic skills and work experience of disadvantaged youth. This would result from our Domestic Policy Review.
- o The unemployed worker retraining initiative under preparation by the Labor Department (\$1 billion in budget authority, \$400 million in outlays) which would offer retraining to workers in skilled jobs who have become unemployed because of a decline in demand for their skills. Similar programs on a much larger scale are highly successful in a number of European countries.

For a contribution to the budget deficit of less than \$8 billion this program provides an economic program addressed to the longer term which is moderate, enactable and which will be seen as fair. I would caution both substantively and politically against a program which provided increased relief to business through ADR without some balancing through investment in a more productive workforce. This at least permits you to offer a long-term structural economic program with a ray of hope. Without this we have no hope to offer in the midst of a poorly performing economy.

3. I strongly recommend against a gas tax. We have explored with Congressional leaders and outside groups the question of either a substantial (50 cent) gas tax, or a more modest incremental approach. My own conclusions are as follows:
 - o As Secretary Miller's December 5 memo to you on his Mid East trip indicates, it is far from clear at this point that there will be major production shortfalls next year. Moreover high U.S. stocks of most critical products (except gasoline) will cushion the impact of small supply shortages.

- o U.S. demand has in fact declined substantially this year, largely in reaction to larger prices, and this trend can reasonably be expected to continue. (It may be accelerated if OPEC raises prices substantially at its December 17 meeting.)
 - o Any gasoline tax will have a major inflationary impact; a 50 cent tax, large enough to achieve an important demand restraint, will increase the CPI directly by 2.75%, with additional increases in business effects of 0.9%, and later wage/price feedback of another 1.75%. Note that these increases will be in addition to increases in prices from OPEC price and production decisions and our own decontrol schedule.
 - o Absent full international cooperation (which we have not yet received) a gas tax may have no restraining influence on OPEC production.
 - o While the inflationary impact of a tax is clear, there will be a great deal of divisive argument over the degree to which the tax will in fact reduce demand. A 50 cent tax, which almost all of your advisors agree is too high, would almost certainly restrain demand. The demand impacts of a smaller, phased tax are far less clear.
 - o Finally, and most important, I think there is virtually no chance that Congress could pass a gasoline tax (even a standby or graduated tax) in an election year -- and even less chance of making the tax effective before January, 1981. While in many ways a gas tax is attractive, it is not in the interest of an incumbent Administration in an election year to submit a major proposal which will divide the Democratic party without real likelihood of enactment.
4. Instead of a tax, I recommend an administrative approach to demand restraints. We are already committed to a program of import restraint through imposition of a quota or similar mechanism to limit imports to 8.5 MMB/D. One of the options which we have circulated for public comment would involve reducing imports through a fee or tariff, rather than a strict quota. I am told by DOE officials that with very little extra administrative effort we could use the existing price control and allocation system to require refiners to pass through the entire cost of the fee on gasoline, rather than spreading it across all refined products. This would amount to enforcement of import restraint through an

administratively imposed gasoline tax. It places the incentive to conserve on gasoline and does not run up prices of diesel fuel, heating oil, or other products. There are a number of other attractive aspects to using a fee rather than quota/auction or quota/allocation which I will outline in a later Memorandum.

5. I recommend this only as a stand-by proposal. While it has the advantage of not requiring legislation, the key arguments outlined above against a major gasoline tax also apply to substantial import restraint through a fee: the uncertain need for short-term demand restraint and the inflationary impact.

I believe the public is prepared to cooperate in major further mandatory demand restraint efforts next year only if the need is clear. This is especially true in light of the decision at the recent IEA Ministerial to defer agreement on a real international effort to reduce demand without a visible shortage of supply; extraordinary sacrifice by Americans will be seen as simply contributing to growth of the German strategic reserve and the Japanese economy. However, once a supply shortfall is apparent, I believe Americans will accept and support strong measures to "cope."

Therefore, I would:

- o Initially continue to peg our maximum import level at 8.5 MMB/D (the level implied by the Tokyo agreement and the results of the recent IEA Ministerial) and announce that we will enforce this level as necessary with a fee allocated to gasoline as described above. (If there is no supply shortfall there should be no need to impose the fee in 1980).
- o Announce measures, including mandatory State Conservation targets designed to restrain domestic demand well below the maximum import level (avoiding targets so stringent that they would require more hardship such as still days). These targets should be set at a tougher level than the voluntary targets DOE has proposed.
- o Announce that should supply shortfalls occur we will immediately move to meet them through a coordinated program of imposing the tariff "gas tax" at a lower level of imports, and increasing the level of the mandatory State targets. A series of contingency plans should be carefully worked out with the States. (Note that a portion of revenues from the tariff should be devoted to increasing low-income assistance.)

This approach is designed to prepare the federal government to maintain leadership in the event of supply reduction -- but to avoid trying to do so much at the outset, before the need is clear to the public, that our freedom to act in real emergencies is constrained. Note that even with the moderate approach outlined above I would expect major, but unsuccessful, Congressional efforts to remove your administrative power to act.

Some of your advisors will probably recommend a fee and gasoline pass-through which kicks in immediately. I object strongly to this (as opposed to my stand-by option) since it would have the same inflationary, political and Congressional impacts as an equivalent gasoline tax.

6. Finally, I recommend that DOE be asked to give the highest priority to developing the best possible gasoline rationing plan.

I have been persuaded by the costs and bureaucratic difficulties that actual implementation of a full-scale rationing program should be avoided if possible. This is why I have reluctantly recommended reliance on an "administrative gas tax" to deal with major demand restraint, if needed, on a stand-by basis. But this does not lessen the need for top-quality work on a rationing plan for two reasons.

- o First, we have spent most of two years seeking this authority and must submit a plan to Congress next February. A poorly-prepared submission will be embarrassing and politically damaging.
- o Second, in the event of a very severe and prolonged supply shortfall, the inflationary impact of restraining demand through higher prices and the inequitable impact on our low and moderate income population would require a rationing system. While we do not expect this to happen we must be prepared for the contingency.

My own belief is that Secretary Duncan should be given an Assistant-Secretary-level slot from the OMB pool and asked to find an experienced high-level manager who, with your approval, would be asked to head this effort. It is too important, and too potentially embarrassing, to be left to "business as usual."

CONCLUSION

SUMMARY OF RECOMMENDATIONS:

- 1.) Steady anti-inflationary budget policy with (a) a modest package of human and economic capital development incentives to address long-term productivity problems and (b) a commitment to anti-recessionary action if a need is clearly identified.
- 2.) An approach to energy which (a) asks Congress to complete action on our long-term production and conservation incentives (EMB, ESC, Conservation, Mass Transit, permanent low-income assistance, utility-oil backout), and (b) uses current executive authority (fees, mandatory conservation) for necessary demand restraint with a clear plan for extraordinary demand restraint if and when circumstances require it.

I strongly believe that, in the present climate of uncertainty generated by the economic situation and the turmoil in the Mideast, the American people want and need an impression of strong control from The White House. This means that we should wherever possible:

- o avoid divisive and potentially unsuccessful battles in an election-year Congress by adopting Administrative rather than legislative solutions where they exist, and by postponing divisive issues into next year where this can responsibly be done;
- o time our major decisions so that they are announced when they will receive the most public support.

The recommendations I have made above meet these criteria. I should emphasize that even this approach leaves a very full energy plate for next year for both Congress and the Executive -- for the Congress completing action on the initiatives mentioned above, for the Administration implementing these measures, appointing members for the ESC and EMB, and implementing the administrative demand restraint measures I have outlined. This is more than enough for any year, much less an election year, without additional legislative battles.