

**6/3/80 [1]**

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 6/3/80 [1]; Container 164

To See Complete Finding Aid:

[http://www.jimmycarterlibrary.gov/library/findingaids/Staff\\_Secretary.pdf](http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf)

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo w/att	<del>Zbigniew Brzezinski to the President.</del> <del>Re: Letter from Dominican Republic Pres. Guzman. (4 pp.)</del> <i>opened per RAC NHC-126-21-37-1-7 1/9/14</i>	6/3/80	A
memo w/att	Zbigniew Brzezinski to the President. Re: Letter to Crown Prince Fahd of Saudi Arabia. (7 pp.)	6/3/80	A

FILE LOCATION

Carter Presidential Papers- Staff Offices, Office of Staff Sec.-  
 Pres. Handwriting File, "6/3/80 [1]." Box 189

RESTRICTION CODES

- (A) Closed by Executive Order 12356 governing access to national security information.
- (B) Closed by statute or by the agency which originated the document.
- (C) Closed in accordance with restrictions contained in the donor's deed of gift.

THE WHITE HOUSE  
WASHINGTON

02 Jun 80

Jack Sullivan,

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

Rick Hutcheson

cc: Jack Watson

6/2/80

suggest marginal note referring to Watson, indicating cc to Sullivan.

Phil Wise says Sullivan has been asking him for about 2 weeks now for an appointment with you.

This has come in separately. However, it would help Phil et al if you do provide non-com marginal note.

A handwritten signature, possibly initials, consisting of a stylized 'h' or 'r' shape.

JOHN M. SULLIVAN

cc Jack Sullivan  
Jack Watson

Jack, We will  
certainly consider you  
May 29, 1980 for the  
Conrail Chairmanship -

J

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

Dear Mr. President:

On Friday, June 6, the United States Railway Association (USRA) will meet to discuss the planned resignation of Mr. Edward Jordan as Chairman of the Consolidated Rail Corporation (Conrail). Mr. Jordan's resignation gives you the opportunity (through USRA) to recommend to the board of directors of Conrail a new chairman who will show both firmness and sensitivity in dealing with the many problems that Conrail presents. The railroad serves a 14-state region that includes 48 percent of the nation's population and accounts for nearly 50 percent of our Gross National Product. Public investment to date is \$3.3 billion and Conrail continues to lose \$300 to \$400 million a year. Over the next five years Mr. Jordan's successor could play a key role in minimizing the cost of Conrail to the Government. At the same time, by making intelligent improvements in the structure of the railroad, his successor could improve the efficiency of our steel, auto, and coal industries.

I would like to be your choice as chairman of Conrail. I would bring to the job twenty years' experience as a Northeast businessman and three years' experience as your Federal Railroad Administrator. In my current job I have worked successfully for deregulation of the industry, for rationalization of the Amtrak passenger network and for restructuring of the Midwest railroads without heavy reliance on federal bailouts.

Faithfully yours,

  
John M. Sullivan

**Electrostatic Copy Made  
for Preservation Purposes**

THE WHITE HOUSE

WASHINGTON

May 30, 1980

C

MEMORANDUM FOR THE PRESIDENT

FROM:

RICK HUTCHESON *Bill Simon for RH*

SUBJECT:

Status of Presidential Requests

WATSON:

(5/2) Appoint Bob McKinney to the Board of Directors of the Federal National Mortgage Association -- Done. *done*

(5/12) Comment on the letter from President and Mrs. Ford on naming Senator Harold Hughes as Chairman of the National Commission on Alcoholism and Other Alcohol-Related Problems.

(3/6) Dr. Pursch and Darryll Sorenson have been recommended for the Alcohol and Drug Commission. Keep them on the list -- In Progress, (appropriations have not been made available for this commission. When funding is approved you will appoint 9 members. With your approval Harold Hughes will be appointed Chairman and Dr. Pursch and Darryll Sorenson will be appointed members). *ok*

(5/19) Concerning the Chairman for COWPS, the President knows Charles Zwick and he is a good man. However, the President does not know the other candidates. Check carefully with Secretary Miller, Lloyd Cutler, etc -- In Progress.

(5/27) Concerning the list of candidates for Chairman of the Board of Directors of the Energy Security Corporation, the President wants you to check with Irv Shapiro and Frank Cary first. If they are unavailable then move further -- In Progress.

EIZENSTAT

(4/14) Assess for the President, the letter from Berkley Bedell and concerned citizens of Northwest Iowa regarding agricultural economy in their areas -- Done. *done*

(5/26) (and Watson) Please comment on Secretary Marshall's proposal on providing additional summer employment opportunities this summer for disadvantaged youth -- In Progress, (Secretary Harris has also forwarded a memo on this topic which is with the White House Staff. Stu and Jack will be commenting on this topic by June 5.)

BRZEZINSKI

(5/5) The President wants an expedited answer to Malcolm Fraser's letter on the hostages. Outline how we are staying in touch and list upcoming meetings at FM and top levels -- Done. *done*

(5/5) Please inform the President of the status of the Ambassador to Luxembourg -- Done. *done*

(5/14) On the process on foreign policy/national security speeches where does State and Defense come in? It should be early -- Done. *done*

(5/20) When Belaunde is elected, the President wants you to send him the President's congratulations -- Done. *done*

(5/20) The President wants to send a strong message to Fahd concerning holding steady oil production and price through 1980. Check with Stu and work with State on an early draft -- Done. *done*

SECRETARY BROWN:

(5/23) The President would like you to have someone look into the case of Lt. Commander Grant Telfer -- In Progress, (response expected 6/4).

SECRETARY MILLER:

(5/20) PRIVATE. The President believes the bankers are cheating the public by keeping the price rate too high. Advise immediately about what can be done -- Done. *done*

HUGH CARTER:

(5/21) Commander Brown has requested that men of NIMITZ and Carrier Air Wing EIGHT receive the Presidential Unit Citation and the Armed Forces Expeditionary Medal. Check on how to handle routinely without getting the Commander in trouble -- Done. (Letter of explanation sent to Commander Brown, attached.) *done*

May 30, 1980

Dear Commander Brown:

This is in response to your recent letter suggesting that members of the USS NIMITZ Battle Group (which includes the cruisers TEXAS and CALIFORNIA, as well as NIMITZ) be awarded the Armed Forces Expeditionary Medal and the Presidential Unit Citation.

The President expressed the high regard he has for all the personnel of the NIMITZ Battle Group when he greeted them on Memorial Day, on their return from the Group's nine month cruise to the Mediterranean Sea and the Indian Ocean. Speaking for all Americans, President Carter thanked crew members for their historic deployment in support of our policy objectives in this strategic region. In recognition of the many sacrifices, challenges and hardships of military duty, the President has asked the Congress to provide more appropriate compensation for sea and flight duty, high-cost area housing, reenlistment and dependent dental care.

Unfortunately, the decorations which you suggest can only be awarded for combat or combat-related actions. In view of the character of this deployment (and of the humanitarian aspects of the rescue attempt staged from NIMITZ's flight deck), awards of this nature cannot be authorized. Nevertheless, reflecting the high regard in which members of this Battle Group are held, the President understands that NIMITZ, TEXAS and CALIFORNIA crew members have received both the Navy Expeditionary Medal and the new Sea Services Deployment Ribbon. These awards—which can be presented for peacetime operations in distant waters—are the material evidence of the admiration and gratitude all Americans feel for the superb performance of these fine ships and their able crews.

I am confident that you agree the Navy Expeditionary Medal and the Sea Services Deployment Ribbon—presented by Secretary Hidalgo on the day of the President's visit—are appropriate recognition.

I would like to thank you for your concern, and add my congratulations to those you and your men have already received for the outstanding effort you demonstrated in carrying out your mission.

Sincerely,

MARVIN L. BEAMAN, JR.  
Director  
White House Military Office

Commander Emory W. Brown, Jr.  
VP-24  
FPO New York 09501

Electrostatic Copy Made  
for Preservation Purposes

BS

NAME ROSALYNN PALLOT (Pronounced ROZ-A-LIN

1478

TITLE \_\_\_\_\_

CITY/STATE \_\_\_\_\_

Requested by Phil Wise

Date of Request May 30, 1980

Phone Number--Home (305) 665-1416

Work  \_\_\_\_\_

Other  \_\_\_\_\_

INFORMATION (Continued on back if necessary)

To express condolences on the death of her husband, Richard Pallot, who died of a heart attack on Wednesday. Richard was one of your early supporters and a fundraiser in Miami.

----- He was at one of the recent thank-you receptions here at the W. House. -----

NOTES: (Date of Call 6-2)

*done*

THE WHITE HOUSE  
WASHINGTON

6-2-80

Dennett Johnston

Proposed that

- a) Fee be held in abeyance until after Court ruling
- b) Not impose them until after consultation w Congress
- c) Favors rebate provision re revenue raised

J

p.s. He'll check w L. Byrd,  
then call B. Miller. I  
made no commitment. Kept  
all options open -

THE WHITE HOUSE  
WASHINGTON

Call to

6-2-80

Fennell -

a) No commitment not  
to impose fee, even  
after consultation  $\bar{c}$

Congress

b) Held off on  
imposition until after  
Court decision.

c) Interest in allocation  
of fee revenue ?)

THE WHITE HOUSE  
WASHINGTON

02 Jun 80

The First Lady

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

Rick Hutcheson

MEMORANDUM

THE WHITE HOUSE  
WASHINGTON

To Ros  
J

6-2-80

To: President Carter  
The First Lady

From: Sarah Weddington 

Re: Update on ERA Fundriaser, June 18, 1980.

There are now 55 sponsors (\$2500), 20 patrons (\$500), and 6 individual ticket holders -- and the invitations are only being mailed today. We have a good shot at a good attendance.

The Dinner has raised \$70,000 and there are three weeks yet to sell tickets.

We hear the Kennedy people have been furious because this venture is turning out to be so successful.

~~CONFIDENTIAL~~

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~

June 3, 1980

INFORMATION

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI *ZS*

SUBJECT: Letter to You from President Guzman  
of the Dominican Republic

President Guzman has written you in response to your letter of March 17 concerning the Olympic boycott. Guzman states that although the Dominican Republic's Olympic Committee is an autonomous organization, his government made a statement saying that, (a) it would prefer the country's athletes not go to Moscow; (b) the Dominican Republic's Government would not give any financial or other assistance to the Olympic Committee for this purpose; and (c) the Government would not permit members of the military to participate. He notes these military athletes comprise 90 percent of those previously scheduled to participate in Moscow. (C)

President Guzman pledges his government's full cooperation with proposed new initiatives by private voluntary organizations in the Caribbean, like Caribbean/Central American Action, although he doesn't mention it specifically. (C)

No reply is necessary. (U)

~~CONFIDENTIAL~~  
Review 6/2/80

DECLASSIFIED  
Per, Rac Project

ESDN; NLG-126-21-37-1-7

BY *KS* NARA DATE *12/17/13*

~~CONFIDENTIAL~~

EL PRESIDENTE DE LA REPÚBLICA DOMINICANA

Santo Domingo, D.N.  
9 de mayo de 1980

C

Excelentísimo Señor  
Jimmy Carter,  
Presidente de los  
Estados Unidos de América,  
La Casa Blanca,  
Washington, D.C.

Estimado Señor Presidente:

Con mucho placer he recibido la carta que me ha dirigido Su Excelencia el pasado 17 de marzo, en relación con la decisión de mi Gobierno de no participar en los Juegos Olímpicos de Moscú.

Como bien sabe Su Excelencia, el Comité Olímpico Dominicano es un organismo autónomo, cuyas decisiones no pueden ser dictadas por el Gobierno Dominicano; sin embargo, el Poder Ejecutivo de la República Dominicana ha hecho una declaración pública que en su porción final reza:

- 2- "El Gobierno Dominicano no interferirá en la decisión que tome el Comité Olímpico Dominicano, pero preferiría que sus atletas no vayan a Moscú".
- 3- "El Gobierno Dominicano no dará ayuda económica ni de ningún otro género al Comité Olímpico Dominicano para el propósito expresado".
- 4- "El Gobierno Dominicano tampoco permitirá que los Atletas que sean militares asistan a los Juegos Olímpicos señalados".

DECLASSIFIED

.../... Per, Rac Project

ESDN: NLC-126-21-37-1-7

BY 125 NARA DATE 12/17/13

EL PRESIDENTE DE LA REPÚBLICA DOMINICANA

- 2 -

Deseo aclararle, Señor Presidente, que los atletas militares representan más del 90% de los que estaban supuestos a participar en los Juegos Olímpicos. Además, y no obstante la autonomía del Comité Olímpico, se le ha hecho un llamado oficial a dicho organismo, para que se abstenga de participar en los Juegos de Moscú.

En cuanto a las iniciativas de organizaciones privadas que visitarán países del Caribe me siento esperanzado por el aviso que de ellas me hace Su Excelencia. Tenga la seguridad de que mi Gobierno brindará la mayor cooperación a esas misiones cuyo propósito es fortalecer lazos entre los países del área del Caribe.

Al reiterar mi satisfacción por su amable mensaje hago provecho de la ocasión para expresar a Su Excelencia los sentimientos de mi más alta consideración.

  
ANTONIO GUZMAN

DECLASSIFIED  
Per: Rac Project  
ESDN: NLG-126-21-37-1-7  
BY 145 NARA DATE 12/17/12

SUMMARY TRANSLATION

Letter dated May 9, 1980 from the President of the Dominican Republic, Antonio Guzman, to President Carter.

President Guzman thanks President Carter for his letter of March 17 concerning the DR's decision to boycott the Moscow Olympics and reaffirms that, although the DR Olympic Committee is an autonomous organization, his government made a statement saying that, (a) the government would prefer that its athletes not go to Moscow; (b) the DR government would not give any financial or other assistance to the Olympic Committee for this purpose and (c) the government would not permit members of the military to participate in the Olympics (he notes these military athletes comprise 90% of those scheduled to participate in Moscow).

President Guzman also pledges his government's full cooperation with the proposed new initiatives by private voluntary organizations in the Caribbean.

DECLASSIFIED  
Per, Rac Project  
ESDN: NLC-126-21-37-1-7  
BY 123 NARA DATE 12/17/13

THE WHITE HOUSE

WASHINGTON

June 2, 1980

MEMORANDUM FOR SECRETARY NEIL GOLDSCHMIDT  
JIM MCINTYRE  
FRANK MOORE

SUBJECT: Department of Transportation Request  
for Authority to Call up Coast Guard Reserves

The President has approved the request as outlined in Jim McIntyre's memorandum of May 30 on the above-referenced subject (attached). The President noted, however, "First, consult with Congress, leaders-Expedite."

Rick Hutcheson

cc: Jody Powell  
Zbig Brzezinski

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
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PRESS
	SANDERS
	SPETH
	STRAUSS
	TORRES
	VOORDE
	WISE

THE WHITE HOUSE  
WASHINGTON

6/2/80

Mr. President:

Jack Watson concurs with the recommendation to call-up the Coast Guard Reserves for involuntary active duty. They want to ensure that they can fulfil their mission in other parts of the country. Also, in order to continue its current effort in the Florida Straits, it will be necessary to maintain the present high levels of active duty personnel in that area.

The Coast Guard, Watson and NSC have no objection to McIntyre's recommendations.

Authorize a call-up of 900 reservists over a six-week period (300 in each two week period. Recommended by Coast Guard, McIntyre, Watson and NSC.

✓  
\_\_\_\_\_  
APPROVED J

Authorize a call-up of 2,500 reservists over the next 90 days for not more than 14 days each. (Original Coast Guard recommendation.)

\_\_\_\_\_  
APPROVED

Rick/Bill

*First -  
Consult with Congress  
Readers - Expedite*



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MAY 30 1980

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr. *J. McIntyre*

SUBJECT: DOT Request for Authority to Call up Coast Guard Reserves

The Department of Transportation has recommended that you authorize the Secretary to call to active duty up to 2,500 Coast Guard reservists over the next 90 days. Not more than 400 would be called at one time, none for more than two weeks, and this would meet their summer training obligation. The reservists would be used to provide relief at rescue stations from which regular Coast Guard personnel have been pulled out and sent to Key West. Estimated 1980 budget impact is \$1 to \$1.5 million.

This peacetime call-up authority has been exercised only once before. In April 1973 about 134 reservists were activated for less than a week or so each to deal with Mississippi floods. We have looked into the Coast Guard justification associated with the proposed call up. Our assessment is that a need for boat crew relief exists, but that the total number of reservists requested is somewhat excessive and the 90-day duration is too long. Prolonged use of reservists in June and July will deplete the number of reservists already scheduled for active duty at search and rescue stations in late summer, and could simply shift today's problem to late summer.

My recommendation would be to authorize a more limited call up of only 900 reservists over a six-week period (300 in each two-week period) to be used mainly for rescue boat crew relief. This approach would provide the prompt relief which Coast Guard seeks, allows a breathing period during which we can better gauge the duration of the Cuban situation, and allows the Coast Guard to maintain search and rescue readiness beyond the Fourth of July weekend. If it appears an extension of this reserve call-up authority is needed, it could be considered in early July.



THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

May 29, 1980

Last Day for Action: 3 June 1980

MEMORANDUM FOR THE PRESIDENT

THROUGH: Rick Hutcheson, Staff Secretary

FROM : William J. Beckham, Jr.  
Acting Secretary

A handwritten signature in cursive script, appearing to read "W. J. Beckham, Jr.", is written over the typed name and title.

SUBJECT: Coast Guard Reserve Call Up

Subject to your approval, I intend to authorize the call up of Coast Guard Reserve Forces for involuntary active duty to meet the domestic emergency occasioned by the Cuban Refugee operation.

The draw down of active duty personnel from the various Coast Guard Districts to meet the extraordinary needs in the Seventh Coast Guard District has caused a serious reduction in the capability of the Coast Guard to perform its missions elsewhere.

To provide direct and indirect support to the active service, not more than 2,500 officers and enlisted personnel will be recalled for not more than 14 days each during the next 90 days. The initial group will be required to report 48 hours after your approval is given.

I request your approval in accordance with Public Law 92-479 (14 USC 764).

We understand the Office of Management and Budget has completed its analysis and is forwarding it to you separately.

ID 803010

THE WHITE HOUSE

WASHINGTON

DATE: 27 MAY 80

FOR ACTION: JACK WATSON

ZBIG BRZEZINSKI

INFO ONLY: THE VICE PRESIDENT

LLOYD CUTLER

STU EIZENSTAT

HAMILTON JORDAN

SUBJECT: UPDATED MEMO FROM WILLIAM BECKHAM, JR. RE: COAST GUARD  
RESERVE CALL UP

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (455-7052) +

+ BY: 1200 PM MONDAY 02 JUN 80 +

+++++

ACTION REQUESTED: IMMEDIATE TURNAROUND

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

PLEASE NOTE OTHER COMMENTS BELOW:

*State concurs*

*NSC no comment*

ID 803010

THE WHITE HOUSE

WASHINGTON

5/27  
12:30 pm  
Hold for new  
memo

DATE: 27 MAY 80

FOR ACTION: JACK WATSON

*attached  
concur*

ZBIG BRZEZINSKI

JIM MCINTYRE

INFO ONLY: THE VICE PRESIDENT

LLOYD CUTLER

STU EIZENSTAT

SUBJECT: BECKHAM MEMO R COAST GUARD RESERVE CALL UP

+++++

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

+ BY: +

+++++

ACTION REQUESTED: IMMEDIATE TURNAROUND

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

PLEASE NOTE OTHER COMMENTS BELOW:

**Electrostatic Copy Made  
for Preservation Purposes**

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

ADMIN CONFID
CONFIDENTIAL
SECRET
EYES ONLY

ACTION  
FYI

<input checked="" type="checkbox"/>	VICE PRESIDENT
<input checked="" type="checkbox"/>	JORDAN
<input checked="" type="checkbox"/>	CUTLER
	DONOVAN
<input checked="" type="checkbox"/>	EIZENSTAT
	MCDONALD
	MOORE
	POWELL
<input checked="" type="checkbox"/>	WATSON
<input checked="" type="checkbox"/>	WEDDINGTON
	WEXLER
<input checked="" type="checkbox"/>	BRZEZINSKI
<input checked="" type="checkbox"/>	MCINTYRE
	SCHULTZE
	ANDRUS
	ASKEW
	BERGLAND
	BROWN
	CIVILETTI
	DUNCAN
	GOLDSCHMIDT
	HARRIS
	KREPS
	LANDRIEU
	MARSHALL

<input checked="" type="checkbox"/>	MILLER
<input checked="" type="checkbox"/>	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 SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

MAY 23 1980

MEMORANDUM FOR THE PRESIDENT

THROUGH: Rick Hutcheson, Staff Secretary

FROM : William J. Beckham, Jr.  
Acting Secretary

SUBJECT: Coast Guard Reserve Call Up

Subject to your approval, I intend to authorize the call up of Coast Guard Reserve Forces for involuntary active duty to meet the domestic emergency occasioned by the Cuban Refugee operation.

The draw down of active duty personnel from the various Coast Guard Districts to meet the extraordinary needs in the Seventh Coast Guard District has caused a serious reduction in the capability of the Coast Guard to perform its missions elsewhere.

To provide direct and indirect support to the active service, not more than 2,500 officers and enlisted personnel will be recalled for not more than 14 days each during the next 90 days. The initial group will be required to report 48 hours after your approval is given.

I request your approval in accordance with Public Law 92-479 (14 USC 764).

*Handwritten notes:*  
Rick Hutcheson  
426-45214  
-----  
William J. Beckham, Jr.  
452 0777  
426 4277  
-----  
Beckham → 529 2281-4  
474 0432  
116 2222

Electrostatic Copy Made  
for Preservation Purposes

*Handwritten note:* Files - Link OPS

DATE:

27 MAY 80

FOR ACTION: JACK WATSON

ZBIG BRZEZINSKI

JIM MCINTYRE

INFO ONLY: THE VICE PRESIDENT

LLOYD CUTLER

STU EITZENSTAT

SUBJECT: BECKHAM MEMO R COAST GUARD RESERVE CALL UP

+++++

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

+ BY: +

+++++

ACTION REQUESTED: IMMEDIATE TURNAROUND

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

PLEASE NOTE OTHER COMMENTS BELOW:

*In order to maintain the cut off of boat traffic from Fla. to Cuba this is a necessary step. The Coast Guard needs the temporary increase in personnel this wave will provide to cover other posts along the coast.*  
JW

THE WHITE HOUSE

WASHINGTON

May 29, 1980

MEMORANDUM FOR THE PRESIDENT

FROM:

JACK WATSON *Jack*

SUBJECT:

Acting Secretary Beckham's Memorandum regarding  
Coast Guard Reserve Call-Up

I concur with the recommendation to call-up the Coast Guard Reserve for involuntary active duty. I have discussed the matter with Admiral Hayes, Commandant of the Coast Guard, who wants to ensure that the Coast Guard can fulfil its mission in other parts of the country, particularly since the summer season will bring greatly increased numbers of pleasure boats into the water. In order to continue performing its current mission in the Florida Straits, it will be necessary to maintain the present high levels of active duty personnel in that area.

THE WHITE HOUSE

WASHINGTON  
June 1, 1980

MEMORANDUM TO THE PRESIDENT

FROM:

JACK WATSON *Jack*

SUBJECT:

Comments on Beckham Memo re: Coast Guard  
Reserve Call Up

I have spoken with Admiral Costello and the Coast Guard has no objection to Jim McIntyre's recommendation.

DATE: 27 MAY 80

FOR ACTION: JACK WATSON

ZBIG BRZEZINSKI

INFO ONLY: THE VICE PRESIDENT

LLOYD CUTLER

STU EIZENSTAT

HAMILTON JORDAN

SUBJECT: UPDATED MEMO FROM WILLIAM BECKHAM, JR. RE: COAST GUARD  
RESERVE CALL UP

+++++

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

+ BY: 1200 PM MONDAY 02 JUN 80 +

+++++

ACTION REQUESTED: IMMEDIATE TURNAROUND

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

PLEASE NOTE OTHER COMMENTS BELOW:



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

*Admiral Costello*

MAY 30 1980

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr. (signed) Jim  
SUBJECT: DOT Request for Authority to Call up Coast Guard Reserves

The Department of Transportation has recommended that you authorize the Secretary to call to active duty up to 2,500 Coast Guard reservists over the next 90 days. Not more than 400 would be called at one time, none for more than two weeks, and this would meet their summer training obligation. The reservists would be used to provide relief at rescue stations from which regular Coast Guard personnel have been pulled out and sent to Key West. Estimated 1980 budget impact is \$1 to \$1.5 million.

This peacetime call-up authority has been exercised only once before. In April 1973 about 134 reservists were activated for less than a week or so each to deal with Mississippi floods. We have looked into the Coast Guard justification associated with the proposed call up. Our assessment is that a need for boat crew relief exists, but that the total number of reservists requested is somewhat excessive and the 90-day duration is too long. Prolonged use of reservists in June and July will deplete the number of reservists already scheduled for active duty at search and rescue stations in late summer, and could simply shift today's problem to late summer.

My recommendation would be to authorize a more limited call up of only 900 reservists over a six-week period (300 in each two-week period) to be used mainly for rescue boat crew relief. This approach would provide the prompt relief which Coast Guard seeks, allows a breathing period during which we can better gauge the duration of the Cuban situation, and allows the Coast Guard to maintain search and rescue readiness beyond the Fourth of July weekend. If it appears an extension of this reserve call-up authority is needed, it could be considered in early July.

THE WHITE HOUSE  
WASHINGTON

02 Jun 80

Stu Eizenstat

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

Rick Hutcheson

*Original to stripping  
for handling and  
delivery.*

THE WHITE HOUSE  
WASHINGTON

6-2-80

To Andy Young

The letter & article from  
A. Levinson will be helpful. I've  
asked Stu to use them in  
preparing our proposals to the  
DNC Platform Committee. Thanks!

I hope you're doing well,  
and enjoying "Civilian" life. I  
see Jean more than I do you,  
& miss you.

Your friend,

Jimmy

cc Stu

Young  
ideas, inc.

610 Fourth Place, S.W., Washington, D.C. 20024

Stu  
J  
May 28, 1980

Dear Mr President,

The enclosed letter and article should be of some interest in planning future campaign strategy.

I'm not sure what present strategy is, but I have found that Andy Levinson's analysis of the situation is an effective answer to liberal criticism of your policies.

The key to the election will be the economy. The support that you need must come from the poor and liberal communities which are presently quite alienated and cynical.

Hope this will help your thinking.

Peace + Blessings

Andy

ANDREW LEVISON

1437 WESSYNGTON ROAD  
ATLANTA, GEORGIA 30306  
404/873-5212

Memo:

To: Andrew Young

From: Andrew Levison

Re: Carter's re-election campaign and the book The Full Employment Alternative.

A major problem President Carter will face in the general election is to regain the support of the liberals now behind Teddy Kennedy. This will be particularly difficult in the area of economics because Kennedy's attacks have been exceptionally bitter and, in consequence, many of his supporters now seriously believe that Carter is "no better than a Republican" and practicing "Herbert Hoover's economics". This is also reinforced by the media, which frequently describe President Carters's policies as increasingly "conservative".

I believe my book, The full Employment Alternative, might be of some use to President Carter's issues people and others who have to deal with this problem. The book is the first popular study of the problem of unemployment which argues that president Carter's approach is, in reality, far more progressive than Sen. Kennedy's brand of liberalism. It shows that Kennedy's approach (continued use of unfocused spending with wage-price controls to mask the inflationary effects) is, in fact, conservative, in that it is basically a continuation of the conventional post war policies. President Carter's approach, on the other hand, embodied in the passage of the Humphry- Hawkins Bill and the signing of the National Accord with the AFL-CIO, actually reflects a more sophisticated view, and moves American policy in the direction of the more advanced european countries ( these countries policies, it should be noted, are also acknowledged by American liberals to be more progressive and successful than our own). Thus, the book clearly supports President Carter's side of the argumeent with the Kennedy people and does so from a clearly progressive, rather than conservative, point of view.

It is obvious that the book itself can only have a limited effect on public opinion in the months ahead, but I think it could be of use to some individuals in the administration. It provides an approach for those who will have to confront the smug assumption on the part of many liberals that only Kennedy advocates the cause of the poor and unemployed, while Carter has abandoned them. Equally there are some ideas which

might be of use in the print and media campaign.

I have included a typed copy of an article I wrote, part of which was excerpted in the Los Angeles Times. It is a good summary of the arguments in the book and can be read fairly quickly. I think it is worth showing to some people in the administration.

Andrew Levison

## THE FULL EMPLOYMENT ALTERNATIVE

The swift rise in unemployment to over 7% in the past month and the probability that the current recession will be at least as severe as the previous one has elevated the problem of unemployment once again to the center of economic policymaking. Although the economic debate up to now has been dominated by inflation, the mounting trend of layoffs and increasing joblessness is rapidly changing this emphasis and the debate is already returning to the predictable split between those favoring some form of tax cut as a solution and others supporting no action other than continued reliance on the free market.

The most depressing aspect of this debate is that neither of these approaches offers any possibility of achieving the goal opinion polls consistently indicate most Americans favor-- a set of policies aimed at achieving genuine and stable full employment. The faith in the "free market" as a solution simply reflects the view that modern unemployment is actually tolerable and that high levels of joblessness are ~~an~~ a necessary price which must be paid for progress in controlling inflation. Equally, while tax cuts can reasonably be predicted to stimulate economic activity, they can also be predicted to create renewed inflationary pressure when a recovery begins, thus setting the stage for another induced recession if the level of inflation reaches politically intolerable levels.

Yet there is an alternative. A set of policies designed to improve the co-ordination and long-term planning of government policy, to establish specific manpower and other measures for particular geographic areas and industries, and to develop what is called a "social contract" approach to the wage-price spiral can, in principle, establish the basis for stable and non-inflationary full employment. The central obstacle, in fact, is not that such an approach is unrealistic in political or economic terms, but that it requires a very clear conceptual break with both conservative and conventional liberal views of economic policy.

To see this, the place to begin is with the classical conservative solution -- reliance on the free market. Not only has this view gained increasing support in recent years but it was also in response to its failure that modern liberalism emerged, and the source of the latter's current difficulty is that, rather than being a total break with the past, it was at best a half-hearted compromise.

The conservative faith that an unregulated free market, without either trade unions or government intervention, could adequately solve the problem of unemployment was essentially based on two propositions. The first held that competition between workers for jobs and between businessmen for opportunities to utilize their material and financial resources would insure that each received wages and profits exactly commensurate with the contribution of their labor and capital to production. In consequence, trade unions were inevitably destructive, forcing companies to pay some workers more than they "deserved" and distorting the best use of labor and capital. In the conservative view the solution was therefore to reduce their influence to the lowest possible level.

The second proposition was that, for the economy as a whole, competition created an automatic tendency toward the creation of full employment. Competition among workers for jobs would serve to allocate labor to the various job opportunities across the economy while variations in the profitability of different projects would lead businessmen to allocate capital equipment in a similarly appropriate fashion. As a result, no conscious government policies could be expected to provide results superior to those which would arise naturally from market forces.

These two propositions are central to the conservative view, and they encountered quite different fates. The first, regarding trade unions, was the subject of a long and torturous debate in the technical literature which never reached the public eye. It was only well into the post-war period, in fact, that a critique appeared demonstrating that the conception failed to meet certain agreed on criteria for an acceptable economic theory. The notion that free market wages and profits were necessarily divided in the correct way, it turned out, was not a consistent theory at all, but rather like the philosophy that Voltare had saterized in Candide (that all is necessarily for the best in the best of all possible worlds). Like that view, the conservative argument could neither be proven nor disproven and it offered no basis for decision-making in the real world. Although the academic debate continued even into the seventies, by the mid-sixties the major participants had conceded that this argument was not an adequate basis for a policy based on the rejection of trade unions.

The second proposition, on the other hand, had a shorter and more dramatic history. Even in the worst period of the great depression the dominant conservative opinion held that the best policy was continued reliance on the automatic process of

adjustment that would ultimately return the economy to full employment. In 1936, however, John Maynard Keynes provided a striking refutation. He demonstrated that, under certain conditions, a depression could create a continuing vicious cycle, rather than an automatic process of adjustment, and that high unemployment could therefore last an unknown period of years or even decades. Government measures to stimulate investment and production on the other hand, could be reliably predicted to reduce unemployment in a reasonable amount of time.

Keynes did not propose any precise set of policies for this purpose, however, and as it happened, it was actually the massive increase in military investment and production required for world war two that reduced unemployment to almost negligible levels by 1943 rather than any focused government programs. Thus, when the Employment Act of 1946 was passed the problem of unemployment no longer appeared as a crisis, and the Act contained only an undefined mandate for future governments to take such action as was necessary to prevent a major depression from occurring again.

It was in this context that the "liberal" approach to economic policy became established. In essence it borrowed from both Keynes and the conservatives. The need for economic stimulation through tax cuts or

deficit spending was accepted, but this being done, it held that the economy could otherwise be left to the automatic adjustments of the market.

There were serious difficulties, both logical and practical, with this reliance on both government intervention and market forces at the same time, but the approach had the great virtue of requiring congress to do only that which it preferred to do anyway. It sanctioned leaving politically distasteful questions of the distribution of income between labor and capital to the forces of the presumably free market, as well as the equally difficult problem of insuring a long-term balance between the pattern of investment in various industries and the location and skills of the available workers. In fact, in the liberal view, congress's major responsibility was limited to the entirely pleasurable task of spending more or reducing taxes when unemployment was rising and decreasing the stimulation somewhat when unemployment was low and excessive economic activity was causing inflationary pressures to appear.

It was this politically attractive aspect of the liberal view that made for its quick acceptance and popularity. Even when poverty was recognized as a major social issue in the early sixties, the proposed solutions were essentially grafted onto the basic approach, rather than causing a re-evaluation.

Poverty was treated as a separate, basically "ethical" issue of unequal incomes, best dealt with by the voters endorsing further social programs such as welfare and other transfer payments to the poor.

Even at the height of its popularity, however, there was ample evidence that this conventional view was inadequate. The rapid changes in the pattern of investment, popularly known as automation, substantially reduced the number of unskilled or semi-skilled jobs such as had provided upward mobility for previous generations of immigrant workers. Together with the unrestricted geographic mobility of industry in the post-war period, the northern central cities in particular suffered sharp declines in the number of available jobs and the unemployment rates for Blacks and Black youth in particular rose correspondingly. In consequence, although the national unemployment rate in 1968 was the 4% defined as "full employment" in the conventional view, the ghettos of America were in flames and the report of the President's Advisory Commission on Civil Disorders held unemployment and underemployment to be "the most persistent grievance of minorities."

Of equal long-range significance, however, was the unresolved problem of inflation. The notion that relatively minor decreases in the level of economic

stimulation could limit spurts of inflation was only plausible in a totally competitive economy of small firms and weak or nonexistent unions. In such circumstances, wages and prices would indeed rise and fall directly in relation to the level of economic stimulation. But in the real world of large corporations and strong trade unions, wages and prices did not fall the moment the level of government stimulation declined, and in practice the inflationary process did not resemble a series of "fine-tunings" periodically rectifying its impact, but rather something like the ratchet mechanism on an automobile jack which prevents it from falling when pressure is reduced and then allows it to rise from its higher level when additional pressure is applied.

The inadequacy of the conventional approach was thus quite clear even before the Arab oil boycott of 1973 added the long range issues of energy supplies and environmental protection as critical and immediate issues of economic policy. By that time conventional policies could only insure "stagflation," high levels of both unemployment and inflation, and not a meaningful solution.

The difficulty did not lie in a total absence of alternatives. The various European countries had

undergone quite different process of transition from the era of reliance on free market policies, and in each different approaches had been developed to the management of the modern economy.

Sweden, for example, was recognized to have devised a far more effective strategy for dealing with the problem of modern unemployment. In contrast to aid to the families of dependent children and other income supplements provided in the United States, the Swedish approach was based on providing employment, even for the old and handicapped. The Swedish system included not only training and retraining programs for those whose jobs were outmoded by technology, and relocation assistance for people in declining regions, but also measures to stabilize private investment over the business cycle and also to target public spending to areas and occupations in particular need. In consequence, by the mid-sixties, it was conceded even by the most hostile critics that Sweden had achieved the best approximation of genuine full employment of any country during the post-war period.

This achievement was not properly appreciated in the United States however because the conventional descriptions of Sweden as a "welfare state" obscured the crucial distinction between American welfare and

other income support programs and the Swedish approach which was more focused on providing jobs.

A similar problem of interpretation prevented a clear understanding of economic policy in West Germany. Although often inaccurately described as following "free market" policies, West Germany was actually an advanced social democracy which had the full range of "liberal" programs in areas such as health insurance, social security, and unemployment compensation. Even more important, trade unions in West Germany were accepted as necessary and legitimate institutions to a far greater extent than in the United States and during the post-war period they came to play a more extensive role in the economy than in any other European country.

One result was a system of collective bargaining, based on the concept of a "social contract" between labor, business and government, that largely avoided the problem of the wage-price spiral. The strong and centralized German trade unions negotiated on an almost equal basis with business and government, and as a result, they were able to bargain directly over the distribution of real income between labor and capital for the country as a whole, rather than on a piecemeal basis for money wage increases of uncertain real value. The consequence was a pattern of wage increases which, although apparently small, retained their purchasing power and did not lead to an ever

increasing cycle of "catch-up" wage and price increases as in other countries.

Finally, even France, although in many ways a more conservative society than West Germany, had also developed positive innovations in economic policy. Most striking was the system of "indicative planning" which coordinated government tax, credit and regulatory policies and shaped them to fit the needs and requirements of specific industries. Based on a technique known as input-output analysis, the French government developed forecasts of economic growth and the kinds of policies needed to facilitate it on an industry-by-industry basis. These then served as the basis for negotiations between the government and specific companies on the precise mixture of taxes, incentives and other government policies to be applied.

In the sixties this approach was frequently credited with helping to insure France's relatively rapid rate of economic growth but the real appeal of the idea for America only became obvious in the 1970's. As the need for government policies in areas such as energy, the environment, occupational health and safety, product safety and others became apparent, a whole series of new regulatory agencies came into existence, each charged with enforcing particular laws, but none with the job of overall coordination. The increasing

volume of such frequently changing and sometimes contradictory regulations created serious problems for corporations in planning their long-term investment. The ironic result was that in the mid-seventies, significant sectors of business could be found among those calling for <sup>some form of</sup> national economic planning.

Thus, Europe alone suggested a wide variety of other approaches to economic policy that appeared capable of providing a meaningful alternative to the conventional view, and in the 1970's an increasing interest in such ideas became evident among economists and others engaged in the field of economic policy.

In national politics, on the other hand, the debate remained mired in the policies and clichés of the great depression. Increasingly "liberalism" came to mean an advocacy of unrestrained spending and an acceptance of higher and higher levels of inflation. This was hardly a recipe for electoral success, and by the 1978 bi-elections many liberal candidates found they could only win election by echoing conservative themes rather than their own.

Yet, at the same time, two recent developments have actually gone far toward establishing the basis for an alternative liberal strategy. One was the passage of the Humphry-Hawkins Full Employment and Balanced Growth Act of 1978. The bill clearly asserted the view that traditional policies for full employment

were inadequate and established in their place a mechanism for setting social goals and coordinating the full range of government policies to achieve them. The act was frequently misinterpreted as ineffective because it did not conform to the typical reliance on unfocused spending as the sole method for achieving full employment, but its importance lay in the policy planning machinery it established for congress and which is now available for use.

In fact, one clear consequence of the Bill was the second development, the signing of the "national accord" between the AFL-CIO and the Carter administration. Consciously modeled on the European social contract, the accord conceded to labor a significant increase in influence on policy in return for a clear commitment to restructure collective bargaining in a way that would avoid the wage price spiral. This was also viewed as less than significant because its short-term impact on wages was small, but in the longer term it is this approach, rather than temporary wage and price controls, which has been central to all the successful European policies.

The basic difficulty that made both of these developments seem less significant than they were, in fact, was not any inherent weakness in the advances themselves, but ~~the fact that the~~ ~~act was~~ ~~not~~ ~~viewed~~ ~~as~~ ~~less~~ ~~than~~ ~~significant~~ ~~because~~ ~~its~~ ~~short-term~~ ~~impact~~ ~~on~~ ~~wages~~ ~~was~~ ~~small~~ ~~, but~~ ~~in~~ ~~the~~ ~~longer~~ ~~term~~ ~~it~~ ~~is~~ ~~this~~ ~~approach~~ ~~, rather~~ ~~than~~ ~~temporary~~ ~~wage~~ ~~and~~ ~~price~~ ~~controls~~ ~~, which~~ ~~has~~ ~~been~~ ~~central~~ ~~to~~ ~~all~~ ~~the~~ ~~successful~~ ~~European~~ ~~policies~~.

a series of events, beginning with the sharp increase in oil prices in 1979, and then the major impetus for military spending provided by the Russian invasion of Afghanistan. Both sent inflationary expectations skyrocketing and led the federal reserve to take measures consciously designed to create a recession. The results were far more substantial than desired and the current slump may well be deeper and more destructive than even that of 1974-5, itself the worst increase in unemployment since the great depression.

It is because of this sudden danger of massive unemployment that the debate has rapidly shifted back to the merits of tax cuts, rather than moving forward to any new approaches. Yet, the very nature of the current recession, as well as the evidence from past history, makes it clear that this cannot constitute an adequate strategy.

For one thing, the recession will be extremely uneven in its impact. Particular industries such as steel and autos and certain areas of the country have already been particularly hard hit, while others will experience only a modest impact. Because of this, unfocused policies such as tax cuts, whether for individuals or business, will lead to an equally unbalanced recovery, with the worst hit areas and industries lagging far behind.

What is needed instead is an improved method for tailoring a whole range of policies to the needs of specific areas and

industries, and to co-ordinate such specific plans into a coherent program of recovery. A number of [REDACTED] proposals have been made for improving the long-term planning and co-ordination of economic policy, the most concrete being the 1977 recommendations of the Advisory Commission on National Growth Policy Processes. With some modification, the commission's proposals could be established within the framework of the existing Humphry-Hawkins legislation, tying policies developed for specific areas and industries to the Acts general mandate for achieving genuine full employment.

A more focused approach to economic recovery such as this would reduce the danger tax cuts pose of an inflationary "overheating" of the economy as a recovery proceeds. But, in addition, tax cuts also do not address the equally significant problem of controlling the wage-price spiral. In fact, even if the current recession is as severe as 1975, it will still not reduce inflation to less than the underlying level established by the structure of American collective bargaining. The problem can only be solved by labor-management negotiation on a broad scale and a promising start had initially been made in 1977 with the formation of labor-management committees in various industries under the chairmanship of former secretary of labor John Dunlop. This initiative collapsed however, because in 1978 many of the major corporate heads on the committee began lobbying for legislation clearly aimed at undercutting very basic aspects of the laws providing workers with the right to seek union representation. The labor members of the Dunlop

committee concluded, correctly, that under such circumstances the basis for co-operation simply did not exist.

Under present conditions, this impasse poses a serious danger of a renewed wage price spiral even during the current recession. In the recent past labor has accepted wage gains well below the rate of inflation and less than the unfettered use of their bargaining power would have allowed. In significant measure this was due to a tacit understanding, now clearly laid out in the national accord, that some degree of wage restraint would be practiced by labor in return for a continued government commitment to policies insuring high employment. With the onset of the current recession, this understanding is under serious strain and it is possible that even in the face of mounting unemployment unions will feel entirely justified in seeking wage gains substantially larger than those in the past.

A basis for wage restraint still exists, however. The sharp increase in unemployment has made questions of job security and assistance for laid off workers a major trade union concern and on broad issues, such as the need for advance notification of plant closings and adjustment assistance for unemployed workers, trade offs between wage restraint and improvements in job security are possible to obtain. It should be noted that, unlike tax cuts, such agreements would actually serve to reduce both unemployment and inflation at the same time.

This cannot occur, however, without a willingness on the part of the major business groups to adopt a less combative approach to labor. At a minimum, the attitudes

of both the public and congress toward legislation favorable to business should be significantly influenced by the degree to which they reflect a willingness to negotiate and seek reasonable compromises along these lines.

A final drawback with the use of tax cuts is that, although traditionally labeled a liberal strategy, from the point of view of aiding the most disadvantaged in American society, they are actually the least desirable approach to reducing unemployment. The most pressing problems for the poor and unemployed require measures to insure a minimum level of adequacy in specific areas such as health care, housing, education and training, and job opportunities. General tax reductions, on the other hand, distribute federal funds in a totally unfocused way, delivering relatively <sup>little</sup> direct assistance to those most in need. Although this approach is frequently justified as a necessary compromise with public opinion, in fact, polls show that there is a wide reservoir of public support for focused programs to meet human needs, but relatively little enthusiasm for tax cuts or other measures that appear to many people as simply "throwing money out of a helicopter" to reduce unemployment. In the current political circumstances, the most effective and politically realistic way to aid the most disadvantaged is through the passage of targeted programs in the areas mentioned above, rather than relying on unfocused economic stimulation.

Given the speed and severity of the current recession however, it is quite possible that some form of tax cut will indeed be passed, simply as the most obvious response to the mounting evidence of human tragedy increasing unemployment will bring. But it would also be tragic if the argument over such policies were to obscure the need for other reforms aimed at moving toward the achievement of genuine and stable full employment, rather than one more repetition of the cycle of inflation-recession-inflation which is all ~~conventional~~ conventional policies can provide.

THE WHITE HOUSE  
WASHINGTON

6/2/80

Frank Moore

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

- Rick Hutcheson

cc: Zbig Brzezinski

THE WHITE HOUSE  
WASHINGTON

5/28/80

Mr. President:

Jack Watson concurs with NSC and Defense.

Frank Moore calls to your attention that Rep. Schroeder raised this issue at a recent buffet and briefing because it is an important political issue to both ~~she~~ and to Sen. Gary Hart. In addition, Rep. Schroeder has been helpful to the Administration on tough issues such as water bill votes.

Rick/Patti

*her*

MEMORANDUM

THE WHITE HOUSE  
WASHINGTON

ACTION

May 23, 1980

MEMORANDUM FOR:

THE PRESIDENT

FROM:

ZBIGNIEW BRZEZINSKI *ZB.*

SUBJECT:

Weteye Bombs

Harold Brown has sent you an updated information memo (Tab A) on the Weteye nerve agent bombs now stored in the Rocky Mountain Arsenal at Denver. The original memo (Tab B) was being staffed in the White House when Harold called it back so that he could revise it to answer the concerns about Weteye raised by Pat Schroeder in your April 28 evening meeting with Congressmen.

I share Harold's concern about the appearance of vacillation if we now decide to move these weapons to Utah. You should also know that Governor Matheson was quite pleased by the original decision to keep Weteye at Rocky Mountain -- which Jack Watson announced to him just before your meeting with Governors Matheson and List regarding MX.

RECOMMENDATION

I recommend that you support Harold's original decision on this issue, and that Frank Moore call Pat Schroeder to explain that her proposals are ~~infeasible~~.

*have been carefully reconsidered, that the same safe storage considerations will be implemented as for nuclear weapons & that we appreciate her concerns but will adhere to the original decision*

APPROVE DISAPPROVE

th  
CE

the christian CENTURY

JUNE 4-11, 1980

JAMES M. WALL  
EDITOR

407 SOUTH DEARBORN STREET  
CHICAGO, ILL. 60605  
312 - 427-5380  
HOME 312 - 279-7166



200th  
ANNIVERSARY  
OF THE  
SUNDAY SCHOOL

1780

1980

## Observing a Bicentennial:

Martin E. Marty

William H. Willimon

John H. Westerhoff III

- Religious Attitudes  
Toward Iran
- The Government's New  
Bioethics Commission
- Setback for Separatism  
in Quebec

Electrostatic Copy Made  
for Preservation Purposes

THE WHITE HOUSE

WASHINGTON

June 2, 1980

- a) Long proposal
- b) Political heat
- c) OPEC
- d) Consumer nations <sup>100,000 -> 250,000</sup>
- e) Loss of \$11 bil
- f) Support?
- g) Separate fm Debt Limit

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Moore *FM.*

You have indicated that you will telephone 10-12 Senators on the fee. I recommend that you call the following:

- V.p. Baucus (+ Byrd's commitment) (-)
  - > Melcher (?+ according to Byrd)
  - > Domenici (called Byrd to say he was now - (from +) because of Budget)
  - > Kassebaum (+ Byrd's commitment)
- V.p. Randolph (+ Byrd's commitment) (?)
- V.p. Stafford (+ Byrd's commitment) (-)
- > Ford (?- but Byrd said he could get this vote)
- V.p. Mitchell (?+ from both you and Byrd) (?)
  - > Durenberger (?+ according to Byrd, if revenue is used for tax cut later this year)
- V.p. DeConcini (?-)
  - > Stone (? according to Byrd)

Also, Friday afternoon we suggested that you call the following Senators and renew that request if those calls have not been made:

- > Zorinsky (?)
- > Biden (?+) (+)
- > Cranston (?-) (+)
- > Warner (?) - *pers. sec.*
- > Exon (?-)

*Glenn*

In addition, since you were successful on Friday in getting the votes of a couple of Senators that Byrd had written off, I believe that we should attempt to set up personal meetings this afternoon between you and the following Senators:

- > Stennis ("if needed" according to Byrd) = L
- > Cannon (?- according to FM) *Will review public statements & help if possible*
- > Sarbanes (?- according to Bill Miller) L-
- > Burdick (?-) *Committed at home against tax*

We have talked with Phil and your schedule is open.

*Burdick says Committee re disaster relief needs signal from admin on "non-physical" disasters. Legis. expires 10/80*

PM

NAME Senator Alan Cranston

~~1502~~

TITLE D-Cal.

Requested by Frank Moore

CITY/STATE \_\_\_\_\_

Date of Request June 2, 1980

Phone Number--Home ( ) \_\_\_\_\_

Work ( ) 224-3553

Other ( ) \_\_\_\_\_

INFORMATION (Continued on back if necessary)

To discuss the oil import fee.

NOTES: (Date of Call \_\_\_\_\_)

NAME Senator James Exon

TITLE D-Nebr.

Requested by Frank Moore

CITY/STATE \_\_\_\_\_

Date of Request June 2, 1980

Phone Number--Home ( ) \_\_\_\_\_

Work ( ) 224-4224

Other ( ) \_\_\_\_\_

INFORMATION (Continued on back if necessary)

To discuss the oil import fee.

NOTES: (Date of Call \_\_\_\_\_)

NAME Senator John Warner

TITLE R-Va.

CITY/STATE \_\_\_\_\_

Phone Number--Home (  ) \_\_\_\_\_

Work (  ) 224-2023

Other (  ) \_\_\_\_\_

Requested by Frank Moore

Date of Request June 2, 1980

INFORMATION (Continued on back if necessary)

To discuss the oil import fee.

NOTES: (Date of Call \_\_\_\_\_)

NAME Senator Joe Biden

(D-Del.)

TITLE \_\_\_\_\_

CITY/STATE \_\_\_\_\_

Phone Number--Home (  ) \_\_\_\_\_

Work (  ) 224-5042

Other (  ) \_\_\_\_\_

Requested by Frank Moore

Date of Request June 2, 1980

INFORMATION (Continued on back if necessary)

To discuss the oil import fee.

NOTES: (Date of Call \_\_\_\_\_)

NAME Senator Edward Zorinsky

D-Nebr.

TITLE \_\_\_\_\_

CITY/STATE \_\_\_\_\_

Phone Number--Home (  ) \_\_\_\_\_

Work (  ) 224-6551

Other (  ) \_\_\_\_\_

Requested by Frank Moore

Date of Request June 2, 1980

INFORMATION (Continued on back if necessary)

To discuss the oil import fee.

-----  
NOTES: (Date of Call \_\_\_\_\_)

Electrostatic Copy Made  
for Preservation Purposes

THE WHITE HOUSE

WASHINGTON

May 31, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: Rick Hutcheson *Bell Simon for TWH*

SUBJECT: Memos Not Submitted

1. JOHN MOORE, President of the Export-Import Bank, sent you a copy of the speech his son, Johnnie (age 17), gave in the Government Club Debate at St. Alban's School.
2. HAROLD RUSSELL, Chairman of the President's Committee on Employment of the Handicapped, wrote to thank you for attending their meeting and delivering "an address we shall never forget." He adds that they will be reproducing your speech for distribution throughout the country.
3. A.J. GOODPASTER, Superintendent of the U.S. Military Academy, reports that he served as your representative in placing the Presidential wreath at the grave of President Ulysses S. Grant in New York City.
4. WADE MCCREE, JR., the Solicitor General, wrote to thank you for the autographed picture taken during your recent meeting with President Janofsky of the ABA.
5. Routine CAB DECISIONS in which the Counsel's office and all agencies concur;

Docket 30870: Issues a permit to Aerotour Dominico for flights from the Dominican Republic to the U.S. Virgin Islands, Puerto Rico and Miami, plus additional charter flights.

Dockets 37209, 37360:

Allows Top Tours (of Spain) to contract with air carriers from points outside the U.S. to the U.S. and return. Transfers the permit of British West Indies Airways to Trinidad and Tobago Airways. This is based on the merger of Trinidad and Tobago's international and domestic carriers.

page two

Dockets 34941,35516:

Renews the permit of Bahamasair Holdings for a 5 year period and allows transportation between various U.S. cities and the Bahamas. Trans-Mediterranean Airways has its permit renewed for 3 years and allows transportation between N.Y. and Lebanon via seven intermediate European countries plus charter service.

6. S. DAVID FREEMAN, Chairman of the TVA, sent you a report on his trip to China to ... "explore cooperation in hydro-electric development." He confirms that China has a severe need for our assistance and that there would be a way to help the PRC and also benefit the U.S. There is, however, a problem: because the Chinese have very little hard currency, they would like the U.S. to cover the expenses of the Chinese who come here for training, etc. Unfortunately, most agencies lack the authority to finance such expenses and the Foreign Assistance Act does not permit aid to be furnished to the PRC. The NSC and Lloyd Cutler are addressing this problem in the PRC interagency process. Freeman is aware of this review.
7. PAUL VOLCKER sent you a copy of his May 29, 1980 testimony before the Senate Committee on Banking, Housing and Urban Affairs.
8. AMBASSADOR REUBIN ASKEW sent you the USTR annual review of tariff treatment of brooms and broomcorn. USTR recommends you make no change in the existing rate quotas; DPS, OMB, NSC, and CEA all concur.

EXPORT - IMPORT BANK OF THE UNITED STATES  
WASHINGTON, D. C. 20571

RH  
PRESIDENT AND CHAIRMAN

May 2, 1980

072257

My dear Mr. President,

My son Johnnie (17) last night spoke for the Carter - Mondale ticket in the Government Club Debate at St. Albans School.

His closing statement was clever and I thought it would give you a laugh -

With best regards,

John

Let me read you a column by James Reston which appeared in the New York Times about the President.

"There is a vague feeling of doubt and disappointment in the country about (the President's) first term.

A reporter who asks about him in unfamiliar and varied communities comes away with a paradoxical impression. This is that he is not, as he is inclined to believe, in danger of defeat. The situation is more complex and disturbing than that. One has the distinct impression that the American people are going to re-elect him, probably by a wide margin, but don't quite believe in him.

...his problem is probably not how to get elected but how to govern. He is admired, but he has not made the people feel as he feels, or lifted them beyond their private purposes to see the larger public purposes he has in mind.

He is simply better known than anybody else, and this will probably be enough to assure his re-election, but this is a far cry from the atmosphere he promised when he ran for the Presidency..."

Does the President described by Reston deserve your support?  
Would you vote for him? Well, the column was written sixteen and  
a half years ago about John F. Kennedy. It appeared in the New  
York Times one week before his assassination.

What does that tell us about public perceptions of a President?  
Can any President fulfill all the hopes and expectations that  
surround the office? . . . .

I know it is difficult to support the  
president ~~o~~ at this point in the race, but isn't  
it possible that we are placing too many  
expectations on the roles of the president. We  
placed our confidence in Carter in 1976 as  
the man most capable to be President and I  
believe that he deserves that trust once more.

THE WHITE HOUSE  
WASHINGTON

Problem in Freeman's letter is being addressed in PRC interagency process. Recommend no reply to Freeman. Freeman is aware of interagency process. Cutler has same comment.

Christine Dodson

ID 803074

THE WHITE HOUSE

WASHINGTON

DATE: 29 MAY 80

FOR ACTION: LLOYD CUTLER

ZBIG BRZEZINSKI

INFO ONLY: THE VICE PRESIDENT

SUBJECT: FREEMAN LETTER RE VISIT TO CHINA

+++++  
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +  
+ BY: 1200 PM SATURDAY 31 MAY 80 +  
+++++

ACTION REQUESTED: YOUR COMMENTS

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

PLEASE NOTE OTHER COMMENTS BELOW:

# WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

ID # 072395

O - OUTGOING  
 H - INTERNAL  
 I - INCOMING  
 Date Correspondence Received (YY/MM/DD) 80105 129

Name of Correspondent: S. David Freeman

MI Mail Report      User Codes: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

Subject: writes concerning his visit to China to explore cooperation in Hydroelectric Development.

ROUTE TO:	ACTION	DISPOSITION			
Office/Agency      (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
<u>SS Hutz</u>	ORIGINATOR	<u>80105 129</u> <sup>RH</sup>			
_____	-				
_____	Referral Note:				
_____	-				
_____	Referral Note:				
_____	-				
_____	Referral Note:				
_____	-				
_____	Referral Note:				

**ACTION CODES:**  
 A - Appropriate Action      I - Info Copy  
 C - Comments                      R - Direct Reply w/Copy  
 D - Draft Response              S - For Signature  
 F - Fact Sheet                      X - Interim Reply

**DISPOSITION CODES:**  
 A - Answered                      C - Completed  
 B - Non-Special Referral      S - Suspended

**FOR OUTGOING CORRESPONDENCE:**  
 Type of Response = Initials of Signer  
 Code = "A"  
 Completion Date = Date of Outgoing

Comments: \_\_\_\_\_

Keep this worksheet attached to the original incoming letter.  
 Send all routing updates to Central Reference (Room 75, OEOP).  
 Always return completed correspondence record to Central Files.  
 Refer questions about the correspondence tracking system to Stephen Slade, ext. 2941.

# RECORDS MANAGEMENT ONLY

## CLASSIFICATION SECTION

No. of Additional Correspondents: \_\_\_\_\_ Media: L Individual Codes: 1.140

Prime Subject Code: FO 008. Secondary Subject Codes: CO 034.01  
NR 007.01  
EG 259.

## PRESIDENTIAL REPLY

Code	Date	Comment	Form
C	_____	Time: _____	P- _____
DSP	_____	Time: _____	Media: _____

**SIGNATURE CODES:**

- CPn** - Presidential Correspondence
  - n - 1 - James Earl Carter
  - n - 2 - Jimmy Carter
  - n - 3 - Jimmy
  - n - 4 - JC
  - n - 5 - J

- CLn** - First Lady's Correspondence
  - n - 1 - Rosalynn Carter
  - n - 2 - Rosalynn
  - n - 3 - R

- CBn** - Presidential & First Lady's Correspondence
  - n - 1 - Jimmy Carter - Rosalynn Carter
  - n - 2 - Jimmy - Rosalynn

**MEDIA CODES:**

- B** - Box/package
- C** - Copy
- D** - Official document
- G** - Message
- H** - Handcarried
- L** - Letter
- M** - Mailgram
- O** - Memo
- P** - Photo
- R** - Report
- S** - Sealed
- T** - Telegram
- V** - Telephone
- X** - Miscellaneous
- Y** - Study

WHITE HOUSE  
MAIL ROOM

1980 MAY 27 PM 4 51

**Electrostatic Copy Made  
for Preservation Purposes**

**TENNESSEE VALLEY AUTHORITY**  
KNOXVILLE, TENNESSEE 37902

OFFICE OF THE BOARD OF DIRECTORS

May 27, 1980

RH

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

072395

Dear Mr. President:

REPORT ON VISIT TO CHINA TO EXPLORE COOPERATION IN HYDROELECTRIC DEVELOPMENT

Last August Vice President Mondale executed a protocol with the People's Republic of China on cooperation in hydroelectric power and related resource water management. In March a group of representatives of U. S. agencies concerned with hydropower (Departments of Energy and Interior, Corps of Engineers, and Tennessee Valley Authority) visited China and reached formal agreements to implement the protocol. I submit this brief report as the leader of the group.

We confirmed that:

China has a severe shortage of electric power which seriously inhibits industrial growth and the improvement of living standards. Heavy reliance on coal without adequate environmental standards has resulted in severe air quality problems in many areas.

China has large underdeveloped rivers. Accelerated hydroelectric development could help relieve power shortages to speed modernization.

China needs equipment, technical assistance, and training. The potential equipment market for U. S. companies is measured in billions of dollars. China would like to obtain equipment on concessionary terms, but we believe the Chinese now understand that U. S. agencies could not extend such concessions.

Our China trip was a fruitful step toward meeting China's needs for technical assistance and training. Specific projects and activities were identified and exchanges of visits were agreed upon. We can be most helpful in multi-purpose analysis and economics, fields where the Chinese are relatively weak. Substantial benefits to both countries could follow from activities pursuant to this agreement. The Chinese are giving high priority to their hydro

The President

May 27, 1980

program. Vice Premier Yu Qiuli stressed the crucial role of this energy connection in U. S. - Chinese relations.

For the United States, these activities would:

- (1) Open a large market for U. S. manufacturers' goods and services
- (2) Strengthen China's friendship with the United States in International affairs;
- (3) Place the United States in a better position to purchase oil from China for stockpiling; and
- (4) Improve our understanding of Chinese political and economic systems.

There is a problem in implementing Annex I under the Protocol. It would seem to be a minor problem but it looms large for the Chinese. They are prepared to pay the travel and living expenses within China for visiting experts. In turn, since China has very little hard currency, they would like the United States Government to cover the expenses in the United States of Chinese who come here for information and training. Unfortunately, most U.S. domestic agencies lack the authority to finance such expenses from their own budgets and the Foreign Assistance Act does not permit aid to be furnished to the People's Republic of China. There are some options for handling these expenses, but they may not be consistent with current interpretation of the principle that the "benefitting side pays" which is the present United States policy.

I urge you to take steps to re-examine United States policy and, if possible, respond to the Chinese request. I believe that cooperation with the People's Republic of China under the Hydropower Protocol and Annex can and should be broadly interpreted to be of mutual benefit to both countries, rather than as "aid" to China. Without such facilitating action, the opportunity provided by the Protocol and Annex may lead only to disappointment. The Chinese have already informed us that because of this problem, they will be unable to participate in the first activity specified in the protocol, a visit of ten Chinese specialists to the U.S. to study multi-purpose development of the Tennessee River Valley and the Colorado River Basin. With a change in U.S. policy, the prospects for major long-term benefits from U.S. - China cooperation look very promising indeed. A few million dollars invested in this way could lead to billions of dollars in increased trade and even more important benefits in international relations.

Respectfully,



S. David Freeman  
Chairman

S  
RH

***With The Compliments  
Of  
Paul A. Volcker***

For release on delivery  
10:00 A.M., E.D.T.

072578

Statement by

Paul A. Volcker

Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

May 29, 1980

Mr. Chairman, I welcome the opportunity to outline the preliminary views of the Board of Governors on S. 2704, which would authorize the Board to impose margin requirements on a broad spectrum of "financial" instruments in both the cash or "spot" markets and in the futures or forward delivery markets. The Board shares the concerns -- growing out of recent developments in the silver market -- that have prompted these hearings and, in that regard, I have appended to my statement an "Interim Report" on the financial aspects of that situation. Rather than delve further into the particulars set forth in that Report, I will use the time provided for my statement to comment on underlying issues to which S. 2704 is directed.

The Federal Reserve does not have direct statutory or regulatory authority over any commodity or financial futures market. We do have statutory authority to establish margin requirements for the purchase or carrying of equity and equity-type securities, including stock options. And, in cooperation with the Treasury, we have a more limited and informal oversight role with respect to the government and government-related securities markets.

While our direct authority does not extend to the "futures" markets, the commodity markets generally, or the gold and silver markets specifically, we do have a continuing interest in the performance and functioning of those markets. That interest arises in several contexts. For example, to the extent that price trends in those markets, or in segments of those markets, radically depart -- for whatever reasons -- from general price movements

(as was the case with gold, silver and other commodities during late 1979 and early 1980) they can directly and indirectly fuel inflation and inflationary expectations. Recurring headlines detailing the substantial and cumulative rise in gold and silver prices, for example, surely worked to reinforce inflationary expectations in 1979 and early 1980. Indeed, it was largely for this reason that the Federal Reserve, in October 1979 and again in March 1980, called specific attention to speculative tendencies in the commodities markets and requested banks to avoid speculative lending.

The Federal Reserve's general interest in these markets also stems from its responsibilities for promoting the efficient and effective functioning of the financial markets. That interest is obviously more pointed in certain interbank and government securities markets, but financial markets in the United States and around the world have become integrated to the point where it is very difficult, as a practical matter, to segregate one market or one institution from others. For example, some of the institutions with the greatest exposure in the silver situation had far flung activities in many other markets. Had one of those institutions become insolvent, the problem would have quickly spread to other markets, many of which are far removed from silver. Because of the interdependence of our financial markets, the Central Bank must be prepared to take appropriate steps to insure the continued viability and integrity of the markets, particularly in times

of stress. To fulfill this function, the Federal Reserve must have at least a general awareness of trends and developments in all sectors of the financial markets.

Finally, the Federal Reserve has a direct and immediate interest in the extent to which credit is used to finance transactions in financial markets. That interest can take any of several forms, including a concern about credit-financed speculation, a concern about the diversion of credit from other uses, or a concern that an excessive use of credit for these purposes can ultimately threaten the safety and soundness of individual financial institutions. In the recent silver situation, it would seem that, at least to a degree, all of these areas of concern were present.

Any approach to the regulation of these markets must start with a recognition of the character of the markets themselves. Some tend to use the term "futures market" as if it were a clear term of art which conveniently encompasses the full range of instruments and assets that are traded for forward delivery. In fact, all one needs to do is look at the pages of the Wall Street Journal to capture the diversity of these markets. We tend to think of futures markets as essentially related to agricultural products when in fact a wide range of financial instruments -- for which there is no underlying tangible asset -- are now trading on the futures markets. Trading in these instruments began only about 5 years ago and in the relatively short time since then has grown very rapidly.

Further, in most cases, futures markets are inexorably tied to an underlying asset that trades actively in cash or spot markets, not just here in the United States but around the world. These markets, whether viewed from the perspective of the relationship of the "spot" price to the "futures" price or from the perspective of the London price to the New York price, are highly interdependent. That interdependence is a reality which must weigh heavily in our deliberations as to the appropriate regulatory framework for the future. At the extreme, for example, we must recognize that excessive regulation may simply work to drive activity off the organized exchanges or offshore where the threat of abuse to the detriment of our own investors and institutions might be increased.

All of this serves to underscore the Board's reluctance to endorse a specific regulatory approach, or even a broad regulatory philosophy, until it has had more time to study the issues. To that end, the Federal Reserve, in consultation with other government agencies, has undertaken an intensive study of these markets with a view toward developing specific recommendations to the Congress for legislative action. As a practical matter, I doubt that we can have even preliminary conclusions before mid-summer. I do not want to anticipate the results of that considered review. I do, however, have some more general thoughts on the problems which S. 2704 seeks to address.

At this point, I am tentatively inclined to the view that all forward and futures instruments should not be treated alike.

More specifically, I believe that the distinction drawn in S. 2704 between "financial" futures and other forward-type instruments may be appropriate from the viewpoint of public policy. Certainly, futures in Treasury securities, foreign exchange, and perhaps gold and silver, to name a few, do have characteristics -- including low costs of transportation and storage in proportion to value -- that distinguish these instruments from futures in wheat or other agricultural products. There is some evidence that speculative, as opposed to hedging, activity tends to be proportionately greater in those markets. "Financial" futures, moreover, are of more direct and immediate interest to the Treasury and the Federal Reserve than are the traditional agricultural futures, given our general responsibilities.

The bill now before this Committee would seek to regulate these markets through the use of "margin requirements." Such requirements might take the form of limiting the use of credit to finance transactions, establishing minimum cash or other deposit requirements associated with the acquisition of such instruments, or both. Margins can be a useful tool for limiting speculation, but their use in the context of the futures market is quite different in substance than is the case in the equity markets.

Margins on futures contracts, as the markets are now organized, are simply a kind of performance bond to assure that contractual obligations are met. Unlike the case in the stock

market, no cash payment (apart from the margin requirement) is necessary at the time a futures contract is acquired. Because of this, and because of the need to keep capital costs for legitimate market participants low, initial margins on futures contracts are very small -- normally only large enough to cover one or two days maximum movement in price. Setting higher initial margin requirements would work to dampen speculation by reducing leverage but will also work to drive participants out of the market, thereby reducing liquidity. Thus, it is not apparent to me at this time that the level of the initial margin -- of and by itself -- can be the sole, or principal tool, for reaching the speculative problem in all these markets. In this connection, it seems to me worthwhile to explore the possibility of differentiating between classes of instruments and classes of market participants for purposes of setting initial margins.

There is another aspect of margins on futures contracts -- that of maintenance margins -- that is appropriately recognized in S. 2704 as an area of concern. Under current procedures, futures contracts are marked to market daily. Thus, when the price of a contract rises, those holding short positions must make daily cash payments to satisfy the maintenance margin. These cash payments are transferred through the exchange clearing house and paid out to the long position. In the recent silver episode, it was the maintenance margin and the daily marking to market with corresponding cash payments that triggered the substantial use of bank credit. This same mechanism also permits

the pyramiding of positions as prices are rising. This raises in my mind the question of whether it might be appropriate -- at least in some circumstances -- to withhold cash payments from those on the "plus" side of the market in connection with the daily marking to market.

Margin requirements are only one possible approach to preventing abuses in these markets. I expect therefore that our study will examine alternative or complementary regulatory approaches, such as position limits and increased monitoring of positions across exchanges and across markets. It may be that these or other approaches will be found to be equally effective in forestalling potential problems. In any case, I would not want to rule out such a possibility before the study is completed.

There is also a question as to how margin requirements (or other regulatory tools) should be administered. I can understand a certain logic of placing any such authority for such financial futures with the Federal Reserve, partly because there is no other natural, logical forum. I must confess to a sense of uneasiness arising from the potential complexities of effective regulation of these markets, with all of its implications for staffing requirements and for demands on the time and energy of the Board. I believe I can tell you the Board does not eagerly seek this authority. At the same time, we are willing to approach the subject with an open mind should legislation of the type proposed be pursued.

It is conceivable that a regulatory plan could be modeled after the Municipal Securities Rulemaking Board; in other words, a self-regulatory organization made up of industry representatives, but whose decisions would be subject to oversight by one or more government agencies. However, I believe that the judgment as to the most appropriate body to administer any regulations that are deemed appropriate can best be made in the light and the conclusions of our study.

My concerns about the appropriate approach to regulation of these markets should not be misconstrued. In the aftermath of the silver situation, the nagging problems in other areas of these markets, and their continued explosive growth, I am firmly of the view that a clearer focus for some form of government oversight and regulation, taking account of the credit aspects, is needed. We fully expect, upon the completion of our study, to report back to the Congress with specific recommendations, or a more detailed reaction to S. 2704, taking full account of issues surfaced in market developments and in these hearings.

\* \* \* \* \*