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THE PRESIDENT HAS SEEN.

November 7, 1977

The President of the United States
James Earl Carter

My dear Mr. President:

You daily receive a tremendous amount of mail concerning public affairs, but it is not about a political issue that I write to you today. No, my letter concerns a spiritual matter which, sad to say, has become entangled in diplomacy.

At the behest of officials within the Department of State, your Administration is about to turn over to the Communist government of Hungary the holy Crown of St. Stephen, the irreplaceable symbol of the Hungarian nation. It is a relic beyond price, for it represents the very life of Hungary.

To do so would be a tragic mistake. That Crown was entrusted to American safekeeping by Hungarian patriots at the end of the Second World War. For more than thirty years, we have insisted that we would never turn it over to their Soviet-backed rulers. American Presidents of both parties have reaffirmed their sacred trust. It must not be betrayed now.

Your intentions in this matter have been noble: to show the world that the United States has no selfish interest in the Crown and to make of it an instrument of good will among nations. But there is an even better way to accomplish those purposes.

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Your choice is not simply either to hand over the holy Crown to the dubious custody of an atheist regime or to keep it hidden away in a dark vault somewhere in this country. You have a third alternative, Mr. President, one which will attain your purposes without breaking faith with those Hungarian patriots who entrusted us with their treasure.

Let the Crown be brought out from its place of confinement into the light of day. Let it be displayed in our own country for all the world to see. And to emphasize its unique background and meaning, both for Hungarians and for all free people, let it be watched over day and night by a triple honor guard. Let one guard be an American, because our country was entrusted with the Crown. Let one be a member of the Pope's Swiss Guards from the Vatican, because the Crown originally came from the Papacy to King Stephen one thousand years ago. And let one guard be a volunteer from among the brave Hungarian freedom fighters who fled their country after Soviet tanks crushed their revolt in 1956.

In this way, Mr. President, the United States would show all the world that we mean what we promised: that the Crown will indeed be returned to Hungary when -- and only when -- that country is restored to the control of its own people.

Think what would happen if this were done! Displayed here in Washington, perhaps at the Smithsonian, the Crown would become a center of pilgrimages. Regardless of religious differences, the peoples of the world would come to see it, perhaps even pray for a moment before it, just as they are drawn to the Statue of Liberty as a symbol of the highest aspirations of mankind.

The millions of people who would come to see the Crown could contribute to a St. Stephen Scholarship Fund, to provide for the education of young Hungarians who escape their Communist government to study abroad and to learn in freedom. That would demonstrate anew the power of St. Stephen's Crown. Without losing a single one of its jewels, it would amass a treasure far more precious than gold. It would be the means by which a future generation of Hungarian leaders would be trained so that, one day, after the last Soviet soldier has left their country, they can take the Crown with them in glory back to Budapest and again proclaim St. Stephen the spiritual king of Hungary.

That day <u>can</u> come, Mr. President, but only if the friends of the Hungarian people around the world do not forsake the dream for which Imre Nagy, Pal Maleter, and so many other brave men and women died in 1956.

If their dream is now betrayed by the American government, it will become our nightmare -- your nightmare. And your presidency will be haunted by it until your last day in the White House, and beyond.

Please remember that there is another crown which, like St. Stephen's diadem, is more important than the wishes of officials in the State Department. That is the garland of which St. Paul spoke:

> I have fought a good fight, I have finished my course, I have kept the faith. For the rest, there is laid up for me a crown of justice, which the Lord, the just Judge, shall give me at that day.
>
> II Timothy, Chapter 4, Verses 7-8

That crown must be won with perseverance, with a vision that looks beyond political considerations, to ultimate truths and ultimate right. Imploring you to remain true to that vision, with which you came into office, Mr. President, I want to assure you of my prayers as you struggle with this difficult decision, which may well determine, not only the fate of the Hungarian people, but also the future of your presidency.

Respectfully,

Jeane Dixon

Jeane Dixon

JD/kmb

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

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MINUTES OF THE CABINET MEETING

Monday, November 7, 1977

The thirty-second meeting of the Cabinet was called to order by the President at 9:02 a.m., Monday, November 7, 1977. All Cabinet members were present, except Mr. Vance, who was represented by Deputy Secretary of State Warren Christopher. Other persons present were:

Joe Aragon	Bunny Mitchell
Zbigniew Brzezinski	Dick Moe
Doug Costle	Frank Moore
Stu Eizenstat	Frank Press
Jane Frank	Charles Schultze
Rex Granum	Jay Solomon
Richard Harden	Charles Warren
Bob Lipshutz	Jack Watson

The President asked for comments from Cabinet members, beginning with the Secretary of Defense:

1. Dr. Brown said that he and Mr. Vance discussed in advance their respective appearances on SALT II scheduled for this week before Senator Jackson's Subcommittee on Arms Control. He reiterated his position on SALT in an appearance on Issues and Answers which, because of a technical error, was not to be shown by the Washington, D.C. network affiliate until after midnight on Monday night. The President expressed interest in obtaining a transcript.

-- Pursuant to the DOD Reorganization, Dr. Brown swore in William J. Perry as the first of two Under Secretaries of Defense and is actively negotiating with a potential candidate for the second position (Under Secretary for Policy).

2. Ms. Kreps asked to defer her comments until Mr. Blumenthal's report on his recent trip.

3. Mr. Adams said that he spoke before the International Civil Aviation Organization (ICAO) last Thursday concerning

aircraft hijacking. The United States' position was supported by the Soviets, Lebanese, Germans, Czechoslovakians, French and Japanese. The essential purpose of the U.S. participation in the ICAO Conference was to notify other countries that the U.S. is willing to exercise its power to impose secondary boycotts on nations that harbor terrorists. Ambassador Young commented that Vietnam is opposed to the U.S. position on that issue. In his view, many nations are silent on the subject because they do not want to be perceived as "limiting" the liberation movements in other countries. Mr. Young also noted, however, that most nations have been cooperative on the issue of hijacking.

-- Mr. Adams attended the Annual American Trucking Association meeting last week and spoke of the need to enact acceptable energy legislation.

4. Mr. McIntyre said that the House Government Operations Committee favorably reported Reorganization Plan No. 2. He also noted, however, that the Administration is running into trouble on its plan to reorganize equal opportunity enforcement.

-- In response to a question from the President, Mr. McIntyre described the history and evolution of legislation sponsored by Congressmen Brooks and Fountain to create Inspectors General in approximately ten Cabinet Departments. The President explained that he personally favors the concept, and that he had implemented it with good results in Georgia. The Attorney General noted that a Justice Department opinion had found a portion of the proposed Inspectors General legislation unconstitutional. Ms. Harris said that HUD's Inspector General is a civil servant rather than a political appointee, and that she favors that approach. Mr. Bergland said that USDA has just established an Inspector General, and Mr. Blumenthal said that Treasury will establish one. The President noted that there may be value in some uniformity of approach on the subject, and he asked all members of the Cabinet to review the concept. Mr. McIntyre noted that proponents say that the concept is consistent with the Administration's policy of openness in government.

5. Ambassador Strauss said that representatives of the European Commission are in town. Under Secretary of State for Economic Affairs Richard Cooper is chairing significant hearings today, and Ambassador Strauss will chair some tomorrow. Among others participating in the meeting is Commissioner Etienne Davignon, the Commission's expert on

steel, who will be meeting with Treasury Under Secretary Tony Solomon and Ambassador Strauss later this week to discuss the international steel situation.

-- The U.S. has received several indications from Japan that that country would like to engage in substantive and broad-based trade discussions with the U.S. Mr. Strauss has met with Mr. Blumenthal to discuss the situation, and a cable has been sent to U.S. Ambassador Mike Mansfield asking for his assessment of the situation. Mr. Strauss said that he will meet this week with representatives of the Commerce, State and Treasury Departments to explore the matter further. Mr. Blumenthal cautioned as to the need for fundamental changes in both the structure of the Japanese economy and in Japanese notions about exchange rates; he said that we should think in terms of a five-year program, rather than short-term solutions. He described the Japanese situation as being quite different from that of Western European countries, all of which have well-developed cooperative arrangements, are members of the International Monetary Fund and import and export a wide variety of materials.

-- Ms. Kreps asked Mr. Blumenthal's views on the stability of the dollar in light of his recent trip to the Middle East and Europe. He responded that the situation is not as bad as it may appear here, and that, in his view, the worst thing to do would be to spend billions of dollars in an effort to "support" the dollar. He and the Vice President discussed the recent action by the Federal Reserve Board with respect to interest rates.

6. Dr. Schlesinger said that a House/Senate Conference Committee may reach agreement this week on the coal conversion portion of the energy package.

-- He described possible Congressional action to override the President's veto of the Clinch River Breeder authorization.

-- He distributed to the Cabinet the first DOE bulletin on contingency planning for the winter. Although there is no specific timetable set for publication of subsequent issues of the bulletin, they will be issued frequently if a harsh winter occurs. Dr. Schlesinger said that he anticipates an adequate supply of petroleum products this winter, although severe weather could impair transportation and distribution. The coal strike is also a major variable. Although the potential trouble spot is natural gas, it is too early to evaluate the problem because we do not know how severe the winter will be. Our natural gas storage is considerably better than it was last winter; there are three trillion cubic feet of natural gas in storage now, compared with 2.6 trillion last year at this time. DOE will monitor the draw-down of natural gas storage very closely.

-- Mr. Andrus asked for more information on natural gas storage in connection with Interior's negotiations with gas producers. Dr. Schlesinger said there may be some confusion between storage and transmission, and that he would give Mr. Andrus additional information on the issue.

7. Ms. Harris spent last Friday morning in New Jersey compaigning for Governor Byrne and the afternoon in New York City with Congressman Koch. The previous Sunday she campaigned in Michigan City, Indiana, for Congressman John Brademas. She noted that a number of politicians are using the Administration's urban and housing programs as part of their campaign theme.

-- The dam break disaster in North Georgia claimed thirty-seven lives with two persons missing. Governor Busbee has asked the President to declare the area a major disaster. Although there were more deaths in Georgia, the flooding disaster in North Carolina is even more extensive, and so many roads are blocked that no-one can get in to make an appraisal of the damage.

8. Mr. Bergland said that USDA will publish its final crop report shortly. Feed grains and soy beans are at an all-time high, and wheat production is at its second highest level in history. Prices in these commodities have nevertheless increased because of the increase in the basic loan rate. Export demand looks promising, and Mr. Bergland is meeting today with several non-governmental organizations to decide how to increase U.S. agricultural exports. Mr. Bergland said that new quality control mechanisms in the Federal Grain Inspection Act have helped reestablish U.S. credibility in this area. He urged that we "leave no stone untouched" concerning the promotion of U.S. agricultural exports.

-- The President asked Mr. Bergland to give Mr. Strauss and Ms. Kreps a summary of what we are trying to do with grain exports so that they can use the information in their speeches.

-- Mr. Bergland said that there is no prospect of wheat exports to China because of that country's political demands. (The wheat crop is poor in China this year because of a two-year drought. China is presently exporting rice to pay for imports of wheat.)

-- The Soviet wheat crop this year is also less than had been expected. Mr. Bergland said that grain exports to the Soviet Union this year will be substantially in excess of the standard agreement with that country. The standard agreement is for three million tons of grain and the same of wheat. This year exports to the Soviet Union will be eleven million of grain and five of wheat.

9. Mr. Blumenthal said that he reported on Face The Nation that we have a reasonably good chance of maintaining a freeze or nominal increase in oil prices this year. He found increasing concern and sophistication about this issue in the various countries he visited during the last two weeks and has already met with Mr. Vance concerning the need to raise this issue with producer nations through diplomatic channels.

-- Mr. Blumenthal had several other observations about his recent multi-nation trip. Leaders of countries he visited almost invariably connected the stability of the dollar with enactment of an acceptable energy program for the U.S. Mr. Blumenthal said that his visits with foreign leaders served to remind him in numerous dramatic ways of the unique role of the United States and of U.S. private industry in the world economic community. He said that both Italy and Germany, for example, look to us to promote economic stability within their own borders. Although we may be dissatisfied with the rate of growth of the U.S. economy, we are doing very well compared to the rest of the world.

-- This afternoon, Under Secretary Solomon will chair a meeting on the steel question, and the EPG will also consider mechanisms for better coordination of the Administration's 1978 economic programs.

-- Eight working days remain in the combined federal campaign, and $2.3 million more is needed to meet the goal. Mr. Blumenthal thanked Cabinet members for their help. The President suggested that in the future the program be renamed so that its purpose is apparent, and that the point be made to federal employees that this is the only charity appeal made to them.

-- Dr. Schlesinger said that he is less optimistic than Mr. Blumenthal about the odds of holding oil prices down. The President asked Mr. Blumenthal to proceed vigorously in his efforts to hold oil prices down and to move on a multi-national basis.

10. The Attorney General said negotiations are continuing with the South Koreans on the Tongsun Park matter. Justice is working with the State Department on the subject, and Mr. Bell hopes for a result this week.

11. Mr. Marshall reported that DOL is continuing to monitor the Longshoremen's strike situation closely and that he has received excellent cooperation from the Cabinet. The situation is still restricted largely to container ships. Effects of the strike are most serious in Puerto Rico. Selective relief for Puerto Rico may be a possibility.

-- The Labor Department is also monitoring the coal negotiations carefully. The December 6 deadline may slip but this does not necessarily mean that there will be a strike.

12. Ambassador Young said that last week at the U.N. was exciting on several fronts: The U.S. resolution imposing an arms embargo on South Africa was adopted; the U.S. was forced to veto three resolutions against that country; and a major resolution on hijacking was passed.

-- Mr. Young said that he finds himself increasingly drawn into delicate discussions on the Middle East. Months ago he accepted a series of speeches at synagogues which he must make during the next several weeks.

-- Next week he will attend a conference on food and agriculture in Rome and will then go to Sweden for meetings requested by that government.

-- He summarized the status of British/Rhodesian discussions, and of our present relationship with South Africa.

13. Dr. Brzezinski said that postponement of the President's worldwide trip was announced this morning. Concern about the postponement has been expressed by India, Nigeria, France and Brazil. The President said a 9 - 10 day trip would be rescheduled, to begin possibly after Christmas and before the New Year, although Mr. Christopher said that some of the countries may have difficulty with this timing; the matter is being explored now.

-- Dr. Brzezinski met with Messrs. Blumenthal and Vance on North/South issues last week and will meet again this week to prepare an options paper for the President. A separate paper is being prepared by Henry Owen on North/South economic aid and the basic choices for funding it.

-- Negotiations are continuing in Geneva with the Soviets on SALT, and some agreement has been reached on technical issues. Dr. Brzezinski is encouraged by the Soviet delegation's willingness to negotiate on some of the major issues.

-- He said that the USSR is sixty years old today and that the Soviet Union has virtually disappeared as a social model for national revolutions. This is due, in part, to the massive over-bureaucratization of that country and the country's own increasing national tensions. He said that the increasing choice among many revolutionary societies worldwide is not to embrace the Soviet form of Communism but rather to embrace chaos.

-- Ambassador Strauss stressed the need to translate this evolution in Soviet society and Soviet influence into political support for the President's positions. Mr. Blumenthal said that it is becoming increasingly difficult to muster support for our international policies. For example, a large coalition in the Congress created problems in enacting the IFI legislation this year and has already caused some delay in approval of the Witteveen facility next year.

-- Mr. Blumenthal said that Soviet Trade Minister Patolichev is coming this week. He will meet with Ms. Kreps tomorrow and with Mr. Blumenthal and the President on Thursday.

14. Mr. Califano commended the Attorney General for his wise and courageous decision in the Helms case.

-- Several education acts will expire next year, and Mr. Califano said that if the Administration wants to have an impact on what the Congress does, we must get our ideas to the Hill by the end of this year.

-- Mr. Califano will go to England and Germany next week to study national health insurance in those countries and will stop in Italy to meet with Ambassador Richard Gardner and others before returning home.

-- He urged the importance of sustaining public support for the Administration's hospital cost containment legislation.

-- He cited the importance of the bill just signed by the President on Rural Health Care.

-- He noted that action is being expedited in the conference on Social Security legislation and suggested that a meeting be held today with Messrs. McIntyre, Schultze, Blumenthal and Eizenstat. He said that Senator Long seemed to be amenable to accepting certain features of the House-passed legislation.

-- The President said that we need a clear and concise statement to the effect that the numerous "politically-attractive" benefits being proposed as amendments to the Social Security legislation will have to be paid for by working families.

-- Mr. Blumenthal said that, in his opinion, the legislation is far too expensive and, in its present form, is not good. He cited as an example Senator Moynihan's amendment to provide fiscal relief to New York City.

-- Mr. Califano will attend today the swearing in of Robert Humphries as head of the Rehabilitation Service. He asked Congressman John Brademas to administer the oath.

-- He campaigned with Congressman Rodino for Governor Byrne in New Jersey on Monday.

-- The dedication of the Hubert Humphrey HEW building last week was a lovely event; Mr. Califano complimented Jay Solomon for GSA's outstanding preparation for the occasion.

-- He commended the Vice President on his tie-breaking vote last week on the Social Security Bill.

15. Mr. Andrus had nothing to report.

16. Mr. Christopher said that Soviet President Brezhnev's recent speech on the Comprehensive Test Ban was of major long-term importance for two reasons: It demonstrated the Soviet's willingness to enter into a three-year treaty without the concurrence of the French and Chinese; and it made clear that the treaty could cover peaceful nuclear explosions.

-- Mr. Christopher expressed appreciation and admiration for Ambassador Young's splendid work in the U.N. last week.

-- A cable received at the State Department this morning indicates that the Rhodesian negotiations "are still alive."

-- The Belgrade Conference has gone well. The U.S. has been making its points, and the discussions have been civil and constructive. Ambassador Goldberg will return for consultations at the end of the week.

17. The President said that he is pleased that three Cabinet members appeared on Sunday television talk shows: The Vice President for the thirtieth anniversary of Meet The Press; Mr. Blumenthal on Face The Nation; and Dr. Brown on Issues and Answers. He reminded the Cabinet to take every opportunity to talk directly to the people.

-- He reiterated his request that the Cabinet maintain personal and direct contacts with Members of Congress and their staffs.

-- He asked the Cabinet to keep their weekly summaries brief and concise. He suggested that they might reduce the narrative but not necessarily the number of items covered.

-- He commended HEW on reducing the annual paperwork burden imposed on state and local officials from approximately 44.5 million person-hours to 34.3 million. He urged other Cabinet members to follow HEW's outstanding example.

-- He noted that Rex Granum no longer conducts news briefings on the Cabinet meetings; Mr. Granum added that he now simply trys to engage in "rumor control."

-- The President will give an energy fireside chat tomorrow night and will complete his own draft of his remarks by midnight tonight. He asked Cabinet members to provide any further suggestions they may have to Jim Fallows. He will stress the adverse consequences of our rapidly increasingly oil imports. He said that "he has plagiarized" some of the excellent points made by Cabinet members in their own speeches and public comments on the energy program.

-- He said that he has sent a private and public message to the USSR on the occasion of its 60th Anniversary.

The meeting was adjourned by the President at 10:55 a.m.

Respectfully submitted,

Jack Watson

Jack H. Watson, Jr.

HUBERT H. HUMPHREY
MINNESOTA

THE PRESIDENT HAS SEEN.

United States Senate

WASHINGTON, D.C. 20510

November 7, 1977

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CONGRESSIONAL
LIAISON

NOV 9 1977

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

Dear Mr. President:

I thought you might be interested in the speech I delivered in the Senate last week concerning Chairman Burns' comments on your economic policy.

A special thanks for your personal note concerning our supper meeting. I was really worried that I had overspoken myself.

With all best wishes.

Sincerely,

Hubert H.

Hubert H. Humphrey

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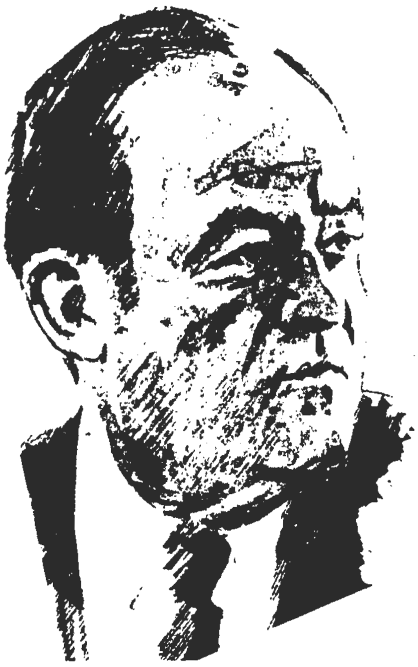

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NEWS

Hubert H Humphrey

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HUMPHREY SAYS FEDERAL
RESERVE CHAIRMAN'S ECONOMIC
SOLUTIONS 'MISLEADING, WRONG'

2113-Dirksen Office Building
(202) 224-3244

Contact: Betty South

FOR RELEASE THURSDAY, NOV. 3, 3:30 P.M.

WASH., D. C., Nov. 3--Senator Hubert H. Humphrey today charged that Federal Reserve Board Chairman Arthur Burns' "analysis of what ails" the economy "is seriously defective, and his conclusions about what we should do to cure these ailments are misleading and wrong. I think it is time someone stood up and said so."

Humphrey, Vice Chairman of the Congressional Joint Economic Committee, was responding to Burns' speech in Spokane, Wash., on October 26, where he criticized the President and the Congress for following what he termed shortsighted and counterproductive economic policies.

"Chairman Burns urged that we take a long range view of our economic problems," Humphrey said. "I agree with him. But I suggest that the long view requires us to stand up and tackle difficult problems head on now, even at the cost of some immediate uncertainty and conflict.

"And while I understand the many and complex considerations that must be balanced in setting monetary dials, I suggest that the long view requires the Federal Reserve to base its monetary policies on the real needs of the economy -- not to rigidly pursue monetary growth targets that may be inadequate to the realities of today's economy."

Humphrey emphasized that both the President and the Congress "are committed to policies that will make a balanced budget and full employment possible.

"But if the Federal Reserve tightens up on credit and raises interest rates whenever purchasing power expands, it can frustrate any

(more)

attempt by the President and Congress to stimulate economic growth and reduce unemployment.

"We cannot have tax and budget policies moving in one direction while monetary policy moves the opposite way and expect to achieve our national economic policy goals," he said.

While acknowledging that "confidence in the long-run health of the economy is a critical ingredient in businessmen's decisions to invest," Humphrey maintained, that "confidence cannot be purchased with economic policies that inhibit growth, reduce consumer spending, produce high unemployment, and force a large part of our industrial capacity to stand idle.

"Chairman Burns has observed that the Federal Reserve must strike a 'delicate balance between too much and too little money.' A similar balance must be struck between too much and too little stimulus coming from the Federal budget.

"Following the cataclysmic economic events of the early 1970's, it is hardly any wonder that America's businessmen, and businessmen throughout the world, are still nervous and uncertain about the future, and that business investment has not developed the dynamism it must have if we are to regain prosperity in our country and elsewhere in the world."

The Minnesota Senator said that the President and Congress share Dr. Burns' concern for providing adequate incentives for business investment.

"But," he asked, "if the Federal Reserve is deeply concerned about the slow pace of business investment, why did it recently begin to pursue monetary policies that pushed up interest rates very rapidly at precisely the time when economic growth was beginning to falter?

"That decision by the Federal Reserve Board sent the stock market into a nosedive and raised the cost of business financing. How much of our current economic malaise stems from this source I do not know, and I don't suppose anyone does. But it can hardly have been a negligible factor."

Humphrey told the Senate that Dr. Burns' predecessor, William McChesney Martin, had educated him to the view "that the Federal Reserve was supposed to 'lean against the economic winds.'

"I have always understood that phrase to mean that the Federal Reserve should worry about too fast a pace of expansion in money and credit when the economy is booming and inflationary pressures are on the horizon -- not when economic growth is slowing and the rate of inflation receding, as has been the case this summer.

"If the Federal Reserve has a different view of what its responsibilities are, I hope Dr. Burns will come to the Congress and tell us forthrightly what that view is."

(1977) # # # # #

A RESPONSE TO DR. BURNS' CRITICISM OF CARTER ADMINISTRATION ECONOMIC POLICY

MR. HUMPHREY. Mr. President, Arthur Burns,the Chairman of the Federal Reserve Board, recently took out his axe, whetted it to a fine edge, and went after the President and the Congress for following what he regards as shortsighted and counterproductive economic policies.

I have a great respect and affection for Dr. Burns. He is a sincere and dedicated man. He wants what is right for our country as much as I do, and as much as the President does. He is a man of deep conviction. Unfortunately, his analysis of what ails our economy is seriously defective, and his conclusions about what we should do to cure these ailments are misleading and wrong. I think it is time someone stood up and said so.

One of Dr. Burns' complaints is that the Carter Administration is trying to solve too many problems at once. The business and financial community, he believes, has become confused and irritated because our President wants to move forward on the energy front, to keep our Social Security System from going bankrupt, to clean up the welfare mess, and to make our tax system fairer and more equitable.

The problems the President and the Congress are coming to grips with are not problems that the current Administration invented. They are problems inherited from the past. They are not Republican or Democratic problems; they are bipartisan issues of critical importance to our economy and our people. And, until they are resolved, the uncertainty they create will plague our economy and prevent a return to the steady and energetic economic growth that our businesses, workers and consumers desire and deserve.

In the first year of President Carter's term we are importing almost 9 million barrels of oil a day and it is costing us 45 billion dollars a year. The price of oil is four times what it had been in the fall of 1973, and we are relying on imports to meet 48 percent of our domestic requirements. We do not have the luxury of solving this problem at our leisure.

When this Administration took up the reins of government, our Social Security System was in deep trouble. Every day that we delay in adopting measures to bolster the financing of our Social Security System puts us one day closer to the time when the Social Security trust funds will be exhausted and unable to maintain the benefit payments on which millions of older Americans depend for their livelihood. It would be unconscionable for the President and Congress to sit by passively while this social time bomb ticked away.

When the President took office last January, he inherited a welfare system that was beyond the financial capacity of many cities and states to operate, and one in which there was a vast amount of waste and cheating. He inherited an income tax system so complicated that virtually no one understands it, and so unfair that billions of dollars of income are escaping taxation because of the loopholes that have so vastly increased in number over the past decade.

Moreover, when the new Administration came to office, the economy was in a shambles. In December of 1976, the nation's unemployment rate was stuck at a socially destructive and economically debilitating 7.8 percent, consumer prices were soaring at a 10.1 percent annual rate, and a full 20 percent of our nation's plant and equipment was standing idle.

Of course it is difficult and time consuming to find solutions to problems of such enormity and complexity. There is bound to be uncertainty while Congress debates the issues, considers the alternatives, and finds a consensus that represents the will of the people and the best interests of our nation.

But what is the alternative? Does Dr. Burns really believe it is better to leave such economic ailments unattended? Should we expose our citizens to the threat that a year or two from now they may not be able to heat their homes or obtain enough gasoline to drive to work? Should America's workers and retired citizens have to live with the grim realization that a crisis in the Social Security System looms ahead, and without a clue as to what will be done? Should we tell the worker whose paycheck is being eaten up by rising taxes that we can't afford to establish a rational welfare system or to move ahead to make our tax system fairer -- because doing so is too complicated and too disruptive?

This great nation of ours was not built by the timid or the faint hearted. Our nation has prospered because we have been willing to tackle our problems pragmatically, energetically, and with a sense of optimism. The way to gain consumer and business confidence is not to shut our eyes to festering ills, to avoid controversial issues, to live from one day to the next hoping that serious national problems will somehow go away. That course of action might buy a few months of calm -- but the inevitable storm that would follow will engulf us all.

The President and the Congress have not sought the easy way out. The easy way would have been to temporize -- to postpone for the next Administration and the next Congress the search for lasting solutions.

I applaud President Carter for his boldness and for his foresightedness. The course of action he has chosen has generated a great debate on issues of major importance to our nation's future. The uncertainty of the policymaking process in dealing with issues of sweeping importance is uncomfortable, but it is a small price to pay for the long-run health of the economy. And the uncertainty that has been created will be resolved. Congress is working steadily towards agreement in this session on energy and Social Security legislation, and it can then turn to sorely-needed reform of our tax and welfare systems.

Solutions to such fundamental problems do not come quickly. America is a big, complex, modern nation and so are our problems. The multiplicity of economic interests, the great diversity among the regions of our nation, and the great variety of peoples and viewpoints which are the source of America's great strength, are also the essential explanation of why solving important and complex problems in a democratic way is so difficult and time consuming. But, I ask you, who would want it any other way?

The public discussion and debate, the arguments and the compromises between the President and the Congress, may take more time than we would like, but they are indispensable in finding solutions that can be sustained for long periods of time under our political system.

Dr. Burns also believes that our economy is suffering from the effects of inflation, and what it has done to business profits and planning for the future. I agree with him. I know from personal experience that inflation can play havoc with the plans and dreams of a small businessman. I also know what inflation can do to the real value of the savings that workers put away for their retirement and what parents accumulate for the education of their children.

Perhaps we need to refresh our memories, however, on what has happened to the pace of inflation over the past ten years.

When Richard Nixon became President in January 1968, the rate of inflation was around 4 percent. Two years later, he appointed one of the great inflation-fighters of all time -- Dr. Arthur Burns -- to manage monetary policy at the Federal Reserve. Mr. Nixon must have hoped that, with Dr. Burns at the helm of the money-creating machine in our country, the problem of inflation would soon be brought under control.

During Dr. Burns' tenure at the Federal Reserve, our inflation problem did not get better; on the contrary, it has become much worse. By 1974, prices were rising at an astronomical rate. Inflation had gotten completely out of control.

The aggravation of inflation in 1973 and 1974 that stemmed from rising prices of food and energy items was not, of course, the fault of the Federal Reserve. Nor was it the kind of inflation that our monetary and fiscal policies could readily cure. Nevertheless, the Nixon-Ford Administration and the Federal Reserve tried to use conventional tools to solve unconventional problems. They slammed on the monetary and fiscal brakes, and the consequence was the deepest recession of the entire postwar period.

The results of that recession were staggering. The unemployment rate rose to about 9 percent, the highest level since 1941. Nearly nine million American workers were "officially" counted as unemployed and millions of others were actually without work. At the same time, inflation raced ahead at a double-digit rate for the first time in modern American economic history. Long and short-term interest rates for businesses, consumers and for families borrowing to buy a home climbed to unprecedented levels. Not suprisingly, the bottom dropped out of the housing market and the number of new homes built in 1975 dropped below the one million mark for the first time in many years. By early 1975 with more of our industrial capacity idle than at any time in the postwar period, business profits had dropped to a dangerously low level.

The greatest tragedy of the recession was the colossal wasting of our nation's human, natural and capital resources that occurred. This recession cost the American people more than $600 billion in goods not produced, services never provided, and income never earned. This recession cost America's working families an average of $12,000 each.

Following the cataclysmic economic events of the early 1970's, it is hardly any wonder that America's businessmen and businessmen throughout the world, are still nervous and uncertain about the future, and that business investment has not developed the dynamism it must have if we are to regain prosperity in our country and elsewhere in the world.

Confidence in the long-run health of the economy is a critical ingredient in businessmen's decisions to invest. That confidence cannot be purchased with economic policies that inhibit growth, reduce consumer spending, produce high unemployment and force a large part of our industrial capacity to stand idle. Chairman Burns has observed that the Federal Reserve must strike a "delicate balance between too much and too little money." A similar balance must also be struck between too much and too little stimulus coming from the Federal budget.

Deficits in today's underemployed economy are not inflationary. Large deficits are the result of recession and unemployment and they decline as the economy returns, as it must, to full employment. As unemployment increases and economic growth declines, deficits increase. When economic progress returns, the deficits are reduced. In 1975, for example, unemployment rose by 2.9 percentage points, the Gross National Product (GNP) actually dropped by 1.3 percent, and, as a result, the Federal deficit rose by $60 billion. In 1976, on the other hand, when unemployment dropped by .8 percent and GNP increased by 6 percent, the Federal budget deficit declined by $16 billion.

The President and my colleagues in this Congress are committed to policies that will make a balanced budget at full employment possible. Together we have taken a number of important initiatives to move the economy toward this objective. Of course it takes time for expanded employment and training programs, new youth employment efforts, local public works projects, and the like, to make a major positive impact on the economy. These initiatives can generate expanded purchasing power and a higher level of economic activity. But, if the Federal Reserve tightens up on credit and raises interest rates whenever purchasing power expands, it can frustrate any attempt by the President and Congress to stimulate economic growth and reduce unemployment. We cannot have tax and budget policies moving in one direction while monetary policy moves the opposite way and expect to achieve our national economic policy goals.

I believe the President and the Congress share Dr. Burns' concern for providing adequate incentives for business investment. My colleague, Senator Percy, and I have cosponsored a bill in this session of Congress to establish a national investment policy. The Administration has given its support to that bill, and I hope the Congress will enact it. I have noted with great satisfaction that the President places the need to improve capital formation high on his list of priorities to be achieved in his tax reform proposals.

If the Federal Reserve is deeply concerned about the slow pace of business investment, why did it recently begin to pursue monetary policies that have pushed up interest rates very rapidly at precisely the time when economic growth was beginning to falter? That decision by the Federal Reserve Board sent the stock market into a nosedive and raised the cost of business financing. How much of our current economic malaise stems from this source I do not know, and I don't suppose anyone does. But it can hardly have been a negligible factor.

I am not unsympathetic with the problems that Dr. Burns and the Federal Reserve have been facing.

The money supply has been growing erratically in recent months. In July, the basic measure of the money supply, M_1, rose at a 19.9 percent rate. In August it dropped to 5.6 percent, followed by 8.0 percent in September and 14.3 percent in October. It is easy to understand the confidence-eroding impact of such gyrations on corporate financial officers attempting to make rational investment decisions.

But do these fluctuations portend an inflationary boom that must be fought with steadily rising interest rates? If so, what is the evidence for this?

The principal economic indicators, as I read them, have been moving in the opposite direction. The unemployment rate remains stuck at about 7 percent. Industrial capacity is still low at about 82 percent where it has been since last May. The GNP grew at only 3.8 percent in the third quarter of this year, even less than the historically stable 4 percent growth rate. Productivity increased 6.5 percent in the third quarter, the largest increase in two years, holding out the promise of lower rates of inflation in coming months. Finally, in the last three months consumer prices increased at a 4.9 percent annual rate, far less than the 6.6 percent rate since last September.

Dr. Burns' predecessor, William McChesney Martin, educated me to the view that the Federal Reserve was supposed to "lean against the economic winds." I have always understood that phrase to mean that the Federal Reserve should worry about too fast a pace of expansion in money and credit when the economy was booming and inflationary pressures were on the horizon -- not when economic growth was slowing and the rate of inflation receding, as has been the case this summer. If the Federal Reserve has a different view of what its responsibilites are, I hope Dr. Burns will come to the Congress and tell us forthrightly what that view is.

Chairman Burns urges that we take a long range view of our economic problems. I agree with him. But I suggest that the long view requires us to stand up and tackle difficult problems head-on, now, even at the cost of some immediate uncertainty and conflict. And while I understand the many and complex considerations that must be balanced in setting monetary dials, I suggest that the long view requires the Federal Reserve to base its monetary policies on the real needs of the economy -- not to rigidly pursue monetary growth targets that may be inadequate to the realities of today's economy.

Mr. President, the New York Times recently published an insightful editorial dealing with the question of business confidence and the problems which confront our economy. After commenting on the numerous steps the President has taken to bolster business confidence, and then discussing future measures he is expected to take to encourage higher levels of investment, the editorial concluded with the following statement to which I fully subscribe:

> "None of this will matter much, however, if the Federal Reserve Board continues to tighten monetary policy and push up short-term interest rates. An economy can't go in two directions at once, governed simultaneously by a tax policy that is stimulative and a monetary policy that is restrictive."

Mr. President, our economy requires, and our businesses and families deserve, a consistent and coordinated national economic policy. Monetary, tax and budget policies must be designed to reinforce each other in our nation's pursuit of full employment and the restoration of a stable American prosperity.

Mr. President, I ask unanimous consent that the New York Times editorial of October 30th, "A Boost to Business -- and Then What?", be printed at this point in the Record.

A Boost to Business—and Then What?

Beset by a lack of business confidence, President Carter last week postponed tax reform. Beyond that, he suggested that when it comes, it will include a hefty tax cut, to spur business outlays for investment. The President did what he had to do. Energy and Social Security legislation are still tied up in Congress. Until they are resolved, detailed tax legislation already in Congress has not only upset businessmen, it has upset Congress. Eliminating one ball—tax reform—from the legislative juggling act was not only shrewd politics but prudent economics.

The economic theory on which Mr. Carter bases his pledge is, at best, uncertain. He now apparently believes what some advisers have been telling him for months: that unless business investment plans pick up, the economy will probably fall into another recession next year. That would shatter the Administration's hopes of pushing unemployment below 5 percent and balancing the Federal budget by 1981. Economists do not really know what triggers business investment decisions. The problems that have held back investment could lie beyond the President's reach: overseas, in the oil cartel that has shaken the world since 1973 or in the increased competition of Western Europe and Japan in export markets that American business once dominated.

Mr. Carter has tried since January to boost business confidence. He ruled out wage-price controls early in his Administration—but business did not believe him. He pledged to balance the budget—and again his credibility was questioned. He canceled plans for a $50 tax rebate, as business asked. Still business grumbled.

Now Mr. Carter has decided that a major explanation for flagging business investment lies in weak profits. If investments can be made more profitable by cutting business taxes, the Administration believes, business will be more inclined to invest. Some economists, particularly Republicans, have been saying this for years. Last week, Arthur Burns, the conservative chairman of the Federal Reserve Board, called for such a tax cut. Economists across a wide spectrum believe that business is still so traumatized by the high inflation and deep recession of 1973-74 that executives must see a larger potential return on investment than ever before. Otherwise, they simply won't make major investments. The President and his Democratic advisers seem—wisely—to agree.

None of this will matter much, however, if the Federal Reserve Board continues to tighten monetary policy and push up short-term interest rates. An economy can't go in two directions at once, governed simultaneously by a tax policy that is stimulative and a monetary policy that is restrictive.

And in the end, these remain narrow concerns, bound by the traditional parameters of economic policy. Yet the United States—like other industrialized nations—may no longer operate in a traditional world. In Western Europe, some leaders are searching for new ways to link high employment and price stability. But here, the debate continues to be narrowly focused—on how much to jigger taxes, or how much to boost the money supply. The Administration's plan to cut business taxes next year is sensible. But that should be the starting point of a broad debate over economic policies—not the end of a narrow one.

CONGRESSIONAL LIAISON - WHITE HOUSE
REFERRAL FORM

TODAY'S DATE: 10/8

DATE DUE:

TO: Eizenstat

_____ Draft reply for:

_____ President's signature
_____ Frank Moore's signature
_____ Undersigned's signature
(PLEASE RETURN ORIGINAL INCOMING LETTER, ALONG WITH DRAFT, TO UNDERSIGNED)

_____ Direct reply to:

_____ Congressperson
_____ Constituent, with copy to Congressperson
_____ Furnish information copy to C.L.

_____ Memorandum for use as enclosure to reply

✓ Suitable Acknowledgement or other appropriate handling

_____ For your information

_____ For comment

REMARKS: (copy FYI went to Strauss [redacted])

SUBJECT: _____

FROM Kathy Baker

Congressional Liaison
113 E.W. 456-2755

605

JAMES O. EASTLAND, MISS., CHAIRMAN
JOHN L. MC CLELLAN, ARK. | STROM THURMOND, S.C.
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JOSEPH R. BIDEN, JR., DEL.
JOHN C. CULVER, IOWA
HOWARD M. METZENBAUM, OHIO
DENNIS DE CONCINI, ARIZ.

FRANCIS C. ROSENBERGER
CHIEF COUNSEL AND STAFF DIRECTOR

United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, D.C. 20510

October 3, 1977

Strauss/Eizenstat
CONGRESSIONAL LIAISON
OCT 4 1977

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

Dear Mr. President:

The situation facing the American copper industry is critical. Prices have dropped precipitously on the world market as the result of excessive production during a period of weak demand. At present, there is an overhang of approximately 1.2 million tons of copper on the world market. American producers are being forced to sell below the cost of production.

The effects of this unhappy series of events are being felt most severely in Arizona which produces 64 percent of American copper. Upwards of 9,000 persons have been laid off their jobs in Arizona---many, with very little chance of reinstatement. While Americans lose their means of livelihood, foreign imports continue to rise. It has been estimated that imports of copper into the United States this year will double over previous years.

American producers and workers are not competing with foreign producers and manufacturers on an even footing. The bulk of imported copper comes from countries where the copper industry is state-owned and operated. The copper industry in these countries serves social functions beyond those which govern the operation of American firms. Consequently, they have reacted to a weakening of demand by increasing production to maintain a flow of hard currency and domestic employment. American industry is now experiencing the effects of these decisions.

Until 1974, the United States maintained a copper stockpile. The previous Administration conducted a study which concluded that copper should again be stockpiled at the level of approximately 1.3 million tons. This is essentially an Executive decision under the Strategic and Critical Materials Stockpiling Act (50 USC § 98.). I urge you, Mr. President, to exercise your authority and to reinstate the stockpiling program for copper.

While I recognize that this can only be an interim solution, it will have a number of salutory effects. First, it will change the present market psychology surrounding the copper industry. Second, it will absorb a substantial portion of the market overhang which is depressing prices. Third, it will provide the United States with reserves of copper at bargain basement prices.

I do not believe, Mr. President, that this action should be taken without reference to the broader dimensions of the problem. Present law provides for a tariff on copper imported into the United States. It is a small tariff, but nonetheless important in narrowing the price differential between domestic and world copper. As you are no doubt aware, however, this tariff is suspended under the Generalized System of Preferences which allows imports from designated "less developed countries" to enter the United States duty-free.

The objectives of the GSP are laudable. However, we have jeopardized an important American industry and thousands of American jobs. I urge you, therefore, under the authority vested in the President under Section 201(b) of the Trade Act of 1974, to suspend the preference on copper. This can hardly be viewed as an unfriendly act inasmuch as the countries involved have consistently refused to curtail production.

Mr. President, I make this request on behalf of the citizens of Arizona who are faced with economic tragedy.

Sincerely,

Dennis DeConcini

DENNIS DeCONCINI
United States Senator

DDC/RRX

CONGRESSIONAL LIAISON - WHITE HOUSE
REFERRAL FORM

TODAY'S DATE: 10/8

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_______ For your information

_______ For comment

REMARKS: _______

SUBJECT: _______

FROM Kathy Baker

Congressional Liaison
113 E.W. 456-2755

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

September 30, 1977

Eizenstat
(bcc: Strauss, FYI)
CONGRESSIONAL
LIAISON

OCT 4 1977

The President
The White House
Washington, D.C.

Dear Mr. President:

The American mining and processing industries are awaiting the results of your stockpile policy review with great anxiety.

Mining has fallen into a depressed state and needs help. This is particularly the case with the copper industry where unemployment is high and threatens to go higher. If additional productive capacity goes off line, national security will be impacted because the nation will have increased its dependence on foreign sources of supply.

We think a domestic stockpiling program offers the best and speediest route to assistance for the industry. Therefore, we respectfully urge you to make a determination as soon as possible that stockpiling is necessary and that goals ought to be speedily set. We believe that acquisition of copper at this time should be a priority goal.

Mr. President, the industry stands ready to provide any assistance you may need -- facts, figures, or whatever -- and we in Congress are prepared to meet with you at your earliest convenience to discuss this matter in more detail.

Thank you for your consideration.

Sincerely,

Mo Udall

Howard W. Cannon, U.S.S.
Peter V. Domenici, U.S.S.
Barry Goldwater, U.S.S.
Orrin G. Hatch, U.S.S.
Paul Laxalt, U.S.S.
James McClure, U.S.S.

Morris K. Udall, M.C.
"Chick" Kazen, M.C.
John J. Rhodes, M.C.
Eldon Rudd, M.C.
Jim Santini, M.C.
Bob Stump, M.C.

Max Baucus, M.C.
Manuel Lujan, Jr., M.C.
Dan Marriott, M.C.
Philip Ruppe, M.C.

THE WHITE HOUSE
WASHINGTON

November 7, 1977

Stu Eizenstat

The attached was returned in the President's outbox today. Please inform other interested parties of the President's decision.

Rick Hutcheson

RE: IMPLEMENTATION OF THE DE LA CARZA SUGAR PROGRAM

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE

WASHINGTON

C

MEMORANDUM FOR THE PRESIDENT

FROM STU EIZENSTAT Stu
LYNN DAFT LD

SUBJECT: Implementation of the de la Garza Sugar Program

The Department of Agriculture is now making final preparations for implementation of the de la Garza sugar program, as required by the Food and Agriculture Act of 1977. As we reported earlier, Senator Dole threatened to seek passage of a joint resolution of the Congress to override your May 4th decision rejecting the ITC recommendation of a restrictive quota. In an effort to head-off this resolution and to facilitate passage of energy legislation, the Department of Agriculture promised to implement the de la Garza program by November 8th, a month earlier than we had planned. Satisfied with this response, Dole withdrew his resolution.

We would like your guidance before announcing the program. A brief description of the current market situation and a review of recent policy actions follow.

The World Outlook

The 1977/78 sugar beet and sugarcane crops are expected to total 89 million metric tons -- 2.4 million tons more than last year. Ending stocks will increase by about 4 percent, keeping downward pressure on world sugar prices throughout the coming year. The world price is now about 9 cents per pound, raw value basis (or about 11.5 cents landed in New York).

The Domestic Outlook

Overall, the outlook for calendar year 1978 is for a smaller harvest, a reduction in imports, a draw down in stocks, and a decline in per capita and total sucrose consumption. The 13.5 cents per pound minimum support price of the de la Garza program and the interim direct payment program is not expected to stimulate production.

In fact, production will contract in some areas and for 1978 is expected to be 5.9 million short tons, down 4 percent from this year. Stocks have increased 600,000 tons over the last 12 months and are now 1 million tons above normal working levels. Presumably, much of this additional stock accumulation has occurred in anticipation of implementation of the Food and Agriculture Act of 1977. We do not have a good fix on the distribution of these stocks though all segments of the industry appear to be holding additional stocks. Uncertainties about world production adjustments resulting from implementation of the ISA, plus uncertainties about the size of the 1978 crop, are expected to keep domestic stocks above the levels of recent years. Still, a substantial stock draw down is expected in the first half of 1978.

High fructose corn syrup (HFCS) is expected to capture most of the growth in sweetener use in 1978 resulting from population growth. HFCS production will account for about 9 percent of total domestic sweetener use in 1978.

The International Sugar Agreement

The new International Sugar Agreement (ISA) recently concluded in Geneva is now open for signatures. The agreement can enter into force on January 1, 1978, or as soon thereafter as enough governments ratify the agreement or agree to apply it provisionally. The ISA will rely on a combination of export quotas and stock accumulation and release to defend a price range extending from a world price floor of 11 cents to a ceiling price of 21 cents per pound. This range will be subject to review and possible adjustment during the life of the Agreement. The export quotas are the major element in the Agreement for defending the floor price.

As a protection against the market price rising above the ceiling, exporter members will hold 2.5 million tons of sugar in "special stocks." In general, the amount of sugar to be stocked by each exporter is proportionate to its share of the total of export quotas. The stocks, subject to verification, are to be released for sale in three equal amounts when market prices rise to 19, 20, and 21 cents, respectively.

Holders of the special stocks are eligible for interest free loans (at the rate of 1.5 cents per pound per year) from a fund established under the ISA to defray the cost of storing the sugar. When prices rise to the stock release points, these loans are subject to repayment. The funds for stock financing will be generated by means of a fee (0.28 cents per pound initially) levied on all sugar traded in the free market. The actual incidence of this fee will be subject to negotiation between buyer and seller. The U. S. government will not be obliged to collect the fee or contribute to the fund.

Because of the large world sugar supply, we do not believe the ISA will cause the world price to rise to the level needed (about 11 cents) to assure a domestic price equal to the 13.5 cent support level before at least the third or fourth quarter of 1978.

The ITC Findings and Recommendations

On March 17, 1977, the U. S. International Trade Commission (ITC) found that the domestic sugar industry was being threatened with serious injury by increased imports and recommended the establishment of annual import quotas of 4.275 million short tons, raw value. On May 4 you rejected the ITC recommendation and instead elected to aid producers through an interim payment program until such time as we could successfully negotiate an ISA.

The 90-day legislative period during which the Congress could have overridden your decision (the Dole threat) ended October 27th.

Duty Free Treatment of Imports

Under the Generalized System of Preference (GSP) of the Trade Act of 1974, authorized products may enter the U. S. duty free from designated developing countries. To be eligible for GSP treatment, the country's exports of the product in the preceding calendar year must be below a level specified in the legislation (about $30 million for 1977).

Presently, 17 countries are receiving GSP treatment. Another eight countries are now eligible for designation, based on their level of sugar exports to the

U. S. last year. You will recall that we deferred taking any action to make these additional countries eligible for duty free treatment, pending resolution of the debate over a domestic sugar program and the outcome of the ISA talks. When this issue was considered earlier, there were differing views on how many of the eight countries now eligible should be designated. In particular, the disagreement centered on whether Brazil (the world's third largest sugar exporter) should be designated since it is only technically eligible because of one atypical year, 1976, in which it supplied no sugar to the U. S. market.

The Payments Program

The original payments program announced on May 4, 1977, was revised to remove the legal objections raised by the Deputy Attorney General. Final regulations were published in the Federal Register of October 7, for prospective payments effective from September 15. Since then the Justice Department has ruled that payments could also be made retroactively for that portion of the 1977 crop marketed prior to September 15. An amendment to the final regulations is being drafted which will make the payments program effective from the start of the 1977 harvest forward to the date of implementation of the program contained in the Food and Agriculture Act of 1977.

The de la Garza Program

The sugar program required by the 1977 farm bill is for a price support loan or purchase program for sugarcane and sugar beets. The loans and purchases are extended to processors of cane and beet sugar. The bill also required the USDA to establish minimum wage rates for sugar field workers. The program may be suspended if an international sugar agreement is implemented that raises the domestic price to 13.5 cents per pound.

The Department intends to implement the authority by establishing a loan program wherein the Commodity Credit Corporation (CCC) will make loans to eligible sugar processors at the 13.5 cent support price on whatever quantity is offered. Eligible processors having 1977 crop sugar stored in an approved warehouse may present a valid, negotiable warehouse receipt as collateral to the CCC and obtain a loan at the support price. Loans will be for an 11-month period bearing interest at 6 percent. The Congress also indicated that stocks acquired by the CCC are not to be sold for less than 105 percent of the loan rate. Raw sugar does not store well over extended periods of time. Thus, the odds of any stocks acquired by CCC spoiling before they could be resold are probably high.

The proposed time schedule for implementing the de la Garza program is as follows:

November 8 -- Final regulations to be published.

-- Depending on the choice of options, quotas and/or tariffs for the remainder of 1977 and for 1978 to be announced.

November 18 -- All sugar import contracts entered into prior to November 8 calling for future deliveries to be reported to the USDA.

December 1 -- Begin processing price support loan applications.

-- Minimum wage rates for sugar workers to be announced. Price support loans to be contingent on certification that minimum wage rates have been paid.

<u>Options for Implementing the de la Garza Program</u>

The principal concerns in implementing the de la Garza program is avoiding a large CCC takeover of sugar stocks (due to the wide disparity that will exist between the U. S. support price and the much lower world price) and avoiding the use of unnecessarily restrictive trade measures. There are three major options:

(1) Quota only.

(2) Tariff only.

(3) Combination tariff/quota.

(1) Quota Only

There are two legal authorities for the use of restrictive quotas: Section 22 of the Agricultural Adjustment Act of 1933 and the Headnote to the sugar tariff schedules. For immediate use of Section 22 authority, it would be necessary for the Secretary of Agriculture to determine and report to you that emergency action is required. You may then immediately proclaim fees or quotas; after which you must institute a USITC investigation. Under the Headnote authority, you could immediately proclaim a restrictive quota without going through the procedures required under Section 22.

If used alone, an annual quota of 4.2 million tons would be required to raise the price of imported sugar to at least 13.5 cents per pound. However, the Department of Agriculture reports that sugar already imported plus sugar scheduled for delivery before January 1, 1978, will exceed 5.0 million tons. As noted above, October 1 stock estimates exceeded pipeline levels by about 1 million tons, partly as a result of the recent rapid inflow of foreign sugar.

To use this approach, a 1977 quota of 5.0 million tons would have to be proclaimed immediately. This would in effect embargo any sugar imports for the remainder of this calendar year, except those already scheduled for delivery. In addition, a quota of 2.1 million tons for the first half of 1978 could be announced, with a determination for the second half of the year to follow later.

Pro

- Could be implemented quickly.
- Once current "excess" stocks are worked off, quota could be set low enough to avoid CCC takeover of stocks.

Con

- Inconsistent with U. S. policy of promoting freer trade, fewer trade restrictions.
- Would result in continuing windfall profits to U. S. importers.
- Yields no Treasury receipts.
- Administratively complicated -- must devise and implement a procedure for dividing the quota among importers.

(2) Tariff Only

The Headnote of the U. S. Tariff schedule authorizes tariff of up to 2.8125 cents to be levied (of which 1.875 cents is currently levied). Section 22 of the Agricultural Adjustment Act of 1933 authorizes an ad valorem "fee" of up to 50 percent to be levied against imported products that interfere with the operation of a price support program for this product. The cost of imported sugar can be equalized with the 13.5 cent minimum price support as long as the world price does not fall below 6.65 cents per pound, i.e.:

World price	6.6500 cents/lb.
Freight and insurance	0.7200
Headnote tariff	2.8125
Sec. 22 tariff	3.3250
	13.5075

Given that the storage costs of sugar under loan are to be paid by the processor, the world price can actually fall slightly below 6.65 cents without CCC acquiring large stocks on defaulted loans.

Despite the plentiful supply of sugar, it is not likely that the world price will dip below the 6.65 cents for any sustained period of time. Should this occur, however, a just-restrictive quota could be invoked under the Headnote authority; that is, one which is set at the expected rate of imports.

Pro

- Maximizes tariff receipts (estimated at $360 to $550 million).

- Avoids the legal uncertainties associated with the use of both tariffs and quotas in combination.

Con

- A tariff would not have immediate effect since outstanding contracts would have to be excluded from payment if large financial losses are to be avoided.

- If world prices fall far below 6.65 cents, existing tariff authority will be insufficient to keep the imported price above 13.5 cents, requiring the imposition of a quota if the takeover of stocks by the CCC is to be avoided.

(3) Combination Tariff/Quota

A third option is to use a combination of tariffs and quotas. For the remainder of 1977, we would rely on the use of a restrictive quota, as in option (1). The level of the quota would be determined by the quantity of import already received plus that quantity which it can be certified has already been contracted for delivery this year. Since we wish to avoid cutting across contracts that were made on the basis of the current tariff, it is advisable to avoid implementation of a tariff without advance notification. Thus, we would also announce that as of January 1, 1978, a variable tariff sufficient to raise the import price to 13.5 cents per pound, plus an increment to insure the repayment of loans would be levied. Since it is possible that the world price will fall below the reach of our tariff authorities -- i.e. below a world price of 6.65 cents -- we would also impose a "nonrestrictive" quota set just above the level of expected imports.

Pro

- Minimizes windfall profits of sugar importers.

- Provides tariff receipts to partially off-set higher prices and budget costs of any CCC takeover.
- Less protectionistic.

Con

- Counsel advises that the legality of using these authorities concurrently is uncertain and that they might not withstand a court challenge, should one arise.
- This option is also administratively complicated.

Analysis

None of the options offer a happy prospect, but of the three there is general agreement that the use of tariffs (options 2 and 3) is preferable to the use of quotas. A quota would result in continuing windfall gains to importers and would depress the world market price slightly more. By using tariffs, a portion of the windfall gain is captured and returned to the Treasury. Since the consumer is ultimately bearing the burden of this program -- with additional consumer expenditures of $400 to $800 million per year -- we feel this offset is highly desirable.

The choice between options 2 and 3 hinge on the extent to which we want to insure against the world price falling below the reach of our tariff authorities. The Department of Agriculture argues that we should impose a quota at or near the expected level of imports for protection against an uncertain future. CEA and STR argue that it is very unlikely that the world price will drop below reach of our tariff authority...and if it does, we can impose a quota at that time. The use of a tariff only would be more acceptable to supplying nations. It would also avoid setting a precedent for other industries that are seeking import relief. And, finally, the Congress, in its Conference Report on the Farm Bill, indicated that they expected the program to be implemented through the use of tariffs.

For these reasons, we believe the "tariff only" option (option 2) is the preferred option. This would be a variable tariff, with exceptions for sugar contracted before November 8 and for sugar in transit on the high seas.

Decision

________	(1)	Quota only
✓	(2)	Tariff only (CEA, STR, State, DPS) OMB (informal)
________	(3)	Combination quota/tariff (USDA)

JC

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for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

November 7, 1977

The Vice President
Frank Moore
Jody Powell
Jack Watson
Jim McIntyre
Charles Schultze

The attached is forwarded to you for your information.

Rick Hutcheson

RE: IMPLEMENTATION OF THE DE LA GARZA SUGAR PROGRAM

THE WHITE HOUSE
WASHINGTON

November 7, 1977

Frank Moore

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

Rick Hutcheson

cc: Hamilton Jordan

RE: U.S. ATTORNEY IN PHILADELPHIA

THE WHITE HOUSE

WASHINGTON

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

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
	✓	JORDAN
		LIPSHUTZ
✓		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		GAMMILL

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE WHITE HOUSE
WASHINGTON

FRIDAY - NOVEMBER 4, 1977

4:00 P.M.

MR. PRESIDENT

CONGRESSMAN JOSHUA EILBERG CALLED --WANTS TO DISCUSS CURRENT U.S. ATTORNEY IN PHILADELPHIA WHO IS GOING TO BE REPUBLICAN CANDIDATE FOR GOVERNOR OR LT. GOVERNOR AND PROBLEMS THIS WILL CREATE POLITICALLY.

T.K.

Shumacker

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for Preservation Purposes

Frank -
See me
J

THE WHITE HOUSE

WASHINGTON

November 4, 1977

MR. PRESIDENT:

The U. S. Attorney in Philadelphia is David W. Marston.

We have received no recommendation from Justice. According to Mike Egan's office "nothing is happening" on a replacement. They are leaving him where he is for the time being.

Congressman Eilberg supports Mr. Glancey. Justice feels they do not have a strong enough recommendation from the Congressional delegation in Pennsylvania to take any action on Mr. Glancey.

The Attorney General is out of town until Monday and he is the person who will make a decision. If you approve, I will have Hamilton discuss this with him on Monday morning and report back to you.

Eleanor Connors

J
Speaking for Philly - Demo leader in brains "knocking our Marston out" - Wants Marston out - adamant - no choice for replacement

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