9/26/80 [2]

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 9/26/80 [2] ; Container 178

To See Complete Finding Aid:
http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

THE WHITE HOUSE
WASHINGTON

9/26/80

FRANK MOORE

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

Rick Hutcheson

NAME SENATOR JOHN GLENN

1764

TITLE ______

CITY/STATE D-Ohio

Phone Number--Home (301) 983-1093

Work (202) 224-3353

Other (   ) ______

Requested by F. Moore/D. Tate

Date of Request 9/24/80

INFORMATION (Continued on back if necessary)

We had a strong difference of opinion on Tarapur. You fought well and fairly. I hope you feel the same way about us. While I am extremely happy that we won, I feel uneasy when you and I are not on the same side.

NOTES: (Date of Call 9-25)

Done - Wants to work together to improve non-profit program

DNC HISPANIC FUNDRAISER SEPTEMBER 26, 1980 8:30PM

THANK YOU, ESTEBAN (TORRES), FOR YOUR INTRODUCTION;
GOV. JERRY APODACA; SECRETARY OF STATE (OF PUERTO RICO) PEDRO VASQUEZ;
VICE CHAIRPERSON (OF "DNC") CARMELA LACAYO (LA-KYE-O):
I WANT TO ACKNOWLEDGE OUR DINNER CHAIRMAN, ED ROMERO.
ED, I'VE BEEN WATCHING YOU OPERATE FOR SEVERAL YEARS,
AND I HOPE YOU CAN TAKE THIS CONSTRUCTIVE ADVICE:
I WISH YOU'D BE MORE CHEERFUL & SPEAK UP MORE OFTEN --
I THINK IT WOULD HELP YOUR CAREER.
I & THE DEMOCRATIC PARTY
CANNOT THANK ED ROMERO ENOUGH FOR THIS FUNDRAISING EVENT.
THE MONEY WE ARE RAISING TONIGHT
IS A MAJOR HELP TO OUR DEMOCRATIC CAMPAIGN.

THANK & PAY TRIBUTE

1. BUT IT IS ALSO A TRIBUTE TO HISPANIC DEMOCRATS,
2. AND TO YOUR COMMITMENT TO THE VALUES OF THIS PARTY.
3. YOU HAVE BEEN GENEROUS WITH YOUR CONTRIBUTIONS,
WITH YOUR TIME,
WITH YOUR HARD WORK --
4. AND THAT'S WHY ~~I BELIEVE~~ WE WILL WIN IN NOVEMBER.
5. THIS IS A CRITICAL ELECTION FOR OUR NATION.
6. THE CHOICE FOR VOTERS WILL BE MUCH MORE THAN BETWEEN 2 CANDIDATES,
OR EVEN 2 PARTIES.
7. IT WILL BE BETWEEN 2 VERY DIFFERENT FUTURES.
8. YOUR HELP IN THIS CAMPAIGN CAN MAKE THE DIFFERENCE --
9. • WHETHER OUR NATION CONTINUES TO STRIVE FOR JUSTICE & FAIRNESS
10. • OR WHETHER WE TURN AWAY FROM THAT STRUGGLE.

I KNOW THAT MANY OF YOU ATTENDED THE HISPANIC CAUCUS DINNER LAST WEEK,
AND I PROMISE NOT TO REPEAT MYSELF.

TONIGHT IS REALLY MY CHANCE
TO PAY TRIBUTE TO THE HISPANIC MEN & WOMEN
WHO HAVE SERVED SO WELL IN MY ADMINISTRATION.

I LEARNED LONG AGO
THAT THE BEST INTENTIONS OF AN EXECUTIVE
CAN BE UNDERMINED IF HE OR SHE DOESN'T RECRUIT THE RIGHT PEOPLE.

THAT'S WHY, WHEN I TOOK OFFICE,
I SET OUT TO RECRUIT THE MOST TALENTED PEOPLE IN THIS COUNTRY --
AND MANY OF THEM ARE RIGHT HERE IN THIS BANQUET ROOM.

1. I WANT TO RECOGNIZE EACH APPOINTEE
2. WHO IS SEATED AT THE HEAD TABLE TO THE LEFT OF ROSALYNN & ME --
3. • MY SPECIAL ASSISTANT IN THE WHITE HOUSE FOR HISPANIC AFFAIRS --
4. AND I AM PROUD TO BE THE 1st PRESIDENT
5. TO ESTABLISH SUCH AN OFFICE WITH A FULL STAFF -- AMBASSADOR ESTEBAN TORRES //
6. • ONE OF THE TOP URBAN EXPERTS IN THE COUNTRY,
7. THE UNDERSECRETARY OF "HUD" -- VICTOR MARRERO //
8. • THE "U.S." CHIEF OF PROTOCOL,
9. THE 1st HISPANIC-AMERICAN EVER TO HOLD THAT IMPORTANT DIPLOMATIC POST --

AMBASSADOR ABELARDO VALDEZ //

10. • THE DIRECTOR OF THE COMMUNITY SERVICES ADMINISTRATION -- RICHARD RIOS //

WHITE HOUSE

HOUSING ~~COMMUNITY~~ URBAN

INTERNATIONAL AFFAIRS

POOR FAMILIES

ASST SEC HUD

WILLIAM MEDINA

THE ASSISTANT SECRETARY FOR RURAL DEVELOPMENT,
AT THE DEPARTMENT OF AGRICULTURE -- $\boxed{\text{ALEX MERCURE}}$ (ME-CURE-EE).

RURAL AREAS

~~THE ASSISTANT SECRETARY OF ADMINISTRATION~~
~~IN THE DEPARTMENT OF HOUSING & URBAN DEVELOPMENT -- WILLIAM MEDINA~~.

THE DIRECTOR FOR MINORITY ECONOMIC IMPACT,
AT THE DEPARTMENT OF ENERGY -- $\boxed{\text{LOUIS MORET}}$

ENERGY - MINORITIES

THE ASSISTANT SECRETARY FOR HUMAN DEVELOPMENT SERVICES,
THE DEPARTMENT OF HEALTH & HUMAN SERVICES -- $\boxed{\text{CESAR PERALES}}$

HUMAN DEVELOPMENT

THE ASSISTANT SECRETARY FOR MANAGEMENT
AT THE DEPARTMENT OF EDUCATION -- $\boxed{\text{JOHN GABUSI}}$

EDUCATION

1. A COMMISSIONER OF THE COPYRIGHT ROYALTY TRIBUNAL -- FRANCES GARCIA //
2. AND THE FEDERAL CO-CHAIRMAN SW BORDER
3. OF THE SOUTHWEST BORDER REGIONAL COMMISSION -- CRISTOBAL ALDRETE (AL-DRATE-EE). /
4. AND FROM MY STAFF,
5. THE ASSOCIATE COUNSEL TO THE PRESIDENT -- PATRICK APODACA // LEGAL - WH -
6. ALSO WITH US TONIGHT,
7. FORMERLY OF MY STAFF & NOW A DEPUTY CHAIRMAN OF MY RE-ELECTION CAMPAIGN --

CAMPAIGN RICK HERNANDEZ //

THERE IS A SAYING IN SPANISH: "DIME CON QUIEN ANDAS Y TE DIRÉ QUIEN ERES." "A MAN IS KNOWN BY THE COMPANY HE KEEPS" -- AND I THINK I'VE BEEN KEEPING SOME PRETTY GOOD COMPANY FOR 3½ YEARS.

I AM PROUD THAT WE HAVE APPOINTED MORE THAN 200 HISPANIC-AMERICANS TO SENIOR POSITIONS -- MORE THAN ANY PREVIOUS ADMINISTRATION.

I ALSO BELIEVE THAT WE HAVE ACCOMPLISHED MUCH TOWARD MAKING THE FEDERAL GOVT. MORE RESPONSIVE TO THE NEEDS OF ALL PEOPLE.

ONE OF THE 1ST THINGS WE DID WAS TO SEND A GROUP OF HISPANIC APPOINTEES INTO THE COMMUNITY. THEY HELD 17 TOWN MEETINGS AROUND THE COUNTRY & LISTENED TO PEOPLE. THEN THEY CAME BACK & STARTED TO WORK WITH ME.

THEIR FINDINGS & THEIR HARD WORK HAVE REACHED EVERY MAJOR POLICY AREA OF THE FEDERAL GOVT. -- AND THEIR IMPACT WILL LAST FOR YEARS TO COME.

1. LONG BEFORE I TOOK OFFICE, I WAS CONCERNED ABOUT JUSTICE IN OUR LEGAL SYSTEM.
2. FOR THAT REASON,
3. I AM VERY PROUD TO HAVE QUADRUPLED THE # OF HISPANIC FEDERAL JUDGES,
4. INCLUDING THE 1ST HISPANIC WOMAN FEDERAL JUDGE -- CARMEN CONSUELO CEREZO.
5. WHEN I TOOK OFFICE, ~~I WANTED TO IMPROVE~~ HUMAN SERVICES,
EDUCATION PROGRAMS,
ECONOMIC DEVELOPMENT,
URBAN PROGRAMS,
& CIVIL RIGHTS ENFORCEMENT.
6. I APPOINTED HISPANICS TO KEY POSITIONS TO HELP ACCOMPLISH THAT.

1. I WANTED OUR IMMIGRATION LAWS ENFORCED WITH HUMANITY & COMPASSION.
2. THAT IS WHY I APPOINTED THE 1ST HISPANIC EVER TO SERVE
3. AS COMMISSIONER OF THE IMMIGRATION & NATURALIZATION SERVICE -- IMMIGRATION
LEONEL CASTILLO. #
4. AND WHY I NOMINATED MATT GARCIA TO SUCCEED HIM. #
5. I HAVE LONG KNOWN OF THE DEEP PATRIOTISM OF HISPANIC-AMERICANS
& YOUR INTEREST IN A STRONG NATIONAL DEFENSE.
6. THAT'S WHY I APPOINTED THE 1ST HISPANIC
7. EVER TO TAKE CHARGE OF ONE OF OUR ARMED SERVICES -- ARMED SERVICES
SECRETARY OF THE NAVY ED HIDALGO. #

MEXICO

1. WHEN I TOOK OFFICE
2. I WANTED TO IMPROVE RELATIONS WITH OTHER NATIONS OF THIS HEMISPHERE.
3. I APPOINTED THE 1ST MEXICAN-AMERICAN EVER TO SERVE AS AMBASSADOR TO MEXICO -- JULIAN NAVA.
4. THERE ARE MANY MORE HISPANIC APPOINTEES I COULD NAME,
5. BUT TIME DOES NOT PERMIT.
6. BUT ONE AFTER ANOTHER, THEY HAVE LENT THEIR TIME,
   THEIR TALENTS,
   & THEIR COMMITMENT TO MY ADMINISTRATION.
7. INDIVIDUALLY, THEY HAVE EXCELLED.

AND THE SUM OF THEIR EFFORTS HAS SET A STANDARD FOR ALL ADMINISTRATIONS --
AND, IN MY NEXT 4 YEARS AS PRESIDENT, A GOAL TO EXCEED IN EVERY YEAR TO COME.
~~BEFORE I CLOSE,~~
~~LET ME SAY A FEW WORDS ABOUT A SUBJECT THAT CONCERNS US ALL --~~
~~THE RESETTLEMENT OF REFUGEES.~~
~~I ANNOUNCED EARLIER THIS WEEK THAT, IN THE FUTURE,~~
~~REFUGEES FROM CUBA & HAITI~~
~~WOULD BE PROCESSED AT FORT ALLEN, PUERTO RICO,~~
~~BEFORE SETTLEMENT IN THE UNITED STATES.~~

THERE HAVE BEEN SOME MISUNDERSTANDINGS WHICH I WANT TO CORRECT. FIRST, WE WILL PHASE THIS CENTER IN SLOWLY, AND AT NO TIME WILL WE ALLOW MORE PEOPLE THAN CAN BE ACCOMMODATED SAFELY. I DON'T EXPECT THAT THE TOTAL POPULATION WILL EXCEED 3,000, AND IT WILL NOT EXCEED 5,000. SECOND, WE WILL NOT SEND TO FORT ALLEN ANYONE WITH HISTORIES OF CRIMINAL VIOLENCE OR MENTAL ILLNESS; THEY WILL BE PLACED IN APPROPRIATE INSTITUTIONS. FORT ALLEN IS A SECURE FACILITY, AND WE WILL NOT ALLOW ANYONE PROCESSED THERE TO LEAVE THE FORT.

1. FINALLY, LET ME REPEAT
2. THAT WE WILL RESETTLE THE REFUGEES IN THE UNITED STATES.
3. I REALIZE THAT THIS IS NOT ENTIRELY A WELCOME DEVELOPMENT,
4. BUT IT WILL PERMIT REFUGEE PROCESSING IN GREATLY IMPROVED CONDITIONS.
5. I WANT TO THANK SECRETARY VASQUEZ
& THE PEOPLE OF PUERTO RICO
6. PERSONALLY FOR THEIR UNDERSTANDING.

1. IN THE LAST 3½ YEARS, WE HAVE NOT DONE ALL WE WANTED.
2. YOU KNOW BETTER THAN I WHAT REMAINS TO BE DONE.
3. BUT YOU ALSO KNOW
4. THAT HISPANICS HAVE EARNED A KEY ROLE IN THE DEMOCRATIC PARTY,
   IN OUR GOVERNMENT,
   OUR ECONOMY,
   & OUR SOCIETY.
5. I JOIN YOU TONIGHT IN YOUR PRIDE OF ACCOMPLISHMENT.
6. I JOIN YOU IN YOUR COMMITMENT TO HISPANIC PROGRESS
   & TO HUMAN PROGRESS IN OUR COUNTRY.
7. AND I JOIN YOU IN THE CONTINUED STRUGGLE THAT LIES AHEAD.

1. "HERMANOS Y HERMANAS DE LA HISPANIDAD,
2. "VAMOS JUNTOS, TODOS, A LA VICTORIA."

3. "HISPANIC BROTHERS & SISTERS,
4. "TOGETHER LET US PROCEED TOWARD VICTORY."

# # #

September 26, 1980

MEMORANDUM FOR THE PRESIDENT

FROM: Al McDonald
Rick Hertzberg
Bob Rackleff

SUBJECT: Presidential Speech: Hispanic Fundraising Dinner

Scheduled delivery:
Fri, Sept 26, 8:30 p.m.
Mayflower Hotel

The seating arrangements for this dinner have been changed, which requires that people be named in a different order in the body of the speech.

Attached is a new original (A-3) incorporating these changes. Also attached, for your reference and comparison, is a copy of the draft sent to you yesterday, with today's changes indicated in red.

OK J

[Salutations will be updated
no later than 4:30 p.m. Friday
by Miriam Cruz x2503.]

Bob Rackleff
Draft A-3; 9/26/80
Scheduled Delivery:
Fri, Sept 26, 8:30 PM

<u>DNC Hispanic Fundraiser</u>

Thank you, Esteban [Torres], for your introduction; Governor Jerry Apodaca; Secretary of State [of Puerto Rico] Pedro Vasquez; Vice Chairperson [of DNC] Carmela Lacayo [La-KYE-o]:

I want to acknowledge our dinner chairman, Ed Romero. Ed, I've been watching you operate for several years, and I hope you can take this constructive advice: I wish you'd be more cheerful and speak up more often -- I think it would help your career.

I and the Democratic Party cannot thank Ed Romero enough for this fundraising event. The money we are raising tonight is a major help to our Democratic campaign. {20} 2 {21}

But it is also a tribute to Hispanic Democrats, and to your commitment to the values of this party. You have been generous with your contributions, with your time, with your hard work -- and that's why I believe we will win in November.

This is a critical election for our nation. The choice for voters will be much more than between two candidates, or even two parties. It will be between two very different futures. Your help in this campaign can make the difference -- whether our nation continues to strive for justice and fairness or whether we turn away from that struggle. +21+ 2 3 +22+

I know that many of you attended the Hispanic Caucus Dinner last week, and I promise not to repeat myself.

Tonight is really my chance to pay tribute to the Hispanic men and women who have served so well in my Administration. I learned long ago that the best intentions of an executive can be undermined if he or she doesn't recruit the right people.

That's why, when I took office, I set out to recruit the most talented people in this country -- and many of them are right here in this banquet room. 3 (22) 4 (23)

I want to recognize each appointee who is seated at the head table to the left of Rosalyn and me --

¶ My special assistant in the White House for Hispanic Affairs -- and I am proud to be the first President to establish such an office with a full staff -- Ambassador Esteban Torres,

¶ One of the top urban experts in the country, the Undersecretary of HUD -- Victor Marrero,

¶ The U.S. Chief of Protocol, the first Hispanic-American ever to hold that important diplomatic post -- Ambassador Abelardo Valdez,

¶ The Director of the Community Services Administration -- Richard Rios, 4 (23) 5 (24)

5 (24)

¶ The Assistant Secretary for Rural Development, at the Department of Agriculture -- Alex Mercure [me-CURE-ee],

¶ The Assistant Secretary for Administration in the Department of Housing and Urban Development -- William Medina;

¶ The Director for Minority Economic Impact, at the Department of Energy -- Louis Moret.

¶ The Assistant Secretary for Human Development Services, the Department of Health and Human Services -- Cesar Perales;

¶ The Assistant Secretary for Management at the Department of Education -- John Gabusi, 5 6 (25)

¶ A Commissioner on the Copyright Royalty Tribunal -- Frances Garcia.

¶ And the Federal Co-Chairman of the Southwest Border Regional Commission -- Cristobal Aldrete [Al-DRATE-ee].

¶ And from my staff, the Associate Counsel to the President -- Patrick Apodaca.

Also with us tonight, formerly of my staff and now a deputy chairman of my reelection campaign -- Rick Hernandez. 6 7 (26)

There is a saying in Spanish: "Dime con quien andas y te dire quien eres." "A man is known by the company he keeps" -- and I think I've been keeping some pretty good company for 3-1/2 years.

I am proud that we have appointed more than 200 Hispanic-Americans to senior positions -- more than any previous Administration.

I also believe that we have accomplished much toward making the Federal government more responsive to the needs of all people. 8 (27) One of the first things we did was to send a group of Hispanic appointees into the community. They held

17 town meetings around the country and listened to people. Then they came back and started to work with me.

Their findings and their hard work have reached every major policy area of the Federal government -- and their impact will last for years to come. 8 9 (28)

Long before I took office, I was concerned about justice in our legal system. For that reason, I am very proud to have quadrupled the number of Hispanic Federal judges, including the first Hispanic woman Federal judge -- Carmen Consuelo Cerezo.

When I took office, I wanted to improve human services, education programs, economic development, urban programs, and civil rights enforcement. I appointed Hispanics to key positions to help accomplish that. 10 (29)

I wanted our immigration laws enforced with humanity and compassion. That is why I appointed the first Hispanic ever to serve as Commissioner of the Immigration and Naturalization Service -- Leonel Castillo -- and why I nominated Matt Garcia to succeed him.

I have long known of the deep patriotism of Hispanic-Americans and your interest in a strong national defense. That's why I appointed the first Hispanic ever to take charge of one of our armed services -- Secretary of the Navy Ed Hidalgo. 10

11

(30)

When I took office I wanted to improve relations with other nations of this Hemisphere. I appointed the first Mexican-American ever to serve as Ambassador to Mexico -- Julian Nava.

There are many more Hispanic appointees I could name, but time does not permit. But one after another, they have lent their time, their talents, and their commitment to my Administration. Individually, they have excelled.

12

(31)

12 (31)

And the sum of their efforts has set a standard for all Administrations -- and, in my next four years as President, a goal to exceed in every year to come.

Before I close, let me say a few words about a subject that concerns us all -- the resettlement of refugees.

I announced earlier this week that, in the future, refugees from Cuba and Haiti would be processed at Fort Allen, Puerto Rico, before settlement in the United States.

13 (32)

There have been some misunderstandings which I want to correct. First, we will phase this center in slowly, and at no time will we allow more people than can be accommodated safely. I don't expect that the total population will exceed 3,000, and it will not exceed 5,000.

Second, we will not send to Fort Allen anyone with histories of criminal violence or mental illness; they will be placed in appropriate institutions. Fort Allen is a secure facility, and we will not allow anyone processed there to leave the fort.

14(33)

Finally, let me repeat that we will resettle the refugees in the United States. I realize that this is not entirely a welcome development, but it will permit refugee processing in greatly improved conditions. I want to thank Secretary Vasquez and the people of Puerto Rico personally for their understanding.

15(34)

In the last 3-1/2 years, we have not done all we wanted. You know better than I what remains to be done. But you also know that Hispanics have earned a key role in the Democratic Party, in our government, our economy, and our society.

I join you tonight in your pride of accomplishment. I join you in your commitment to Hispanic progress and to human progress in our country. And I join you in the continued struggle that lies ahead.

16(35)

"Hermanos y Hermanas de la Hispanidad, vamos juntos, todos, a la victoria." "Hispanic brothers and sisters, together let us proceed toward victory."

# # #

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

C

SEP 2 6 1980

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: JIM McINTYRE Jim

SUBJECT: Budget Report

The potential deficits we will be considering this fall will be substantially larger than the deficits we published in the summer. Current commitments have already raised the FY 1981 deficit from $30 to $39 billion. Congressional action and inaction could increase the potential 1981 deficit to $57 billion, with a 1982 deficit of $50 billion. If the Congress completes action on the reconciliation bill, the potential deficit could be reduced by $7 to $10 billion in FY 1981, but little help would be provided in future years.

The changes in our estimate of the <u>current deficit</u> are due to revised estimates of outlays or receipts. All of the <u>potential changes</u> that we have identified are due to possible (likely) Congressional inaction whether with respect to cost savings or tax changes we have proposed. We will be beginning our review of agency budget proposals in approximately three weeks. In light of these figures I expect a difficult budget year.

I will be making an initial review of agency estimates submitted for the 1982 Budget in mid-October and will then discuss them with you. From past experience, agency reestimates will add more to the deficit.

The table attached summarizes the potential deficit problem.

Attachment

This is for your information only. The next official revised estimates will not be published until January.
Jim

EYES ONLY

CHANGE IN DEFICIT (-) OR SURPLUS
1981 AND 1982

	1981	1982
Latest public estimate...............................	-29.8	+5.9
Current commitments		
Economic revitalization program:		
Outlays..	-3.3	-8.1
Receipts...	-6.5	-31.8
Changed economic conditions:		
Outlays..	+0.4	+3.7
Receipts...	+1.8	+13.1
Deletion of transitional assistance proposal and other outlay changes..........................	-1.7	-0.8
Current deficit.............................	-39.1	-18.0
Potential changes		
Assume inaction on cost savings legislation:		
Outlays..	-5.5	-7.9
Receipts:		
Gasoline and diesel tax.......................	-3.5	-13.1
Withholding taxes on dividends and interest...	-3.4	-2.5
Other...	-5.5	-8.5
Other Congressional action on appropriations and authorizations................................	-0.4	-0.1
Potential deficit...........................	-57.4	-50.1

NOTE: Outlay changes shown as negative increase outlays as well as the deficit.

September 25, 1980

EYES ONLY

CARTER/MONDALE
RE-ELECTION
COMMITTEE, INC.

Robert S. Strauss, Chairman
Tim Kraft, National Campaign Manager
S. Lee Kling, Treasurer

2000 L STREET, N.W., WASHINGTON, D.C. 20036 (202) 887-4700

September 25, 1980

MEMORANDUM FOR THE PRESIDENT

THRU: RICK HUTCHESON

FROM: TIM FINCHEM

SUBJECT: DIRECT MAIL FUNDRAISING APPEAL

We have had several requests from State Democratic Parties for use of a Presidential direct mail solicitation. Therefore, we have drafted a standard letter that would be useful for any state. Jerry Rafshoon and Jody Powell have both approved the letter.

Please make whatever changes you feel are necessary and send the approved letter back to us as soon as you can.

Thank you.

ok, I guess

J

Dear :

It has been a long and hard campaign, and I could not have gotten this far without your support.

But to achieve our final goal -- a victory for the Democratic Party from the top of the ticket to the bottom -- I am asking for your help once again.

The key to a Democratic victory is an all-out effort by state and local party organizations to identify Democratic voters and then make certain those people actually vote on November 4.

Like everything else in politics, that kind of Get-Out-the-Vote effort costs money -- a lot of money.

And unfortunately, the Republicans have a treasury that far exceeds ours, and supposedly "independent" political fringe groups are also spending millions on of Governor Reagan~~'s~~ behalf and other Republicans.

To pay for our own program, and to offset the tremendous financial advantage of the Republicans, I am asking you to send as much as you can as soon as you can. Your contribution will be put to good use.

During this campaign, I have said many times that the choice in November is a choice between two futures -- a choice between moving boldly and confidently into the future under progressive, Democratic leadership -- or ~~a~~ retreat from everything we have worked so hard to achieve a Republican effort ~~led by Governor Reagan~~ to ~~repeal the future.~~

Together -- and our party is truly united for this effort -- ~~and~~ with your help, I know we will prevail.

Sincerely,

Jimmy Carter

230

THE WHITE HOUSE
WASHINGTON

9/24/80

Mr. President:

Rafshoon needs about 10 minutes tomorrow to record a tag line for hispanic radio spots.

May I schedule?

✓ yes ___ no

Phil

J

Mr. President:

Landon would like to schedule a 3 minute photo op today for the National Treasury Employees Union. They have 50,000 members in New York, Newark, Austin and Phila. The photo is for their union publication.
May I schedule?

✓ yes ___ no

Phil

J

5:56

THE WHITE HOUSE
WASHINGTON

September 24, 1980

MR. PRESIDENT:

At the Congressional Black Caucus reception this week, Presidents Stevens of Sierra Leone and Habyarimana of Rwanda will be special guests. You will have met that day with Stevens in his role as President of OAU. State, NSC, and Louis Martin request that you greet Habyarimana for 3 minutes as you enter the reception. May I schedule?

✓ APPROVE ______ DISAPPROVE

PHIL J

THE WHITE HOUSE

WASHINGTON

September 23, 1980

MEMORANDUM FOR PHIL WISE

FROM: LOUIS MARTIN

Two Presidents of African Countries will be special guests at the reception for the Congressional Black Caucus on Thursday afternoon, September 25.

President Carter has not met one of them, President Juvenal Habyarimana of Rwanda. We want President Carter to meet and simply shake hands with the Rwandan President just before he comes out for the reception.

The President has already met the other special guest, President Stevens of Sierra Leone. See the attached memoranda for more information.

Thanks for your consideration of this request.

DEPARTMENT OF STATE

Washington, D.C. 20520

September 12, 1980

To: Mr. Louis Martin
Special Assistant to the President
The White House

From: Lannon Walker
Deputy Assistant Secretary for African Affairs

As you requested, here are a few points for consideration regarding the possible invitation of President Habyarimana to the Black Caucus reception at the White House on Thursday, September 25.

--President Habyarimana is a well-respected, bright, pragmatic leader who has moved his country closer to civilian rule. He is an outstanding example of a leader who has promoted good human rights practices in Africa. Rwanda served on the 1979 African commission to investigate human rights abuses in the Central African Empire (now the Central African Republic).

--He is making his first visit to the US and giving his first presentation before the United Nations General Assembly. He has requested throughout the year, a meeting with President Carter but we have held firm to our instructions regarding the President's time in this busy election year.

--The Rwandans understand that there are scheduling problems in an election year and that the schedule of the President is tight, but they would welcome the opportunity for Habyarimana just to shake hands with him.

--The Rwandans are perplexed by what they see as our double standard of what constitutes a private visit. They have cited in this regard that Zimbabwe Prime Minister Mugabe saw the President and even had a reception given in his honor during his own private visit to the US.

--Inclusion of President Habyarimana in the Black Caucus reception would strengthen US-Rwandan relations by signaling to the Rwandans that even though a private meeting with President Carter was not possible, the highest levels of our government took cognizance of his role as head of a friendly African state and of his presence in the United States.

--President Siaka Stevens of Sierra Leone will participate in the reception. His presence gives added weight to the importance of including President Habyarimana, who will be the only other African head of state in Washington at that time.

--While I am quite sure that President Habyarimana would gladly accept an invitation to the reception for the Congressional Black Caucus, it would be very important from both protocol and substantive viewpoints that President Carter spend at least one or two minutes with him prior to President Habyarimana being introduced as an honored guest. It would no doubt be awkward for President Carter to introduce him as a special guest if he had not met him.

DEPARTMENT OF STATE

Washington, D.C. 20520

September 22, 1980

MEMORANDUM

TO: Louis Martin
Marilyn Funderburk

FROM: Ken Hays KH
Assistant Chief of Protocol

RE: White House Reception for Congressional Black Caucus on September 25

This is to confirm that His Excellency Major General Juvenal Habyarimana, President of the Rwandan Republic, and His Excellency Dr. Siaka Stevens, President of the Republic of Sierra Leone, have accepted the invitation of the Congressional Black Caucus Reception at the White House.

Members of the Rwandan Delegation to be included are:

His Excellency Major General Juvenal Habyarimana
President of the Rwandan Republic

Mrs. Habyarimana

His Excellency Francois Ngarukiyintwali
Minister of Foreign Affairs and Cooperation

Mrs. Ngarukiyintwali

His Excellency Bonaventure Ubalijoro
Ambassador of Rwanda to the U.S.

Mrs. Ubalijoro

Members of the Sierra Leone Delegation to be included are:

His Excellency Dr. Siaka Stevens
President of the Republic of Sierra Leone

His Excellency Abdulai Conteh
Minister of Foreign Affairs

His Excellency Mohamed Turay
Ambassador of Sierra Leone to the U.S.

Mr. Caleb Aube
Deputy High Commissioner to the United Kingdom

9-05

In both cases, our American Ambassadors will accompany the Presidents to the White House:

The Honorable Harry Melone
American Ambassador to Rwanda

The Honorable Theresa Healy
American Ambassador to Sierra Leone

9:55 Am

THE WHITE HOUSE

WASHINGTON

September 25, 1980

PHOTO OPPORTUNITY WITH CONGRESSMEN MARIO BIAGGI & "KIKA" DE LA GARZA

Friday, September 26, 1980
9:55 a.m. (3 minutes)
Oval Office

From: Frank Moore F.M./bm
Bob Maher

I. PURPOSE:

To highlight the recent signing of H.R. 2538, Coast Guard High Seas Drug Law Enforcement Legislation.

II. BACKGROUND, PARTICIPANTS AND PRESS PLANS:

Background: H.R. 2538 was signed by the President on September 13. The record of the Coast Guard's interdiction of drugs has increased dramatically over the past years, and this will provide Congressman Biaggi with an opportunity to point this out and to give the Administration due credit.

The attention gained will be appealing to conservative elements who are worried about the drug problem. This will be a good opportunity to get some good publicity for working against the problem of illegal drug traffic.

Congressman Mario Biaggi (D-NY) is the author of the legislation and the Chairman of the Subcommittee on Coast Guard Navigation of the Merchant Marine and Fisheries Committee. Congressman de la Garza (D-TX) is a ranking member of Biaggi's Subcommittee. Additionally, the whole issue of illegal drug traffic has great relevance to the state of Texas.

Participants: The President, Congressman Mario Biaggi, Congressman "Kika" de la Garza, Frank Moore, Bob Maher, Larry Mallon, Counsel to the Subcommittee on Coast Guard & Navigation, Cindy Wilkinson, Subcommittee staff and Ann Miller, Subcommittee staff.

Press Plans: White House photographer, AP, UPI, New York Times.

III. TALKING POINTS:

Present a commemorative pen to Congressman Biaggi as the author of the legislation.

THE WHITE HOUSE

WASHINGTON

9/26/80

STU EIZENSTAT
FRANK MOORE

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

Rick Hutcheson

NAME SENATOR WILLIAM PROXMIRE

1766

FM/rr

TITLE Chairman, Senate Banking Committee

CITY/STATE Wisconsin

Phone Number--Home (___)

Work (202) 224-5653

Other (___)

Requested by Frank Moore/ Stu Eizenstat Stu

Date of Request Sept. 25, 1980

INFORMATION (Continued on back if necessary) All of the key principals (Sens. Randolph, Burdick and Hollings and Cong. Johnson and Roe) have agreed to our EDA compromise, except Sen. Proxmire. Proxmire has said he will not sign the Conference Report unless the specific language instructing EDA to target its loan funds to the most distressed areas is included in the statute. Our compromise includes general language in the statute and the specific language in the Conference Report.

Proxmire's agreement to sign the report is critical. The other seven Democratic Senators will sign the report. The six Republicans probably will oppose.

NOTES: (Date of Call 9-25)

He won't change

Without his signature we will not have a majority of the Senate Conferees.

The following points are suggested:

- o The EDA bill is critical to me substantively and politically.
- o Your vote is essential to approval of Conference Report by Senate Conferees.
- o I understand that you are willing to sign the Conference Report <u>only</u> if the targeting language is included in the statute.
- o I am calling to urge you to reconsider that position and to sign the Conference Report with the proposed language.
- o I know that this has been an excruciating Conference, but I honestly feel this is a fair compromise. The House has moved a long way toward our joint position of seeking more targeting in the EDA bill.
- o The proposed compromise includes strong statutory language directing EDA to target its loan funds and very specific Report language.
- o Moreover, I honestly believe that it will not affect the operations of EDA whether the <u>specific</u> language is in the statute or the Conference Report.
- o We already have provided to you an opinion by EDA's General Counsel that the Conference Report language would be legally binding.
- o In addition, we would include the specific percentages in EDA's regulations, over which your Committee would have oversight.
- o Finally, the EDA Administrator would write to you personally and commit to enforcing these provisions.
- o I really need your support on this.

THE WHITE HOUSE
WASHINGTON

140

9/24/80

Mr. President:

Rosalynn has asked that you have a photo made with this man. May I schedule?

✓ yes ____ no

Phil

J

CARTER/MONDALE
RE-ELECTION
COMMITTEE, INC.

Robert S. Strauss, Chairman
Tim Kraft, National Campaign Manager
S. Lee Kling, Treasurer

2000 L STREET, N.W., WASHINGTON, D.C. 20036 (202) 887-4700

September 23, 1980

MEMORANDUM FOR PHIL WISE
FRAN VOORDE

FROM: TIM FINCHEM

SUBJECT: PRESIDENTIAL TIME/PHOTO OPPORTUNITY FOR JOE BEATRICE

This is to request a brief photo opportunity for Joe Beatrice of Boston, Massachusetts, on Thursday afternoon, September 25, with the President.

Joe Beatrice is a businessman in Boston and has committed to and will raise $100,000 for the October 15th DNC fundraiser in Boston. This request was recommended by Governor King and Speaker McGee.

Please let us know as early Wednesday as possible.

Thanks.

THE WHITE HOUSE
WASHINGTON

9/26/80

ZBIG BRZEZINSKI

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

Rick Hutcheson

STU EIZENSTAT
JIM MCINTYRE

~~SECRET~~

Allison – check + see if we have OMB concurrence in the file

	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
		EIDENBERG
	✓	EIZENSTAT
		MCDONALD
		MOORE
		POWELL
		WATSON
		WEDDINGTON
		WEXLER
✓		BRZEZINSKI
	✓	MCINTYRE
		SCHULTZE
		ANDRUS
		ASKEW
		BERGLAND
		BROWN
		CIVILETTI
		DUNCAN
		GOLDSCHMIDT
		HARRIS
		HUFSTEDLER
		LANDRIEU
		MARSHALL

		MILLER
		MUSKIE
		AIELLO
		BUTLER
		CAMPBELL
		H. CARTER
		CLOUGH
		FIRST LADY
		HARDEN
		HERTZBERG
		HUTCHESON
		KAHN
		MARTIN
		MILLER
		MOE
		MOSES
		PETERSON
		PRESS
		RECORDS
		SANDERS
		SHEPPARD
		SPETH
		STRAUSS
		TORRES
		VOORDE
		WISE

SECRET

THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

This document consists of 3 pages
No. 1 of 10 Copies, Series IA-1

September 17, 1980

C

MEMORANDUM FOR: THE PRESIDENT

FROM: Charles W. Duncan, Jr. CWDuncan Jr

SUBJECT: U.S.-Algerian Natural Gas Pricing Developments

Since my last update to you in June, we have held two more rounds of LNG price negotiations with senior Algerian Government officials. Over the past five months, the Algerian Government has steadily backed down from its initial April demand for price equivalency with its crude oil ($6.11/MMBtu FOB and approximately $8.00/MMBtu regasified in the U.S.). The Algerians now appear ready to agree to a $3.20 FOB price and a one year interim sales arrangement. The Algerian request for at least a $3.20 FOB price (in the face of our last offer of $3.10) is approximately equivalent to the interim LNG sales prices which Gaz de France has been paying since July 1. ~~(C)~~

In order to preserve this project as well as maintain market competitiveness with the Canadian and Mexican border price, the U.S. project sponsors also have proposed to make a contribution of approximately $0.50/MMBtu for at least six months. These contributions would provide Algeria with a $3.20 FOB price, while holding down the effective FOB and regasified prices to the U.S. consumer to approximately $2.70 and $4.54 (the Canadian price is $4.47). Any escalations during the year would be based on changes in the Canadian/Mexican border price. It will be left to the commercial entities in both nations to work out the specific terms such as the sharing of future escalations in the FOB price, any increases in shipping and regasification charges, and the status of the El Paso $.50/MMBtu contribution after the first six months. ~~(C)~~

The structure which we would seek for this interim arrangement would be similar to the government to government framework negotiated with Mexico in 1979. The USG and the GOA would issue a joint statement of principles which: (1) sets forth criteria for the price and duration of an agreement; (2) reaffirms the Algerian commitment to the long-term nature of this 23-year, 1 billion cubic feet per day energy supply project; (3) provides general policy guidance for use by the U.S. companies and the Algerian state energy entity, Sonatrach, in negotiating an interim sales contract; and (4) during the pendancy of the interim arrangement states the intention of the two governments to continue discussions directed at a longer-term pricing resolution. ~~(C)~~

Classified by L. Goldman
(Original Authority)

☒ DECLASSIFY
or on: 9/86
☐ REVIEW (date or event)

NATIONAL SECURITY
INFORMATION

SECRET Jay 4/22/91

Given the $1.6 billion investment by U.S. companies in facilities for transporting and receiving this gas, and the Algerian willingness to agree to a regasified price essentially equivalent to that of Canada and Mexico, El Paso and its customers argue strongly that the U.S. government should conclude this agreement. Without the interim agreement, 500 technical service personnel will be withdrawn next month from Algeria, leaving the project inoperative for at least several years - at best - and most likely requiring it to be written off as a loss in the United States. The interim agreement saves the facilities, and in so doing the possibility of maintaining the 23 year life of the contract for the years in the future when the U.S. may need this gas supply. ~~(C)~~

Today, Canadian gas is selling at only 53% of contracted volumes because of temporary gas surpluses in the U.S. brought on by low residual fuel oil prices. Physically we could do without the Algerian gas for the next several years. But, consumers are paying and will continue to pay for the unused multi-billion dollar facilities that now are transporting and processing no BTU's of energy. The Exim Bank holds approximately $665 million in loans and loan guarantees on the project, while MARAD holds approximately $200 million in mortgage guarantees on LNG tankers. Algeria is a key U.S. oil supplier and now appears anxious to resume gas shipments, admitting both that the project should not have been shut off and that their original price demands were too high for today's market. ~~(C)~~

Finally, El Paso cites the precedent of the Trunkline decision. The Trunkline project was approved in June 1977 by the outgoing Federal Power Commission prior to the creation of DOE and the articulation of our competitive fuels policy, and at a time when there was great uncertainty about the future adequacy of domestic gas supplies. It will begin operation later this year and Trunkline has already invested nearly $800 million in LNG tankers and a receiving terminal. It calls for an FOB price of $3.24/MMBtu in Algeria and because of cost overruns in facilities construction, is estimated to have a regasified price of approximately $6.35. While it is recognized this project could not be approved today, El Paso nevertheless argues that it would be inequitable to let their far cheaper LNG project with billions in fixed costs collapse (with much of the write-off costs being passed to consumers in any event) while the far more expensive project comes on line. ~~(C)~~

Discussions with senior Canadian and Mexican offical s indicate that neither government will use the $4.54 Algerian regasified price as justification to increase prices on all or part of the 1.1 trillion cubic feet per year of gas that these two countries have authorized for export to the U.S. ~~(S)~~

Recommendation

Considering everything, I believe we should attempt to conclude this interim settlement. State and NSC agree with this recommendation. ~~(S)~~

DPS concurs.

OMB? Get ~~guard~~

Agree ✓ unless OMB objects

Disagree J

Regular Foreign Affairs Breakfast
September 26, 1980

THE WHITE HOUSE
WASHINGTON

For All

9-26-80

Muskie / Gromyko

Cuban refugees

Iran / Iraq - Islamic

Credentials / ASEAN / Israel

Pakistan = will ? = ? w ? ?, UK, FRG

B Rogers. Turkey.

Somalia =

?/us naval discussion

Infant Formula Bill Signing 9/26/80

INFANT FORMULA BILL 9/26/80

Lynne Pilot → LEE Thompson
Carol LASKIN

METZENBAUM, GORE,
MOTTL, CARTER, WAXMAN
(BAUCUS & LEAHY)

STANDARDS

~~#~~ HHS MONITOR

MONITOR HEALTH

NUTRITION DEFICIENCES
DEPRESSION

PHEALTH, RESEARCH,
FOOD & DRUGS

AG NUTRITION CENTERS OLD YOUNG

THE WHITE HOUSE
WASHINGTON

9/26/80

STU EIZENSTAT

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

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
		EIDENBERG
	✓	EIZENSTAT
		MCDONALD
		MOORE
		POWELL
		WATSON
		WEDDINGTON
		WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE
		ANDRUS
		ASKEW
		BERGLAND
		BROWN
		CIVILETTI
		DUNCAN
		GOLDSCHMIDT
		HARRIS
		HUFSTEDLER
		LANDRIEU
		MARSHALL

		MILLER
		MUSKIE
		AIELLO
		BUTLER
		CAMPBELL
		H. CARTER
		CLOUGH
		FIRST LADY
		HARDEN
		HERTZBERG
		HUTCHESON
		KAHN
		MARTIN
		MILLER
		MOE
		MOSES
		PETERSON
		PRESS
		RECORDS
		SANDERS
		SHEPPARD
		SPETH
		STRAUSS
		TORRES
		VOORDE
		WISE

UNITED STATES LEAGUE of SAVINGS ASSOCIATIONS WASHINGTON OFFICE
1709 NEW YORK AVENUE, N.W. / WASHINGTON, D.C. 20006 / TEL. (202) 637-8900

September 26, 1980

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

Dear Mr. President:

We appreciate your taking the time to meet with representatives of the U. S. League of Savings Associations. Although we have met several times in recent months with members of your staff and Administration and have expressed to you in writing our concerns about the regulatory and economic policy directions of your Administration, we have looked forward to this opportunity to present these concerns to you in person.

We are deeply troubled by today's economic and regulatory trends. You have repeatedly, and correctly, identified inflation as our number one domestic enemy. But the legacy of inflationary policies which have encouraged spending and discouraged savings have eroded our capital base. This has not only crippled our industrial might -- it has led to unacceptable swings in the availability of funds for housing and home ownership. Today our lack of progress in conquering inflation handicaps the accumulation of the savings needed to meet the unprecedented housing demands we face in the 1980s. In our area of particular expertise, unprecedented interest rate volatility has combined with precipitous and premature financial deregulation to produce record mortgage interest rates. These costs threaten to abort the housing recovery we all have hoped for and, for the second time in less than a year, make home ownership impossible for millions of Americans.

For the home buyer, today's 13% and 14% mortgage rates make it harder and harder to find, and afford, the credit to buy a home. For the home seller, it means a long wait to find a buyer who can obtain financing or make the purchase without it. For workers in housing construction or related industries, it means more unemployment or little hope of returning to work. It is also likely to promote widespread use of the tax-exempt bonding privilege of State and local governments for single-family mortgage financing -- a practice that your Department of Treasury has correctly identified as inflationary, inefficient, and inequitable. As you know, the

Senate has refused to process House-passed H.R. 5741 to stop the open-ended raid on the U. S. Treasury from the spread of mortgage revenue bonds; we ask your help in restricting mortgage bond abuse in this Congressional session.

As bad as these immediate prospects are for housing, we believe the longer-term implications of current economic and regulatory policies are even more ominous. It appears to us that the position of housing as a domestic priority has been eliminated de facto by a group of officials whom you appointed. Recent actions by banking regulators, operating as the Depository Institutions Deregulation Committee, have shifted substantial funds away from home finance and threaten to dismantle what has proved to be a very successful residential mortgage credit system -- our specialized thrift institutions.

Over the past year, short-term interest rates have shown three to four times their normal volatility. This has created tremendous uncertainty ... not only in our nation's money markets ... but also in depository institutions and among the savings public. (Just yesterday, short-term Treasury rates increased 3/4 of 1% in a single day.) Such violent swings make it virtually impossible for long-term mortgage lenders to operate and provide long-term mortgage finance.

In our view, housing must remain a top domestic national priority and must be addressed along with reindustrialization and other domestic needs. To do otherwise is to break faith -- not only with the future homebuyers and housing providers -- but also with every existing homeowner, whose home value depends upon its marketability. We fear that the homeowner may soon become an "endangered species".

We believe that national economic policy must address the destructive nature of today's highly volatile interest rates and the uncertainty they produce. If current trends continue, we will have higher inflation and more unemployment, not the relief from these economic evils that we know you have been seeking since taking office nearly four years ago.

We also believe that your Administration and the Congress must review the potentially devastating actions of banking agency regulators during recent months. Their actions are multiplying the negative effects of today's volatile interest rates, and the interaction of these monetary and regulatory policies is wreaking havoc on the housing sector.

The President
The White House
September 26, 1980
Page Three

Finally, we believe that Americans deserve to know where housing and home ownership stand among the priorities of our national Government. We hope that you will agree that it is appropriate well before the election to clarify your position on this issue of vital importance to the American people.

Sincerely,

Edwin B. Brooks, Jr.

Edwin B. Brooks, Jr.
President

EBB/PG/p

GRAPHS AND TABLES

GRAPH #1 shows the frequency and magnitude of money market interest rates (week to week changes of 90-day Treasury Bills) before and after the Federal Reserve's October 6, 1979 decision to put more emphasis on controlling bank reserves than on controlling short term interest rates.

GRAPH #2 shows the tendency of short term rates (6-month Treasury Bills) to make more drastic up and down moves under the new Fed policy.

GRAPH #3 shows that monthly flows of net new retail savings at savings and loan associations have been sluggish -- and often negative -- since the removal of the housing differential on money market certificates in March 1979.

GRAPH #4 shows the pattern of mortgage rates through August.

GRAPH #5 shows the dramatic fall off in lending by the primary home lenders -- savings and loan associations -- since the October 1979 Fed policy change.

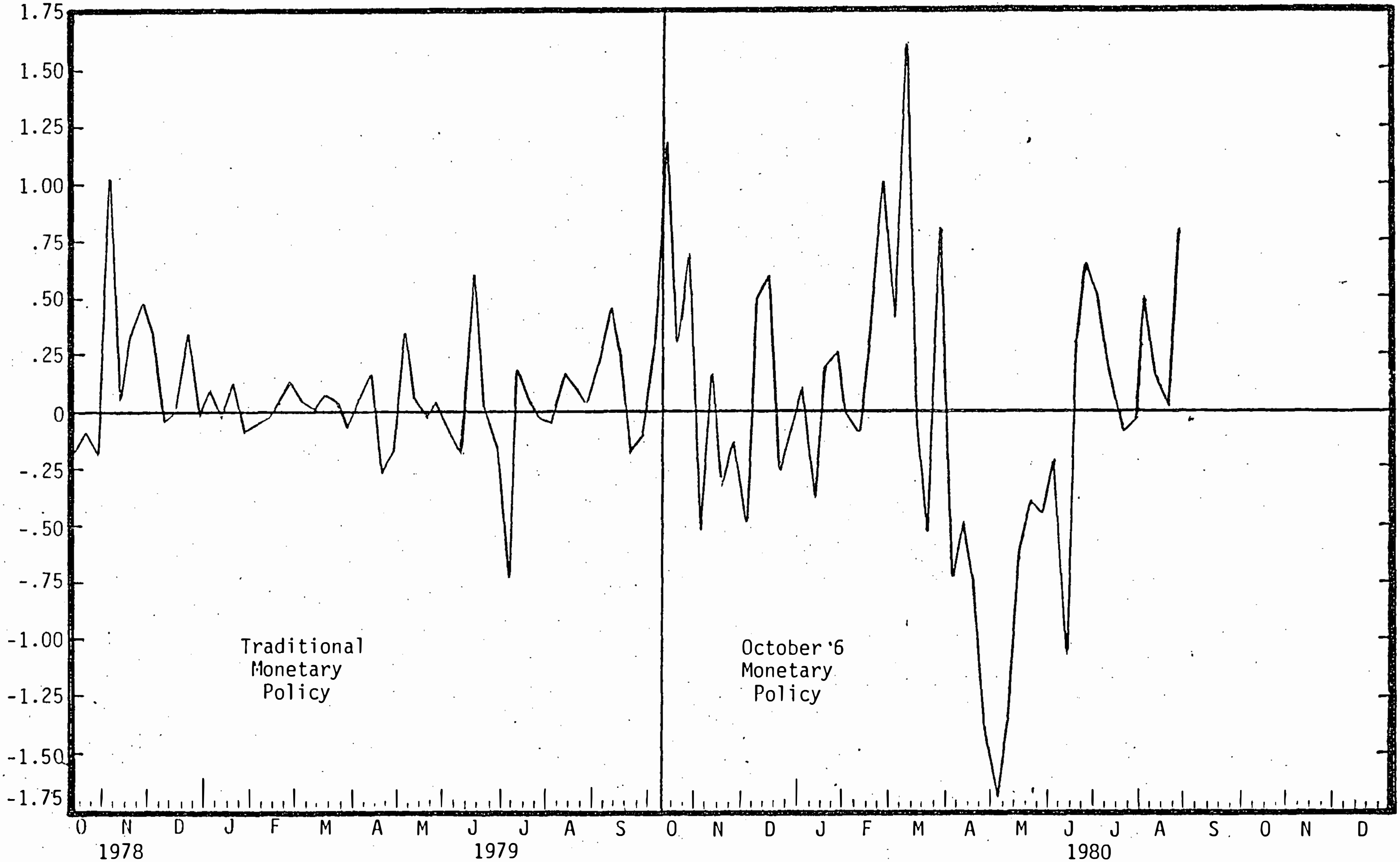
TABLE #1 gives data for Graph #2

TABLE #2 gives data for Graphs #3, 4 and 5.

TABLE #3 shows market share of new retail savings deposits (less withdrawals) between savings and loan associations and commercial banks.

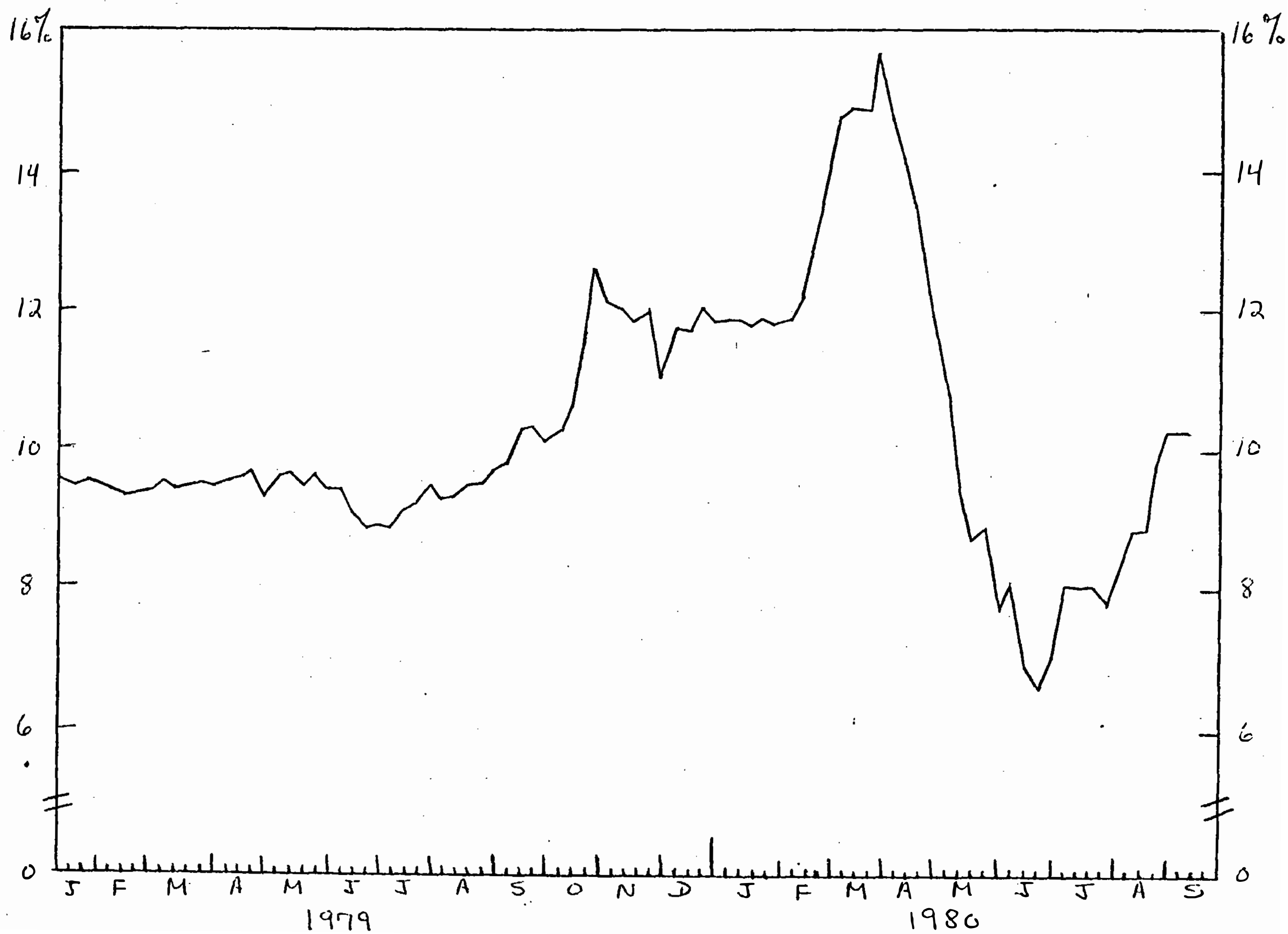
TABLE #4 shows market share of new retail savings deposits (less withdrawals) for five types of financial intermediaries: savings and loan associations, commercial banks, credit unions, mutual savings banks and money market mutual funds.

INTEREST-RATE VARIABILITY
(weekly changes in 90-day Treasury Bills)



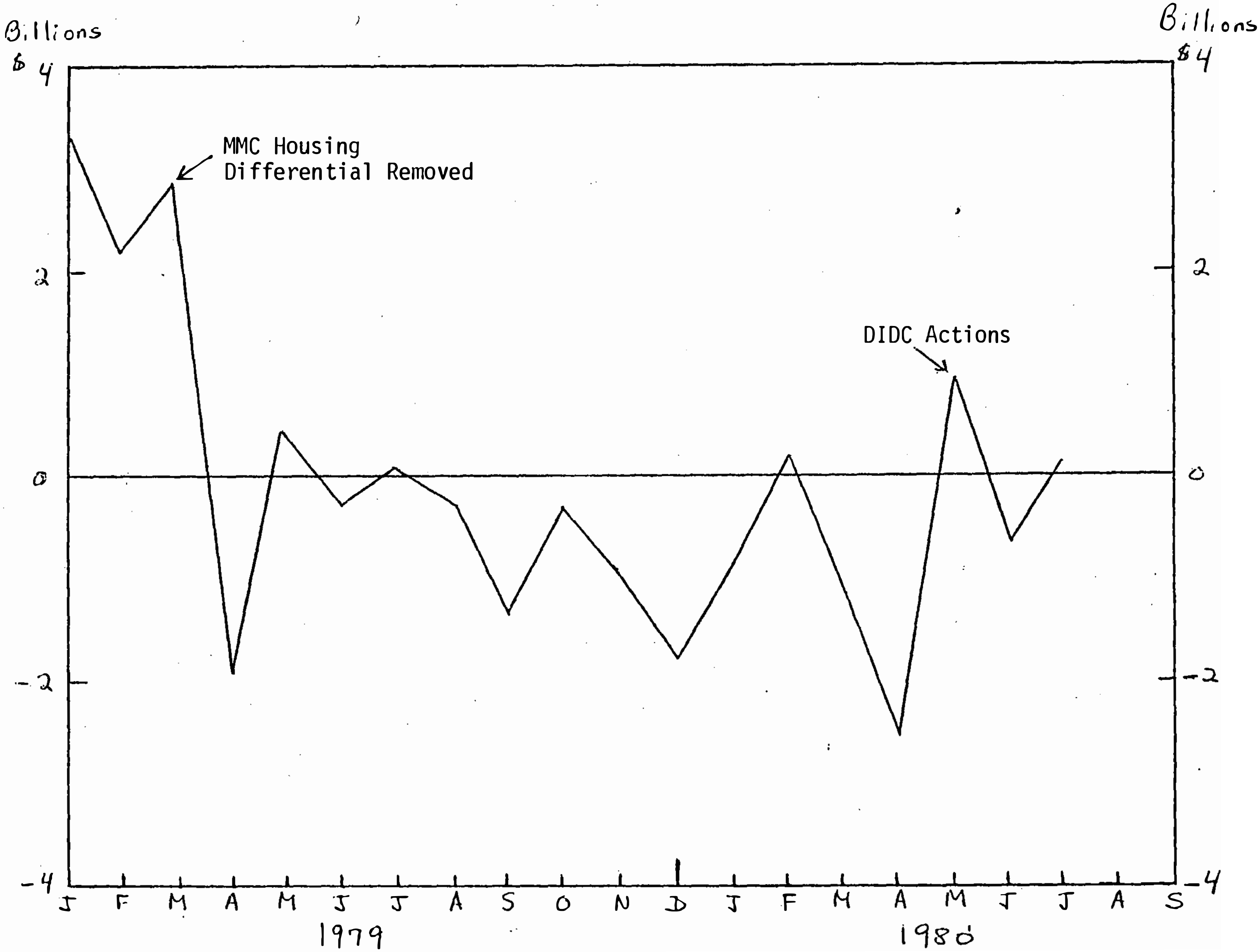
Source: Federal Reserve Board; U.S. League of Savings Associations, Economics Dept.

HISTORIC RATE VOLATILITY* . . .



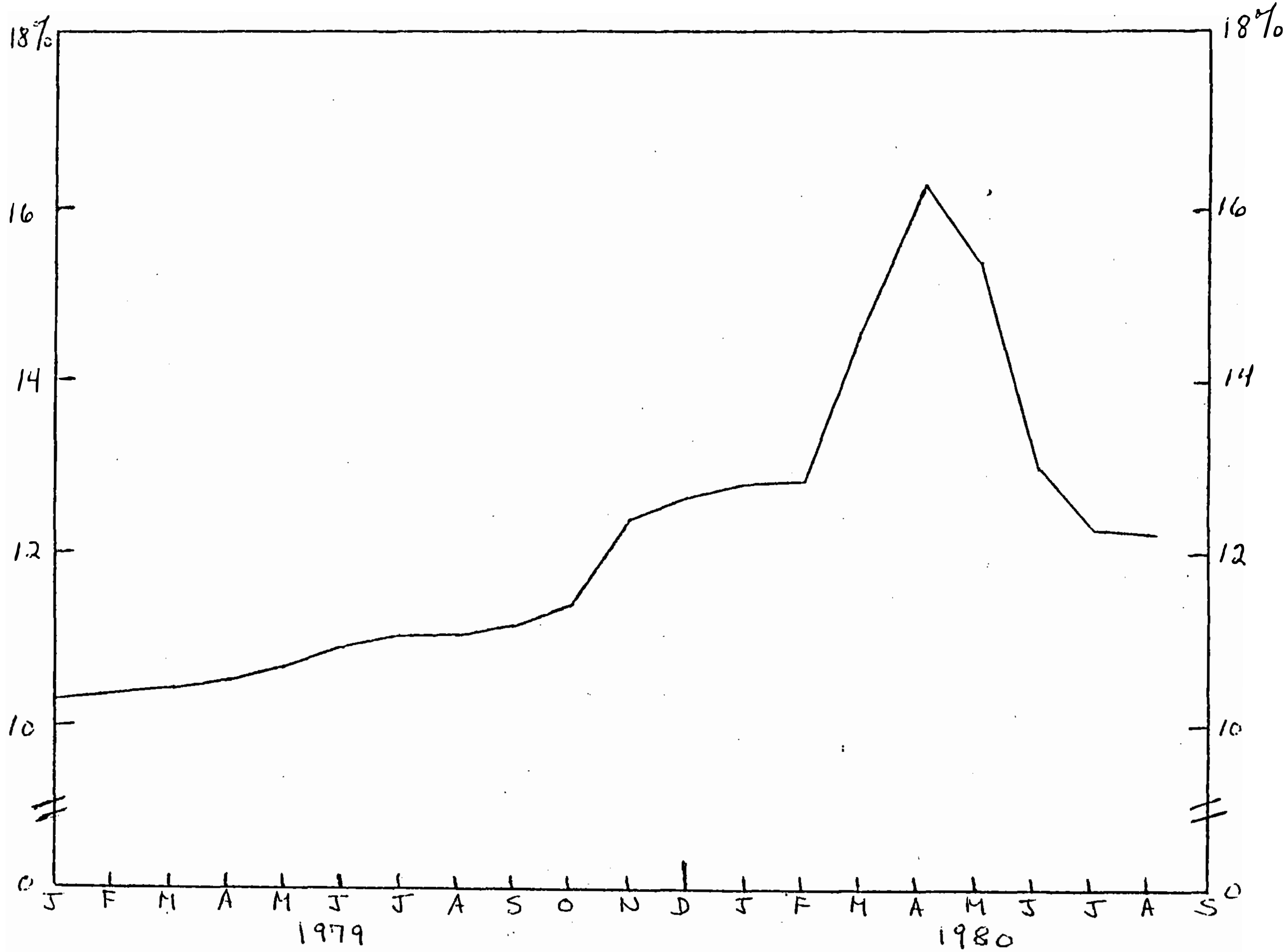
*Six-month Treasury bill rates.

WEAK SAVINGS FLOWS* . . .



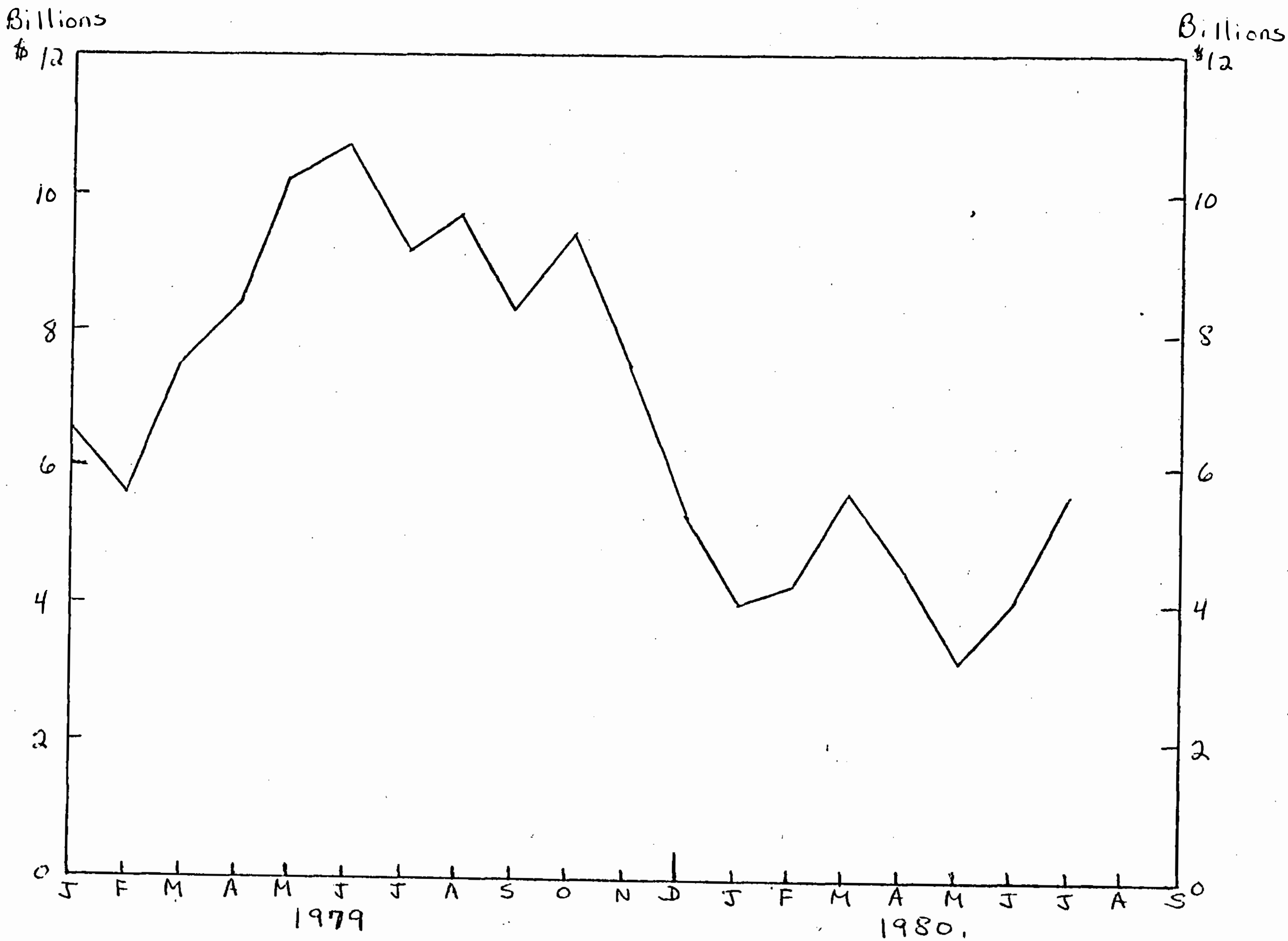
*Net new retail savings at savings and loan associations.

RECORD HIGH MORTGAGE RATES* . . .



*Commitment rates for 80%, 25-year loans(all lenders).

LESS MONEY FOR HOUSING* . . .



*Mortgage loans closed at savings and loan associations.

Table 1: Six-month Treasury bill rates.

1979				1980			
Jan. 4	9.550	July 5	8.867	Jan. 3	11.880	July 3	8.097
11	9.443	12	9.164	10	11.858	10	8.114
18	9.534	19	9.255	17	11.783	17	8.110
25	9.475	26	9.473	24	11.886	24	7.906
Feb. 1	9.376	Aug. 2	9.301	31	11.846	31	8.276
8	9.307	9	9.320	Feb. 7	11.985	Aug. 7	8.867
15	9.342	16	9.481	14	12.256	14	8.891
22	9.370	23	9.504	21	13.013	21	9.765
Mar. 1	9.498	30	9.645	28	13.629	28	10.250
8	9.415	Sept. 6	9.775	Mar. 6	14.792	Sept. 4	10.250
15	9.457	13	10.294	13	14.956	11	10.234
22	9.483	20	10.315	20	14.950		
29	9.437	27	10.114	27	15.700		
Apr. 5	9.496	Oct. 4	10.327	Apr. 3	14.804		
12	9.572	11	10.662	10	14.226		
19	9.627	18	11.716	17	13.549		
26	9.295	25	12.651	24	11.892		
May 3	9.570	Nov. 1	12.193	May 1	10.790		
10	9.617	8	12.086	8	9.495		
17	9.459	15	11.945	15	8.782		
24	9.602	22	12.035	22	8.923		
31	9.409	29	11.022	29	7.753		
June 7	9.425	Dec. 6	11.767	June 5	8.165		
14	9.047	13	11.769	12	6.935		
21	8.873	20	11.999	19	6.662		
28	8.903	27	11.854	26	7.108		

Source: Federal Reserve Board.

Table 2: Savings, lending and interest rates.

	Net new retail savings (billions)	Mortgage lending (billions)	Mortgage interest rates
1979			
January	$3.35	$6.56	10.30%
February	2.18	5.59	10.35
March	2.82	7.57	10.39
April	-1.97	8.49	10.45
May	0.44	10.21	10.64
June	-0.26	10.74	10.90
July	0.09	9.23	11.00
August	-0.28	9.76	11.01
September	-1.34	8.38	11.13
October	-0.32	9.45	11.38
November	-0.97	7.48	12.40
December	-1.79	5.28	12.67
1980			
January	-0.88	4.04	12.79
February	0.19	4.27	12.83
March	-1.16	5.62	14.39
April	-2.47	4.50	16.22
May	0.97	3.18	15.29
June	-0.65	4.06	13.01
July	0.12	5.59	12.27
August			12.22

Source: Federal Home Loan Bank Board.

(N.B. Savings and lending amounts are for savings and loan associations. Mortgage interest rates are for all lenders.)

Table 3

Market Shares of the Increase in Household Retail Savings for Savings and Loans and Commercial Banks 1970-1980 (Billions of Dollars)

	Savings and Loans		Commercial Banks		Total for Savings and Loans and Commercial Banks
	Change in Savings	Market Share	Change in Savings	Market Share	
1970	$10.8	63.5%	$ 6.2	36.5%	$ 17.0
1971	27.0	45.5	32.4	54.5	59.4
1972	31.4	52.2	28.8	47.8	60.2
1973	19.3	42.9	25.7	57.1	45.0
1974	15.0	37.9	24.6	62.1	39.6
1975	41.5	48.0	44.9	52.0	86.4
1976	48.4	65.2	25.8	34.8	74.2
1977	48.0	46.6	54.9	53.4	102.9
1978	39.4	37.0	67.0	63.0	106.4
1979	25.7	36.9	44.0	63.1	69.7
1980 (1st Half)	10.4	22.4	36.0	77.6	46.4
Average for period 1970 through 1978		48.8%		51.2%	
Average for period 1979 through First-Half 1980		29.7		70.3	

Sources: Federal Reserve; Federal Home Loan Bank Board; U.S. League of Savings Associations, Economics Department.

Table 4

Market Shares of the Increase in Household Retail Savings for Savings and Loans and Commercial Banks 1970-1980 (Billions of Dollars)

	Savings and Loans		Commercial Banks		Total for Savings and Loans and Commercial Banks
	Change in Savings	Market Share	Change in Savings	Market Share	
1970	$10.8	63.5%	$ 6.2	36.5%	$ 17.0
1971	27.0	45.5	32.4	54.5	59.4
1972	31.4	52.2	28.8	47.8	60.2
1973	19.3	42.9	25.7	57.1	45.0
1974	15.0	37.9	24.6	62.1	39.6
1975	41.5	48.0	44.9	52.0	86.4
1976	48.4	65.2	25.8	34.8	74.2
1977	48.0	46.6	54.9	53.4	102.9
1978	39.4	37.0	67.0	63.0	106.4
1979	25.7	36.9	44.0	63.1	69.7
1980 (1st Half)	10.4	22.4	36.0	77.6	46.4
Average for period 1970 through 1978		48.8%		51.2%	
Average for period 1979 through First-Half 1980		29.7		70.3	

Sources: Federal Reserve; Federal Home Loan Bank Board; U.S. League of Savings Associations, Economics Department.

THE WHITE HOUSE
WASHINGTON

9/26/80

JACK WATSON

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

Rick Hutcheson

Jack -
Rickover has
been preaching
a lot of this
for 30 years
J

THE WHITE HOUSE

WASHINGTON

September 11, 1980

Mr. President:

Attached is a copy of the article from the Harvard Business Review that Charlie Kirbo spoke to you about.

Jack

c.1

July-August 1980

Harvard Business Review

The magazine of decision makers

Managing our way to economic decline

Robert H. Hayes and William J. Abernathy

Modern management principles may cause rather than cure sluggish economic performance

How are we to fix responsibility for the current malaise of American business? Most attribute its weakened condition to the virus of inflation, the paralysis brought on by government regulation and tax policy, or the feverish price escalation by OPEC. Not quite right, say the authors. In their judgment, responsibility rests not with general economic forces alone but also with the failure of American managers to keep their companies technologically competitive over the long run. In advancing their controversial diagnosis, the authors draw on their own extensive work in the production field as well as their recent association with Harvard's International Senior Managers Program in Vevey, Switzerland. Having taken a long, hard look from abroad at how American managers operate, they propose some strong medicine for improving the health of American business.

Mr. Hayes is professor of business administration at the Harvard Business School and has served as faculty chairman of the International Senior Managers Program. He is the author of several HBR articles, the most recent being "The Dynamics of Process-Product Life Cycles" (coauthor, Steven C. Wheelwright, March-April 1979). Mr. Abernathy, also professor of business administration at the Harvard Business School, is a leading authority on the automobile industry. He is the author of *The Productivity Dilemma: Roadblock to Innovation in the Automobile Industry* (Johns Hopkins University Press, 1978). This is his second HBR article.

During the past several years American business has experienced a marked deterioration of competitive vigor and a growing unease about its overall economic well-being. This decline in both health and confidence has been attributed by economists and business leaders to such factors as the rapacity of OPEC, deficiencies in government tax and monetary policies, and the proliferation of regulation. We find these explanations inadequate.

They do not explain, for example, why the rate of productivity growth in America has declined both absolutely and relative to that in Europe and Japan. Nor do they explain why in many high-technology as well as mature industries America has lost its leadership position. Although a host of readily named forces—government regulation, inflation, monetary policy, tax laws, labor costs and constraints, fear of a capital shortage, the price of imported oil—have taken their toll on American business, pressures of this sort affect the economic climate abroad just as they do here.

A German executive, for example, will not be convinced by these explanations. Germany imports 95% of its oil (we import 50%), its government's share of gross domestic product is about 37% (ours is about 30%), and workers must be consulted on most major decisions. Yet Germany's rate of productivity growth has actually increased since 1970 and recently rose to more than four times ours. In France the situation is similar, yet today that country's productivity growth in manufacturing (despite current crises in steel and textiles) more than triples ours. No modern industrial nation is immune to the problems and pressures besetting U.S. business. Why then do we find a disproportionate loss of competitive vigor by U.S. companies?

Our experience suggests that, to an unprecedented degree, success in most industries today requires an organizational commitment to compete in the marketplace on technological grounds—that is, to compete over the long run by offering superior products. Yet, guided by what they took to be the newest and best principles of management, American managers have increasingly directed their attention elsewhere. These new principles, despite their sophistication and widespread usefulness, encourage a preference for (1) analytic detachment rather than the insight that comes from "hands on" experience and (2) short-term cost reduction rather than long-term development of technological competitiveness. It is this new managerial gospel, we feel, that has played a major role in undermining the vigor of American industry.

American management, especially in the two decades after World War II, was universally admired for its strikingly effective performance. But times change. An approach shaped and refined during stable decades may be ill suited to a world characterized by rapid and unpredictable change, scarce energy, global competition for markets, and a constant need for innovation. This is the world of the 1980s and, probably, the rest of this century.

The time is long overdue for earnest, objective self-analysis. What exactly have American managers been doing wrong? What are the critical weaknesses in the ways that they have managed the technological performance of their companies? What is the matter with the long-unquestioned assumptions on which they have based their managerial policies and practices?

A failure of management

In the past, American managers earned worldwide respect for their carefully planned yet highly aggressive action across three different time frames:

> *Short term*—using existing assets as efficiently as possible.

> *Medium term*—replacing labor and other scarce resources with capital equipment.

> *Long term*—developing new products and processes that open new markets or restructure old ones.

The first of these time frames demanded toughness, determination, and close attention to detail; the second, capital and the willingness to take sizable financial risks; the third, imagination and a certain amount of technological daring.

Our managers still earn generally high marks for their skill in improving short-term efficiency, but their counterparts in Europe and Japan have started to question America's entrepreneurial imagination and willingness to make risky long-term competitive investments. As one such observer remarked to us: "The U.S. companies in my industry act like banks. All they are interested in is return on investment and getting their money back. Sometimes they act as though they are more interested in buying other companies than they are in selling products to customers."

In fact, this curt diagnosis represents a growing body of opinion that openly charges American managers with competitive myopia: "Somehow or other, American business is losing confidence in itself and especially confidence in its future. Instead of meeting the challenge of the changing world, American business today is making small, short-term adjustments by cutting costs and by turning to the government for temporary relief.... Success in trade is the result of patient and meticulous preparations, with a long period of market preparation before the rewards are available.... To undertake such commitments is hardly in the interest of a manager who is concerned with his or her next quarterly earnings reports." [1]

More troubling still, American managers themselves often admit the charge with, at most, a rhetorical shrug of their shoulders. In established businesses, notes one senior vice president of research: "We understand how to market, we know the technology, and production problems are not extreme. Why risk money on new businesses when good, profitable low-risk opportunities are on every side?" Says another: "It's much more difficult to come up with a synthetic meat product than a lemon-lime cake mix. But you work on the lemon-lime cake mix because you know exactly what that return is going to be. A synthetic steak is going to take a lot longer, require a much bigger investment, and the risk of failure will be greater." [2]

These managers are not alone; they speak for many. Why, they ask, should they invest dollars that are hard to earn back when it is so easy—and so much less risky—to make money in other ways?

1. Ryohei Suzuki, "Worldwide Expansion of U.S. Exports—A Japanese View," *Sloan Management Review*, Spring 1979, p. 1.

2. *Business Week*, February 16, 1976, p. 57.

3. Burton G. Malkiel, "Productivity—The Problem Behind the Headlines," HBR May-June 1979, p. 81.

Why ignore a ready-made situation in cake mixes for the deferred and far less certain prospects in synthetic steaks? Why shoulder the competitive risks of making better, more innovative products?

In our judgment, the assumptions underlying these questions are prime evidence of a broad managerial failure—a failure of both vision and leadership—that over time has eroded both the inclination and the capacity of U.S. companies to innovate.

Familiar excuses

About the facts themselves there can be little dispute. *Exhibits I-IV* document our sorry decline. But the explanations and excuses commonly offered invite a good deal of comment.

It is important to recognize, first of all, that the problem is not new. It has been going on for at least 15 years. The rate of productivity growth in the private sector peaked in the mid-1960s. Nor is the problem confined to a few sectors of our economy; with a few exceptions, it permeates our entire economy. Expenditures on R&D by both business and government, as measured in constant (noninflated) dollars, also peaked in the mid-1960s—both in absolute terms and as a percentage of GNP. During the same period the expenditures on R&D by West Germany and Japan have been rising. More important, American spending on R&D as a percentage of sales in such critical research-intensive industries as machinery, professional and scientific instruments, chemicals, and aircraft had dropped by the mid-1970s to about half its level in the early 1960s. These are the very industries on which we now depend for the bulk of our manufactured exports.

Investment in plant and equipment in the United States displays the same disturbing trends. As economist Burton G. Malkiel has pointed out: "From 1948 to 1973 the [net book value of capital equipment] per unit of labor grew at an annual rate of almost 3%. Since 1973, however, lower rates of private investment have led to a decline in that growth rate to 1.75%. Moreover, the recent composition of investment [in 1978] has been skewed toward equipment and relatively short-term projects and away from structures and relatively long-lived investments. Thus our industrial plant has tended to age. . . ."[3]

Other studies have shown that growth in the incremental capital equipment-to-labor ratio has fallen to about one-third of its value in the early 1960s. By contrast, between 1966 and 1976 capital investment as a percentage of GNP in France and West Germany was more than 20% greater than that in the United States; in Japan the percentage was almost double ours.

To attribute this relative loss of technological vigor to such things as a shortage of capital in the

Exhibit I
Growth in labor productivity since 1960 (United States and abroad)

	Average annual percent change	
	Manufacturing 1960-1978	All industries 1960-1976
United States	2.8%	1.7%
United Kingdom	2.9	2.2
Canada	4.0	2.1
Germany	5.4	4.2
France	5.5	4.3
Italy	5.9	4.9
Belgium	6.9*	–
Netherlands	6.9*	–
Sweden	5.2	–
Japan	8.2	7.5

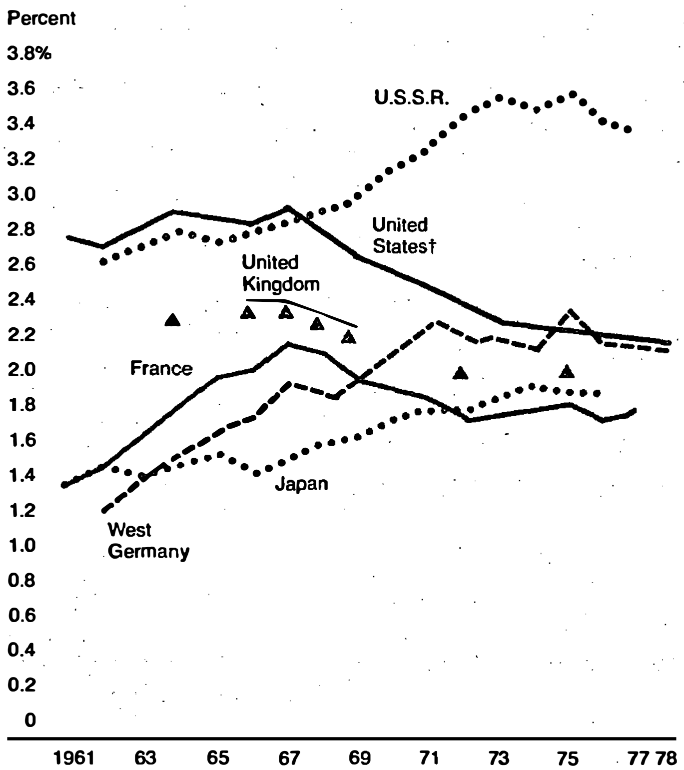
*1960-1977.
Source: Council on Wage and Price Stability, *Report on Productivity* (Washington, D.C.: Executive Office of the President, July 1979).

Exhibit II
Growth of labor productivity by sector, 1948-1978

	Growth of labor productivity (annual average percent)		
Time sector	**1948-65**	**1965-73**	**1973-78**
Private business	**3.2%**	**2.3%**	**1.1%**
Agriculture, forestry, and fisheries	5.5	5.3	2.9
Mining	4.2	2.0	−4.0
Construction	2.9	−2.2	−1.8
Manufacturing	3.1	2.4	1.7
Durable goods	2.8	1.9	1.2
Nondurable goods	3.4	3.2	2.4
Transportation	3.3	2.9	0.9
Communication	5.5	4.8	7.1
Electric, gas, and sanitary services	6.2	4.0	0.1
Trade	2.7	3.0	0.4
Wholesale	3.1	3.9	0.2
Retail	2.4	2.3	0.8
Finance, insurance, and real estate	1.0	−0.3	1.4
Services	1.5	1.9	0.5
Government enterprises	−0.8	0.9	−0.7

Source: Bureau of Labor Statistics.
Note: Productivity data for services, construction, finance, insurance, and real estate are unpublished.

Exhibit III
National expenditures for performance of R&D as a percent of GNP by country, 1961-1978*



*Gross expenditures for performance of R&D including associated capital expenditures.
†Detailed information on capital expenditures for R&D is not available for the United States. Estimates for the period 1972-1977 show that their inclusion would have an impact of less than one-tenth of 1% for each year.
Source: *Science Indicators – 1978* (Washington, D.C.: National Science Foundation, 1979), p. 6.
Note: The latest data may be preliminary or estimates.

United States is not justified. As Malkiel and others have shown, the return on equity of American business (out of which comes the capital necessary for investment) is about the same today as 20 years ago, *even after adjusting for inflation.* However, investment in both new equipment and R&D, as a percentage of GNP, was significantly higher 20 years ago than today.

The conclusion is painful but must be faced. Responsibility for this competitive listlessness belongs not just to a set of external conditions but also to the attitudes, preoccupations, and practices of American managers. By their preference for servicing existing markets rather than creating new ones and by their devotion to short-term returns and "management by the numbers," many of them have effectively forsworn long-term technological superiority as a competitive weapon. In consequence, they have abdicated their strategic responsibilities.

The new management orthodoxy

We refuse to believe that this managerial failure is the result of a sudden psychological shift among American managers toward a "super-safe, no risk" mind set. No profound sea change in the character of thousands of individuals could have occurred in so organized a fashion or have produced so consistent a pattern of behavior. Instead we believe that during the past two decades American managers have increasingly relied on principles which prize analytical detachment and methodological elegance over insight, based on experience, into the subtleties and complexities of strategic decisions. As a result, maximum short-term financial returns have become the overriding criteria for many companies.

For purposes of discussion, we may divide this *new* management orthodoxy into three general categories: financial control, corporate portfolio management, and market-driven behavior.

Financial control

As more companies decentralize their organizational structures, they tend to fix on profit centers as the primary unit of managerial responsibility. This development necessitates, in turn, greater dependence on short-term financial measurements like return on investment (ROI) for evaluating the performance of individual managers and management groups. Increasing the structural distance between those entrusted with exploiting actual competitive opportunities and those who must judge the quality of their work virtually guarantees reliance on objectively quantifiable short-term criteria.

Although innovation, the lifeblood of any vital enterprise, is best encouraged by an environment that does not unduly penalize failure, the predictable result of relying too heavily on short-term financial measures—a sort of managerial remote control—is an environment in which no one feels he or she can afford a failure or even a momentary dip in the bottom line.

Corporate portfolio management

This preoccupation with control draws support from modern theories of financial portfolio management. Originally developed to help balance the overall risk

4. Roger Bennett and Robert Cooper, "Beyond the Marketing Concept," *Business Horizons*, June 1979, p. 76.

and return of stock and bond portfolios, these principles have been applied increasingly to the creation and management of corporate portfolios—that is, a cluster of companies and product lines assembled through various modes of diversification under a single corporate umbrella. When applied by a remote group of dispassionate experts primarily concerned with finance and control and lacking hands-on experience, the analytic formulas of portfolio theory push managers even further toward an extreme of caution in allocating resources.

"Especially in large organizations," reports one manager, "we are observing an increase in management behavior which I would regard as excessively cautious, even passive; certainly overanalytical; and, in general, characterized by a studied unwillingness to assume responsibility and even reasonable risk."

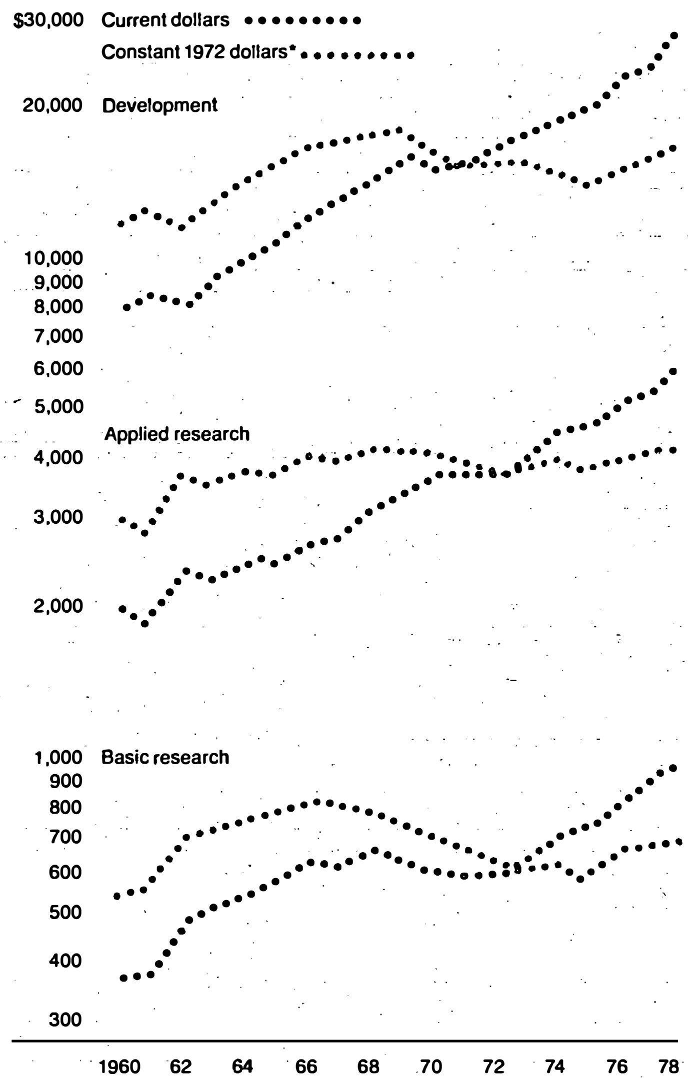
Market-driven behavior

In the past 20 years, American companies have perhaps learned too well a lesson they had long been inclined to ignore: businesses should be customer oriented rather than product oriented. Henry Ford's famous dictum that the public could have any color automobile it wished as long as the color was black has since given way to its philosophical opposite: "We have got to stop marketing makeable products and learn to make marketable products."

At last, however, the dangers of too much reliance on this philosophy are becoming apparent. As two Canadian researchers have put it: "Inventors, scientists, engineers, and academics, in the normal pursuit of scientific knowledge, gave the world in recent times the laser, xerography, instant photography, and the transistor. In contrast, worshippers of the marketing concept have bestowed upon mankind such products as new-fangled potato chips, feminine hygiene deodorant, and the pet rock. . . ."[4]

The argument that no new product ought to be introduced without managers undertaking a market analysis is common sense. But the argument that consumer analyses and formal market surveys should dominate other considerations when allocating resources to product development is untenable. It may be useful to remember that the initial market estimate for computers in 1945 projected total worldwide sales of only ten units. Similarly, even the most carefully researched analysis of consumer preferences for gas-guzzling cars in an era of gasoline abundance offers little useful guidance to today's automobile manufacturers in making wise product investment decisions. Customers may know what their needs are, but they often define those needs in terms of existing products, processes, markets, and prices.

Exhibit IV
Industrial R&D expenditures for basic research, applied research, and development, 1960-1978 (in $ millions)



*GNP implicit price deflators used to convert current dollars to constant 1972 dollars.
Source: *Science Indicators – 1978*, p. 87.
Note: Preliminary data are shown for 1977 and estimates for 1978.

Deferring to a market-driven strategy without paying attention to its limitations is, quite possibly, opting for customer satisfaction and lower risk in the short run at the expense of superior products in the future. Satisfied customers are critically important, of course, but not if the strategy for creating them is responsible as well for unnecessary product proliferation, inflated costs, unfocused diversification, and a lagging commitment to new technology and new capital equipment.

Three managerial decisions

These are serious charges to make. But the unpleasant fact of the matter is that, however useful these new principles may have been initially, if carried too far they are bad for U.S. business. Consider, for example, their effect on three major kinds of choices regularly faced by corporate managers: the decision between imitative and innovative product design, the decision to integrate backward, and the decision to invest in process development.

Imitative vs. innovative product design

A market-driven strategy requires new product ideas to flow from detailed market analysis or, at least, to be extensively tested for consumer reaction before actual introduction. It is no secret that these requirements add significant delays and costs to the introduction of new products. It is less well known that they also predispose managers toward developing products for existing markets and toward product designs of an imitative rather than an innovative nature. There is increasing evidence that market-driven strategies tend, over time, to dampen the general level of innovation in new product decisions.

Confronted with the choice between innovation and imitation, managers typically ask whether the marketplace shows any consistent preference for innovative products. If so, the additional funding they require may be economically justified; if not, those funds can more properly go to advertising, promoting, or reducing the prices of less-advanced products. Though the temptation to allocate resources so as to strengthen performance in existing products and markets is often irresistible, recent studies by J. Hugh Davidson and others confirm the strong market attractiveness of innovative products.[5]

Nonetheless, managers having to decide between innovative and imitative product design face a difficult series of marketing-related trade-offs. *Exhibit V* summarizes these trade-offs.

By its very nature, innovative design is, as Joseph Schumpeter observed a long time ago, initially destructive of capital—whether in the form of labor skills, management systems, technological processes, or capital equipment. It tends to make obsolete existing investments in both marketing and manufacturing organizations. For the managers concerned it represents the choice of uncertainty (about economic returns, timing, etc.) over relative predictability, exchanging the reasonable expectation of current income against the promise of high future value. It is the choice of the gambler, the person willing to risk much to gain even more.

Conditioned by a market-driven strategy and held closely to account by a "results now" ROI-oriented control system, American managers have increasingly refused to take the chance on innovative product/market development. As one of them confesses: "In the last year, on the basis of high capital risk, I turned down new products at a rate at least twice what I did a year ago. But in every case I tell my people to go back and bring me some new product ideas."[6] In truth, they have learned caution so well that many are in danger of forgetting that market-driven, follow-the-leader companies usually end up following the rest of the pack as well.

Backward integration

Sometimes the problem for managers is not their reluctance to take action and make investments but that, when they do so, their action has the unintended result of reinforcing the status quo. In deciding to integrate backward because of apparent short-term rewards, managers often restrict their ability to strike out in innovative directions in the future.

Consider, for example, the case of a manufacturer who purchases a major component from an outside company. Static analysis of production economies may very well show that backward integration offers rather substantial cost benefits. Eliminating certain purchasing and marketing functions, centralizing overhead, pooling R&D efforts and resources, coordinating design and production of both product and component, reducing uncertainty over design changes, allowing for the use of more specialized equipment and labor skills—in all these ways and more, backward integration holds out to management the promise of significant short-term increases in ROI.

These efficiencies may be achieved by companies with commoditylike products. In such industries as ferrous and nonferrous metals or petroleum, backward integration toward raw materials and supplies tends to have a strong, positive effect on profits. However, the situation is markedly different for companies in more technologically active industries. Where there is considerable exposure to rapid technological advances, the promised value of backward integration becomes problematic. It may provide a

5. J. Hugh Davidson, "Why Most New Consumer Brands Fail," HBR March-April 1976, p. 117.

6. *Business Week*, February 16, 1976, p. 57.

quick, short-term boost to ROI figures in the next annual report, but it may also paralyze the long-term ability of a company to keep on top of technological change.

The real competitive threats to technologically active companies arise less from changes in ultimate consumer preference than from abrupt shifts in component technologies, raw materials, or production processes. Hence those managers whose attention is too firmly directed toward the marketplace and near-term profits may suddenly discover that their decision to make rather than buy important parts has locked their companies into an outdated technology.

Further, as supply channels and manufacturing operations become more systematized, the benefits from attempts to "rationalize" production may well be accompanied by unanticipated side effects. For instance, a company may find itself shut off from the R&D efforts of various independent suppliers by becoming their competitor. Similarly, the commitment of time and resources needed to master technology back up the channel of supply may distract a company from doing its own job well. Such was the fate of Bowmar, the pocket calculator pioneer, whose attempt to integrate backward into semiconductor production so consumed management attention that final assembly of the calculators, its core business, did not get the required resources.

Long-term contracts and long-term relationships with suppliers can achieve many of the same cost benefits as backward integration without calling into question a company's ability to innovate or respond to innovation. European automobile manufacturers, for example, have typically chosen to rely on their suppliers in this way; American companies have followed the path of backward integration. The resulting trade-offs between production efficiencies and innovative flexibility should offer a stern warning to those American managers too easily beguiled by the lure of short-term ROI improvement. A case in point: the U.S. auto industry's huge investment in automating the manufacture of cast-iron brake drums probably delayed by more than five years its transition to disc brakes.

Exhibit V
Trade-offs between imitative and innovative design for an established product line

Imitative design	Innovative design
Market demand is relatively well known and predictable.	Potentially large but unpredictable demand; the risk of a flop is also large.
Market recognition and acceptance are rapid.	Market acceptance may be slow initially, but the imitative response of competitors may also be slowed.
Readily adaptable to existing market, sales, and distribution policies.	May require unique, tailored marketing distribution and sales policies to educate customers or because of special repair and warranty problems.
Fits with existing market segmentation and product policies.	Demand may cut across traditional marketing segments, disrupting divisional responsibilities and cannibalizing other products.

Process development

In an era of management by the numbers, many American managers—especially in mature industries—are reluctant to invest heavily in the development of new manufacturing processes. When asked to explain their reluctance, they tend to respond in fairly predictable ways. "We can't afford to design new capital equipment for just our own manufacturing needs" is one frequent answer. So is: "The capital equipment producers do a much better job, and they can amortize their development costs over sales to many companies." Perhaps most common is: "Let the others experiment in manufacturing; we can learn from their mistakes and do it better."

Each of these comments rests on the assumption that essential advances in process technology can be appropriated more easily through equipment purchase than through in-house equipment design and development. Our extensive conversations with the managers of European (primarily German) technology-based companies have convinced us that this assumption is not as widely shared abroad as in the United States. Virtually across the board, the European managers impressed us with their strong commitment to increasing market share through internal development of advanced process technology—even when their suppliers were highly responsive to technological advances.

By contrast, American managers tend to restrict investments in process development to only those items likely to reduce costs in the short run. Not all are happy with this. As one disgruntled executive told us: "For too long U.S. managers have been taught to set low priorities on mechanization projects, so that eventually divestment appears to be the best way out of manufacturing difficulties. Why?

"The drive for short-term success has prevented managers from looking thoroughly into the matter of special manufacturing equipment, which has to be invented, developed, tested, redesigned, reproduced, improved, and so on. That's a long process, which needs experienced, knowledgeable, and dedicated people who stick to their jobs over a considerable period of time. Merely buying new equipment (even if it is possible) does not often give the company any advantage over competitors."

We agree. Most American managers seem to forget that, even if they produce new products with their existing process technology (the same "cookie cutter" everyone else can buy), their competitors will face a relatively short lead time for introducing similar products. And as Eric von Hipple's studies of industrial innovation show, the innovations on which new industrial equipment is based usually originate with the user of the equipment and not with the equipment producer.[7] In other words, companies can make products more profitable by investing in the development of their own process technology. Proprietary processes are every bit as formidable competitive weapons as proprietary products.

The American managerial ideal

Two very important questions remain to be asked: (1) Why should so many American managers have shifted so strongly to this new managerial orthodoxy? and (2) Why are they not more deeply bothered by the ill effects of those principles on the long-term technological competitiveness of their companies? To answer the first question, we must take a look at the changing career patterns of American managers during the past quarter century; to answer the second, we must understand the way in which they have come to regard their professional roles and responsibilities as managers.

The road to the top

During the past 25 years the American manager's road to the top has changed significantly. No longer does the typical career, threading sinuously up and through a corporation with stops in several functional areas, provide future top executives with intimate hands-on knowledge of the company's technologies, customers, and suppliers.

Exhibit VI summarizes the currently available data on the shift in functional background of newly appointed presidents of the 100 largest U.S. corporations. The immediate significance of these figures is clear. Since the mid-1950s there has been a rather substantial increase in the percentage of new company presidents whose primary interests and expertise lie in the financial and legal areas and not in production. In the view of C. Jackson Grayson, president of the American Productivity Center, American management has for 20 years "coasted off the great R&D gains made during World War II, and constantly rewarded executives from the marketing, financial, and legal sides of the business while it ignored the production men. Today [in business schools] courses in the production area are almost nonexistent."[8]

In addition, companies are increasingly choosing to fill new top management posts from outside their own ranks. In the opinion of foreign observers, who are still accustomed to long-term careers in the same company or division, "High-level American executives . . . seem to come and go and switch around as if playing a game of musical chairs at an Alice in Wonderland tea party."

Far more important, however, than any absolute change in numbers is the shift in the general sense of what an aspiring manager has to be "smart about" to make it to the top. More important still is the broad change in attitude such trends both encourage and express. What has developed, in the business community as in academia, is a preoccupation with a false and shallow concept of the professional manager, a "pseudo-professional" really—an individual having no special expertise in any particular industry or technology who nevertheless can step into an unfamiliar company and run it successfully through strict application of financial controls, portfolio concepts, and a market-driven strategy.

The gospel of pseudo-professionalism

In recent years, this idealization of pseudo-professionalism has taken on something of the quality of a corporate religion. Its first doctrine, appropriately enough, is that neither industry experience nor hands-on technological expertise counts for very much. At one level, of course, this doctrine helps to salve the conscience of those who lack them. At another, more disturbing level it encourages the faithful to make decisions about technological matters simply as if they were adjuncts to finance or marketing decisions. We do not believe that the technological issues facing managers today can be meaningfully addressed without taking into account marketing or financial considerations; on the other hand, neither can they be resolved with the same methodologies applied to these other fields.

7. Eric von Hippel, "The Dominant Role of Users in the Scientific Instrument Innovation Process," MIT Sloan School of Management Working Paper 75-764, January 1975.

8. *Dun's Review*, July 1978, p. 39.

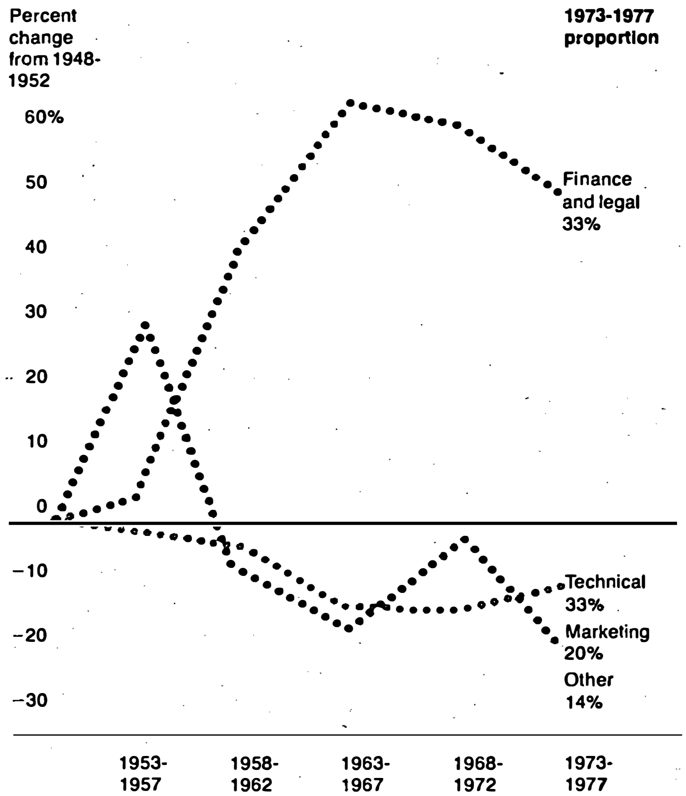
Complex modern technology has its own inner logic and developmental imperatives. To treat it as if it were something else—no matter how comfortable one is with that other kind of data—is to base a competitive business on a two-legged stool, which must, no matter how excellent the balancing act, inevitably fall to the ground.

More disturbing still, true believers keep the faith on a day-to-day basis by insisting that as issues rise up the managerial hierarchy for decision they be progressively distilled into easily quantifiable terms. One European manager, in recounting to us his experiences in a joint venture with an American company, recalled with exasperation that "U.S. managers want everything to be simple. But sometimes business situations are not simple, and they cannot be divided up or looked at in such a way that they become simple. They are messy, and one must try to understand all the facets. This appears to be alien to the American mentality."

The purpose of good organizational design, of course, is to divide responsibilities in such a way that individuals have relatively easy tasks to perform. But then these differentiated responsibilities must be pulled together by sophisticated, broadly gauged integrators at the top of the managerial pyramid. If these individuals are interested in but one or two aspects of the total competitive picture, if their training includes a very narrow exposure to the range of functional specialties, if—worst of all—they are devoted simplifiers themselves, who will do the necessary integration? Who will attempt to resolve complicated issues rather than try to uncomplicate them artificially? At the strategic level there are no such things as pure production problems, pure financial problems, or pure marketing problems.

Exhibit VI

Changes in the professional origins of corporate presidents (percent changes from baseline years [1948-1952] for 100 top U.S. companies)



Source: Golightly & Co. International (1978).

Merger mania

When executive suites are dominated by people with financial and legal skills, it is not surprising that top management should increasingly allocate time and energy to such concerns as cash management and the whole process of corporate acquisitions and mergers. This is indeed what has happened. In 1978 alone there were some 80 mergers involving companies with assets in excess of $100 million each; in 1979 there were almost 100. This represents roughly $20 billion in transfers of large companies from one owner to another—two-thirds of the total amount spent on R&D by American industry.

In 1978 *Business Week* ran a cover story on cash management in which it stated that "the 400 largest U.S. companies together have more than $60 billion in cash—almost triple the amount they had at the beginning of the 1970s." The article also described the increasing attention devoted to—and the sophisticated and exotic techniques used for—managing this cash hoard.

There are perfectly good reasons for this flurry of activity. It is entirely natural for financially (or legally) trained managers to concentrate on essentially financial (or legal) activities. It is also natural for managers who subscribe to the portfolio "law of large numbers" to seek to reduce total corporate risk by parceling it out among a sufficiently large number of separate product lines, businesses, or technologies. Under certain conditions it may very well make good economic sense to buy rather than build new plants or modernize existing ones. Mergers are obviously an exciting game; they tend to produce fairly quick and decisive results, and they offer the kind of public recognition that helps careers along. Who can doubt the appeal of the titles awarded by the financial community; being called a "gunslinger," "white knight," or "raider" can quicken anyone's blood.

Unfortunately, the general American penchant for separating and simplifying has tended to encourage a diversification away from core technologies and markets to a much greater degree than is true in Europe or Japan. U.S. managers appear to have an inordinate faith in the portfolio law of large numbers—that is, by amassing enough product lines, technologies, and businesses, one will be cushioned against the random setbacks that occur in life. This might be true for portfolios of stocks and bonds, where there is considerable evidence that setbacks *are* random. Businesses, however, are subject not only to random setbacks such as strikes and shortages but also to carefully orchestrated attacks by competitors, who focus all their resources and energies on one set of activities.

Worse, the great bulk of this merger activity appears to have been absolutely wasted in terms of generating economic benefits for stockholders. Acquisition experts do not necessarily make good managers. Nor can they increase the value of their shares by merging two companies any better than their shareholders could do individually by buying shares of the acquired company on the open market (at a price usually below that required for a takeover attempt).

There appears to be a growing recognition of this fact. A number of U.S. companies are now divesting themselves of previously acquired companies; others (for example, W.R. Grace) are proposing to break themselves up into relatively independent entities. The establishment of a strong competitive position through in-house technological superiority is by nature a long, arduous, and often unglamorous task. But it is what keeps a business vigorous and competitive.

The European example

Gaining competitive success through technological superiority is a skill much valued by the seasoned European (and Japanese) managers with whom we talked. Although we were able to locate few hard statistics on their actual practice, our extensive investigations of more than 20 companies convinced us that European managers do indeed tend to differ significantly from their American counterparts. In fact, we found that many of them were able to articulate these differences quite clearly.

In the first place, European managers think themselves more pointedly concerned with how to survive over the long run under intensely competitive conditions. Few markets, of course, generate price competition as fierce as in the United States, but European companies face the remorseless necessity of exporting to other national markets or perishing.

The figures here are startling: manufactured product exports represent more than 35% of total manufacturing sales in France and Germany and nearly 60% in the Benelux countries, as against not quite 10% in the United States. In these export markets, moreover, European products must hold their own against "world class" competitors, lower-priced products from developing countries, and American products selling at attractive devalued dollar prices. To survive this competitive squeeze, European managers feel they must place central emphasis on producing technologically superior products.

Further, the kinds of pressures from European labor unions and national governments virtually force them to take a consistently long-term view in decision making. German managers, for example, must negotiate major decisions at the plant level with worker-dominated works councils; in turn, these decisions are subject to review by supervisory boards (roughly equivalent to American boards of directors), half of whose membership is worker elected. Together with strict national legislation, the pervasive influence of labor unions makes it extremely difficult to change employment levels or production locations. Not surprisingly, labor costs in Northern Europe have more than doubled in the past decade and are now the highest in the world.

To be successful in this environment of strictly constrained options, European managers feel they must employ a decision-making apparatus that grinds very fine—and very deliberately. They must simply outthink and outmanage their competitors. Now, American managers also have their strategic options hedged about by all kinds of restrictions. But those restrictions have not yet made them as conscious as their European counterparts of the long-term implications of their day-to-day decisions.

As a result, the Europeans see themselves as investing more heavily in cutting-edge technology than the Americans. More often than not, this investment is made to create new product opportunities in advance of consumer demand and not merely in response to market-driven strategy. In case after case, we found the Europeans striving to develop the products and process capabilities with which to lead markets and not simply responding to the current demands of the marketplace. Moreover, in doing this they seem less inclined to integrate backward and more likely to seek maximum leverage from stable, long-term relationships with suppliers.

Having never lost sight of the need to be technologically competitive over the long run, European and Japanese managers are extremely careful to make the necessary arrangements and investments today. And their daily concern with the rather basic issue of long-term survival adds perspective to such matters as short-term ROI or rate of growth. The time line by which they manage is long, and it has made them painstakingly attentive to the means for keeping their companies technologically competitive. Of course they pay attention to the numbers. Their profit margins are usually lower than ours, their debt ratios higher. Every tenth of a percent is critical to them. But they are also aware that tomorrow will be no better unless they constantly try to develop new processes, enter new markets, and offer superior—even unique—products. As one senior German executive phrased it recently, "We look at rates of return, too, but only after we ask 'Is it a good product?' "[9]

Creating economic value

Americans traveling in Europe and Asia soon learn they must often deal with criticism of our country. Being forced to respond to such criticism can be healthy, for it requires rethinking some basic issues of principle and practice.

We have much to be proud about and little to be ashamed of relative to most other countries. But sometimes the criticism of others is uncomfortably close to the mark. The comments of our overseas competitors on American business practices contain enough truth to require our thoughtful consideration. What is behind the decline in competitiveness of U.S. business? Why do U.S. companies have such apparent difficulties competing with foreign producers of established products, many of which originated in the United States?

For example, Japanese televisions dominate some market segments, even though many U.S. producers now enjoy the same low labor cost advantages of offshore production. The German machine tool and automotive producers continue their inroads into U.S. domestic markets, even though their labor rates are now higher than those in the United States and the famed German worker in German factories is almost as likely to be Turkish or Italian as German.

The responsibility for these problems may rest in part on government policies that either overconstrain or undersupport U.S. producers. But if our foreign critics are correct, the long-term solution to America's problems may not be correctable simply by changing our government's tax laws, monetary policies, and regulatory practices. It will also require some fundamental changes in management attitudes and practices.

It would be an oversimplification to assert that the only reason for the decline in competitiveness of U.S. companies is that our managers devote too much attention and energy to using existing resources more efficiently. It would also oversimplify the issue, although possibly to a lesser extent, to say that it is due purely and simply to their tendency to neglect technology as a competitive weapon.

Companies cannot become more innovative simply by increasing R&D investments or by conducting more basic research. Each of the decisions we have described directly affects several functional areas of management, and major conflicts can only be reconciled at senior executive levels. The benefits favoring the more innovative, aggressive option in each case depend more on intangible factors than do their efficiency-oriented alternatives.

Senior managers who are less informed about their industry and its confederation of parts suppliers, equipment suppliers, workers, and customers or who have less time to consider the long-term implications of their interactions are likely to exhibit a noninnovative bias in their choices. Tight financial controls with a short-term emphasis will also bias choices toward the less innovative, less technologically aggressive alternatives.

The key to long-term success—even survival—in business is what it has always been: to invest, to innovate, to lead, to create value where none existed before. Such determination, such striving to excel, requires leaders—not *just* controllers, market analysts, and portfolio managers. In our preoccupation with the braking systems and exterior trim, we may have neglected the drive trains of our corporations.

9. *Business Week*, March 3, 1980, p. 76.