

6/1/78

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1:57 PM

Phil
J

THE WHITE HOUSE

WASHINGTON

VISIT TO
EAST BUILDING

THE NATIONAL GALLERY OF ART

Thursday - June 1, 1978

From: Phil Wise

SEQUENCE

- 1:57 p.m. You board motorcade on South Grounds and depart en route East Building, National Gallery of Art.
- 2:00 p.m. Motorcade arrives National Gallery of Art.

OPEN PRESS COVERAGE
CLOSED ARRIVAL

You proceed to announcement area and pause.
- 2:01 p.m. Announcement.
- 2:02 p.m. You proceed to speaker's platform.

OPEN PRESS COVERAGE
ATTENDANCE: 150

You are greeted by:

Chief Justice Warren Burger
Mr. Paul Mellon, Donor
John T. Walker, Bishop of Washington
- 2:03 p.m. Invocation by Bishop Walker.
- 2:04 p.m. Welcoming remarks by Chief Justice Burger, concluding in the introduction of Paul Mellon.
- 2:06 p.m. Remarks by Paul Mellon.

2.

~~2:10~~ p.m.

Introduction of you by Chief Justice Burger.

2:11 p.m.

PRESIDENTIAL REMARKS.

FULL PRESS COVERAGE

2:15 p.m.

Your remarks conclude. *to conclude*

*Add 15 min.
to four
2:35
2:20 p.m.*

You, ~~Chief Justice Burger~~ and Paul Mellon are joined by Carter Brown, Director of the National Gallery, and I.M. Pei, Architect, and proceed inside gallery for brief tour.

PRESS POOL COVERAGE

Tour concludes.

You thank your hosts and proceed to motorcade for boarding.

~~2:40~~
~~2:25~~ p.m.

Motorcade departs National Gallery of Art en route South Grounds.

~~2:30~~ p.m.

Motorcade arrives South Grounds.

2:45

THE WHITE HOUSE
WASHINGTON

6/1/78

marty beaman/hugh carter--

f.y.i., president carter has
approved jack watson's request
to take his son to camp david
this weekend.

-- susan  clough

THE PRESIDENT'S SCHEDULE

Thursday - June 1, 1978

- 8:00 Dr. Zbigniew Brzezinski - The Oval Office.
- 8:30 Meeting with Congressional Group-Greek/Turkey.
(15 min.) The Cabinet Room.
- 11:00 Mr. Jody Powell - The Oval Office.
- 11:30 Vice President Walter F. Mondale, Admiral
(20 min.) Stansfield Turner, Dr. Zbigniew Brzezinski
and Mr. Hamilton Jordan - The Oval Office.
- 12:30 Lunch with Mrs. Rosalynn Carter - Oval Office.
- 1:55 Depart South Grounds via Motorcade en route
the East Building, National Gallery of Art.
- 2:00 Dedication of the East Building, National Gallery
of Art.
- 3:00 Issues Meeting/1980 Budget. (Mr. James McIntyre).
(2-1/2 hrs.) The Cabinet Room.

HWU - Babette Pen~~ton~~ - 1 755-6954

HWU - Fred Boden ^{re name} #10116
just #

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

31 May 1978

TO: THE PRESIDENT

FROM: RICK HUTCHESON *R.H.*

SUBJECT: Memos Not Submitted

1. BROCK ADAMS MEMO on Conrail. In April, you approved an additional \$1.3 billion in Federal financing for Conrail (for a total of \$3.3 billion), which Conrail estimated it needed to become self-sufficient by 1982. In the present memo, Adams indicates that he will be taking a more active role in urging Conrail management to take tough measures to improve their financial condition, including: work rule changes, labor force reductions, rate increases, and track elimination, among other things.

However, Adams, OMB and Eizenstat all very much doubt that the additional \$1.3 billion will prove adequate. OMB indicates that as much as \$2 billion more may be needed if Conrail retains its present form. Adams believes that if Conrail's funding needs balloon far above current projections, a thorough restructuring of Conrail may be necessary. His staff is currently beginning an analysis of alternatives in preparation for this contingency.

Eizenstat comments: "I believe the course Adams has outlined is entirely appropriate, although it may face us with some very difficult political decisions as early as 1979."

OMB is concerned that DOT's present efforts to study the problem are inadequate -- that there is no strategy setting out the steps Conrail must take to become self-supporting, and no completion date. OMB therefore recommends that you send the attached memo (TAB A) to Secretary Adams, setting a deadline for his analyses, so that you may consider the full range of Conrail options before making the 1980 budget decisions.

2. JACK WATSON & HAROLD BROWN MEMOS on the Port of Portland's use of the Navy's floating drydock.

Portland, Oregon has leased the drydock since 1949; the current lease expires in 1980. When you were in Oregon, Gov. Straub mentioned to you his interest in Portland continuing to be able to use the drydock.

Secretary Brown reports that in 1967, the Navy adopted a policy of leasing drydocks competitively, as the demand exceeds the supply of available drydocks. The drydock cannot be sold to Portland because of the Navy's mobilization needs. Portland may certainly bid on the dock when it is offered, but Secretaries Brown and Claytor believe that competitive bidding is the fairest way to allocate the property.

Secretary Brown has offered to expedite the bidding process, if this would alleviate some of Portland's concern, and Jack has so advised Gov. Straub.

3. JOHN MOORE LETTER informing you that Eximbank has recently acted favorably on three large preliminary commitments for support of Nigerian sales.



THE WHITE HOUSE
WASHINGTON

June 1, 1978

Stu Eizenstat
Jack Watson
Jim McIntyre

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

Rick Hutcheson

THE WHITE HOUSE

WASHINGTON

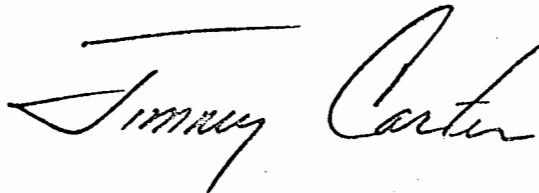
June 1, 1978

Dear Mr. Secretary:

I am pleased at the active role you are taking with ConRail to insure that the Federal interest in Northeastern rail service will be satisfied at the lowest cost to the taxpayer. I endorse the actions you propose the Executive take and will be glad to help any way I can.

Although it is a difficult task, we must continue to seek a solution that will result in a private, self-supporting rail system in the Northeast. Unfortunately, the additional authorization we are supporting for ConRail may not be enough to achieve this end. To prepare for this eventuality, I would like you to accelerate your analyses of alternatives to ConRail. By September you should be prepared to outline the steps that would be necessary to achieve self-supporting rail service and to suggest a congressional strategy for obtaining that objective.

Sincerely,



Honorable Brock Adams
Secretary
Department of Transportation
Washington, D.C. 20590

*Brock - I need an
accurate & business like analysis
and a basis on which to
get tough on management*



DATE: 22 MAY 78

FOR ACTION: STU EIZENSTAT

JACK WATSON

JIM MCINTYRE

attached
attached
Bo will call back on whether needs to go in

INFO ONLY: THE VICE PRESIDENT

CHARLIE SCHULTZE

SUBJECT: ADAMS MEMO RE EXECUTIVE BRANCH OVERSIGHT OF CONRAIL

+++++
+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +
+ BY: 1200 PM WEDNESDAY 24 MAY 78 +
+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

<input checked="" type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND
<input type="checkbox"/>	NO DEADLINE
<input type="checkbox"/>	LAST DAY FOR ACTION -

ACTION
FYI

<input type="checkbox"/>	ADMIN CONFID
<input type="checkbox"/>	CONFIDENTIAL
<input type="checkbox"/>	SECRET
<input type="checkbox"/>	EYES ONLY

<input checked="" type="checkbox"/>	VICE PRESIDENT
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input checked="" type="checkbox"/>	WATSON
<input type="checkbox"/>	WEXLER
<input type="checkbox"/>	BRZEZINSKI
<input checked="" type="checkbox"/>	MCINTYRE
<input checked="" type="checkbox"/>	SCHULTZE

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	CRUIKSHANK
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	VOORDE
<input type="checkbox"/>	WARREN
<input type="checkbox"/>	WISE

<input type="checkbox"/>	ADAMS
<input type="checkbox"/>	ANDRUS
<input type="checkbox"/>	BELL
<input type="checkbox"/>	BERGLAND
<input type="checkbox"/>	BLUMENTHAL
<input type="checkbox"/>	BROWN
<input type="checkbox"/>	CALIFANO
<input type="checkbox"/>	HARRIS
<input type="checkbox"/>	KREPS
<input type="checkbox"/>	MARSHALL
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VANCE

THE WHITE HOUSE

WASHINGTON

May 27, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *She*
SUBJECT: Adams Memo on Conrail Oversight

In this memo Adams is alerting you that:

1. He will be taking a more active role in urging Conrail management to take tough measures to improve their financial conditions. These include work rule changes, labor force reductions, rate increases, and track elimination among other things.
2. Unless these efforts are extraordinarily successful Conrail's funding needs may balloon far above current projections. Adams believes that if this occurs, a thorough restructuring of Conrail may be necessary. His staff is currently beginning analysis of alternatives in preparation for this contingency.

I believe that the course Adams has outlined is entirely appropriate, although it may face us with some very difficult political decisions as early as 1979.



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

MAY 19 1978

MEMORANDUM FOR THE PRESIDENT
Attention: Mr. Rick Hutcheson, Staff Secretary

From: Brock Adams

A large, stylized handwritten signature in black ink that reads 'Brock Adams'.

Subject: Executive Branch Oversight of Conrail

On April 11 you concurred with my proposal that we seek congressional authorization to provide the additional \$1.3 billion in Federal financing which Conrail estimates it needs to become financially self-sufficient by 1982. That amount is in addition to the \$2 billion already appropriated for Conrail under section 216 of the Regional Rail Reorganization Act of 1973 (3R Act). I want to give you my thoughts as to how the Executive Branch can work with the Conrail Board of Directors and management to increase the possibility that Conrail's optimistic goal of financial self-sufficiency will be realized.

The statutory basis for Executive Branch oversight of Conrail is the 3R Act, which established the Finance Committee of the Board of Directors of the United States Railway Association (USRA), the agency that planned, funds and monitors Conrail. The Finance Committee consists of Deputy Treasury Secretary Carswell, the Chairman of USRA (a position currently vacant), and me. I will work through the Finance Committee to ensure Conrail's adherence to the ambitious and difficult goals of the Conrail Business Plan. I will also work with Congress to ensure that the annual appropriation for Conrail under the additional authorization encourages Conrail to meet the goals of the Plan.

Because of Conrail's tremendous size and fixed costs, even minor changes in its revenues and expenses can affect the Federal financing requirement significantly. For example, each one percent decrease in Conrail's 1978-1982 freight operating revenues would increase the need for Federal funds by \$130 million. Each one percent increase in Conrail's 1978-1982 freight operating expenses would increase the need for Federal funds by \$180 million. Consequently, Conrail must successfully implement the Business Plan to avoid additional Federal funding above the \$3.3 billion total to which we have agreed.

Our current analysis of the Business Plan has identified the following key areas in which action by the Conrail Board and management is essential if Conrail is to reach financial self-sufficiency by 1982.

- o Traffic Growth - The Business Plan projects a five-year growth in Conrail tonnage of 16.5 percent.
- o Rate Increases - The Business Plan projects a five-year total of \$2.8 billion in freight rate increases to bring rates in line with costs.
- o Labor Productivity - The Business Plan projects \$640 million in savings due to work rule changes and labor-force reductions.
- o Equipment Utilization - The Business Plan projects \$460 million in operating savings through a 14 percent improvement in equipment utilization.
- o Operating Improvements - The Business Plan projects \$1 billion in expense reductions through other operating efficiencies. These projected savings are based upon assumptions concerning traffic growth and the rehabilitation of Conrail's plant and equipment.

- o Capital Programs - The Business Plan projects spending \$10.6 billion to acquire and improve plant and equipment.
- o System Rationalization - The Business Plan proposes to reduce potentially excess trackage and downgrade duplicative mainlines.
- o Employee Incentives - The Business Plan requires the full support of all Conrail employees, not just senior management.

In each of these areas, the Business Plan projections represent a reversal of negative trends experienced by Conrail's predecessors, as well as by Conrail itself in its first two years of operation, and may be very difficult for Conrail to achieve.

Our decision to provide \$1.3 billion in additional Federal financing to Conrail is based largely upon our willingness to support Conrail management in their efforts to achieve the difficult goals that they have set for themselves. Accordingly, I do not intend to interfere with Conrail's management direction of the Corporation, as long as such direction results in performance which achieves the goals of the Business Plan. However, I have directed my staff to work with Treasury, OMB and USRA staffs to develop specific proposals for management action in each area. I will then take up these matters with Conrail during negotiations this summer on a new financing agreement. Subject to the advice and guidance of the Conrail Board and management, I will insist that Conrail implement these proposals.

Should subsequent events show that Conrail's ultimate need for additional Federal funds is larger than \$1.3 billion, I have stated to the Congress that Conrail as now configured and organized would no longer be the preferred solution to the Northeast rail problem. That reconsideration could be necessary by the end of this year, and we are now planning for that possibility. Conrail's actual 1978 performance is already varying unfavorably from the Business Plan so as to

potentially require FY 1979 appropriations significantly greater than the \$420 million forecast by Conrail. The hard choices which we face should the \$3.3 billion be inadequate are whether to: (1) restructure the Conrail system to the size and level of service necessary for it to achieve self-sufficient operations; (2) continue indefinitely some form of operating subsidy for the present system; or (3) choose an alternative to the present system. My staff has begun the analysis of alternatives to the present Conrail system and will have preliminary results from the analysis by this fall to support any further action on Conrail that may have to be taken by the Executive Branch.

However, unless and until we explicitly decide to act in a manner inconsistent with Conrail's status as a private corporation, it is important that the Administration support without unnecessary interference, the efforts by Conrail's management to achieve the goals of the Business Plan. I hope Congress will also pursue this course of action as it authorizes additional Federal financing for Conrail, and will not permit pressure by local interests to force on the corporation additional service requirements at the expense of Conrail's financial performance and its overall ability to serve its 17-state area.

I will keep you informed of our progress on the issues discussed in this memorandum.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: W. Bowman Cutler *W. Bowman Cutler*

SUBJECT: Executive Branch Oversight of ConRail

Secretary Adams' May 19 memorandum on "Executive Branch Oversight of ConRail," is a good presentation of the steps he is planning to take to enforce the use of the additional \$1.3 billion for ConRail you approved in April. It does not cover in detail, however, what should be done if the additional aid is insufficient.

Both DOT and the U.S. Railway Association analyses indicate that the additional aid (bringing the total commitment to ConRail to \$3.3 billion) may be understated by as much as \$2 billion if ConRail retains its present form. About half the additional authorization (\$606 million) is now being considered for a 1979 supplemental request this summer, with the remainder proposed for the 1980 budget.

As Secretary Adams mentioned to you in OMB's Spring Preview, the major problem with ConRail is employment--they have too many workers. The key questions are what labor productivity actions should ConRail take (among others) to become self-supporting and how can the Federal Government support those actions. Yet, the current efforts within the Department to study this question do not include a strategy of how to bring about change and do not have a completion date.

We believe you need to consider the full range of ConRail options before making the 1980 budget decisions. Accordingly, we have drafted a letter for your signature to Secretary Adams. It sets a deadline for his analyses and asks that he also consider implementation of his recommendation. We recommend signature.

Attachment

DATE: 30 MAY 78

FOR ACTION:

INFO ONLY: STU EIZENSTAT

ZBIG BRZEZINSKI

SUBJECT: JOHN L. MOORE LETTER RE NIGERIAN SALES

+++++

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

+ BY: +

+++++

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:



EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

May 26, 1978

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

RL

The President
The White House
Washington, D.C.

Dear Mr. President:

As a follow-up to our recent conversation concerning Eximbank's current activities in Nigeria, I wish to inform you that yesterday the Board acted favorably on three large preliminary commitments for support of Nigerian sales.

The sales we have agreed to support include an aircraft hangar and maintenance facility, a petrochemical complex, and a telecommunications system. If the U.S. suppliers involved win all three contracts, total U.S. exports will be \$895 million. These contracts could also involve substantial follow-on sales.

We will monitor developments in these cases closely, and plan to send a high level team to Nigeria later in the summer.

Sincerely yours,

John L. Moore, Jr.

EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

OFFICIAL BUSINESS

The President
The White House
Washington, D.C.

THE WHITE HOUSE
WASHINGTON

5/26

for summary -

dw has told it. Brown
That his memo did not
go in.

THE WHITE HOUSE

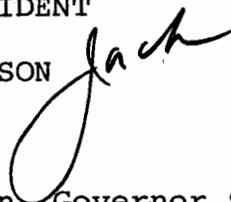
WASHINGTON

May 22, 1978

MEMORANDUM FOR THE PRESIDENT

FROM:

JACK WATSON

A handwritten signature in black ink, appearing to read "Jack", written over the printed name "JACK WATSON". The signature is stylized and cursive.

While you were in Oregon, Governor Straub mentioned to you his interest in having Portland assured of continued use of the Navy's floating dry dock. Secretary Brown sent you a memorandum on the current status of the leasing arrangements with the Port of Portland for this dock. Using the information contained in that memorandum, as well as information from my staff and the Department of Defense on the Governor's previous inquiries about this matter, I sent him the attached letter which I submit to you for your information.



THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

1978 MAY 12 1 41 PM '78

MEMORANDUM FOR THE PRESIDENT

You asked me about Governor Straub's concern that the Port of Portland continue to enjoy the use of a Navy floating drydock, either by buying the drydock outright or by being granted an option to renew its current lease. The Governor and his staff have had extensive discussions on this subject for several months with Jack Watson's staff and mine.

The Port has leased the drydock in question since 1949. The current lease expires January 31, 1980.

In recent years, there has been more demand for Navy drydocks than there have been available drydocks. In 1967 the Navy adopted a policy of leasing drydocks competitively. A survey has shown that there may be others interested in bidding on the drydock at Portland. Accordingly, the Navy determined that it would be in the public interest to have competitive bids approximately one year in advance of Portland's lease expiration date.

Because of the Navy's mobilization needs, the drydock cannot be sold to the Port. As for the request to grant the Port an exclusive option for the 1980-85 lease, Secretary Claytor believes that competitive bidding is justified here as the fairest way to allocate the use of valuable government property. I am inclined to think that position the proper one. The Port of Portland may certainly bid on the dock when it is offered; it is even possible that the Port will submit the only bid. The Port will thus have every opportunity to protect and continue its interest in the drydock.

We may be able to help the Port in one respect without damage to the competitive bidding process. In order to reduce uncertainty felt by the Port, I am considering directing that the date for bidding be substantially advanced, from 1979 to the present year. Before doing so, I shall inquire whether that would in fact alleviate some of the Port's concern.

Harold Brown

cc: Jack Watson
W. Graham Claytor, Jr.

THE WHITE HOUSE

WASHINGTON

May 23, 1978

The Honorable Robert W. Straub
Governor of Oregon
State Capitol
Salem, Oregon 97310

Dear Bob:

It was good to see you again in Portland; we enjoyed our visit there very much. While the President was in Portland you raised the issue of the future leasing arrangements of the Navy's floating dry dock, which dock is now under lease to the Port of Portland. My staff and the Department of Defense have had frequent contacts with your office on this matter over the last several months, and I thought it would be helpful to bring you up to date on those past communications and on the current status of the issue.

As you know, the Port of Portland has already exercised one option for a five-year extension of its lease of the dry dock. The Assistant Secretary of the Navy responsible for leasing contacted Bud Kramer by telephone and letter to advise him that when the extended lease expired in 1980, a bidding process would ensue. Bud was also advised by telephone that Portland's request for another five-year option could not be granted because of the Navy's policy to make these docks available for leasing on a competitive basis. A 1976 survey indicated that other firms were interested in obtaining use of the dry dock. Consequently, assuming that the Navy does not have a need for the facility at the time the extended lease expires, bids will be entertained. The Port of Portland will, of course, be free to make a bid at that time.

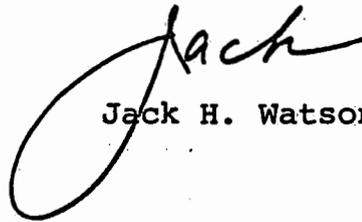
The Honorable Robert W. Straub
May 23, 1978
Page Two

All of this information had been conveyed to Bud. At his request, no official written communication was sent from the Navy to you on the matter.

On the basis of an inquiry to the Defense Department made subsequent to the President's trip to Portland, the Department has expressed a willingness to expedite the bidding process --thereby removing the continuing uncertainty about its future lease -- by accepting bids in 1978 rather than 1979 as planned. If you would prefer the earlier bidding period, or if you have further questions about the technical aspects of the Navy's policy or leasing practices, please feel free to contact the Navy directly.

Warm personal regards.

Sincerely,

A handwritten signature in black ink that reads "Jack". The signature is written in a cursive style with a large, looping initial "J".

Jack H. Watson, Jr.

cc: Mr. Kramer

bcc: Judy Miller, DoD
P. Yarham
✓M. Thomas w/incoming

JOINING THE PRESIDENT ON TOUR
AFTER SPEECH

Mr. Paul Mellon

Mr. Carter Brown

Mr. I.M. Pei, Architect

Mrs. Joan Mondale

(Press Pool Coverage of Tour)

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM PETER KYROS

RE: Your tour of the new National Gallery East Building

After your remarks today, Carter Brown, the Gallery's director, will escort you into the East Building. You will be accompanied by Paul Mellon, I. M. Pei, the building's architect, and Mrs. Mondale.

Once inside, you will stop to view the Gallery's great open space in which the triangular forms of the outside of the building are repeated by the floor and the glass roof. Above, you will see one of Alexander Calder's last works, a huge mobile in red, yellow and black. On the opposite wall is a Miro tapestry. These and other works in this area have been commissioned especially for the new gallery.

You will then be escorted upstairs to see one of the seven shows in the Gallery, "The Subjects of the Artist." This show consists of works by modern American artists, including paintings by Mark Rothko, Willem de Kooning and a series of very famous sculptures by David Smith.

You will leave the building through the Study Center. This center provides study facilities and a library for advanced work in the visual arts and represents a major portion of the new building's resources.

Revised:
6/1/78
9:45 a.m.

THE WHITE HOUSE

WASHINGTON

VISIT TO
EAST BUILDING
THE NATIONAL GALLERY OF ART

Thursday - June 1, 1978

From: Phil Wise

SEQUENCE

1:57 p.m. You board motorcade on South Grounds and depart en route East Building, National Gallery of Art.

2:00 p.m. Motorcade arrives National Gallery of Art.

OPEN PRESS COVERAGE
CLOSED ARRIVAL

You proceed to announcement area and pause.

2:01 p.m. Announcement.

2:02 p.m. You proceed to speaker's platform.

OPEN PRESS COVERAGE
ATTENDANCE: 150

You are greeted by:

Mr. Paul Mellon, Donor
John T. Walker, Bishop of Washington

2:03 p.m. Invocation by Bishop Walker.

2:06 p.m. Welcoming remarks by Paul Mellon, concluding in your introduction.

2:11 p.m. PRESIDENTIAL REMARKS.

FULL PRESS COVERAGE

2.

2:15 p.m.

Your remarks conclude.

You and Paul Mellon are joined by Carter Brown, Director of the National Gallery, Joan Mondale, and I.M. Pei, Architect, and proceed inside gallery for tour.

PRESS POOL COVERAGE.

2:35 p.m.

Tour concludes.

You thank your hosts and proceed to motorcade for boarding.

2:40 p.m.

Motorcade departs National Gallery of Art en route South Grounds.

2:45 p.m.

Motorcade arrives South Grounds.



1

MEMORANDUM FOR THE PRESIDENT

FROM: Sidney Harman *Sidney*
SUBJECT: National Health Insurance

In his May 22 memorandum to you, Secretary Califano lays out two basic strategies for developing NHI--a broad approach and a more targeted plan. Deferral of NHI is a third option. Your selection among these policies, I am sure, will reflect a thorough and objective assessment of the economic, political, and social climate.

Politically, and as a matter of social policy, your Administration is committed to NHI. You stated recently that you would send an NHI proposal to Congress before the end of this session. A recision of that statement would doubtless be perceived negatively and would erode political support.

However, economic considerations argue even more powerfully against introduction of any NHI proposal this year. We have asked business and labor to act in partnership with the Federal Government to control inflation. Many businesses and consumers view two recent government actions--increases in minimum wages and higher social security taxes--as having effects that seriously burden their efforts to hold down wages and prices. Announcement of an NHI proposal entailing major new public and private expenditures would threaten the credibility of your anti-inflation program in business and financial circles and among consumers. It will also raise questions about your commitment to balance the budget as we approach full employment.

In view of these considerations, Commerce favors deferral of NHI. This decision should, we believe, be supported by an explanation of the changes in economic conditions, the lack of budget resources in the next few years, and the need to balance national priorities. It would also lay out the broad principles which would underlie a national health program, and restate your personal commitment to such a program when economic and budget circumstances permit.

THE WHITE HOUSE
WASHINGTON

June 1, 1978

Frank Moore

The attached letters were returned in the President's outbox today and are forwarded to you for delivery.

Rick Hutcheson

cc: Stu Eizenstat
Jim McIntyre



THE WHITE HOUSE

WASHINGTON

June 1, 1978

Mr. President:

Attached is the revised letter which has been cleared by OMB. It contains the additional paragraph you desired stressing that the reduction in the projected deficit has come through the receipt side and that restraint is now necessary on the expenditure side. We have not used a specific figure for the reduction in the deficit because the reduction differs when compared to the Senate budgets.

Also in the second sentence we have replaced the word "disguised" with the word "obscured."



Stu Eizenstat

I fully concur with the attached letters.



THE WHITE HOUSE
WASHINGTON

6/1/78

TO: FRANK

FR: HERKY

The attached is a proposed
short letter from the President
to Chairman Mahon

Because of the time it probably is
too late to be sent. Thought
you would like to have it anyway.

*Thank Congress
for shared
responsibility shown
by budget resolution
cutting deficit by
\$10 B.*

THE WHITE HOUSE

WASHINGTON

June 1, 1978

To Chairman Magnuson

I deeply appreciate the cooperation and shared responsibility shown by the Congress in passing a budget resolution which provides for a significant reduction in the projected deficit for fiscal year 1979 through modifications in the timing and size of the pending tax reduction. Responsibility in restraining spending increases is likewise necessary to meet our economic goals. I am, therefore, writing to share my concerns with the bills now being considered by the Appropriations Committee. Many of these bills contain significant increases to discretionary programs, some of which are often obscured by reductions to uncontrollable entitlement programs and other budget adjustments. These appropriations increases are particularly distressing since significant portions of them will be spent in future years, and because the Committee has deferred action so far on a number of large, unauthorized programs. I am also opposed to the recommendations of some subcommittees to make unacceptable infringements to Executive powers, such as some pending restraints in my ability to manage the Executive workforce.

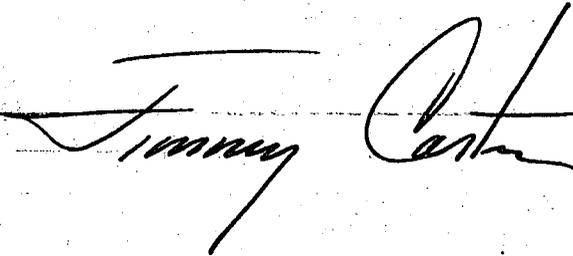
My budget for fiscal year 1979 is fair and equitable and contains considerable program enhancements over the budgets recommended by prior administrations. I believe that discretionary program increases which exceed the budget in total, and are not offset by decreases in discretionary funding for other programs, cannot be justified when inflation is the major economic problem and when the deficit stands at more than \$50 billion.

I would encourage the Committee to consider appropriate measures to reduce the size of discretionary budget authority increases during full Committee action. If the Committee does not move in this direction, my Administration will suggest modifying some of the key appropriations bills on the Senate floor.

I am currently drafting a more comprehensive letter which details my concerns with both pending authorizing and appropriations bills, and I will send it to the Congress

shortly. I intend to follow future Congressional action on spending bills closely and will not hesitate to veto any legislation which I do not believe the country can afford given our current economic circumstances.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

The Honorable Warren G. Magnuson
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510

THE WHITE HOUSE

WASHINGTON

June 1, 1978

To Chairman Mahon

I deeply appreciate the cooperation and shared responsibility shown by the Congress in passing a budget resolution which provides for a significant reduction in the projected deficit for fiscal year 1979 through modifications in the timing and size of the pending tax reduction. Responsibility in restraining spending increases is likewise necessary to meet our economic goals. I am, therefore, writing to share my concerns with the bills now being considered by the full Appropriations Committee. Many of these bills contain significant increases to discretionary programs, some of which are often obscured by reductions to uncontrollable entitlement programs and other budget adjustments. These appropriations increases are particularly distressing since significant portions of them will be spent in future years, and because the Committee has deferred action so far on a number of large, unauthorized programs. I am also opposed to the recommendations of some subcommittees to make unacceptable infringements to Executive powers, such as some pending restraints in my ability to manage the Executive workforce.

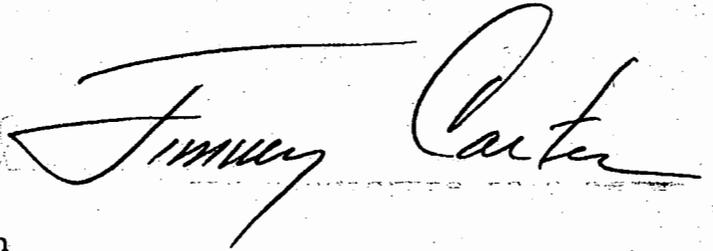
My budget for fiscal year 1979 is fair and equitable and contains considerable program enhancements over the budgets recommended by prior administrations. I believe that discretionary program increases which exceed the budget in total, and are not offset by decreases in discretionary funding for other programs, cannot be justified when inflation is the major economic problem and when the deficit stands at more than \$50 billion.

I would encourage the Committee to consider appropriate measures to reduce the size of discretionary budget authority increases during full Committee action. If the Committee does not move in this direction, my Administration will suggest modifying some of the key appropriations bills on the House floor.

I am currently drafting a more comprehensive letter which details my concerns with both pending authorizing and appropriations bills, and I will send it to the Congress

shortly. I intend to follow future Congressional action on spending bills closely and will not hesitate to veto any legislation which I do not believe the country can afford given our current economic circumstances.

Sincerely,

A handwritten signature in cursive script that reads "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

The Honorable George H. Mahon
Chairman
Committee on Appropriations
House of Representatives
Washington, D.C. 20515

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C
✓

May 31, 1978

EYES ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze ^{CLS}

Subject: The Index of Leading Economic Indicators in April

The Commerce Department will release tomorrow (Thursday, June 1) at 11:00 a. m. the index of leading economic indicators in April. The index increased 0.5 percent in April, following no change in March.

This index is widely cited in the press as an indicator of future economic trends. The April increase is consistent with the view that the economy is rebounding strongly in the second quarter, but it does not give us any new information about how large the second quarter rebound will be or about the underlying strength of the expansion.

PRESIDENT JIMMY CARTER

PANAMA AIRPORT ARRIVAL 3:00 p.m.

I HAVE LOOKED FORWARD TO THIS TRIP FOR A LONG TIME.

AS ALL OF YOU KNOW, THE RELATIONS BETWEEN THE UNITED STATES
AND PANAMA HAVE BEEN AN IMPORTANT PART OF MY DAILY WORK SINCE
THE DAY I BECAME PRESIDENT.

(-OVER-) (I HAVE LEARNED A GREAT.....)

2

I HAVE LEARNED A GREAT DEAL ABOUT THE HISTORY AND
ACCOMPLISHMENTS OF THE PANAMANIAN NATION, AND ABOUT THE
PRIDE AND DETERMINATION OF THE PANAMANIAN PEOPLE.

SO I DON'T COME TO YOU AS A STRANGER, BUT AS A
FRIEND AND PARTNER.

(-NEW PAGE-) (THROUGHOUT THE LONG...)

THROUGHOUT THE LONG NEGOTIATIONS AND DEBATE ON THE
CANAL TREATIES, OUR TWO NATIONS HAVE BEEN BLESSED WITH THE
CONTINUING ENCOURAGEMENT OF OUR FRIENDS IN THE HEMISPHERE.

I ESPECIALLY APPRECIATE THE FACT THAT THE LEADERS OF FIVE
LATIN AMERICAN AND CARIBBEAN DEMOCRACIES ARE HERE IN PANAMA TODAY
AS A TESTIMONY TO THE SIGNIFICANCE OF THIS HISTORIC TRANSFER.

(-OVER-) (WE MEET AS NEIGHBORS....)

WE MEET AS NEIGHBORS -- SOME RICHER, SOME LARGER,
SOME WITH RESOURCES VITAL TO THE OTHERS, EACH WITH DIFFERENT
NEEDS AND PROBLEMS.

BUT WE SHARE THE COMMON INTEREST OF MAKING OUR HEMISPHERE
FREE, SECURE AND PROSPEROUS.

WE SHARE THE COMMON GOAL OF CREATING A WORLD WHERE ALL
PEOPLE MAY DEVOTE THEIR ENERGIES TO IMPROVING HUMAN LIFE.

(-NEW PAGE-) (IN THE YEARS SINCE....)

IN THE YEARS SINCE WORLD WAR II, MUCH OF THE EARTH'S
GEOGRAPHY HAS BEEN REDRAWN.

COLONIAL EMPIRES HAVE DISSOLVED AND NEW SOVEREIGN NATIONS
HAVE BEEN BORN.

(-OVER-) (THE CONTROL OF MANY OF.....)

THE CONTROL OF MANY OF THE PASSAGES, BOTH NATURAL AND
MANMADE, THAT CONNECT THE EARTH'S LANDS AND SEAS HAVE SHIFTED
FROM ONE NATION TO ANOTHER.

TOO MUCH BLOOD, TOO MUCH STRIFE, TOO MUCH BITTERNESS,
HAVE GONE INTO MANY OF THESE CHANGES.

(-NEW PAGE-) (BUT TRANSFERRING CONTROL.)

BUT TRANSFERRING CONTROL OF THE PANAMA CANAL CONTINUES
AND STRENGTHENS THE BOND THAT WAS FORGED BETWEEN OUR NATIONS
IN ITS BUILDING.

THERE WILL BE NO BLOODSHED, NO BITTERNESS, NO MOMENT
WHEN THE PATH BETWEEN THE EARTH'S TWO GREAT OCEANS WILL BE CLOSED.

(-OVER-) (THIS IS A MOMENT OF.....)

THIS IS A MOMENT OF GREAT HISTORIC PROMISE.

THE NATIONS OF OUR HEMISPHERE ARE EMBARKING ON A NEW,
MORE EQUAL RELATIONSHIP.

FOR 75 YEARS THE UNITED STATES AND PANAMA HAVE BEEN
FRIENDS.

(-NEW PAGE-) (NOW WE WILL ALSO BE....)

NOW WE WILL ALSO BE PARTNERS, SETTING AN EXAMPLE FOR THE
WORLD OF HOW NATIONS CAN RESOLVE THEIR DIFFERENCES PEACEFULLY
AND TO THEIR MUTUAL BENEFIT, ENSURING RATHER THAN ENDANGERING
THE RESPONSIBLE LONG-TERM MANAGEMENT OF AN IMPORTANT
INTERNATIONAL RESOURCE.

#

IN THE FACE OF DISAGREEMENTS THAT WERE INITIALLY VERY DEEP,
IN THE FACE OF OUR VAST DISPARITY IN SIZE AND POWER, WE DEALT
WITH EACH OTHER AS EQUALS, AND WITH EQUAL DETERMINATION TO
OVERCOME OUR DIFFERENCES.

(-OVER-) (DURING THE YEARS AHEAD...)

DURING THE YEARS AHEAD WE WILL WORK AS PARTNERS TO MAKE
THE PROMISE OF THE TREATIES A REALITY.

WE STILL HAVE HISTORY TO MAKE TOGETHER.

#

PRESIDENT JIMMY CARTER
EAST BUILDING DEDICATION
NATIONAL GALLERY OF ART
JUNE 1, 1978

1

MR. CHIEF JUSTICE, MR. MELLON, BISHOP WALKER, LADIES AND

GENTLEMEN:

IN THE NAME OF THE PEOPLE OF THE UNITED STATES, AND ON THEIR
BEHALF, I ACCEPT FOR THE NATION THIS EAST BUILDING OF THE NATIONAL
GALLERY OF ART.

(--OVER--)(I ACCEPT IT WITH A FULL HEART...)

2

I ACCEPT IT WITH A FULL HEART -- WITH GRATITUDE TO ALL WHO HAVE HAD
A HAND IN ITS CREATION, AND WITH A SENSE OF EXHILARATION AND JOY THAT I
KNOW WILL BE SHARED BY THE MILLIONS OF PEOPLE WHO WILL COME HERE TO LOOK,
TO STUDY, TO CONTEMPLATE, AND TO BE MOVED AND DELIGHTED AND ENOBBED
BY WHAT THEY FIND HERE.

THIS BUILDING IS THE GIFT OF PAUL MELLON;...OF HIS LATE SISTER,
AILSA MELLON BRUCE, WHO IS REPRESENTED HERE BY HER GRANDCHILDREN;....AND
OF THE ANDREW W. MELLON FOUNDATION.

(--NEW PAGE--)(WE OWE THEM THANKS FOR . . .)

WE OWE THEM THANKS FOR THE GRANDEUR OF THEIR GIFT AND FOR THE
MODESTY AND GRACE WITH WHICH IT IS GIVEN.

THIS BUILDING, TOO, IS THE PRODUCT OF MANY MINDS, AND OF MANY HANDS.
ALL WERE INTENT ON GIVING AMERICA THEIR BEST. ALL HAVE DONE SO.

I. M. PEI AND HIS ASSOCIATES HAVE GIVEN US AN ARCHITECTURAL
MASTERPIECE.

(--OVER--)(MR. PEI SAW THE UNUSUAL SHAPE....)

MR. PEI SAW THE UNUSUAL SHAPE OF THE SITE NOT AS AN OBSTACLE BUT
AS AN OPPORTUNITY -- AND HE HAS TAKEN BRILLIANT ADVANTAGE OF THAT
OPPORTUNITY.

HIS DESIGN IS SENSITIVE TO ITS SURROUNDINGS;....IT IS AT ONCE
DIGNIFIED AND DARING;....IT IS MONUMENTAL, YET WITHOUT POMPOSITY, AND IT
REFLECTS THE HUMAN SCALE;.....IT COMBINES A REVERENCE FOR THE PAST WITH
AN EAGERNESS FOR THE FUTURE;.....IT IS WORTHY OF THE THOUSANDS OF YEARS
OF ARTISTIC CREATION THAT WILL BE SEEN AND STUDIED UNDER ITS ROOF.

(--NEW PAGE--)(J. CARTER BROWN,.....)

J. CARTER BROWN, THE DIRECTOR OF THE NATIONAL GALLERY, HAS
UNTIRINGLY PURSUED THE VISION OF A MUSEUM FOR PEOPLE THAT WOULD ALSO BE
A CENTER FOR ART SCHOLARSHIP.

MANY OTHERS PROVIDED THEIR SKILLS AND TALENTS TO THIS PROJECT --
FROM THE CURATORS TO THE CONTRACTORS, ... FROM THE COMMISSIONED ARTISTS TO
THE CONSTRUCTION WORKERS WHO LOVINGLY CRAFTED EACH DETAIL OF THE
BUILDING, INSIDE AND OUT.

(--OVER--)(THIS BEAUTIFUL BUILDING IS AN)

THIS BEAUTIFUL BUILDING IS AN IMPORTANT ADDITION TO THAT UNIQUE
REPOSITORY OF KNOWLEDGE AND CULTURE -- THE SMITHSONIAN INSTITUTION.

EIGHT OF ITS MUSEUMS COLLECT ART -- ART THAT RANGES FROM VERMEER
TO POLLOCK, ... FROM THE SCULPTURE OF HENRY MOORE TO THE CARVED IMPLEMENTS
OF THE ESKIMO PEOPLE.

WITH THE ADDITION OF THIS BUILDING, THE SCOPE AND DEFINITION OF
DISPLAYED ART ARE BOTH BROADER AND DEEPER THAN EVER.

(--NEW PAGE--)(WITH THE PRIVATE MUSEUMS OF.....)

WITH THE PRIVATE MUSEUMS OF THIS CITY, THEY MAKE WASHINGTON A PLACE WHERE WE MAY ENJOY THE FULL RANGE OF THE CREATIONS OF THE HUMAN HAND AND EYE.

THIS BUILDING TELLS US SOMETHING ABOUT OURSELVES -- ABOUT THE ROLE OF ART IN OUR LIVES,...ABOUT THE RELATIONS BETWEEN PUBLIC LIFE AND THE LIFE OF ART,...AND ABOUT THE MATURING OF AN AMERICAN CIVILIZATION.

(--OVER--)(THE BEAUTY OF THE EAST BUILDING.....)

THE BEAUTY OF THE EAST BUILDING, AND ITS LOCATION AT THE FULCRUM OF THE CEREMONIAL AVENUE OF THE FEDERAL CITY, WILL INSURE THAT IT TAKES ITS PLACE ALONGSIDE THE CAPITOL BUILDING AND THE MEMORIALS AS AN EMBLEM OF OUR NATIONAL LIFE.

AS THE CAPITOL SYMBOLIZES OUR BELIEF IN POLITICAL DEMOCRACY AND CIVIL FREEDOM,...THE NATIONAL GALLERY SYMBOLIZES OUR BELIEF IN THE FREEDOM AND GENIUS OF THE HUMAN MIND, WHICH IS MANIFESTED IN ART.

(--NEW PAGE--)(IN AN OPEN SOCIETY,.....)

IN AN OPEN SOCIETY, THE RELATIONSHIP BETWEEN GOVERNMENT AND THE
ARTS MUST NECESSARILY BE A DELICATE ONE.

WE HAVE NO MINISTRY OF CULTURE IN THIS COUNTRY, AND I HOPE WE
NEVER WILL.

WE HAVE NO OFFICIAL ART IN THIS COUNTRY, AND I PRAY WE NEVER WILL.

(--OVER--)(NO MATTER HOW DEMOCRATIC A GOVERNMENT....)

NO MATTER HOW DEMOCRATIC A GOVERNMENT MAY BE,....NO MATTER HOW
RESPONSIVE TO THE WISHES OF THE PEOPLE,....IT CAN NEVER BE GOVERNMENT'S
ROLE TO DEFINE WHAT IS GOOD, OR TRUE, OR BEAUTIFUL.

INSTEAD, GOVERNMENT MUST LIMIT ITSELF TO NOURISHING THE GROUND
IN WHICH ART AND THE LOVE OF ART CAN GROW.

BUT WITHIN THOSE LIMITS, THERE IS MUCH THAT GOVERNMENT CAN DO,
AND MUCH THAT WE ARE DOING.

(--NEW PAGE--)(IN THE PAST YEAR,....)

IN THE PAST YEAR, WE HAVE INCREASED SUBSTANTIALLY OUR SUPPORT OF
THE NATIONAL ENDOWMENTS FOR THE ARTS AND THE HUMANITIES, AND MUCH OF
THAT INCREASE HAS COME IN THE FORM OF CHALLENGE GRANTS, WHEREBY
GOVERNMENT FUNDS ARE MATCHED BY PRIVATE DONATIONS.

BECAUSE WE ARE COMMITTED TO AN OPEN AND FLEXIBLE RELATIONSHIP,
SUPPORT FOR THE ARTS AND THE HUMANITIES FLows THROUGH MANY DIFFERENT
KINDS OF CHANNELS, LEAVING ROOM FOR ART AND SCHOLARSHIP TO DEVELOP
NATURALLY.

(--OVER--)(THIS GALLERY, FOR EXAMPLE,)

THIS GALLERY, FOR EXAMPLE, IS MAINTAINED AT PUBLIC EXPENSE, BUT IT
OWES ITS EXISTENCE TO ACTS OF PRIVATE PHILANTHROPY.

MOREOVER, ACQUISITION OF WORKS OF ART IS FINANCED ENTIRELY FROM
PRIVATE DONATIONS.

IT IS EQUALLY SIGNIFICANT THAT THIS BUILDING WILL SERVE BOTH AS A
MUSEUM AND AS A CENTER FOR ART SCHOLARSHIP.

(--NEW PAGE--)(WE HAVE BEFORE US HERE,)

WE HAVE BEFORE US HERE, IN MARBLE AND GLASS, A TANGIBLE
DEMONSTRATION THAT EXCELLENCE AND ACCESS TO A WIDE PUBLIC ARE FAR
FROM BEING CONTRADICTORY.

THEY ARE COMPLEMENTARY.

THIS BUILDING STANDS AS A METAPHOR FOR WHAT, AT ITS BEST, THE
RELATIONSHIP BETWEEN GOVERNMENT AND THE ARTS CAN BE.

(--OVER--)(WHEN PRESIDENT ROOSEVELT DEDICATED.....)

WHEN PRESIDENT ROOSEVELT DEDICATED THE ORIGINAL NATIONAL GALLERY
OF ART, ON MARCH 17, 1941, HE SAID:

"THE DEDICATION OF THIS GALLERY TO A LIVING PAST, AND TO A
GREATER AND MORE RICHLY LIVING FUTURE, IS THE MEASURE OF THE
EARNESTNESS OF OUR INTENTION THAT THE FREEDOM OF THE HUMAN SPIRIT
SHALL GO ON."

IT DID GO ON.

(--NEW PAGE--)(AND THE BUILDING WE DEDICATE.....)

AND THE BUILDING WE DEDICATE TODAY IS A REAFFIRMATION IN THIS
GENERATION THAT HUMAN VALUES -- THE EXPRESSION OF COURAGE AND LOVE
IN TRIUMPH OVER DESPAIR -- ^{ALWAYS} WILL ENDURE.

#

THE WHITE HOUSE
WASHINGTON

June 1, 1978

Bob Strauss

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

Rick Hatcheson

cc: Stu Eizenstat
Zbig Brzezinski

SOVIET MARINE INSURANCE

THE WHITE HOUSE
WASHINGTON

Mr. President:

Brzezinski and Schultze
concur; Eizenstat has
no comment.

Rick (wds)

A meeting with the USSR on the Maritime Agreement is scheduled for 5-13 July. An early June announcement on this issue would give the Soviets time to formulate their response and to hopefully offer to discuss the Marine insurance issue at that time. U.S. negotiators on this issue, both in the Maritime Administration and in the State Department, therefore recommend that a decision be released by my office the first week in June. I concur with their recommendation.

Discussion

By separating in time the determination of an unreasonable action and the decision as to what if any action to be taken against the USSR in response to this unreasonable act, maximum leverage can be maintained on the Soviets in an attempt to get a negotiated agreement.

By making a determination that the Soviet practice is in fact unreasonable and burdens and restricts U.S. commerce, and noting that we are now working on ways to achieve elimination of the practice, we have left open a whole range of options, from continued negotiations with the Soviets through some type of retaliatory action, all of which are permissible under Section 301.

It is also important that we keep up the pressure by making a fairly rapid public announcement. An additional important consideration is the July U.S.-USSR maritime agreement discussions which would provide an opportunity for the Soviets to give something on this issue gracefully.

Two months have already elapsed since hearings were held regarding Soviet marine cargo insurance practices. The Soviets promised a draft proposal for resolution of the issue by March 1. This promise was undertaken during the January negotiating session, prior to the STR hearings. The Soviets failed to keep the March 1 deadline. The hearings, however, created negative publicity for the Soviets. Further negative publicity by an STR announced determination should increase pressure on the Soviets to reach a settlement.

There is no guarantee that your approval of these recommendations will move the Soviets on the issue, but we may lose an opportunity afforded by the process to pressure the Soviets if action is not taken soon.

A public determination may lead to additional pressure on you to take some action if there is no satisfactory negotiation with the Soviets on this issue within a reasonable amount of time. During five years of discussions, the Soviets have refused to seriously deal with the issue despite the fact that the U.S. has shown great flexibility in its position and has made minimal demands for the resolution of the problem. If there is no positive result from the 301 case it will be clear to the Soviets that the United States will not take any action against them for their practices in marine insurance, and there will be no incentive for them to change that practice.

The Section 301 complaint has forced the issue in the U.S. government as to how we plan to respond to the Soviet inaction. It is the view of those in the government who have worked most closely with this issue that the most effective tactic would be to bring public pressure on the Soviets by making a Presidential determination, to be announced at the STR level, and making it clear that action against Soviet trade or services under Section 301 is being considered should there be no successful conclusion to negotiations on this subject.

~~Attachment~~

DATE: 24 MAY 78

FOR ACTION: STU EIZENSTAT

ZBIG BRZEZINSKI *concur by phone*

opposite
going to be
WAG

INFO ONLY: THE VICE PRESIDENT

FRANK MOORE (LES FRANCIS)

JIM MCINTYRE

CHARLIE SCHULTZE *concur by phone*

SUBJECT: STRAUSS MEMO RE SOVIET MARINE INSURANCE

+++++

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

+ BY: 1200 PM FRIDAY 26 MAY 78 +

+++++

ACTION REQUESTED:

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

TRADE POLICY STAFF COMMITTEE

ACTION RECORD

DATE: May 19, 1978
DOCUMENT: 78-62
SUBJECT: Soviet Marine Insurance Practices

SUBMITTED BY: Section 301 Subcommittee

~~ATTENDANCE~~ TELEPHONE CLEARANCE:

<u>Agency</u>	<u>Member or Alternate</u>	<u>Other</u>
STR	William B. Kelly, Jr., Chairman;	Shirley Coffield
Agriculture		Keith Severin
Commerce	Louis Murphy	Judy Davis; Reginald Bourdon (Maritime)
Defense		
Interior	Howard Andersen	
Labor		Myer Bernstein
State	Sharon Ahmad; Joel Spiro	
Treasury		Marjorie Searing
USITC		

COMMITTEE DECISION:

Approved by TPSC.

COMMITTEE COMMENT:


Carolyn Frank
Secretary

LIMITED OFFICIAL USE

PROBLEM

Pursuant to a petition filed by the American Institute of Marine Underwriters under Section 301 of the Trade Act of 1974, the Section 301 Committee has conducted public hearings and reviewed the allegations in the petition that practices of the USSR in controlling marine insurance placement burdens and restricts U.S. commerce.

Pursuant to Section 301 and regulations of the Office of the Special Representative for Trade Negotiations, recommendations have been developed for the President on this petition.

RECOMMENDATIONS

1. The President should be advised to make a determination that the complained of practices of the USSR are unreasonable and burden and restrict U.S. commerce within the meaning of Section 301 of the Trade Act.

2. The determination should be made public by the STR with a statement that an interagency subcommittee will now focus on ways to achieve elimination of the unreasonable practices.

DISCUSSION

By separating in time the determination of an unreasonable action and the decision as to what if any action to be taken against the USSR in response to this unreasonable act, maximum leverage can be maintained on the Soviets in an attempt to get a negotiated agreement. Were the decision made at this time as to what action we could take against Soviet trade, we would not be in so strong a position to pressure the Soviets to reach an agreement, since it would be clear that; (1) we plan to take a trade action against them or (2) had determined that there was no credible action that we could take. In the case of (1) the Soviet reaction would likely be negative and might end the chances of a negotiated settlement. In the case of (2) the Soviets would be let off the hook on this issue since they would know that we were not willing to back up our industry in their complaint.

By making a determination that the Soviet practice is in fact unreasonable and burdens and restricts U.S. commerce, and noting that we are now working on ways to achieve elimination of the practice, we have left open a whole range of options, from continued negotiations with the Soviets through some type of retaliatory action, all of which are permissible under Section 301.

seriously deal with the issue despite the fact that the U.S. has shown great flexibility in its position and has made minimal demands for the resolution of the problem. Since negotiations have been held over a period of several years, if there is no positive result from the 301 case it will be clear to the Soviets that the United States will not take any action against them for their practices in marine insurance, and there will be no incentive for them to change that practice. The Section 301 complaint has forced the issue in the government as to how we plan to respond to the Soviet inaction. It is the view of those in the government who have worked most closely with this issue that the most effective tactic would be to bring public pressure on the Soviets by making a Presidential determination to be announced either at the Presidential or the STR level, and making it clear that action against Soviet trade or services under the Section 301 is being considered should there not be some successful conclusion to negotiations on this subject.

Options for Possible Actions

Should the negotiating strategy not work and the U.S. be forced to look at possible action against the Soviets, Section 301 states that

"the President shall take all appropriate and feasible steps within his power to obtain the elimination of such restrictions or subsidies, and he --

(A) may suspend, withdraw, or prevent the application of, or may refrain from proclaiming, benefits of trade agreement concessions to carry out a trade agreement with such country or instrumentality; and

(B) may impose duties or other import restrictions on the products of such foreign country or instrumentality, and may impose fees or restrictions on the services of such foreign country or instrumentality, for such time as he deems appropriate."

The first of the options, involving trade agreements, is of no real relevance since the Jackson-Vanik amendment denies the USSR any benefits which can be practically withdrawn. The first part of the second option, to impose duties or other import restrictions on products, is the remedy most frequently thought of in Section 301 cases. Once again because of the non-MFN status of Soviet goods in the U.S. market and because of the small amount of trade involved, it would not seem to be a practical solution.

It is also important that we keep up the pressure by making a fairly rapid public announcement. To reach an agreement in the U.S. government as to the exact retaliatory action and its impact and possible consequences would be a somewhat lengthy process, which would undoubtedly leak and which would undermine our ability to negotiate with the Soviets on reaching a agreement before going to the final step, which is determining to take action against the Soviets. In short, in this instance we are using the natural and statutory separation in Section 301 between the determination of an unjustifiable or unreasonable act or practice and the action the President takes in response to it as additional leverage in the negotiating process, which has been ongoing with the Soviets now for five years.

Two months have already elapsed since hearings were held on Soviet marine cargo insurance practices. The Soviets promised a draft proposal for resolution of the issue by March 1. This promise was undertaken during the January negotiating session, prior to the STR hearings. The Soviets failed to keep the March 1 deadline and no formal reply has been received as of this date. The hearings, however, created negative publicity for the Soviets which should be sustained if all aspects of the STR procedure are to have their full impact on forcing a settlement. Presuming the Soviets are determined at fault, considerable pressure could be brought on them if the President or the STR merely announced such a finding, and began a study of possible penalties to recommend to the President. The Soviets would then be forced to determine whether or not they wished the issue to be brought to an active stage, involving possible adverse U.S. action, and would receive a clear signal that the whole force of the U.S. Government supports the position heretofore espoused only by AIMU and the Departments of Commerce and State. Delaying a decision might well demonstrate a lack of urgency over the matter and encourage Soviet inaction.

There is, of course, no guarantee that an unfavorable decision will move the Soviets on the issue, but we may lose an opportunity afforded by the process to pressure the Soviets if no action is taken soon.

A public determination, of course, will lead to additional pressure on the President to take some action if there is no satisfactory negotiation with the Soviets on this issue within a reasonable amount of time. However, since the Section 301 complaint was filed, that conclusion has been inevitable if the United States is in fact serious about trying to resolve this trade issue with the Soviets. During five years of discussions, the Soviets have refused to

LIMITED OFFICIAL USE

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The petition filed by the Marine Underwriters was published in the Federal Register of January 26, 1978, having been deferred until after a formal meeting was held in early January between the Government of the United States and the Government of the U.S.S.R. That meeting did not result in a resolution of the problem, and the petition was published and hearings were held on March 7, 1978. Witnesses for the hearing included Thomas A. Fain, President of AIMU, Gerald V. S. Pepperell, Chairman of AIMU, John B. Ricker, Jr., Former Chairman of AIMU, and Emil A. Kratovil, representing the National Association of Insurance Brokers, Inc. (See Annex C for summary of hearings).

B. The United States Marine Cargo Insurance Industry

The United States marine cargo insurance industry operates on the principle, adhered to by both the American Institute of Marine Underwriters (AIMU) and the International Union of Marine Insurance, of "freedom of insurance." In other words, American insurance brokers have the opportunity, and in fact the fiduciary duty, to purchase insurance for their U.S. clients wherever in the world market they can arrange for the best policy.

LIMITED OFFICIAL USE

Therefore, the realistic options will probably all fall within the category of imposing fees or restrictions on the services of the Soviet Union. Since this is a case involving services, ie. marine insurance, a remedy in the service area seems appropriate. Possible remedies could include (1) a fee on insurance underwritten by Soviet insurers, (2) a restriction on the use of Soviet marine insurance to insure U.S.-USSR imports and/or exports, (3) a fee on products carried in Soviet ships, (4) a fee on Soviet shipping in U.S. waters (this can be accomplished a variety of ways ie. on tonnage, on product carried, on ships, etc), and (5) a restriction on Soviet ships in U.S. ports.

All of these remedies, of course, involve possible adverse consequences to U.S. importers and exporters as well as to our relationship with the Soviet Union, and a detailed study would have to be undertaken to see what, if any, creditable sanction could be imposed on the Soviet Union in response to their unfair practice in the area of marine insurance. If it is determined that no action is worth the adverse consequences, it would be preferable that that decision be taken after all possible attempts at a negotiated settlement have been exhausted, so as not to lose our negotiating leverage on this issue with the Soviets. Attached as Annex A and B are the proposed U.S. resolution of the problem and the action suggested by AIMU should there be no satisfactory solution to this dispute.

BACKGROUND

A. General

On November 10, 1977, the Chairman of the Section 301 Committee in the Office of the Special Representative for Trade Negotiations received a complaint from the American Institute of Marine Underwriters (AIMU), alleging that the Union of Soviet Socialist Republic (USSR) discriminates against the American Marine market and restricts the freedom of American exporters and importers, thereby burdening and restricting United States commerce and adversely affecting United States balance of payments. The complaint stated that the Soviet Union requires virtually all insurance of U.S.-U.S.S.R. exports and imports to be placed with Ingosstrakh, the Soviet state insurance monopoly.

easily monopolize control of the insurance term is that most U.S.-USSR trade is in U.S. exports, and the U.S. exporter does not want to jeopardize his competitive position by insisting on a special contract term not demanded by his competitors.

C. Soviet Practice

United States marine cargo underwriters have been excluded from writing basic insurance on U.S.-Soviet bilateral cargoes as a result of Soviet commercial practices. Soviet Foreign Trade Organizations stipulate FOB/FAS terms in their purchases of U.S. products and CIF terms in the sale of Soviet products to the U.S., thereby automatically excluding U.S. underwriters from the trade. This Soviet practice has resulted in the almost exclusive placement of the marine cargo insurance in the U.S.-Soviet trade with Soviet underwriters, namely Ingosstrakh. A typical clause in a contract for the sale of industrial goods to the USSR contains a non-negotiable clause on insurance which is virtually the same in all contracts, as follows; "The buyer shall take care and bear all expenses for insurance with ... (Ingosstrakh) of the equipment to be delivered under the present contract of the equipment from the moment of its dispatch from the Seller's and/or his subcontractors works up to the moment of their arrival at the buyers work."

In the past sellers have frequently been able to modify this clause so that the Soviet insurance is FOB from the port. However, in at least some instances now the Soviet Union is insisting that contracts contain the above clause making insurance with Ingosstrakh obligatory from the time the goods leave the plant. This requirement of insuring with a Soviet insurer for goods traveling within the United States from the plant to the dock is an even more onerous restriction on sellers freedom of choice. In addition, the rate stipulated for the intra U.S. portion, 7 1/2 cents per \$100 of value, is apparently considered a much higher rate than U.S. underwriters would be able to charge for that service. This charge is borne by the seller.

In addition to the basic insurance question, the Soviets have insisted on applying London scale rates to overage insurance of U.S. flag vessels in the U.S.-U.S.S.R. grain trade. This results in higher insurance costs to U.S. flag vessel operators since London scale is approximately twice as high as U.S. penalty cargo premiums. The U.S. has been unsuccessful in getting Soviet maritime authorities to deal with this issue, the latter claiming that responsibility for

Procedurally, an importer or exporter in need of a new insurance policy will contact a broker who will in turn examine the world market to determine where he can obtain the most advantageous contract to suit his client's specifications. The brokerage firm has an established dialogue with insurance sellers around the world whom the broker will contact to determine the best price, terms, service, trustworthiness, etc.

There is no settled rule, in U.S. or international practice, regarding which party (exporter or importer) has the right to determine the type of insurance to be used. The insurance term of the contract is simply one of the terms to be agreed upon in the total negotiating process. Often, the buyer is in the better negotiating position to dictate such terms and will thus make the insurance decision. The exporter, however, will have a substantial interest in the insurance as the risk of loss may remain on the exporter until the shipment reaches its final destination. An F.O.B. (free on board) or F.A.S. (free alongside ship), port of export, insurance specification will place the risk of loss on the purchaser and thus generally give the purchaser the right to determine the insurance term. A C.I.F. (cost, insurance and freight) specification will generally give the seller the right to determine the type of insurance to be used.

Many American insurance purchasers have an expressed preference, all other factors being relatively equal, for American insurance. The expertise of the American insurer is at least equal to that of any other; in addition, the accessibility, the opportunity for face-to-face negotiations with the company, good service, familiarity with and confidence in the companies, and generally low costs are deemed to be advantages of the U.S. insurance market.

Also, American insurance companies sell "open cargo policies," which cover the purchaser's entire worldwide cargo business. This type of American policy is convenient for the insured since it covers all shipments, up to a certain dollar limit, without requiring a separate policy for each shipment.

Representatives of one large domestic brokerage firm have indicated that well over ninety percent of the firm's marine insurance policies for U.S. clients is purchased from U.S. insurance companies. Of total U.S. exports and imports, it has been estimated that about fifty percent of shipments are generally insured by U.S. companies.

This figure is of course vastly different with U.S.-Soviet trade, where over ninety percent of shipments are Soviet-insured. One reason the Soviets are able to so

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The potential premiums for the years 73-76 taken from figures provided by the U.S. Department of Commerce are set forth below:

<u>Year</u>	<u>US Exports</u>	<u>US Imports</u>	<u>Potential Premium</u>
1976	2,306,000,000	221,000,000	7,581,000
1975	1,833,000,000	254,000,000	6,261,000
1974	607,000,000	350,000,000	2,871,000
1973	1,195,000,000	220,000,000	4,245,000

From 1972 through October of 1977 U.S.-Soviet trade has totaled approximately \$9.15 billion. According to AIMU a cost factor of 30¢ per \$100 of valuation represents the average premium rate for cargo moving into international trade. When applied to U.S.-Soviet trade from 1972 through October 1977 this factor would produce approximately \$27.4 million in premiums to marine cargo insurance underwriters. If U.S. underwriters shared equally in this distribution with Ingosstrakh they could have grossed as much as \$13.7 million in premium revenues. During the first ten months of 1977, alone, U.S.-Soviet trade totalled approximately \$1.5 billion. Marine cargo insurance premiums, therefore, approximated \$4.6 million, or a potential \$2.3 million share to U.S. underwriters. In addition to the above, the requirement to use London scale rates for overage insurance has cost U.S. flag vessels nearly \$825,070 in excess premium payments on U.S. flag vessels used in the Soviet grain trade 1972-1976. Our statistics indicated that if the U.S. underwriters scale had been utilized instead of the London scale, U.S. operators would have paid \$524,641 in premiums instead of the \$1,349,711 paid under the London scale. It is our understanding that the requirement to use London scale emanates from Soviet regulations, presumably instituted at the request of Ingosstrakh. This latter problem, while obviously not as severe in effect as the loss of premiums by U.S. marine underwriters, also operates in a discriminatory manner and should be resolved.

E. AIMU and Government Attempts to Solve this Problem

In a letter dated October 14, 1972, which was attached to the U.S.-U.S.S.R. Maritime Agreement of that date, the head of the Soviet chartering authority, Sovfracht, informed the U.S. Government that he would confer with the Soviet state insurance agency, Ingosstrakh, "for the purpose of directing the placement of a portion of marine insurance coverage for shipments of raw and processed agricultural commodities with United States underwriters." The Soviet Government did not, however, follow through on this commitment and the insurance of seagoing bilateral cargoes remained a monopoly of Ingosstrakh.

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resolve the issue, the U.S. proposes that the terms of the Charter Party adopted as part of the U.S.-USSR Maritime Agreement of December 29, 1975, and amended March 28, 1977, and October 14, 1977, be amended to permit U.S. operators to use U.S. scale rates for overage insurance of U.S.-flag vessels in the U.S.-USSR grain trade.

The discriminatory practices have occurred since the signing of the trade agreement between the U.S. and the U.S.S.R. in 1972 and have resulted in the systematic exclusion of the American marine insurance market from any participation in the trade. The precedent was established in the Grains Agreement of October 14, 1972, in which the U.S.S.R. required a provision that "delivery of purchase shall be FAS or FOB port of export". The grains agreement was immediately followed by a three year maritime agreement between the two nations executed on the same day. While the maritime agreement made no mention of marine insurance it specifically stated as one of its objectives "to afford U.S. flag vessels and Soviet flag vessels the opportunity to participate equally and substantially in the carriage of all cargo moving by sea between the two nations." The AIMU is requesting the same guarantee that was provided to the American shipping industry. The present U.S.-U.S.S.R. grains agreement signed in October 20, 1975, contains the same provision for equal participation for vessels.

D. Impact on U.S. Underwriters

The infinitesimal share of the market held by American marine insurance underwriters in the U.S.S.R. trade is set forth below:

SHARE OF AMERICAN MARINE INSURANCE MARKET IN U.S.-U.S.S.R. COMMERCE

<u>Year</u>	<u>Volume of Commerce (a)</u>	<u>Amount Insured by AIMU Members</u>
1977	\$1,900,000,000	\$ 23,000,000
1976	\$2,500,000,000	\$138,000,000 (b)
1975	\$2,100,000,000	\$ 26,000,000
1974	\$ 950,000,000	\$ 21,000,000

(a) Source - U.S. Department of Commerce; includes Exports and Imports.

(b) Over \$100 million related to a sale of heavy equipment needed by U.S.S.R.

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The underwriters met with a number of foreign trading organizations in Moscow and also with Ivanov. The discussions went as the U.S. side had expected; no progress was made toward resolving the insurance issue. The U.S. side then sought to obtain Soviet agreement to dates for the followup meeting which had been agreed to in February. The Soviets, however, displayed a notable lack of interest in any further discussion of marine cargo insurance. By the end of October, no dates had been set.

On November 4 the AIMU through its President, Thomas A. Fain, submitted a written complaint to the President's Special Trade Representative (STR) alleging that the Soviet monopoly of marine cargo insurance business was an unfair trade practice as defined in Section 301 of the Trade Act of 1974 (19 U.S.C. 3241).

The Soviets were informed of the complaint and of the U.S. desire to settle the matter so that the complaint would be withdrawn. The Soviets responded promptly to this information and the two sides agreed to hold marine cargo insurance negotiations in London from January 10 to 12, 1978. These discussions were also fruitless, but the Soviets promised to get back to the U.S. side some proposals by March 1, 1978. That date passed with no response from the Soviets. While they, at this date, say that the issue is under "review" there appears to be little prospect in the near future for the promised draft to be produced.

At the January 1978 negotiations, the U.S. presented the Soviets with a draft Memorandum of Understanding which establishes the principle that the national marine cargo insurance firms or entities of each country underwrite one-third of the basic marine cargo insurance resulting from the bilateral U.S.-USSR trade. Bilateral insurance is defined as that insurance with respect to which a public authority or public entity of either country or their agents has the power of designating the insurer. The draft also calls for the Maritime Administration, Department of Commerce on the U.S. side and the Ministry of Foreign Trade on the Soviet side, to serve as designated representatives for the implementation of the Agreement. (See Attachment A)

CONSIDERATIONS WITH RESPECT TO THE SOVIET POSITION

1. The Soviets have maintained that they place six times more reinsurance with the U.S. insurers than U.S. insurers place with the Soviets. However, reinsurance generally involves a payment of only a small share of the

In May of 1973 a U.S. maritime delegation went to Moscow to discuss problems relating to the implementation of the Maritime Agreement. As part of the Official U.S. position which the President cleared for these negotiations, the U.S. side was instructed to seek Soviet agreement to a sharing of bilateral marine cargo insurance premiums. However, this approach proved unsuccessful, as were a number of other attempts by the Government in the next two years. Likewise, the U.S. marine underwriters, represented by their association, the American Institute of Marine Underwriters (AIMU), attempted several times to resolve the issue through direct discussions with Soviet insurance and foreign trade authorities. These attempts proved equally fruitless and, indeed, neither the U.S. Government nor the AIMU were able to find a Soviet authority willing to take responsibility for the marine cargo insurance problem.

In October 1975, the Soviets did finally agree to negotiations on the issue and designated the Ministry of Foreign Trade as the competent authority on their side. The first negotiations were held in London in June, 1976. At these talks the Soviet negotiator, Deputy Minister of Foreign Trade Vladimir Alkhimov, rejected U.S. attempts to resolve the issue of assured significant U.S. underwriter participation in the bilateral trade. At a subsequent round of talks in London, February 1-3, 1977 the new Soviet negotiator, Deputy Foreign Trade Minister Viktor Ivanov took the same line that Alkhimov had followed. Thus the first two rounds of negotiations produced no progress.

During the February talks Ivanov insisted that the best way to resolve the insurance problem was for the U.S. underwriters to talk directly with Soviet foreign trading organizations which actually place insurance on marine cargoes. He alleged that the U.S. underwriters had not tried hard enough in the past to obtain bilateral marine insurance business and he proposed that a delegation of them should go to Moscow. Neither the U.S. underwriters nor the U.S. negotiator, Assistant Secretary of Commerce for Maritime Affairs, Robert J. Blackwell, were sympathetic to this proposal, in view of earlier unsuccessful attempts by the underwriters to solve the insurance problem through direct contacts.

Nevertheless, on the off-chance that the Soviets were prepared to find a practical solution to the problem, and in order to improve the U.S.'s negotiating position, Blackwell agreed to Ivanov's proposal. At the same time Blackwell made clear to Ivanov that he would agree to this proposal only with the understanding that the government negotiators would meet promptly following the underwriters' visit to Moscow to evaluate the results of that visit. Ivanov agreed to this stipulation and two underwriters representatives visited Moscow August 23-26, 1977.

been demonstrated by trade data. Surveys conducted by the U.S. side show that terms of trade have almost exclusively favored Ingosstrakh during the period from 1972 to the present. There is no support to the contention that terms of sale are openly arrived at.

5. The Soviet Union does not have the benefit of MFN status and Export Import bank credit facilities or any other U.S. government financial program. In this respect, it should be noted that the U.S. Congress enacted these measures and the Administration has been trying to modify the Trade Act to promote development of U.S.-USSR trade. In fact, the U.S. wishes to avoid any future difficulties with the Congress which might arise through the Marine Cargo Insurance problem. The attempt here is to bring down barriers to trade whether they be on the U.S. or the USSR side.

CONCLUSIONS

1. Soviet practice of excluding U.S. marine insurance underwriters from participation in U.S.-U.S.S.R. bilateral trade is inconsistent with the agreement of both countries to broaden and deepen ties in the field of commercial and economic relations on the basis of equality and non-discrimination, as pledged in the Joint U.S.-U.S.S.R. Communique of July 3, 1974. Removal of this restrictive trade practice, therefore, is desirable if U.S.-U.S.S.R. trade relations are to develop normally.

2. Cargo insurance is a significant adjunct to U.S.-U.S.S.R. trade. The U.S. insurance industry should not be excluded from this important commercial activity. The continued exclusion of U.S. firms could cause adverse publicity and create negative domestic reaction to the development of our bilateral trade.

3. The U.S. marine insurance industry is competitive with its foreign counterparts and we have every reason to believe its rate structure closely parallels that of Ingosstrakh. The participation of the U.S. industry, therefore, would apparently result in no or at worst minimal additional costs to Soviet exporters or importers who could utilize its services.

4. Soviet policy of excluding U.S. underwriters from trade has resulted in a loss of over \$13.7 million in premiums between 1972-77. It would appear that an effective way to remedy the unfair trade practice which exists is to have a marine insurance sharing agreement. Such an agreement could protect both the U.S. and U.S.S.R. marine insurance industries by specifying shares of the market for each, and by providing a set of implementing procedures to carry out the arrangement.

premiums on basic insurance from the original underwriter to the reinsurer and there is, in any case, no way to confirm Soviet statistics on reinsurance placed by U.S. underwriters. Such reinsurance is fanned out and it is possible that Soviet reinsurance is further reinsured in another country. Even if it were possible for U.S. underwriters to spread more reinsurance to the Soviets, they are not willing to do so now in view of the Soviet restrictive practices in the insurance of cargo in the U.S.-USSR bilateral trade.

2. The United States now enjoys a substantial trade surplus with the USSR and it could be argued that the Soviet side should have some advantages if trade is to continue. The imbalance has arisen, however, due to the natural development of trade which the Soviets have desired and often initiated. The insurance problem is basically a barrier to the development of trade and cannot be considered to be helpful in rectifying the imbalance. It can only be corrected by further expansion of trade. In this respect, the existing insurance problem is a potential stumbling block to further development in bilateral trade.

3. The U.S. underwriters subscribe to a policy of freedom of insurance, yet they are now arguing for special bilateral arrangements regarding the placing of Marine Cargo Insurance. In this regard, it should be noted that while U.S. underwriters have traditionally subscribed to a policy which embraces the principle of freedom of insurance and continued to do so, the sustaining of that principle is dependent upon a freedom in arriving at the terms of trade. With respect to state trading countries, the terms of trade are not freely arrived at and are instead generally controlled by the state. Because these terms are controlled, it is necessary to develop other mechanisms to protect the participation of U.S. underwriters in the trade. Therefore, the U.S. is interested in entering into an arrangement for the sharing of business in the bilateral trade, even though it would prefer not to do so if conditions permitted genuine competition for the insuring of cargos in the bilateral trade.

4. It might be argued that Soviet foreign trade organizations are commercial entities which negotiate the terms of their own sales with foreign firms and do not control the insurance. However, Soviet FTOs are monopolies in the sense that all buyers and sellers must go through them to negotiate a sale. They are subordinate bodies of the foreign trade ministry and carry out government policy. The Soviet government policy has been to secure the maximum placement of Marine Cargo Insurance for Ingosstrakh, as has

1/12/78

U.S. Draft

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Annex A

MEMORANDUM OF UNDERSTANDING REGARDING MARINE CARGO INSURANCE

The United States of America and the Union of Soviet Socialist Republics,

Acknowledging the vital rôle played by the marine cargo insurance firms or entities of each country and their respective contributions to the well-being of the merchant fleets of each nation, and

Recognizing the importance of maintaining friendly relations between the marine cargo insurance firms or entities of both countries, and

Desiring to improve these relations, particularly through arrangements regarding the underwriting of basic marine cargo insurance in the bilateral trade between the United States of America and the Union of Soviet Socialist Republics, and

Acting in accordance with the Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics signed in Moscow on May 29, 1972, and in particular with Article Seven thereof,

Have agreed as follows:

'First. Each Party recognizes the interest of the other in having a substantial share of basic marine cargo insurance resulting from the U.S.-U.S.S.R. bilateral trade underwritten by

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Draft. Memo of Understanding - 2

its national marine cargo insurance firms or entities. Each Party also recognizes the policy of the other Party concerning participation of third country underwriters in its trade.

Second. A "substantial share of basic marine cargo insurance" means one-third of all basic marine cargo insurance underwritten in the bilateral trade between both countries.

Third. Each Party agrees that marine cargo insurance in the bilateral trade is that insurance with respect to which a public authority or public entity of either Party or their agents has the power of designating the insurer at any time prior to such designation, and includes:

(a) on the United States side all bilateral marine cargo insurance which a public authority or public entity of the United States has or could have the power at any time to designate the insurer pursuant to its laws, and

(b) on the Soviet side all bilateral marine cargo insurance which a commercial body or other authority or entity of the U.S.S.R. has or could have the power at any time to designate the insurer.

Fourth. Both Parties will meet annually to review the participation of its national underwriters in the bilateral trade.

Fifth. Each Party should authorize its representative to take action under its laws and procedures, and in consultation with the designated representative of the other Party, to implement this Agreement as well as to remedy any departures from the agreed upon provisions. For purposes of this Agreement the United States representative shall be the Maritime Administration,

Department of Commerce, and the representative of the Union

AIMU's Views re Presidential Action

"If the question is raised at the hearing as to what AIMU specifically proposes the President should do, the following is a possible answer:

Section 301(a)(B) of the Trade Act of 1974 empowers the President to

"take all appropriate and feasible steps within his power to obtain the elimination of ... restrictions or subsidies, and he ... may impose fees or restrictions on the services of such foreign country or instrumentality, for such time as he deems appropriate."

We at AIMU feel that there are several possible counter-measures the President could take under this Section. For example:

The President could restrict the services of Ingosstrakh in U.S.-USSR commerce until the Soviet practice of discriminating against U.S. insurers ceases. This could be done:

(1) By requiring all insurance on U.S. cargoes to the Soviet Union to be placed in the American market; or

(2) By requiring that all goods sold to Soviet purchasers by American exporters be sold on a C.I.F. basis (thereby allowing the American seller to place insurance wherever he chooses); or

(3) By requiring either (1) or (2) until such time as the governments of the U.S. and the U.S.S.R. have concluded and ratified an agreement sharing insurance between the two markets on goods in U.S.-USSR commerce.

An alternative remedy is as follows:

At this point, after six years of efforts to reach an amicable settlement of this insurance question with absolutely no results and no indication from the USSR of a willingness to yield, we ask the President, utilizing the powers granted him by The Trade Act of 1974, to require that all shipments of U.S. origin be sold on a C.I.F. basis, and purchased on a F.O.B. or F.A.S. basis.

This will permit the American exporter or importer to place his insurance in any market in the world, including with Ingosstrakh, and can be done so in a freely competitive atmosphere. This approach also maintains our "Freedom of Insurance" position."

of Soviet Socialist Republics shall be the Ministry of Foreign Trade.

Robert J. Blackwell
Maritime Administrator
Department of Commerce of
the United States of America

Viktor Ivanov
Ministry of Foreign Trade of
the Union of Soviet Socialist
Republics

Summary of Public Hearings
Doc. 301-14 March 7, 1978

1. Thomas Fain, President, American Institute of Marine Underwriters.

Mr. Fain stated the basic position of the American Marine Insurance Underwriters as being one of freedom of insurance, advocating freedom for any individual exporter or importer to insure his goods in a market of his choosing. Mr. Fain summarized the traditional determinations made by buyers and sellers placing insurance including cost, confidence in the integrity of the insurer, the past record of the insurer in handling claims speedily and satisfactorily, fluctuation of foreign currency rates, and easy access to and communication with the insurer.

He maintained that by preventing any of these considerations from coming into play, the Soviet Government has discriminated against the American Marine Insurance market in order to build up its own insurance facility. This is done by dictating the terms of sale for goods in the U.S.-USSR commerce. Mr. Fain said the goal of the AIMU members is to assure a right to compete for its fair share of marine insurance in the U.S.-USSR trade.

He detailed the history of the attempts to open up the Soviet marine insurance market and the history of the Soviet restrictions which began in the first U.S.-USSR grain agreement of 1972, commenting that while that agreement resulted in a maritime agreement guaranteeing U.S. ships a share of the trade, the same treatment has not been given to the marine insurance industry.

Mr. Fain contended that American businessmen would prefer to insure in the American market because of familiarity with conditions insured, confidence in security, easy access to the insurer, the availability of the open cargo policy, and speedy claim services, but noted that the American businessman is not willing to jeopardize a sale or a purchase in the U.S.-USSR trade by insisting on open insurance terms since the Soviet insurance has been a non-negotiable part of the contract. He made reference to the support from the U.S. Government, from members of Congress and from U.S. exporters for the AIMU position in this case. He maintained that the discrimination of the USSR against American marine underwriters not only violates sound international commercial practices but also tramples upon the principles of several international agreements to which the Soviet Union is a

party, including the Basic Principle of Relations Between the United States of America and the Union of Soviet Socialist Republics, signed in Moscow in 1972, The Long Term Agreement Between the United States of America and the USSR to Facilitate Economic Industrial and Technical Cooperation, signed in 1974, and the Helsinki Agreement signed in 1975.

2. Mr. John Ricker, Former Chairman of AIMU.

Mr. Ricker concentrated on the history of attempts by AIMU and the U.S. Government to achieve some agreement with the Soviet Union in this field. Mr. Ricker was the Chairman of AIMU at the time this issue was first brought up and dealt extensively with it. He explained in detail the way that Ingosstrakh and the Soviet Foreign Trade Organizations operate and how the Soviet Government controls the placing of insurance through directives to the FTO's.

He also detailed efforts of AIMU in trying to develop a strong American insurance market, to compete with the strong insurance markets in London, and noted that it is difficult to develop such a market when American underwriters are not allowed in certain portions of the trade. He commented that the U.S. underwriters may become a strictly domestic operation, which in his estimation would not be good for exporters nor for the country. He explained the relationship of the premium in the marine insurance market to the total trade, commenting that although marine insurance is a small part of foreign trade it is an important part since it holds the import-export trade together in a country.

3. Gerald V. S. Pepperell, Chairman of AIMU.

Mr. Pepperell reported on the negotiations in London in February of 1977, in August of 1977, and in January of 1978, all of which he attended as an adviser. He reported that there was no progress in changing the attitude of the Soviets in these meetings, noting however that in the last meeting the Soviet representative did agree to prepare a memorandum of understanding and submit it to the U.S. by March 1 of 1978.

Questions. The questioning focused on differences in marine insurance, why importers or exporters would want to deal on FOB, FAS, or CIF basis, what the cost advantages, if any, there are in different types of insurance, and the many considerations going into selecting marine insurance. There were also discussions of how the USSR monopoly in insurance is implemented and the recent insistence of the Soviets in certain industrial contracts that the insurance from the plant, instead of only from the dock, also be handled by Ingosstrakh. With respect to the portion of the

insurance from the warehouse to the dock, AIMU commented that the charge of 7 1/2¢ was significantly more than U.S. underwriters could charge. (The U.S. underwriter charge would probably be more like from a penny to 2 1/2¢).

In response to questions on the disparity between the export and import trade the underwriters did concede that the pattern of insurance is to some extent a reflection of the pattern of trade. (sellers frequently would, in a normal trading situation, sell FOB since the buyer would be in better bargaining position). It was, however, pointed that the USSR controls the method of insurance in both the export and the import trade.

With respect to agricultural trade, Mr. Pepperell noted that in his experience in the large commodity trade in grains, soybeans, corn, and wheat to the European Community and to Japan, the insurance is written mostly on a CIF basis. Other questions centered on the hesitancy of U.S. exporters to resist pressures on insurance for fear of losing major sales.

Some of the other facts brought out in the questioning was that other major trading countries are also criticizing the Soviets for this practice and have attempted to reach agreement with the Soviets to assure part of the marine insurance market will go to their insurers. No other country has apparently been successful in this endeavor, but insurers in France and Japan are looking with considerable interest on the US Section 301 action.

With respect to solutions, AIMU stated that that they felt 50% of the trade would be a fair estimate of what they would expect to get were there a free market system in operation. With respect to possible remedies under the 301 AIMU suggested that the President could restrict services of Ingosstrakh in the U.S.-USSR commerce until the practice of discrimination against U.S. insurance ceased, or require that all insurance on U.S. cargo to the Soviet Union be placed in the American insurance market.

4. Emil A. Kratovil, National Association of Insurance Brokers.

Mr. Kratovil, representing the Insurance Brokers, gave some background on the buying and selling of insurance for importers and exporters, noting that he places insurance all over the world with insurers in many countries. He commented that he has direct business and communication with American

insurers, British insurers, Japanese insurers, and others but none with Soviet insurers. He noted that there is no way of knowing whether the USSR charges more in the way of insurance rates than other insurers. He stated the goal of the insurance brokers as trying to get the USSR to open up and give not only the U.S. but also the Japanese and the British and others a fair share in competing on an equitable basis in the marine insurance business.

Questions. Mr. Kratovil discussed how insurance is placed for imports from the Soviet Union and how that would contrast to the usual placing of insurance in a free market situation. He also discussed some of the reasons for wanting to sell CIF in the export trade. Mr. Kratovil also discussed the higher costs of insuring with the Soviets due to the higher rates for the overage penalties that are charged by Ingosstrakh. He referred to a Commerce Department study on this subject which concluded that there is an approximately 13% additional insurance cost because of the higher overage rates, which ultimately are charged back to the shipowner.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUNE 1, 1978

MEMORANDUM FOR THE PRESIDENT.

FROM: James T. McIntyre, Jr. WBC (jmr)

SUBJECT: Health Budget

Handwritten initials "WBC" and a signature line.

Today's meeting serves both as a review of the health budget in general and as a briefing on the PRM for National Health Insurance. The format of the meeting thus will be somewhat different from the earlier reviews. An agenda and schedule for the meeting is attached to this memo; an hour and a half is allotted to discussion of National Health Insurance, including a presentation by Joe Califano of the two NHI plans HEW has developed. The last half-hour is reserved for discussion of the VA health system. If you wish to spend that time on a continued discussion of NHI, the VA can be slipped to a later meeting.

Our primary message in the health area is that, in order to improve the health of the American people, we need a broad National Health Policy of which Health Insurance is but one component. Traditionally defined National Health Insurance will not have the dramatic effect on health status that it would have had if passed years ago, because most Americans now do have access to care. The most pressing health problems in the country at this time are related to life style and to environmental hazards.

You have received a separate memo from Charlie Schultze and myself analyzing the effects of various levels of investment in health insurance. We recommend postponing announcement of an NHI plan until economic conditions improve and effective cost containment is in place. If you believe announcing a plan is essential, we suggest a modest targeted plan as a possible first phase of a more extensive program, with the passage of effective cost containment a prerequisite. I also believe you should consider publishing a plan for discussion purposes this Fall, and deferring actual legislation.

The major budgetary reasons for this recommendation are:

- ° The Federal costs of NHI are highly dependent upon assumptions but I am convinced that all of the estimates are probably conservative.
- ° Even with a favorable economic outlook, there simply isn't the budget flexibility for a program the size of NHI. Moving from a 1980 budget policy of retrenchment (some of which will have to be in health expenditures) to major new spending in 1982-83 will be very difficult to get done.
- ° There is little reason to believe that effective health cost controls depend on NHI.

We are prepared to discuss the reasons for the postponement recommendation in detail if you choose, but unless you so indicate we plan to focus debate on the issue as defined by HEW: the merits of a broad versus a narrowly targeted approach to NHI.

The NHI session is designed as an information briefing; no one expects decisions at the meeting. I think that it is important to stress your commitment to budget stringency and that discussion of NHI does not imply that the health area is exempt in the 1980 budget. Most of Secretary Califano's potential initiatives will cost, not save, money in 1980. A clear and direct signal from you will greatly help to convince him and a number of others in the government that you really mean to take down outlays in 1980.

The VA health care presentation is an array of four possible new paths for the VA medical system. I am impressed by how imaginatively and straightforwardly they have dealt with alternatives other than "more of the same." Jack Chase, Chief Medical Director, will give the VA presentation. He has been an outstanding force toward modernizing the VA system, and is retiring in July. I agree at this time with moving the VA toward Option #1, with two caveats:

- ° They must work within and support the fiscal constraints of the 1980 budget, which will slow down their schedule for conversion to outpatient care, and
- ° They should plan to integrate the care of non-service-disabled veterans into National Health Insurance.

Attachment

AGENDA FOR HEALTH BUDGET REVIEW

June 1, 1978

3:00 - 5:30 p.m.

- 3:00 Overview, discussion of broad health
policy issues

- 3:30 National Health Insurance

- 5:00 Future of Veterans Administration Health
System

3:00 PM

THE WHITE HOUSE

WASHINGTON

May 31, 1978

C

ADMINISTRATION CONFIDENTIAL -- NOT FOR CIRCULATION

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: National Health Insurance:
June 1 meeting

The first hour of the HEW budget review on June 1 is devoted to National Health Insurance. The attached Presidential Review Memorandum from HEW states that you face a fundamental policy choice on whether to adopt a target approach or a broad approach to NHI. The attached memorandum from CEA and OMB states that there is an even more fundamental choice: whether to defer any NHI proposal until economic conditions are more favorable.

This memorandum is based on lengthy discussions with the other agencies and consultations with the Hill, the UAW and AFL-CIO, provider and insurance groups, small business groups, and the N.A.M./Chamber of Commerce/Business Roundtable. It briefly summarizes the issues and sets forth the decisions you must make.

I. Deferral

CEA and OMB fear that the announcement of any NHI initiative -- broad or targeted -- could discredit our current efforts to combat inflation and to construct a credible, coherent economic policy. In this respect they may very well be correct. It will be viewed as further evidence of the inconsistency of Administration policy -- talking about inflation

and budget restraint one day and proposing what will be seen as an inflationary budget-busting program the next. The most we can hope to do is minimize the damage that will be done to your posture as a fiscally conservative inflation fighter. After a great deal of soul-searching, we believe the following points argue against deferral:

-- Your statements, both public and private, have indicated that you will develop an NHI proposal this year. This was mentioned last year at the UAW Convention and to Fraser and Kennedy directly. Moreover, your campaign statements were crucial to UAW support.

-- If it were enacted in 1980, our NHI legislation would provide for no new expenditures until FY '82 or FY '83 and would not be fully phased-in for at least five and perhaps ten years.

-- If properly conceived, our NHI legislation might, in several years, hold total health spending below the level it would otherwise reach under the existing system. If properly presented, our bill might arguably be perceived by the American people as fulfilling this anti-inflation objective as well as providing greater access to care. I am, however, very pessimistic that this will be a viable argument with a multiple billion dollar bill, particularly in light of the astronomical increases in Medicare and Medicaid costs above original projections.

II. Target vs. Broad Approach

1. Previous Commitments

HEW stresses that your previous commitments -- both substantive and political -- suggest that you prefer the broad approach. In your Student National Medical Association speech, you set out several principles of a National Health Insurance program, the first of which was universal and mandatory coverage. In your meetings with organized labor and Senator Kennedy, you have expressed the hope -- and have begun to create the public expectation -- that the Administration will reach agreement with organized labor on an NHI program.

Any hope for achieving such a consensus with organized labor and Senator Kennedy would require, at a minimum, an NHI plan that contained the elements (comprehensive,

universal, and mandatory -- in short, "broad") that you endorsed in your Student National Medical Association speech. Moreover, Senator Kennedy and organized labor will oppose any phasing component of the legislation that fails to specify a firm date within the next decade for full implementation of a broad plan. (Even if you make these commitments, organized labor may not fully support the Administration plan because of disagreement over such issues as patient cost-sharing.)

2. Health Considerations

HEW and DPS believe, as set forth in the HEW memorandum, that the broad approach would strengthen the government's ability to respond to the major problems of the health system. The broad approach would increase access to basic health care for millions of non-poor Americans, provide leverage for meaningful cost controls, and help achieve other needed reforms in the health care system.

3. Economic Considerations

HEW believes that, particularly given the greater opportunity for cost containment, the economic and budgetary consequences of a broad approach would not significantly differ from those of a target approach. We disagree.

4. Political Considerations

Most Congressional leaders and other Democrats strongly oppose sending up a broad proposal. Passage of a broad National Health Insurance plan will therefore be difficult.

III. Timing of NHI Presentation

Assuming that you want to proceed with, rather than defer, NHI this year, the question of timing remains.

Senator Kennedy and organized labor have requested presentation of an NHI plan this summer in order to permit early NHI hearings and to make NHI an election issue. Most Congressional leaders, on the other hand, prefer that presentation of NHI be delayed until after the election because they fear our proposal may run counter to the anti-inflation, anti-regulation mood of the electorate.

In my meeting with the 95th Democratic Congressional Caucus, they strongly urged us not to send up a comprehensive bill before the election. They pointed out that it could only make their races more difficult for no compensatory reasons -- since Congress clearly would not act this year. Tom Foley agrees and so does Senator Byrd's staff. Sending a comprehensive bill up before the election could kill marginal district Democrats for no real reason.

HEW recommends a compromise under which we would not submit a legislative proposal to Congress until next February, which is the earliest Congress will be able to address NHI. We would announce NHI principles this June, and in August announce a tentative plan. By proposing only a tentative plan this year, we might defer some of the criticism which would be leveled at the Administration. HEW believes that Senator Kennedy and organized labor would accept such a timetable.

Our recommendation is a further compromise. Let Kennedy hold hearings on our principles, but do not send a detailed plan up until immediately after the elections. It is one thing to honor a commitment. It is quite another to have the UAW and Kennedy dictate the date on which you send this proposal up. As President and head of the Democratic Party you have the right to help Democrats get elected -- to be around to vote for National Health Insurance and our other legislation next year. It is folly to make them bite the bullet in this conservative climate just before the election -- and is really counter-productive to passage of National Health Insurance.

IV. Decisions

You face three separate decisions at this time. First, whether to defer action on NHI or proceed to develop a proposal; second, what approach to NHI the Administration should take; and third, whether a formal proposal should be submitted to Congress this year.

A. Whether to Defer

Option 1: Defer development of any NHI proposal until economic conditions improve. (CEA, OMB & Commerce recommend)

Approve _____

Option 2: Continue to develop an NHI proposal this year. (HEW, DPS, Labor recommend)

Approve _____

B. Approach to NHI (Assuming you decide not to defer)

Option 1: Target: Develop target approach (either basic health coverage for the poor or catastrophic for all Americans or both) and make no additional commitment toward broader insurance.

Approve _____

Option 2: Target as First Phase of Broad NHI: Develop Target Approach, specify steps to be taken toward more comprehensive plan after target phase is enacted, but do not commit to -- or develop -- legislation embodying broad approach. (CEA & OMB recommend)

Approve _____

Option 3: Broad: Develop broad NHI program (We assume that any broad program will be phased in over several years.) (HEW, DPS, Labor recommend)

Approve _____

C. Timing (Assuming you decide not to defer)

Option 1: Announce principles shortly, but defer both plan and bill until after elections. (DPS recommends)

Approve _____

Option 2: Announce principles shortly, propose only a tentative plan before the elections, and submit no legislation until after elections. (HEW recommends)

Approve _____

Option 3: Submit principles, plan, and
legislation/message before elections.

Approve _____

Option 4: Do not make decision about whether
to send formal submissions to
Congress until after principles
are announced.

Approve _____

I urge you not to indicate your preferences at this
meeting. Your decision should be disclosed in the
way we choose -- not through inevitable leaks.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 31, 1978

C

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze *CS*
Jim McIntyre *Jim*

Subject: CEA and OMB Recommendations on NHI

We believe that your decision on National Health Insurance will be one of the most critical of your Presidency. In this memo, we lay out the fundamental budgetary and economic issues at stake in this decision.

Cost of NHI

Table 1 presents the incremental effects on health care spending of the "targeted" and "broad" NHI approaches. The figures are estimates for specific targeted and broad plans devised by HEW. These costs would change considerably under a number of circumstances:

- o If the benefits assumed by HEW were expanded, costs could rise substantially.
- o If costs estimated by HEW in 1980 dollars were evaluated at 1982 prices, assuming current rates of medical care cost inflation, these costs would be at least 25 percent higher.
- o Health care cost estimates at full implementation are subject to a wide margin of error and could be substantially higher or lower.

The costs presented in Secretary Califano's memorandum to you are not the only costs you need to consider. There are three distinct ways of viewing the costs associated with any NHI option. The following paragraphs discuss each concept as it applies to the two NHI approaches now before you. The discussion is keyed to the indicated lines of Table 1:

TABLE 1

COST OF TWO NHI APPROACHES

(Cost at full implementation
in billions of 1980 dollars)

	Increase over current spending	
	<u>Targeted</u>	<u>Broad</u>
<u>Services covered by targeted and broad approaches</u>		
Additional payments for care of the poor and aged ^{1/}	+9*	+9*
Subsidies to near-poor to eliminate "notch"	+11*	+11*
Catastrophic insurance for non-poor	+7	+7
<u>Services covered by broad approach only</u>		
General insurance for non-poor (25% coinsurance up to catastrophic limit)	--	+80
Line 1. Cost of NHI mandated benefits	+27	+107
Offsets from existing health insurance premiums	-4	-66
Line 2. Increase in Federal expenditures and private premiums	+23	+41
Offsets from existing out-of-pocket expenses	-8	-15
Line 3. Net additional health care spending	+15	+26

^{1/} Includes uniform income eligibility standard of \$6,300, raising reimbursement rates to Medicare levels, and uniform "spend-down" provision for the near-poor.

* OMB apportionment of HEW total estimate for the services for the poor and near-poor. Includes base programs only, not long-term care, mental health, or other supplementary benefits in Medicaid.

Line 1: Cost of NHI Mandated Benefits. Any version of an NHI program will increase Federal health expenditures for the poor and mandate some form of insurance coverage for the non-poor. For each plan, this first concept measures the total of expenditures on health care that would be mandated under NHI. Most of these expenditures are already made -- either by voluntary choices of employers, employees or individuals, or under existing governmental programs. NHI would remove the element of discretion that now underlies these expenditures. Under the targeted approach, a much larger element of discretion is left in the private sector.

Both the targeted and broad plans proposed by HEW cover the same range of medical services. The essential difference between the two approaches is that the broad plan mandates insurance payments for the "normal" medical expenditures of both the non-poor and the poor, while the targeted plan would mandate only catastrophic coverage for the non-poor. As a result, the cost of benefits mandated by the broad NHI approach is almost four times greater than the mandated cost under the targeted approach.

Line 2. Increase in Federal Expenditures and Private Premiums. Most employers and many self-employed already carry insurance. This second cost concept measures the cost of NHI minus existing premiums that are currently paid by the private sector for NHI covered services. HEW uses this concept to estimate the cost of the broad NHI plan, but uses the larger cost in Line 1 for the target plan.

Line 3: Net Additional Health Care Spending. This final cost concept estimates the added expenditures for health care that are induced by each NHI plan, regardless of who finally foots the bill. Primarily, these net additional outlays include payments for the existing bad debts of doctors and hospitals (about \$8 billion) and for new health care spending induced by extending insurance coverage more broadly. Under HEW's targeted plan, health care spending would rise by about \$15 billion. It would rise by about \$26 billion under HEW's broad plan. The difference between the cost in Line 3 and the cost in Line 1 of Table 1 is the amount of health care spending mandated under each NHI plan that currently is undertaken voluntarily.

One perspective on the dimensions of these two alternative plans is that total expenditures for all forms of health care in 1980 would be about \$245 billion with no NHI, \$260 billion with the targeted plan, and \$271 billion with the broad plan. The targeted plan would thus involve government payment for or mandated coverage of 50 percent of health expenditures. Under the broad plan, the proportion would be 76 percent.

Federal Cost of NHI

Table 2 summarizes the additional expenditures that will be included in the Federal budget under each NHI approach, and presents the potential budgetary impact under several financing arrangements that are alternatives to the financing package that HEW currently contemplates.

TABLE 2

FEDERAL BUDGETARY COSTS UNDER
ALTERNATIVE FINANCING SCHEMES

<u>Incremental Federal cost of NHI</u>	<u>Target</u>	<u>Broad</u>
HEW proposed financing		
Federal financing for the poor	20	20
Federal financing for the non-poor	7	10 ^{1/}
Total	27	30
50% of mandated coverage for non-poor financed federally under each plan	24	68
100% of mandated coverage for non-poor financed federally under each plan	27	107
All coverage for non-poor financed privately, 40% of additional coverage for poor financed by states	16	26

^{1/} Catastrophic coverage for the non-poor financed federally under the target plan. Under the broad plan, employers receive a \$10 billion tax subsidy for the working poor, but catastrophic expenses are privately financed.

HEW estimates that additional Federal spending would be almost the same under either NHI approach. However, this result is due to the particular way in which HEW proposes to finance each plan. HEW assumes that catastrophic coverage for the non-poor is federally financed under the targeted approach, but privately financed in the broad approach. The broad plan, however, includes \$10 billion in tax credits to subsidize the cost of insurance for low-wage workers, and reduces Federal costs by imposing \$11 billion in new employer-paid premiums. As the Table indicates, the impact on Federal expenditures of NHI varies widely depending on the financing mechanism chosen. Submitting a broad plan opens the possibility of major Congressional liberalizations in financing of NHI that would result in a larger Federal share of the plan's costs.

If states are asked to bear a portion of the new costs for the poor, as they now do under Medicaid, both private sector and Federal costs could be reduced below HEW's estimates.

The Benefit Package

The cost estimates in Tables 1 and 2 are based on a benefit package, assumed by HEW, that is somewhat less generous than much existing health insurance. The services assumed by HEW are similar to those provided by Medicare, but are more limited than services provided to the poor by most current state Medicaid programs. Thus, there may be substantial political pressure to expand the range of covered services, to grandfather existing Medicaid recipients, or to eliminate cost sharing. The total increase in the cost of mandated benefits that could be expected from such expanded benefits is shown in Table 3.

The degree to which these costs would appear on the Federal budget depends on the financing mechanism chosen. Federal costs could be reduced by requiring that private insurance offer any additional benefits for the non-poor. However, Federal expenditures for the poor still will increase if benefits are broadened.

TABLE 3

ADDITIONAL MANDATED COSTS UNDER NHI^{1/}
(billions of 1980 dollars)

<u>Expanded Benefits</u>	<u>Targeted</u>	<u>Broad</u>
1. Long-term care	+15	+20
2. Mental health (PCMH, moderate care level)	+2*	+5
3. Dental care for aged, poor and children	+1*	+8
4. Out-of-hospital prescription drugs	+1*	+10
5. Preventive care	+5	+5
6. Eliminate cost sharing	NA	+32

1/ Benefits 1-5 provide some rough indication if the effect of benefit provisions assumed by HEW are raised to the level of Medicaid benefits currently prevailing in several large states.

* OMB estimates.

Budget Objectives and Priorities

We believe the Administration should be looking to more restrictive Federal budget policies over the next few years as the nation approaches high employment. Adoption of any NHI program -- and particularly a broad approach -- would severely limit our ability to meet our longer-term economic and budgetary objectives and to respond to important social needs.

Based on the information presented to you in the Spring 1980 Budget Overview, it appears that in the absence of NHI the best we can hope for is that in FY 1982 revenues will exceed expenditures by about \$10 billion. Even this outcome depends upon a very optimistic set of budgetary and economic assumptions:

- o Federal spending growth moderates after 1979 and there are no new spending initiatives between now and 1982.
- o There are no further tax cuts after 1979. Without additional tax cuts, the share of personal income absorbed by personal income taxes would rise from 11.2 percent now to 12.8 percent in 1982. The share of personal income taken by Federal income and social security taxes combined would rise from 14.5 to 16.8 percent in 1982.

- o The economy grows along its long-term trend after 1980 and the unemployment rate stays close to 5-1/2 percent.

Implementation of only one part of the target plan -- mandating nationwide income and reimbursement standards for Medicaid -- probably would cost a minimum of \$9 billion in 1982.

Therefore, announcing in 1979 even a scaled-down version of the targeted plan would essentially eliminate all budgetary flexibility between now and 1982, unless you are prepared to raise taxes -- which would be difficult politically -- or to run a budget deficit even if we reach high employment in 1982. Although economic conditions may not call for a balanced budget in 1982, we should not foreclose that possibility now.

In the foreseeable future the Federal Government may have to increase spending by at least \$9 billion annually, to bring the Medicaid program up to Medicare levels and to reduce the so-called "notch" in Medicaid benefits in conjunction with the phase-in of welfare reform. This clearly is the first health care priority over the next several years and is consistent with even the most limited target plan. We feel that the provision of National Health Insurance for the non-poor, and particularly the provision of insurance for relatively small medical expenses under the broad approach, will absorb scarce budget resources for services that are quite low on the list of national priorities.

Some of the budgetary difficulties associated with NHI can, of course, be alleviated by lengthening the phase-in period for NHI. However, phasing only postpones the day when hard choices among competing objectives must be made. Moreover, public attention will focus on the ultimate cost of your NHI plan, not the cost in the first year of implementation.

Implications for Economic Policy and the Economy

The mere announcement of a major new NHI initiative would undermine our recent efforts to develop a credible, coherent economic policy. Even if you propose a targeted NHI program, many observers will conclude that it will be impossible to hold other Federal spending to the very tight levels required to maintain a prudent budgetary stance at high employment.

- o A major new spending program is inconsistent with the tone and substance of recent policy pronouncements (such as your April 11 speech). It would be seized upon immediately by critics as a sign that we have not come to grips with the hard choices.
- o It will be difficult to maintain the credibility of your anti-inflation program in the face of charges that the Administration has weakened its resolve to prevent the Federal budget from becoming a source of inflation.
- o The perception of weakened Administration budget restraint could lead the Federal Reserve to pursue a more stringent monetary policy that would slow the economy and reduce investment activity.
- o It may be more difficult for the United States to persuade our foreign allies to provide more of the expansionary impetus for the world economy if they feel we are not pursuing responsible fiscal policies.
- o Financial and foreign exchange markets could respond adversely to a major NHI initiative.

When implemented, a broad NHI plan would be inflationary unless the new and untried cost control features were enacted and were highly effective. First, a major expansion of demand for health services would stretch existing resources and increase the already high rate of inflation in the health care sector. Past experience with Medicare suggests this is very likely. Second, for any large-scale program, it is almost inevitable that some of the financing will come through payroll taxes or employer-paid premiums. These will add to the costs of business and be directly inflationary. Moreover, premium financing would disproportionately raise the cost of hiring low-wage workers and thus aggravate structural unemployment.

Cost Containment and System Reform

Any NHI program will place a heavy strain on the Federal budget and on the private economy. Therefore, effective cost containment measures must be in operation before NHI is implemented. Some of your advisers argue that a broad plan is essential to effective cost control. On technical and political grounds, we do not feel that effective cost containment would be significantly easier to achieve under a broad NHI plan than under a targeted approach.

Since effective control of health care costs requires control of incomes in the health sector, there will be great political resistance to enacting any cost controls from doctors and from hospital employees and their unions. Recent experience suggests that cost containment will be difficult to achieve under any circumstances.

As HEW has presented them to us, the practical distinctions between the targeted and broad plans in their ability to contain costs are very small. HEW in previous discussions has assumed that prospective fee schedules for all reimbursable medical care will be the essential cost-control element under both its target and broad NHI plans. Under their broad plan, these controls would be mandatory. Under their targeted plan, employers would be barred from claiming a tax deduction for the cost of health insurance policies unless the insurance company issuing the policy reimburses for all expenses according to the Federal fee schedules. Of course, under each approach, the same reimbursement controls could be made mandatory for the entire population.

HEW also argues that greater health system reforms are possible under the broad approach. However, most of the reforms suggested by HEW, such as the encouragement of HMOs, or of primary-care rather than specialized medical training, could be made under either approach. We therefore do not believe that there is any greater potential for health care system reform under the broad approach. Indeed, as with cost containment, most of these system reforms could be achieved in the absence of any NHI program. HEW already is carrying out many of these activities under current categorical authorities with annual outlays of \$500 million.

Conclusions

You face three options in making your decision on NHI:

- (1) Announce no further steps toward NHI at this time,
- (2) Endorse a broad NHI approach, or (3) Endorse a targeted NHI approach (either by itself or as the first step toward a broader plan).

There are serious immediate economic problems associated with the announcement of any NHI program, and significant inflationary pressures may result from implementation of a broad NHI program. Moreover, any NHI proposal, and particularly a broad one, commits the Federal budget to health expenditures for the non-poor that are quite low on the list of national

priorities. These difficulties diminish as the size of the NHI program becomes smaller. However, because the minimum budget cost of even a targeted approach is very high, a small plan will only reduce, not eliminate, the adverse economic and budgetary consequences of moving ahead with NHI at this time.

There are substantial political advantages and disadvantages to each of the first two options. If you defer NHI, you could enhance considerably the credibility of your economic policies, but that decision would upset those who expect a broad program this year. On the other hand, if you pursue a broad NHI program you will retain the backing of key supporters of an extensive NHI plan, but endanger the credibility of your economic policies.

There may be an acceptable middle ground. The targeted approach may gain little political support and may alienate many of the most prominent supporters of NHI. However, some of that support could be recouped if it is presented as a first phase of a more extensive NHI program.

Recommendation

This very difficult decision pits compelling but uncertain economic and political considerations against one another. Although none of the adverse economic and budgetary effects of NHI is certain, the risk that they will occur is sufficiently great to lead us to recommend strongly on economic and budgetary grounds that you defer any action on NHI at this time. We believe that you can cite a number of substantive economic developments since you were inaugurated to support this decision. A list of those developments is appended to this memo.

If you decide to proceed with some form of NHI, we believe that the economic risks of a broad program far outweigh the potential political liabilities of the targeted approach. Therefore, we recommend that you approve a modest targeted program. If a targeted program were announced as the first phase of an NHI effort, you could state that you will move forward with NHI as rapidly as the resources of the nation permit. This position is completely consistent with your Student National Medical Association speech, in which you said: "As President, I would want to give our people the most rapid improvement in individual health care the nation can afford, accommodating first those who need it

most, with the understanding that it will be a comprehensive program in the end."

We recommend also that you make any additional steps beyond a modest targeted plan contingent on the installation of an effective cost-control program. That program should show evidence of slowing the rate of medical cost increase before you make a major Federal budget commitment to expand the demand for medical care services.

Attachment

Developments that Affect the Impact of NHI

Although your decision on NHI hinges on a wide variety of considerations, we believe that a number of developments in the economy could be cited to the public and to supporters of NHI as sound reasons for deferring a proposal at this time, or pursuing a targeted NHI program:

1. Inflation has worsened recently, and is one of your primary concerns when making every decision. We are closer to high employment today than we expected to be a year ago. Therefore, we must be careful to avoid mistakes that could set off inflationary pressures.
2. You have asked the American people to sacrifice to reduce inflation. You can argue that you have made this tough choice in order to hold the budget in line and to ensure that your call for deceleration is honored.
3. You have considerably enlarged Federal funding for crucial national needs during your Administration, many of them backed by organized labor. However, there is less budget leeway today than we once had hoped. We cannot afford to use up all of our additional resources for one program -- there are other priorities to meet.
4. We have made commitments to our economic partners abroad to pursue responsible policies. The health of the world economy depends on steady growth and the reduction of inflation throughout the world. Unless we do our part, others will not do theirs. This program, with its inherent inflationary risks, would call our commitments into question and could unravel the international economic alliance.
5. Financial and foreign exchange markets could respond negatively to a major NHI initiative.

THE WHITE HOUSE
WASHINGTON

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MEETING WITH CONGRESSMEN ON TURKEY/GREECE

Thursday, June 1, 1978
8:30 a.m. (10-15 minutes)
Cabinet Room

From: Frank Moore *FM.*

I. PURPOSE

To explain to these Congressmen who are supportive of your program your own deep commitment to it.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

- A. Background: Last week we met with this same group of Congressmen, who are our strongest supporters, to lay out our legislative strategy and to ask for their help. They, in turn, told us what we had to do to win. They were quite pessimistic because we do not have the House leadership with us. Hamilton told us that we need help from the Vice President if we are going to get younger Democrats to support the program. We are once again dependent upon Republicans to put over our program. Findley pointed out that over the last 2 weeks there have been some Republican defections.

When you enter, we will have been meeting since 8:00 a.m. Warren Christopher opened the meeting with a briefing on your talks with Ecevit and Caramanlis. We will have outlined how we plan to proceed with additional White House meetings and individual contacts with targeted Congressmen and Senators (see attached memo).

B. Participants:

Rep. John Anderson (R-Ill.) ✓
Rep. Jonathan Bingham (D-N.Y.) ✓
Rep. William Broomfield (R-Mich.) ✓
Rep. John Buchanan (R-Ala.) ✓
Rep. Dan Daniel (D-Va.) ✓
Rep. George Danielson (D-Cal.) ✓
Rep. Robert Duncan (D-Oregon) ✓
Rep. Millicent Fenwick (R-N.J.) ✓
Rep. Paul Findley (R-Ill.) ✓
Rep. Sam Gibbons (D-Florida) ✓
Rep. Lee Hamilton (D-Ind.) ✓

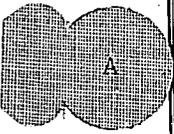
Rep. James Jones (D-Okla.) ✓
 Rep. Robert Lagomarsino (R-Cal.) ✓
 Rep. Paul McCloskey (R-Cal.) ✓
 Rep. Lloyd Meeds (D-Wash.) ✓
 Rep. Richardson Preyer (D-N.C.) ✓
 Rep. Stephen Solarz (D-N.Y.) ✓
 Rep. Tim Wirth (D-Colo.) ✓
 Rep. Clement Zablocki (D-Wis.) ✓

C. Press Plan: Brief photo session with open mikes when you arrive.

III. TALKING POINTS

1. The Eastern Mediterranean initiative is a top priority item, because the proposals are designed to break the impasse which is (a) frustrating progress on the Cyprus problem; (b) straining relations with two valued allies, Greece and Turkey; and (c) contributing to the serious deterioration of U.S. and NATO security interests in the Eastern Mediterranean.
2. We have planned two meetings in the White House with Congressmen who are undecided or leaning in one direction or another. We plan to have them briefed by Secretaries Vance and Brown, as well as Admiral Turner, General Jones, and General Haig.
3. We also will make sure that high State and Defense officials will make individual contact with as many Congressmen as possible. Our Ambassador to Turkey, Ron Spiers, will be in Washington next week, and he will be on the Hill. General Haig will be in town next week for some meetings on the Hill and will return June 17 for 4 days for more meetings.
4. I understand that Warren Christopher has told you of my meetings with Prime Ministers Ecevit and Caramanlis. We have been telling Turkey all along that it must show some flexibility on the Cyprus issue if we are going to get a positive vote. After my talks with Ecevit, I am optimistic that there will be some movement before the House votes.

Attachment
 Memo from Frank Moore



MEMORANDUM

THE WHITE HOUSE

WASHINGTON

May 31, 1978

MEMORANDUM FOR: THE PRESIDENT
FROM: FRANK MOORE *FM*
SUBJECT: Turkish Arms Embargo

Legislative Calendar

Although we would prefer to have the vote come up in the Senate first, this now looks unlikely because of the Labor Law Reform. The House vote will probably come the week of June 26, and the Senate vote sometime in July. This gives us 3 weeks to build majorities in the two Houses.

House Strategy

We have an active body of 20-25 supporters in the House who are helping us target their colleagues. We have met with this group once, and you will be meeting with them briefly tomorrow to explain to them your own deep commitment to this initiative and to tell them that you plan to hold two additional briefings of 50 uncommitted Congressmen each next week and the week following. (Either before or after your appearance, we will arrange to have full briefings by State and Defense.)

Our current estimate suggests we are picking up strength in the House, but are still 30-40 votes short of an absolute majority.

At the June 1 meeting each of the Congressmen who supports us will be assigned names of uncommitted colleagues to contact. Further contacts will be made before the vote by Vance, Brown, Christopher, Admiral Turner, and General Jones and lower State and Defense Department officials.

Senate Strategy

I will be in touch with Byrd and Baker to get their ideas for a leadership team in the Senate. At the moment there are no identified Senators willing to take on this battle on the Senate floor. Our hope is to build a leadership role from among the following Senators, all of whom favor the program:

Baker
Bellmon
Bentsen
Bumpers
Byrd
Chafee
Church

McGovern
Morgan
Nunn
Sparkman
Stennis
Tower

We will ask each of these Senators to meet with you, and possibly General Haig, next Wednesday to help formulate our Senate strategy and how best to introduce a motion on the floor. One possibility is to work through the Armed Services Committee. Stennis has indicated to you that he would hold hearings. We must try to pin him down to hold them before mid-June. Holding such hearings will help to demonstrate to the House before its vote that there is support in the Senate despite the disappointing 8 to 4 vote in the SFRC.

Our current vote count in the Senate suggests that with diligent effort we will be able to get a majority for our program.

Turkish Actions

How well we do in the House and Senate will depend upon how Turkey behaves in the next 3 weeks. The Ecevit visit to Moscow in the last week in June will not be helpful. Our hope is that this will be compensated for by:

(1) Ecevit visit on June 1 with the HIRC and on June 5 with the SFRC.

(2) Ecevit's public statements in the U.S.--the Press Club on June 1.

(3) Forthcoming Turkish positions with respect to troop withdrawals and resettlement of refugees in Cyprus and the reopening of Nicosia airport.

We are also working with Ann Wexler's office to develop contacts with outside groups; we will concentrate on the veterans' organizations.

It would be useful if you would make a strong public statement about your commitment to the program sometime in the next 2 weeks. Obviously, it would also be useful if the Vice President and Andy Young would let it be known that they understand the necessity for lifting the Turkish embargo.

2851

THE WHITE HOUSE
WASHINGTON

June 1, 1978

Hugh Carter

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

Rick Hutcheson

cc: Hamilton Jordan

STAFF

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION -

ACTION
FYI

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

	VICE PRESIDENT
	EIZENSTAT
/	JORDAN
	KRAFT
	LIPSHUTZ
	MOORE
	POWELL
	WATSON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE

	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

	ARAGON
	BOURNE
	BUTLER
/	H. CARTER
	CLOUGH
	COSTANZA
	CRUIKSHANK
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HUTCHESON
	JAGODA
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	PRESS
	RAFSHOON
	SCHNEIDERS
	VOORDE
	WARREN
	WISE

THE WHITE HOUSE
WASHINGTON

5/31/78

Mr. President:

No comment from Hamilton.

Rick

THE WHITE HOUSE
WASHINGTON

C

May 19, 1978

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER *HC*

Attached at Tab A is the new organization of the White House Staff as given to me by Hamilton. The principal changes are as follows:

- (1) Midge Costanza's office is to be reduced from ten to two.
- (2) Bunny Mitchell's office is to be reduced from two to zero.
- (3) Tim Kraft will have a new office consisting of Presidential personnel, Presidential messages and political matters -- a total of 19 persons.
- (4) A new minority office will be created with four persons allocated.
- (5) Anne Wexler will have a new office with seven persons allocated.
- (6) Frank Moore will receive an additional allocation of five persons with one person being transferred to OMB.
- (7) Phil Wise becomes Appointments Secretary in place of Tim Kraft with that office being decreased by one person.
- (8) Jerry Rafshoon will handle communications. His office will consist of the speechwriters, media affairs, and the news summary -- a total of 15 persons.
- (9) Four slots are held open for future use.

These changes were made possible by some offices giving up slots, and by some people being transferred to the payrolls of other agencies. The cost of the changes is approximately \$200,000 per year in additional payroll costs. The total staff remains at 351 persons.

Last year you issued instructions that administratively determined salaries on the staff in the range of \$37,500 to \$47,499 per year be limited to thirty persons. At present, there are 28 persons paid in this category. (This does not include the three "classified" career persons on the operating staff who are in this category.)

The staff changes noted above will be affected by this limit of thirty and a decision needs to be made on how to handle it.

The number of additional slots needed is estimated by Hamilton as follows:

Frank Moore	3
Anne Wexler	1
Other offices planned	<u>2</u>
Total	6

If these additions are approved, these offices would be salaried as follows:

	<u># persons \$47,400 & above</u>	<u># persons in \$37,500-\$47,499 category</u>	<u>Total # of persons authorized in the department (as revised)</u>
Moore	3	9	26
Wexler	2	1	7
Planned Offices	undetermined	2	4

It should be noted that consideration will have to be given to the expansion of this category again on October 1, should you grant the staff the annual cost of living increase. This would require an estimated six more allowed in the category, because of the number of persons presently making

slightly less than \$37,500 who would move above \$37,500 with a 5% increase. These six would be in addition to the six mentioned above.

Option #1:

✓

Expand the thirty limit by five additional slots to a total of 35. This would cover the six needed for the staff changes but not the other six generated by the October 1 pay raise should you grant it.

? *doubtful*

Option #2:

Expand the thirty limit by _____ slots.

REVISED STAFFING LEVELS

Office	Previous Authorized	Revised Authorized
Mr. Aragon	3	3
Dr. Bourne	1	1
Dr. Brzezinski	2	2
Mr. H. Carter	2	2
Ms. Costanza	10	2
Mr. Eizenstat	7	4
Mr. Gammill	13	0 (now included in Kraft's total)
Mr. Harden	1	1
Mr. Hutcheson	3	3
Mr. Jordan	11	10
Mr. Kraft	20	19
Mr. Lipshutz	10	10
Mrs. Mitchell	2	0
Mr. Moore	22	26
Mr. Pettigrew	2	2
Mr. Powell	45	24
Mr. Rafshoon	--	15 (previously in Powell's total)
Mr. Schneiders	2	2
Mr. Watson	11	11
Ms. Wexler	--	7
I.O.B.	1	1
First Lady	18	18
Mr. Wise	--	19 (previously in Kraft's total)
Minority Office	--	4
Open Office	--	4
STAFF OFFICES	<u>186</u>	<u>190</u>
OPERATING OFFICES/OTHER	<u>165</u>	<u>161</u>
TOTAL FULL-TIME PERMANENT EMPLOYEES	<u>351</u>	<u>351</u>

THE WHITE HOUSE
WASHINGTON

June 1, 1978

Bob Lipshutz

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

Rick Hutcheson

cc: Hugh Carter
Peter Bourne

AUTHORIZATION OF DETAILEES AND
VOLUNTEERS FOR DR. BOURNE

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION -

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

ACTION
FYI

	VICE PRESIDENT
	EIZENSTAT
	JORDAN
	KRAFT
/	LIPSHUTZ
	MOORE
	POWELL
	WATSON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE

	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
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/	H. CARTER
	CLOUGH
	COSTANZA
	CRUIKSHANK
	FALLOWS
	FIRST LADY
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	JAGODA
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	PRESS
	RAFSHOON
	SCHNEIDERS
	VOORDE
	WARREN
	WISE

THE WHITE HOUSE

WASHINGTON

May 30, 1978

*Ok, but this
is a special
case. Please
stay tight
on details
J*

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Lipshutz *BJL*

SUBJECT: Authorization of Detailees and Volunteers
for Dr. Peter Bourne

Pursuant to your recent direction, I have assessed the duties which you have assigned to Dr. Bourne and wish to make the following recommendations as to the method by which he is to carry them out. I have discussed these matters with both Peter and Hugh Carter.

In general terms, Dr. Bourne has two areas of responsibility:

1. Drug Abuse, which is statutorily mandated; and
2. "Health and Human Needs"

The permanent positions on the staff of the Executive Office of the President which had been designated for these purposes are:

1. Dr. Peter Bourne as a member of the White House staff; and
2. Six members of the Domestic Council, four of whom are professionals and two of whom are secretarial, and all of whom are required by statute to devote their time and efforts principally in the field of drug abuse.

Thus, in the area of "Health and Human Needs" it is necessary for Dr. Bourne to utilize the services of the following groups in order to fulfill his responsibilities: a small amount of time available from the six members of the Domestic Council whose principal function is in the area of drug abuse; his own personal time; detailees from other Departments and Agencies; volunteers; and services rendered within other Departments and Agencies by persons not detailed to the Executive Office of the President.

I do not recommend that any additional permanent assignments be made for this purpose, either on the White House staff or elsewhere within the Executive Office of the President. However, in order for Dr. Bourne to carry out his responsibilities, I recommend a substantial degree of flexibility with reference to detailees and volunteers. The reasons for this recommendations are: the importance of this field of "Health and Human Needs"; the creativity of Dr. Bourne himself; and the desire of yourself, the First Lady, and others of us on the Senior White House staff, to maximize improvements and innovations in these particular areas of great social concern.

With reference to detailees, and in order to carry out both the functions of this office and at the same time maintain adequate staff controls, I wish to make the following recommendations:

1. That Dr. Bourne will notify Hugh Carter before bringing in detailees (as he has done for the past month or so) so that Hugh can make any objections he might have; and if they disagree, the disagreement can be resolved by an appeal to the personnel committee.
2. That detailees will be brought in for this purpose only if (beginning June 1, 1978): the cumulative term of such detailee does not exceed six successive months or six of any twelve successive months; and the purpose for such use of detailees is an ad hoc project which project itself will not extend beyond a six-month period.
3. The foregoing notwithstanding, one detailee, Charles O'Keefe, would be retained by Dr. Bourne for the remainder of the current fiscal year, ending September 30, 1978, plus a maximum of six months thereafter.
4. Any exceptions to the foregoing policy would have to be approved in advance by the personnel committee, subject to appeal to the management committee and the President.

With reference to volunteers, Dr. Bourne would have the right to employ up to a maximum of six volunteers at any time, on a full time basis or on a part time basis, without the same restrictions as are being applied to detailees. Any additional volunteers would have to be approved by Hugh Carter, subject to appeal to the personnel committee, the management committee, and the President.

Please advise your decision regarding the foregoing recommendations.

Approve Disapprove Other

cc: Hugh Carter
Peter Bourne

THE WHITE HOUSE

WASHINGTON

May 30, 1978

MEMORANDUM FOR THE PRESIDENT

FROM:

PETER BOURNE ^{P.B.}

SUBJECT:

COMMENTS ON BOB LIPSHUTZ' MEMO

P. 2 item 3 Charles O'Keefe

I would prefer Charles to be assigned to me on White House Staff since he is responsible for our international narcotics efforts, and Senate ratification of the Psychotropic Convention, but can agree with Bob's recommendation based on my intention to, later this Summer, recommend that you designate him Special Envoy for Narcotics Agreements. We have discussed this with N.S.C. and they have concurred. The recommendation will come to you through them.

THE WHITE HOUSE

WASHINGTON

May 31, 1978

MEMORANDUM FOR THE PRESIDENT

FROM:

HUGH CARTER 

SUBJECT:

Comments on Bob Lipshutz's Memo of 5/30/78
Re: Authorization of Detailees and Volunteers
for Dr. Peter Bourne

(1) The purpose of this memo is to comment on the means of carrying out duties assigned by you to Dr. Peter Bourne, as well as others.

As you are aware, we have managed to reduce the number of detailees in the White House Office to a level unprecedented in recent years, pursuant to your instructions to be strict.

My primary concern, however, is that the tasks which you assigned to your staff be accomplished as effectively and efficiently as possible. I have no basic objections to the flexible detailee policy proposed by Bob Lipshutz for Dr. Bourne, but want you to realize that it means a relaxing of some of the restrictions which I have imposed to date.

(2) My concerns about detailees extend beyond Dr. Bourne's specific requirements, but rather to the overall White House Office situation, and stem from:

- (a) Your directive to me to keep detailees to a minimum, and be strict about it, and
- (b) The reporting requirements of the new White House authorization bill.

As you are aware, there has been considerable pressure from many other offices to add detailees, and the institution of a policy too flexible with Dr. Bourne will make it difficult to sustain the low numbers we have recently been able to achieve. This should be a consideration, if you wish to continue to maintain the detailees at the level of 10 to 15 as it is at present.

The reporting requirements of the White House Authorization Bill, assuming it is enacted into law, may have some political/publicity implications. A point to remember is that the bill would require us to report the total number of different individuals detailed to the White House more than 30 days during the year. Thus, although we may never have more than, say 10 or 15 at any one time, the total number of different individuals reported may come to 50 or more.

(3) As an alternative to detailees, I would like to suggest consideration of having the bulk of the effort on Dr. Bourne's and other such programs performed by agencies rather than in-house, and performing only the liaison and management in-house.

This approach would provide the following advantages and disadvantages:

Advantages

- Help limit the number of detailees to the White House Office.
- Provide the projects with more technical and clerical back-up than the White House can provide.
- It would be consistent with the concept of Cabinet government as has been emphasized as an underlying principle of your re-organization plans.
- It would allow the roots of a new program to begin to grow in the agency where it will probably later be housed.

Disadvantages

- Loss of "White House" clout, although this could be largely retained through the responsible White House staff member.
- Complications of intra-agency politics, which could probably be managed through the selection of staff working on the project, and the extraction of a commitment on the part of the agency head.
- Lack of physical proximity.

(4) If, however, such projects are to be conducted in-house, and we are to maintain our present authorized staffing levels, I will need to relax my present strict detailee approval practices to some degree. Although I still would be strict, I would raise my own guidelines from 10 to 15, to 20 to 25 detailees at any one time.

If such projects are to be performed in-house, I urge that a management plan for each project be formulated in advance identifying the professional personnel, clerical support, space, equipment and funding requirements.

I will be glad to assist Peter and other White House Offices in developing such plans.

EAST BUILDING DEDICATION, NATIONAL GALLERY OF ART
JUNE 1, 1978

*Susan -
also put
on cards
J*

Mr. Chief Justice, Mr. Mellon, Bishop Walker,

ladies and gentlemen:

In the name of the people of the United States,
and on their behalf, I accept for the nation this East
Building of the National Gallery of Art.

I accept it with a full heart -- with gratitude
to all who have had a hand in its creation, and with a
sense of exhilaration and joy that I know will be
shared by the millions of people who will come here
to look, to study, to contemplate, and to be moved
and delighted and ennobled by what they find here.

This building is the gift of Paul Mellon; of his
late sister, Ailsa Mellon Bruce, who is represented

here by her grandchildren; and of the Andrew W.

Mellon Foundation. ~~What they have done enriches this~~

~~city, enriches this nation, enriches the human spirit~~

~~itself.~~ We owe them thanks for the grandeur of their

gift and for the modesty and grace with which it is

given.

The completion of the East Building brings to a triumphant climax the work that was begun by Andrew W. Mellon, the donor of the original National Gallery of Art. It was Paul Mellon -- the same Paul Mellon who stands beside me today -- who represented his late father at the dedication of what will now be known as the West Building. At that ceremony, thirty-seven years ago, Mr. Mellon described the National Gallery as "the product of many minds, intent on giving America their best."

This building, too, is the product of many minds, and of many hands. All were intent on giving America their best. All have done so.

In addition to his openhanded generosity, Paul Mellon contributed a dedication to quality in design, materials, and workmanship that has resulted in a building that will endure, both physically and esthetically, as long as this city stands.

I.M. Pei and his associates have given us an architectural masterpiece. Mr. Pei saw the unusual shape of the site not as an obstacle but as an opportunity -- and he has taken brilliant advantage of that opportunity. His design is sensitive to its surroundings; it is at once dignified and daring; it is monumental, yet without pomposity, and it reflects

-4-

the human scale; it combines a reverence for the past with an eagerness for the future; it is worthy of the thousands of years of artistic creation that will be seen and studied under its roof.

J. Carter Brown, the director of the National Gallery, has untiringly pursued the vision of a museum for people that would also be a center for art scholarship. Under his leadership, the National Gallery has strengthened its place among the great art institutions of the world. Its extension services have brought art education to thousands of communities throughout our country, and its collections have grown to include the art of our own century as well as that of centuries past.

~~Many~~ Many others provided their skills and talents to this project -- from the curators to the contractors,

-5-

from the commissioned artists to the construction workers who lovingly crafted each detail of the building, inside and out. The result of their efforts, I think, would have pleased Pierre l'Enfant, the author of the original plan of this city, and John Russell Pope, the architect of the original National Gallery, as much as it pleases all of us today.

This beautiful

~~The East~~ building is an important addition to that unique repository of knowledge and culture, the Smithsonian Institution. Eight of its museums collect art -- art that ranges from Vermeer to Pollock, from the sculpture of Henry Moore to the carved implements of the Eskimo people. With the addition of this building, the scope and definition of ~~art~~ *displayed art* ~~we~~ *we* ~~Smithsonian museums display~~ is both broader and deeper than ever. With the private museums of this city, they

-6-

make Washington a place where ^{we may enjoy} the full range of the
creations of the human hand and eye, ~~may be enjoyed.~~

This building tells us something about ourselves --
about the role of art in our lives, about the relations
between public life and the life of art, and about the
maturing of an American civilization.

The beauty of the East Building, and its location
at the fulcrum of the ceremonial avenue of the Federal
city, will insure that it takes its place alongside
the Capitol building and the Memorials as an emblem
of our national life. As the Capitol symbolizes our
belief in political democracy and civil freedom, the
National Gallery symbolizes our belief in the freedom
and ^{genius} ~~greatness~~ of the human ^{mind} ~~spirit~~, which is manifested

in art.

-7-

In an open society, the relationship between government and the arts must necessarily be a delicate one. We have no Ministry of Culture in this country, and I hope we never will. We have no official art in this country, and I pray we never will. No matter how democratic a government may be, no matter how responsive to the wishes of the people, it can never be government's role to define what is good, or true, or beautiful.

Instead, government must limit itself to nourishing the ^{ground} soil in which art and the love of art can grow.

But within those limits, there is much that government can do, and much that ^{we are} ~~it is~~ doing.

In the past year, we have increased ^{substantially} our support of the National Endowments for the Arts and the Humanities, ~~by more than twenty per cent.~~ Because we ~~are strongly committed to a cooperative relationship~~

~~between the private and public sectors in these fields,~~
and
much of that increase has come in the form of challenge
grants, whereby government funds are matched by private
donations. ~~And~~ *B*ecause we are committed to an open
and flexible relationship, support for the arts and
the humanities flows through many different kinds of
channels, leaving room for art and scholarship to
develop naturally.

This gallery
~~The East Building,~~ ^{is} for example, will be maintained
at public expense, but it owes its existence to an act
of private philanthropy. Moreover, ~~the funds for~~
acquisition of works of art ^{is financed} ~~are derived~~ entirely from
private donations.

It is equally significant that this building will
serve both as a museum and as a center for art
scholarship. We have before us here, in marble and

glass, a tangible demonstration that excellence and access to a wide public are far from being contradictory. They are complementary. This building stands as a metaphor for what, at its best, the relationship between government and the arts can be.

When President Roosevelt dedicated the original National Gallery of Art, on March 17, 1941, he said:

"The dedication of this gallery to a living past, and to a greater and more richly living future, is the measure of the earnestness of our intention that the freedom of the human spirit shall go on."

It did go on.

And the building we dedicate today is a reaffirmation in this generation that ~~the~~ human ^{values} spirit -- the ^{expression of courage and} ~~spirit~~ of love in triumph over despair -- will endure.

EFFECTS OF NHI ON TOTAL U.S. HEALTH SPENDING

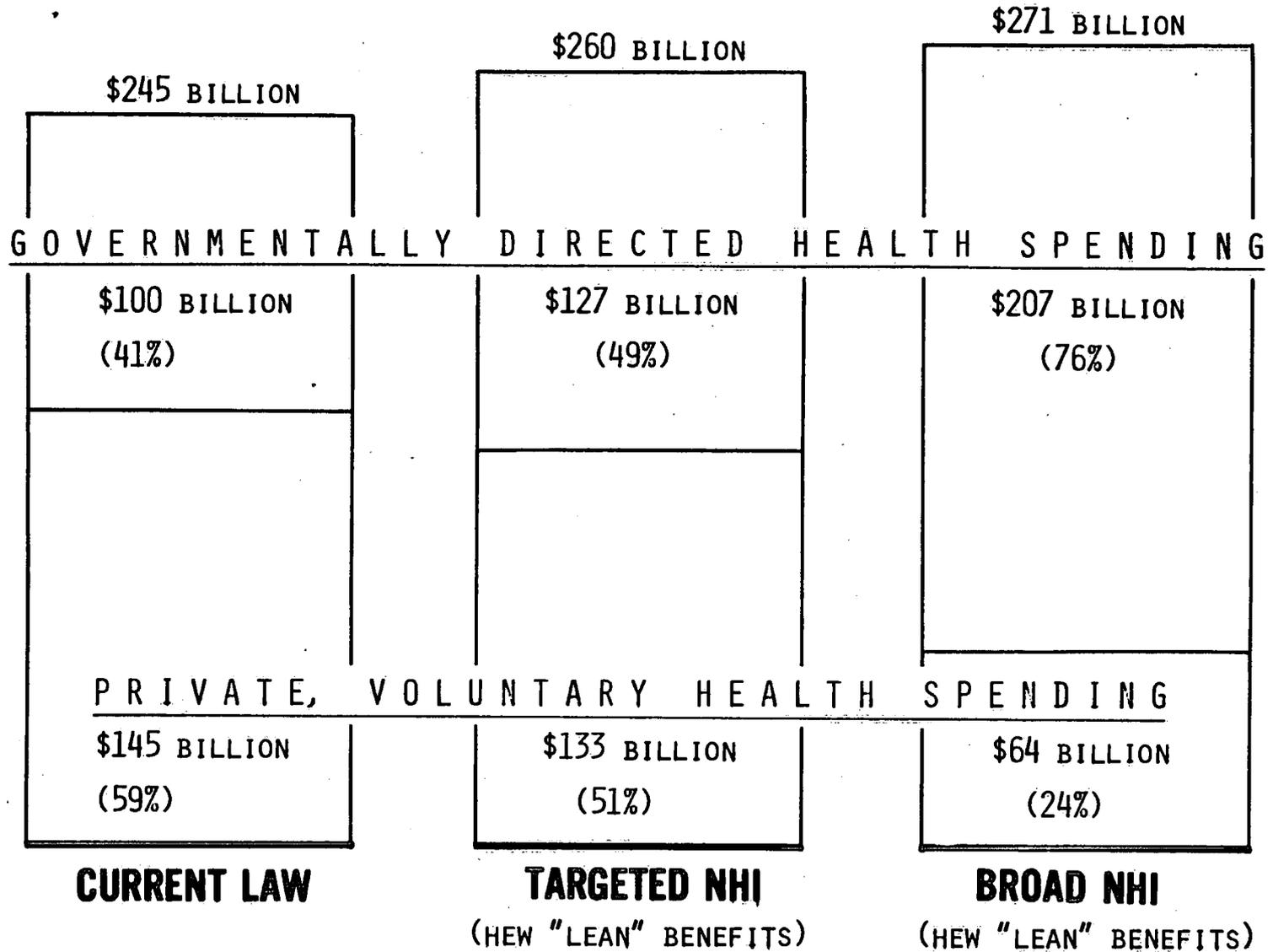


Table 1

PROGRAM COSTS OF NHI APPROACHES

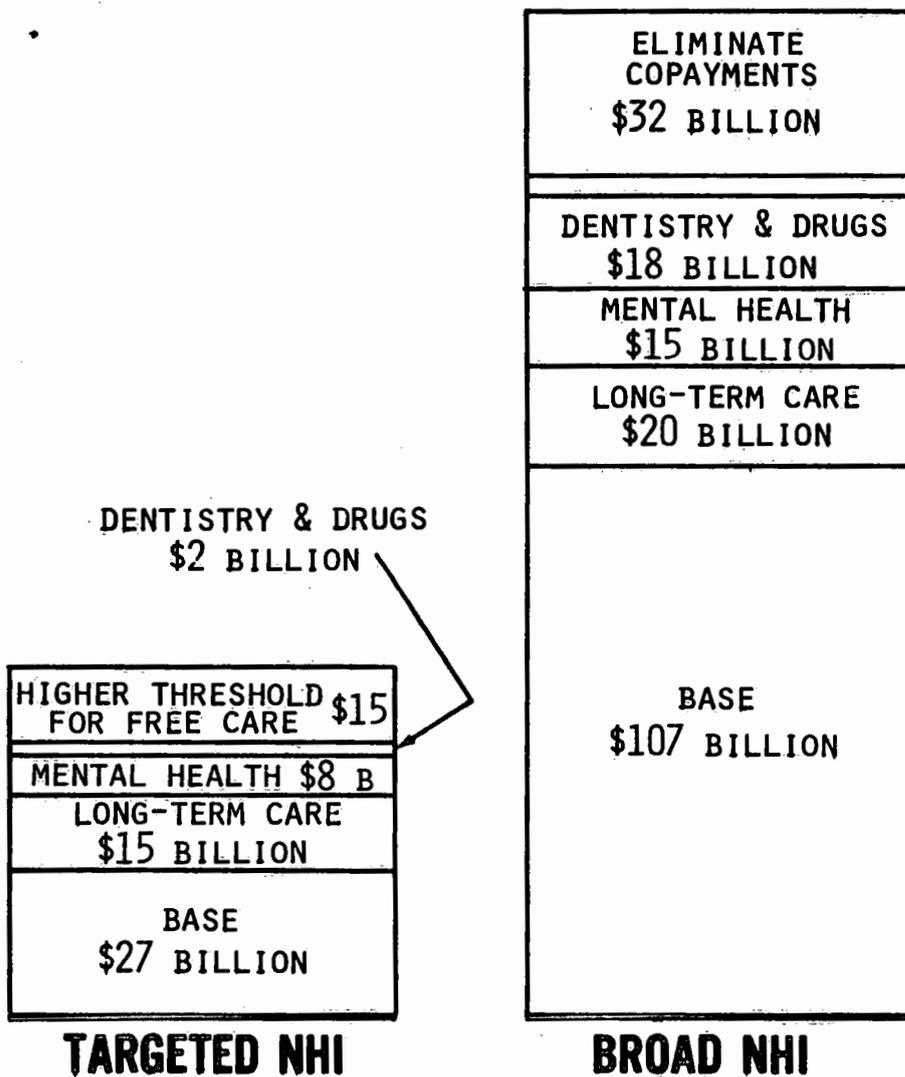
(1980 Costs in Billions of 1980 Dollars - Full Implementation)

	<u>Current Law</u>	<u>Targeted</u>		<u>Broad</u>	
		<u>Total</u>	<u>Change Due to NHI</u>	<u>Total</u>	<u>Change Due to NHI</u>
Governmentally Directed Health Spending	100	127	+27	207	+107
Private Discretionary Health Spending	145	133	-12	64	-81
Total U.S. Health Spending	245	260	+15	271	+26

NOTES:

All estimates assume the "lean" benefit package as specified by HEW.
 Estimates are subject to uncertainties of plus or minus ten percent for total
 governmentally directed expenditures. The uncertainty in estimates of the
 changes due to NHI are substantially larger than ten percent.

POTENTIAL ADDITIONAL BENEFITS



HIGHER THRESHOLD FOR FREE CARE
\$3 TO 5 BILLION

NOTES:

ESTIMATES ARE HIGHLY TENTATIVE, BECAUSE OF INTERACTIONS, THE TOTAL COST OF MULTIPLE ADDITIONS USUALLY EXCEEDS THE SUM OF THE COSTS OF EACH.

Table 2

EFFECT ON GOVERNMENTALLY DIRECTED HEALTH SPENDING
OF VARYING NHI MANDATED BENEFITS

(1980 Effects in Billions of 1980 Dollars)

<u>Change in Governmentally Directed Health Spending</u> <u>(from Table 1)</u>	<u>Change in Governmentally Directed</u> <u>Health Spending for:</u>	
	<u>Targeted Approach</u>	<u>Broad Approach</u>
	+27	+107
<u>Variations in:</u>		
<u>Services Covered:</u>		
Cover Long-Term Care	+15	+20
Cover Mental Illness on Same Unlimited Basis as Physical Illness	+8	+15
Cover Dental Benefits Broadly	+1	+8
Cover Out-of-Hospital Prescription Drugs	+1	+10
<u>Low-Income Threshold:</u>		
Reduce Threshold to Federal PBJI Guarantee -- About \$4,800 for Family of 4 in 1980	-10	-2 to -3
Increase Threshold to Federal PBJI Breakeven Level -- About \$9,600 for Family of Four in 1980	+15	+3 to +5
<u>Cost-Sharing:</u>		
Reduce Copayment to 0%	Not Applicable	+32
Reduce Copayment to 15%	Not Applicable	+10

NOTES:

Figures are highly tentative, with uncertainties in excess of 20 percent in most cases. All estimates assume benefit changes are applied to a base consisting of HEW's "lean" benefit package.

NHI FINANCING OPTIONS

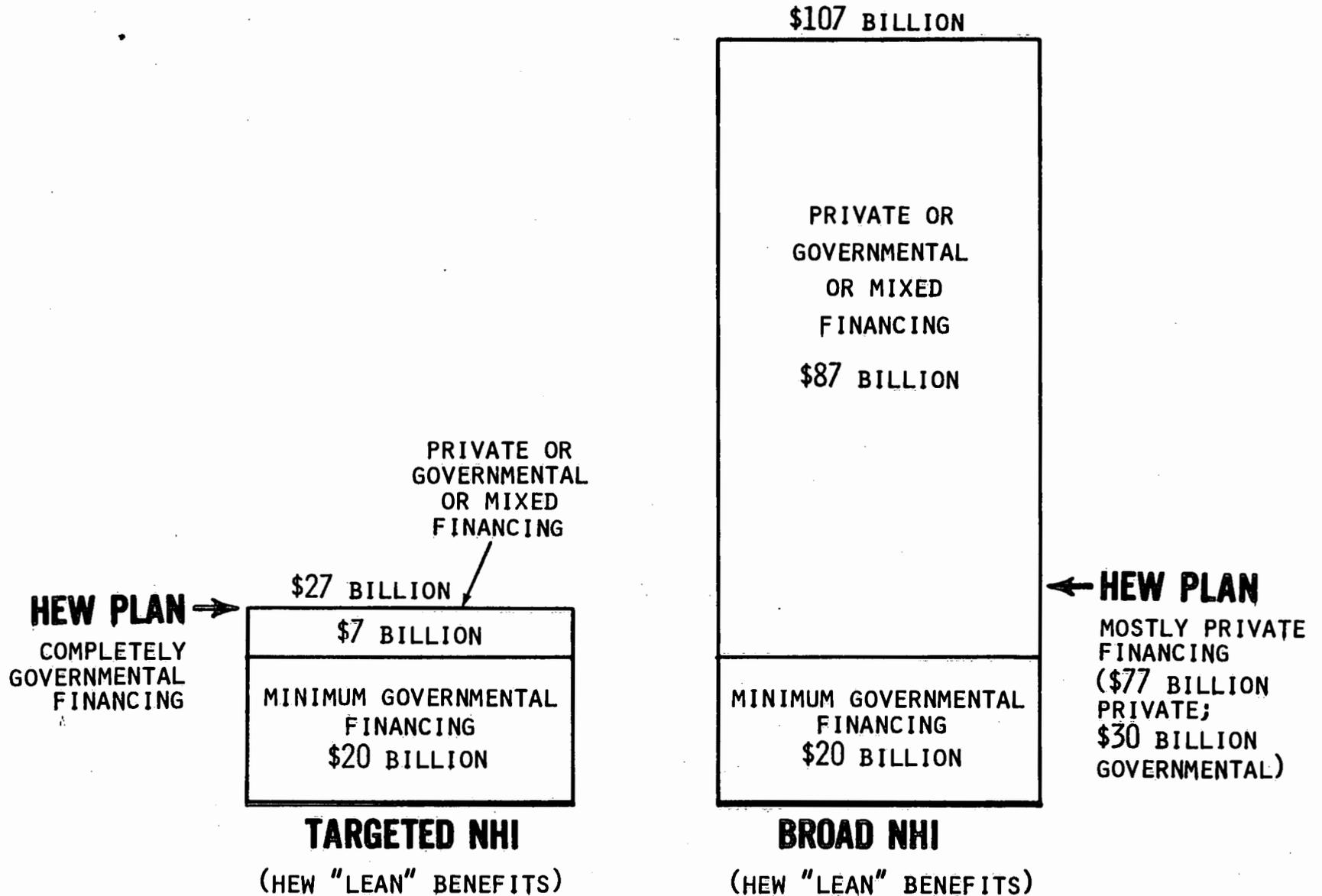


Table 3

NHI COSTS UNDER ALTERNATIVE FINANCING MECHANISMS

(1980 Costs in Billions of 1980 Dollars)

	<u>Target Approach</u>		<u>Broad Approach</u>	
	<u>Completely Private Financing of Nonpoor</u>	<u>HEW's Plan: Public Financing of Nonpoor</u>	<u>HEW's Plan: Mostly Private Financing of Nonpoor</u>	<u>Completely Public Financing of Nonpoor</u>
Change in Government Payments	+20	+27	+30	+107
Change in Employer-Employee Group Premiums	+3	-1	+10	-40
Change in Individual Premiums	--	-3	+1	-26
Change in Out-of-Pocket Payments	-8	-8	-15	-15

NOTES:

All estimates assume "lean" benefit package as specified by HEW.
Uncertainties of estimates are as stated in Table 1.

HEW'S COSTING OF NHI

	<u>TARGETED</u> (HEW "LEAN" PACKAGE)	<u>BROAD</u> (HEW "LEAN" PACKAGE)
<u>SPENDING</u>		
GOVERNMENTALLY DIRECTED HEALTH SPENDING	⊕27	+107
PRIVATE, VOLUNTARY HEALTH INSURANCE PREMIUMS	-4	-66
	<hr/>	<hr/>
	+23	⊕41
OUT-OF-POCKET HEALTH SPENDING	-8	-15
	<hr/>	<hr/>
NET ADDITIONAL U.S. HEALTH SPENDING	+15	+26
 <u>FINANCING</u>		
GOVERNMENT EXPENDITURES FOR POOR	+20	+20
GOVERNMENT EXPENDITURES FOR NONPOOR	+7	+10
	<hr/>	<hr/>
TOTAL GOVERNMENT EXPENDITURES	⊕27	⊕30
NET PRIVATE PREMIUMS FOR NONPOOR	NA	+11
	<hr/>	<hr/>
TOTAL FINANCING OF NHI	⊕27	⊕41

○ = HEW FIGURES

EFFECTS OF NHI ON TOTAL U.S. HEALTH SPENDING

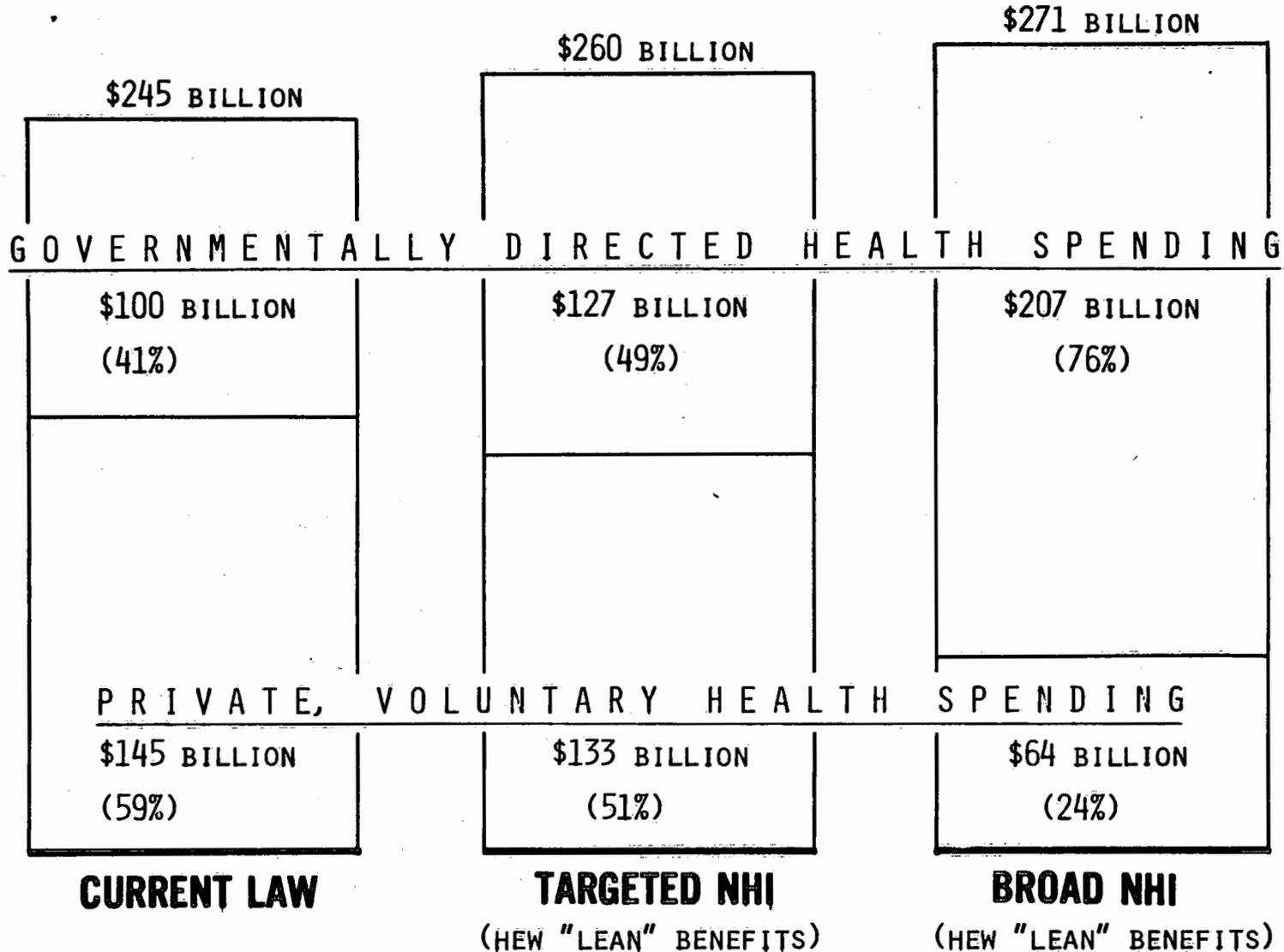


Table 1

PROGRAM COSTS OF NHI APPROACHES

(1980 Costs in Billions of 1980 Dollars - Full Implementation)

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 changes due to NHI are substantially larger than ten percent.

POTENTIAL ADDITIONAL BENEFITS

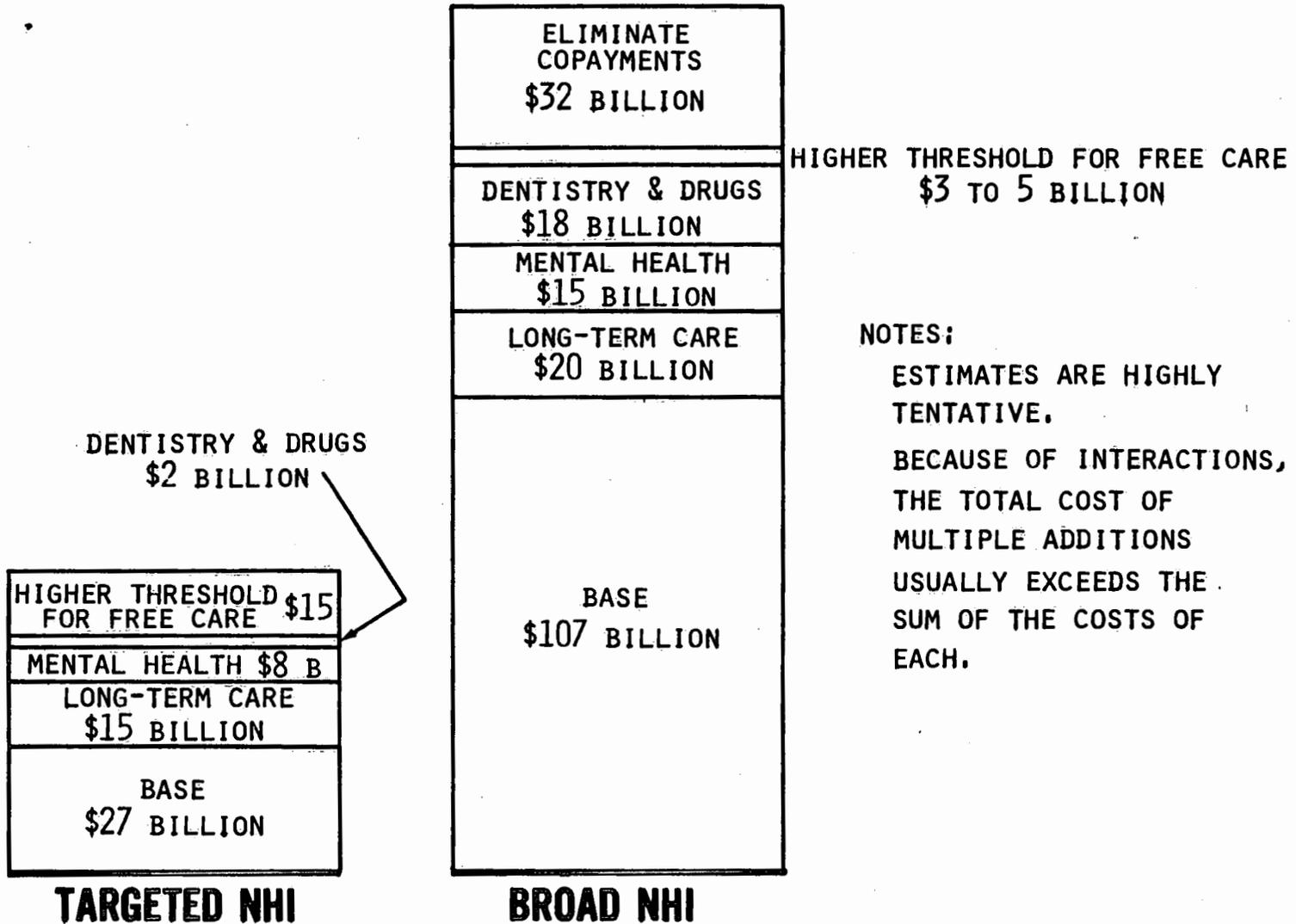


Table 2

EFFECT ON GOVERNMENTALLY DIRECTED HEALTH SPENDING
OF VARYING NHI MANDATED BENEFITS

(1980 Effects in Billions of 1980 Dollars)

	Change in Governmentally Directed Health Spending for:	
	<u>Targeted Approach</u>	<u>Broad Approach</u>
<u>Change in Governmentally Directed Health Spending</u> <u>(from Table 1)</u>	+27	+107
<u>Variations in:</u>		
<u>Services Covered:</u>		
Cover Long-Term Care	+15	+20
Cover Mental Illness on Same Unlimited Basis as Physical Illness	+8	+15
Cover Dental Benefits Broadly	+1	+8
Cover Out-of-Hospital Prescription Drugs	+1	+10
<u>Low-Income Threshold:</u>		
Reduce Threshold to Federal PBJI Guarantee -- About \$4,800 for Family of 4 in 1980	-10	-2 to -3
Increase Threshold to Federal PBJI Breakeven Level -- About \$9,600 for Family of Four in 1980	+15	+3 to +5
<u>Cost-Sharing:</u>		
Reduce Copayment to 0%	Not Applicable	+32
Reduce Copayment to 15%	Not Applicable	+10

NOTES:

Figures are highly tentative, with uncertainties in excess of 20 percent in most cases. All estimates assume benefit changes are applied to a base consisting of HEW's "lean" benefit package.

NHI FINANCING OPTIONS

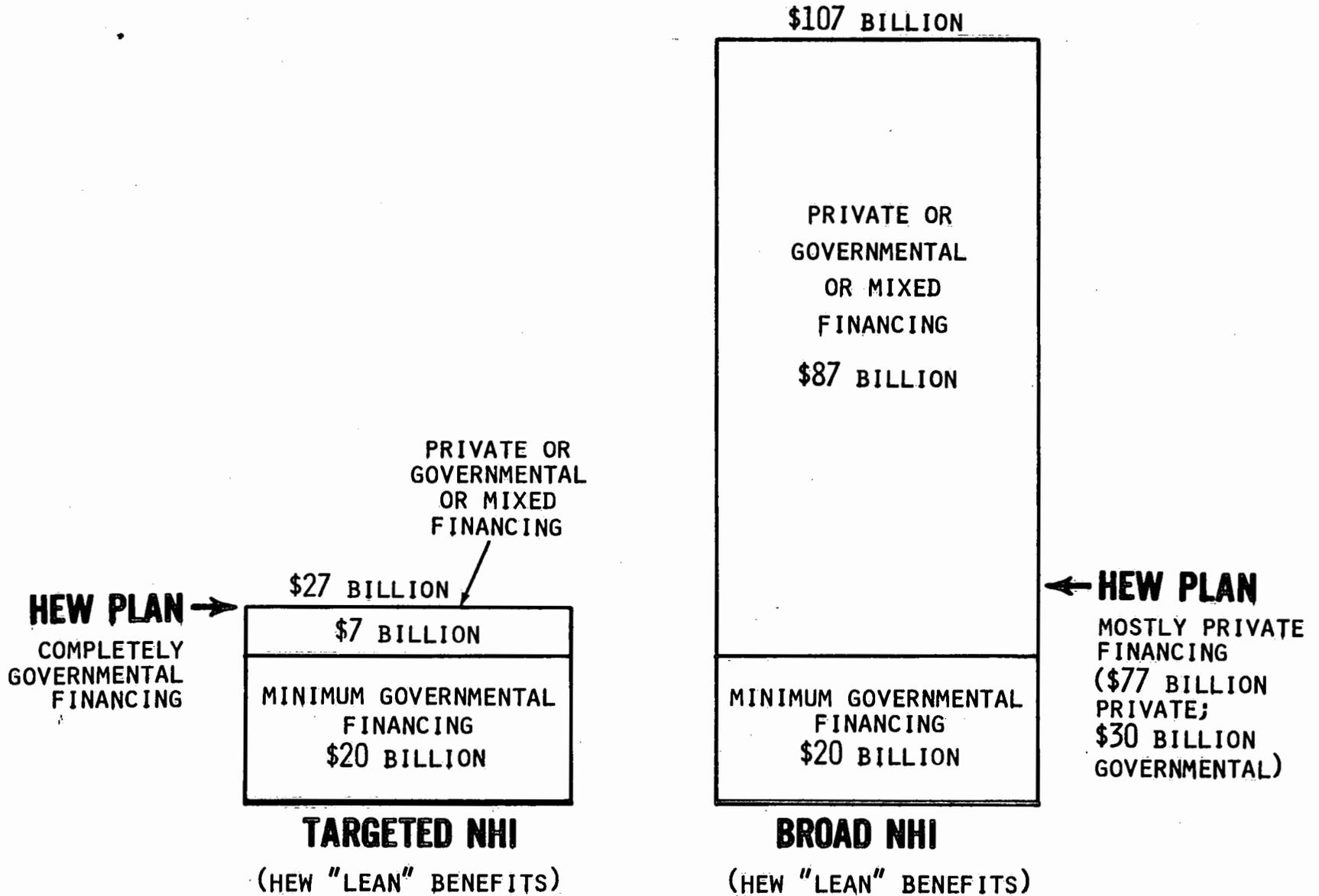


Table 3

NHI COSTS UNDER ALTERNATIVE FINANCING MECHANISMS

(1980 Costs in Billions of 1980 Dollars)

	<u>Target Approach</u>		<u>Broad Approach</u>	
	<u>Completely Private Financing of Nonpoor</u>	<u>HEW's Plan: Public Financing of Nonpoor</u>	<u>HEW's Plan: Mostly Private Financing of Nonpoor</u>	<u>Completely Public Financing of Nonpoor</u>
Change in Government Payments	+20	+27	+30	+107
Change in Employer-Employee Group Premiums	+3	-1	+10	-40
Change in Individual Premiums	--	-3	+1	-26
Change in Out-of-Pocket Payments	-8	-8	-15	-15

NOTES:

All estimates assume "lean" benefit package as specified by HEW.
Uncertainties of estimates are as stated in Table 1.

HEW's COSTING OF NHI

	<u>TARGETED</u> (HEW "LEAN" PACKAGE)	<u>BROAD</u> (HEW "LEAN" PACKAGE)
<u>SPENDING</u>		
GOVERNMENTALLY DIRECTED HEALTH SPENDING	⊕27	+107
PRIVATE, VOLUNTARY HEALTH INSURANCE PREMIUMS	-4	-66
	<hr/>	<hr/>
	+23	⊕41
OUT-OF-POCKET HEALTH SPENDING	-8	-15
NET ADDITIONAL U.S. HEALTH SPENDING	<hr/>	<hr/>
	+15	+26
 <u>FINANCING</u>		
GOVERNMENT EXPENDITURES FOR POOR	+20	+20
GOVERNMENT EXPENDITURES FOR NONPOOR	+7	+10
	<hr/>	<hr/>
TOTAL GOVERNMENT EXPENDITURES	⊕27	⊕30
NET PRIVATE PREMIUMS FOR NONPOOR	NA	+11
	<hr/>	<hr/>
TOTAL FINANCING OF NHI	⊕27	⊕41

○ = HEW FIGURES

THE WHITE HOUSE

WASHINGTON

June 1, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

FRANK MOORE *FM*

The Vanik Amendment just passed the House 208-194. It is budgeted for \$250 tax credit, elementary and secondary. The second amendment will be for higher education which we will lose by a wider margin. Final passage of the bill will come this afternoon.

We are on firm footing for a veto.

cc: Jody Powell
Hamilton Jordan
Stu Eizenstat

THE WHITE HOUSE
WASHINGTON

6-1-78

Jody.

I signed an agreement
with IRS re 1975 & 1976
audit.

There was an upward
adjustment of \$168⁰³ in '75
because we had an increase
of \$354.34 in value above
our contributions to the Georgia
Employees Retirement System -
inadvertently not reported.

There was no adjustment
in the 1976 return.

Release this to the press.

J. C.



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

May 30, 1978

C

PERSONAL AND CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM JOE CALIFANO *Joe Califano*

SUBJECT: The Threshold Decision on National Health Insurance

My formal Presidential Review Memorandum, which has circulated around the government during the past week (and which is attached), poses the basic NHI question you must decide: should you direct your Administration to develop a National Health Insurance proposal that follows a targeted approach or a broad approach.

It is critical that you make this decision quickly. As you know, there are strongly held views within the Administration on which of these basic forks in the NHI road to take. We need the expertise and counsel of OMB, CEA and Treasury in developing the best possible proposal, but we will not be able to have their full cooperation until you explicitly adopt either a targeted or a broad approach. Nor can we have continuing, productive, good faith negotiations with Senator Kennedy and organized labor if there is any lingering possibility of a targeted approach.

In this memorandum I will briefly set out some additional thoughts that are relevant to your decision -- thoughts that lead to my recommendation that you adopt the broad approach.

I. Your Previous Commitments.

Your previous commitments -- both substantive and political -- clearly indicate that you favor the broad approach.

- Substantive. In your Student Medical Association speech, delivered in April, 1976, you set out twelve principles of a National Health Insurance program. The first principle you endorsed was:

"Coverage must be universal and mandatory. Every citizen must be entitled to the same level of comprehensive benefits."

As understood by those who have been debating National Health Insurance during the past decade, this principle rules out a targeted approach to NHI. "Comprehensive benefits" include both basic health coverage and catastrophic coverage. "Universal and mandatory" obviously means that all Americans must receive both basic health coverage and catastrophic coverage -- i.e. our national health insurance program must follow the broad approach.

- Political. In your meetings with organized labor and Senator Kennedy, you have expressed hope that the Administration will reach agreement with the labor movement on an NHI program.

Any hope for achieving such a compromise with organized labor and with Senator Kennedy would require, at a minimum, a NHI plan that, in fact, contained the elements -- "comprehensive", "universal", "mandatory", in short "broad" -- that you endorsed in your Student National Medical Association speech.

While organized labor anticipates our proposal will phase in comprehensive benefits, neither labor nor Senator Kennedy is likely to accept:

- a proposal to phase in comprehensive benefits at an indefinite point in the future or 10 to 15 years from now; or
- a bill that provided for a targeted program in the near term and left establishment of a broad approach to subsequent legislation.

Our negotiations have, of course, always rested on the assumption that organized labor would modify some of its positions. There are, however, still

important disagreements between labor and the Administration that have not yet been resolved -- and that might not be resolved. For example:

- Organized labor has historically opposed patient cost-sharing. Yet the "low-cost" broad approach prepared by HEW includes a cost-sharing element (25 percent of annual health costs up to \$1,500, except for the poor). Without cost-sharing, the "low cost" broad plan -- which is estimated at about \$40 billion in new government and employer funds -- would cost at least an additional \$23 billion.
- Organized labor has historically urged that cost containment be effected by a nationwide health budget that would be allocated among states. Both your previous statements and present Administration thinking lead, by contrast, to tough prospective reimbursement controls for hospital costs and physician fees, rather than prospective nation-wide budgeting, as the preferred method of cost containment.
- It is not yet clear whether the Administration can reach an agreement with organized labor on the role of private insurers.

In sum, a compromise with organized labor must, at a minimum, be consistent with the broad approach described in the attached memorandum and must include a firm commitment (i.e., date) for realization of a comprehensive plan -- however it deals with the question of phasing. Without these commitments, organized labor will accuse the Administration of treachery, in light of our extensive contact to date.

If you do make these commitments, organized labor may not agree with the Administration plan in some important respects, most likely on the issue of patient cost-sharing. But it will recognize that you have fulfilled your commitment and is likely to be generally supportive of a broad Administration proposal that is similar to theirs in all but one or two respects.

II. Health System Considerations

Health system considerations also clearly favor the broad approach:

- Access: Most importantly, the broad approach provides basic health coverage to all Americans without basing eligibility for health insurance on income distinctions and without forcing people to declare their poverty in order to obtain medical assistance. It would provide coverage to 30 million Americans above the poverty line who are not adequately covered at present and who would not receive basic health coverage under the target approach.
- Cost Control: Meaningful long-term cost controls are much more likely to be enacted politically and implemented effectively through legislation adopting a broad approach rather than a targeted approach. A key element of your National Health Insurance program must be the objective that the cost of health care under NHI will be less than without an NHI program. The controls to achieve that aim will be so controversial that extension of basic health coverage to all Americans is, in my judgment, required if we are to gain the support necessary to pass a legislative package that would include such tough controls. Although CEA and OMB feel that cost controls can be implemented along with passage of a target plan, I believe that only with a broad approach will there be enough governmental leverage over basic reimbursement mechanisms to implement cost containment measures that have real bite.
- System Reform: Dramatic changes in incentives are needed to increase competition, to move the health system from a focus on high cost technological cures to one on primary and preventive care, and to assure adequate treatment for the poor. A broad approach with control over reimbursement will be essential to this immensely difficult task. A patchwork system of catastrophic insurance, a public plan limited to providing comprehensive coverage for the poor and private insurance programs for the rest of the population offers little genuine prospect of achieving comprehensive reforms.

For example, under a target plan, it is likely that private insurance policies will continue to emphasize payments for expensive hospitalization rather than for important preventive services, including system-wide efforts to increase prevention education and build prevention-oriented health capacity.

III. Economic and Budgetary Considerations

Various economic and budgetary arguments are launched against the broad NHI plan by your economic advisors. There are, however, important points to be made in rebuttal.

First, OMB argues that a broad NHI plan would cut sharply into the new revenues for Federal programs in the 1980s. But this point must be seen in perspective and, in some respects, sharply qualified.

- Present NHI cost estimates do not include any estimates of cost reductions that will stem from cost containment and system reforms. For example, in HEW's cost estimates of the broad and targeted approaches, no account is taken of possible savings from your Hospital Cost Containment legislation -- and if this legislation took effect on January 1, 1979, then the savings in Federal outlays in Fiscal 1983 would be about \$8 billion and total savings throughout the health system in that year would total \$22.6 billion.
- With some approaches to phasing, there will be almost no difference in Federal outlays between a broad and a targeted approach until the late 1980s.
- National health insurance has been viewed for more than three decades as an important national priority -- an objective worth additional federal resources. You underscored this point in the campaign by excluding NHI from your commitment to hold Federal spending to 21 percent of GNP.

Second, OMB and CEA argue that a broad NHI plan would in fact be inflationary. Again, the arguments noted above apply to this point too. Most outlays would not occur until the late 1980s and no one can predict economic conditions at that time. With cost controls NHI should be anti-inflationary and should reduce, not increase, the cost of health care.

And since federal outlays may be about the same until the late 1980s under either the broad or targeted approach, the inflation effects caused by federal NHI expenditures probably does not constitute a basis for distinguishing the broad from the targeted approach over the next decade.

Third, OMB and CEA argue that a broad NHI plan would appear to be inflationary. But it will only appear to be inflationary if we do not aggressively present our case: NHI is not possible unless it reduces costs and does not produce intolerable inflation. The Administration must take the offensive on this point: NHI is critical to reining in out of control inflation in the health sector. Its not that we cannot afford NHI -- we cannot afford the present health care system. Indeed, when you announce principles you may wish to say up front that you will veto a National Health Insurance bill that does not have tough cost controls and efficiency incentives and is not anti-inflationary.

IV. Political Considerations

By developing a broad plan, you are likely to earn the support of organized labor, Senator Kennedy and most health consumer groups. You will also be keeping one of your firmest campaign commitments -- and this will be seen as underlining your credibility.

You are, however, likely to be opposed strongly by the major provider groups and, perhaps, by major insurers. More importantly, sending up legislation within the next year is likely to be opposed with varying degrees of intensity -- on a variety of substantive and scheduling grounds -- by most Congressional health leaders other than Senator Kennedy.

Passage of a National Health program that follows the broad approach will not be easy in either this or the next session of Congress. Indeed, given the strong Congressional sentiment against a broad approach, there is the very real danger that the Administration will be criticized for, once again, proposing broad, comprehensive legislation that has little chance of passage when it could have submitted a more modest bill (following the targeted approach) that does have reasonable chances of Congressional success and will effect important reforms.

But it is highly unlikely that a targeted approach that included the types of cost containment and system reforms that the Administration is likely to propose would have an easier passage through Congress than a broad approach. Moreover, adoption of the broad approach allows you to educate the American people more fully on the health system

as a whole and puts you in a position to compromise if Congress decides to accept only the initial phases of a broad bill (phases that might be similar to a target approach).

V. A Final Word on Timing

As you have directed, we are operating on a timetable that could allow us to formally submit a detailed proposal to the Congress in August or September.

Two questions have been raised with respect to the timetable in developing your proposal.

First, some of your advisors may argue that there should be a postponement of any Presidential decision-making on NHI until economic conditions improve. Obviously your previous commitments appear to preclude that course of action, which is, in my judgment, unnecessary.

Second, there is virtually unanimous sentiment within the Administration that if we move forward, as we should, we only put out a tentative plan from HEW this summer (as we initially did with welfare reform) and not formally submit either detailed specifications or actual legislation to Congress this year. You know from our previous conversations that I have favored unveiling a tentative plan this year but not formally submitting specifications/legislation before early 1979. I would stress that a formal Presidential submission does commit you, and the Administration as a whole, to a much greater degree than a tentative plan that emerges from HEW, and I believe we could produce a formal submission of markedly higher quality if we had until February, 1979 -- since, as you know, NHI is one of the most complicated issues facing the Administration.