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PRESIDENT'S
REORGANIZATION
PROJECT

2:30 PM

WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN.

NOV 25 1977

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Meeting on Education Reorganization
Monday, November 28
2:30 p.m. (30 minutes)
The Cabinet Room

FROM: Jim McIntyre

I. Purpose

To present issues and recommended action on education organization. Supporting memorandum and background papers were transmitted Wednesday, November 23rd.

II. Participants

A. Executive Committee

The Vice President
Alan Campbell
Charles Schultze
Dick Pettigrew
Jim McIntyre

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B. White House Staff

Hamilton Jordan
Jody Powell
Stu Eizenstat

Jack Watson
Frank Moore
Robert Lipschutz
Bert Carp

C. OMB

Harrison Wellford
Peter Szanton
Pat Gwaltney

William Hawley
Peter Petkas
Whitney Shoemaker

D. Other

Joe Califano
Fred Bohlen (HEW)

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 28, 1977

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CLS*
Subject: OMB Reorganization Program for Education

1. I agree with the Reorganization Committee's conclusion that the creation of a narrowly based Department of Education is an unattractive alternative. It would not accomplish any of the educational goals set by the Reorganization Committee. Many of the budgetary tradeoffs between health, education and welfare now made by the HEW Secretary would be shifted up to the President. The creation of a narrowly focused department would probably lead to more advocacy, within the Administration, of various new Federal grant programs for particular educational purposes.

2. A broadly based Department of Education, OMB's second option, could take two forms: (i) the new department could include the training programs of the Department of Labor under CETA legislation; or (ii) those programs may be left in the Department of Labor.

If consolidation is undertaken without the training programs, this option has no readily apparent advantages over the third option in the memo -- the strengthening of the Education Division within DHEW. Moreover, like the first option, this option increases the visibility and number of issues that would have to be resolved at the Presidential level without any offsetting benefits beyond those in the option of a strengthened Education Division.

If the CETA training programs were included in a broad based Department of Education, however, the transfer might compound the very problem it is trying to solve. While there is a need to improve the transition from school to work, placing DOL's training programs in a Department of Education will split the government's manpower programs and make many of our potential employment and training policies difficult to undertake. There are two reasons:

- . First, it would create two very distinct employment and training efforts in two different departments. By leaving the direct job creation programs (public service employment) in the Department of Labor and the training programs in a Department of Education, any coordination or tradeoffs which are now possible between the two approaches will be eliminated.

- . Second, and more importantly, without any direct ties to labor organizations and the business community, the Department of Education is in a poor position to get political support for innovative programs involving private industry initiatives and on-the-job training for youth. Without these ties, a Department of Education probably will rely much more heavily on institutional training instead of on-the-job training. Conversely, without jurisdiction of training programs, the Department of Labor is likely to become a one-sided advocate of public service employment programs. Dividing responsibility for manpower programs between one department which concentrates on training and another which concentrates on direct jobs is almost bound to make for bad programs and administration.

Given these considerations, Option 3, the strengthening of the Education Division within DHEW, seems preferable. I have no strong feeling as to how consolidation with other human service activities should be conducted, but certainly much more coordination is imperative.

THE PRESIDENT HAS SEEN.

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PERSONAL AND CONFIDENTIAL

TO: PRESIDENT CARTER
FROM: HAMILTON JORDAN *HJ.*
RE: DEPARTMENT OF EDUCATION

I hope that you will have time to briefly review the memorandum I submitted about the Department of Education almost two months ago. It makes most of the arguments that I feel are important.

After reading the OMB and HEW memoranda, I only have several thoughts:

1. I see no reason to delay a decision on this matter. It has been studied for almost a year now. You have had to make decisions on more complex issues already

this year (B-1, energy, social security, SALT II, etc.) and I see little benefit to deferring this one longer. The longer you wait the more it will appear that you succumbed to political pressure (if you favor the separate department) or you are avoiding making an unpleasant decision that violates a campaign promise (if you ultimately decide to keep things as they are).

2. Let's be fair with our friends the teachers. They have been good to us and should know where we stand on this issue of importance to them. If you decide to go against the separate department, you should bring them in and tell them about it. The worst thing we could do would be to seek some middle course that fails to live up to our campaign commitment but that we claim fulfills it.

3. Implied in the argument against the separate department is that education is not important enough to require the personal attention of the President. There are few things in this world that are more important to

the people of our country than seeing that their children get a decent education. The HEW and OMB studies both contain data that suggest the quality of education in this country has declined in recent years. As an issue and problem, education merits the attention of the President.

4. The separate Department of Education was as explicit campaign promise made repeatedly by you. The burden of proof rests with those who oppose the separate department. They have not made a good case against the separate department. At best, you can argue that a separate department is needed. At worst, you can say that a separate department is a close call and/or no improvement over the present structure.

THE PRESIDENT HAS SEEN.

National Scholastic Standards

1. There is growing public concern about the declining quality of education in the nation today. One in five American adults is functionally illiterate. Many high school graduates cannot read, write, or compute well enough to get and hold a decent job.
2. A "back to basics" movement by dissatisfied parents is gaining momentum across the country. Many parents and localities are starting to demand competency tests as a prerequisite for a high school diploma. A 1976 Gallup poll showed that 2 out of 3 Americans favor a standard nationwide examination as a requirement for high school graduation.
3. To improve our educational system, we must first know where the problems are and have a basis for measuring progress. In this regard, we need to develop national scholastic standards and tests in the basic skills--reading, writing and mathematics--so that:
 - a. Parents would be able to have their children tested against these standards at two year intervals throughout the student's elementary and secondary schooling.
 - b. Parents would not have to wait until their children are about to graduate from high school before finding out how well they are mastering basic skills.
 - c. Students who require additional instruction could be identified and helped as their education proceeds.
4. Setting standards for reading, writing and mathematics should not be difficult; what a student should be expected to know of these basic skills should not differ greatly from one locality to another. Nor should it be difficult to devise tests against these standards which accurately measure student performance and still avoid "cultural bias." By focusing on the basic skills, there is no need to address more controversial issues which may better be decided locally, e.g., whether a student should know a second language or be knowledgeable in such things as black history.
5. Many educators feel threatened by proposals to develop national scholastic standards. They consider it tacit acknowledgement that our educational system is deficient. Many also fear a system which would make teachers and schools accountable for the quality of their work.
6. Other educators claim they support the development of scholastic standards and competency-based tests but contend that the task should be left to individual states and localities, to preserve the tradition of local control of the

curriculum. However, some states and localities may not have the resources to develop and implement these standards and tests. Or, their efforts may be thwarted by those professional educators who oppose them.

7. Many states and localities are developing competency standards and tests. However, some of these tests are given only at the high school level, when it may be too late to conduct effective remedial courses for those who fail. Many tests are being made ridiculously easy, so that an acceptable number of students will pass.

8. If standards are to assist us in improving education, they must be tested against at regular intervals and be based on the level of proficiency required to function fully in society, not on what a given percentage of the current student population is capable of achieving. Our goal should be to raise student achievement to meet the standard, not lower the standard to reflect the status quo.

9. National scholastic standards and tests should be optional. In that way the Federal Government would not be interfering in the state control of schools. It is inconceivable that having voluntary national scholastic standards and tests could in any way hurt the quality of our educational system. On the contrary, they should provide the basis for upgrading education, particularly in the case of the disadvantaged.

10. The Department of Health, Education and Welfare opposes the idea of national scholastic standards and tests, contending that the states should derive their own. The Department proposes to sponsor research into better methods of testing as a means of assisting the states in this effort. This means the job will never be done.

11. Recommendations:

a. Establish a panel of nationally prominent people to establish scholastic standards and tests in reading, writing, and mathematics for 2nd, 4th, and 6th grades, etc., throughout the elementary and secondary school level. Dr. Abramowitz of your staff--or someone of similar dedication and competence--should be put in charge of this effort.

b. Make these standards and tests available for states to adopt, reject, or modify as they see fit.

c. Arrange for parents to have their children tested against these standards, at Federal expense if necessary, so they can find out how their children are doing.

If a national panel is not feasible at this time, the National Science Foundation should be tasked to develop the standards and tests under the supervision of the White House staff.



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

November 26, 1977

PERSONAL AND ~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

FROM JOE CALIFANO *Jac Jr.*

My strong view that creation of a narrow Department of Education makes no sense from the viewpoint of the President or the school children the Department is designed to serve was formed long before you named me Secretary of HEW. My general view that a President needs to consolidate rather than augment the number of departments and agencies reporting to him is expressed in a book I wrote that was published in 1975. It is consistent with your frequent statements during the campaign to the same effect.

I recognize that you committed during the campaign to create a Department of Education -- but always in the context of consolidating the \$25 billion of education programs scattered throughout the federal government (HEW's Education Division has only \$10 billion of that \$25 billion) and usually in the context of adding job training programs (largely from Labor and presumably from other departments as well) and some early childhood programs. Creation of a narrow Department of Education, just including the E of HEW, does not fulfill that commitment.

In all candor, as I see the ever-increasing difficulty of relating programs one to the other -- for example, health and education to immunize children, the Milliken program -- I believe HEW is one of the few consolidated positions you have in the federal government. I think it would be tragic to give the interests of health, the aging and other client-oriented programs the centrifugal force they need to become separate departments and agencies.

I do not think the President needs another client-interested department to deal with. There is an additional problem with education. Here, we are trustees for the children and the students. They will have little voice in

a Department of Education, likely to be dominated by NEA teacher interests -- which do not always coincide with those of students, particularly insofar as teachers' salaries are concerned, or with those of parents, particularly insofar as curriculum is concerned.

I believe creation of a Department of Education would be a mistake that will persist far beyond the Carter Administration and I urge you to think carefully before moving in this area. No one can know the "right" or "best" way to organize the domestic social services of the national government. But the worst thing we could do is simply to split off the Education Division from HEW and make it a Department separate from other domestic programs that it can enrich and be nourished by.

I hope you will give me an opportunity to fully set forth my views in a candid discussion of this subject.



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

November 26, 1977

MEMORANDUM FOR THE PRESIDENT

FROM JOE CALIFANO *JAC Jm.*

SUBJECT: Reorganization of Federal Education Programs

1. THE ISSUE

The issue presented for your decision at this time is, in my judgment, a very limited one: should a new, narrowly-based Department of Education be created by removing the Education Division from HEW or should education within HEW be reorganized and upgraded while analysis continues on a more broadly based Department that consolidates HEW's Education Division with other education, training or social service programs.

All my experience in government -- both as personal staff to a former President and as a Cabinet Secretary to you -- leads me to urge, in the most forceful way I can, that you reject the narrowly-based separate Department on the merits as inimical to the President's policy-making, managerial, and budgetary interests.

As the OMB memorandum indicates, virtually the only reason to create the narrowly-based separate Department would be to fulfill a campaign promise and satisfy political demands. I fully recognize the importance of your (and the Vice President's) campaign commitments -- they have guided my direction of HEW. And I will do all that I can to implement swiftly and effectively any decision that you make.

But the narrowly-based Department of Education does not meet your commitment to seek consolidation of "grant programs, job training, early childhood education, literacy training and other functions currently scattered throughout the government." (NEA Reporter, June 1976). That kind of broader consolidation, if politically feasible, may well make sense from a national and Presidential perspective.

But there are, at present, far too many political and substantive questions about such consolidation alternatives -- whether of HEW's education and social service programs (as OMB suggests), or of all education programs throughout the government, or of HEW's education and DOL's job training programs -- to make a decision today, or in the near future, about a more broadly based reorganization.

Accordingly, you need not break your commitment, you need only decide today that you are not going to keep it by creation of a narrowly-based Department of Education. And there are alternative political strategies that can strengthen support for you while substantially minimizing criticism from those few groups who intensively want creation of a separate Department.

There are, thus, three purposes of this memorandum:

First, to set out in greater detail the case against the narrowly-based separate Department;

Second, to sketch a possible reorganization of education within HEW that fleshes out OMB's thoughts on upgrading and streamlining HEW's Education Division;

Third, to suggest an organizational, legislative, and budgetary strategy to be implemented in conjunction with a Presidential decision not to create a narrowly-based separate Department of Education -- a strategy that would gain strong political support from most education and education-related interests and that would mute, although by no means dissipate, NEA criticism.

An immediate series of organizational, legislative, administrative and budgetary initiatives -- coupled with a decision to continue analysis of a more broadly based, education centered Cabinet consolidation -- would allow you to meet a number of substantive concerns expressed by elementary and secondary interest groups, while reserving judgment on whether you can fulfill your campaign commitment in a manner that advances national and Presidential objectives.

In sum, I would recommend that you adopt a modified OMB Option II-B with three major qualifications:

- You should not at this point, indicate publicly any preference for OMB's suggested consolidation of education and social service programs. As OMB acknowledges, the politics of this change are explosive.

OMB should be privately directed to continue studying that option but also to consider methods of combining all education and job training programs presently scattered around the Federal government.

- If consolidation of programs is the major reorganization objective, you should not foreclose the possibility that existing departments be the focus for further consolidations in education, training or social services.
- You should not defer judgment on the narrowly-based Department but should, instead, reject it as a live alternative.

II. THE CASE AGAINST A CABINET-LEVEL DEPARTMENT OF EDUCATION

I believe a decision to establish a Cabinet-level Department of Education, especially one with a narrow base of interest and policy responsibility, would be a serious and lasting mistake.

There is no education problem that creation of a Cabinet-level Department will correct. And creation of a Cabinet-level Department will give you and future Presidents many unnecessary organizational and policy problems that in no way qualify as Presidential in terms of scope or significance.

In this regard, it is significant that both of the White House Reorganization Task Forces of the last decade recommended against the establishment of a separate Department of Education. And, of course, it is equally significant that your own reorganization staff has now independently reached the same, negative conclusion about a narrowly-based, Cabinet option.

For purposes of presentation and discussion, I have organized my concerns and reservations below in terms of the President's multiple roles as policy-maker, organizer and manager of the Executive Branch, maker of the Executive budget, and leader of an Administration in being.

● For the President as Policy-Maker

--A decision to establish a Department of Education is premature in the absence of a decision to raise Education to a very high position on the Administration agenda, or to commit to a sharply different role for the Federal Government in an area where States have traditionally exercised leadership and financial responsibility (and increasingly are likely to have the resources, with budget surpluses, to play that role).

--A narrow Department of Education will be a flawed, misshapen organizational structure for two distinct reasons:

- It will include very little beyond HEW's existing Education Division, which currently is responsible for less than 40 percent of the government's annual outlay of \$25 billion for education;
- It will overstate the limited Federal financial interest and responsibility for the costs of public schools (now at 9 percent), while failing to reflect the government's large and complex involvement with Higher Education, where 40 percent of the costs are borne at the Federal level.

--While the Federal Government should serve as trustee of the chance for all children to enjoy educational opportunity, a Department of Education is very likely to be dominated by an assertive, nationally organized interest group -- the NEA. While individual teachers are dedicated, institutional interest groups necessarily focus on economic self-interest.

--In this context, creation of a narrowly-based Department of Education will dump the NEA's agenda directly on the President's desk. This controversial agenda which, among other things, seeks nearly a fourfold increase in federal elementary and secondary spending, much greater use of federal funds for general aid, and federal guarantees of collective bargaining for teachers, is not likely to become, and should not be federal policy.

--A separate Department also signals the isolation rather than the connection of education to health, training, and other youth and family support programs, an outcome inconsistent with the Administration's commitment to bring government services together to help people.

● For the President as Executive Organizer and Manager

- The small Department of Education that can win support in Congress (with less than 5,000 employees and an annual budget of \$10 billion by OMB reckoning) runs counter to the President's general theme of organizational consolidation, and begins to break up the one domestic Department, HEW, in which functionally related programs have already been drawn together, and are, I hope, managed increasingly energetically from the top.
- If Cabinet membership can be justified and achieved for Education, the smallest, most self-contained element of HEW, the President will find himself under enormous pressures to accord a comparable status in the Cabinet for Health, for older Americans, and for other special constituency groups whose dependence or involvement with the Federal Government is at least as great as education. This issue will immediately, and with some fervor, be pressed in Health.
- The President will have more, rather than fewer, program managers reporting directly to him if Education -- and other interests in its wake -- gain Cabinet status.

As a result, more second-order policy and bureaucratic conflict will surface to the President's level, and fester until resolved by the President and his staff. Increasing the President's dispute resolution role by fragmenting related programs, as will happen with creation of a narrowly-based Department, is simply not the direction that management reforms in this Administration should take.

- In enacting a law to create a Cabinet Department of Education, Congress can be counted upon, in the area of Education especially, to legislate "protections" limiting Presidential leadership and control. In contrast, the Administration could proceed by reorganization authority, not new legislation, to reorganize Education within HEW, as suggested below, and this would be both far swifter and far more likely to protect or increase Presidential authority.

● For the President as Budget-Maker

- The most aggressive advocates of a separate Department of Education discuss the issue almost solely in terms of the leverage it will provide for more favorable treatment in the President's budget. The creation of a separate Department will unmistakably signal the Administration's willingness to sharply increase the Federal Government's share of school costs, even if the NEA's goal of nearly a fourfold increase in Federal financial assistance to the public schools is not a credible goal in the current budgetary climate.
- A narrow Department of Education with tight interest group and Congressional ties will, like other client Departments, fight hard not only within, but beyond the Administration family in public for greatly expanded funding. This will generate intensive pressure on the President to spend more on education than fiscal limitations allow.
- By establishing a separate Department, the President will give up the first cut on education budget demands now made at the Department level. It would be analogous to the President receiving direct budget requests from the Secretaries of the Army, Navy, and Air Force, without benefit of the cuts imposed by the Secretary of Defense!
- If the Administration's Education Budget ultimately falls short of that sector's heightened expectations, vocal and more visible expressions of disillusion by the educational community will readily replace the political good will earned by the President's support for creation of the separate Department.

● For the President as Leader of an Administration in Being

- A reorganization of the magnitude required to establish a Department of Education will entail a 24 to 36 month period of disruption -- even if Congress moves promptly to support a Presidential request.

--During that period, the Administration will find it exceedingly difficult to exercise policy leadership and program control. Indeed, I believe there is significant risk:

- Of losing the initiative in the renewal and redirection of key elementary and secondary education authorities that expire in 1978.
- Of losing effective policy level management and control of many existing educational programs by people who are loyal solely to you.

--A decision to split Education off from the rest of HEW would also leave that larger agency and its leadership with problems of adjustment.

--If the benefits of reorganization outweigh costs such as these, then there is reason to proceed. The converse proposition is also true.

III. THE CASE FOR UPGRADING AND STRENGTHENING EDUCATION IN HEW

Those who want to see the establishment of a separate Department of Education frequently make their case in the framework of an argument against the viability of the Department of Health, Education, and Welfare. It has been argued:

First, that Education is neglected and submerged in the agenda of the larger Department and

Second, that HEW is too large, unmanageable, an organizational anachronism that never made any sense and, in any case, does not work.

In the Nixon-Ford era, Education was something of a step-child in the Executive Branch (no more, many would argue, than Health, Housing and other domestic concerns). Even in the cold winter of Fiscal 1970-1978, however, as the OMB analysis reminds us, controllable appropriations for Education

increased 165 percent alongside far smaller relative gains for Health (131 percent) and Human Development Services (120 percent). Education is not an area that lacks friends strategically placed in the Congress, even when it is not acknowledged by the Executive.

Since January, in addition to the improvements you made in the final Ford budget for Education, we have worked to strengthen the relationship of education to other services, to improve internal organization and management by actions that could be taken administratively, and to cut paperwork and other administrative burdens on schools and colleges.

Relating Education to Other Services

In your Administration, new emphasis has been given to strengthening the connections of Education to other program sectors of HEW, most notably through the President's Immunization Initiative and the Milliken "community schools" demonstration project. Within HEW, I have also established nine formal internal Task Forces and less formal working groups that involve policy-makers in the Education Division with the leaders and program developers of other offices:

- School Health Programs
- Immunization (Long-term)
- Basic Skills
- Adolescent Pregnancy
- Venereal Disease
- Administering Health Professions Student Loans
- Smoking
- Sex Education
- Health Prevention/Educating for Enhanced Health

There is also active, programmatic and operational connection between the Education Division and other program offices of the Department in such important areas as:

- Indian Education (with Health and Human Development).
- Handicapped Education (with Health, Human Development, and Civil Rights).
- Health, Nutrition and Family Living (with Health, Human Development).
- Drug Abuse and Alcohol Abuse Education (with Health -- ADAMHA).
- Education for Parenthood (with Human Development).
- Information-sharing Technology (with Health, Human Development and Social Security Cash Assistance).

There is a great deal more to be done in bringing the diverse bureaucratic sectors of HEW together in a more active partnership to meet the needs of people. But as the Administration's experience in such interdepartmental initiatives as the Milliken project, Urban policy, and education and work attests, effective partnerships between self-contained bureaucracies do not happen painlessly, and the pain increases as you increase the needles of equal size and status pointing at the Presidency.

Organizational Changes and Plans

We have previously taken two major steps to improve the organization of HEW's Education Division.

- In March, as part of the Department's overall reorganization, I established a new, comprehensive Bureau of Student Assistance in the Office of Education. We brought together seven major student grant and loan programs spending \$3.5 billion annually that were previously administered by four, independent HEW bureaus and offices. Included in

this realignment was internal transfer of the Health Professions Guaranteed Student Loan Program, a transfer that would prove hard to hold if Education were split off from the rest of HEW.

- In April, Commissioner Boyer and I announced further organizational changes that substituted two internal Deputy Commissioners of Education for more than a dozen small, ineffectual line and staff offices that had previously reported directly to the Commissioner. This and other changes enabled us to reduce the number of staff units reporting to the Commissioner from 26 to 7, strengthening the Commissioner's office and eliminating a top heavy bureaucracy.

In OE alone, we have also made a government-wide mark by administrative actions that have eliminated repetitive reports and forms, and eliminated more than 6 million person-hours of paperwork production.

Despite these initiatives and reorganization to the limits of the Secretary's administrative authority, HEW's Education Division continues to have organizational problems that can only be corrected through legislative action.

- As the OMB Decision Memorandum properly states "there is no single point of leadership (in the DHEW Education Division): the Commissioner and Assistant Secretary for Education share responsibilities which are legislatively delegated to each of them."
- The Assistant Secretary, with very limited final authority, outranks the Commissioner who has practically all the operational responsibility for annual outlays approaching \$10 billion. Moreover, the Director of the National Institute of Education, whose program is important, but relatively modest, ranks with the Commissioner, and as an operational reality, has historically functioned quite independently of both of the Division's policy leaders. (For example, Congress directed NIE to evaluate Title I of the Elementary and Secondary Education Act, and to provide the report directly to Congress without review or clearance by the Secretary of HEW, or the Assistant Secretary of Education).

We have a proposal for major reorganization of the Education Division whose key features would end leadership confusion and redundancy, dramatically but rationally upgrade the function within the Department, and advance the internal streamlining and consolidation of education programs and offices already begun administratively. I have attached a preliminary statement of this proposal at Tab A. Its main features are as follows:

- A single leader for education within HEW, who will be called the Under Secretary/Commissioner for Education.
- Consolidation of most OE programs into four bureaus -- basic education, vocational education, higher education and special education.
- Creation of two new client-oriented subdivisions -- one for student programs and one for teacher programs -- each to be headed by a Presidential appointee. This innovation would not only allow HEW to keep the student aid programs separate (as per the major reorganization of March 1977), but would also create a division especially for teachers. This Teachers' Bureau would bring together in one place all teacher education programs and services.
- Creation of an Educational Research and Reform unit that would bring together, in a coordinated fashion, important related pieces of OE that are now separate: innovation (FIPSE), research (NIE) and data gathering and evaluation (NCES).
- Devolution of certain staff functions from the Office of the Secretary to the Office of Under Secretary for Education, including strengthening its planning and evaluation capability.

The proposal is preliminary, and if you approve its general outline, will require formal review by OMB and the refinement that will occur through wider circulation. In contrast to the anticipated 24-36 months required to present and enact legislation to establish a new Department and get it operational, however, the key goals of organizational reform of education within HEW sketched here can occur through reorganization plan, and clearly be put in place, I believe, during the first half of 1978.

IV. THE OUTLINES OF A SUBSTANTIVE AND POLITICAL STRATEGY

As a result of Executive Branch stagnation during the Nixon-Ford years, pressure from both the Congress and the elementary and secondary interest groups has steadily mounted. There is a generalized concern for the Federal education effort to have:

- Coherent and innovative programs;
- An increase in Federal funding;
- Greater cross-Government coordination;
- An elevated status within the Executive Branch.

I believe that the support for a separate Department of Education is thin -- based in most instances on a desire to have the Federal Government assume a more active programmatic, budgetary and coordinating role.

Thus, the Administration can, in the context of the traditional federal role and an upgraded Education Division within HEW, devise a legislative, budgetary and organizational strategy for secondary and elementary education that will gain you much political credit in many quarters and that can significantly undercut criticism from others:

- It will be warmly received by those who are neutral about or antagonistic toward a separate Department of Education -- the higher education community, the AFT, many prominent members of the black community and other civil rights groups;
- It will be favorably received by those who advocate creation of a separate Department but without great intensity -- local and State school administrators, parents groups, etc.; and,
- It holds out significant gains for the NEA.

A. Substantive Components.

The strategy includes the following components:

1. A significant strengthening of education within HEW as described above.

2. Development of a coherent and innovative elementary and secondary program that establishes the Federal policy in elementary and secondary education for your first term. As you know, the Administration must submit such a program next year because most of the elementary and secondary education legislation is up for reauthorization.

The program, which is consistent with the Federal government's limited, but catalytic role in elementary and secondary education, will emphasize the following themes if you approve:

- The promotion of access and equal education opportunity for disadvantaged, handicapped, language-limited, Indian and minority students.
- Improving the quality of education.
- Integrating elementary and secondary schools with other social services and broadening the educational effort to the workplace and the home. (The Milliken project and childhood immunization initiative are but two examples of the kinds of programs that are possible in this area.)
- Assisting, through limited federal financial support, certain important state and local education activities (in such areas as adult, vocational and possibly, private education).
- Defining a new Federal-State relationship (by reducing paperwork, increasing State discretion, and relaxing fiscal controls).

With your approval, we will be putting special emphasis on increasing the quality of education for both disadvantaged and all other students -- and this will constitute a major shift in Federal education policy.

We have requested time to brief you on our proposed program to chart the direction of your Administration in this area for the duration of your first term, and perhaps for five years (depending on the length of the reauthorization).

3. Modest commitment to increases in the Federal education program in general and the elementary and secondary portion of that budget in particular. The Federal Government pays about 9 percent of all public and private funds for elementary and secondary schools nationwide. We do not believe, in contrast to the NEA, that this share should increase sharply, particularly given federal budget limits, and the reality of many states increasingly running budget surpluses.

Nonetheless, we believe that there should be a signal from the Administration that in conjunction with its proposed elementary and secondary education package, there will be a modest but steady annual growth in the elementary and secondary budget now at about \$6 billion a year. In the past 8 years that budget has increased on an average of 9 percent annually, mostly because of Congressional add-ons to the proposed Presidential budget. As our briefing for you on elementary and secondary education will indicate, we propose phased funding for the legislative initiatives that will increase the elementary and secondary education budget by a slightly higher rate of increase over current services during the next three years.

4. Revitalization of the Federal Interagency Committee on Education (FICE) and express Presidential interest in its across-the-Government coordinating functions. I sent to you on July 11, 1977, a memo urging this change. This memo is attached.

5. Continued study by OMB and HEW of broadly-based, education centered consolidation options.

B. The Procedural/Political Components.

If you decide not to create a separate Department and instead to adopt an alternative strategy along the lines sketched above, the following steps might be appropriate.

1. A major Presidential statement on education. Within the next month (or in early January) you could make a speech announcing the broad decisions on the

legislative program, the Administration's budgetary intentions, and an upgrading and streamlining of the education division in HEW. You could direct me to work with OMB to produce a reorganization plan within 90 to 120 days, and you could announce your intention to reserve judgment on an education centered, broadly-based consolidation pending further OMB analysis.

2. Extended discussions with interest groups and Congress on all dimensions of the strategy which could be carried out just before, and immediately after, the Presidential statement, with emphasis on Congressional consultation regarding the legislative program and the reorganization plan and on interest group mobilization in support of the total education strategy.

3. Submission to Congress of the specific secondary education reauthorization program in late January or early February, accompanied by a Presidential message that is more specific on legislative details than the major statement noted above. Two statements within a short period of time would underline the Administration's commitment to a sensible, coherent and innovative Federal education strategy. We must begin Congressional consultation on the program early in December, as soon as we have received your tentative views.

4. Submission to Congress of a reorganization plan in March.

Although a decision rejecting a separate Department of Education will disappoint the NEA, the strategy outlined above does contain a number of items that should ease the pain a little: an upgraded Education Division that could be placed in late Spring, a number of new Presidential appointments in education, a special Teachers' Bureau within the Education Division, new programmatic initiatives for teachers, and a sensible budgetary commitment. This package, plus direct personal contact between high level Administration officials and the NEA leadership may be enough to insure that NEA's criticism is mild. The package should, as noted, gather broad base support from the rest of the constituent groups. And it should take the wind out of the sails of most Congressional advocates of the separate Department concept, at least in the near term as we implement the strategy. (Special, in-depth discussions with Senator Ribicoff will be necessary).

V. RECOMMENDATION

OMB's recommended course of action is Option II-B (OMB memorandum at pp. 17-18). As written, that option states: "Defer a final decision on the three structural options but note that the broad department seems very promising in view of the challenges associated with education, and direct the fuller development of options with the benefits of full public and Congressional debate."

In my judgment, it would be a serious mistake to announce publicly your preference for consolidation of education and human services at this time. The politics of such a combination are volatile, to say the least (OMB memorandum at p. 14). You could generally state that your reorganization goal is sensible consolidation, and then OMB could more quietly test a number of consolidation alternatives, including its presently preferred education and social services alternative.

On the substantive front, I think there are serious problems with the OMB option -- most significantly the relationship of income security and health services programs to the new entity. Moreover, there are equally important linkages between HEW's education programs and other education programs in the government and between education and job training. Both these forms of consolidation should also be more fully explored, both within HEW and outside it.

Accordingly, as noted, of the various OMB options, a modified Option II-B seems best with the following major qualifications:

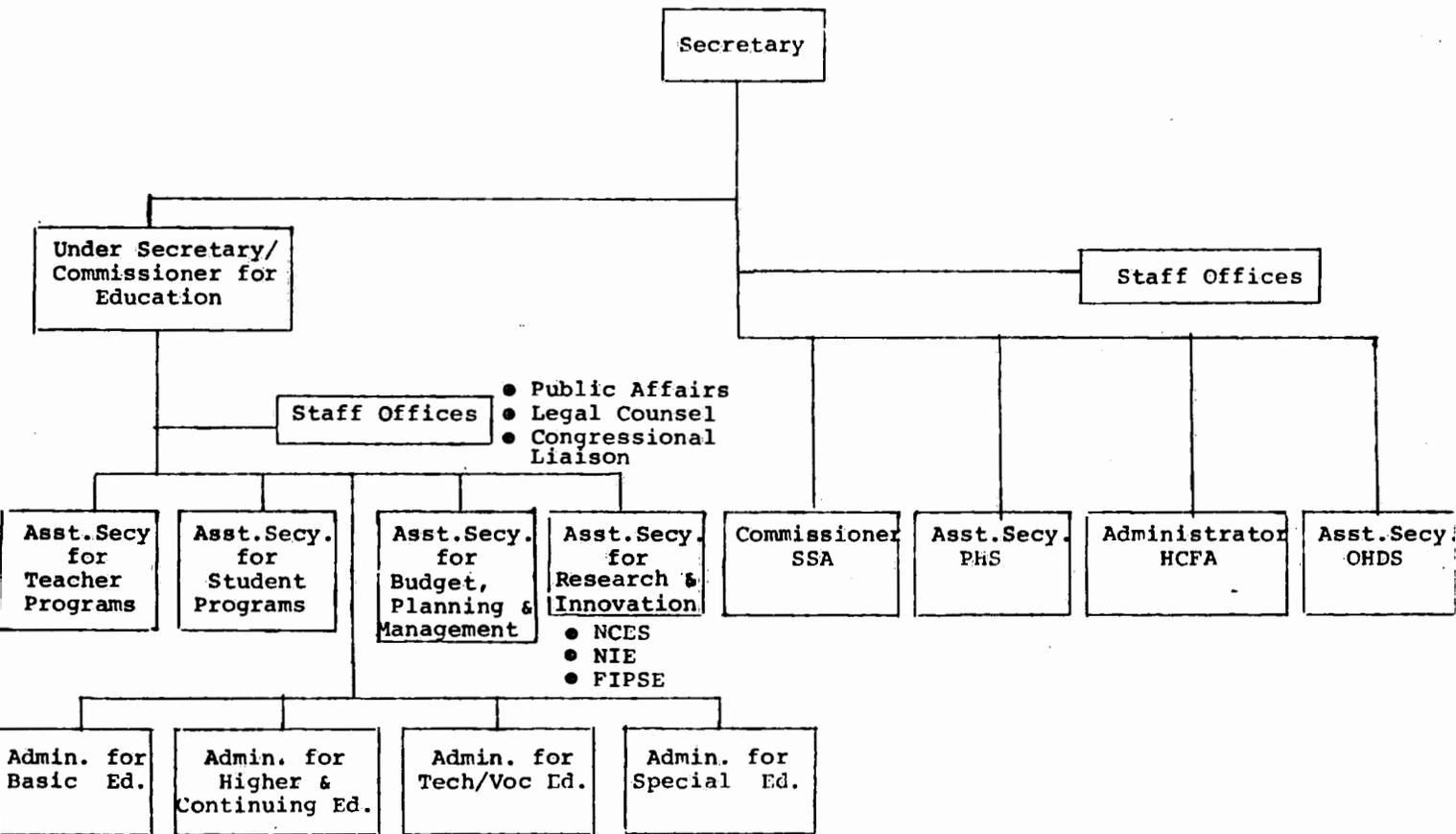
- No public Presidential statement of preference for any particular consolidation of programs, but reaffirmation of Presidential interest in consolidation and in improved linkages between education, social services and job training as Administration goals.
- Presidential direction to OMB to continue in-depth study of the range of consolidation alternatives, both within and outside HEW.
- Express rejection of a separate Department of Education comprised narrowly of HEW's Education Division (and a handful of other programs).

If you adopt these suggestions, I further propose that you direct the Vice President and me to work with Jim McIntyre, Hamilton Jordan, and Stu Eizenstat to develop a near-term organizational, legislative and budgetary strategy along the lines sketched in above.

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TAB A: ELEVATING EDUCATION IN HEW

Several approaches to enhancing the status of Education in HEW have been considered. Of these alternatives, one blends the related organizational goals of demonstrably elevating the influence and prestige of education and improving the internal management of education programs:



The proposed organizational changes at the top of the Department have the following virtues:

- (1) They elevate to the rank of Under Secretary/Commissioner the leadership of the education programs, a status not presently achieved by any other operating component of HEW and by only a handful of operating components in the entire Executive Branch.

- (2) They unify the management structure for education programs under one, visible administrator of top executive (Level 3) rank, with direct access to the Secretary of HEW.
- (3) They provide the Under Secretary/Commissioner with at least 4 assistant secretary positions, thereby elevating the status and authority of second echelon leadership of key Federal education activities.
- (4) They establish more visible organizational focal points of program direction and contact for teachers, students, and interest groups concerned with educational programs.
- (5) They draw together the functions of innovation, research and evaluation, and data gathering functions (FIPSE, NIE, NCES) under the authority of the government's senior Education administrator while, at the same time, buffering these sensitive activities from absorption by or subordination to the traditional operating bureaus of the Office of Education.
- (6) They create new visibility, authority, and status for the government's senior Education figure without diminishing the position of the Secretary of HEW or eroding the capability of that office to coordinate and make key trade-off choices between related social policies and activities in Health, Human Services and Income Security as well as Education arenas.

- (7) They suggest a path of organizational evolution within HEW for improved organizational status for leaders in other functional areas when enactment of such major Administration initiatives as Welfare Reform and National Health Insurance may both justify and require the creation of Under Secretaries of Health and Income Security.

- (8) Assuming general congressional support, these proposed changes can be put into place within 60-120 days of the President's decision to proceed in this manner, and do not involve the inevitably prolonged consideration of substantive legislation that would accompany a decision to create a Cabinet-level Department.

- (9) Reorganizing Education within HEW avoids the monetary costs, estimated at \$5-10 million, to cover the escalation of salaries and perquisites directly associated with the creation of a Cabinet-level Department. Even more importantly, the proposed reorganization of Education in HEW avoids significant disruption of programs and the human costs associated with major organizational change. As the major reorganization of HEW last March demonstrated it is taking as long as two years to work out the personnel changes, and to accommodate the "bumping" and other rights of employees that are activated by organizational changes of major magnitude.

Leadership Responsibilities and Authority of the
Office of the Under Secretary/Commissioner
for Education

A change in title is an important symbol to convey the change in priority and influence given to education programs. Even more important is the responsibility, authority, and capacity for leadership and decision making granted to the proposed new office. A guiding consideration must be to strike a sound and stable balance between the authority and capacity of the Under Secretary/Commissioner and those more properly the responsibility of the Secretary of HEW.

In general, we recommend striking the balance in such a way that (1) the Secretary maintains approval authority over major policy decisions and retains the prerogative to initiate major policy and program initiatives; while (2) the Under Secretary/Commissioner of Education takes on the bulk of legislative, policy and budget planning functions and has very substantial final authority for internal, Education Division operations, personnel and management activities. Where the authority is shifted from the Secretary to the Commissioner, or a newly shared authority is contemplated, we envisage the creation, under the Under Secretary/Commissioner of staff capacity to meet the new responsibilities.

More specifically, the primary division of functions would include the following:

- (1) Budget: The Secretary of HEW would retain the final decisions (prior to the President's and Congress' review) on the total size of the recommended education budget and on the scale of resources that would be devoted to major program initiatives, especially those that cross agency lines. The Under Secretary/Commissioner of Education would have authority to conduct his own budget reviews, and substantial discretion to establish the budget for all but the most costly, or sensitive education programs.

- (2) Legislation: The Under Secretary/Commissioner would have full responsibility for the development of education legislation, and for relating directly to the requests and needs of Members of Congress. The Secretary, however, would retain the authority for approving legislation before it goes to OMB and Congress. In addition, the Secretary would have the option of initiating education legislation, but would do so by directing the Under Secretary/Commissioner to draft the legislation, rather than by ordering the Office of the Secretary (OS) staff to do the work.

- (3) Policy Analysis: Analysis of education policy is presently a shared function, with HEW's staff offices developing about 75 percent of the policy decisions that reach the Secretary for review. Under the anticipated reorganization, the Under Secretary/Commissioner would take on 75 percent of the policy development work; HEW staff would focus on policy matters which cut across agency and departmental lines, and on review of the most far reaching recommendations emanating from the Under Secretary/Commissioner's office.

- (4) Planning and Objective Setting: The Secretary would continue to approve strategic goals and operational objectives for the Department's education programs. But the definition of strategic goals and operational objectives, and the conduct of planning and monitoring processes to achieve them would be the responsibility of the Under Secretary/Commissioner.

- (5) Personnel: Whereas the Secretary of HEW now recruits and designates all top Education officials, under the proposed changes, the Under Secretary/Commissioner would have the responsibility of recruiting at all levels and for designating employees at levels below the level of Assistant Secretary.

(6) Other Functions:

- (a) A number of broad, management functions (and personnel carrying out these functions) would shift from the Office of the Secretary of HEW to the Under Secretary/Commissioner. These would include research and evaluation, legal counsel, congressional liaison, and public affairs. The Secretary of HEW would retain policy level oversight over these functions, but the Under Secretary/Commissioner would exercise managerial supervision over their day-to-day conduct.

- (b) Administrative functions -- decisions on organizational structure, development of program regulations, management of services, etc. -- would be wholly the responsibility of the proposed Under Secretary/Commissioner.

Restructuring the Education Division Internally

In addition to upgrading the rank, status, visibility and authority of the top Education official in the government, effective management of present and prospective Federal education activities and responsibilities requires major internal restructuring of the line and staff offices of the Education Division. Although earlier reorganizations addressed the worst of the organizational problems that could be handled administratively, several should be dealt with now.

The proposed internal organization conveyed by the chart that follows deals forcefully with those remaining problems. It has the following attributes:

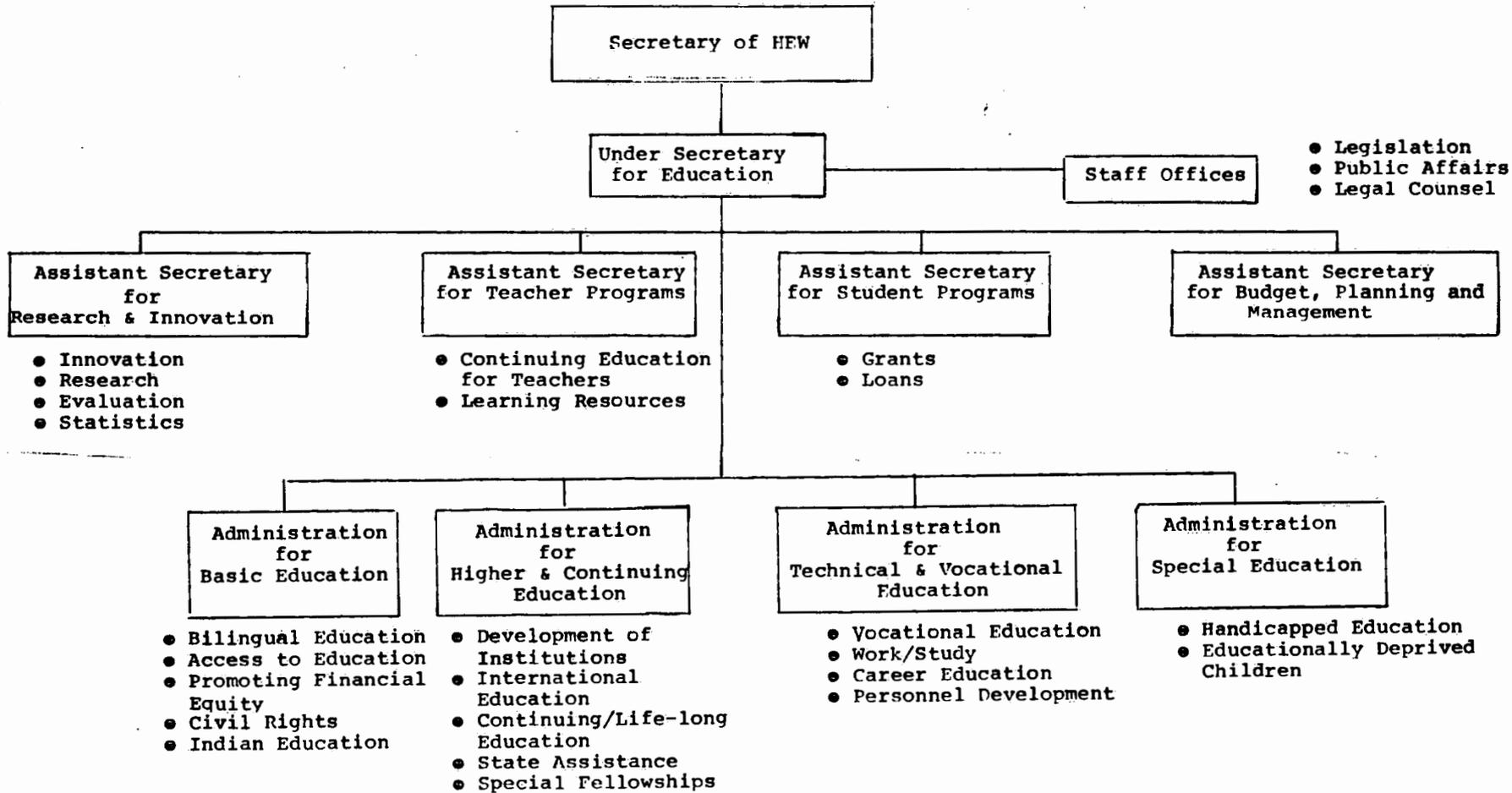
- (1) It provides the Under Secretary/Commissioner with four Assistant Secretary positions, and accompanying staff resources, to manage education initiatives effectively. We envisage a powerful Assistant Secretary for Budget, Planning and Management, an Assistant Secretary for Educational Research, Evaluation and Innovation and top graded staff to give leadership in such areas as legal counsel, congressional liaison, and public affairs.
- (2) It provides two assistant secretaries to focus on programs for "special" education constituencies -- teachers and students.
- (3) Under the leadership of the Under Secretary/Commissioner, it groups all other Office of Education programs into four, logical program administrations -- basic education, higher and continuing education, technical and vocational education, and special education -- to be led by appointees at the Executive, Level V grade.

- (4) It assigns programs now "dangling" from the Commissioner's office (Bilingual Education, Career Education, Right-to-Read, and others) to these administrations, in such a way that those programs would contribute directly to achieving the program objectives of these new organizations.

- (5) It establishes under the leadership of an assistant secretary, strong, centralized management over educational innovation, research, evaluation, and statistical reporting. But, at the same time, it protects these sensitive activities from subordination to the operating programs of the division.

The proposed internal reorganization requires careful political orchestration and systematic mobilization of congressional support if it is to be realized in the terms set forth in this outline.

EDUCATION DIVISION IN HEW



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THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

JUL 11 1977

1977 JUL 12 11 57 AM

MEMORANDUM FOR THE PRESIDENT

As you know, many federal departments and agencies operate education, research and student assistance programs that have significant impact upon state and local governments, and institutions of post-secondary education.

Among the various beneficiaries of federal interest and support, there is a long-standing sense that federal policy in the educational sphere is established piecemeal by the many individual agencies and congressional committees responsible for these activities. Our White House meeting on February 19 with university presidents highlighted this concern for improving coordination of education and research programs throughout federal government.

You have recently directed OMB and HEW to conduct an in-depth study of ways in which federal education and research activities might be realigned and consolidated to enhance coherence and efficiency in these important relationships. As that longer-term study proceeds, I recommend that it be complemented by more immediate actions that would upgrade and rejuvenate the Federal Interagency Committee on Education (FICE) as a key instrument for improving administrative and broad policy coordination in these spheres.

FICE was established by President Johnson in 1964, and has operated since under a succession of Presidential Executive Orders. While FICE has enjoyed modest success over the years, it has never previously received support and encouragement from the highest levels of the Executive Branch. It has not been given assignments by the White House, nor been called upon to advise Department heads, including the Secretary of HEW, when major policy or management initiatives were being considered.

Attached is a draft of a revised Executive Order which would have the effect of operationally upgrading FICE by:

- o Stating explicitly that the Committee may be called upon to advise the President as well as Agency heads, in the development and coordination of federal policy;

THE PRESIDENT

Page 2

- o Naming the Secretary of HEW Chairman instead of the Assistant Secretary of HEW for Education;
- o Adding the Science Advisor to the President, and representatives of the Office of Management and Budget, the National Institutes of Health, the Veterans Administration, and Energy Research and Development Administration as members;
- o Stipulating that participating agencies should be represented by policy-level officers.

FICE is already working on an important agenda of problems including:

- (1) reduction of regulation and data burdens, on individuals, states, and institutions;
- (2) easing the transition between school and work to help reduce youth assistance programs;
- (3) coordination of student financial assistance programs;
- (4) improvement of protection of the consumer of education.

If you approve the upgrading initiative proposed in this memorandum, consideration should also be given to utilizing the Committee to study and advise on other matters of importance to the Administration's education and research relations and priorities.

Action on this will in no way preclude any options with respect to ultimate decisions on reorganization of education in the government and will be regarded by educational interests as improving the situation in education.


Joseph A. Califano, Jr.

JUL 11 1977

EXECUTIVE ORDER

To Facilitate Improved Coordination of Federal Education
Activities and Relationships

Sound public policy requires a continuing appraisal of the relation of Federal educational activities to the educational needs and goals of the Nation and to its educational systems and institutions. The scope of, and program outlays for, Federal educational activities have been expanded greatly and have a significant influence on education in this country and on the American people. Many Federal agencies are involved, both directly and indirectly, in carrying on educational programs either as Federal activities or in cooperation with and assistance to State and local units of government and institutions of postsecondary education. Close coordination of Federal educational activities can facilitate more efficient utilization and management of financial resources and improve operational and administrative relationships between levels of government.

Under the direction of the Secretary of Health, Education, and Welfare (hereinafter referred to as the Secretary), the agencies in the Education Division are directed by law to collect data on the progress of education, provide information to aid in the maintenance of efficient school systems, and otherwise promote the cause of education throughout the country (20 U.S.C. 1221-1, 1221e, 1221c as amended, G.E.P.A. 403, 405, 406).

NOW, THEREFORE, by virtue of the authority vested in me as President of the United States, it is hereby ordered as follows:

SECTION 1. Functions of the Secretary of Health, Education, and Welfare. The Secretary, with the assistance of the Assistant Secretary for Education, shall identify the education needs and goals of the Nation and from time to time shall recommend to the President policies for promoting the progress of education.

SEC. 2. Functions of the Assistant Secretary for Education. Under direction of the Secretary of Health, Education and Welfare, the Assistant Secretary for Education shall:

(1) Study the current effects of Federal activities upon the educational programs of State, local and nonprofit educational institutions, assess future trends of such activities, and (taking into consideration the relationship

between education and policies in fields such as manpower development, defense, military manpower, economic growth, and science) develop recommendations for educational activities, or for coordination of policies affecting such activities;

(2) Exercise leadership in seeking timely resolution of differences of opinion concerning policies or administrative practices with respect to Federal educational activities affecting educational institutions;

(3) Make appropriate arrangements for obtaining advice and information, including establishment of ad hoc working groups to consider special problems, and for utilizing existing interagency machinery wherever appropriate; and

(4) Exercise initiative in obtaining pertinent and consistent data permitting an overview of Federal educational activities.

SEC. 3. Agency Responsibilities. The heads of Federal agencies, as to their respective education related programs shall:

(1) Insofar as practicable, take such actions as may be necessary to assure: (A) Conformity of their programs with the educational goals and policies of the Nation, as identified by the Secretary, and (b) consistent administrative policies and practices among Federal agencies in the conduct of similar programs;

(2) Keep each other fully and currently informed in order to achieve coordinated planning and prevent unnecessary duplication of activities;

(3) Provide information requested by the Secretary or the Assistant Secretary for Education on educational matters; and

(4) Cooperate with the Secretary and the Assistant Secretary for Education in the conduct of such studies and analyses as may be necessary to carry out the responsibilities and duties assigned by this order. To this end the heads of Federal agencies shall maintain information on current and planned activities that can readily be analyzed in conjunction with information on related activities of other Federal agencies.

SEC. 4. Establishment and functions of a Federal Interagency Committee on Education. (a) There is hereby continued the "Federal Interagency Committee on Education" (hereinafter referred to as the "Committee").

(b) The Committee shall advise the President, the Secretary of Health, Education and Welfare and the heads of Federal agencies in connection with the responsibilities assigned to them by this order.

(c) The Committee shall be composed of the Secretary of Health, Education and Welfare who shall be the chairman, the Assistant Secretary of Education, who shall be Vice Chairman, the Science Advisor to the President, the Commissioner of Education, the Director of the National Institute of Education, the Director of the Fund for the Improvement of Post Secondary Education, and one appropriate policy officer of each of the following: The Office of Management and Budget, the Department of State, the Department of Defense, the Department of Agriculture, the Department of Labor, the Department of Interior, the National Science Foundation, the National Institutes of Health, the Energy Research and Development Administration, the Veterans Administration and the National Aeronautics and Space Administration.

(d) The chairman may invite Federal agencies, in addition to those which are represented on the Committee under the provisions of subsection (c) of this Section, to designate representatives to participate in meetings of the Committee on matters of substantial interest to such agencies which are to be considered by the Committee.

SEC. 5. Construction. Nothing in this order shall be construed as subjecting any Federal agency, or any function vested by law in, or assigned pursuant to law to, any Federal agency, to the authority of any other Federal agency, or as abrogating or restricting any function in any manner.

SEC. 6 Definition. Except as may be inconsistent with the provisions of this order or otherwise inappropriate, the term "Federal agency," as used herein, includes any department or other agency or instrumentality (including officers) of the executive branch of the Government of the United States.

SEC. 7. Executive Order No. 11185 of October 16, 1964, Executive Order No. 11260 of December 11, 1965, Executive Order No. 11661 of March 24, 1972 and Executive Order 11761 of January 17, 1974 are hereby superseded.

THE WHITE HOUSE
WASHINGTON

November 28, 1977

Stu Eizenstat
Jack Watson

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

Rick Hutcheson

RE: STANDARD EDUCATION ACHIEVE-
MENT TESTS

THE WHITE HOUSE
WASHINGTON

to California

cc SE
SW

THE WHITE HOUSE
WASHINGTON

11-28-77

To Joe Califano

I believe we need some national standard education achievement tests - to be used only optionally when states and/or local school systems want them.

How do you suggest we do this - through HEW, or National Science Foundation?

J.C.

Ven - Lib. Alg

Ushiba - Miazaba

Cabinet meeting

THE WHITE HOUSE = - 11-28-77
WASHINGTON

Cairo = 12/3

Venezuela - oil prices ↑

Argentina - good. Thatcher
Human Rts.

Brazil - Mike

Caracas mtg in doubt

H2O policy

Excess funds

Soc Sec

Welfare reform } Congress
 } probs

US recovery avg

No econ distortions

Japanese cabinet better

Caribbean Development 12/14

Andy

Southern Africa

Namibia team → S Africa Thurs.

Hi Com on Refugees Thurs

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for Preservation Purposes

~~_____~~

THE WHITE HOUSE
WASHINGTON

Tax - Steel - Soc Sec - Energy
Exec ahead of Congress
Priorities for '78

Joe

Health insurance - Europe
1/3 payments - last yr of life
Pope - Grain manipulators
→ Extraordinary use of drugs

ILA / Iron strikes about over
Coal - strike likely - West OK?

dropping

Farmers strike 12/14

DNC - briefing for HUD

NEP = Rates → N Good → CoET
Calif oil prices ↓

SONIO prob

Fishing violations = 25% fishing
days - observer on board

Compton visit
Gen James

$$\frac{2 \times 10^3}{7.5 \times 15 \times 10^6}$$

51

THE WHITE HOUSE
WASHINGTON

Fed legal resp

Time for inspection?

Train st personnel

Cost - \$ 7500/dam

1800 - 1st yr

No acceptance of liability

Inspect all

train state personnel

share cost

follow-up share cost

No new liability

Electrostatic Copy Made
for Preservation Purposes

11:30 A.M.

THE PRESIDENT HAS SEEN.

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

@

MEETING TO DISCUSS NON-FEDERAL DAM SAFETY

Monday, November 28, 1977
11:30 a.m. (30 minutes)
Cabinet Room

From: Stu Eizenstat *Stu*
Kathy Fletcher

I. PURPOSE

To discuss with the Corps of Engineers and affected Cabinet members options for federal involvement in non-federal dam safety.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: Following the Toccoa Falls Dam disaster and following up on a FY1978 appropriation of \$15 million for non-federal dam safety, you received a decision memorandum outlining options for federal involvement in non-federal dam safety. You requested this meeting to discuss the issue with the affected agencies.

B. Participants:

Secretary of the Army Clifford Alexander
Michael Blumenfeld
Lt. Gen John W. Morris
Gen. Charles I. McGinnis
Homer B. Willis
Donald B. Duncan

Secretary of the Interior Cecil Andrus
Guy R. Martin

Secretary of Agriculture Bob Bergland
Richard Duesterhaus

Frank Press
Phil Smith

Y 1210

B. Participants: (cont'd.)

Jim McIntyre
Bo Cutter
Eliot Cutler

Stu Eizenstat
Jack Watson
Greg Schneiders
Kathy Fletcher

C. Press Plan: No press.

III. TALKING POINTS

Decision memorandum attached.

Attachments

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

*Stu Set up 30 min
mtg w Corps &
interested Cabinet
Officers
JC*

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT
KATHY FLETCHER

Stu

SUBJECT:

Options for Federal Involvement in
Non-federal Dam Safety

The Toccoa Falls dam disaster raises the issue of whether we want to make an Administration policy decision on the role of the federal government in assuring the safety of private and state dams. Although the Congress passed a sweeping dam safety law in 1972, the only portion which has been carried out is the provision to inventory the nation's dams. The inventory has identified 49,000 total dams, 9,000 of which are "high hazard" because they are located so as to cause significant loss of life and property in the event of failure. The federal government has neither funded nor implemented the mandate to inspect non-federal dams. The FY78 Budget contains \$15 million to apply to non-federal dam safety. The proposed FY79 Budget would include \$16.4 million for this purpose. You indicated in your press conference that inspections will begin without delay.

The attached OMB decision memorandum presents four alternatives for the federal government's role in non-federal dam safety. The alternatives are:

1. Status quo (no federal role; would have to rescind \$15 million appropriated for FY78).
2. One-year program to inspect most urgent high hazard dams with recommendations to Congress at the end of the year for a more comprehensive program (\$15 million in FY78, undetermined thereafter). (Corps of Engineers)
3. Three to four-year program to inspect all high hazard dams, on a one-time basis, followed by capability to assist states on a reimbursable basis thereafter (approximately \$60 million total, starting with \$15 million in FY78). (OMB, DPS and OSTP)

*Train
states -*

4. Matching grant program to states so that they develop the capability to conduct their own inspections and dam safety program (the cost might be as much as \$50 million per year). (Agriculture)

Interior supports a combination of #2 and #4.

Any inspection program should be linked to an understanding that the federal government should not be responsible for rehabilitation and repair expenses. Identifying structurally unsafe dams will naturally lead to pressure for repairs, but we should make it clear that the owners of the dams are responsible for repairs or retirement of the facility. OSTP suggests that low-interest loans for repairs may be appropriate, but I believe it would be premature to support such a program before we have some inspection results.

I think the division of opinion among the agencies is reflective of the general feeling that a good dam safety program relies on a number of elements. In order to assure safe non-federal dams, there need to be:

- Good state programs which would deal on a continuing basis with quality control of new dams as well as inspection and follow-through on existing dams;
- A federal program which focuses on high priority inspections and on working with the states to promote good state programs and appropriate follow-through on inspections.

Recommendation

I would favor the OMB proposal (#3) -- a 3-4 year federal inspection program for all high hazard dams. But in addition, I think you should direct the Corps of Engineers, working with the Office of Science and Technology Policy and the other agencies:

- to immediately begin to advise the states on developing their own programs (recognizing that some states already have good programs); and

- to report back to you in one year on the status of their efforts and on any appropriate follow-through recommendations.

While Option 2 initially appears most attractive, I think that Option 3, with the additions I have suggested, is preferable because:

- Option 2 might lead to an extremely expensive Corps of Engineers proposal for comprehensive dam inspection, state aid, and dam rehabilitation, while removing some pressure from the states to quickly prepare their own programs;
- Option 4 would involve an unacceptable budgetary commitment at this point and would remove the incentives for the states to pay for their own programs. It should also be pointed out that existing law establishes a mandate for federal inspections and we do not now have the legislative authority to require states to carry out inspections.
- Option 3 makes a politically attractive commitment to inspect all high hazard dams, rather than putting off a decision on the scope of our program; and
- Option 3 puts a budgetary ceiling on our commitment, unless we ourselves decide to propose a larger program.

OMB and OSTP agree with this recommendation.

Announcing the initiation of the inspection program this week will focus some positive attention on the issue, and if the Corps moves swiftly, I would imagine that there will be a great deal of visibility as they go into the states to perform the inspections and consult with state officials. I understand that the Corps is poised for action as soon as they receive guidance.

Decision

Option 1	_____
Option 2	_____
Option 3 as modified (Recommended)	_____
Option 4	_____
Other	_____

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

NOV 8 1977

MEMORANDUM TO THE PRESIDENT

FROM: Jim McIntyre *Jim McIntyre*

SUBJECT: Federal Role In Safety of Non-federal Dams

The Administration must decide what role, if any, the Federal Government should play in assuring the safety of non-federal dams. This issue has been brought to a head by recent Congressional action adding \$15 M for the Corps of Engineers to initiate a non-federal dam safety program, and by recent Congressional overview hearings where Administration witnesses agreed to provide the Congress with the Administration's proposals by the end of the year.

The reasons the Executive Branch has heretofore resisted expanding the Federal role in dam safety - apart from the budget implications of financing inspections and the intergovernmental impact of Federal intrusion into an area heretofore reserved for the States - are 1) the likelihood that a Federal role in dam inspections will be construed to imply a Federal liability in cases of failures of non-federal dams, and 2) the obvious pressures for the Federal Government to finance the repair or reconstruction of any non-federal dam found to be defective by a Federal dam inspection program.

Background

Following the failure of non-federal dams in West Virginia and South Dakota in 1972, the Congress enacted the National Dam Inspection Act of 1972. Among other things, the law authorized the Corps of Engineers to prepare a national inventory of dams, to inspect dams which were a threat to life or property, and to make recommendations for a comprehensive dam safety program. When President Nixon signed the bill, he expressed the view that responsibility for the safety of non-federal dams should continue to rest with the States. The Corps of Engineers conducted an investigation under this law and prepared a complete dam

inventory, but did not conduct any actual on-site inspections because of the Administration's position. A report was prepared by the Corps and sent to the Congress in 1976 by the Ford Administration with a proposal that the Federal role in non-federal dam safety be limited to technical assistance.

In 1976, the dam safety issue was again highlighted with the failure of the Teton Dam in Idaho. You dealt with the Federal agency part of this problem in your memorandum to the concerned agency heads of April 23, 1977, which initiated a review of Federal dam safety practices under the auspices of the Office of Science and Technology Policy. However, the issue of the Federal role in non-federal dam safety remains open.

The Corps of Engineers Report classified structures meeting the Dam Inspection Act definition of "dam" as follows:

- 49,000 approximate total Federal and non-federal dams, of which:
 - 43,500 are non-federal dams
 - 5,500 are Federal dams
- 20,000 of the above dams are so located that failure or misoperation could result in loss of human life and appreciable or greater property damage (significant and high hazard categories)
- 9,000 of the significant and high hazard are classified as high hazard due to location.

A questionnaire survey was made to assess each State's capabilities, practices, and regulations regarding the design, construction, operation and maintenance of dams.

All 50 States and 3 Territories responded to the questionnaire on supervision of dams by State authorities.

The response indicated that 11 States and Territories have no laws regarding any aspect of dam supervision. The legislative authority of many of the others is considered inadequate from the standpoint of establishing all activities necessary for dam safety. Twenty-four (24) indicated that their current dam safety regulations do not fully meet present needs and 20 stated that they have active plans to modify existing regulations.

Forty-one (41) States and Territories require a permit or license to be issued prior to construction of a private dam; 36 require the review of plans and specifications prior

to construction; and 23 provide on-site inspection by State personnel during construction. Thirty-two (32) States have authority to perform safety inspections after construction; however, in most cases firm schedules are not maintained. Many perform an inspection only when information is received that a hazardous condition might exist or under other special conditions.

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The responses further indicated that 54,195 dams are under State jurisdiction and that \$4 million is the approximate annual budget of the State authorities directly related to dam and reservoir supervision. This number of dams is larger than that included in the inventory because in some cases State regulations encompass impoundments which do not meet the Public Law 92-367 (Dam Inspection Act) definition of "dam."

There are great differences among the States in carrying out their responsibilities to the public for the safety of dams built within their jurisdictions. Many have inadequate statutes and others have inadequate staffs to enforce the statutes. Few States, if any, including those with adequate dam safety regulations, are prosecuting a program with standards as high as those recommended in the Corps report.

Administration representatives were called to testify regarding the failure of the Nixon and Ford Administrations to conduct inspections of non-federal dams, and they agreed to provide Congress with the Carter Administration's position later this year. In the meantime, the Congress appropriated \$15 M in unbudgeted funds for the Corps of Engineers to initiate a non-federal dam safety program. The Corps of Engineers is awaiting policy guidance before proceeding to use those funds.

Subsequently, representatives of this office, the Domestic Policy Council, the Office of Science Technology Policy, Army, Interior, and Agriculture have met to consider what actions to take and to develop alternative proposals for your consideration. The alternatives are outlined below.

Alternatives

1. Status Quo. This would leave non-federal dam safety as a State responsibility but would provide Federal technical assistance to States in designing their programs. (Cost of such technical assistance should not exceed several million dollars annually). A rescission of the \$15 M in dam safety funds appropriated to the Corps would be required to implement this option.

2. Conduct inspections of non-federal dams for one year with the 1978 funds appropriated for the Corps of Engineers. This would permit Army to proceed with inspections of the most urgent high-hazard dams and to develop follow-on proposals next year in a report to the Congress. (The initial cost would be \$15 M, but long-term cost would depend on the proposals flowing from the Corps' experience in 1978.)
3. Initiate a 3-4 year program of direct Federal inspection of all of the approximately 9,000 dams in the high hazard category. States electing to do so could conduct their own inspections in lieu of Federal inspection (at Federal expense and under Federal guidelines). Following the initial inspection of all high hazard dams, the Corps of Engineers would maintain a capability to assist the States by conducting future inspections of high hazard dams or by inspecting other non-federal dams at State expense. The total cost of initially inspecting all high hazard dams could vary from \$15 M to about \$100 M, depending on the level of detail to which the inspections are carried.
4. Initiate a matching grant program to assist the States in conducting their dam safety programs. This proposal would exclude any Federal funds for repair or rehabilitation of non-federal dams. The costs of such a program are difficult to estimate at this time due to lack of experience but could be on the order of \$50 million annually.

General Discussion of Alternatives

Pro dam safety involvement:

- The Federal Government, because of other water resource programs, has a high level of expertise that all States are unlikely to duplicate.
- Dam safety can be seen as an extension of Federal flood control efforts.
- State programs are generally inadequate in the opinion of Federal experts (and the Congress, if the Dam Inspection Act is a guide).

Con dam safety involvement:

- Dams, and dam failures, can be viewed as local problems with local effects rather than national ones.

- Land use regulation, and the regulation of the safety of structures, is generally viewed as a State and local function.
- A new dam safety program would add to Federal fiscal problems, and require additional Federal personnel to implement it.

Discussion of Individual Alternatives

- #1 Status Quo: This was the position of the previous Administration. As noted before, it would require a rescission of previously appropriated (but unbudgeted) funds in FY 1978.
- #2 One-year program using existing funds: Would postpone a final decision on the scope of a Federal program until the end of FY 1978 - could provide useful data for subsequent Federal and/or State actions, but risks building support for a larger Federal program than might otherwise result.
- #3 Initiate a 3-4 year program to inspect all high hazard dams: This would limit the Federal responsibility to a one-time action, while covering the most serious threats to life and property. Although an expansion of the current Federal role, it would provide an incentive to initiate or strengthen State programs and would represent a positive and immediate Federal response to the problem. It does entail a risk that States could press for Federal financing of the costs of repairing dams found defective.
- #4 A matching grant program to States: This would fund State inspection programs but exclude funds for repair or rehabilitation of non-federal dams (which would presumably be done by dam owners at State insistence). Such grants would be a windfall for States like California which already have ongoing safety programs, but could be an inducement to States like Virginia, which have none.

Agency Views

Agriculture supports option 4 - matching grants.

Interior supports a combination of options 4 and 2 - it considers a matching grant program as the most appropriate way to proceed but also wishes to initiate Federal inspections of a limited number of hazardous dams.

The Department of the Army recommends option 2. This is intended to enable Army to develop a representative sample of high hazard dam inspections and to prepare a report on followup action based on this experience.

The Office of Science and Technology Policy makes no specific recommendations but raises the question of financing the costs of rehabilitating dams which are determined to be unsafe by Federal inspections. OSTP indicates that many dam owners could not afford to correct safety problems and suggests a low interest loan program as a reasonable Federal followup to an initial inspection program.

OMB Recommendation

Option 3 - Initiate an immediate program of initial Federal inspection of all high hazard dams.

Presidential Decision

- _____ Option 1
- _____ Option 2
- _____ Option 3
- _____ Option 4
- _____ Other

ISSUE PAPER

What Should Be the Federal Role In Safety Inspections of Non-Federal Dams?

Following in the wake of the Buffalo Creek Dam failure in February 1972, the Canyon Lake Dam failure during the Rapid City, South Dakota flood in June, 1972, and the concerns for dam safety created by Hurricane Agnes in 1972, the Congress passed and President Nixon signed the National Dam Inspection Act of 1972, (P.L. 92-367). Basically, the Act directed the Corps of Engineers to 1) inventory the majority of dams in the Nation, 2) inspect those dams which pose a threat to life or property, 3) develop guidelines for safety inspections and evaluation of dams, and 4) make recommendations for a comprehensive National program including inspection and regulation responsibilities for Federal, State and local governments and the private sector.

In signing the Dam Inspection Act, President Nixon acknowledged that "the objective of the bill -- to reduce the risk of dam failure -- is highly desirable," however, the particulars of the bill depart "from the sound principle that the safety of non-federal dams should primarily rest with the States."

In partial compliance with the 1972 Act, the Ford Administration submitted a draft bill to the Congress, along with the final report of the Chief of Engineers, which proposed the implementation of a comprehensive National dam inspection program. The legislation and accompanying report included the dam inventory, guidelines and a model State law, and recommendations for Federal, State and local responsibilities as they related to dam safety. Most notable among the recommendations not included in the Ford Administration bill were proposals for the Federal Government to either perform inspections on non-federal dams or provide funds to the States to perform the same investigations.

The Teton Dam disaster has heightened public concern for the safety of both Federal and non-federal dams. While many Federal dams need improved inspection and remedial programs and while Administration efforts are underway to review Federal agency dam safety procedures, concern is also great for the 90% of all dams that are privately-owned and managed. Significant aspects of the dam safety situation are as follows:

- (1) No currently active Federal program addresses the broad issues of non-federal dam safety. Dam safety inspections that were authorized by P.L. 92-367 have not been performed.
- (2) The Corps of Engineers National Dam Inspection Report compiled under the authority of P.L. 92-367 refers to 49,329 Federal and non-federal dams in the U.S. and its territories, of which about 43,500 are non-federal.
- (3) There are great differences among the States in carrying out their responsibilities to the public for the safety of dams built within their jurisdictions. The Corps' report pointed out that 32 States had inspection authority to perform inspections covering approximately 35,000 dams. Eighteen States with jurisdiction over approximately 19,000 dams had no inspection programs. Of those States with inspection authorities, half reported that inspections are performed irregularly or only when conditions warrant.

The dam inventory and the inspection guidelines previously published by the Corps, together with Federal technical assistance, may not ensure that States will adopt and implement adequate dam safety programs. As such, additional Federal actions may be indicated, e.g., initial inspection of hazardous non-federal dams; assistance in a dam insurance program; assistance in rehabilitation of unsafe dams with low interest loans or grants; funding for a portion of the annual costs of operating State programs; and, other measures that would provide incentives for adoption of dam safety programs.

- (4) The reasons the Executive Branch heretofore has resisted a Federal role in non-federal dam inspections (apart from the costs of inspections and the inter-governmental aspects) are 1) the implied Federal liability in cases where a non-federal dam failed notwithstanding a Federal inspection program, and 2) the obvious potential pressures for the Federal Government to finance the repair or replacement of any non-federal dam found to be defective under a Federal inspection program. The potential budgetary implications of an expansion of Federal responsibility

into this area heretofore reserved for the States are major - probably running into the billions of dollars. For example, the Teton Dam failure involved Federal payments for damages of about \$400 M, even though it occurred in a relatively sparsely populated area. A similar incident involving a non-federal dam in a less remote area would be far more costly.

- (5) Although the Carter Administration has assigned a high priority for dam safety, the April 23, 1977, Presidential Memorandum pertains only to review of Federal dam safety practices for formulation of future management guidelines. In executing this Federal review, the FCCSET Interagency Committee on Dam Safety has raised the issue of non-federal dam safety and considers this as a gap in the overall Federal review effort.
- (6) There is considerable Congressional interest in the dam safety issue. The Subcommittee on Environment, Energy and Natural Resources of the House Government Operations Committee, chaired by Leo Ryan (D - Cal.) has held hearings on dam safety and has expressed concern over the lack of action by the Administration in carrying out the mandate of P.L. 92-367 to inspect non-federal dams. Administration witnesses stated that we are committed to preparing a bill on this issue by the end of the year. The recent Public Works Appropriation bill included \$15 M for the Corps of Engineers to initiate a dam safety program of undefined content.

Alternatives

1. Adopt the previous Administration's position, i.e., non-federal dam safety is the responsibility of the States. (Cost should not exceed \$1 or \$2 M annually).
2. Carry out one-time inspections of non-federal dams, by the Corps of Engineers, to the extent the existing \$15 M appropriation allows, and report to the Congress on completion.
3. Propose that the Corps of Engineers perform inspections on all non-federal high hazard dams on a one-time basis as a service to the States and as an incentive to induce them to take action themselves. (Total cost \$60 M.)
4. Propose that the Federal Government provide regular funding to the States on a matching basis to initiate

and operate their own inspection programs, not to include, however, Federal funds for rehabilitation of non-federal dams. (Cost \$30 to 50 M/year.)

General Discussion

A National dam safety program involves four basic tasks. The first is the initial inspection of those dams, approximately 9,000 out of a total of 49,000, which are considered to pose a high hazard to life or property. The second task is the follow-on inspections required of those dams found to be unsafe for one reason or another. The third task, potentially the most expensive, is the remedial work and rehabilitation required to make unsafe dams safe. The fourth task is the administration of an ongoing program of inspection of less hazardous structures, periodic reexamination of all structures and the implementation of guidelines and regulations applicable to the construction of new dams.

The primary policy question in dam safety is: Which tasks should the Federal Government undertake, and which are more appropriately given to the States and their political subdivisions?

Alternative 1 limits Federal involvement to inspecting federally-owned dams or private dams (reimbursable basis) on Federal property and to providing only technical assistance to the States. This is the traditional role.

Alternative 2 commits the Federal Government to starting a direct Federal inspection program for one year, but limits the extent of the commitment to available funds pending further recommendations based on experience with this limited program.

Alternative 3 accepts full Federal responsibility for the inspection of all high hazard non-federal dams. Federal inspections would be on a one-time basis, and would be viewed as an incentive for the States to initiate or expand dam safety programs. Contracts with States for such inspections would have clauses to limit Federal liability. The cost of inspections beyond this initial phase would be reimbursable, and the Federal role would be limited to this initial service.

Alternative 4 would involve the Federal Government to a much greater extent by a matching grant program for perpetuity. All aspects of a dam safety program would be impacted by Federal participation with the exception of funding the rehabilitation of unsafe non-federal dams.

Additional Detail On Alternatives

Alternative #1 - Adopt previous Administration's position

- Accepts Federal jurisdiction for dam safety for approximately 5,000 dams on Federal land, many of which are privately owned and have not been subject to Federal inspection.
- Minimal annual cost -- about \$1 or \$2 M annually.
- Consistent with the traditional position that responsibility for the inspection and regulation of privately-owned dams on non-federal lands rests with the States, and the costs of repair should be borne by the dam owners.
- Conforms to position of California and some States with strong safety programs that non-federal dam safety should remain a State responsibility.
- Where State programs are inadequate, does not ensure that inspections of hazardous dams will occur immediately, if at all.
- Limits long term Federal costs considerably, both in inspections and remedial work.
- Will increase Congressional criticism of Administration's inaction.
- Would require rescission of \$15 M appropriated to the Corps to initiate a dam safety program.

Alternative #2 - Carry out priority inspections of dams, subject to a \$15 M limitation

- Settles the question of what to do with the funds recently appropriated by Congress.
- Permits the most obviously hazardous situations to be investigated.
- The resulting data base could serve as the basis for more informed decisionmaking on future dam safety actions by States as well as Federal agencies.
- Probably would increase the Congressional momentum for a fully federalized national program.

- Might lead to an inefficient Federal program through continued annual appropriations without a long range objective with clear definition of Federal role.

Alternative #3 - Propose that the Corps of Engineers conduct or provide funding to perform one-time inspections of all high hazard non-federal dams

- Federal total cost is estimated at \$60 M.
- Could increase Federal personnel requirements by about 150 over a 5-year period, if Federal employees perform the work. Corps could contract with States in some cases, thus minimizing Federal personnel demands.
- Inspections that uncover significant problems could lead to pressures for the Federal Government to conduct further in-depth inspections and/or finance measures to eliminate the risk.
- A one-time inspection may miss some hidden faults, thereby leaving the public with a false sense of security if States do not follow up.
- May displace some ongoing State inspection efforts in favor of relying on Federal inspection.

Alternative #4 - Propose that Federal Government provide funds to States on a matching basis to initiate their own inspection programs, not to include, however, Federal funds for the rehabilitation of non-federal dams

- Potential Federal cost estimated at \$30 M - \$50 M/year.
- Of the four options, most satisfactory to States.
- Federal funds may induce States to implement complete and long term safety programs.
- Opens door to major intrusion of Federal responsibility in areas heretofore left to States.
- Could lead to demands for larger Federal share of inspection program as well as grants for remedial measures.
- Comes closest in meeting Congressional objectives in existing dam safety legislation.

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 26, 1977

EYES ONLY

MEMORANDUM TO THE PRESIDENT

FROM: Charlie Schultze ^{CLS}
SUBJECT: October Balance of Trade Figures

Monday at 10:00 a.m. (November 28) the Census Bureau releases the October figures on U.S. merchandise exports and imports.

The data look very bad, but are so distorted by the longshoremen's strike that it is impossible to draw any conclusions from them.

The trade balance in October was in deficit by \$3.1 billion, compared to the September deficit of \$1.7 billion. Imports declined by \$350 million. Exports fell by \$1.7 billion. The decline was widespread across various categories of exports. September exports were probably abnormally large as goods were shipped in anticipation of the strike, while October exports were held down by the strike itself.

We are not yet sure why the October import figure didn't fall more. The data are based on import entry and warehouse withdrawal forms filed by importers with customs officials. It may be that the forms were filed even though the goods were still aboard ship because of inability to unload. We are checking on this.

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THE WHITE HOUSE
WASHINGTON

November 28, 1977

Frank Press

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

Rick Hutcheson

GOVERNMENT PATENT POLICY

THE WHITE HOUSE
WASHINGTON

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

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		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
	KING

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

THE PRESIDENT HAS SEEN.

GOVERNMENT PATENT POLICY

*Frank Press -
Access for me
J.C.*

1. Statutory language and Presidential Policy Memoranda provide that, except in exceptional circumstances, the Government should retain title to patents developed at public expense. In that way any citizen can use the inventions conceived at public expense.
2. In practice, however, Government agencies are waiving the Government's patent rights and giving their contractors exclusive rights to patents developed under Government contracts. They do this by interpreting "exceptional circumstances" broadly.
3. By giving contractors exclusive rights to patents developed at Government expense, Government agencies provide them a free, 17 year, Government-financed monopoly in many important fields of technology.
4. Most federal research and development funds go to large contractors. Therefore, giving contractors exclusive rights to patents developed under Government contracts favors large corporations at the expense of small businesses and individuals. In Fiscal Year 1976, 50 percent of the total dollar value of research and development contracts placed by the Defense Department went to 10 of the largest corporations in the U.S.-- only 5 percent went to small business.
5. In 1975, 75 percent of all patents granted were issued to corporations. Most of these corporations apply a double standard when it comes to patents. They demand the rights to inventions made by their employees, but they contend that the Government should not demand rights to inventions made by its contractors.
6. Patent lawyers and Government contractors have persuaded many Government agencies that it is both necessary and in the public interest for them to give contractors exclusive rights to patents developed at Government expense. In the Department of Energy, for example, contractors are invited to request exclusive patent rights and DOE employees are encouraged to grant them.
7. Patent lawyers argue that the Government promotes commercialization of new technologies most effectively by giving its contractors exclusive patent rights. However, public ownership of patents has not inhibited development of the nuclear industry. Moreover, a 1968 Committee on Government Patent Policy Study concluded that the main reason publicly-owned patents were not being used was because they had limited commercial potential--not because the Government held the patent.

8. It is also argued that contractors will not undertake Government work unless they are given exclusive patent rights. Yet, the Atomic Energy Commission had little trouble finding contractors. Further, several studies, including the 1968 study by the Committee on Government Patent Policy, found that ownership of patents was not a major factor when companies decide what work to accept. Companies were interested primarily in what they could learn from the work and how much profit they would make.

9. The patent lobby working with the Department of Commerce is promoting in Congress a bill (H.R. 6249) which would automatically grant contractors title to inventions they develop under Government research and development contracts. The bill has been sent to the House Science and Technology Committee and the House Judiciary Committee. Administration comments have been requested.

10. In the energy field, it is particularly important that the Government retain for the general public the right to use inventions developed at public expense. Otherwise, there will be increasing domination of technology in this field by a few large companies. These large corporations should not be able to exploit for 17 years some break-through in energy technology which was funded by their tax dollars. Any citizen should have rights to use technology that has been developed at public expense.

11. Recommendations:

a. The Administration should oppose H.R. 6249 and similar efforts to give away patent rights to inventions developed at Government expense.

b. The President's Patent Policy should be strengthened as follows:

- o Except in rare cases, the public should have unrestricted rights to inventions developed at Government expense.
- o Government agencies should not presume that granting contractors exclusive rights to patents developed under Government contracts best promotes development and commercialization of technology.
- o Waivers of Government patent rights should be formally documented showing in each case why the waiver is essential to the national interest.
- o Requirements for invention disclosure under Government contracts should be strictly enforced.

THE PRESIDENT HAS SEEN.



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

C

November 28, 1977

The President
The White House
Washington, D. C.

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Dear Mr. President:

I and my colleagues at the Federal Reserve were ever so pleased that you succeeded in persuading the Shah of Iran to forego an increase in the price of oil next year. This is a most constructive development for our economy and that of the outside world.

If Iran and Saudi Arabia stay firm, it is unlikely that the price of oil will go up in the near future.

With warm appreciation,

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Arthur F. Burns".

Arthur F. Burns

P.S. Unhappily, the latest report shows further deterioration in our foreign trade.



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

November 28, 1977

The President
The White House
Washington, D. C.

Dear Mr. President:

I am enclosing a copy of an address on Investing in Physical and Human Capital that I will be giving in New York City tomorrow. I think you may find some parts of it of interest.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "A. Burns", written in a cursive style.

Arthur F. Burns

Enclosure

SUMMARY of Burns speech

- o Spending by American business on capital goods has been weak in this recovery relative to previous expansions; the reason is the deep sense of uncertainty among businessmen about how the economic environment will evolve over the next few years.
- o "President Carter fully appreciates the importance of substantially lessening the psychological and financial obstacles to business investment... Over the next several months I anticipate that decisions in Washington will at last reduce uncertainty, improve the state of business confidence, and encourage capital formation."
- o Even with additional momentum imparted to the expansion, it is doubtful that the unemployment rate will drop to an acceptable level over the next few years; the major reason for this is the upsurge in growth of the labor force (primarily the sharply increasing participation of adult women).
- o Various structural impediments are blocking the assimilation of young people and minorities into the active work force: government licensing and certification requirements; failure of schools to teach good work habits; and especially government interference with wage determination. "It is noteworthy that a proposal for a special sub-minimum youth wage lost by only one vote this year in the House of Representatives. That is the closest we have come to a sensible departure from our mistaken course."

---Rick

For release on delivery
Tuesday, November 29, 1977
10:00 AM, E. S. T.

Q

Investing in Physical and Human Capital

Address by

Arthur F. Burns

Chairman, Board of Governors of the Federal Reserve System

at the Annual Meeting of the

American Council of Life Insurance

New York, New York

November 29, 1977

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for Preservation Purposes**

I am truly delighted to be here this morning. Back last spring when Dick Shinn invited me to be a speaker on this occasion, I promptly accepted. I knew, first of all, that being here would afford me the pleasure of seeing old friends. I also knew that I could count on an audience seriously concerned with the economic problems that confront our Nation. That, indeed, is the strong tradition of the entities from which this Council has been formed. As a former trustee of a life insurance company and as a former participant in the work of the National Bureau of Economic Research, I know something first-hand of your industry's record of sustained and generous support of scholarly research relating to economics and finance. Against such a background of considerations, your Chairman's offer to me was one I could hardly refuse.

I want to use my time at this rostrum today to share some thoughts with you about the troubles our economy is experiencing in reaching a satisfactory level of jobs and in purging itself of inflation. I make no pretense of being able to advance quick solutions for the problems we are living with. But I do have convictions about some steps that ought to be taken -- and others that ought to be shunned -- if we are eventually to extricate ourselves from our present condition.

In my judgment, inadequacy of investment in plant and equipment -- and also in human capital -- is the most important reason why the ongoing economic recovery has been somewhat disappointing; it also is a factor in explaining why so little headway is now being recorded in lowering the basic inflation rate.

In characterizing the present recovery as disappointing, I do not want to be misunderstood. In view of the disabilities our economy accumulated over a long span of years, it would have been extremely difficult -- no matter how skillful policy-making had been -- to achieve a recovery that was dramatically better than we have actually experienced. It is a statistical fact that this recovery has been of roughly average vigor compared with previous expansions since World War II. Indeed, it has been impressively better than average by the yardstick of increases in employment.

Still, there is ample reason for the sense of disappointment that so many people feel. Partly because of the unusual severity of the last recession, and partly also because of the accelerated expansion of our Nation's labor force, the recovery of our economy since early 1975, while of substantial scope, has left us with a disturbingly large total of unemployment. As you well know, the national unemployment rate is currently about 7 per cent,

and it has exhibited a stickiness at that level for the last half year. Large segments of our work force, moreover, have been unusually hard hit. Young people and nonwhites especially have faced formidable difficulties in the search for jobs. The unemployment rate for blacks -- approximating 14 per cent at present -- has shown no real improvement during this economic expansion, and the unemployment rate for black teenagers has soared to the dismaying level of nearly 40 per cent. Clearly, we are a long way from satisfactory conditions in our labor markets.

I need hardly add that recent price behavior also has been disappointing. During the recession period, inflation did slow considerably from its puffed-up double-digit pace. During the last two years, however, despite considerable slack in both product and labor markets, the basic rate of inflation appears to have settled at an annual rate of about 6 per cent. This reflects the fact that businesses have been granting annual compensation increments of between 8 and 9 per cent on average, while experiencing productivity gains that recently have not averaged much above 2 per cent.

The picture of economic performance before us is thus blemished by having in it both too much unemployment and too much inflation. I know of no one who would take exception to

that assessment. Where differences arise, of course, is with respect to remedial action.

Throughout most of the past thirty or forty years, the dominant view in this country -- as in much of the rest of the world -- has been that a condition of significant slack in the economy requires aggressive pursuit of fiscal and monetary ease; in other words, the government would have to run a sizable budget deficit by spending more or taxing less, and such a fiscal policy would need to be accommodated or reinforced by liberal supplies of money and credit. In this philosophic approach the kind of fiscal stimulus to be employed came to be viewed as much less important than its size. Giving the economy an adequate push and repeating the push again and again if necessary -- that was the crucial imperative of economic policy.

This simplified Keynesian mode of thinking consistently tended to overlook structural rigidities in our economy. It also proceeded on the mistaken assumption that upward pressures on the price level would come into play only when high rates of resource utilization were achieved. Despite these blemishes of thought, Keynesian-type remedies worked reasonably well as long as they were applied in moderation. But their very

success led to overdoing. With caution thrown to the winds in the mid-sixties, a relentless inflation has since then engulfed our economy. As a result, fears or expectations of inflation have become a vital fact that must now be reckoned with.

In this new economic environment, Keynesian-type remedies do not work as effectively as they once did. Many people have learned that larger governmental deficits and aggressive monetary ease are often forerunners of a new wave of inflation. Hence, when expectations of inflation mount, consumers are nowadays apt to save more rather than less, and such behavior obviously tends to offset the stimulating impulses that stem from a liberal fiscal policy. The like tends to be true of business behavior. Many, if not most, businessmen have learned that inflation inevitably confuses the calculation of costs, that in our present institutional setting it is generally destructive of profits, and that it sooner or later throws the economy out of balance and thereby leads to recession. Thus our economy is no longer working as it once did, and this paramount fact is now better understood than it was five years ago or even one year ago.

Nevertheless, mechanical Keynesianism still retains a strong grip on the thinking of many opinion makers in our country and abroad. Let the Federal Reserve, for example, move to restrain a burst of money growth -- as it has felt compelled to do during the past half year -- and such action triggers a torrent of protest. Much of the protest is predicated on the simple proposition that any rise of interest rates in the context of a less than fully employed economy jeopardizes continuance of economic expansion. The consideration that unimpeded money growth -- if allowed to proceed under recent conditions -- would greatly heighten expectations of inflation has been virtually ignored by the critics. Yet with such a heightening of inflationary expectations, long-term interest rates -- which have become extremely sensitive to inflationary psychology -- would surely have moved upward, in contrast to their actual behavior in remaining essentially stable. I need hardly add before this audience that long-term interest rates are far more important to the proper functioning of our economy -- especially for homebuilding and capital formation generally -- than are short-term rates.

The same attitudes that trigger protest whenever interest rates go up are also continuing to color thinking as to what constitutes appropriate fiscal policy. Let there be, for instance, a show of hesitancy in the expansion of the economy and proposals immediately come forth in great number urging stimulative governmental action. Only rarely is there any careful effort to tailor recommendations to identified specific weaknesses of economic performance. The overriding concern rather is with enlarging aggregate demand for goods and services by the quickest possible means. That, of course, was the genesis of last winter's 50-dollar rebate scheme; and for a while at least, mechanical Keynesianism again inspired a good deal of thinking this autumn about how to keep economic recovery going next year.

I submit that our country will not succeed in making much headway against the problems that our economy is burdened with until we shed such conventional thinking about stabilization policies. Fortunately, I believe we are moving in that direction. I do not underestimate, however, the distance that yet needs to be travelled.

The way in which we as a Nation deal with the problem of investment inadequacy will tell us whether policy making is

in fact evolving constructively. As you in the audience know well, spending by American business on capital goods has been weak in this recovery relative to that in previous expansions. This weakness is all the more glaring when one takes into consideration the fact that a significant portion of capital spending is now devoted to governmentally mandated pollution-control and safety equipment that in no way enlarges industrial capacity. Moreover, recent business investment in capital goods has been disproportionately concentrated in relatively short-lived assets such as trucks, office equipment, and light machinery. Businesses have shown marked reluctance to undertake major investment projects where payback cannot be expected for many years. This failure of investment to show greater vigor has cost our economy many hundreds of thousands of jobs.

For a considerable while, the conventional explanation for the weak showing of investment activity was the low rate of utilization of industrial capacity. The counsel was not to fret, that capital investment will be re-energized as aggregate demand grows. However, as we moved up the scale of capacity utilization, investment in major, long-lived investment projects has continued to be characterized by a good deal of caution. My own view --

which I have spelled out on previous occasions -- is that businessmen's hesitancy in initiating major investment projects is fundamentally grounded in a deep sense of uncertainty about how the economic environment is likely to evolve over the next few years. That uncertainty -- coupled with what has been a record of poor profitability in recent years -- is the real barrier, I believe, to more normal investment activity.

To the extent that is true, indiscriminate Federal injections of purchasing power into the economy would do little to end business reluctance to invest in major projects. To achieve a substantial lift in capital formation, specific attention to the shortcomings of the business environment is needed -- particularly, to uncertainty about governmental policy concerning taxes, inflation, energy, and environmental controls. The need to reduce business taxes has become especially acute: first, in order to offset impending increases in social security and energy taxes; and second, to neutralize the massive overpayment of income taxes that stems from applying standard accounting rules to our inflation-ridden economy. Fortunately, perception of all these needs has been growing.

I believe that President Carter fully appreciates the importance of substantially lessening the psychological and financial obstacles to business investment. The like is true of many influential members of the Congress. I therefore expect that economic policy generally -- and both tax and energy policy specifically -- soon will take on a more constructive character. Over the next several months, I anticipate that decisions in Washington will at last reduce uncertainty, improve the state of business confidence, and encourage capital formation. Even now, there are some indications that investment in heavy machinery and in industrial construction projects is beginning to revive, and this tendency is practically bound to be reinforced by the more constructive turn of economic policy that now appears to be emerging.

The need for a stronger trend of business investment is important both for short-range and longer-term reasons. So far, the driving force of economic recovery has been supplied overwhelmingly by consumer spending and homebuilding. The outlook remains favorable for continued expansion in these activities, but it would not be at all surprising if further gains moderated. The consumer saving rate has become rather low and cannot reasonably be expected to drift downward; and the rate of housing starts has attained a level suggesting that

additional gains in the coming year are likely to be modest. Thus, if the rate of over-all economic growth is to be strong enough to reestablish a declining pattern in unemployment, it is vital that investment activity take on new vigor.

And there are other compelling reasons for fostering an environment favorable to capital formation. Historically, the enrichment of our labor force with a greater quantity and improved quality of capital goods has been a major source of productivity gains in our country and, consequently, of advances in "real" income per worker. One of the worrisome features of the lag in capital spending of recent years is that it has come at a time when growth in the labor force was accelerating. The combination of these trends has resulted in drastically slowing the secular updrift in the amount of fixed capital available per worker. Whereas in the 1950's and 1960's the ratio of capital stock to the work force increased by more than 2 per cent a year, it rose by only about 1 per cent in the early part of this decade and has actually slipped somewhat in the last two years. It should not be surprising that the slowing in the growth of capital investment has been accompanied by a slowing of productivity gains; output per manhour has risen a third less

rapidly over the last ten years than in the 1950's and early 1960's. By revitalizing the process of capital formation, productivity gains are likely to improve again and thus help to reduce the cost pressures that keep driving prices upward.

The imbalance that has been developing between capital formation and labor force growth has one other troublesome implication that needs to be brought into sharp focus. At present, the issue of potential capacity shortages does not arouse much interest, since capacity margins generally are quite comfortable. But when one bears in mind the long lead times in bringing major capital projects to completion, the emergence of a serious mismatch between industrial capacity and labor supply within the next several years is not difficult to visualize; that is to say, the practical limits of capacity utilization could be reached before unemployment is reduced to an acceptable level. That may well occur if we do not generate enough growth in industrial capacity to match the growth of our burgeoning labor force. In short, the case for substantially enlarged business spending on plant and equipment has become very powerful. Since this is coming to be increasingly understood and since fairly clear avenues for a governmental contribution to a better investment climate beckon, I am optimistic that the general economic outlook will indeed brighten.

I wish I could be equally sanguine that we will deal appropriately with the barriers that stand in the way of job opportunities for so many of our citizens. To the extent, of course, that encouragement of capital formation helps to produce a more balanced and stronger expansion of the economy, employment will be stimulated. But even with additional momentum imparted to the expansion, it is doubtful that the unemployment rate will drop over the next few years to a reading that would be commonly regarded as acceptable. The reason for skepticism is that a formidable array of structural factors is now impeding the smooth functioning of our labor markets -- much more so than was the case ten or twenty years ago.

The most prominent of these is the recent upsurge in the growth of the labor force -- a phenomenon dominated by sharply increasing participation of adult women. I mentioned earlier the substantial increase in employment since the recession trough of March 1975. In fact, the growth of jobs since then -- totaling almost 7 million -- has been larger, in percentage as well as in absolute terms, than during the comparable phase of any of the economic expansions since World War II. However,

the increase in the labor force also has been exceptionally large in the course of this expansion -- amounting to more than 6 million persons. Consequently, the reduction in overall unemployment has been quite limited.

The greatly increased participation of women in the labor force that has developed in recent years marks a revolution in the role of women in our society. The pressure of inflation on household budgets has spurred many women to seek supplementary family income, but it is clear that fundamental changes in social attitudes toward family life and careers for women have also played a large role. In March 1975, women of age 25 or over participating in the labor force constituted 43 per cent of the adult female population. If this percentage had remained unchanged, the adult female labor force would now be lower by about 1.6 million. The large "extra" influx of female job seekers has, of course, taxed the absorptive capabilities of the labor market. So, too, have the large additions of young people seeking gainful employment -- a reflection of the high birth rates of the 1950's and also of the rising rate of participation by young people in the labor force.

Both young people and adult women newly entering the labor market tend to have unemployment rates higher than average, in large part because they often lack relevant work experience. Their increasing role in the labor force has thus imparted a significant upward tilt to the over-all unemployment rate compared, say, with the situation twenty years ago. That upward tilt has been reinforced by a number of other developments. The liberalization of both unemployment insurance and welfare programs has clearly increased the potential for extended idleness. The very fact that we have become a more affluent people also has made it possible for many individuals to be more selective in their search for work. Evidence has grown, too, that minimum-wage legislation has become an increasingly significant deterrent to the employment of young people. And the reporting of unemployment has been influenced to some degree by the fact that being unemployed is sometimes a requisite in establishing eligibility for welfare benefits.

The combined effect of these and lesser structural influences cannot be gauged precisely. There is, nevertheless, fairly common agreement among careful analysts that an unemployment rate of something like 5 or 5-1/2 per cent would

now be the economic equivalent of a 4 per cent rate, say, two decades ago. This does not mean that we need permanently reconcile ourselves to such a level of unemployment; but it should caution us, as we strive to bring the unemployment rate down, that we are likely to experience labor-market tautness and resulting inflationary stresses at a much higher level of joblessness than in the past.

In time, of course, some part of the upward bias now affecting the unemployment rate should automatically lessen. Growth in the younger-age component of the labor force can be expected to taper off in the next few years, reflecting the decline in birth rates that started in the 1960's. A lessened influx of young people into the job market should ease competition for youth-type jobs. And as the proportion of adult women with work experience increases, the incidence of unemployment among them should also gradually diminish. Such ameliorative tendencies, however, are likely to impinge slowly on the over-all unemployment rate, and particularly stubborn obstacles to lowering black joblessness could well persist. The rush of white adult females into the labor force appears to have been responsible for some crowding out of less educated black workers, both male and female. And

still another kind of competition may now be affecting younger black workers -- that stemming from the sizable decline in the college enrollment rate of white youths since the late 1960's.

In view of the complex forces that have recently come into play in our job markets, an over-all unemployment rate well above that which used to be regarded as normal remains a prospect for a considerable time ahead -- in the absence, that is, of effective countering strategies. A persistently high unemployment rate would, of course, entail great wastage of economic potential for the Nation, and -- what is of greater consequence -- it would destroy all hope of a decent place in life for hundreds of thousands of citizens. The need to address the structural influences that overhang our labor markets has become especially urgent for young people and black workers. The jobless rate of about 40 per cent for black teenagers and of more than 20 per cent for blacks between the ages of 20 and 24 express a tragic failure of our economic society. Unless we deal with that phase of unemployment constructively, whatever else may be done by way of trying to arrest and reverse urban deterioration is going to make little difference.

I have long argued, as some of you know, that a major impediment to job opportunities for unskilled workers is governmental interference with wage determination. However well-intentioned such action may be, our government has inflicted grievous injury to disadvantaged members of the labor force by mandating ever higher wage minima. An employer's decision to hire or not hire a particular individual depends critically on the relation between the wage of the employee and his likely productivity. When government raises the cost of hiring workers, as has just been done under a new minimum-wage statute, no compensating increase takes place in their productivity; hence it becomes more difficult for some workers to retain their jobs and for others, particularly young people and other low-skill workers, to find jobs.

Despite widespread infatuation with raising wage minima, the perversity of such legislation is gradually being recognized. It is noteworthy that a proposal for a special sub-minimum youth wage lost by only one vote this year in the House of Representatives. That is the closest we have come to a sensible departure from our mistaken course. If this whole issue is not reopened in the next session of Congress, it would be desirable, at the very

least, to seek legislation for a pilot experiment with a youth differential in, say, a half dozen cities with a view to demonstrating actual consequences of a lower minimum wage for young people. At the same time, and for much the same reasons, I would urge attention to the harmful results, especially for young people and blacks, of the wage floors mandated by the Davis-Bacon Act and the Walsh-Healy Act, which deal respectively with Federally financed or assisted construction projects and with work performed on manufacturing and supply contracts of the Federal Government.

We need to understand that widespread access to jobs -- especially for young people -- is the surest way a society has of facilitating sound investment in human capital. Normally, the time for learning skills is when one is young. To the extent that meaningful work experience is blocked for young people, they can hardly be expected to become useful, productive citizens. Our legacy of missed training and of failure to acquire basic work habits will plague this country for literally decades ahead. The past cannot be undone, but that is all the more reason to prevent further human wastage by opening more channels to jobs that afford useful learning opportunities.

Public-service jobs that fail to teach transferable skills, as is often the case, merely disguise the problem. So, too, do income-maintenance welfare programs. Again, I wish to avoid misunderstanding. I happen to favor public-service jobs that provide useful training, and I certainly do not oppose thoughtfully structured income-maintenance efforts for the needy. I do believe, however, that we must guard against social attitudes in which either course is seen -- in the case of young people especially -- as a tolerably acceptable alternative to entry into the mainstream of the job market.

Governmentally mandated wage minima are by no means the only institutional obstacle to the assimilation of young people and minorities into the active work force. Sooner or later -- if only as an anti-inflationary step -- we will have to come to grips with other artificial restrictions to employment opportunities that have developed in our country. In particular, attention needs to be directed to governmental licensing and certification requirements that limit entry to various occupations. It is hard to see, for instance, economic or social justification for the extremely high cost of becoming an owner-operator of a taxicab in this and other cities. Nor is it easy to justify the licensing requirements that complicate entry to trades that range from barbering to plumbing. Such licensing is at times merely a form

of disguised monopoly that makes it difficult for people, especially members of minorities, to enter fields that otherwise would accommodate many additional workers.

The opening up of job opportunities for young people and minorities clearly needs to be reinforced by improved education in primary and secondary schools. Despite the rapid closing in recent years of the wide educational gap that used to exist between whites and blacks, educators generally agree that the quality of black education is still markedly inferior. Diplomas and credentials alone mean little. What is critical on graduation is what has been learned that is useful for job performance. Too often, the knowledge acquired does not enable the graduate to be of much value in labor markets. Too often, habits important to employers -- such as punctuality, a sense of responsibility, and personal neatness -- have not yet been acquired. All this is an extremely important aspect of our failure as a Nation to invest wisely in human capital.

I lack the practical knowledge to comment at any length on the enormous challenge of improving inner-city schools. But I do know that here and there schools of excellence exist within inner cities, thereby demonstrating -- among other things --

that great financial cost is not a requisite condition for good schooling. It is promising that a good deal of scholarly examination of these schools is now under way, so that in time their procedures can be emulated elsewhere.

The approach I have suggested for dealing with youth and minority unemployment involves proceeding on a number of different fronts. I am convinced that there simply is no grandiose scheme by which our economy's complex problems of structural unemployment are going to be solved. I realize it is tempting to think that very rapid expansion of demand through monetary and fiscal stimuli would pull many of those who are now sidelined in idleness into the mainstream of the Nation's economic life. And, for a while, it is possible that an effect of that kind would occur in some measure. But experience of recent years should by now have driven home the truth that such policies cause inflationary pressures that are inimical to sustained prosperity. Temporary benefits conferred on young people and minorities would only leave a legacy of bitterness once the distortions of inflationary stress caused the bubble of prosperity to burst, as I have no doubt would again be the case.

I well realize that, despite my neglect of numerous problems, including the plight of many older citizens, I have ranged this morning over a wide terrain. I hope that in so doing I have not blurred my central thesis. That is simply that our Nation urgently needs to enlarge its investment in both physical and human capital: first, to solidify the ongoing recovery of production and employment; second, to put our economy on a track that will carry us to sustainable conditions of improved economic health in which all of our citizens will have a decent chance to share.

Among other benefits, accelerated investment in physical and human capital will materially aid our economy in making headway against the scourge of inflation. The prospect of reducing the pressure of costs on selling prices will brighten as improvements in productivity strengthen. A vital key to that achievement is more and more modern capital equipment per worker together with a better trained work force. And the act of unblocking job avenues for workers, while politically difficult, will in time not only serve to reduce unemployment; it will do so without releasing inflationary waves that are bound to follow from excessive fiscal or monetary ease.

In closing, I would like to make just one further point. You in this audience have tremendous capability -- through this Council, your companies, and as individuals -- to make a difference in the battle for a healthier economy. I well remember the impressive effort your industry made years ago to counter the insidious theory that a little inflation is a healthy thing. I know you are continuing your educational endeavors. But I would urge you to stretch your energies and to share even more fully with your policyholders -- a multitude almost coterminous with the public at large -- the special insights that you have accumulated into the economic and social damage caused by inflation and unemployment. Widespread understanding of economic problems has become crucial to the vitality of our democracy. Your industry has a proud record in improving economic knowledge, and I am confident you will continue to build on it.

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