**6/6/77 [1]**

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

## WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

| FORM OF DOCUMENT | CORRESPONDENTS OR TITLE | DATE | RESTRICTION |
|---|---|---|---|
| memo | ~~From Vance to The President re: waiver of Jackson-Vanik amendment restrictions for Romainia (3 pp.)/ enclosed~~ in Hutcheson to ~~Brzezinski 6/3/77~~ Opened 1/30/13 | 5/26/77 | A |

**FILE LOCATION**

Carter Presidential Papers- Staff Offices, Office of the Staff Sec.- Pres. Handwriting File 6/3/77 [2] Box 29

**RESTRICTION CODES**

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

THE WHITE HOUSE

WASHINGTON

June 6, 1977

Mr. President --

Carter Brown and the other members of the Commission of Fine Arts object to the designs which have been submitted for the Presidential Medal in your honor.

Their main objection is that a map of the U.S. (on which the Presidential Seal is superimposed) does not include Hawaii and Alaska (and any map which would do so would be unweildly in size and "off balance"). They also do not think a map of the State of Georgia would be necessarily appropriate or attractive.

The Commission would therefore prefer that the medal be limited to the Presidential Seal with appropriate lettering around the rim.

Rosalynn asked that I discuss this with you since she was going overseas.

I suggest the medal be redesigned in line with the Commission's recommendation.

Agree ✓ Disagree ______

I don't care

J

# THE·COMMISSION·OF·FINE·ARTS

ESTABLISHED·BY·CONGRESS·MAY·17, 1910

708 JACKSON PLACE, N.W.
WASHINGTON

June 1, 1977

Dear Ms. Clough:

As you requested, I enclose the designs for a Presidential Medal in honor of President Carter submitted, together with several other medal designs, for review by the Commission of Fine Arts at its meeting on May 24, 1977.

The Commission was very pleased with the fine quality of the portraiture on the obverse of the proposed Presidential Medal. However, it did raise a question about the design of the reverse, in light of the dignity it felt such an important medal should have.

The Presidential Seal is, of itself, such a powerful design statement and historic symbol that it seemed a shame to confuse it visually with another design idea, in this case a map of the United States. The map excluded the states of Alaska and Hawaii, which could be embarrassing politically, though in design terms, the inclusion of these non-contiguous states would complicate the design even more. As the medal is also to be reduced for issues at smaller scale, any unnecessary complication of the design leads to possible illegibility.

Our recommendation, therefore, was for a simplification limited to the Presidential Seal and the appropriate lettering around the rim.

The Executive Secretary of the Commission, Mr. Charles Atherton, or I would be happy to try to answer any further questions you might have.

With all good wishes,

Sincerely,

J. Carter Brown
Chairman

Ms. Susan Clough
The White House
Washington, D.C. 20500

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Walt Wurfel

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

**Rick Hutcheson**

Re: Editorials from MIAMI HERALD and LOS ANGELES TIMES

THE WHITE HOUSE
WASHINGTON

cc Watt
Wurfel

| ACTION | FYI | |
|---|---|---|
| | | MONDALE |
| | | COSTANZA |
| | | EIZENSTAT |
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| | | WATSON |

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| | ENROLLED BILL |
| | AGENCY REPORT |
| | CAB DECISION |
| | EXECUTIVE ORDER |

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

| | | |
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| | | FOR STAFFING |
| | | FOR INFORMATION |
| ✓ | | FROM PRESIDENT'S OUTBOX |
| | | LOG IN/TO PRESIDENT TODAY |
| | | IMMEDIATE TURNAROUND |

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| | | ARAGON |
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| | | FALLOWS |
| | | FIRST LADY |
| | | GAMMILL |
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| | | MITCHELL |
| | | POSTON |
| | | PRESS |
| | | B. RAINWATER |
| | | SCHLESINGER |
| | | SCHNEIDERS |
| | | SCHULTZE |
| | | SIEGEL |
| | | SMITH |
| | | STRAUSS |
| | | WELLS |
| | | VOORDE |

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 6, 1977

no

J

MEMORANDUM FOR THE PRESIDENT

FROM: Walt Wurfel

Two important dailies -- the Los Angeles Times and the Miami Herald -- editorialized last week in favor of your efforts to improve relations with Cuba. Those editorials are attached. You may wish to write notes of thanks to the editors:

| | |
|---|---|
| John McMullan<br>Editor<br>Miami Herald<br>Herald Plaza<br>Miami, Fla. 33101 | Anthony Day<br>Editor of the Editorial Pages<br>Los Angeles Times<br>Times Mirror Square<br>Los Angeles, Calif. 90053 |

Attachment

cc: Jody Powell

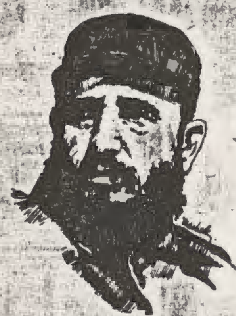
Miami Herald
June 1, 1977

Mi Her 6/1

# An Envoy Exchange Makes Sense

**ANOTHER** cautious step toward closer relations with Cuba has been made by the Carter administration with Monday's announcement that an exchange of diplomats, headquartered in neutral embassies, has been proposed by the United States.

Earlier Monday, at Brunswick, Ga., President Carter told reporters, "I think we will have indications in the next few weeks of strengthened diplomatic relations with Cuba far short of recognition." Of course, he meant far short of diplomatic recognition and all that implies; recognition that Castro's Cuba exists as a nation could hardly be questioned in view of its intrusion into African affairs, its control of the island itself and its continuing imprisonment of unknown thousands of political prisoners.


**Castro**

Later in the day, in Jamaica, where he was traveling with First Lady Rosalynn Carter on her Latin American trip, Assistant Secretary of State Terence A. Todman revealed details of the U.S. proposal, and reported interest on the part of the Cuban foreign ministry.

Such an exchange of diplomats, but not consuls or embassies, has been used to U.S. advantage with other nations before. It is a matter of convenience in furthering this country's aims; presumably the same interests would govern Cuba's reaction.

The basic diplomatic approach of all countries — that they should move and act in those cases where their own best interests are served — seems to apply to this proposal. Because the United States has a concern for the human rights of prisoners in Cuba, and a concern for the potential threat to peace by Cuban military involvement in other countries, this country's best interests would no doubt be served if it could have representatives in the Swiss Embassy in Havana.

For its part — and there must always be a *quid pro quo* for diplomatic agreement — Cuba would better be able to deal with increased travel to that country from this if it had representatives in the Czechoslovakian Embassy in Washington.

As with the successful negotiations on a fishing agreement, and Cuban indications that the anti-hijacking agreement would be continued in force by them although it has been allowed to lapse, formally, the Carter administration's cautious movement toward a viable relationship with a close neighbor has been advantageous.

Diplomatic representation in Havana could well be the same — not only for Americans here, but American citizens in Cuba who have not been allowed to leave that country. Their chances would have to be improved by such an arrangement.

Los Angeles Times

HARRISON GRAY OTIS, 1882-1917
HARRY CHANDLER, 1917-1944
NORMAN CHANDLER, 1944-1960

OTIS CHANDLER, Publisher

ROBERT D. NELSON
Executive Vice President and General Manager
WILLIAM F. THOMAS
Executive Vice President and Editor

CHARLES C. CHASE, Vice President—Production
ROBERT L. FLANNES, Vice President and Assistant to the Publisher
ROBERT C. LOBDELL, Vice President and General Counsel
VANCE L. STICKELL, Vice President—Sales

JAMES BASSETT, Associate Editor
ANTHONY DAY, Editor of the Editorial Pages
ROBERT J. DONOVAN, Associate Editor
FRANK P. HAVEN, Managing Editor
JEAN SHARLEY TAYLOR, Associate Editor



# Rebuilding the Bridge to Cuba

Former President Ford and two Republican senators waded in the other day with strong criticism of President Carter's cautious but steady efforts to improve relations with Cuba. We think they are wrong.

The United States has nothing to lose from the Administration's one-step-at-a-time strategy. If the Havana government does not give on subjects of concern to Washington—namely, the troubling Cuban role in Africa and the trampling of human rights inside Cuba itself—full restoration of trade and diplomatic relations almost certainly will not occur.

The Carter Administration has eased passport restrictions on U.S. travelers to Cuba. It has negotiated a fisheries agreement beneficial to Havana, and has taken a neutral stance toward a move in Congress to lift the embargo on the export to Cuba of food, agricultural commodities and medical supplies.

The most recent gesture is a formal U.S. proposal under which the United States would establish an American-manned "interest section" in the Swiss embassy in Havana and the Cubans would set up a comparable office in the Czechoslovakian embassy in Washington. Agreement on such an arrangement may be announced shortly.

The reaction of Gerald R. Ford, Senate Republican leader Howard H. Baker Jr. (Tenn.) and Sen. Robert Dole (R-Kan.) has been to condemn these Carter efforts as inappropriate as long as Cuban troops remain in Angola and other African nations.

The Cuban role in Africa is disturbing. But it is worth repeating that diplomatic recognition does not constitute approval; the United States has diplomatic relations with all kinds of troublesome countries around the world.

The steps taken so far by the Carter Administration are a far cry from formal diplomatic recognition, and also from full restoration of trade relations, which is Fidel Castro's fundamental goal.

Castro most of all wants the trade embargo lifted. That Cuba stands to gain more than the United States from renewed trade relations gives Washington bargaining leverage.

Despite massive aid from the Soviet Union, the Cuban economy is in serious trouble. Havana wants to sell sugar in the U.S. market, to attract American tourists and to gain access to U.S. agricultural and industrial technology. It would no doubt like someday to have credits to help finance this trade.

As the President observed the other day, it remains to be seen whether Castro is willing to make meaningful concessions. But the Carter policy, which represents a good-faith American effort to establish a positive negotiating atmosphere, strikes us as an intelligent way to find out.

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Claudia Townsend -

Following our discussion the other day, I completely exhausted the possibility of finding someone on the White House Staff who was keeping a scrpbook for the President. Therefore, Rick Hutcheson would like to take you up on your offer to file these newspapers with the back-up files on the News Summary for the day of the Submarine Trip.

Thanks.

Trudy Fry

X

Rick -

Report Concerning Keeping of a Scrapbook
of Presidential News Clippings

After our discussion concerning the attached newspapers, I sent them to Marge Wicklein, Head of the Gift Unit, --- the lady I send all things to go to Archives.

She called me and we discussed the subject of sending newspapers to Archives and we both agreed that this was not the type of thing that Archives would want to give courtesy storage to ---- not historical documents and newspapers deteriorate.

Marge suggested I call Jane Schleicher - Supervisor of Record Book Section as she at one time kept scrapbook for the President. I called Record Book Section this practice was stopped many years ago. They offered to take these particular newspapers and file them so they could be retrieved if needed. Record Books Section suggested calling News Summary - Claudia Townsend to see what clippings they kept.

I called Claudia Townsend they keep only the back-up clippings for things that they mention in the News Summary . Claudia said she would be very glad to take these papers and put them in their files. She thought perhaps the Diary people kept some clippins (Susan Yowell).

I called Susan Yowell --- she does not keep any type of clippings and knew of nobody who kept such a scrapbook. She too mentioned that clippings fade and everyone would have to xerox all the clippings. for them to have much value.

In the previous Ford Administration, there was a man who kept the scrapbook but this was something he had done for Mr. Ford since he was a Congressman --- he just continued doing it.

Do you want me to send these papers to Claudia Townsend to put with the back-up for the mention of the Submarine trip in the News Summary?

Yes ✓______ No_______

Trudy 6/3/77

Thanks –
Rick

cc Susan
Claudia

THE WHITE HOUSE
WASHINGTON

rick--

do we have anyone keeping a scrapbook...or perhaps could/would these be included in "archives".....

i think the articles and in particular the photos front and back of the STAR... are great!

-- susan

THE WHITE HOUSE
WASHINGTON

June 1, 1977

Marge Wicklein -

Can these be sent to Archives? Or do you have something better to recommend? Please call me.

Trudy

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Hugh Carter -

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

**Rick Hutcheson**

Re: Weekly Mail Report

THE WHITE HOUSE
WASHINGTON

| ACTION | FYI | |
|---|---|---|
| | | MONDALE |
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| | | STRAUSS |
| | | WELLS |
| | | VOORDE |

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

Week Ending 6/3/77

C

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER

SUBJECT: Weekly Mail Report (Per Your Request)

Below are statistics on the mail situation:

| INCOMING | WEEK ENDING 5/27 | WEEK ENDING 6/3 |
|---|---|---|
| Presidential | 39,863 | 28,503 |
| First Lady | 2,368 | 840 |
| Amy | 932 | 747 |
| Other First Family | 126 | 86 |
| TOTAL | 43,289 | 30,176* ↘ |

| BACKLOG | WEEK ENDING 5/27 | WEEK ENDING 6/3 |
|---|---|---|
| Presidential | 8,000 | 2,800 |
| First Lady | 500 | 50 |
| Amy | 500 | 50 |
| Miss Lillian | 0 | 0 |
| Transition | 0 | 0 |
| Total | 9,000 | 2,900 ↘ |

How accurate?

DISTRIBUTION OF PRESIDENTIAL MAIL ANALYZED

| | WEEK ENDING | WEEK ENDING |
|---|---|---|
| Agency Referrals | 46% | 54% |
| WH Correspondence | 31% | 27% |
| Direct File | 9% | 12% |
| White House Staff | 9% | 6% |
| Other | 5% | 1% |
| Total | 100% | 100% |

See Notes on Following pages

cc: Senior Staff

* Plus 32,752 form post cards

MAJOR ISSUES IN
CURRENT PRESIDENTIAL ADULT MAIL
Week Ending 6/3

| ISSUE | PRO | CON | COMMENT ONLY | NUMBERS OF LETTERS IN SAMPLE |
|---|---|---|---|---|
| Support for Pres.'s Energy Proposals | 18% | 19% | 63% | 722 |
| Pres.'s Consideration of Amnesty for Illegal Aliens | 1% | 98% | 1% | 351 |
| Support for Pres.'s Proposal re: Increase in Social Security Taxes | 2% | 61% | 37% | 341 |
| Pres.'s Proposal re: Walk-In Voter Registration | 0 | 100% | 0 | 423 |
| Pres.'s Decision re: Major General Singlaub | 15% | 84% | 1% | 557 |
| Support for Proposed Changes in USPS | 3% | 96% | 1% | 277 |
| Pres.'s Proposal re:Withdrawal of Troops from South Korea | 11% | 89% | 0 | 325 |
| Public Opinion re: Andrew Young | 3% | 97% | 0 | 551 |
| | | TOTAL IN SAMPLE | | 3,547 |

## MAIL SUMMARY - WEEK ENDING JUNE 3, 1977

The following statements are based on debriefings of mail analysts during the week.

### YOUNG'S STATEMENTS CONTINUE TO IRK PUBLIC

#### Harsh Reviews Include Calls for Resignation

Anti-Andrew Young mail is on the rise, and included in these letters are some of the most hostile, contemptuous, and bold statements about any member of the Carter Administration so far. Many of the writers attach newsclippings and comment on articles containing Young's recent statements concerning South Africa.

The recent surge in mail about the UN Ambassador is caused in part by the reassignment of Major General John Singlaub from South Korea. People continue to compare Singlaub with Young. However, the anti-Young mail has picked up on its own now, and many writers are penning wicked letters of scorn in an effort to have Ambassador Young fired, or to have the President request his resignation.

### CARTER URGED TO CANCEL TROOP WITHDRAWAL

#### "We Were There, We Know!"

Some people writing to the President still argue in favor of Major General Singlaub and wish Carter would return the career soldier to South Korea. But more outstanding is the number of people outlining their concerns over the possible withdrawal of US land forces from the East Asian country. A new argument cited in the mail is that American companies need the troops around for protection. Many current and former military personnel are advising Carter that he does not have the true, overall picture. "After all," some say, "we were there and we know!"

### WRITERS ANXIOUS ABOUT RECENT ANDERSON COLUMN

#### "Control Data to Sell Soviets $13-M Electronic Brain"

Many letter writers are reacting adversely and emotionally to a recent Jack Anderson column which claims that "Control Data is preparing to sell the Soviets a 13 million dollar electronic brain (cyber-76) which could be turned against us to track U.S. missiles, planes and submarines." Anderson also reports that it is "capable of decoding sensitive U.S. intelligence transmissions."

People are demanding that the President "stop the shipment of the control data computer to the Soviet enemy." Some people even go so far as to say Carter will be "guilty of treason upon our land of the free" if he does not intervene.

## CONSUMERS WRITING IN OPPOSED TO ADVOCACY AGENCY

"No more Bureaucracy; You Promised!"

Stating that they are opposed to any expansion of the already too large bureaucracy, most of the letter writers commenting on the proposed consumer protection or advocacy agency say the President should try to live up to campaign pledges and cut red tape instead of creating another agency. Other people say that they would like to see Ralph Nader heading up the consumer agency.

## MISCELLANEOUS

HOSPITAL COSTS -- Hospital administrators and personnel continue to argue that they have no choice but to pass expenses on in the form of higher fees to their patients. They advocate a ceiling on prices for supplies. Some nurses are afraid they might lose their jobs if hospitals are strapped with a ceiling of nine per cent per year on hospital fee increases.

PANAMA CANAL -- Most writers support U.S. retention of the Panama Canal and ask the President to remove the current U.S. negotiator. A continuing form letter write-in campaign also supplies the White House with several hundred pieces of "propaganda" mail on the subject each week.

ABORTION -- Mail about the Hyde Amendment is picking up in number. More and more people are against the amendment because "it would obviously deprive...poor (women) of choosing a safe and legal abortion."

VOTER REGISTRATION -- The quantity of mail regarding walk-in voter registration has plummeted, including form letters and form cards. The mail that is arriving on this subject is still straight "con" the plan.

SENIOR CITIZENS -- More and more older Americans are asking the President to propose raising the $3,000 ceiling senior citizens can earn in addition to social security income. So many elderly say they are capable, want to work, and need the money in order to make ends meet.

ROSALYNN -- In most cases, President Carter is being mildly criticized for sending his wife to South America. People say the First Lady should not be actively involved in foreign policy, but should stick to domestic travel and issues.

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Bob Lipshutz -

For your information the attached memorandum was sent to Special Agent Keiser.

Rick Hutcheson

Re: Protective Detail for
James Earl Carter III

THE WHITE HOUSE
WASHINGTON

SUSAN

Could you write MR. Kiser a letter from Dad asking what the minimum Secret Service for James would consist of. Dad said you could do this.

L
Chip

THE WHITE HOUSE

WASHINGTON

June 6, 1977

MEMORANDUM FOR SPECIAL AGENT RICHARD KEISER

I would appreciate your advising me of the minimum number of Secret Service agents who would be assigned to a protective detail for my grandson, James Earl Carter, III, in the event a request for such protection is made.

J. C.

## WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

| FORM OF DOCUMENT | CORRESPONDENTS OR TITLE | DATE | RESTRICTION |
|---|---|---|---|
| memo w/ attach. | ~~From Jack Watson to The President (43 pp.) re: footwear agreements/ enclosed in Hutcheson to Watson et.al 6/6/77~~ opened 1/30/13 | 6/1/77 | A |
| memo | [redacted] I would... 1 page | n.d. | B |

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THE WHITE HOUSE
WASHINGTON

June 6, 1977

Hamilton Jordan

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

**Rick Hutcheson**

Re: Deputy Special Representative for Trade Negotiations - Geneva

THE WHITE HOUSE
WASHINGTON

| ACTION | FYI | |
|---|---|---|
| | | MONDALE |
| | | COSTANZA |
| | | EIZENSTAT |
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| | | SMITH |
| | ✓ | STRAUSS |
| | | WELLS |
| | | VOORDE |

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN. June 3, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HAMILTON JORDAN H.J.

SUBJECT: Deputy Special Representative for Trade Negotiations - Geneva

Bob Strauss has proposed the appointment of Mr. Alonzo McDonald as Deputy Special Representative for Trade Negotiations - Geneva.

Mr. McDonald is a leading business executive with a background of achievement and Bob is enthusiastic about the possibility of having him serve as his Deputy in Geneva. The post carries the rank of Ambassador. Biographical material is attached.

McDonald's credentials are good. Bob has checked his appointment with Mike Blumenthal and Bert Lance, and has made some preliminary checks on the Hill. He reports that responses have been favorable.

I recommend you give Bob approval to make an offer to Mr. McDonald.

APPROVE ✓

DISAPPROVE ________

OTHER ________

ok

J

BIOGRAPHICAL SUMMARY

of

Alonzo L. McDonald, Jr.

McKinsey & Company, Inc.
245 Park Avenue
New York, New York 10017
(212) 692-8760

PROFESSIONAL EXPERIENCE

McKinsey & Company, Inc.

Director, New York Office (since July, 1976)

Managing Director, of Firm (1973-1976)

Managing Director, Paris Office (1968-1973)

Managing Principal, Zurich Office (1966-1968)

Principal, London Office (1964-1966)

Associate, New York Office (1960-1964)

Westinghouse Electric Corporation
Air Conditioning Division (1956-1960)

Western Zone Manager (22 States from St. Louis)

West-Central Regional Manager (7 States from St. Louis)

Manager, Business Advisory Services

Assistant to Sales Manager

Other

Chief Executive Officer, Home Furnishings & Appliances (retailing firm)

Advertising and promotion manager, Kagran Corporation

Reporter and Writer, Atlanta Journal

MILITARY SERVICE

U.S. Marine Corps (1950-1952)

## ORGANIZATION AFFILIATIONS

### Professional

Trustee, Committee for Economic Development

Member, Council on Foreign Relations

Trustee and Member of Executive Committee, U.S. Council, International Chamber of Commerce

Member, Advisory Council on Japan-U.S. Economic Relations

### Other

Harvard Club of New York

Junior Carlton Club (London)

Polo Club de Paris

Racquet & Tennis Club (New York)

River Club (New York)

St. Paul's Episcopal Church (Riverside, Connecticut)

Travellers Club (Paris)

## EDUCATION

Harvard University, M.B.A., 1956
With distinction, Century Club

Emory University, A.B., 1948
ODK, senior honor society; editor of college newspaper and magazine; Chi Phi fraternity

Public School, Lithonia, Georgia, 1945
Valedictorian; president of honor society; three varsity sports

## PERSONAL

Born: August 5, 1928, Atlanta, Georgia

Family: Wife: Suzanne M. McDonald

Children: (4) Alex, Denise, Jennifer, Peter

Residence: Indian Point Lane, Riverside, Connecticut

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Jack Watson

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

**Rick Hutcheson**

Re: Energy Meeting with Governors
Annual Meeting of U.S. Conference of Mayors

EIZENSTAT COMMENTS

(26)

THE WHITE HOUSE

WASHINGTON

June 4, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BOB GINSBURG

SUBJECT: Orderly Marketing Agreement for Footwear

We agree with the unanimous EPG recommendation that you approve the OMAs negotiated by Ambassador Strauss with Taiwan and Korea.

The EPG is also raising the issue of whether the Presidential Proclamation promulgating the OMAs should include a formal request to the U.S. International Trade Commission (ITC) to conduct a review in 1979 for the purpose of rendering its judgment as to the probable effect on the domestic shoe industry of liberalizing or terminating the OMAs. Such a review is required prior to any reduction of import relief.

We disagree with the proposition that you should formally bind yourself now to an ITC review 1-1/2 years from now:

1. The normal practice, and the Congressional intent, is that ITC review of the need for continued import relief be undertaken not as an abstract exercise regardless of the economic circumstances at the time of the review, but only when it appears that reduction of relief may be warranted. If by 1979 or at any other time (sooner or later) during the four-year term of the OMAs, the domestic industry has recovered sufficiently and/or its price increases are making an unacceptable contribution to inflationary pressure, you can order the ITC review. If, on the other hand, the industry remains depressed and shoe prices remain relatively stable, you would not want to order an ITC review -- under those circumstances, the review would constitute a waste of Government time and money.

Since we do not know what the shoe industry or the economy will be like in 1979, issuance of the order now would subject you to the possible embarrassment of having to either (a) formally withdraw the order later or (b) allow the ITC to proceed with an unnecessary review solely because of the Administration's premature request.

2. The OMAs provide that the U.S., Taiwan, and Korea "may consult" in April 1979 with respect to the "possibility" of liberalizing the OMAs. There is no requirement that an ITC review be completed at that time; in fact, a Presidential request for an ITC review could well be a result of those consultations. In any case, if the economic circumstances at the time warrant it, you could order the ITC review in December 1978 or January 1979 and have the results in time for the April 1979 consultations. You do not need to make that request now.

3. Such a premature request for ITC review might be construed as a gratuitous slap at the shoe industry and its unions. It could undermine whatever credit the Administration would otherwise receive for the OMAs. The notion that you do not really support the OMAs and are predisposed to liberalize or terminate them prior to the end of their four-year term could adversely affect investment and modernization in the domestic industry and create further uncertainty -- precisely the opposite of what we want.

4. Calling for an ITC review in the same Presidential Proclamation which promulgates the OMAs could also be seen as undermining Ambassador Strauss' achievement in negotiating the OMAs themselves -- OMAs which all members of the EPG support.

5. We do not understand the argument that a formal request to the ITC now would somehow provide you with greater flexibility and would be politically wise. Making a decision 1-1/2 years in advance of when it needs to be made, without knowing the future circumstances under which the decision will be carried out, does not strike us as an exercise in retaining Presidential flexibility.

6. The Administration's intention to carefully monitor any inflationary consequences of the OMAs can be effectively communicated in a press release accompanying the Presidential Proclamation; we do not need to bind ourselves at this time to an ITC review in order to convey our concern over inflation.

Inclusion of the request for ITC review in your Presidential Proclamation is unnecessary and would be extremely counterproductive. Accordingly, we recommend that you reject this proposition and retain the flexibility to determine whether and when we should begin the statutory process looking toward liberalization of the OMAs.

C

THE WHITE HOUSE

WASHINGTON

June 1, 1977

THE PRESIDENT HAS SEEN.

MEMORANDUM TO: THE PRESIDENT

FROM: Jack Watson Jack

SUBJECT: FOOTWEAR AGREEMENTS

Attached are three memoranda discussing the Orderly Marketing Agreements which have been negotiated with Taiwan and Korea on non-rubber footwear.

The first memorandum from the Economic Policy Group unanimously recommends approval of the agreements which have been negotiated by Bob Strauss and outlines a division of opinion between Treasury, CEA and OMB on the one hand and STR, State, Commerce and Labor on the other regarding the timing on a request from you to the U. S. International Trade Commission for advice on liberalization of import relief.

The second memorandum from Mike Blumenthal simply reinforces and elaborates upon Treasury's position in favor of your immediate announcement of the request for a 1979 ITC review.

The third memorandum from Bob Strauss gives a brief statement of the background and statistical implications of the agreements which have been negotiated. I held Bob Strauss's memorandum which came in earlier (with the agreement of all parties) pending the preparation of the EPG memorandum on the timing of the request for ITC advice.

Attachments

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

1977 MAY 31 AM 10 17

MEMORANDUM FOR THE PRESIDENT

FROM: W. MICHAEL BLUMENTHAL
CHAIRMAN, ECONOMIC POLICY GROUP

WMB

SUBJECT: FOOTWEAR AGREEMENTS

Ambassador Strauss has negotiated orderly marketing agreements (OMA) with Taiwan and Korea on non-rubber footwear. In a separate memorandum he has described the details of these OMAs. Both agreements cover a four-year period starting June 28, 1977. Over these four years the average monthly exports of non-rubber footwear from the two countries will average 13.6 million pairs or 17% below the 1976 level.

Concerning economic impact, STR estimates that these agreements could create 25,000 jobs by 1978 and generate about 3.4% increase in consumer costs or an average of around 44 cents per pair of shoes at the retail level. CEA estimates of the inflationary impact are considerably higher. However, both agencies emphasize that these estimates involve assumptions that are subject to a wide range of error.

The OMAs have been reviewed by the EPG members and all support them.

One issue has been raised, however, concerning the proclamation of import relief. Treasury, CEA and OMB recommend that as part of your proclamation, you request U.S. International Trade Commission advice on liberalization of import relief by March 1979, in time for possible action at the end of the second year. They argue that since a USITC study is required by law before you can liberalize an OMA, it is important that the USITC advice is delivered before April 1979, when U.S. consultations with Korea and Taiwan will take place as specified in the OMAs. The information and advice provided by the ITC may then be drawn upon in determining what, if any, liberalization is warranted at that time. These agencies believe that calling now for a USITC investigation may be politically more feasible than doing so in the spring of 1979 and would therefore insure that a review does take place. They also argue that in conjunction with the announcement of an OMA, a call now for USITC review would demonstrate your determination to closely monitor the impact of trade restrictions on consumers and inflation.

STR, State, Commerce and Labor oppose your making a commitment now on a future USITC review. They believe it would prejudge economic conditions in 1979; that it would therefore be inconsistent with the Congressional intent that such reports only be made when it appears that modification or termination of relief may be warranted; and that it could commit you to a course of action you might not want to take in 1979. They argue that the announcement now to seek USITC review later would be interpreted as an indication that you do not intend to maintain a meaningful level of import relief for more than two years; hence, they consider it likely that this action will lose industry and labor support and lead to a Congressional override. Furthermore, they are skeptical that investment for needed structural adjustment would be forthcoming if it appeared that imports would again threaten the industry within two years.

Decisions

1. That you approve the agreements with Taiwan and Korea negotiated by Strauss. (All EPG members support.)

APPROVE ✓ DISAPPROVE ______

2. That the proclamation for import relief call for USITC review and advice by March 1979. (Treasury, CEA and OMB support; STR, State, Labor and Commerce oppose.)

APPROVE ______ DISAPPROVE ✓

ACTION

THE SECRETARY OF THE TREASURY

WASHINGTON 20220

1977 MAY 31 AM 10 17

MEMORANDUM FOR THE PRESIDENT

Subject: Orderly Marketing Agreements with Taiwan and Korea on Footwear Imports

You have received an EPG memorandum indicating a split among members as to whether, in announcing the 4-year Orderly Marketing Agreements with Taiwan and Korea on footwear imports, you should also announce a request that the U.S. International Trade Commission (ITC) review the Agreements in March, 1979.

I think it very important that you now announce the request for a 1979 ITC review.

Such a review is a legal prerequisite to any change you might wish to make in the Agreements. You should not be denied that flexibility. Without an ITC review, you will be locked into the Agreements for four years, with a substantial inflationary risk in the later years.

While you could delay your request for ITC review until 1979, that would merely allow political forces opposing a review to organize against the step. We have just been through that in the case of the specialty steel quotas. An immediate announcement is therefore politically wise. It also has the virtue of candor. If you intend to take a fresh look at the Agreements in two years, the industry should be so informed now. The government should not be in the position of allowing the industry to make investments and hiring decisions on misleading information. Similarly, immediate announcement of the review would focus your Administration's efforts to develop a realistic new regime of adjustment assistance.

As for congressional reaction: the domestic industry and unions know they can neither pass protectionist legislation nor force a congressional reversal of your decisions in the footwear area. There is virtually no chance that announcement of a 1979 ITC review would risk a congressional override of the Agreements.

Mike

W. Michael Blumenthal

#22-26

Pending

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Jack Watson
Stu Eizenstat
Robert Strauss
Ernie Preeg

Re: Footwear Agreements

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

Rick Hutcheson

14

THE WHITE HOUSE
WASHINGTON

Mr. President:

Stu's comments are attached
at the back of Jack's memo.

Hamilton's office concurs;
Charlie Schultze has no comment.

Rick (wds)

(22)

C.

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN.

June 1, 1977

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FROM: Jack Watson Jack

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Attachments

-3

EPG

MEMO

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

1977 MAY 31 AM 10 17

MEMORANDUM FOR THE PRESIDENT

FROM: W. MICHAEL BLUMENTHAL
CHAIRMAN, ECONOMIC POLICY GROUP WMB

SUBJECT: FOOTWEAR AGREEMENTS

Ambassador Strauss has negotiated orderly marketing agreements (OMA) with Taiwan and Korea on non-rubber footwear. In a separate memorandum he has described the details of these OMAs. Both agreements cover a four-year period starting June 28, 1977. Over these four years the average monthly exports of non-rubber footwear from the two countries will average 13.6 million pairs or 17% below the 1976 level.

Concerning economic impact, STR estimates that these agreements could create 25,000 jobs by 1978 and generate about 3.4% increase in consumer costs or an average of around 44 cents per pair of shoes at the retail level. CEA estimates of the inflationary impact are considerably higher. However, both agencies emphasize that these estimates involve assumptions that are subject to a wide range of error.

The OMAs have been reviewed by the EPG members and all support them.

One issue has been raised, however, concerning the proclamation of import relief. Treasury, CEA and OMB recommend that as part of your proclamation, you request U.S. International Trade Commission advice on liberalization of import relief by March 1979, in time for possible action at the end of the second year. They argue that since a USITC study is required by law before you can liberalize an OMA, it is important that the USITC advice is delivered before April 1979, when U.S. consultations with Korea and Taiwan will take place as specified in the OMAs. The information and advice provided by the ITC may then be drawn upon in determining what, if any, liberalization is warranted at that time. These agencies believe that calling now for a USITC investigation may be politically more feasible than doing so in the spring of 1979 and would therefore insure that a review does take place. They also argue that in conjunction with the announcement of an OMA, a call now for USITC review would demonstrate your determination to closely monitor the impact of trade restrictions on consumers and inflation.

STR, State, Commerce and Labor oppose your making a commitment now on a future USITC review. They believe it would prejudge economic conditions in 1979; that it would therefore be inconsistent with the Congressional intent that such reports only be made when it appears that modification or termination of relief may be warranted; and that it could commit you to a course of action you might not want to take in 1979. They argue that the announcement now to seek USITC review later would be interpreted as an indication that you do not intend to maintain a meaningful level of import relief for more than two years; hence, they consider it likely that this action will lose industry and labor support and lead to a Congressional override. Furthermore, they are skeptical that investment for needed structural adjustment would be forthcoming if it appeared that imports would again threaten the industry within two years.

Decisions

1. That you approve the agreements with Taiwan and Korea negotiated by Strauss. (All EPG members support.)

   APPROVE ✓ DISAPPROVE ______

2. That the proclamation for import relief call for USITC review and advice by March 1979. (Treasury, CEA and OMB support; STR, State, Labor and Commerce oppose.)

   APPROVE ______ DISAPPROVE ✓

24

TREAS

MEMO

24

ACTION

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

1977 MAY 31 AM 10 17

MEMORANDUM FOR THE PRESIDENT

Subject: Orderly Marketing Agreements with Taiwan and Korea on Footwear Imports

You have received an EPG memorandum indicating a split among members as to whether, in announcing the 4-year Orderly Marketing Agreements with Taiwan and Korea on footwear imports, you should also announce a request that the U.S. International Trade Commission (ITC) review the Agreements in March, 1979.

I think it very important that you now announce the request for a 1979 ITC review.

Such a review is a legal prerequisite to any change you might wish to make in the Agreements. You should not be denied that flexibility. Without an ITC review, you will be locked into the Agreements for four years, with a substantial inflationary risk in the later years.

While you could delay your request for ITC review until 1979, that would merely allow political forces opposing a review to organize against the step. We have just been through that in the case of the specialty steel quotas. An immediate announcement is therefore politically wise. It also has the virtue of candor. If you intend to take a fresh look at the Agreements in two years, the industry should be so informed now. The government should not be in the position of allowing the industry to make investments and hiring decisions on misleading information. Similarly, immediate announcement of the review would focus your Administration's efforts to develop a realistic new regime of adjustment assistance.

As for congressional reaction: the domestic industry and unions know they can neither pass protectionist legislation nor force a congressional reversal of your decisions in the footwear area. There is virtually no chance that announcement of a 1979 ITC review would risk a congressional override of the Agreements.

Mike

W. Michael Blumenthal

STR

MEMO

25

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

1977 MAY 23 PM 5 08

MAY 23 1977

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

FROM : Robert S. Strauss RSS

SUBJECT: Footwear Agreements

Pursuant to your directive of April 1, we have negotiated orderly marketing agreements with the Republic of China and the Republic of Korea to moderate the problems caused to our domestic footwear manufacturers, workers, and communities by rapid shifts in foreign exports to this country of non-rubber footwear. Since practically all of the increase in imports was attributable to Taiwan (which increased its exports to the United States from 88 to 156 million pairs from 1974 to 1976) and to Korea (which increased its exports to the United States from 9 to 44 million pairs from 1974 to 1976), the negotiations have been limited to these two countries.

Under the law, your decision of April 1 to grant import relief must be made effective by having trade measures in place no later than June 30. If you approve, I plan to sign agreements with these two countries prior to June 1, if possible.

Both agreements cover a four-year period, starting June 28, 1977. Under the agreements, exports from Taiwan will be limited to 122, 125, 128, and 131 million pairs per year for the next four years, and from Korea to 33, 36.5, 37.5 and 38 million pairs per year. More liberal growth may be provided after the second year if the domestic industry recovers sufficiently.

All footwear on which the U.S. International Trade Commission (USITC) found injury is covered by the agreements except felt boot liners, a non-footwear item that is restricted under the bilateral textile agreements. Subceilings, by type of material in the case of Taiwan and mainly by type of footwear in the case of Korea, are provided in order to prevent shifts into higher-priced shoes or disruptive bunching in particular categories.

~~CONFIDENTIAL~~

In general, the agreements are viewed favorably by the shoe manufacturers, shoe unions (which are small) and workers, and by the Hill. Some concern has been expressed about their effective implementation and about the possibility of disruptive imports from other countries. Concern has also been voiced by importers and retailers about inflationary effects, which we think will be moderate. Although none of the domestic interests are completely satisfied, I think that all can live with these agreements.

Additional background information is contained in Tab A. The principal provisions of the agreements are summarized in Tab B.

ACTION REQUESTED

Representatives of Taiwan and Korea will seek authorization to sign the agreements as soon as they are advised that we are prepared to proceed. They have indicated that they believe such authorization could be obtained within a few days.

I believe the agreements provide a fair and balanced solution to our footwear problems, consistent with the guidelines in your directive. I have requested an Economic Policy Group meeting on this subject for Wednesday afternoon so that interested agencies will have an opportunity to raise any concerns that they may have prior to your decision. Overall, I believe there will only be mild objection from any source. Moreover, the European Community (EC), Brazil, Spain and other nations are exceedingly pleased that we have dealt with this problem in this limited fashion.

A Presidential Proclamation implementing the import relief is also being prepared for your signature. The Proclamation will be submitted to you after we have obtained Justice Department clearance.

Proceed to sign the agreements as indicated above:

Approve: ✓ JC

Disapprove: ____________

Other: ____________

## BACKGROUND

### Impact on the Industry and Workers

Over the four years of the agreements, the average monthly exports of non-rubber footwear from the Republic of China (ROC) and the Republic of Korea (ROK) combined will average 13.6 million pairs or 17 percent below the 1976 level. In addition, provision is made for shipments that are in the pipeline and that enter the United States between June 1 and September 1, 1977. Such shipments will not be counted against the restraint levels until they exceed 33 million pairs for the ROC and 9 million pairs for the ROK.

The cut-backs in exports under the agreements, together with some increase in ROK and ROC prices, will enable domestic producers to capture a larger share of the domestic market for lower-priced shoes and will improve their profit position. However, due to the high level of ROK and ROC exports prior to the restraint period, domestic production may not pick up significantly before the end of the year. By the first quarter of 1978, the reduced imports should be reflected in higher domestic output, with a corresponding increase in employment. We estimate that in 1978 there will be about 25,000 more jobs than there would have been in the absence of import relief.

### Impact on Consumers

Exporters in the ROC and the ROK will undoubtedly try to offset at least part of their loss in volume by raising prices and by some upgrading within categories. Due to the long lead time between orders and deliveries from the Far East, the price increases attributable to the restraints will probably not have much impact on retail purchases before the latter part of 1977. Even in 1978, when the restraints will produce a significant cut-back in entries from the ROC and the ROK, the extent to which those countries will be able to raise their prices will be limited by competition from U.S. producers.

Adequate supplies of footwear will continue to be available. The domestic industry is operating well below capacity and could expand output by substantially more than the amount of the cut-backs. Some expansion in imports from non-agreement countries is also anticipated. If the ROC and the ROK concentrated the cut-backs in the lowest-price footwear, other low-cost foreign suppliers could supply any demand not satisfied by expanded U.S. production.

There are many formulas for calculating the consumer cost of import restrictions. All involve assumptions that are subject to a wide range of error. Our best estimate indicates that these agreements could generate about a 3.4 percent increase in consumer costs or an average of around 44 cents per pair of shoes at the retail level. If the effect on consumers is excessive, either because of large price increases or the disappearance of lower quality shoes, the U.S. International Trade Commission can be asked to make a new investigation with a view toward liberalization of the agreements.

Impact on the ROC and the ROK

Both the ROC and the ROK will face some loss of foreign exchange earnings since a major part of their footwear exports have been directed to the United States. In the short run, alternative markets can probably be found for only part of the footwear previously sold to the United States. Some offset will be provided, however, by price increases, upgrading, and lower imports of inputs for footwear. Therefore, the net impact on the balance of payments, which is healthy in the case of both countries, should not create substantial problems.

Both countries have expressed concern over the impact of the restraints on their workers. Some reduction of jobs, or reduced hours, is likely, but employment should still be at least double the 1975 level in the case of the ROK and about 18 percent higher in the case of the ROC.

Principal Provisions of the Agreements with the Republic of China (ROC) and the Republic of Korea (ROK)

A. Product Coverage - All non-rubber footwear except zoris, disposible paper footwear, and wool felt footwear.

B. Duration - Four years and three days, starting June 28, 1977.

C. Restraint levels - (millions of pairs exported):

| | ROC | ROK |
|---|---|---|
| First year | 122 | 33.0 |
| Second year | 125 | 36.5 |
| Third year | 128 | 37.5 |
| Fourth year | 131 | 38.0 |

D. Categories -

1) ROC - (a) Leather - 8.0%
(b) Plastic - 85.8%
(c) Other - 6.2%

Swings among categories are allowed up to ten percent of the receiving category in the case of shifts into leather and plastic footwear and up to 15 percent for other footwear.

2) ROK - (a) Leather, except athletic footwear - 34.9%
(b) All other, including leather athletic footwear - 65.1%

Swings are allowed up to 10 percent when the shift is into the "leather" category and up to 15 percent when the shift is into the "all other" category.

E. Carryover - If exports are below the ceiling levels, the shortfall can be carried over to the following year, but the amount carried over into individual categories may not exceed five percent of the ceiling for those categories.

F. Carry Forward - Exports in excess of ceilings will be allowed to enter up to a maximum of six percent in any category. Reductions equal to such overceiling entries will be made in the entries allowed in the following year.

G. Import Spacing - The ROC and the ROK will employ their best efforts to maintain an even distribution of imports throughout the year, taking into account seasonal factors.

H. Equity - In the event of large increases in U.S. imports from other major exporting countries, the ROC and/or the ROK may initiate consultations with the United States. If mutually agreed with the ROC and/or the ROK, the United States will impose restraints on imports from these other countries.

I. Pipeline - Footwear exported prior to June 28 will be allowed to enter the United States up to September 1, 1977. However, such exports entering after June 1 in excess of 33 million pairs for the ROC and 9 million pairs for the ROK will be charged against the ceilings for the first year.

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MAY 23 1977

1977 MAY 23 PM 5 08

~~CONFIDENTIAL~~

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~~CONFIDENTIAL~~

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THE WHITE HOUSE

WASHINGTON

indef [illegible] — pls notify

Kreps + Blumenthal of decision

Rick

| ACTION | FYI | |
|---|---|---|
| | X | MONDALE |
| | | COSTANZA |
| | X | EIZENSTAT |
| | X | JORDAN |
| | | LIPSHUTZ |
| | X | MOORE |
| | | POWELL |
| | X | WATSON |

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| | ENROLLED BILL |
| | AGENCY REPORT |
| | CAB DECISION |
| | EXECUTIVE ORDER |

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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| | FOR STAFFING |
| | FOR INFORMATION |
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| | LOG IN/TO PRESIDENT TODAY |
| | IMMEDIATE TURNAROUND |

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| | X | SCHULTZE |
| | | SIEGEL |
| | | SMITH |
| | X | STRAUSS |
| | | WELLS |
| | | VOORDE |

(27)-29

THE WHITE HOUSE

WASHINGTON

July 8, 1977

Jack Watson
Stu Eizenstat

Re: Adjustment Assistance Program for the Shoe Industry

The attached was returned in the President's outbox. Please notify Secretary Kreps and Secretary Blumenthal of decision.

Rick Hutcheson

cc: The Vice President
Hamilton Jordan
Frank Moore
Charlie Schultze
Bob Strauss
Bert Lance
Z. Brzezinski

MEMORANDUM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

INFORMATION

8 July 1977

TO: THE PRESIDENT

FROM: RICK HUTCHESON R.H.

SUBJECT: Comments on Commerce Department's "Shoe Industry Revitalization Program"

The attached Eizenstat memo summarizes a Commerce Department memo on shoe industry adjustment assistance (TAB A) and comments from Strauss and Schultze. (A Watson memo, at TAB B, summarizes the Strauss/Schultze comments at greater length.)

Other comments on the Commerce proposals:

Watson: "We underscore the unique circumstances of the shoe industry and urge all precautions to prevent this program from becoming a prototype for other ailing industries." Jack also urges full congressional consultation before any announcement.

OMB: The "proposal is worth trying" but its effectiveness should not be oversold. OMB "recommends that the technical assistance portion be highlighted in public statements." Approval should not be taken as approval to seek a 1977 supplemental or a 1978 budget amendment - it appears that DoC can absorb costs by reprogramming.

NSC: thinks the program merits a try, but shares Strauss' skepticism about the industry's long-term prospects. The announcement should focus on the technical/financial assistance aspects, not government promotional activities or commitments by retailers. "The USG should not actively engage in a 'Buy America' campaign for shoes when trade protectionism is on the rise in Europe and elsewhere."

NSC and Tim Kraft oppose the President announcing the program personally.

(27)

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

July 7, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BOB GINSBURG

SUBJECT: Adjustment Assistance Program for the Shoe Industry

General Outline of the Program

The Commerce Department has developed an adjustment assistance program for the shoe industry which has the following principal components:

1. Commerce will encourage the major domestic retailers (Sears, K Mart, etc.) to increase their purchases from the trade-impacted shoe manufacturers. Commerce reports that the retailers have indicated their willingness to participate actively in such a program.

2. Approximately 20 specialist teams will be formed, drawn principally from the private sector, to assist the affected companies in modernization.

3. Financial support would be provided for education and training courses for prospective managers of shoe companies.

4. Financial support would be provided for increased advertising by the domestic industry.

5. Approximately $40 million in loans and loan guarantees would be made available for increased capital investment in the affected companies and for the purpose of facilitating the sale or merger of affected companies.

The program is more fully described in the attached memorandum from Under Secretary Harman. The total cost for the three-year program would be approximately $60 million. No new legislation would be required. The general outline of the program has been approved by the EPG.

There can never be certainty that any adjustment assistance program will work -- it is extremely difficult to achieve a turnaround for a single company let alone a large number of companies in a declining industry. Nevertheless, against that background, we think that Commerce has designed a good program. Both the industry and the shoe unions support the program.

Subject to your separate decision on the advertising component, we recommend that you approve the general outline of the program.

✓ Approve

____ Disapprove

____ Let's discuss this further

Keep announce - not much fanfare. Emphasize "one-time trial" basis - No precedent being established - No extra budget requests. J.C.

Advertising Component of the Program

Commerce proposes to spend about $1 million per year ($3 million total) to provide financial support for increased advertising by the domestic industry. Commerce argues that there is precedent for U.S. Government financial support for advertising (tourism and certain agricultural products) and that such advertising will be helpful in securing retailer support of the program.

Charlie Schultze argues that subsidized advertising is a questionable Government activity and sets a bad precedent for other industries that may seek similar assistance.

On balance, we do not think it would be good policy for the Administration to spend money for domestic advertising.

____ Approve advertising component of the program (Recommended by Commerce)

✓ Disapprove (Recommended by Charlie Schultze and us)

Presidential Announcement of the Program

Ambassador Strauss believes that you should not personally announce the program. He is skeptical about the viability of the program and thinks there is insufficient reason for you to undertake what he regards as risky personal exposure.

Under Secretary Harman believes it is important that you personally announce the program. He thinks that your personal involvement will increase the chances that the program will work, particularly in solidifying the moral obligation of the major retailers to increase their purchases from the affected shoe companies. We agree and would add the following points:

(1) your personal involvement will demonstrate your commitment to developing good trade adjustment assistance programs and enhance the Administration's credibility in this area generally;

(2) if the program works, you will have personally associated yourself with what will be a significant accomplishment for the Administration; and

(3) the industry and the unions support the program and would be appreciative of your personal involvement.

We recommend that you personally announce the program with a very brief statement at the White House; Under Secretary Harman would conduct the press briefing to follow.

____ Approve personal announcement

__✓__ Disapprove

J

TAB A

ACTION

(28)

THE UNDER SECRETARY OF COMMERCE
Washington, D.C. 20230

1977 JUN 28 AM 9 35

MEMORANDUM FOR THE PRESIDENT

From: Sidney Harman

Subject: Shoe Industry Revitalization Program

In your April 1 decision on the shoe industry escape clause petition, you directed members of your Cabinet to conduct a thorough review of the Federal Government's trade adjustment assistance programs and to develop an assistance program tailored to the problems of the American shoe industry.

The Economic Policy Group's review of trade adjustment assistance will be complete in several weeks and we will be presenting our recommendations to you at that time together with draft legislation that may be required to implement the proposed changes.

The Department of Commerce, in consultation with the Department of Labor, the Special Trade Representative and other agencies, has developed a plan to assist the domestic shoe industry. The EPG has approved this plan for presentation to you. This recovery plan is responsive to your April 1 directive, that "over the long haul, the solution to difficulties in the shoe industry lies not in the restriction of imports but elsewhere -- in innovation and modernization of our own production facilities and the financing to make these possible".

Our proposed vitalization program would initiate a new role for the Federal Government: to serve as a temporary facilitator of industry reconstruction and growth. This approach requires a flexible program that is responsive to the unique character of each trade-impacted industry.

The bottom line in any adjustment assistance program depends on enabling firms to become competitive <u>in the absence of border relief</u>. We cannot guarantee that all firms in the shoe industry will achieve this

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 objective. Much will depend on the ability and initiative of individual firms to respond to the challenge of price competition through cost reducing innovations in production and marketing and through effective responses to trends in style and design. Nevertheless, we do believe that the proposed program for the shoe industry should improve the ability of firms in the industry to become effective.

Revitalization Program

Since every industry differs substantially in character from every other, a revitalization program must be responsive to the unique character of the affected industry. We judge the shoe industry to be capable of becoming more competitive. This can be accomplished through a three year Federal program, designed to vitalize the industry, make it self-sufficient and enable it to proceed thereafter without trade protection or other forms of Government assistance. The proposal includes:

1. Role of Retailers: To increase substantially the total shoes manufactured by trade impacted companies, we will encourage the principal domestic shoe retailers to increase domestic orders to these companies. In preliminary discussions with the Department of Commerce, the retailers have indicated their willingness to participate actively in such a program.

Retailers have told us that they will cooperate because they consider it in their self-interest to see a vigorous and growing domestic shoe manufacturing industry with the promise of quick turnaround time, easier financing compared to import operations, generally improved flexibility and the opportunity for more immediate response to the fashion-oriented segment of the consumer market. If the U.S. shoe industry is prosperous, of course, retailers believe orderly marketing agreements (OMA's) become unnecessary.

2. Impact on Manufacturers: To facilitate increased orders we will provide retailers with information on interested companies, such as major product lines, and size of orders that can be accommodated. As a consequence

of the increased volume created by the increased flow of orders to the affected companies, those companies should experience economies of production, sufficient to permit significant reductions in selling price which will make the affected firms more competitive with imports.

3. Custom Analysis of Company Problems: Approximately twenty specialist teams will be formed, drawn principally from the private sector. These teams will work with the affected shoe companies to develop and monitor three year plans, designed to improve their management technology, marketing or worker-management relations - or a combination of these components as indicated by the study of each firm.

4. Infusion of New Talent: Concentrated courses in management, production, supervision, design and marketing would be made available to current or prospective managers through Federal financial support. The specialist teams would assess the need for additional training in each firm and recruit managers for government sponsored programs. Existing legislation allows the Economic Development Administration (EDA) to sponsor specialized training programs.

5. Increased Promotion: An aggressive advertising program for footwear would be established in collaboration with an appropriate industry organization. The program would be built around a consumer information theme stressing the importance of quality, design and value in making buying decisions. This can be supported by EDA under existing legislation.

While some Federal agencies have expressed concern about the Federal Government funding such a program for an industry, there is precedent. Tourism, tobacco and cotton are examples of industries which have received effective Federal support for advertising programs. We believe an advertising program is a necessary component in the overall plan to revitalize the industry.

6. Expanded Capital Investment: The Federal Government would make available $20-25 million in loans and loan guarantees to increase capital investment in the affected companies.

7. Acquisitions and Mergers: Subject to antitrust limitations, the Federal Government would facilitate sale of some affected companies to new owners or encourage mergers where appropriate through financial assistance in the form of loans and loan guarantees for capital investment totalling approximately $15-20 million. Existing legislation also allows EDA to provide financing if an acquisition or merger is part of a recovery plan. In many cases, however, the specialist teams could recommend and facilitate acquisitions without Federal financial cost.

Costs

The total cost for the three year program would be approximately $60 million. The assistance would be delivered primarily through existing trade adjustment mechanisms. Since approximately $40 million of the Federal expenditure is in the form of loans and loan guarantees, a substantial portion of Federal costs should be recovered.

Benefits

The customized program of assistance to the shoe industry will provide advantages for business, labor, consumers and taxpayers:

- No new legislation is required to implement this recovery plan.

- It should increase shoe industry employment.

- The industry will utilize existing excess manufacturing capacity.

- The program should have no appreciable affect on the consumer cost of shoes.

- The plan is a temporary mechanism designed to vitalize the industry, make it self-sufficient and permit it to operate thereafter without trade protection or additional government assistance. It is strictly a temporary program which does the job and gets out.

It is impossible to predict precisely how effective the program will be. Its success will, of course, depend on the fulfillment of retailers' pledges to significantly increase orders to affected manufacturers. The ability and readiness of the individual manufacturing firms to participate in and respond to the team recommendations will also affect its success.

To the extent it is successful, however, the plan may provide a model for a system in which mutual cooperation and support are developed among private business, labor and government in the service of the industry, the community and the employees.

You may wish to announce the shoe vitalization program at a news conference around June 30. This would fulfill your commitment to develop such a program for the industry within ninety days of your April 1 decision on the footwear escape clause case.

If you approve this proposal, I further recommend that you hold the press conference with representatives of the shoe industry present.

____ Approve ____ Disapprove

TAB B

THE WHITE HOUSE

WASHINGTON

July 1, 1977

MEMORANDUM TO: THE PRESIDENT

FROM: Jack Watson Jack
Jane Frank

SUBJECT: SHOE INDUSTRY REVITALIZATION PROGRAM

We are transmitting a memorandum from Sidney Harman proposing a 3-year $60 million program on the captioned subject.

Sidney references the fact that the EPG has approved the general terms of the plan.

Other comments received are:

Strauss:

"...in my opinion, the plan has many imperfections, and I am frankly skeptical (but willing to be proved wrong) that there can be a major turnaround of this declining industry. But I think it is worth a try and I certainly don't have any better plan.

"...I do not concur with the proposal that the President personally announce the shoe program:
1. The plan is basically a business plan and will be viewed as such by Labor. A Presidential announcement of the plan could be adversely perceived as a "business only" orientation by the President.
2. There is a reasonable risk of failure of the program, in part due to industry skepticism and the general scope of the problem. There will also be Hill skepticism.
3. The President's decision on April 1 called for a thorough review of [Trade Adjustment Assistance] TAA as well as a shoe specific program. The overall TAA review is now nearly complete. Since it will include features supported by labor, business and communities, the President should reserve visibility for the overall review. How much Presidential visibility and in what form can await the final product of the review."

Schultze:

"I <u>oppose</u> government getting into the business of advertising footwear...it sets a bad precedent for other industries that might seek similar assistance when sales begin dropping off.

"I have <u>reservations</u> about the retailer program... to identify about 170 troubled shoe firms (out of a total of 380 firms) and to encourage the principal domestic shoe retailers to place or increase orders with those companies...(a) In many cases, domestic shoe lines compete most directly with other domestic shoe lines. This raises the possibility that some of the stronger firms --- many of which are also small, family-owned businesses --- would find themselves <u>losing orders as a result of the government shoe program</u>...(b) There are serious questions whether we should target the program at the bottom rather than the middle. Which group is more likely to survive in the long run?

"I realize that Harman considers the retailer effort as essential to his program, and therefore am not arguing to kill it. But because it has potential problems, <u>I recommend that it not be featured as the first item in your announcement</u>, as it is in Under Secretary Harman's memo. Instead, I <u>would emphasize the technical assistance teams</u> as the centerpiece of the program."

OMB:

"The...proposal is worth trying...[but its] effectiveness...should not be oversold...

"...we recommend that the technical assistance portion be highlighted in public statements.

"While the Commerce estimate of program cost ($60 million) is a reasonable order of magnitude, approval in principle...should not be taken as approval to seek a 1977 supplemental...or a 1978 budget amendment." "...it appears...Commerce will be able to absorb the 1977 and 1978 costs by reprogramming..."

Our Comments:

We underscore the unique circumstances of the shoe industry and urge all precautions to prevent this program from becoming a prototype for other ailing industries. We assume that consultations on the Hill have been extensive, but urge that Tip O'Neill and others from affected states and appropriate committees be fully informed in advance of any announcement. Even though little or no legislation is required, Congress may decide to hold oversight hearings on the plan.

THE WHITE HOUSE

WASHINGTON

| ACTION | FYI | |
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| | | EIZENSTAT |
| | | JORDAN |
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| | ENROLLED BILL |
| | AGENCY REPORT |
| | CAB DECISION |
| | EXECUTIVE ORDER |

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

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THE WHITE HOUSE

WASHINGTON

June 4, 1977

To Jack

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR: THE PRESIDENT

FROM: Jack Watson Jack

SUBJECT: WEEKLY REPORT

Federal Regional Council Study.

As you requested, we have followed up our meeting on May 20th by discussing the FRC proposals with the Cabinet, the Governors and other members of the White House staff. I'll have a report on that subject ready for you on Monday.

Energy Activities.

My staff is continuing to work with Jim Schlesinger's staff on several out-reach activities involving the departments and state and local governments. We convened a meeting of departmental representatives with Jim Bishop and Kevin Gorman of Jim Schlesinger's staff where it was agreed that each department would take the following actions to facilitate Jim's outreach efforts on behalf of the National Energy Plan:

(1) Provide informed staff to operate an Energy Hotline;

(2) Provide travel schedules for top officials to be used in coordinating speaking requests;

(3) Provide examples of all departmental literature relating to energy for review and update, if necessary, by Jim's staff.

We are also trying to determine whether a meeting with all fifty governors would serve a useful purpose at this time. no

IGR Information Activities.

We distributed to the Governors and 50 Mayors a list of departmental contacts whom they can call to discuss personnel appointments. The cover letter and list are attached for your information.

We also sent a letter to each Governor outlining the impact of your Environmental Message on each affected state. An example is attached. Responses to both letters have been numerous and extremely supportive.

Defense Procurement.

Bruce Kirschenbaum is working with an intergovernmental group consisting of OMB, DOD, GAO, Congress and Stu's staff to develop guidelines for targeting procurement in minority and small businesses and in businesses in high unemployment areas. Stu and I will send you a memorandum on the subject next week to seek your general guidance.

Minority Business Enterprise.

Bunnie Mitchell, a member of Stu's staff, and I met on Wednesday of this week with Vernon Weaver of SBA, Randy Blackwell of the Office of Minority Busienss Enterprise, and others, to discuss ways in which we can maximize the Administration's impact in the minority business area. We have asked for an analysis of existing laws, regulations and funding allocations to be submitted by Wednesday of next week, and we expect to have a report on that subject for you within the next two weeks.

Military Installations.

I met with Charles Duncan again this week, continuing our discussions of defense base closings. We should have an in-depth report to you late next week.

The Milliken Project.

Jim Parham continues to coordinate the federal working group on Bill Milliken's urban service delivery rpoject. The first meeting was held last week; Jim reports good progress.

White House Conference on HIRE.

Larry Bailey of my staff is assisting Ray Marshall in planning for the Conference on June 14. About 250 representatives of the National Alliance of Business, veterans organizations and labor groups will attend. A complete list of participants and the agenda will be forwarded to you next week. Ray is counting on your making a brief appearance at the meeting.

Intergovernmental Meeting.

We are co-hosting a meeting between the departmental IGR leaders and the major state and local public interest groups on June 20 to facilitate consultation between the departments and those groups (e.g., U. S. Conference of Mayors, National Governors' Conference, National League of Cities, National Association of Counties, etc.).

Speeches.

During the last couple of months, the following are representative of the kinds of groups to which I have spoken:

Atlanta Chapter, American Society of Public Administrators;
National Security Industrial Association;
Mercer Law School - Law Day;
The Commercial Club of Boston;
White House Fellows Alumni Group;
The National Conference of State Legislators;
The Urban County Executives of the National Association of Counties;
U. S. Conference of Mayors;
The National League of Cities;
The National Association of Regional Councils;
The Federal Executive Institute;
Brookings Institution - Business Executives Seminars;
National Association of Attorneys General;
Executive Women International, National Convention.

Mail.

As you know, the mail you receive from Governors, Mayors and all other elected officials is routed to my office for response. I have attached a summary report to me outlining the kinds of mail handled last week.

Annual Meeting of U.S. Conference of Mayors.

Bruce Kirschenbaum of my staff will attend the U.S.C.M. Annual Meeting on June 11 - 15. Juanita Kreps and Pat Harris are both giving keynote addresses to the convention, and Pat plans to spend several days there. I am tentatively planning to go out for one day of the meeting. I think it would be a good idea for you to make a short telephone call to one of their plenary sessions. If you agree, I will arrange the time and suggested comments with Tim Kraft.

____ Yes      ✓ No

J

May 23, 1977

Dear Governor Hammond:

This week the President is sending to the Congress his Environmental Message. In the Message, the President stressed that environmental issues are broad in reach, extending to health, the work place, and the urban environment, as well as traditional concerns about pollution, wilderness, and wildlife.

In addition, the President stressed his intentions to work closely with state and local governments to implement the various programs and initiatives he outlined.

In your State of Alaska you will notice that he has proposed the following:

-- to enlarge Kenai Moose Range proposed wilderness;

-- Wild and Scenic River study of Delta River;

-- Wild and Scenic River study of Gulkana River.

If you have any questions, please do not hesitate to call Charles Warren, Council on Environmental Quality, at (202) 382-5948.

Sincerely,

Jack H. Watson, Jr.

The Honorable Jay S. Hammond
Governor of Alaska
Juneau, Alaska 99801

JHW:kar

May 18, 1977

Dear Mayor Cockrell:

In an effort to facilitate your contacts with the Cabinet Departments regarding personnel appointments in which you have a special interest, the President asked Cabinet members to submit to him the names of people in their Departments whom you might call to discuss such appointments. I am enclosing a list of those names for your information and use.

We value and appreciate your continuing advice and help.

Sincerely,

Jack H. Watson, Jr.

The Honorable Lila Cockrell
Mayor of San Antonio
San Antonio, Texas

Enclosure

JHW:ckb

cc: Members of the Cabinet

Attachment

| DEPARTMENT | CONTACT | Telephone Area Code (202) |
| --- | --- | --- |
| State | Richard Moose<br>Deputy Under Secretary<br>for Administration<br>Room 7207<br>Washington, D.C. 20520 | 632-1500 |
| Treasury | Bill Beckham<br>Assistant Secretary<br>for Administration<br>Room 3442<br>Washington, D.C. 20220 | 566-5391 |
| Defense | John Kester<br>Special Assistant<br>Room 3E880<br>Washington, D.C. 20301 | 697-8388 |
| Justice | Michael Egan<br>Associate Attorney General<br>Room 5133<br>Washington, D.C. 20530 | 739-2107 |
| Agriculture | Lee Corcoran<br>Assistant to the Secretary<br>Room 200A<br>Washington, D.C. 20250 | 447-5538 |
| Commerce | Anne Wexler<br>Deputy Under Secretary<br>for Regional Programs<br>Room 5898<br>Washington, D.C. 20230 | 377-2971 |
| Interior | Chuck Parrish<br>Assistant to the Secretary<br>Room 6151<br>Washington, D.C. 20240 | 343-7351 |

Attachment
Page two

| DEPARTMENT | CONTACT | Telephone Area Code (202) |
|---|---|---|
| Labor | Paul Jensen<br>Executive Assistant<br>Counselor<br>Room S2018<br>Washington, D.C. 20210 | 523-8274 |
| Health, Education and Welfare | Ben Heineman, Jr.<br>Executive Assistant<br>to the Secretary<br>Room 615F<br>Washington, D.C. 20201 | 245-7163 |
| Housing and Urban Development | Randy Kinder<br>Deputy Assistant Secretary<br>for Intergovernmental Affairs<br>Room 10120<br>Washington, D.C. 20410 | 755-6954 |
| Transportation | Alan Butchman<br>Deputy Secretary<br>Room 10200<br>Washington, D.C. 20590 | 426-2222 |

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

May 30, 1977

TO: JACK WATSON
FROM: MARCIA THOMAS
RE: MAIL - WEEK OF MAY 23 - 27.

There was no general trend to the mail this week. The only major categories were responses to the energy plan, responses to the Hospital Cost Containment Act, and "too-late" responses to the FRC study. Following is a more detailed breakdown of these categories.

THE ENERGY PLAN

1. Governor Bordallo (Guam) - general support of "fundamental principles." He has taken steps to appoint citizens' energy advisory committee. Points out Guam's 100% dependency on foreign imports.

2. Governor Hunt (N.C.) - short note of support. Enclosed a 3 column article headlined "Governor Hunt Backs Carter Energy Policy." (News and Observer, 5/24/77).

3. Mayor Young (Detroit) - Detroit is "gravely interested in the President's Energy Plan." Will continue to energy conscious.

4. Mayor Corica (Alameda, Ca.) - general support.

THE HOSPITAL COST CONTAINMENT ACT

1. Governor Ariyoshi (Hawaii) - strong support. Has issued directive to state agency to develop a State Health Facilities Master Plan and to enforce HCCA.

2. Governor Evans (Idaho) - Qualified support. ("will support some type of cost containment legislation.") Suggested some refinements of H.R. 6575 (i.e., special consideration of hospitals currently meeting 3% operating costs).

3. Governor Hammond (Alaska) - support of intent but believes some details of the legislation diminish its positive effect. Enclosed copies of two studies on the bill.

4. Governor Teasdale (Missouri) - strong support.

RESPONSES TO CETA LETTER

1. Mayor Tyree (Knoxville) - full support. Their current program already meeting 35% level for veterans.

2. Governor Hammond (Alaska) - full support. Mentions decrease in pipeline activity and its special effect on unemployment.

3. Mayor Cockrell (San Antonio) - full support.

4. Mayor McNichols (Denver) - support.

5. Mayor Makowski (Buffalo) - full support.

6. Roy Suzewitz (Chairman, Macon County Board, Illinois) - support.

LATE RESPONSES TO FRC STUDY

1. Governor Bennett (Kansas)
2. Governor Hunt (N.C.)
3. Governor Mandel (Md.)
4. Mayor Rose (Chattanooga)
5. ERDA - Robert Fri, Administrator
6. Community Services Administration (Graciela Olivarez).
7. Agency for International Development (James T. McMahon).

MISCELLANEOUS

-- Two letters from Governor Longley (Maine)
   1. Appealing to the President to help continue Maine Drug Enforcement Program which was cut back. Notes May 15 $2 million marijuana raid.

   2. Sent President copy of his letter to Bert Lance re his displeasure with Robert Fecteau's remarks about his governorship.

-- Governor Ray (Iowa) - concerning the DOL giving Iowa 30 days to make their Department of Job Services policy re SUA claimants consistent with Title II of P.L. 93567 (payment of unemployment insurance to school personnel during Christmas vacation). Claims this is illogical and wants investigation before any termination of Iowa Sua agreement.

-- Governor Evans (Idaho) - Letter to Jack thanking for quick emergency declaration, but noting confusion in getting the actual federal assistance. Suggests congressional action to allow a more flexible federal response to emergency situations.

-- Governor Straub (Oregon) - supporting development of a National Heritage Trust Program.

-- Mayor Beame (N.Y.) - requesting the President approve the U.S. International Trade Commission recommendation to impose shoe import quotas.

-- Joe L. Evins (Special Asst. to Gov. Blanton, Tenn.)- re his continued displeasure with Water Projects Review Commission.

-- Ed Sawyer (President, Arizona State Senate) - re Alaskan Natural Gas Pipeline.

THE WHITE HOUSE

WASHINGTON

June 4, 1977

To Jack

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR: THE PRESIDENT

FROM: Jack Watson Jack

SUBJECT: WEEKLY REPORT

Federal Regional Council Study.

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(2) Provide travel schedules for top officials to be used in coordinating speaking requests;

(3) Provide examples of all departmental literature relating to energy for review and update, if necessary, by Jim's staff.

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IGR Information Activities.

We distributed to the Governors and 50 Mayors a list of departmental contacts whom they can call to discuss personnel appointments. The cover letter and list are attached for your information.

We also sent a letter to each Governor outlining the impact of your Environmental Message on each affected state. An example is attached. Responses to both letters have been numerous and extremely supportive.

Defense Procurement.

Bruce Kirschenbaum is working with an intergovernmental group consisting of OMB, DOD, GAO, Congress and Stu's staff to develop guidelines for targeting procurement in minority and small businesses and in businesses in high unemployment areas. Stu and I will send you a memorandum on the subject next week to seek your general guidance.

Minority Business Enterprise.

Bunnie Mitchell, a member of Stu's staff, and I met on Wednesday of this week with Vernon Weaver of SBA, Randy Blackwell of the Office of Minority Busienss Enterprise, and others, to discuss ways in which we can maximize the Administration's impact in the minority business area. We have asked for an analysis of existing laws, regulations and funding allocations to be submitted by Wednesday of next week, and we expect to have a report on that subject for you within the next two weeks.

Military Installations.

I met with Charles Duncan again this week, continuing our discussions of defense base closings. We should have an in-depth report to you late next week.

The Milliken Project.

Jim Parham continues to coordinate the federal working group on Bill Milliken's urban service delivery rpoject. The first meeting was held last week; Jim reports good progress.

White House Conference on HIRE.

Larry Bailey of my staff is assisting Ray Marshall in planning for the Conference on June 14. About 250 representatives of the National Alliance of Business, veterans organizations and labor groups will attend. A complete list of participants and the agenda will be forwarded to you next week. Ray is counting on your making a brief appearance at the meeting.

Intergovernmental Meeting.

We are co-hosting a meeting between the departmental IGR leaders and the major state and local public interest groups on June 20 to facilitate consultation between the departments and those groups (e.g., U. S. Conference of Mayors, National Governors' Conference, National League of Cities, National Association of Counties, etc.).

Speeches.

During the last couple of months, the following are representative of the kinds of groups to which I have spoken:

Atlanta Chapter, American Society of Public Administrators;
National Security Industrial Association;
Mercer Law School - Law Day;
The Commercial Club of Boston;
White House Fellows Alumni Group;
The National Conference of State Legislators;
The Urban County Executives of the National Association of Counties;
U. S. Conference of Mayors;
The National League of Cities;
The National Association of Regional Councils;
The Federal Executive Institute;
Brookings Institution - Business Executives Seminars;
National Association of Attorneys General;
Executive Women International, National Convention.

Mail.

As you know, the mail you receive from Governors, Mayors and all other elected officials is routed to my office for response. I have attached a summary report to me outlining the kinds of mail handled last week.

Annual Meeting of U.S. Conference of Mayors.

Bruce Kirschenbaum of my staff will attend the U.S.C.M. Annual Meeting on June 11 - 15. Juanita Kreps and Pat Harris are both giving keynote addresses to the convention, and Pat plans to spend several days there. I am tentatively planning to go out for one day of the meeting. I think it would be a good idea for you to make a short telephone call to one of their plenary sessions. If you agree, I will arrange the time and suggested comments with Tim Kraft.

____ Yes ✓ No

J

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Hamilton Jordan -

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

**Rick Hutcheson**

Re: National Science Board
Dr. Joe Pettit

THE WHITE HOUSE
WASHINGTON

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THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 3, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HAMILTON JORDAN H.J.

SUBJECT: National Science Board

There is one vacancy on the 24 member National Science Board, the governing body of the National Science Foundation.

Frank Press has made a careful study of the Board (he has served as a member himself) and believes the Board needs someone with engineering and applied science perspective. Recommendations have been received from engineering societies and the Congress among others. Among those recommended was Dr. Joseph Pettit, President of Georga Tech. Frank's choice from the names submitted is Joe Pettit, and Bert Lance is strongly in favor of this appointment.

We have ascertained that this would be favorably received in the scientific community, and I recommend you approve Joe Pettit for membership on the Science Board for a term ending May 1982.

APPROVE Dr. Pettit ✓

Give me Other Names ______

with pleasure

JC

Attachment: Bio

Joseph Mayo Pettit
President
Georgia Institute of Technology
Atlanta, Georgia

## Education

| | |
|---|---|
| 1938 | B.S., University of California at Berkeley |
| 1940 | E.E., Stanford University |
| 1942 | Ph.D., Stanford University |

## Experience

| | |
|---|---|
| 1972- | President, Georgia Institute of Technology, Atlanta |
| 1958-72 | Dean, School of Engineering, Stanford |
| 1955-58 | Associate Dean, Engineering, Stanford |
| 1947-55 | Professor, Electrical Engineering, Stanford |
| 1945-45 | Supervising Engineer, Airborne Instruments Lab, Inc. New York, N.Y. |
| 1945- | Associate Technical Director, American British Lab, ETO |
| 1944- | Technical Observer, USAF, India-China |
| 1942-45 | Asst. Executive Engineer, Radio Research Lab, Harvard |
| 1940-42 | Instructor, University of California, Berkely |

## Public Service and Other Data

Director, Varian Associates; Scientific Atlanta, Inc.; Georgia Motor Club, Inc.; Member, Army Science Advisory Panel, 1957-63; Recipient, Presidential Certificate Merit; Electronics Achievement award I.R.E.; Registered professional engineer; Cal. Fellow IEEE., American Association for the Advancement of Sciences; Member, National Academy of Engineering, American Society for Engineering; Edn. (President, 1972-73); Georgia Academy of Sciences; Atlanta Chamber of Commerce (Dir.); Conglist Rotarian Clubs, University (N.Y.C.).

## Personal

Married, 3 children

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Hugh Carter -

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

**Rick Hutcheson**

Re: Newspapers

THE WHITE HOUSE
WASHINGTON

6-5-77

To Hugh Carter

Can I get the Sunday papers early in the morning? Maybe cancel subscription for Sun. & buy at newsstand - POST - STAR - TIMES -

J

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Z. Brzezinski -

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

**Rick Hutcheson**

Re: Phone Call to
Jayaprakash Narayan

THE WHITE HOUSE
WASHINGTON

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THE PRESIDENT HAS SEEN.

# Carter talks with JP on telephone

By T. V. PARASURAM

Express Correspondent

WASHINGTON, May 19.

President Carter yesterday telephoned Mr Jayaprakash Narayan at the Medical Centre in Brooklyn, New York, a few hours before Mr Narayan's departure for London, to enquire about his health.

The call from the White House startled a nurse and she gave the phone to Dr I. K. S. Rao who had been supervising Mr Narayan's dialysis. He quickly gave the phone to Mr Narayan. Mr Carter asked Mr Narayan how the operation in Seattle had gone, how he felt now and how he had been treated while he was in hospital. Mr Narayan replied that he was better now, the operation had gone quite well and everyone had been very good and kind to him. He thanked Carter warmly for his concern about his health and assured him that the people of India were very warm towards him. Mr Carter requested Mr Narayan to convey his best wishes to the Prime Minister, Mr Morarji Desai, to which Mr Narayan replied that he would do so as soon as he was able to see him.

After the conversation, Mr Narayan said that there could not be a President more democratic and human than Mr Carter.

The State Department sent Mr Dennis Kux Country director to represent the US Government at the send-off at Kennedy Airport.

Before leaving the hospital, Mr Narayan addressed a gathering of Americans who had been active in the Committee for Democracy in India, including Mr Roger Baldwin, Mr Sydney Hertzberg, Mr Marjorie Sykes, Mr Charles Walker, Mr Eigal Roodenko and Dr Homer Jack, members of the Indians for Democracy and Association of Indians in America.

Introducing Mr Narayan, the Ambassador, Mr Kewal Singh, said that Mr Narayan had dedicated every moment of his life to the service of the nation. Recently he had brought about a peaceful revolution without any violence. "Because of him," said Mr Kewal Singh, "democracy, human rights and humanism have been restored to the nation."

Mr Narayan said that what happened in India was a peaceful revolution. He was only a small instrument in it. It was mainly the work of the Indian people, particularly of youth. "You should be proud of your brothers and sisters at home," said Mr Narayan. "They have dispelled the fear that the Sun of Indian democracy was setting".

Members of the Indians for Democracy had brought some gifts for him. Mr Narayan, however, ruled out gifts.

Dr Eli Friedman, who was responsible for the dialysis centre at the hospital, promised Mr Narayan a "suitcase kidney". This is a miniaturised version of the dialysis machine weighing about 27 pounds. It is ideal for people who have to have dialysis while travelling. However, some training is required in its use.

Dr Rao introduced to Mr Narayan a 52-year-old woman who has been on dialysis for 14 years and a doctor who hopes soon to be a kidney specialist and who has been on dialysis for 11 years. Dr Rao said that 40,000 people were on dialysis in the United States.

By coincidence, the new American Ambassador to India, Dr Goheen, left the same day for India though by a different plane. He too is expected to arrive in India on Saturday. Dr Goheen met both President Mr Carter and the Secretary of State, Mr Cyrus Vance, earlier this week. They expressed the hope that Indo-American relations would be further improved during Dr Goheen ambassadorship.

Meanwhile, over 40 members of the House of Representatives headed by Congressman Fraser, have sent a letter to Mr Carter urging support for India because of its dedication to democracy and human rights.

Mr Jayaprakash Narayan being greeted by well-wishers as he leaves a Seattle hospital. Helping him into the wheelchair is his surgeon, Dr Robert Mack. — AP radiophoto.

Mr. President:

Good deeds are rewarded not only in heaven; they pay political dividends!

Zbig.

not incompatible

J

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Frank Moore -

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

**Rick Hutcheson**

Re: Call to Jack Brooks

THE WHITE HOUSE
WASHINGTON

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THE PRESIDENT HAS SEEN.

no answer
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THE WHITE HOUSE

WASHINGTON

June 3, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

The energy bill passed the House, 310-21.

Jack Brooks called to let me know this. He has worked long and hard on the bill and is excited and proud of the victory. You might want to give him a call to thank him. He has stayed with us on a number of matters including the consumer protection bill.

His phone # is 225-6565.

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Gretchen Poston -

For your information the attached was returned in the President's outbox.

In the future, please send all memos thru me. Thanks.

Rick Hutcheson

Re: Guest for Venezuela Dinner

THE WHITE HOUSE
WASHINGTON

Note to gutchen - please send all memos thru me Thanks - Rick

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MEMORANDUM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT
VIA SUSAN CLOUGH

FROM: GRETCHEN POSTON Gp

DATE: 2 June 1977

SUBJECT: ADDITION TO LIST FOR VENEZUELA

Following discussion with Ambassador Dobelle, I have added thenames of Ambassador and Mrs. Orfila (OAS) to the list of guests to attend the dinner for President Perez, of Venezuela.

C

31

WASHINGTON

Date: June 6, 1977

MEMORANDUM

FOR ACTION:

Hamilton Jordan

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Charlie Schultze memo 6/6 re Appointment of the Chairman for the National Center for Productivity and Quality of Working Life.

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 7:00 P.M.

DAY: Wednesday

DATE: June 8, 1977

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

*Please note other comments below:*

Rick —
I sent this back to Ray Marshall for more information —
Landon —

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

Date: 6/6

To: Rich H.

From: Peter G

attached memo went direct to Jack Watson (Gale Matheson) per his request.

P G.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 6, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

SUBJECT: Appointment of the Chairman for the National Center for Productivity and Quality of Working Life

Ray Marshall recommends that he be named Chairman of the Board of Directors of the National Center.

Four Administration officials -- the Secretaries of Treasury, Labor, Commerce, and the Director of the Federal Mediation and Conciliation Service -- are members by statute. In the previous administration Vice President Rockefeller was Chairman.

The Center has a public image that is neutral between management and labor. While I have no substantive reason for thinking that Ray Marshall would not make a good Chairman, there is some question as to whether or not his appointment would injure the Center's neutrality image. Before making this decision, you may want to ask Juanita Kreps to check with some business leaders whether this appointment would undermine the Center's neutral image. If so, you may want to consider making Vice President Mondale the Chairman.

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Charlie Schultze

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

**Rick Hutcheson**

Re: Consumer Agency Bill
Labor-Management Group
Cargo Preference
Tax Reform

THE WHITE HOUSE

WASHINGTON

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THE PRESIDENT HAS SEEN.

To Schultze
J

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 3, 1977

1977 JUN 3 PM 2 37

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

SUBJECT: CEA Weekly Report

Energy Taxes. My staff has been participating in an interagency group that is devising options for dealing with the gas guzzler taxes and rebates as they affect imports.

Consumer Agency. Members of my staff, working with OMB, the Domestic Council, and Esther Peterson's office, are examining a section of the Senate ACA bill that requires cost/benefit analyses of all major government regulations. The proposal in this legislation represents a step backward from the existing economic impact statement program. Staff from these agencies will sit down with Capitol Hill staff next week to discuss ways to improve or remove this provision of the bill. Development of our own Economic Impact Analysis program is progressing. Why not delete?

Labor-Management Group. Barry Bosworth, of the CEA staff, is heading an Administration task-force that is working with a group led by John Dunlop to develop by June 30 a joint background paper on the current economic situation. This paper will be presented to the labor-management group led by Reg Jones and George Meany, and is to serve as a platform for their discussions. Keep me informed

Cargo Preference. An interagency task force under the aegis of the EPG is working out options for a Cargo Preference proposal. It has proven difficult to develop proposals that are economically sound, acceptable in terms of budget cost, and yet satisfy the political forces pushing for this legislation. Emphasis 1st 2

Adjustment Assistance. Members of my staff continue to work with other agencies to develop an adjustment assistance program for industries affected adversely by imports. You promised a new proposal by June 30.

Tax Reform. We are continuing to examine alternative tax reform proposals, with particular emphasis on investment stimulation. Let Pechman assess Treasury plan - C

Forecasting Group. A number of top economic forecasters from universities, business, and labor, brought together by Larry Klein, met on Wednesday with the Forecasting team from CEA, Labor, Treasury, OMB, and Commerce to discuss the economic outlook. Their comments were solicited as part of our mid-year forecast review.

THE WHITE HOUSE
WASHINGTON

June 6, 1977

Stu Eizenstat -

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

**Rick Hutcheson**

Re: Tax Expenditure Items
Alternate Capital Formation Programs

THE WHITE HOUSE
WASHINGTON

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

THE PRESIDENT HAS SEEN.

June 4, 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Tax Expenditure Items

The two memoranda in this packet both concern tax expenditures not now in the income tax base.

Memorandum I is a summary of significant tax expenditures not subject to tax, grouped by Treasury proposals, possible additional proposals and the remaining tax expenditure items. The revenue involved in each item is listed.

The somewhat more extensive memorandum II is a description of significant tax expenditure items not subject to tax. This memorandum is divided into categories of excluded income, measures to improve compliance, itemized deductions, foreign areas, business preferences, special problems relating to the timing of income or deductions (tax shelters) and problems involving the status of individuals. The tax treatment under present law is described for each tax expenditure item. This is followed by comments on the item, an indication as to whether a change in the item is a Treasury proposal, or whether a change in the item may nevertheless be deserving of consideration.

The tax base under (a) present law, (b) a comprehensive tax base, (c) the Treasury proposals, and (d) the possible additional proposals are shown in the tabulation attached. This tabulation also shows the overall effective rates of tax and the range of marginal rates implied by the different groupings.

Mike

W. Michael Blumenthal

Tax and Tax Rates Under Various Alternatives

| | Present Law | Comprehensive Base | Treasury Proposal | Possible Alternative Program |
|---|---|---|---|---|
| Tax | $136 bil. | $214 bil. | $152 bil. | $167 bil. |
| Overall effective rate on taxable income | 20% (after 1977 Act) | 12.7% | 17.9% | 16.2% |
| Range of marginal rates | 14-70 | 8-32* | 13-50* | 12-45* |
| | | (conversion of exemption to credit provides further tax reduction in lower brackets) | | |

* Assuming an overall loss of about $12 billion.

June 4, 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Tax Expenditure Items

The two memoranda in this packet both concern tax expenditures not now in the income tax base.

Memorandum I is a summary of significant tax expenditures not subject to tax, grouped by Treasury proposals, possible additional proposals and the remaining tax expenditure items. The revenue involved in each item is listed.

The somewhat more extensive memorandum II is a description of significant tax expenditure items not subject to tax. This memorandum is divided into categories of excluded income, measures to improve compliance, itemized deductions, foreign areas, business preferences, special problems relating to the timing of income or deductions (tax shelters) and problems involving the status of individuals. The tax treatment under present law is described for each tax expenditure item. This is followed by comments on the item, an indication as to whether a change in the item is a Treasury proposal, or whether a change in the item may nevertheless be deserving of consideration.

The tax base under (a) present law, (b) a comprehensive tax base, (c) the Treasury proposals, and (d) the possible additional proposals are shown in the tabulation attached. This tabulation also shows the overall effective rates of tax and the range of marginal rates implied by the different groupings.

W. Michael Blumenthal

Tax and Tax Rates Under Various Alternatives

| | Present Law | Comprehensive Base | Treasury Proposal | Possible Alternative Program |
|---|---|---|---|---|
| Tax | $136 bil. | $214 bil. | $152 bil. | $167 bil. |
| Overall effective rate on taxable income | 20% (after 1977 Act) | 12.7% | 17.9% | 16.2% |
| Range of marginal rates | 14-70 | 8-32* | 13-50* | 12-45* |
| | | (conversion of exemption to credit provides further tax reduction in lower brackets) | | |

* Assuming an overall loss of about $12 billion.

June 4, 1977

I. Summary of Significant Tax Expenditures Not Subject to Tax, Grouped by Treasury Proposals, Possible Additional Proposals, and All Other

- Tax Expenditure Items Taxed by Treasury Proposal

| | | Full-Year Revenue Effect (1976 Law and Levels) ($ billions) |
|---|---|---|
| **Excluded Income:** | | |
| 1. (I,A) | Tax capital gains as ordinary income; limit losses on marketable securities to gains plus $8,000 | 4.4 |
| 2. (I,C) | Limit charitable deduction on marketable securities, real property and tangible personal property where given for exempt purpose of donee so that after tax benefit of gift does not exceed after tax proceeds of sale | - |
| 3. (I,D) | Give local governments authority to issue taxable bonds with partial subsidy--35%-40% reimbursement of interest by U.S. | -0.5 |
| 4. (I,E,4) | Require employer financed health plans to cover employees on a nondiscriminatory basis | * |
| 5. (I,G) | Repeal $100 exclusion | 0.4 |
| **Measures to Improve Compliance:** | | |
| 6. (II) | Withhold tax on interest by payors | 1.4 |
| **Itemized Deductions:** | | |
| 7. (III,A, B) | Combine medical and casualty deduction, limit to excess over 10 percent of AGI; place health insurance premiums under floor | 1.3 |
| 8. (III,C) | Repeal deduction for gasoline and sales taxes, miscellaneous taxes | 2.5 |
| 9. (III,D) | Limit personal interest (home mortgage, consumer loan) and investment interest combined to investment income plus $10,000 | 0.1 |

* Less than 0.05 billion.

| | | ($ billions) |
|---|---|---|
| **Foreign Areas:** | | |
| 10. (IV,A) | Repeal tax treatment of DISCs | 1.2 |
| 11. (IV,B) | Modify earned income exclusion for foreign income to housing and education allowance | * |
| 12. (IV,D) | Tax shipping income | 0.1 |
| **Business Preferences:** | | |
| 13. (V,A) | Cut back percentage depletion on hard minerals by 50 percent | 0.4 |
| 14. (V,D) | Repeal special bad debt allowance for commercial banks; cut back reserve for losses for S&Ls | 0.4 |
| **Timing Problems--Tax Shelters:** | | |
| 15. (VI,A, 2) | Change depreciation of real estate to limit writeoff over a 10-year period of the difference between basis and estimated salvage value at the end of the 10-year period. Recompute depreciable amount for each successive 10-year period to difference between basis at the beginning of the period and estimated salvage at the end of the 10-year period. Salvage value cannot be below principal balance of outstanding mortgage. Do not change rules for low-income housing | 0.8 |
| 16. (VI,B, 2) | Repeal family corporation exemption on farm accrual reporting | 0.1 |
| **Status of Individuals:** | | |
| 17. | Convert personal exemption and general credit to a single credit | 6.5 |

* Less than 0.05 billion.

Additional Tax Expenditure Items Taxed by Possible Alternative Program

| Excluded Income: | | ($ billions) |
|---|---|---|
| 1. (I,B) | Tax one-half of appreciation on property transferred at death, but give full basis step up to fair market value; permit elective carryover basis for closely held businesses, farms, qualifying marital transfer to surviving spouse; exempt residence, ordinary tangible personalty; tax one-half of appreciation on property transferred by gift, but step up basis only to extent of recognized gain | 1.5 |
| 2. (I,D) | Give local governments authority to issue taxable bonds with partial subsidy--35%-40% reimbursement of interest by U.S., but provide that interest on industrial revenue bonds must be taxable | 0.3 |
| 3. (I,E,3) | Reduce exclusion of employer paid premiums from group term life insurance of $50,000 to $25,000 | 0.2 |
| 4. (I,E,5) | Repeal exclusion of employer financed prepaid legal insurance | * |
| 5. (I,E,8) | Deny deduction for one-half of club dues, tickets claimed as business expense | 0.5 |
| 6. (I,F,1) | Tax Social Security, Railroad Retirement, Veterans' Benefits | 3.6 |
| 7. (I,F,2) | Tax unemployment insurance payments | 3.3 |
| 8. (I,H) | Tax interest element in insurance and annuity contracts | 1.7 |
| 9. (I,I) | Repeal scholarship and fellowship exclusion beyond tuition and fees | 0.1 |
| Itemized Deductions: | | |
| 10. (III,D) | Limit personal interest (home mortgage, consumer loan) and investment interest combined to investment income plus $5,000 | * |
| 11. (III,E) | Limit deduction of charitable contributions to excess over 3% of AGI, or $5,000, if less; allow outside standard deduction | 2.3 |

* Less than 0.05 billion.

($ billions)

| | | |
|---|---|---|
| 12. (III,F) | Eliminate deductions (not credit) for political contributions | * |

Foreign Areas:

| | | |
|---|---|---|
| 13. (IV,C) | Eliminate deferral of tax on income of controlled foreign corporations | 0.6 |

Business Preferences:

| | | |
|---|---|---|
| 14. (V,C) | Repeal jobs credit | 2.5 |
| 15. (V,G) | Repeal WIN credit | * |

Timing Problems--Tax Shelters:

| | | |
|---|---|---|
| 16. (VI,A, 1) | Reduce ADR variance to 10 percent As Dep Rate | 1.9 |

Status of Individuals

| | | |
|---|---|---|
| 17. (VII,E) | Permit IRS to treat failure to claim earned income credit as an arithmetic error | negative * |

## Additional Tax Expenditure Items Taxed by Comprehensive Tax Base

| Excluded Income: | | ($ billions) |
|---|---|---|
| 1. (I,B) | Tax all gains on disposition by gift or bequest | 5.8 |
| 2. (I,C) | Limit charitable contribution deductions of property to cost (basis) | 0.6 |
| 3. (I,D) | Repeal exemption of municipal bond interest (for future issues) | 5.0 |
| 4. (I,E, 1&2) | Tax vested pension contributions and deferred compensation currently | 8.4 |
| 5. (I,E,3) | Repeal exclusion of employer paid premiums on group term life insurance of $50,000 | 1.4 |
| 6. (I,E,4) | Tax employer financed health coverage currently | 4.5 |
| 7. (I,E,6) | Tax employer financed disability insurance | 0.4 |
| 8. (I,E,7) | Tax compensation portion of workmen's compensation payments, disability pensions for veterans and military, military fringe benefits, meals and lodging for conveience of employer | 3.5 |
| 9. (I,E,8) | Deny deduction for club dues, tickets, limit business meals to fixed dollar amounts; allow deductions for travel for tourist class only | 0.5 |
| 10. (I,E,9) | Require taxation of fringe benefits administratively | * |
| 11. (I,F,1) | Tax Black Lung payments | 0.1 |
| 12. (I,F,3) | Tax welfare payments based on need | 0.1 |
| 13. (I,I) | Repeal exclusion for scholarships and fellowships entirely | 0.1 |

* Less than 0.05 billion.

($ billions)

Itemized Deductions:

| | | |
|---|---|---|
| 14. (III, A&B) | Repeal deductions for medical expenses and casualty losses entirely | 1.3 |
| 15. (III,C) | Repeal deductions for all state and local taxes, including on income and real property | 11.3 |
| 16. (III,D) | Disallow consumer loan interest; limit home mortgage and investment interest to investment income | 6.9 |
| 17. (III,E) | Repeal deduction for charitable contributions | 3.1 |
| 18. (III,F) | Eliminate deductions and credit for political contributions | * |

Puerto Rico & Virgin Is

Foreign Areas:

| | | |
|---|---|---|
| 19. (IV,E) | Repeal special exemption for possessions income | 0.2 |

Business Preferences:

| | | |
|---|---|---|
| 20. (V,A) | Repeal percentage depletion on hard minerals entirely as well as oil and gas | 0.9 |
| 21. (V,B) | Repeal investment credit | 9.5 |
| 22. (V,D) | Repeal deduction for reserve for losses for S&Ls entirely | 0.1 |
| 23. (V,E) | Tax credit unions as mutual thrift organizations | 0.2 |
| 24. (V,F) | Repeal surtax exemption for corporations | 5.1 |

Timing Problems--Tax Shelters:

| | | |
|---|---|---|
| 25. (VI,A, 1) | Repeal 20 percent ADR variance | 1.1 |
| 26. (VI,A, 2) | Limit real estate depreciation to straight-line; eliminate low-income housing exception to Treasury proposal | 0.6 |

* Less than 0.05 billion.

| | | ($ billions) |
|---|---|---|
| 27. (VI,A, 2) | Fully capitalize construction period interest and taxes | * |
| 28. (VI,A, 3) | Repeal special first-year depreciation | 0.2 |
| 29. (VI,A, 4-6) | Repeal all special amortization provisions such as pollution control facilities, railroad rolling stock, housing rehabilitation | 0.1 |
| 30. (VI,B, 2) | Require capitalization of intangible drilling costs | 0.7 |
| 31. (VI,B, 2) | Require all farmers to use accrual reporting | 0.4 |
| 32. (VI,B, 3) | Repeal special provisions for exploration and development | 0.1 |
| 33. (VI,B, 4) | Repeal deduction for research and development | 1.3 |
| 34. (VI,B, 4) | Repeal expensing of removal of barriers to handicapped | * |
| <u>Status of Individuals</u>: | | |
| 35. (VII,B) | Repeal child care credit | 0.8 |
| 36. (VI,C) | Repeal retirement income credit | 0.5 |
| 37. (VI,D) | Repeal extra exemption for aged | 1.2 |
| 38. (VI,E) | Repeal extra exemption for blind | * |
| 39. (VI,F) | Repeal earned income credit | 1.0 |

* Less than 0.05 billion.

June 4, 1977

II. Description of Significant Tax Expenditure Items Not Subject to Tax

| | Full-Year Revenue Effect 1976 Income Level ($ billions) |
|---|---|
| **I. Excluded Income** | |
| A. Capital Gains: Exclusion of one-half of long-term capital gain and 25 percent maximum rate for first $50,000 of gain.<br><br>Comment: The major source of complexity. Elimination would probably require top individual rate of 50 percent.<br><br>Treasury Proposal: Capital gains would be taxed as ordinary income. Capital losses would be allowed in full except that losses from marketable securities would be allowed only to extent of gains plus $8,000 a year. | 4.4 |
| B. Taxation of Gain on Property Transferred by Gift or Bequest:<br><br>Old law permitted complete escape of accrued gain on transfer at death. For gifts the cost or other basis (plus gift tax) of donor is the basis for computing gain where donee sells property. 1976 Tax Reform Act substituted carryover of basis for transfers at death (deferral of taxation on transfer by bequest until ultimately sold by heir). | 7.3 |
| Comment: A significant tax reform although probably a controversial proposal. Since there now is considerable unrest even over the 1976 carryover basis a recommendation here might undo 1976 carryover basis rule. Carryover-basis would in any event be needed for many transfers -- to a widow, closely-held business, etc. Exemption probably should be provided for some items such as a residence if action is taken in this area. | |

($ billions)

<u>Added Item</u>: A possible position would be to tax one-half of appreciation on property transferred at death, but give full fair market value basis as of date of death to the heir. An elective carryover basis could be given for marital deduction transfers to a surviving spouse and for closely held business interests and farms. A principal residence and ordinary personal property could be exempt. In the case of property transferred by gift during lifetime, one-half of the appreciation could be taxed, but the step up in basis would only be for the gain recognized and taxed. 1.5

C. <u>Taxation of Capital Gain on Property Transferred to Charity</u>: (or elimination of deduction for gain which has never been taken into income). 0.6

<u>Comment</u>: This is major source of fund raising for certain charities such as universities, and full taxation of capital gains on charitable transfers would be strongly opposed by schools and charities.

<u>Added Item</u>: If capital gains treatment is eliminated for all assets, a provision must be included limiting the deductibility of in kind contributions so that the donor is not dollars ahead by giving property away rather than selling it. *

D. <u>Interest on State and Local Bonds</u>:

Interest on State and municipal obligations is exempt from Federal tax. This is also true of industrial revenue bonds. These bonds are issued by local governments to provide lower cost financing for private industrial construction in their communities. 4.8

($ billions)

Comment: All state and local governments are vehement over attempts to erode the exclusion, even as little as including the interest in the minimum tax. The elimination of the exclusion for industrial revenue bonds would also raise strenuous objections.

Treasury Proposal: Give the option to state and local governments to issue taxable bonds at a higher interest rate which would automatically be subsidized by the U.S. to the extent of 35%-40% of interest paid. -0.5

Added Item: In addition to the taxable bond option, interest on industrial revenue bonds could be made fully taxable. 0.3

E. Employee Fringe Benefits

1. Pension Plans. Contributions are currently deducted by employers, but neither employer contributions nor earnings are taxed until received by the employee. 8.4

Comment: Denying deductions for contributions to pension plans and taxing earnings currently would upset the entire system of qualified pension treatment and IRA treatment worked out by the President and the Congress over the past several years.

2. Executive Deferred Compensation. This is not taxable until received by the employee but not deductible by the employer until then either. *

Comment: Frequently the payment of deferred compensation is contingent upon some action (or nonaction) by the employee in the future. This makes it difficult to treat this as income currently.

| | ($ billions) |
|---|---|
| 3. <u>Group term life insurance</u>. Premiums on the first $50,000 of coverage are tax free to employees. | 1.4 |
| <u>Comment</u>: While this could well be lowered from the $50,000 level, there would be serious administrative burdens if there were not some exempt level. | |
| <u>Added Item</u>: Tax premiums above $25,000. | 0.2 |
| 4. <u>Employee health plans</u>. These benefits are funded tax free to employees. | 4.5 |
| <u>Comment</u>: Taxing employees on premiums paid by employers could more readily be provided when a national health insurance program is presented. | |
| <u>Treasury Proposal</u>: A requirement should be added that the employee plans be nondiscriminatory, so that they are not limited to top officers. | * |
| 5. <u>Prepaid legal insurance</u>. | * |
| <u>Comment</u>: Deductions for prepaid legal insurance were added over the objection of Treasury in the 1976 Act. | |
| <u>Added Item</u>: We might try again to delete this. | * |
| 6. <u>Disability Insurance</u> | 0.4 |
| <u>Comment</u>: Taxing disability insurance will be viewed as "picking on the down-trodden." | |
| 7. <u>Workmen's Compensation, Disability Pensions for Veterans and Military Personnel, Fringe Benefits to Military, Meals and Lodging for Convenience of Employer</u> | 3.5 |
| <u>Comment</u>: Inclusion of these items will bring strong objections from those involved. In addition, substantial effort will be required to properly define and spell out the income tax portion of some of these items. | |

($ billions)

8. Travel and Entertainment - Club dues, meals, tickets to theaters, sporting events, etc. 1.0

Comments: Existing law specifies that these are deductible only when occurring in a business context. Administratively, this has been difficult to determine and avoidance or evasion is extensive. In the case of club dues and tickets to theaters, sporting events, etc., perhaps deductions could be denied outright. Objections to this will be strong.

Added Item: Because of the personal element involved, half of club dues and sporting event and theater tickets might be denied in all cases. 0.5

9. Administrative Exemptions. A number of fringe benefits can be taxed under existing law by changing IRS rules or improved audit enforcement. Examples are free transportation for airline employees, free tuition for children of university employees, and discounts. *

Comments: When Treasury last year started to act on some of these by regulation or published ruling, the objection was strong enough so that Treasury backed off its position. In practice, the Service in the audit of returns is gradually providing tax in some cases.

F. Transfer Payments

1. Social Security, Railroad Retirement Benefits, Veterans' Benefits, Payments for Victims of Black Lung Disease. 3.7

Comment: Proposals to tax Social Security will raise serious opposition even if a credit for the aged is offered to protect all low-income aged. If a change is to be made, it should occur when social security levels are raised.

($ billions)

Added Item: Social Security, Railroad Retirement, and Veterans' pension in excess of employee contributions could be subjected to tax. 3.6

2. Unemployment Compensation. Payments are today exempt even though replacing wages. Some persons are thereby better off not working. 3.3

Comment: Taxing unemployment compensation would reduce the work disincentives associated with this program but can probably best be done when unemployment benefit levels are raised.

Added Item: Unemployment compensation payments could be taxed as replacements for wages. 3.3

3. Means-related programs--public assistance, food stamps, SSI. These public grants are exempt from taxation. The size of the grant is related to need. 0.1

Comment: The benefit reduction formulas in effect already subject these benefits to tax rates of 50-100 percent. Little revenue is gained if included in tax base. If taxed, probably best be included when these programs are under consideration so tax treatment can be taken into account in setting benefit levels.

G. Exclusion of $100 of dividend income. The first $100 of dividends is not taxable. The provision was introduced in 1954 as a partial relief from double taxation. 0.4

Comment: This would be repealed anyway if double taxation relief were granted.

Treasury Proposal: Repeal of this item included in Treasury proposal.

($ billions)

H. Interest Buildup in Life Insurance and Annuity Contracts.

At the present time, interest on policyholder reserves is not taxed to the policyholder currently, nor is it taxed when the proceeds are paid at death. The interest buildup in an annuity contract is also not taxed currently. 1.7

Comment: This would be a new item of income for all persons holding life insurance policies. It would not be popular. In addition, there are technical problems in assigning out the earnings of the account to specific policyholders. Portions of the interest are used to provide the life insurance protection and it is thus difficult to segregate the actual interest earned on the premium deposits by a policyholder.

Added Item: Tax interest buildup to policyholder. 1.7

I. Scholarships and Fellowships

Presently scholarships and fellowships awarded for work toward a degree are not taxable. Other scholarships and fellowships are not subject to tax on amounts of up to $300 a month for 36 months. 0.2

Comment: There will be strong objections to any broadening of the tax base in this area (especially from the universities). If changes are to be made, the exclusion might be limited to the amount going for tuition and fees.

Added Item: Amounts other than tuition and fees might be included in the tax base. 0.1

($ billions)

## II. Measures to Improve Compliance

Withholding on Interest Payable on Bank Accounts and Corporate Debt. Information reporting has not prevented the significant revenue loss from failure of many taxpayers to include their interest on their tax returns. 1.4

Comment: Two problems are raised. The hardship of withholding on someone not subject to tax and the decrease in Savings and Loan Associations balances when the withheld amount is withdrawn from the associations.

Treasury Proposals: The proposal would provide for withholding at 20 percent on this interest. An exemption certificate would be available for those not subject to tax, and if government accounts can be held in Savings and Loans, the withheld amounts can be transferred from the accounts of individuals to the account of the government in the same association. 1.4

## III. Itemized Deductions

A. Medical Expenses. Up to $150 of health insurance premiums and expenses in excess of 3 percent of adjusted gross income are deductible (drugs over 1 percent AGI). 2.3

Comment: The present deduction covers more than the "extraordinary" expenses, because health costs have risen relative to other costs.

Treasury Proposal: The proposal would limit combined medical and casualty loss deductions to those in excess of 10 percent of AGI. 1.3

($ billions)

| | | |
|---|---|---|
| B. | Casualty Losses in Excess of $100. A personal loss of property from theft, fire, storm, or other casualty is deductible to the extent it exceeds $100. | 0.3 |
| | Comment: These in some cases also include what are in reality "ordinary" expenses. A better test of "extraordinary" expenses would include those with medical expenses in applying the test. | |
| | Treasury Proposal: The proposal combines casualty losses over $100 with medical expenses and allows only the excess over 10 percent of AGI. | 1.3 |
| C. | State and Local Taxes | |
| | 1. Sales taxes. General sales taxes are deductible. | |
| | Comment: Sales tax deductions are computed from a chart and bear little relationship to an individual's actual expense. | |
| | Treasury Proposal: The proposal would repeal this deduction. | 1.5 |
| | 2. Gasoline taxes. State and local gasoline taxes are also deductible. | |
| | Comment: This deduction is frequently overstated and bears little relationship to actual gasoline taxes paid. | |
| | Treasury Proposal: The proposal would repeal this deduction. | 0.6 |
| | 3. Income taxes: State, city, and county income taxes are deductible. | 7.3 |
| | Comment: The deduction of income taxes is theoretically needed to insure that combined state and federal rates do not exceed 100 percent. In addition, the retention of the deduction is desirable to encourage states to use income taxes. | |

($ billions)

| | |
|---|---|
| 4. Real Property Taxes. State and local taxes on real property are deductible. | 4.0 |
| Comment: This is clearly an advantage for homeowners, but one that taxpayers strongly favor. | |
| 5. Miscellaneous Taxes. Personal property taxes and state and local taxes in connection with investment property such as stock transfer taxes are deductible. | 0.4 |
| Comment: These items are small and not very significant. | |
| Treasury Proposal: The proposal provides for repeal of this deduction. | |
| D. Personal Interest. Presently, home mortgage and consumer loan interest is deductible without limitation. Deduction of nonbusiness investment interest is allowed currently only to the extent of investment income plus $10,000. | 7.0 |
| Comment: Because a home can be mortgaged for investment purposes, the existing provision is subject to avoidance. Also, questions can be raised as to the appropriateness of the deduction of large amounts of mortgage interest, often in part attributable to a second home. | |
| Treasury Proposal: The proposal would subject home mortgage and consumer loan interest, along with other nonbusiness investment interest, to the limitation of investment income plus $10,000. | 0.1 |
| Added Item: A more stringent limitation would combine personal and investment interest and limit deductibility to investment income plus $5,000. | 0.1 |

($ billions)

E. Charitable Contributions. Charitable contributions are generally deductible to those who take an itemized deduction up to 50 percent of AGI. Contributions cannot exceed 20 percent of AGI if going to a private foundation and if paid in other than cash cannot exceed 30 percent of AGI no matter to whom the contribution goes. 5.4

Comment: Charitable organizations will strenuously oppose any modification of this deduction which constrains it further. They already object to the increasing standard deduction on the ground that this denies them prospective contributors. In the past, it has sometimes been suggested that a floor (e.g., 3 percent of AGI), below which contributions are nondeductible, be considered. Under this proposal, the deduction could be allowed even though an individual takes the standard deduction. Charities have indicated, however, that they would strongly oppose this suggestion.

Added Item: The charitable contribution deduction could be allowed outside, and in addition to, the standard deduction, but only for contributions each year over 3 percent of AGI or $5,000, if less. 2.3

F. Political Contributions. A deduction up to $100 ($200 on a joint return) may be taken or a credit of up to one-half not to exceed $50 ($100 on a joint return) may be taken. *

Comment: Questions may be raised as to whether there should be a credit or a deduction available if public campaign financing is to be provided. However, there would be strong opposition to removing the present treatment. Perhaps, however, consideration might be given to removing the deduction.

($ billions)

Added Item: At least the deduction could be removed and possibly both the credit and deduction. *

G. Hobby Losses. For activities engaged in for profit, related expenses can be deducted even though they exceed the income from the activity. For activities not engaged in for profit, expense deductions are generally limited to the income from the activity. An activity is presumed to be engaged in for profit if it shows a profit in 2 out of 5 years (or in 2 out of 7 in the case of horse racing). *

Comment: It is difficult to determine what is an "activity engaged in for profit." The 2 out of 5 year presumption was added initially to provide certainty, but in practice may have provided an avoidance technique. Perhaps it would be better to leave out the presumption and make the determination on the basis of "reasonable expectations." However, this is much less certain in application.

IV. Foreign Areas

A. DISC. Tax deferral of half the income of a corporation is provided where most of its income and assets are related to exports. Under the 1976 Act, this was limited to the increment over 67 percent of average exports in the period 1972 through 1975. Subsequently, it is to be a moving base period. 1.2

Comment: It is difficult to see that the DISC provision has had any real effect in increasing exports. Although it may have increased specific exports, where this has occurred it has probably decreased other exports, or increased imports.

($ billions)

Treasury Proposal: The proposal would repeal DISC deferral for future years and provide for the restoration to income of the deferral provided in past years over a 10-year period. 1.2

B. Exclusion of Income Earned Abroad by U.S. Citizens. U.S. Citizens working abroad can now generally exclude the first $15,000 of earnings from U.S. taxable income. Prior to 1977, $20,000 could generally be excluded; and more generous tax treatment was provided for earnings above the exclusion ceiling. 0.1

Comment: Reducing the exclusion to the $15,000 level in the 1976 Act created a storm of protest. There also are difficulties in handling housing allowances at the present time because these costs have risen substantially in some foreign countries.

Treasury Proposal: The Treasury proposal would eliminate exclusion but substitute a cost-of- living allowance for housing and an allowance for tuition payments through the first 12 years of school. *

C. Deferral of Income of Controlled Foreign Corporations. Presently, the income of a foreign corporation controlled by Americans is not subject to U.S. tax until the income is repatriated in the form of dividends. At that time, the income is subject to U.S. tax, but a credit is allowed for the foreign taxes paid by the subsidiary. 0.6

Comment: The income could be subject to U.S. tax when earned rather than when repatriated. Multinational corporations will strongly object to this change. As alternatives, the American parents might be required to repatriate at least half of the earnings abroad or might be required to repatriate 100 percent of the earnings after a 5-year period.

($ billions)

Added Item: Deferral could be terminated. 0.6

D. Shipping Income. Shipping income under foreign flags is not subject to U.S. tax if a foreign country did not impose a tax on shipping income of U.S. flags. In addition, income is not considered as from U.S. sources except for shipping within the 3-mile limit. 0.1

Comment: Because of the treatment outlined above, foreign shipping is almost totally exempt from tax.

Treasury Proposal: The proposal would limit the reciprocal exemption to those predominantly engaged in commerce of their own country and also by treating one-half of the income from voyages to and from the United States as income arising from U.S. sources. 0.1

E. Possessions Income. Qualifying domestic corporations are effectively exempt from tax on their income from U.S. possessions (except the Virgin Islands). 0.2

Comment: Repeal of this provision would be very difficult unless an alternative way to assist the economy of Puerto Rico is devised.

V. Business Preferences

A. Percentage Depletion. In place of writing the cost of mineral properties off over the expected lifetime of the mine or well, taxpayers can deduct various specified percentages of the income from the property. There are at least 125 different percentage depletion categories with rates ranging from 22 percent for such items as sulphur and uranium to 5 percent for oyster shells. In 1975, in the case of

($ billions)

oil and gas, percentage depletion was denied to the majors; and for the "independents," over a period of time, depletion is to be phased in to a 15-percent rate and allowed only with respect to the first 1,000 barrels of oil production per day. 1.3

Comment: To the extent these depletion rates exceed the amount which would be allowed under cost depletion, this is a tax incentive to produce new raw materials at a time when conservation appears more important than special tax incentives to produce.

Treasury Proposals: The proposals would phase down the percentage depletion in the case of other than the oil and gas industry by 50 percent over a 5-year period. 0.4

B. Investment Credit. The investment credit through 1980 generally is 10 percent of the investment not to exceed the first $25,000 of tax liability and one-half of tax liability above the $25,000 level. There are exceptions to this limitation for temporary periods of time for utilities, airlines and railroads. In addition, the energy bill would provide an additional 10-percent investment credit based on several different actions, and this credit would be allowed in excess of the 50-percent tax limitation but not in excess of tax liability. There is a small additional investment credit allowed if the amount is contributed to a qualifying employee stock ownership plan (ESOP). This additional credit is a subsidy to employee stock ownership. 9.5

Comment: The investment credit, although probably representing more than a third of all tax expenditures for corporations, is firmly embedded as a way of encouraging capital formation. The Administration has endorsed this by proposing a larger credit for certain energy conservation or conversion actions.

($ billions)

C. Jobs Credit. The jobs credit provides a 50-percent credit against tax on the first $4,200 of wages per job, not to exceed $100,000 per taxpayer, to the extent jobs are provided in excess of those in the prior year. This program runs through 1977 and 1978. 2.5

Comment: The Administration in the bill just enacted opposed this provision, but it was included anyway. It would appear difficult to try to repeal this provision before its termination date at the end of 1978.

Added Item: Repeal before expiration of the credit could be sought. 2.5

D. Bad Debt Reserves of Commercial Banks and Reserves for Losses of Savings Institutions. In the Tax Reform Act of 1969, Congress phased out over an 18-year period the special bad debt deduction for commercial banks, which was formerly equal to 2.4 percent of eligible loans. The rate is 1.8 percent for years immediately before 1976, 1.2 percent for the years 1976 through 1981, and 0.6 percent for years after 1981. For S&Ls and mutual savings banks, Congress phased down a special bad debt deduction from 60 percent of taxable income to 40 percent in 1979. 0.5

Comment: The financial institutions are allowed a reserve based on their own bad debt experience. As a result, as Congress realized, it is difficult to justify this special treatment. In the case of mutual savings banks and S&Ls however, this special bad debt deduction is viewed as an inducement to encourage these institutions to hold home mortgages. This makes it difficult to phase this deduction out entirely.

($ billions)

Treasury Proposal: The proposal would repeal immediately the special bad debt allowance for commercial banks. The special bad debt deduction of mutual savings banks and S&Ls would be phased down to 20 percent over a 5-year period. 0.4

E. Credit Unions. The income of credit unions is entirely exempt from tax. 0.2

Comment: Because credit unions usually are local organizations of people in a particular industry, taxing their income (although logical) probably would raise serious complaints.

F. Surtax Exemption for Small Business. The first $25,000 of income of a corporation is subject to a tax of 20 percent. The second $25,000 of corporate income is subject to a tax of 22 percent. Income above that is subject to the corporate rate of 48 percent. 5.1

Comment: Although this is the second largest corporate tax expenditure, it is strongly supported by small business everywhere. It might be possible to phase this down at some income level, perhaps above $300,000.

G. WIN Credit. A work incentive (WIN) credit is allowed equal to 20 percent of the wages paid in the first year of employment of AFDC recipients. The credit is limited to $25,000 of tax plus one-half of the tax liability over $25,000. Federal welfare recipient employemnt is also provided for private household work of AFDC recipients. The credit is essentially the same as the WIN credit. *

Comment: The WIN credit aims at a worthwhile purpose but appears not to have been used to any appreciable extent. Nevertheless, it has strong support in Congress.

($ billions)

Added Item: This credit might be deleted. *

VI. Special Problems Involving Timing and Income of Deductions -- Tax Shelters

A. Depreciation in Excess of Economic Decline in Value

1. ADR. Present law provides lives for classes of property which tend to be shorter than the actual period over which the property is used. In addition, taxpayers are permitted to shorten the lives still further by 20 percent. This system grew out of what initially was called the Asset Depreciation Range system (ADR). 3.0

Comment: The 20 percent shortening in the class life could be omitted. However, business considers this to be an important part of capital formation. As a result, significant objections would be raised to its elimination.

Added Item: The variation could be limited to 10 percent instead of 20 percent. 3.0

2. Real Estate Tax Shelters. Real estate has provided tax shelters for several reasons. First, until the 1976 Act, interest and taxes during the construction period could be expensed rather than capitalized. As a result of that Act, after a transition period, these costs must be spread over a 10-year period. Second, to some extent real estate is permitted depreciation in excess of straight-line. Third, and probably more important, however, because of the inflation in real estate prices, even straight-line depreciation over the writeoff period generally permitted for real estate in fact results in depreciation which is usually offset in large part or in

($ billions)

whole by increasing values of the property. These problems have been aggravated by the fact that as much as 90 percent of the funds underwriting the property were borrowed. 1.4

<u>Comments</u>: Anti-leveraging provisions (designed to offset the borrowing effect) were added to most tax shelters in the 1976 Act but not to real estate, since this was the traditional method of financing real estate. Evidence suggests, however, that this remains an important tax shelter.

<u>Added Item</u>: One possibility would be to require commercial and residential buildings (other than low income housing) to be depreciated on the basis of their cost less estimated salvage value in 10 years ahead. A recomputation would be made every 10 years. The focus of this system would be on reasonable estimates of salvage value instead of reasonable estimates of the useful life of the building. Salvage value would never be less than the remaining mortgage balance on the property. 0.8

3. <u>Excess First-year Depreciation</u>. Presently, up to 20 percent of the cost of the property can be written off in the first year but the total amount may not exceed $10,000 ($20,000 in the case of a joint return). 0.2

<u>Comment</u>: This is generally viewed as a small business benefit.

4. <u>Pollution Control</u>. Present law allows a special 5-year amortization for new pollution control facilities installed in plants in operation before 1976. Taxpayers electing this treatment are also eligible for one-half of the full investment credit on these pollution control facilities. 0.1

($ billions)

Comment: This favorable treatment was provided in the 1976 Act to encourage anti-pollution facilities.

5. Railroad Rolling Stock. Railroad rolling stock can be amortized over a 5-year period. When it is, the property is eligible for two-thirds of the investment credit. *

Comment: Generally there is a desire to help improve the railroads, and therefore reductions in this area are difficult to make. Tunnel bores and gradings in the last Act became eligible for 50-year amortization. It appears that there will be interest to improve the writeoff treatment provided railroad track this year.

6. Housing Rehabilitation. Expenditures to rehabilitate low-income housing can be written off over a 5-year period. This treatment is provided only to the extent of housing rehabilitation expenditures not in excess of $20,000. *

Comment: We believe that HUD would be interested in maintaining this treatment.

B. Current Deduction for Capital Expenditures

1. Intangible Drilling Costs. Intangible drilling costs in drilling for oil or gas are deductible currently, rather than being capitalized and taken ratably over the life of the oil well. These costs, to the extent they exceed the deduction permitted if capitalized, are included in the 15 percent minimum tax base but only to the extent these costs exceed the income from oil or gas. (This latter feature applies only through 1977, but under the energy proposals would be continued thereafter.) Where an oil or gas well is sold, the intangible drilling expense deductions

($ billions)

are recaptured, or converted from capital gains to ordinary gains, at that time. To the extent that funds are borrowed on a nonrecourse basis for the drilling operation, the current writeoff of intangible drilling expenses is denied. 0.7

Comment. It probably would be difficult in view of the energy crisis to remove this tax incentive for drilling, particularly in view of the fact that we have advocated loosening up existing law by cutting back on the application of the minimum tax in this area.

2. Agricultural Outlays. Generally, taxpayers engaged in farming are allowed to report their income and expenses from farm operations on the cash method of accounting even though they have inventory costs which other taxpayers would have to account for on an accrual basis. As a result of the 1976 Act, farming syndicates are allowed to deduct expenses for feed, seed, and fertilizer only when used or consumed, and to deduct expenses of purchased poultry only over their useful lives (or in the case of inventory only when disposed of); syndicates are also required to capitalize cultivation and maintenance expenses of groves, orchards and vineyards to the extent these expenses are incurred before the grove, vineyard or orchard becomes productive. Second, as a result of the 1976 Act, the amount of the loss which may be deducted in farming cannot exceed the amount with respect to which the taxpayer is "at risk" in the activity. Third, as a result of the 1976 Act, farming corporations with gross receipts of more than a million dollars in any year must use the accrual method of accounting for farm operations. An exception to

($ billions)

this rule exists for subchapter S corporations (corporations in effect treated like partnerships) and for so-called family corporations where a large portion of the stock in the corporation is held by members of one family. 0.4

Comment. Generally, the tax shelter aspects of farming were eliminated by the 1976 action. However, the "family" rule which provides an exception for corporations required to use the accrual method of accounting has allowed some of the largest farm corporations in America (in some cases, those with income of up to $83 million dollars a year) to escape the use of accrual accounting methods. In addition, it has created competitive problems as between those that may report on a cash basis and those which may not.

Treasury Proposal. We could remove the family corporation exception entirely and require all larger farm corporations to use accrual accounting. 0.1

3. Exploration and Development. Expenditures to determine the existence, location, or quantity of a deposit of a mineral can, up to a total of $400,000 be written off currently. Where this occurs, if the mining property is subsequently sold, amounts which have been expensed to the extent of any gain, are recaptured as ordinary income rather than capital gain. In addition, expenditures paid for the development of a mine or other natural deposits (except an oil or gas well) can be deducted currently. 0.1

Comment. With the current need to develop coal mines, it appears questionable whether the expensing of the exploration or development expenditures referred to here should be modified.

($ billions)

4. Research and Experimental Expenditures. Research and experimental or development costs can generally be written off currently rather than capitalized and written off over the life of the asset. 1.3

Comment. In the interest of devising new techniques and aiding the growth in productivity, it would appear questionable whether these items should, for tax purposes, be required to be capitalized.

5. Barriers to Handicapped. Expenditures incurred to remove architectural and transportation barriers in order to help the handicapped can be deducted rather than capitalized, to the extent of expenditures up to $25,000 a year. *

Comment. This would not appear to be the type of expensing which the Administration would want to remove.

VII. Problems Involving Status of Individuals

A. Marriage Penalty. Because the standard deduction for married couples is not twice that for single individuals and because the rates brackets applicable to a married couple are not precisely twice those applicable to a single person, a couple's taxes may increase if they marry where both of them are employed. On the other hand, where one is employed and another not, their aggregate tax burden will decrease substantially upon marriage. The Act just signed reduced the marriage penalty resulting from the standard deduction to a flat $1,200. Previously it ranged from $1,300 to $2,000. (The standard deduction for a single person is $2,200 and for a married couple $3,200. As a result, the standard deduction for two single persons is $4,400 or $1,200 more than the $3,200 allowed a married couple.)

Comment. Because of the shift toward working on the part of both spouses, reduction in the marriage penalty today appears desirable.

Treasury Proposal. The Treasury proposal (in addition to the standard deduction change already enacted) would reduce the marriage penalty by modifying the rate structure from rates ranging from 14 to 70 percent to a range of 13 to 50 percent. In addition, the proposal would substitute a flat credit of $200 (or $215 to $240 with the energy proposal) per person in lieu of the exemption and optional credit under present law. To further reduce the marriage penalty the proposal would provide a credit based on the earnings of the lesser-earning spouse. A 10 percent deduction is proposed on the first $6,000 of earnings of such a spouse to provide a deduction varying in size from zero up to $600. -1.7

B. Child Care Credit. A credit is allowed for 20 percent of the costs of child and dependent care up to $4,000 per year. Eligible expenses are limited to the amount of earnings of a spouse earning the smaller amount where both husband and wife work. 0.8

Comment. The 1976 Act shifted from a deduction to a credit indicating that the allowance is an incentive to encourage people to work. The child care deduction mitigates the tax disincentive for women to work outside the home. The Treasury proposal reducing the impact of the marriage penalty helps deal with the disincentive for the two-worker family.

C. Retirement Income Credit. The retirement income credit provides the rough equivalent of the social security exemption for aged persons to the extent they have

($ billions)

otherwise taxable dividend, interest, or pension income, but not exempt social security income. 0.5

Comment: It would be almost impossible to affect this credit except in the context of elimination of the social security exemption.

D. Special Exemption for the Aged. An additional personal exemption of $750 is allowed for a taxpayer who is 65 or older. In addition, the general tax credit is measured by the number of exemptions, so that an extra credit results from the special personal exemption for the aged. 1.2

Comment. The additional exemption for the aged should be viewed as part of the total transfer payment program currently in force which should limit cash payments only to needy elderly persons. It should be considered as a part of the problem of taxation of Social Security income and the retirement income credit.

E. Extra Exemption for the Blind. An extra exemption and general income credit is allowed for a blind person in the same manner as for the aged. *

Comment. Again the extra exemption for the blind is an inefficient way to provide an expenditure for relief for the needy blind.

F. Earned Income Credit. The earned income credit is 10 percent of a worker's first $4,000 of earned income. The credit is reduced by earnings in excess of $4,000 and thus phases out at $8,000 of earned income. The credit is refundable, that is, any amount of the credit which exceeds a taxpayer's tax liability will be repaid to him. 1.0

($ billions)

Comment. The earned income credit is a method of introducing an element of progressivity into the Social Security tax system. It reduces the tax on wages for Social Security which does not have any exemption for low-income earners.

Added Item: From tax return information, the Internal Revenue Service is unable to identify all eligible taxpayers who fail to claim the credit. Technical changes in the earned income credit would permit the Service to treat failure to claim the credit as an arithmetic error. These technical changes involve the definition of earned income and the dependency test. *

JUN [illegible] 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Alternative Capital Formation Programs

The purpose of this memorandum is to present a comparison of a proposal to eliminate double taxation of corporate dividend income at the shareholder level with three other business tax reductions of roughly comparable size. It is also compared with the full elimination of double taxation, not only on dividends but on retained earnings as well.

The suggestion for eliminating double taxation on dividends involves a revenue loss of about $9.9 billion, but if this is offset by an increase in the corporate rate of 2 points which would raise $1.9 billion in revenue, there would be a net revenue loss for business of about $8 billion. Under this proposal, the corporate tax attributable to the dividend is treated as a part of the dividend, with the shareholder including in income for tax purposes not only the dividend but also the share of the corporate tax. This is referred to as "grossing-up" the dividend by the amount of the tax attributable to it. Then the shareholder after computing his income tax claims credit for this tax paid by the corporation. The other possible business tax reductions explored here are:

(1) a reduction in the corporate rate by 6 percentage points,

(2) a plan for indexing capital equipment for depreciation purposes combined with a reduction by half of the 20 percent ADR variance in present law,

(3) a 15 percent investment credit combined with making the entire investment credit refundable, and

(4) a proposal to eliminate double taxation not only on dividends but on retained earnings as well.

The first three of these proposals in terms of revenue loss, are comparable to eliminating double taxation on dividends, and involve a revenue loss of close to $7.0 to $8.1 billion on a net basis. Eliminating the double tax on all corporate income would cost approximately $14.4 billion.

Reducing the corporate rate by 6 percentage points--3 points in the normal tax and 3 points in the surtax--would reduce the general rate from 48 percent to 42 percent, would reduce the rate on the first $25,000 of income from 20 percent to 17 percent and on the second $25,000 of income from 22 percent to 19 percent.

Another alternative, in order to encourage the purchase of additional capital equipment, would be to index the depreciation allowance on capital equipment. Assume for example, that the price index used (presumably the price deflator for plant and equipment expenditures) is 106 percent of the index in the year in which the equipment was purchased, the original price was $100 and the property has a 10-year useful life. In this case, the depreciation in the year in question would be $10.60 instead of $10, assuming the straight line method of depreciation. This program after a period of years would build up to a $9 billion annual revenue loss at 1976 levels. To reduce this cost to approximately the same size as those discussed above, the ADR 20 percent variance in depreciation in this alternative would be reduced to 10 percent. Since the capital equipment indexing would substantially increase the depreciation charges taken, this would appear to be an appropriate offset.

Increasing the investment credit from 10 percent to 15 percent would involve an additional revenue loss of approximately $3.5 billion. However, many taxpayers already are unable to use the investment credit because they are generally limited to 50 percent of their tax liability. These taxpayers, and others who would be in a similar status were the credit increased to 15 percent, have a legitimate complaint that they are being discriminated against by their competitors since although they make similar purchases of equipment because of their lower profitability they do not receive any additional investment credit. Thus, they are put at a competitive disadvantage. This justifies adding to any significant increase in the investment credit a feature which would make the credit refundable. A refundable investment credit for the entire 15 percent would involve a revenue loss of $4.6 billion bringing the total to $8.1 billion.

The full elimination of the corporate tax treats the tax paid by the corporation, as well as both the dividends and the undistributed profits, as income of the shareholder. The shareholder then includes this entire amount in computing his tax. After determining his tentative tax he then claims a credit for the tax paid by the corporation on both the retained and the distributed earnings. The shareholder then must increase his cost or other basis in the stock by his share of the additional earnings of the corporation which are not distributed to him.

The first table summarizes the revenue effect of the proposals outlined here.

The second table shows the distribution of the tax reduction under each of the proposals.

The third table lists the advantages and disadvantages of each.

Mike

W. Michael Blumenthal

Cost Before Macro Effects of Proposed Elimination of Double Taxation and Various Alternatives

($ billions)

| Alternative Proposals | Full-year 1976 | Calendar Year 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|
| Eliminate double tax on dividends and increase corporate rate 2 points .................... | -8.0 | -10.8 | -12.2 | -13.4 | -14.5 | -15.8 |
| Alternatives: | | | | | | |
| 1. Reduce corporate rate 6 points.................... | -8.0 | -10.7 | -12.1 | -13.2 | -14.4 | -15.5 |
| 2. Index capital equipment for depreciation purposes and repeal one-half of ADR ... | -7.1 | * | -0.1 | -0.8 | -1.5 | -2.8 |
| 3. Raise investment tax credit rate from 10 percent to 15 percent and make refundable ............... | -8.1 | -10.8 | -10.4 | -10.8 | -11.5 | -12.2 |
| 4. Eliminate double taxation on dividends and retained earnings ................. | -14.4 | -19.4 | -22.0 | -24.1 | -26.1 | -28.4 |

June 3, 1977

*Less than $50 million

Distribution Impact of Elimination of Double Taxation and Various Alternatives

(1976 Levels of Income)

| Realized household income class | Eliminate double tax on dividends 1/ | | Investment credit 2/ | | Corporate rate reduction 3/ | | Indexing of depreciation with a 10 percent ADR range | | Eliminate double tax on dividends & retained earnings | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue change | Distribution of revenue change | Revenue change | Distribution of revenue change | Revenue change | Distribution of revenue change | Revenue change | Distribution of revenue change | Revenue change | Distribution of Revenue change |
| ($000) | ($ millions) | ( percent ) | ($ millions) | ( percent ) | ($ millions) | ( percent ) | ($ millions) | ( percent ) | ($ millions) | ( percent ) |
| Below 0 | $ -157 | 2.0% | $ -101 | 1.2% | $ -110 | 1.4% | $ -87 | 1.2% | $ -291 | 2.0% |
| 0 - 5 | -233 | 2.9 | -138 | 1.6 | -158 | 2.0 | -117 | 1.6 | -692 | 4.8 |
| 5 - 10 | -571 | 7.1 | -425 | 5.2 | -425 | 5.3 | -368 | 5.2 | -1,603 | 11.1 |
| 10 - 15 | -729 | 9.1 | -656 | 8.1 | -575 | 7.2 | -597 | 8.4 | -1,878 | 13.0 |
| 15 - 20 | -659 | 8.2 | -640 | 7.9 | -559 | 7.0 | -581 | 8.2 | -1,612 | 11.2 |
| 20 - 30 | -1,128 | 14.1 | -1,102 | 13.6 | -1,001 | 12.5 | -986 | 13.9 | -2,588 | 18.0 |
| 30 - 50 | -1,524 | 19.1 | -1,463 | 18.1 | -1,421 | 17.8 | -1,290 | 18.2 | -2,783 | 19.3 |
| 50 - 100 | -1,331 | 16.6 | -1,494 | 18.4 | -1,477 | 18.5 | -1,313 | 18.5 | -1,581 | 11.0 |
| Over 100 | -1,669 | 20.9 | -2,079 | 25.7 | -2,274 | 28.4 | -1,762 | 24.8 | -1,373 | 9.5 |
| Total | -8,000 | 100.0 | -8,100 | 100.0 | -8,000 | 100.0 | -7,100 | 100.0 | -14,400 | 100.0 |

1/ Elimination of double tax on dividends includes 2 percentage point increase in corporate rates.
2/ Investment credit increase to 15 percent with refundability.
3/ Corporate rate reduction is 3 percentage points on the surtax, 3 percentage points on the normal tax.
4/ Indexing of depreciation assumes annual 5 percent rate of inflation.

ADVANTAGES AND DISADVANTAGES OF DOUBLE TAX ELIMINATION AND OTHER ALTERNATIVES

| | | Eliminate double tax on dividends | Reduce Corporate rate 6 points | Index depreciation or increase investment credit; make credit refundable | Eliminate double tax on dividends and retained earnings |
|---|---|---|---|---|---|
| 1. | Discrimination against corporate form of doing business | Removes bias in case of dividend income; removes discrimination against types of business using corporate form | Reduced but not eliminated | Does little to correct bias | Removes bias against corporate form; removes bias against types of business using corporate form |
| 2. | Discrimination against equity (as distinct from debt financing) | Substantially removes bias | Reduces this bias slightly | Does little if anything to correct bias | Completely removes bias |
| 3. | Long-run effect on capital formation | Equally effective with proposals of equal size | Equally effective with proposals of equal size | Equally effective with proposals of equal size | Equally effective with proposals of equal size |
| 4. | Short-run effect on capital formation | Somewhat slower acting than those dependent on purchase of equipment | Somewhat slower acting than those dependent on purchase of equipment | Faster acting than most of others (but this is true only to extent of marginal purchases) | Somewhat slower acting than those dependent on purchase of equipment |
| 5. | Freedom of capital to move from one corporation to another or to shareholder | Decisions to distribute or not would largely be made on needs of business | Would encourage retention of corporate profits | Would encourage retention of corporate profits | Decisions to distribute or not would be made entirely on basis of needs of tne business |

ADVANTAGES AND DISADVANTAGES OF DOUBLE TAX ELIMINATION AND OTHER ALTERNATIVES

| | | Eliminate double tax on dividends | Reduce Corporate rate 6 points | Index depreciation or increase investment credit; make credit refundable | Eliminate double tax on dividends and retained earnings |
|---|---|---|---|---|---|
| 6. | Relative progressivity or regressivity among shareholders and taxpayers generally (see prior table for details) | Progressive among shareholders; next to least regressive among taxpayers generally | Regressive among shareholders; highly regressive among taxpayers generally | Regressive among shareholders; highly regressive among taxpayers generally | Most progressive among shareholders; least regressive among taxpayers generally |
| 7. | Complexity | Not complex | Not complex | Indexing is complex but not investment credit change | Complex |
| 8. | Viewed in tax reform objectives | Preceived as equalizing taxation | Does little to help double taxation; makes tax shelter worse for small corporations | Indexing satisfying to those concerned with inflation but is precedent for indexing elsewhere. Refundable credit improves equity but investment credit increases bias for capital intensive companies | Preceived as equalizing taxation |