THE PRESIDENT'S SCHEDULE

Thursday - March 2, 1978

8:15 Dr. Zbigniew Brzezinski - The Oval Office.

8:45 Mr. Frank Moore - The Oval Office.

9:00 Congressman Ed Jones. (Mr. Frank Moore).
(15 min.) The Oval Office.

10:00 Mr. Jody Powell - The Oval Office.

11:30 Meeting with Delegation from Kenya.
(15 min.) Dr. Zbigniew Brzezinski) - Cabinet Room.

11:50 Depart South Grounds via Motorcade
en route the National Press Club Building.

12:00 Announcement/Civil Service Reorganization
and Question and Answer Session - National
Press Club.

12:55 Return to the White House.

2:30 Mr. Sam Brown, Director, ACTION.
(15 min.) (Mr. Jack Watson) - The Oval Office.

2:45 Meeting with Mr. Paul Warnke et al.
(30 min.) (Dr. Zbigniew Brzezinski) - Cabinet Room.
2 March 1978

TO: THE PRESIDENT

FROM: RICK HUTCHESON

SUBJECT: Memos Not Submitted

1. JIM McINTYRE sent you a copy of his letter to Senator Jennings Randolph, expressing the Administration's 'strong opposition' to S. 2557, the "pot hole bill."

2. BOB LIPSHUTZ sent you two notes:
   
   • the leading attorney for the Indians in the Maine case reports a very positive reaction among the Indians to the President's statements on the land claims matter;

   • the President's letter, and Miss Lillian's appearance, contributed greatly to the success of the Bobby Dodd Big Heart Dinner.
March 2, 1978

Honorable Jennings Randolph
United States Senate
Washington, D.C. 20510

Dear Senator Randolph:

This letter is intended to clarify the Administration's position on S. 2557, the so-called "pot hole bill". S. 2557 would provide $250 million for road repair and maintenance in response to the difficult winter weather conditions prevailing over large parts of the nation.

Important elements of the bill are as follows:

- The $250 million would be provided as contract authority from the highway trust fund.
- The funds could be used for repair work on any paved road or on rails of any public transit system.
- The damages must be attributable to the 1977-1978 winter, and the funds provided must be in addition to, not in substitution for, regular state road repair expenditures.
- The funds must be obligated by the states by no later than June 15, 1978.
- No state matching share is required.
- The distribution of funds to states is to be made by the Department of Transportation, applying such factors as weather data, vehicle miles travelled, and road mileage.
- No state would receive less than 0.5% or more than 7.0% of total funds.
Because of recent severe winters, there is little doubt that some states are having problems repairing and maintaining their roads. In that respect, we sympathize with proponents of the bill who are searching for ways to assist states in meeting legitimate road repair needs. However, for the reasons cited below, we believe that states should continue to handle their road repair problems without direct Federal assistance.

- States have historically performed highway maintenance duties, usually with state employees rather than by contract. This bill would establish undesirable precedents of Federal involvement (and perhaps eventual take-over) in routine maintenance and payment of state employee salaries.

- Likewise, the lack of any required state matching share would constitute an undesirable break in the Federal-state shared responsibility for highway construction.

- It would be difficult, if not impossible, to ensure that the following conditions stipulated in the bill were met:
  
  -- that only damages attributable to the 1977-1978 winter would be eligible for repair; and

  -- that the funds provided are in addition to, and not in substitution for, regular state road maintenance expenditures.

- A new, narrow highway funding category would be added at a time in which elimination of unneeded categories is being sought.

- Funding of highway maintenance out of the trust fund would tend to supplant funding of other critically needed Federal-aid highway programs.

- The allocation of a minimum 0.5% of total funds to any state and territory guarantees that no state or territory will receive less than $1.25 million, whether or not it has sustained winter storm damage.

In conclusion, we do not believe that a case has been made for the provision of emergency Federal relief for a function which the states and local jurisdictions have performed well in the past and which we have every reason to believe
they will be able to continue to perform satisfactorily in the future. Additionally, S. 2557 would establish several very bad precedents for the Federal highway program—involve-
ment in routine maintenance normally performed by state employees, and provision of 100% Federal funding. For these reasons the Administration strongly opposes the bill.

Sincerely,

James T. McIntyre, Jr.
Acting Director

bcc: The President
Secretary Brock Adams
MEMORANDUM FOR THE PRESIDENT

FROM: Bob Lipshutz

I had a phone call from the leading attorney for the Indian tribes in the Maine case, who also represents Indian tribes in matters all over the country.

He conveyed to me the very positive reaction to your Maine visit and your statements concerning the Indian land claims matter, which he has received from a number of people around the country.

He summarized it by saying that, for the first time in his memory, the Indians seem to have gained faith in the government. Apparently there has been a deep sense of mistrust that goes back many generations.
To The President
F.Y.I.

Bob Trumpet
Dear Bob:

I am forwarding souvenir programs from the Bobby Dodd Big Heart Dinner. It was a tremendous success. Miss Lillian was her usual vivacious, humorous self, and just made the evening.

How are things in Washington? Resa will be up for six weeks April 17th working as an intern for Senator Herman Talmadge. Maybe she will get a chance to come by and see the Georgia folks at the White House again.

My best regards to you and Betty, and thank you again for your help in securing the cover letter from our President.

Cordially,

Liane Levetan
Commissioner, District 2

LL/sc

Mr. Robert Lipshutz
The White House
Washington, D.C.  20500
THE DAIS

First Row
Tom Butler
Dr. Vernon S. Broyles
Lt. Gov. Zell Miller
Kim King
Alice Dodd
Bobby Dodd
Lillian Carter
Harry Davey
Ludlow Porch
Sen. Herman Talmadge
Liane Levetan
Buddy Fowlkes
Charlie Brown
Willis Huff
Bill Brandon

Second Row
Jim Carlen
Doug Weaver
Bill Curry
Shug Jordan
Jesse Outlar
Vince Dooley
Maxie Baughan
Bob Woodruff
Tommy Nobis
Charlie Justice
Eddie LeBaron
Joel Eaves
Farman Bisher
Benjamin Hudson
Al Head

INVOCATION .......................... Dr. Vernon S. Broyles

STAR SPANGLED BANNER ............. Hattie Jackson

DINNER

WELCOME ............................. Harry Davey

MASTER OF CEREMONIES – Ludlow Porch

SALUTE TO THE COACH ............... Members of the Dais

SPECIAL PRESENTATION OF AWARDS

Shriners (Yaarab Temple) .......................... Potentate Al Head
Georgia Youth Football Conference .......................... President Bill Brandon
Civitan Award .......................... Governor Pete Huff

SPECIAL PRESENTATION
TO MRS. DODD .......................... Jill Kuniansky

BIG HEART
AWARD PRESENTATION .......................... Lillian Carter

SONG: MY WAY .......................... Dorothy Brown
PRESIDENT JIMMY CARTER  
CIVIL SERVICE REORGANIZATION  
NATIONAL PRESS CLUB  
WASHINGTON, D.C.  
MARCH 2, 1978, 12:00 NOON

BETORE 5'S STATEMENT - IMPORTANT SUBJECT

I CAME TO WASHINGTON WITH THE PROMISE -- AND THE
OBLIGATION -- TO HELP REBUILD THE FAITH OF THE AMERICAN
PEOPLE IN OUR GOVERNMENT.

WE WANT A GOVERNMENT THAT CAN BE TRUSTED, NOT
FEARED..... THAT WILL BE EFFICIENT, NOT MIRED IN ITS OWN
RED TAPE..... A GOVERNMENT THAT WILL RESPOND TO THE NEEDS
OF AMERICAN CITIZENS AND NOT BE PREOCCUPIED WITH NEEDS
OF ITS OWN.

TAXPAYERS WHO WORK HARD FOR THEIR MONEY WANT TO
SEE IT WISELY SPENT.

WE ALL WANT A GOVERNMENT WORTHY OF CONFIDENCE
AND RESPECT.

THAT IS WHAT REORGANIZATION ...
THAT IS WHAT REORGANIZATION IS ALL ABOUT.

WE HAVE NO ILLUSIONS THAT THIS TASK WILL BE EASY.

OUR GOVERNMENT AND ITS BUREAUCRACY HAVE EVOLVED

OVER MANY GENERATIONS AND THE WORK OF REFORM CANNOT BE

COMPLETE IN A YEAR OR PERHAPS EVEN DURING MY SERVICE IN

THE WHITE HOUSE.

BUT WE HAVE BEGUN,

ALREADY

WE HAVE ADOPTED ZERO-BASED BUDGETING.

WE HAVE CUT THE BURDEN OF PAPERWORK ON THE PUBLIC,

AND EXCESSIVE GOVERNMENT REGULATION IS BEING REPLACED

WITH FREE MARKET COMPETITION.

AT OSHA AND IN OTHER FEDERAL AGENCIES WE ARE

DISCARDING OBSOLETE REGULATIONS AND REWRITING RULES IN

PLAIN AND COMPREHENSIBLE ENGLISH.
WE HAVE CUT SIGNIFICANTLY THE NUMBER OF EMPLOYEES IN THE EXECUTIVE OFFICE OF THE PRESIDENT AND ABOLISHED HUNDREDS OF UNNEEDED ADVISORY COMMITTEES.

BUT ALL THAT IS NOT ENOUGH.

THE SINGLE MOST IMPORTANT STEP WE CAN TAKE IS A THOROUGHGOING REFORM OF THE CIVIL SERVICE SYSTEM.

CIVIL SERVICE REFORM WILL BE THE CENTERPIECE OF GOVERNMENT REORGANIZATION DURING MY TERM IN OFFICE.

I HAVE SEEN AT FIRST HAND THE FRUSTRATION AMONG THOSE WHO WORK WITHIN THE BUREAUCRACY.

NO ONE IS MORE CONCERNED AT THE INABILITY OF GOVERNMENT TO DELIVER ON ITS PROMISES THAN THE WORKER WHO IS TRYING TO DO A GOOD JOB.

MOST CIVIL SERVICE EMPLOYEES . . .
MOST CIVIL SERVICE EMPLOYEES PERFORM WITH SPIRIT AND INTEGRITY.

NEVERTHELESS, THERE IS STILL WIDESPREAD CRITICISM OF FEDERAL GOVERNMENT PERFORMANCE.

THE PUBLIC SUSPECTS THAT THERE ARE TOO MANY GOVERNMENT WORKERS, THAT THEY ARE UNDERWORKED, OVERPAID, AND INSULATED FROM THE CONSEQUENCES OF INCOMPETENCE.

SUCH SWEEPING CRITICISMS ARE UNFAIR TO DEDICATED FEDERAL WORKERS WHO ARE CONSCIENTIOUSLY TRYING TO DO THEIR BEST, BUT WE HAVE TO RECOGNIZE THAT THE ONLY WAY TO RESTORE PUBLIC CONFIDENCE IN THE VAST MAJORITY WHO WORK WELL IS TO DEAL EFFECTIVELY AND FIRMLY WITH THE FEW WHO DO NOT.
THE TWO COMPLAINTS MOST OFTEN HEARD AGAINST THE PRESENT SYSTEM ARE THAT FEDERAL EMPLOYEES HAVE TOO LITTLE PROTECTION AGAINST POLITICAL ABUSE -- AND TOO MUCH PROTECTION AGAINST LEGITIMATE ASSESSMENT OF PERFORMANCE AND SKILLS.

THESE CHARGES SOUND CONTRADICTORY, BUT BOTH OF THEM HAPPEN TO BE TRUE.

AND THE SYSTEM THAT PERPETUATES THEM NEEDS TO BE CHANGED.

FOR THE PAST 7 MONTHS, A TASK FORCE OF MORE THAN 100 CAREER CIVIL SERVANTS HAS ANALYZED THE CIVIL SERVICE, EXPLORED ITS WEAKNESSES AND STRENGTHS AND SUGGESTED HOW IT CAN BE IMPROVED.

THEIR JUDGMENTS ARE REFLECTED IN THE MESSAGE I WILL SEND TO THE CONGRESS TODAY.

I WANT TO OUTLINE THESE PROPOSALS . . .
I want to outline these proposals and explain the reasoning behind them. They represent the most sweeping reform of the civil service system since it was created nearly 100 years ago.

The simple concept of a "merit system" has grown into a tangled web of complicated rules and regulations. Managers are weakened in their ability to reward the best and most talented people -- and to fire those few who are unwilling to work.

The sad fact is that it is easier to promote and transfer incompetent employees than to get rid of them. It may take as long as three years merely to fire someone for just cause, and at the same time the protection of legitimate rights is a costly and time-consuming process for the employee.
YOU CANNOT RUN A FARM THAT WAY....YOU CANNOT RUN
A FACTORY THAT WAY....AND YOU CERTAINLY CANNOT RUN A
GOVERNMENT THAT WAY.

WE HAVE LOST SIGHT OF THE ORIGINAL PURPOSE --
WHICH WAS TO REWARD MERIT.

MORE THAN 99 PERCENT OF ALL FEDERAL EMPLOYEES
GET A SO-CALLED "MERIT" RATING AND LAST YEAR, OUT OF
ABOUT 2 MILLION EMPLOYEES, ONLY 226 PEOPLE LOST THEIR
JOBS FOR INEFFICIENCY. (≈ 100 * 1%)

SO MY FIRST PROPOSITION IS THIS: THERE IS NOT
ENOUGH MERIT IN THE MERIT SYSTEM.

THERE IS INADEQUATE MOTIVATION BECAUSE WE HAVE
TOO FEW REWARDS FOR EXCELLENCE AND TOO FEW PENALTIES
FOR UNSATISFACTORY WORK.

WE MUST ENCOURAGE BETTER PERFORMANCE......
WE MUST ENCOURAGE BETTER PERFORMANCE IN WAYS THAT ARE USED WIDELY AND EFFECTIVELY IN PRIVATE INDUSTRY.

TOP FEDERAL WORKERS ARE READY AND WILLING TO RESPOND TO THE RISKS AND REWARDS OF COMPETITIVE LIFE, AND PUBLIC SERVICE WILL BE HEALTHIER WHEN THEY HAVE THAT CHANCE.

WE MUST STRIKE A NEW BALANCE THAT PRESERVES THE MERIT PRINCIPLE WHILE GIVING MANAGERS THE INCENTIVE AND THE AUTHORITY TO MANAGE.

WE PROPOSE TO DO THIS, FIRST, BY CREATING A SENIOR EXECUTIVE SERVICE, WHOSE 9200 MEMBERS WILL BE AVAILABLE TO SERVE WHEREVER IN THE GOVERNMENT THEY ARE MOST NEEDED.
THEY WILL BE ELIGIBLE FOR ANNUAL BONUSES FOR SUPERIOR PERFORMANCE, AND CAN BE MOVED FROM THE SENIOR EXECUTIVE SERVICE BACK TO THEIR PREVIOUS CIVIL SERVICE STATUS FOR POOR PERFORMANCE.

I WILL ALSO ASK CONGRESS TO AUTHORIZE THE USE OF INCENTIVE PAY FOR THE 72,000 FEDERAL MANAGERS AND SUPERVISORS IN GRADES GS-13 THROUGH GS-15, WHICH IS A FAR MORE ATTRACTION AND SENSIBLE ACKNOWLEDGMENT OF MERIT THAN THE SILVER WATER CARAFES AND THICKER CARPETS THAT PASS FOR RECOGNITION TODAY.

THEY WILL NO LONGER RECEIVE AUTOMATIC "STEP" INCREASES IN PAY WITHOUT REGARD TO PERFORMANCE.

ANOTHER PROPOSAL WHICH WILL IMPROVE . . .
ANOTHER PROPOSAL WHICH WILL IMPROVE MANAGERIAL EXCELLENCE IS A SPEEDIER AND FAIRER DISCIPLINARY SYSTEM, WHICH WILL CREATE A CLIMATE IN WHICH MANAGERS MAY DISCHARGE NON-PERFORMING EMPLOYEES -- USING DUE PROCESS -- WITH REASONABLE ASSURANCE THAT THEIR JUDGMENT, IF VALID, WILL PREVAIL.

AT THE SAME TIME, EMPLOYEES WILL RECEIVE A MORE RAPID HEARING FOR THEIR GRIEVANCES.

THE PROCEDURES THAT EXIST TO PROTECT EMPLOYEE RIGHTS ARE ABSOLUTELY ESSENTIAL.

BUT EMPLOYEE APPEALS MUST NOW GO THROUGH THE CIVIL SERVICE COMMISSION, WHICH HAS A BUILT-IN CONFLICT OF INTEREST BY SERVING SIMULTANEOUSLY AS RULE-MAKER, PROSECUTOR, JUDGE, AND EMPLOYEE ADVOCATE.
SO, MY SECOND PROPOSITION IS: EMPLOYEES STILL HAVE TOO LITTLE PROTECTION FOR THEIR RIGHTS.

I PROPOSE TO DIVIDE THE PRESENT CIVIL SERVICE COMMISSION INTO TWO BODIES -- AN OFFICE OF PERSONNEL MANAGEMENT TO IMPROVE THE PRODUCTIVITY AND PERFORMANCE OF FEDERAL WORKERS....AND A MERIT PROTECTION BOARD TO STAND WATCH AGAINST MERIT ABUSES AND RESOLVE THE APPEALS BROUGHT BY EMPLOYEES.

I WILL ALSO PROPOSE AN OFFICE OF SPECIAL COUNSEL TO INVESTIGATE MERIT VIOLATIONS AND PROTECT "WHISTLEBLOWERS" WHO EXPOSE GROSS MANAGEMENT ERRORS AND ABUSES.

FINALLY, I PROPOSE THE CREATION...
FINALLY, I PROPOSE THE CREATION OF A FEDERAL LABOR RELATIONS AUTHORITY TO REMEDY UNFAIR LABOR PRACTICES WITHIN THE GOVERNMENT MUCH AS THE NATIONAL LABOR RELATIONS BOARD DOES IN PRIVATE INDUSTRY.

IN ADDITION, WE WILL CONTINUE TO WORK WITH CONGRESS AND FEDERAL EMPLOYEES TO DEVELOP LEGISLATION WHICH, WHILE RECOGNIZING THE SPECIAL REQUIREMENTS OF THE FEDERAL GOVERNMENT, WILL IMPROVE FEDERAL LABOR PRACTICES.

ONE OTHER SERIOUS DEFECT REMAINS. THAT IS THE NETWORK OF RULES GOVERNING HIRING, STAFFING, AND TENURE.

WE SHOULD GIVE EACH AGENCY MORE CONTROL OVER ITS OWN HIRING, RATHER THAN THE CIVIL SERVICE COMMISSION WHICH NOW MAY TAKE AS LONG AS SIX TO EIGHT MONTHS TO FILL IMPORTANT POSITIONS.
CURRENT RULES OFTEN IMPEDE THE HIRING OF QUALIFIED WOMEN, MINORITIES AND THE HANDICAPPED BY GIVING VETERANS A LIFETIME ADVANTAGE UNDER CIVIL SERVICE LAWS -- FAR BEYOND THE BENEFITS PROVIDED UNDER OTHER VETERANS PROGRAMS WHICH ARE DESIGNED TO EASE THE READJUSTMENT FROM MILITARY TO CIVILIAN LIFE.

THEREFORE, WE PROPOSE TO REDUCE THE PREFERENTIAL ADVANTAGE GIVEN TO NON-DISABLED VETERANS TO A 10-YEAR PERIOD.....AND TO END THIS PREFERENCE ALTOGETHER FOR SENIOR MILITARY OFFICERS WHO RETIRE WITH PENSION BENEFITS AFTER A FULL MILITARY CAREER.

AT THE SAME TIME, WE WILL STRENGTHEN PROVISIONS TO ENSURE THAT DISABLED VETERANS AND THOSE WHO SERVED DURING AND SINCE VIETNAM ARE FULLY PROTECTED UNDER OUR CIVIL SERVICE LAWS.

LET ME BE STRAIGHTFORWARD ABOUT . . .
LET ME BE STRAIGHTFORWARD ABOUT THE IMPLICATIONS OF ALL THIS.

OUT PROPOSALS WILL MEAN LESS JOB SECURITY FOR INCOMPETENT FEDERAL EMPLOYEES, BUT CONSCIENTIOUS CIVIL SERVANTS WILL BENEFIT FROM A CHANGE THAT RECOGNIZES AND REWARDS GOOD PERFORMANCE.

OUR PROPOSALS DEAL WITH THE MAJOR CHANGES THAT MUST NOW BE MADE.

BY ENACTING THEM WE WILL MAKE EMPLOYMENT IN THE CIVIL SERVICE MORE CHALLENGING, MORE PRODUCTIVE, AND A MORE PROSPEROUS AND GRATIFYING CAREER.
BUT THE GREATEST BENEFICIARIES WILL BE THE AMERICAN PEOPLE, WHO CAN EXPECT TO SEE A MORE COMPETENT AND EFFICIENT AND RESPONSIVE GOVERNMENT -- ONE THAT IS WORTHY OF THE PEOPLE IT WAS CREATED TO SERVE.

#    #    #
I came to Washington with the promise -- and the obligation -- help rebuild the faith of the American people in our government. We want a government that can be trusted, not feared; that will be efficient, not mired in its own red tape; a government that will respond to the needs of American citizens promptly, courteously, and effectively. [not be preoccupied with needs of its own.]

[The American people want government employees to care about the services which tax dollars are buying, and to be courteous and competent.]

We all want a government worthy of confidence and respect.

This is what government reorganization is about.

It is the way our government can earn its way back into the good graces of our people.
I came to Washington with no illusions that this task would be easy. Our government and bureaucracy is the product of many generations, and not in a single generation -- certainly not in a year or two will the work of reforming it be complete.

But I am encouraged by what has already been done. We have adopted zero-based budgeting and have begun to cut the burden of paperwork on the public, to substitute free market competition for excessive government regulation, to reform the administration of OSHA and the Equal Employment Opportunity Commission, and we have begun to discard obsolete regulations and to rewrite existing rules into plain and comprehensible English. We have streamlined the Office of the President, disposed of hundreds of superfluous advisory committees, and created a new Department of Energy. We have
adopted strong ethical codes to ensure that Federal officials have no loyalties except loyalty to the public interest.

We must now tackle the fundamentals of government performance. The single most important step we can take is a thoroughgoing reform of the Civil Service. Civil Service reform will be the centerpiece of reorganization efforts this year. It is impossible to make government work better unless we establish conditions under which government employees can work better.

Since coming to office, I have seen at first hand the frustration among those who work within the bureaucracy. No one is more concerned at the inability of government to deliver on its promises than the worker who is trying to do a good job.
I have learned that most Civil Service employees perform with spirit and integrity. Nevertheless, there is still considerable criticism of Federal government performance. The public suspects that there are too many government workers, that they are underworked, overpaid, and insulated from the consequences of incompetence. Such sweeping criticisms are unfair to dedicated civil servants who are conscientiously trying to do their best, but we have to recognize that they contain elements of truth.

My own programs -- and those of other Presidents -- depend in large measure on the efforts and support of Civil Service employees. These employees are my associates -- my partners -- my fellow workers. Too many of them are working under conditions that fail to motivate or permit their best performance.
The two criticisms most often heard against the present system are that Federal employees have too little protection against political abuse -- and too much protection against legitimate assessments of performance and skill. These criticisms sound contradictory, but both of them happen to be true. And the system that perpetuates them needs to be changed.

For the past 7 months, a task force of more than 100 career civil servants, business leaders and scholars has analyzed the Civil Service, explored its weaknesses and strengths and suggested how it can be improved. Their judgments are reflected in the Message I will send to the Congress within the next few days. Today I want to tell you what these proposals are and explain the reasoning behind them.
First, the simple concept of a "merit system"

has grown into a tangled web of complicated rules and regulations. Federal managers are weakened in their ability to motivate and reward the best and most talented people -- and to fire those few who cheat and are unwilling to work.

It is easier to promote or transfer incompetent employees than to get rid of them. It may take as long as three years merely to fire someone for just cause, and the protection of legitimate rights is a costly and time-consuming process for the employee. The complaint process has numerous appeals bodies and as many as seven different opportunities for hearings.

In our attempt to avoid political abuse in the Civil Service, we have lost sight of the original purpose -- which was to reward merit. More than
99 percent of all Federal employees get such a "merit" rating and the pay raise that goes with it. In Fiscal 1976, out of about 2 million Federal employees, only 226 people lost their jobs for inefficiency.

So my first proposition is this: Where Civil Service jobs are concerned, the spoils system is no longer our major concern; the main problem is the absence of motivation which comes from rewards for superior work and penalties for unsatisfactory performance. The rigid controls and complicated regulations we have strung around ourselves have become a serious obstacle to good government.

Our ability to change and revitalize our government programs is directly proportional to our ability to acquire, develop, assign and reward top-quality employees.
We need to motivate better performance in ways that are used effectively in private industry and which underlie the capacity and power of America. Top quality Federal workers are ready and willing to respond to the risks and rewards of competitive life, and public service will be healthier when they have that chance.

We must strike a new balance that preserves the merit principle while giving managers the incentive and the authority to manage.

We propose to do this, first, by creating a Senior Executive Service comprising the 8400 senior executives whose duties are managerial and who are now classified from GS-16 up to Executive Level IV or its equivalent. They can then be assigned anywhere
in the government where they are most needed; they will be eligible for annual bonuses for superior performance; and they can be removed from the Senior Executive Service back to their regular Civil Service status for poor performance.

I will also ask Congress to authorize the use of incentive pay for the 72,000 Federal managers and supervisors in grades GS-13 through GS-15. Those who perform in an unusually productive fashion will be eligible for annual bonuses, which are a far more attractive and sensible acknowledgment of merit than the silver water carafes and thicker carpets that pass for recognition today.
Another proposal which will improve managerial excellence is a speedier disciplinary system. Under the present system, supervisors who care about competence and performance are hesitant to challenge employees who will not do their work. This red tape has the effect of denying justice, not promoting it. A system of simplified, streamlined appeals will create a climate in which managers may discharge non-performing employees -- using due process -- with reasonable assurance that their judgment, if valid, will prevail.

*   *   *   *

The procedures that exist to protect employee rights are not just a managerial tool; they are a way to guard against arbitrary and capricious harassment of employees. And that is absolutely essential. But
employee appeals must now go through the Civil Service Commission, which serves simultaneously as rulemaker, prosecutor, judge, and employee advocate.

So, my second proposition is: Employees still have too little protection for their most important rights. It is time to establish new safeguards against political abuse.

We propose to do this, first, by dividing the present Civil Service Commission into two bodies -- an Office of Personnel Management and an independent Merit Protection Board. The Protection Board's three members will be bipartisan, appointed to seven-year terms, and will be removable only for cause. This will establish for the first time a truly separate, impartial, one-level appeals board to protect the merit principle.
By separating these functions of the present Civil Service Commission, the new Office of Personnel Management can act to improve the productivity and performance of Federal workers, while the Merit Protection Board will stand watch against merit abuses and resolve the appeals brought by employees.

I will also propose an Office of Special Counsel, charged with the duty of investigating merit violations and protecting "whistleblowers" who expose gross management errors and abuses.

*   *   *   *

If we can improve managerial efficiency and employee protection, we will have gone a long way toward correcting the faults of the present Civil Service
system. But one other serious defect remains. That is the network of rules governing hiring and tenure.

Some of these rules are traceable to the lifetime entitlement accorded to veterans in Federal employment. Let me be clear -- this nation has a continuing debt of gratitude to those who have served in time of war. To those veterans who are disabled, our debt is unending -- regardless of how long ago the disability was incurred. To those Viet Nam era veterans, whether disabled or not, we -- as a nation -- have a long way to go before we will have adequately said -- "thank you."

But the general preferences accorded to veterans have become a tangled web that has lost its original purpose to aid in readjustment from military service to civilian life.
Because of the broad preference they enjoy under current law, veterans hold nearly half of all Federal jobs, even though they account for just 22 percent of the country's total workforce. Preference for veterans puts other groups, like women and the congenitally handicapped, at a severe disadvantage.

So, my third proposition is that Federal hiring and tenure rules now give an unjustifiable edge to veterans and put unnecessary barriers in the way of fair and competitive employment programs. The veterans preference should exist primarily to provide readjustment assistance to any disabled veteran and to all veterans of the Viet Nam conflict.

I am asking the Congress, therefore, to cut the normal veterans preference to a period of ten years following discharge, and to end it altogether for senior
military officers -- field grade and general rank -- who retire after a full military career. For veterans who have obtained and are secure in Federal jobs, I propose to limit the absolute right to "bump" qualified non-veterans.

I am also proposing to abolish the so-called "rule of three," which requires an agency to choose from among the three job candidates with the highest total test scores. If agencies can choose from among more top applicants, they can give consideration to personal qualities of excellence that often cannot be measured on an examination, and increase the possibility of hiring those who have not been given such opportunity in the past.

I realize the proposals affecting veterans will be controversial. But fairness consists in giving
preference to the disabled and in easing the transition
to civilian life for people who have served our country,
not in awarding a lifetime privilege to the detriment
of their fellow citizens. The proposals I will submit
to Congress make that distinction, focussing the
preference where it is truly needed.

These Civil Service reforms are the heart of
our government reorganization effort. The three
objectives, as I have outlined them here today, are:
giving executives the incentive and authority
to manage; rewarding superior performance and
increasing employees' protection against abuses of
the merit principle; and promoting fairness and
opportunity in hiring practices.

The structural and legislative changes we feel
will best accomplish this are: the creation of a
Senior Executive Service; splitting the Civil Service Commission into an Office of Personnel Management and a Merit Protection Board; instituting incentive pay; simplifying the appeals process; modifying the veterans preference; and getting rid of the "rule of three."

Let me be straightforward about the implications of all this.

Our proposals will mean less job security for incompetent Federal employees, but we feel that conscientious civil servants will welcome a change that recognizes good performance and rewards it.

Our proposals will mean less of an edge for some veterans, but will continue preferences for Viet Nam and more recent service and for all disabled veterans.
Our proposals will tend to induce civil servants to cooperate with one another in supporting the laws and the policies of the United States government. This is not "political interference," and it is perfectly proper. The essence of democratic politics is for government to respond to the will of the people.

* * *

Our proposals do not deal with everything in the Civil Service that needs reforming, but they do deal with the major changes that should now be made. We have the opportunity, by enacting them, to make employment in the Civil Service more challenging, more productive, and a more prosperous and gratifying career.

The greater beneficiaries will be the American people, who can expect to see a more competent and
efficient and responsive government -- one that is worthy of the people it was created to serve.

#    #    #
CIVIL SERVICE SPEECH

When I came to Washington I came with the promise -- and the obligation -- to help rebuild the faith of the American people in their government. They wanted a government that could be trusted, not feared; that would be efficient, not mired in its own red tape; that would respond to their needs, not be preoccupied with needs of its own.

They wanted a government worthy of respect. The American people want their government to care about the services their tax dollars are buying. They want a government that is courteous and competent, and in command of itself. This is what government reorganization is about. It is the way our government can earn its way back to the good graces of our people.

I came with no illusions that this task would be easy. Our system is the product of many generations, and not in a single generation -- certainly not in a year or two -- will the work of reforming it be complete.

But I am encouraged by what has already been done. We have have begun to cut the burden of paperwork on the public, zero-based budgeting, to substitute free market competition for government regulation, where the interests of consumers would be served. We have begun to reform the administration of OSHA and the Equal Employment Opportunity Commission; we have begun to discard obsolete regulations and to rewrite existing rules into plain and comprehensible English. We have streamlined the Office of the President, disposed of hundreds of superfluous advisory
committees, and created a Department of Energy. We have adopted strong ethical codes to ensure that Federal officials have no loyalties except loyalty to the public interest.

We must now tackle the fundamentals of government performance. The single most important step we can take is a thorough-going reform of the Civil Service. I intend to make Civil Service reform the centerpiece of my reorganization efforts this year. It is impossible to make government work better unless we establish conditions under which government employees can work better.

Since coming to office, I have seen firsthand the frustration among those who work within the bureaucracy. No one is more concerned at the inability of government to deliver on its promises than the worker who is trying to do his job right. I have learned that most employees in the Civil Service perform with spirit and integrity. Nevertheless, there has been considerable criticism of Federal employees in this past year. The public suspects that there are too many government workers, that they are underworked, overpaid, and insulated from the consequences of incompetence. Such sweeping criticisms are unfair to dedicated civil servants who are conscientiously trying to do their best, but we have to recognize that it contains a considerable element of truth.

My programs -- and those of other Presidents -- depend in large measure on the efforts and support of Civil Service employees. These employees are my associates, my fellow workers. Too many of them are working under conditions that fail to motivate their best performance.
The two criticisms most often heard against the present system are that Federal employees have too little protection against political abuse -- and far too much protection against legitimate judgments about performance and skill. These criticisms sound contradictory, but both of them happen to be true. And the system that perpetuates them needs to be changed.

For the past 7 months, a task force of more than 100 career civil servants, business leaders, and scholars has analyzed the Civil Service, explored its weaknesses and strengths and suggested ways it can be improved. Their judgments are reflected in the Message I will send to the Congress later this week. Today I want to tell you what my proposals are and explain the reasoning behind them.

First, the simple concept of a "merit system" has grown into a tangled web of complicated rules and regulations. Federal managers are weakened in their ability to motivate the best and most talented people -- and to fire those unwilling to work.

It is easier to promote or transfer incompetent employees than to get rid of them. It may take as long as three years merely to fire someone. The complaint process has numerous appeals bodies and as many as seven opportunities for hearings.

Federal employees have become "headless nails," virtually impossible to remove once they are in the Civil Service.

In our attempt to avoid political abuse, we have lost sight of the original purpose -- which was to reward merit. More than 99 per cent of all Federal employees get a "satisfactory" rating
and the pay raise that goes with it. In Fiscal 1976, only 226 people lost their jobs for inefficiency.

So, my first proposition is this: Where Civil Service jobs are concerned, the spoils system is no longer the main problem; the main problem is the absence of rewards for excellence and penalties for poor performance. The rigid controls we have strung around ourselves have become an obstacle to good government.

Our ability to change and revitalize our government programs is directly proportional to our ability to acquire, develop, and reward top-quality executives. We need to look at the ways to motivate better performance that have been used in private industry and underlie the capacity and power of America. I believe Federal workers are ready and willing to respond to the risks and rewards of competitive life, and public service will be healthier when they have that chance.

We must strike a new balance that preserves the merit principle while giving managers the incentive and the authority to manage.

We propose to do this, first, by creating a Senior Management Service comprising the 8400 senior executives whose duties are managerial and who are now classified from GS-16 up to Executive Level IV or its equivalent. They could be assigned anywhere in the government they were needed; they would be eligible for annual bonuses for superior performance; and they could be removed from the SES for poor performance, without appeal rights.
I will also ask Congress to authorize the use of incentive pay for the 72,000 Federal managers and supervisors in grades GS-13 through GS-15. Those who perform in an unusually productive fashion would be eligible for annual bonuses, which are a far more attractive and sensible acknowledgment of merit than the silver water carafes and thicker carpets that pass for recognition today.

Another measure I will propose to improve managerial excellence is a speedier disciplinary system. Under the present system, supervisors who care about competence and performance are hesitant to challenge employees who do not do their work. The red tape has the effect of denying justice, not promoting it. We want to create a climate in which managers may discharge non-performing employees -- using due process -- with reasonable assurance that their judgment, if valid, will prevail. A system of simplified, streamlined appeals will do that.

* * *

The procedures that exist to protect employee rights are not just a managerial tool; they are a way to guard against arbitrary and capricious harassment of employees. And that is absolutely essential. But employee appeals must now go through the Civil Service Commission, which serves simultaneously as rulemaker, prosecutor, judge, and employee advocate.

So: my second proposition is: Employees still have too little protection for their most important rights. It is time
to establish new safeguards against political abuse.

We propose to do this, first, by dividing the present Civil Service Commission into two bodies -- an Office of Personnel Management and an independent Merit Protection Board. The Board's three members would be bipartisan, they would be appointed to seven year terms, and they would be removable only for cause. The object would be to establish, for the first time, a truly separate, impartial, one-level appeals board to protect the merit principle.

I will also propose an Office of Special Counsel, charged with the duty of investigating merit violations and protecting "whistleblowers" who expose management abuses.

By separating the functions of the present Civil Service Commission this way, the new Office of Personnel Management could act as the President's personnel management arm in improving the productivity and performance of Federal workers, while the Merit Protection Board could stand watch against merit abuses and resolve the appeals brought by employees.

If we can improve managerial efficiency and improve employee protection, we will have gone a long way toward correcting the faults of the present Civil Service system. But one other serious defect remains. That is the network of rules governing hiring and tenure.

Some of these rules are traceable to the lifetime entitlement accorded to veterans in Federal employment. Let me be clear -- this nation has a continuing debt of gratitude to those
who have served in time of war. To those veterans who are
disabled, our debt is unending -- regardless of how long ago the
disability was incurred. To those Viet Nam era veterans, whether
disabled or not, we -- as a nation -- have a long way to go
before we will have adequately said -- "thank you."

But the general preferences accorded to veterans have be-
come a tangled web that has lost its original purpose to aid in the
readjustment to civilian life.

Because of the preference they enjoy under current law,
veterans hold nearly half of all Federal jobs, even though they
account for just 22 per cent of the country's total workforce.

In some areas there are so many veterans at the head of the line
that no one else can hope to get a Federal job. Preference for
veterans puts other groups, like women and the congenitally
handicapped, at a severe disadvantage.

So, my third proposition is that the Federal hiring and
tenure rules give an unjustifiable edge to veterans and put
unnecessary barriers in the way of affirmative action programs.
The veterans preference should exist primarily to provide read-
justment assistance to any disabled veteran and to all veterans
of the Viet Nam conflict.

I am asking the Congress, therefore, to cut the normal
veterans preference to a period of ten years following discharge,
and to end it altogether for senior military officers -- field
grade and general rank -- who retire after a full military career.
For veterans who have obtained and are secure in Federal jobs,
I propose to limit the absolute right to "bump" qualified non-
veterans. None of these changes would affect disabled veterans.
I am also proposing to abolish the so-called "rule of three," which requires an agency to choose from among the three job candidates with the highest total scores. If agencies can choose from among more top applicants, they can give more consideration to personal qualities of excellence that often cannot be measured on an examination, and increase the likelihood of hiring those whom affirmative action programs are designed to benefit.

I realize the proposals affecting veterans will be controversial. But fairness consists in easing the transition to civilian life for people who have served their country, not in awarding a lifetime privilege to the detriment of their fellow citizens. The proposals I will submit to Congress make that distinction, and they focus the preference where it is truly needed.

These Civil Service reforms are the heart of our government reorganization effort. Our three objectives, as I have outlined them here today, are: giving managers the incentive and authority to manage increasing employees' protection against abuses of the merit principle; and promoting equity and affirmative action in hiring practices.

The structural and legislative changes we feel will best accomplish this — to summarize — are: the creation of a Senior Executive Service; splitting the Civil Service Commission into an Office of Personnel Management and a Merit Protection Board; instituting incentive pay; simplifying the appeals process; modifying the veterans preference; and getting rid of the "rule of three."
Let me be straightforward about the implications of all this.

Our proposals will mean less absolute job security for Federal employees, but we feel that conscientious civil servants will welcome a change that recognizes good performance and rewards it.

Our proposals will mean less of an edge for veterans, but will continue preferences for Vietnam service and for all disabled veterans. But this is fair.

Our proposals will tend to induce civil servants to cooperate one another in our supporting the laws and the policies of the United States government. This is not "political interference," and it is perfectly proper. The whole essence of democratic politics is for government to respond to the will of the people.

Our proposals do not deal with everything in the Civil Service that needs reforming, but they do deal with the major changes that should be made. We have the opportunity, by enacting them, to make the Civil Service more accountable, more productive, more competent, and a better place in which to work.

The true beneficiaries of that will be the American people, who can expect to see a more competent and efficient and responsive government—one that is worthy of the people it was created to serve.

# # #
THE WHITE HOUSE
WASHINGTON
March 2, 1978

Jody Powell

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

Rick Hutcheson

cc: Jim Fallows
    Tim Kraft
    Fran Voorde

RE: RADIO-TELEVISION CORRESPONDENTS ASSOCIATION DINNER
### THE WHITE HOUSE  
WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

FROM: Jody Powell

RE: Radio-Television Correspondents Association Dinner

We have, without making any commitments, discussed the schedule further with the officers of the Radio-Television Correspondents Association.

You could arrive at 9:30 p.m., the point where they will have just finished eating dinner, and take your seat at the head table.

Mark Russell will take the stage, joke briefly, and it will then go to some skits by members of the Association. The skits will largely center on the White House staff members and yourself.

This is to conclude at 9:50 p.m.

At this point, I suggest that you:

1. Thank them, say that you would rather not dignify the proceedings with a comment (or similar one-liner) and depart.

   OR

2. Deliver fuller remarks, though still fairly brief, and then leave.

   OR

3. Say nothing and stay for the remaining 15 minutes of the program, which is the installation of new officers.

You would not have to decide on which of the three options to take until the day of the dinner.
THE WHITE HOUSE
WASHINGTON
March 2, 1978

Frank Moore

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

Rick Hutcheson

RE: REQUEST TO CALL SEN. KENNEDY
MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE

SUBJECT: REQUEST TO CALL SEN. KENNEDY

Senator Ted Kennedy, the AFL-CIO, and the UAW have gotten together on their national health insurance plan; they finished in a big meeting last night.

Senator Kennedy called me this morning and asked if he could see you. I suggested that he and labor should meet with Stu Eizenstat and Peter Bourne to discuss the plan with them, and that he could probably bring you up-to-date by telephone rather than a meeting at this time. Senator Kennedy agreed. Therefore, I request you call Senator Kennedy today or Tonight for a brief telephone conversation on national health insurance, and that you steer clear of a commitment on timing.

Kennedy wants to meet on 3/20

E. Dorn, Fraser - upset re specifics, but better when explained - Hearing Today - Rep.
THE WHITE HOUSE
WASHINGTON

March 2, 1978

Stu Eizenstat
Frank Moore
Jack Watson

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

Rick Hutcheson

RE: NEW YORK CITY
THE WHITE HOUSE
WASHINGTON
2 March 1978

MEMORANDUM FOR
THE HONORABLE W. MICHAEL BLUMENTHAL
Secretary of Treasury

Re: Your Memo Entitled,
"New York City"

The President reviewed your memorandum of February 28
on the above subject and stated: "I called Koch -
Moynihan - Carey - All ok."

Rick Hutcheson
Staff Secretary
MEMORANDUM FOR THE PRESIDENT

Subject: New York City

On March 2, I will testify regarding future federal lending assistance to New York City. The current legislation, under which Treasury is authorized to provide $2.3 billion of annual short term loans, expires on June 30.

Our detailed analysis indicates that all of the City's borrowing needs can be satisfied locally, provided that some federal "backstop" or "safety net" covers a portion of its long term financing. Without it, the risks of insolvency are too high.

Accordingly, I recommend legislation authorizing a stand-by $2 billion "limited guarantee" of City bonds. It probably would only cover bonds sold to the local pension funds. Furthermore, it only would be provided if this $2 billion of City bonds could not be sold to the public. My judgment is that this type of "backstop" may reassure those public markets sufficiently so that the guarantee won't actually be used.

We are asking that these guarantees extend for 15 years, but would hope to negotiate a shorter period with Congress. If all works well, the guarantee authority would extend for only 7-10 years.

These legislative recommendations should include the following conditions, which are difficult but can be met.

-- That New York adopt a four year budget plan which results in true balance.

-- That the State of New York provide $200-350 million of annual budget assistance to the City over these four years.

-- That a local "budget control board" be established to assure that this budget plan works.
-- That the City pension funds and local banks agree to make major new lending commitments, on an unguaranteed basis, to the City.

-- That Treasury obtain $2 billion of stand-by long term lending commitments from pension funds, and other local lenders, in exchange for the stand-by guarantee.

-- That Congress pass the special legislation which is necessary to permit any new pension fund loans.

-- That New York obtain sufficient loan commitments from local sources to assure that its short term borrowing needs also are met.

W. Michael Blumenthal
Mr. President:

Stu gave Jack a copy of the DPS comment on Blumenthal's memo. Jack comments:

- He strongly endorses Stu's suggestion that the President call Carey and Koch. Jack suggests that the President also call Senator Moynihan (in addition to Blumenthal's call) and Congressman Jim Delaney (Dean of the New York delegation). Moynihan will be one of the most visible spokesmen on this issue.

- Jack endorses Stu's comment that better White House-Treasury coordination is needed, and recommends that the President instruct Blumenthal to work closely with Watson, Jordan and Eizenstat on this issue in the future.

Jack points out that this decision will have a greater political impact on New York than any other action the Administration will take. Jack, Stu and Hamilton met with Blumenthal to discuss the political sensitivity of this issue. It is unfortunate that Treasury's memo arrived so late, and that any last minute calls by the President will have to follow the story in today's New York Times.

--- Rick
THE WHITE HOUSE
WASHINGTON
March 1, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT
ORIN KRAMER

SUBJECT: Secretary Blumenthal's Testimony on New York City Finances

Attached is Treasury's outline of Secretary Blumenthal's New York City testimony, which was received yesterday afternoon and is to be delivered tomorrow. Secretary Blumenthal also briefed the relevant Congressional leadership on the elements of the package yesterday afternoon, before you approved it, and thus the basic components are on page one of today's New York papers. This is most unfortunate, since Treasury has agreed to modify its testimony in ways favorable to the City, but these modifications were not fully reflected in the early stories and in the reactions of New York officials unfamiliar with the positive changes that have been made over the past few days.

In light of the political and substantive risks and importance of this package, we have presented a more detailed description and analysis than is provided in the attached Treasury memorandum.

Treasury Proposal

1. Congress would be requested to authorize a "stand-by" $2 billion guarantee of MAC or City bonds, which would probably only cover bonds sold to the city/state pension funds. The guarantee would be triggered if this $2 billion of MAC or City debt could not be sold to the public, in which case by pre-arrangement such bonds would be absorbed by the city/state pension systems--i.e., the City would be required to satisfy a "best effort" test prior to resort to the guarantee. The guarantees would be authorized to extend for 15 years, although we might end up negotiating a shorter guarantee period in the 7-10 year range with either the Congress or the local New York parties. The precise form and coverage of the guarantees would be determined prior to June 30, 1978.
2. Federal legislation would be recommended to permit the city/state pension systems to purchase City or MAC securities in the 1979-1982 period; without such legislation, the tax-exempt status of the pension systems would be threatened.

3. The above legislation would be contingent upon agreement by the local parties--city (not state) pension funds, the major banks and other (mutual savings) financial institutions--to absorb approximately $2.5 billion in non-guaranteed long-term debt. The precise lending commitments of each of those parties would be unspecified and subject to negotiation.

In short, the Administration's proposed package has three components: (1) $2 billion of long-term MAC or City sales to the public, backstopped by a federal "safety net"; (2) a $2.5 billion private placement of non-guaranteed debt with the pensions and financial institutions; and (3) local financing of the City's seasonal (short-term) borrowing needs.

By contrast, the plan submitted by Mayor Koch recommended: (1) $2.25 billion in 20-year federal guarantees to be provided on an "up front" rather than a stand-by basis; (2) $2.9 billion in MAC sales to the public and relevant local parties; and (3) an extension of the seasonal lending program.

4. Administration support for this package would be conditioned upon the following additional steps by local parties:

-- The City must adopt a four year budget plan which by 1982 would produce a "true" balance. As you recall, the City's expense budget was balanced in FY 1978, but they project a deficit of $470 million for 1979, which we believe will exceed $600 million once wage settlements have been reached. Since the City also carries $640 million in operating expenses in its capital budget, its true projected deficit for 1979 is probably $1.3 billion.

-- The State of New York must provide $200-$350 million of annual budget assistance to the City in each of the next four years. This will be difficult in light of (1) Governor Carey's primary political vulnerability from suburbanites and upstate New Yorkers, and (2) our projections which indicate a sharp shrinkage in New York State's budget surplus in 1980 and 1981.

-- The State must enact a fiscal control body with powers no less extensive than those of the current Financial Control Board, which expires December 31, 1978. This is an absolute predicate for Congressional approval, but will meet strong opposition from union leaders.
-- The stand-by commitment by the pension funds to purchase up to $2 billion in federally guaranteed MAC or City debt if the public markets do not absorb such offerings.

Analysis

Treasury's package reflects the following assumptions regarding the City's financing needs, with which we agree:

-- The City must raise a minimum of $4 billion of long-term capital over the next four years; it would be in the City's best interest to raise $4.5--$5 billion. Treasury's package provides for aggregate long-term borrowing of $4.5 billion over four years, which will give us a slight cushion if the Congress reduces this figure. Senator Proxmire's opposition to continued federal assistance is based in part on his judgment that the City only needs $2.7 billion in long-term funds.

-- The public markets and relevant local parties simply cannot absorb this magnitude of borrowing without federal assistance. Treasury originally contemplated a $1.75 billion guarantee, but we urged them to raise that figure to the present $2 billion. The present figure (1) is still under the City's recommended $2.25 billion, and (2) will assist in obtaining the necessary non-guaranteed investments from the pensions and banks. In a properly structured package, we believe the City needs a minimum of $1.5 billion guaranteed to avert bankruptcy. If Congress structures the package unwisely, even a $2 billion stand-by guarantee might be inadequate to avoid bankruptcy.

-- If the appropriate long-term package is assembled, the City probably can meet its seasonal (short-term) borrowing needs without federal assistance.

-- In the post-1982 period, the City assumes it will be able to meet its full borrowing needs through the public markets and without federal help. In fact, the City will have a borrowing need of $1 billion annually after 1982, and it is unclear whether the City will be able to meet all its borrowing needs through the conventional municipal market.

Treasury would concur with these judgments.

On the other hand, the Secretary's attached memorandum fails to reflect serious risks which Treasury officials would acknowledge are implicit in their recommended plan.
The Treasury proposal is a compromise that attempts to bridge the gap between your commitment to meet the City's legitimate financing needs, as against political realities on the Hill, particularly in the Senate. The result is a proposal which will face an uphill Congressional fight, and which, even if enacted, may or may not be adequate to avert bankruptcy in the City. At Secretary Blumenthal's request, we have avoided "negotiations" with City representatives or even discussion of the specific components of a package. Bluntly, although we are hopeful that Treasury's proposal is sufficient to avert bankruptcy, we are not certain that it is, and neither is Treasury. In light of Congressional pressures for a minimal federal role, we support the Secretary's position as an acceptable starting point in negotiations. We should be tough in pushing our position with the City and local parties in the months ahead, but we should also recognize that it may be necessary to revamp the package later this spring if bankruptcy seems likely.

There are over a dozen contingencies which must fall into place if we are to succeed, but these are the major risks:

-- While not precisely a "risk," the greatest likelihood is that the guarantee will be invoked, and Congress will grasp this probability.

-- The greatest substantive risk is that the City will be unable to do its seasonal financing without federal help. Treasury would agree that they probably can do it, that it is untenable vis-a-vis the Congress to seek both long and short-term financing now, but that we may face a crisis if a seasonal package cannot be assembled locally. Treasury has agreed to amend its testimony to state that while we believe the seasonal package can and should be handled locally, we will re-evaluate this conclusion later if our present assessment proves inaccurate.

-- The second greatest risk, which we would characterize somewhat more seriously than Treasury, is that the city unions, which have serious legal fiduciary problems, may not purchase the large amount of non-guaranteed debt which is implicit in Treasury's package. Again, Congressional realities dictate that we push the unions on this, but we believe the unions will sharply criticize our proposal, and to an extent fairly, given their fiduciary responsibilities. Over the next six months we may be forced to agree to guarantee a substantial portion of all new pension debt purchases.

Treasury has agreed not to specify the financing commitments of the unions at this time. If Treasury were to specify now the level of financing we will seek from the unions, the unions would use this as a powerful negotiating tool to extract more generous settlements in next month's wage talks. For a variety of reasons, each of the parties would be required
to reject specific financing requirements at this time, thereby creating a climate of intransigence that would strengthen Congressional resistance to assisting the City.

-- Finally, you should understand the political climate and risks with respect to New York City. There is a certain amount of posturing on the part of the various local parties, and there is a degree of paranoia precipitated by the real risk of bankruptcy. On the other hand, while there is a strong feeling that Secretary Blumenthal has taken an increasingly sympathetic and "realistic" view of the City's financing prospects over the past month, there is also what we regard as a sincere belief among the most knowledgeable parties that the requirement that the unions absorb substantially more non-guaranteed debt may be fatal to a successful financing package.

This City perception of the substance of Blumenthal's proposal must be understood in the context of several political realities. The first is that our City financing package and the impending urban policy message will be the two litmus test issues against which this Administration will be judged in the City. The second is that President Ford's political difficulties in the City did not stem from his ultimate legislative proposals, but from his initial unsympathetic response. While we are clearly sympathetic and are moving in the right direction, the acid test will be whether a Democratic President proposed a plan which was adequate to meet the City's needs, regardless of Congressional pressures. If the Congress turns down the City, that is one issue; if the Administration is perceived not to have done enough, that perception would do lasting serious damage to the Administration.

The modifications we have achieved in Treasury's position will soften negative reactions in New York. These changes are important, since the proposal Secretary Blumenthal presented to City representatives last Friday had elicited very negative reactions. We can probably expect at best a cautiously optimistic reaction from key City parties with the new modified proposal. We would have preferred to have more time to work with Treasury on the form of its proposal, since we believe that a variant of Treasury's plan that would still be limited to a $2 billion 15-year guarantee could be designed which would have reduced the exposure of the union pension funds.

At this point, we would make three recommendations:

-- You might call Governor Carey and Mayor Koch and indicate that you believe this is a good plan, that it poses difficult choices for the local parties but which will be
required by the Congress, and that Treasury and your staff will work closely with them in dealing with whatever problems may arise. An expression of your personal concern would be very helpful, and their strong public support is important: it will improve the political climate for us in New York, and it will assist us in securing the necessary financing commitments.

-- If Treasury has not already decided to do so, you might suggest that Treasury brief the editorial writers of the major New York papers on the plan. Treasury has agreed to "fuzz" many of the details in their proposal, and thus it can be characterized somewhat more favorably in an oral presentation to the press.

-- You might ask the Secretary to work closely with the White House as we move forward on this issue, which we do not believe will be resolved before the summer.
OTHER STAFF COMMENTS

OMB: has no objection to Blumenthal's recommendations, but points out that NYC's financial plans have not included amounts for substantial wage increases that will be demanded by the unions this Spring. These settlements could make it difficult for the City to comply with Blumenthal's requirement for a four-year balanced budget plan.

CEA: concurs with Treasury's proposal. However:

- We should not assume that the availability of legislative authority to provide a guarantee will reassure public markets sufficiently to make use of the guarantee unnecessary. (The Federal government could not wait until a public long-term issue actually failed - and then agree to a guarantee - without creating financial difficulties and complicating the marketing of short-term issues.)

- Labor unions will try to use their bargaining power to get larger wage settlements in return for agreements to purchase non-guaranteed debt for union pension funds. The threat of denial of Federal assistance may help keep wage settlements down. But we must be careful not to be whipsawed by union demands for large wage settlements in return for pension fund commitments to purchase NYC securities.

- Treasury's proposal is unclear on whether Federal guarantees would apply just to pension fund acquisitions or to acquisitions by other lenders as well. Treasury would prefer to confine the guarantee to pension fund acquisitions if that is feasible. However, it may be difficult to get lending commitments for unguaranteed loans from other lenders if they are denied participation in the guarantee program.

Jody Powell: "This memo is late and contains inadequate information for any logical decision to be made on it. I had two press calls to verify this as the 'Treasury Plan for New York' before I even saw the memo."

(NO. TIE: The memo arrived at the White House early Tuesday afternoon.)

No comment received from Jack Watson.
ID 781082
THE WHITE HOUSE
WASHINGTON

DATE: 28 FEB 78
FOR ACTION: STU EIZENSTAT
HAMILTON JORDAN
JACK WATSON
JIM MCINTYRE
CHARLES SCHULTZE

INFO ONLY: THE VICE PRESIDENT
FRANK MOORE (LES FRANCIS)
JODY POWELL

SUBJECT: BLUMENTHAL MEMO RE NEW YORK CITY

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
BY:

ACTION REQUESTED: IMMEDIATE TURNAROUND IS REQUESTED
STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

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decision to be made on it. That two press calls to clarify this as the "Treasury
Plan for N.Y." before I ever saw the memo.
DATE: 28 FEB 78

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PLEASE NOTE OTHER COMMENTS BELOW:
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+ BY: +

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ACTION REQUESTED: IMMEDIATE TURNAROUND IS REQUESTED
STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:
MEMORANDUM FOR THE PRESIDENT

FROM: Lyle E. Gramley

Subject: Secretary Blumenthal's Memorandum of February 28 regarding New York City.

The CEA basically concurs with the Treasury's proposal to provide stand-by Federal guarantees for a portion of the City's long-term financing. Continuing Federal assistance seems required, and providing it through a stand-by guarantee, rather than direct loans, goes in the direction of less Federal involvement. There are several points regarding the Treasury proposal, however, that you should keep in mind.

(1) We should not be unduly optimistic that the availability of legislative authority to provide a guarantee will reassure public markets sufficiently to make use of the guarantee unnecessary. For example, the Federal government could not wait until a public long-term issue actually failed -- and then agree to a guarantee. Doing so would tend to signal financial difficulties and complicate marketings of short-term issues.

(2) Labor negotiations this spring will pose a serious problem for New York City's budget. They will be occurring at a time when Congress is considering the issue of Federal assistance to the City. The labor unions will try to use their bargaining power to get larger wage settlements in return for agreements to purchase non-guaranteed debt for union pension funds. The threat of denial of Federal assistance may help to keep wage settlements down. But we must be careful not to be whipsawed by union demands for large wage settlements in return for pension fund commitments to purchase NYC securities.
(3) The Treasury proposal is unclear on whether Federal guarantees would apply just to pension fund acquisitions or to acquisitions by other lenders as well. The Treasury would prefer to confine the guarantee to pension fund acquisitions if that is feasible. However, it may be difficult to get lending commitments for unguaranteed loans from other lenders if they are denied participation in the guarantee program.
MEMORANDUM FOR RICK HUTCHESON

FROM: DENNIS GREEN

SUBJECT: Blumenthal Memo re New York City

We have no objections to the recommendations contained in Secretary Blumenthal's memo to the President regarding future Federal lending assistance for New York City.

If the Secretary and Deputy Secretary have not already briefed the President on the New York City fiscal problem, their negotiations, and their assistance proposals, we would strongly recommend such a session to supplement the Treasury memo. In addition, the President should be informed that the New York City financial plans have not included amounts for substantial wage increases that will be demanded by the unions this spring. These settlements could make it very difficult for the City to comply with the Secretary's requirement for a four year balanced budget plan.