5/9/77

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 5/9/77
Container 19

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

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO: THE CABINET

FROM: Jack Watson Jack
Jane Frank

May 5, 1977

RE: Cabinet Meeting, Monday, May 9, 1977

There will be a Cabinet meeting on Monday, May 9 at 9 a.m. The Vice President will preside. The tentative agenda is as follows:

1. Briefing by Deputy Secretary of State Warren Christopher on what the President is doing in Europe,

2. Discussion by Joe Califano on the Social Security proposals to be announced on May 9,

3. Update by Jim Schlesinger on the energy program.

The Vice President does not plan to ask each Cabinet member to discuss events of the week, but Cabinet members are invited to raise matters of concern to them. The meeting is likely to be shorter than usual.

Weekly summaries should be forwarded in the usual manner. The Vice President will read them this weekend, and the President will see them upon his return.

OK
ch
C

THE WHITE HOUSE

WASHINGTON

MINUTES OF THE CABINET MEETING

Monday, May 9, 1977

The fifteenth Cabinet meeting was called to order by the Vice President at 9:05 a.m., Monday, May 9, 1977. The Vice President presided because the President was en route to talks in Geneva, Switzerland, with Syrian President Assad, following his meeting at the International Economic Summit in London with leaders of six other countries. Messrs. Blumenthal and Vance, who are traveling with the President, were represented by Treasury Under Secretary Robert Carswell and Deputy Secretary of State Warren Christopher, respectively. All other Cabinet members were present except Harold Brown, who was represented by his Special Assistant John Kester; Bert Lance, represented by Deputy Director Jim McIntyre; and Ambassador Robert Strauss, represented by Assistant Special Representative William Kelly (Trade Negotiations). Other persons present were:

David Aaron (for Dr. Brzezinski)	Bob Lipshutz
	Dick Moe
Doug Costle	David Rubenstein
Al Eisele	Charles Schultze
Stu Eizenstat	Jay Solomon
John Farmer	Stansfield Turner
Jane Frank	Walt Wurfel
Gail Harrison	Jack Watson

1. The Vice President said that the agenda would consist of three items: A briefing by Deputy Secretary of State Warren Christopher on the President's activities in Europe; a discussion by Joe Califano on the Social Security system financing proposals to be announced later today; and a status report by Jim Schlesinger on the energy program.

2. Mr. Christopher reported that the President was en route to Geneva for his meeting with President Assad.

-- According to cable reports, the International Economic Summit meetings went well. On Saturday, global economic matters were discussed. An important result of that session was that the economic growth projections of the countries represented at the meeting have now become "targets" rather than simply predictions. A large part of the discussions focused on unemployment--especially among youth. On Saturday afternoon, the President delivered an unscheduled statement on human rights which was well received. Most of the afternoon session was focused on energy--nuclear reactors and the concerns of both nuclear "threshold," as well as supplier countries.

-- The session on Sunday morning concerned North/ South issues and related trade questions. Sunday afternoon was spent working on the details of the final communique.

-- In addition to the formal summit meetings, the President had a series of bilateral discussions with other foreign leaders attending the conference.

-- The Vice President raised questions concerning the projected growth rate of various countries. He noted that the net effect of the Summit is to put more pressure on each participant to meet the growth targets.

3. Mr. Califano outlined the Social Security system financing proposals which the Vice President and he will announce later today. He described the proposal as one of the most important financial decisions of this Administration, and, using charts, gave an overview of the current system; an analysis of the short-term and long-term financing problems, objectives and needs; and the details of the President's proposals. The proposal has two primary features: Introduction of a counter-cyclical funding device which is triggered when unemployment exceeds 6% per year; and, commencing in 1979, an increased tax on employers based upon the full wage base for employees.

-- According to Mr. Califano, the reforms will reduce the overall amount of money spent on the Social Security system and fulfill three promises made by the President during his campaign. The President's promises were: (1) That he would not raise Social Security rates paid by employees; (2) That cash benefits paid to employees would not be reduced; and (3) That financing of the Social Security system would be put on a sound financial base.

-- The Vice President and several Cabinet members discussed the implications of various aspects of the reform proposals.

4. Mr. Schlesinger described the status of the energy reorganization bill. He, Ms. Harris and Mr. Califano discussed the impact of Senator Glenn's proposed amendment to prevent delegation of authority by the Secretary of the new Department of Energy within and among departments. Mr. Califano pointed out the precedential value of this proposal for other programs.

-- Mr. Schlesinger said that he testified on the comprehensive energy plan last Thursday before the House ad hoc committee. He predicted that the bill will remain in an omnibus form in the House. In contrast, the Senate's bill is divided into two titles: Title 1 has been referred to Senator Jackson's Energy Committee; Title 2 has gone to Senator Long's Finance Committee. Mr. Schlesinger hopes to keep fragmentation of the bill in the Senate to a minimum.

-- He noted that the proposal includes 113 initiatives and urged the Cabinet to stress the comprehensive nature of the plan when explaining it.

-- Mr. Schlesinger said that the House Science and Technology Committee is opposing the President's decision on breeder reactors. He described the implications of that Committee's proposal for the Clinch River power plant and indicated the need for the Administration to work on a compromise proposal with the Committee.

-- Messrs. Adams, Califano, Schlesinger and Schultze discussed the status of the Administration's proposed plans for returning the energy revenues to the public. Mr. Schultze explained that two of the three taxes--the wellhead tax and the gas guzzler tax--will be returned on a per capita basis to the general public. The "boiler tax" will be rebated to firms that switch to coal. Mr. Adams reiterated his concerns about the tax credit as a form of distributing the tax revenues to the public.

5. In response to the Vice President's inquiry about other issues that needed to be raised, Mr. Andrus briefly discussed the implications of the President's decision on coal slurry pipelines.

The meeting was adjourned by the Vice President at 10:12 a.m.

Respectfully submitted,

Jack Watson

Jack Watson, Jr.

file 5/9/77

THE WHITE HOUSE
WASHINGTON

May 8, 1977

Tim -
Call Stu
tonight -
Tell him it's
o.k. -
J.C.

MEMORANDUM FOR: THE PRESIDENT

THROUGH: JIM FALLOWS

FROM: STU EIZENSTAT By D.R.

SUBJECT: Social Security Message

Attached is a draft of the Social Security message to Congress, which will be issued on Monday. Arrangements have been made for Vice-President Mondale and Secretary Califano to hold a joint news conference at 11:00 a.m. on Monday.

This statement has been reviewed and fully approved by Jim Fallows and by HEW and is consistent with the decisions you made prior to the trip.

called placed to Stu 2:10 AM London time, message conveyed - TK 5/9/77

dexed to crown 10:45 am 5/9/77 (signature page only) TK

Attachment

cc Bob Linder

No government program touches more people than the Social Security system.

More than 33 million people currently receive benefits. Another 104 million people are making contributions with the expectation that they will receive benefits when they retire or become disabled, or when their survivors need help.

Today, the Board of Trustees of the Social Security Trust Funds is submitting its 1977 report to the Congress. The report tells us that the system critically needs financial support in the short term. The high unemployment of recent years has curtailed Social Security's revenues, while benefits have risen with inflation. Since 1975 expenditures have exceeded income; and existing reserves will soon be exhausted.

Unless we act now, the Disability Insurance Trust (DI) Fund will be exhausted in 1979 and the Old Age and Survivors Insurance (OASI) Trust Fund will run out in 1983.

The Trustees' Report indicates that there are serious longer term problems as well. Under current law the Social Security system will have an estimated deficit of 8.2 percent of taxable payroll over the next seventy-five years. About half of this deficit is due to changes in the projected composition of our population over those years. Higher life expectancy and lower birthrates will make the nation older as a whole. About half is due to a technical flaw in the automatic cost of living formula adopted in 1972.

While campaigning for President, I stressed my commitment to restore the financial integrity of the Social Security system. I pledged I would do my best to avoid increases above those already scheduled in tax rates, which fall most heavily on moderate and lower-income workers. I also promised to correct the technical flaw in the system which exaggerates the adjustment for inflation, and to do so without reducing the relative value of retirement benefits as compared with pre-retirement earnings.

I am announcing today a set of proposals which meet those commitments and which solve both the short-term and long-term problems in the Social Security system through the end of the twentieth century. These proposals are designed to:

-- Prevent the default of the trust funds now predicted to occur.

-- Bring income and expenses into balance in 1978 and keep them that way through the end of the century.

-- Create sufficient reserves to protect the system against sudden declines in revenue caused by unemployment or other economic uncertainties.

-- Protect the system's integrity beyond the turn of the century to ~~the extent~~ we can predict what will happen in the next 75 years.

-- Provide ~~for an~~ orderly review and examination of the system's basic structure.

My proposals are the result of a number of hard choices. I am convinced that action is needed now, and that these steps will restore the financial integrity of the Social Security system.

I will ask the Congress to take the following specific actions:

1. Compensate the Social Security trust funds from general revenues for a share of revenues lost during severe recessions. General revenues would be used in a countercyclical fashion to replace the payroll tax receipts lost as a result of that portion of unemployment in excess of six percent. General revenues would be used <u>only</u> in these carefully limited situations. Because this is an innovative measure, the legislation we submit will provide this feature only through 1982. The next Social Security Advisory Council will be asked to review this countercyclical mechanism to determine whether it should be made permanent.

2. Remove the wage-base ceiling for employers. Under present law employers and employees pay a tax only on the first $16,500 in wages. Under this proposal the employer ceiling would be raised over a three-year period, so that by 1981 the ceiling would be removed. This action will provide a significant source of revenue without increasing long-term benefit liabilities.

3. Increase the wage base subject to the employee tax by $600 in 1979, 1981, 1983, and 1985, beyond the automatic increases in current law. This will provide a progressive source of financing.

4. Shift revenues from the Hospital Insurance Trust Fund to the Old Age, Survivors, and Disability Trust Funds. In part, this shift will be made possible because of substantial savings to the Medicare system from the hospital cost containment legislation that I have proposed.

5. Increase the tax rate on the self-employed from 7 percent to 7.5 percent. This will restore the historical relationship between the OASI and the DI rates paid by the self-employed to one and one-half times that paid by employees.

6. Correct certain technical provisions of the Social Security Act which differentiate on the basis of sex. This will include a new eligibility test for dependent benefits. Recent Supreme Court decisions would result in unfinanced increases in the cost of the system and some inequities without this change.

These six steps, along with measures already contained in existing law, will eliminate the short-term financing problem and improve the overall equity of the Social Security system.

In order to guarantee the financial integrity of the system into the next century, two additional steps must be taken. I will be asking the Congress to:

1. Modify the Social Security benefit formula to eliminate the inflation over-adjustment now in law. This modification, known as "decoupling," should be done in a way that maintains the current ratio of retirement benefits to pre-retirement wages.

2. Adjust the timing of a tax rate increase already contained in current law. The one percent tax rate increase presently scheduled for the year 2011 would be moved forward so that .25 percent would occur in 1985 and the remainder in 1990.

Taken together, the actions I am recommending today will eliminate the Social Security deficit for the remainder of this century. They will reduce the estimated 75-year deficit from the Trustee Report forecast of 8.2 percent of payroll to a manageable 1.9 percent.

Prompt enactment of the measure I have recommended will provide the Social Security system with financial stability. This is an overriding immediate objective.

In addition, I am instructing the Secretary of Health, Education and Welfare to appoint the independent Social Security Advisory Council required by law to meet each four years. I will ask the Council to conduct a thorough re-examination of the structure of the system, the adequacy of its benefits, the effectiveness and equity of disability definitions, and the efficiency and responsiveness of its administration. Their report, which will be issued within the next two years, will provide the basis for further improvements.

I call upon the Congress to act favorably on these major reform initiatives.

Jimmy Carter

THE WHITE HOUSE,