4/15/77 [1]

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 4/15/77 [1]; Container 15

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

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
letter	From Griffen Bell to The President Re: Foreign Intelligence Electronic Surveillance Bill (2pp.) / attached to memo from Rick Hutcheson to Brzezinski	4/15/77	A
memo w/ att	From Henry Owen and Tim Kraft to The President Re: NATO meeting (5 pp.) / attached to memo from Rick Hutcheson to Kraft and Owen	4/15/77	A

Opened 8/23/01

FILE LOCATION

Carter Presidential Papers- Staff Offices, Office of the Staff Sec.-Pres. Handwriting File 4/15/77 [1] Box 18

RESTRICTION CODES

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

~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

April 15, 1977

Z. Brzezinski
Tim Kraft
Henry Owen

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

Rick Hutcheson

Re: Tuesday, May 10th - Afternoon
NATO Session: Benelux &
Scandinavian Bilaterals

DECLASSIFIED
E.O.12958, Sec.3.6
5/15/01 NSC NLC-01-23
MARS, DATE 5/25/01

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

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

cc: OWEN

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

	X	KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

THE WHITE HOUSE

WASHINGTON

April 15, 1977

MEMORANDUM TO: THE PRESIDENT

FROM: HENRY OWEN T65 for
TIM KRAFT TK

SUBJECT: Tuesday, May 10th - Afternoon NATO Session; Benelux and Scandinavian Bilaterals

1. Attached at Tab A are the recommendations of Secretary Vance, Dr. Brzezinski and Henry Owen that you stay for the afternoon NATO session on May 10th. The heads of government of all members of the North Atlantic Alliance, except France, will be present.

✓ Approve _____ Disapprove

2. Attached at Tab B is a schedule for Tuesday, the 10th, which reflects the options of (a) staying an additional 1 1/2 hours in Britain after the afternoon NATO session to allow individual bilateral meetings with the Benelux and Scandinavian countries, or (b) having individual discussions (and photographs) with these heads of government on an informal basis during an expanded lunch period (2 - 2 1/2 hours) when we would ask that only heads of government and Luns be present.

State and NSC both feel the first option is preferable, since it would emphasize your personal interest in each of our NATO allies whose heads of government probably expect this treatment on the basis of past precedent.

State and NSC feel, however, that the informal lunch discussion would be an acceptable alternative. (Both State and NSC recommend against grouping the Benelux and Scandinavian countries for purposes of meetings with you on the grounds that the governments involved would be offended.)

✓ Stay for individual meetings _____ Handle at lunch

5/25/01 NSC NLC-01-23 5/25/01

MEMORANDUM ~~CONFIDENTIAL~~ 2128

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~ GDS

ACTION Via Tim Kraft
April 14, 1977

MEMORANDUM FOR: THE PRESIDENT 23.

FROM: ZBIGNIEW BRZEZINSKI
HENRY OWEN HO

SUBJECT: Your Attendance at the London NATO Meeting

Attached at Tab A is a memo from Secretary Vance to you strongly recommending that you remain at the NATO meeting throughout the work day of May 10 rather than leaving after your speech, or at some other point during the proceedings. We agree with the Secretary's reasoning and endorse his recommendation.

RECOMMENDATION

That you agree to remain at the NATO meeting throughout the work day of May 10.

5/15/01 NSC NLC-01-23
5/25/01

~~CONFIDENTIAL~~ GDS ~~CONFIDENTIAL~~

8128

~~CONFIDENTIAL~~

THE SECRETARY OF STATE

WASHINGTON

April 12, 1977

~~CONFIDENTIAL~~

MEMORANDUM FOR: THE PRESIDENT

FROM: Cyrus Vance CRV

SUBJECT: Your Attendance at the London NATO Meeting

I understand that in preparing the schedule for your participation in the London summit meetings, consideration is being given to the possibility that you might leave for the US following your remarks to the NATO Council.

In weighing your alternatives, I suggest that you consider carefully the following factors:

--You will be invited to speak first by the Secretary General.

--Other Allied heads of government will attend the NATO meeting to hear your views but also to express theirs. We would also like to demonstrate that we are interested in hearing their ideas.

--If you leave before hearing them out, they may feel slighted, particularly those leaders from the smaller countries who will not be at the other summit meetings.

--It will be politically important for them to be able to say to their own publics that they talked with you.

For these reasons I would strongly recommend that you remain at the NATO meeting throughout the working day of May 10.

~~CONFIDENTIAL~~
GDS

5/15/01 NSC NLC-01-25
5/25/01

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

Tuesday, May 10

8:00 a.m. (30 minutes)	Bilateral with Greece Winfield House
9:00 a.m.	Depart Winfield House
9:15 a.m.	Arrive Banqueting House
9:20 a.m. (30 minutes)	Bilateral with Turkey Banqueting House
10:00 a.m.	Opening Formal Ceremony NATO Ministerial Meeting Banqueting House
10:20 a.m.	Depart Banqueting House
10:30 a.m.	1st Session - NATO Ministerial Meeting Lancaster House
1:00 p.m.	Lunch - HEADS OF GOVERNMENT ONLY
	(Option: Lunch provides opportunity to visit personally with other Heads of Government with which you will not have separate bilaterals, i.e. Benelux countries and Scandanavian countries. NSC & State recommend ideally that you extend your stay about an hour and a half to provide time for separate bilaterals for these six Heads of Government - two around lunch and four following the 2nd Session.)
3:00 p.m.	2nd Session - NATO Ministerial Meeting
5:30 p.m.	Depart Lancaster House
6:45 p.m.	Depart Heathrow Airport
9:35 p.m. (2:35 a.m. London time)	Arrive Andrews Air Force Base
10:00 a.m.	Arrive The White House

Press Conference
4/11/77

6½ %

Goal - 2% '79

Lead - need Coop.

More jobs - progress
EARLY WARNING

Federal expenditures
AG RESERVES

Labor/business
DEREGULATION

Federal reserve

Regulations

Hospital costs

Productivity

All decisions

Friday - April 15, 1977

8:15	Dr. Zbigniew Brzezinski - The Oval Office.
8:45	Mr. Frank Moore - The Oval Office.
9:00 (5 min.)	Presentation of the Tyler Ecology Award to Dr. Eugene P. Odum. (Mr. Stuart Eisenstat). The Cabinet Room.
10:00 (30 min.)	Press Conference. (Mr. Jody Powell). Room 450, Executive Office Building.
11:00	Mr. Charles Schultze - The Oval Office.
11:30	Vice President Walter F. Mondale, Admiral Stansfield Turner and Dr. Zbigniew Brzezinski. The Oval Office.
1:00 (30 min.)	Editors Seminar. (Mr. Jody Powell). The Roosevelt Room.
1:45	Meeting with Rep. James J. Howard and Members of the New Jersey Congressional Delegation. The Cabinet Room.
2:15	Secretary Ray Marshall. (Mr. Jack Watson) - Oval Office.
2:30 (5 min.)	Drop-By Meeting of Labor Leaders. (Mr. Landon Butler). The Cabinet Room.

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

April 15, 1977

Frank Moore -

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

Rick Hutcheson

Re: Request to Telephone Senator Muskie

THE WHITE HOUSE
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
	✓	MOORE
		POWELL
		WATSON

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

	ENROLLED BILL
	AGENCY BILL
	Staffing comments should go to Bert Carp within 48 hours; due from Carp to Staff Secretary next day.

	CAB DECISION
	EXECUTIVE ORDER
	Staffing comments should go to Doug Huron within 48 hours; due from Huron to Staff Secretary next day.

ACTION	FYI	
		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING
		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		WELLS
		VOORDE

THE WHITE HOUSE

WASHINGTON

April 15, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER

SUBJECT: Weekly Mail Report (Per Your Request)

Below are statistics on the mail situation:

INCOMING	WEEK ENDING 4/9	WEEK ENDING 4/15
Presidential	72,976	52,122
First Lady	2,706	2,367
Amy	2,403	2,419
Other First Family	148	193
Total	78,233	57,101

BACKLOG	WEEK ENDING 4/9	WEEK ENDING 4/15
Presidential	16,900	11,000
First Lady	2,000	1,500
Amy	4,000	3,000
Miss Lillian	1,600	1,000
Transition	20,000	5,500
Total	44,500	22,000

DISTRIBUTION OF PRESIDENTIAL MAIL ANALYZED

	WEEK ENDING 4/9	WEEK ENDING 4/15
Agency Referrals	62%	51%
WH Correspondence	17%	32%
Direct File	8%	6%
White House Staff	9%	7%
Other	4%	4%
Total	100%	100%

See Notes on following page

Electrostatic Copy Made
for Preservation Purposes

NOTES: Mail - Week Ending 4/15/77

1. Overall backlog was reduced by 22,500. The current 22,000 backlog is equal to about two days of incoming mail.

   The backlog figure does not include mail referred to White House staff, but we have no reason to believe that a backlog exists in the staff offices.

2. Incoming receipts of Presidential and First Family mail for the week totalled a low of 57,101.

   The reason set forth by the career staff in the mail operation is that the prior week was Easter week when many who might otherwise have written had children at home on vacation, were travelling, or were involved in holiday family activities. The next week or two should indicate whether this explanation is correct or whether in fact mail input is diminishing.

3. Detailees working on mail at week end numbered 33, and will remain at that level until we see how mail volume develops.

4. A Tally of writers positions on key issues is attached.

MAJOR ISSUES IN
CURRENT PRESIDENTIAL ADULT MAIL
Week Ending 4-15

ISSUE	PRO	CON	COMMENT ONLY	NUMBER OF LETTERS
Aid to Soviet Jews/ Human Rights Stand	97%	2%	1%	336
Energy Saving Suggestions			100%	1,376
Water Project Cuts by President	49%	51%		712
Restrict Imports from Coming Into US	93%	7%		698
Continue The Use of Saccharin	99%	1%		280
Use of Off-Road Vehicles On Public Land	98%	2%		3,060
Economic Problems/Social Security Complaints			100%	1,490
Proposed Raise in Minimum Wage	19%	81%*		291
Deregulation of Airlines	8%	92%		239
Curtailment of Breeder Reactor (3 days)	35%	65%		93
Retain Panama Canal	100%			206
President's Farm Policy	2%	57%	41%	118
Plutonium Curb	93%	7%		729
President's Action re: G. Liddy (3 days)	43%	57%		23
Indictment - John Kearney (FBI) (3 days)		100%		73
Seizure Russian Ships (3 days)	87%	8%	5%	61
			TOTAL	9,785

*Heavily Small Business

THE PRESIDENT HAS SEEN.

done
J

THE WHITE HOUSE

WASHINGTON

April 14, 1977

MEMORANDUM TO THE PRESIDENT

FROM: FRANK MOORE F.M.

SUBJECT: REQUEST TO TELEPHONE SENATOR MUSKIE

Senator Byrd called to say that it is imperative that you call Senator Muskie concerning the $50 tax rebate, because Muskie was so far out on the line with his budget resolution to include it.

As you remember Senator Byrd switched four votes on Muskie's Committee--Hollings, Chiles, Hart and Johnston--in order to include the rebate in the budget resolution.

Dan Tate talked with Muskie about 12:00 last night, and Charlie Schultze has talked with him a number of times today.

Senator Byrd says that Muskie, if allowed to fester, can work himself into a fine rage in a two or three-day period and could not emphasize enough the importance of calling him tonight.

If you could simply call Muskie and say that Senator Byrd asked you to call, that you are sorry if the announcement caught him short, that you appreciate his walking the line for us earlier, and would appreciate his cooperation at this time.

I then need to call Senator Byrd and let him know that the call has been made.

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

April 15, 1977

EYES ONLY

Hamilton Jordan

The attached has been given to Stu Eizenstat. This copy is for your personal information.

Rick Hutcheson

Re: Dam Project Statement

THE WHITE HOUSE
WASHINGTON

4/15/77

rick--

the president asked that
i hand deliver the original
of this note to stu
eizenstat this morning.

-- susan

cc HJS
eyes only

THE WHITE HOUSE
WASHINGTON

4-15-77

To Stu.

Prepare dam project statement listing those which will be eliminated or cut back -

a) On Tennessee Tom list concerns & recom re barge fees, etc.

b) On Bonneville - Take Cecil's option 2 (4-14 memo)

c) Eliminate all marginals

d) Cut maximum on Gulf Outlet - at least cancel pending further study

e) Take Cecil's recom on CAP & Garrison -

f) Cut Texas as recom by you & Bert

g) Delay Auburn as recom.

THE WHITE HOUSE
WASHINGTON

h) Cancel Bodcau Bayou
i) Incl barge fees & environ comp. on Red River

In every case, itemize objections in strongest terms -

J.C.

ps See me if you have ?'s -

THE WHITE HOUSE
WASHINGTON

April 15, 1977

Jim Schleslinger
Stu Eizenstat
Jack Watson

For your information the attached letter has been sent to Chairman Wagner of TVA.

Rick Hutcheson

THE WHITE HOUSE

WASHINGTON

April 15, 1977

To Aubrey Wagner

Thank you for your offer of the Tennessee Valley Authority's help in dealing with the energy crisis. I accept your offer with pleasure. TVA's history of innovation and its unique institutional position make it an obvious leader in dealing with our energy problem.

While I appreciate the steps TVA has already taken, I would like to explore other opportunities with you. Your comments on and reactions to the points outlined below would be most helpful.

- o Assistance in Private Home Weatherization. I applaud TVA's program to provide loans at no interest. How might TVA help make this program, and its impacts, known to other utilities? Is a straight loan program loan adequate, or is there a need to offer "turn-key" services to the homeowner? Will the TVA program achieve weatherization of all homes in the region?

- o Rate Design. What can TVA do in redesigning rates to incorporate cost-tracking rates which provide for peak-load pricing, load management, elimination of declining block rates, fair charges for solar back-up power, elimination of master metering, and similar reforms?

- o Waste Heat Utilization. What have TVA's activities been to encourage cogeneration, and what further programs could be instituted to make better use of the waste heat from TVA generating facilities?

- o Power Pooling. How can TVA's leadership and innovation in developing integrated system-management procedures be advanced nationwide, and are there additional steps the Authority could take in improving the efficiency of power inter-connections?

- o Reserve Requirements. What suggestions would you have for developing a reasonable reserve system which minimizes excess reserves yet assures system reliability?

- o Coal Cleaning. What steps could TVA take, either by itself or working with the Appalachian Regional Commission, to promote cooperatives or other assistance for development of coal cleaning techniques and provision of coal cleaning services?

- o Coal Mining Technology. What possibilities exist for TVA demonstration programs to improve mining production and safety, for example use of long-wall technology? What role can TVA play in making more use of eastern coal?

- o Solar. Is there a role for TVA in helping to finance and promote solar heating and cooling, perhaps in the same manner insulation is being promoted? Could some of the Authority's test and demonstration farms begin experimenting with solar energy in crop drying and biomass techniques? Are there industrial uses for solar energy which TVA could encourage?

- o Fluidized Bed Boilers. How is TVA's work on fluidized bed boiler technology coming, and how can TVA help encourage use of these kinds of systems elsewhere?

- o Flue Gas Desulfurization. Is there a need to expand the joint federal/TVA study on scrubbers? Can TVA take a larger role in improving our ability to control small particle and sulfate emissions?

- o Public Participation. During the development of my national energy plan, I have been impressed with the wide range of public interest in the energy issue and the depth and sophistication of public comments. What ideas might TVA have for expanding public involvement, both in developing local programs and national policies?

I appreciate your willingness to share your thoughts with me on how we can work together to meet the challenge which our energy problem poses. I look forward to reviewing your ideas on the issues discussed in this letter, and any other suggestions which you may have.

Sincerely,

Jimmy Carter

The Honorable Aubrey J. Wagner
Chairman
Tennessee Valley Authority
Knoxville, Tennessee

THE WHITE HOUSE
WASHINGTON

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

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

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

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

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
	X	SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

THE WHITE HOUSE

WASHINGTON

April 13, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT

SUBJECT: JIM SCHLESINGER'S DRAFT LETTER TO TVA
(per your request)

The ideas contained in Jim Schlesinger's proposed letter to TVA are excellent. I feel, however, that his draft is somewhat longer than need be, and perhaps more hortatory than necessary. Attached is a shortened version of the letter which retains almost all of the substantive ideas of Jim's draft, but which modifies the tone of the letter somewhat.

SCHLESINGER DRAFT

THE WHITE HOUSE

WASHINGTON

To Aubrey Wagner

Thank you for your offer of the Tennessee Valley Authority's help in dealing with the energy crisis. Given the magnitude of that crisis I accept your offer with pleasure. TVA's unique institutional position, and its history of social and technological innovation make it the obvious leader in many areas where change is needed.

This letter catalogues some of these areas. I appreciate that TVA has already moved ahead toward solving some of the problems listed below. However, even in those cases, I would appreciate knowing whether you believe there are further opportunities for TVA to raise a standard for others to follow.

- Assistance in Private Home Weatherization. I understand that TVA is providing loans at a zero rate of interest to homeowners to make energy conservation improvements. This is outstanding. I hope other utilities will accept TVA's logic that it is less expensive to insulate a customer's home than build the capacity to provide him energy. What is TVA doing to spread knowledge of its plan and its impacts to other utilities? Is the TVA plan being adopted elsewhere?

  One major concern is whether it is adequate simply to make money available. Is there a need to go further and say offer "turnkey" services to the homeowner? Also, is the three year payback period long enough? It is vital that all homes in TVA's area are weatherized. Will your program achieve this?

- Rate Design. In the 1930's and 1940's, TVA was a pioneer in developing innovative electric rates. The time has come for another major change in the structure of rates. We need widespread adoption of cost-tracking rates that provide for peak-load pricing, load management, elimination of declining block rates, fair charges for solar-backup power, elimination of master-metering and similar reforms. TVA is the obvious institution to develop innovative rate designs and promote their implementation. What are TVA's activities in this area?

THE WHITE HOUSE

WASHINGTON

To Aubrey Wagner

Thank you for your offer of the Tennessee Valley Authority's help in dealing with the energy crisis. Given the magnitude of that crisis I accept your offer with pleasure. TVA's unique institutional position, and its history of social and technological innovation make it the obvious leader in many areas where change is needed.

This letter catalogues some of these areas. I appreciate that TVA has already moved ahead toward solving some of the problems listed below. However, even in those cases, I would appreciate knowing whether you believe there are further opportunities for TVA to raise a standard for others to follow.

- Assistance in Private Home Weatherization. I understand that TVA is providing loans at a zero rate of interest to homeowners to make energy conservation improvements. This is outstanding. I hope other utilities will accept TVA's logic that it is less expensive to insulate a customer's home than build the capacity to provide him energy. What is TVA doing to spread knowledge of its plan and its impacts to other utilities? Is the TVA plan being adopted elsewhere?

  One major concern is whether it is adequate simply to make money available. Is there a need to go further and say offer "turnkey" services to the homeowner? Also, is the three year payback period long enough? It is vital that all homes in TVA's area are weatherized. Will your program achieve this?

- Rate Design. In the 1930's and 1940's, TVA was a pioneer in developing innovative electric rates. The time has come for another major change in the structure of rates. We need widespread adoption of cost-tracking rates that provide for peak-load pricing, load management, elimination of declining block rates, fair charges for solar-backup power, elimination of master-metering and similar reforms. TVA is the obvious institution to develop innovative rate designs and promote their implementation. What are TVA's activities in this area?

SCHLESINGER DRAFT

- Waste Heat Utilization. One of the most underutilized sources of energy is waste heat. TVA could pioneer in establishing cogeneration projects with firms in its region. Also, what can be done to increase utilization of the waste heat from TVA's generating facilities?

- Power Pooling. TVA has been a leader in developing integrated system-management procedures and power pooling arrangements. However, more needs to be done nationwide to improve the scope and efficiency of power pools. Can TVA contribute to improving the efficiency of inter-connections?

- Reserve Requirements. It is vital that all utilities maintain sufficient reserves to assure system reliability. However, our critical energy situation also makes it important to minimize excess reserves. Some authorities have concluded that quality control, reliability programs, and new techniques for computing reserve requirements could reduce reserve requirements. What is TVA's view of this issue?

- Coal Cleaning. As a major user of coal and as the utility supplying many coal producers, TVA could exercise significant leadership in advancing coal cleaning. A major increase in coal utilization will require an expansion in coal cleaning and the development of a hitherto non-existent coal-cleaning industry. TVA with, perhaps, the Appalachian Regional Commission, might promote marketing cooperatives or otherwise seek to assist the development of coal cleaning technologies and ways to provide cleaning services.

- Coal Mining Technology. Along the same lines, if the mines in TVA's area are to participate fully in the expansion of the coal industry, major improvements in mining production and safety are needed. TVA assistance through demonstrations of long-wall mining and other technologies would be useful.

- Solar. Economical solar technologies are available but they need help in commercialization. TVA could show the way. Specifically, in addition to ensuring that tariffs do not hamper development, TVA might consider financing and promoting solar heating and cooling as it is promoting insulation.

TVA's test and demonstration farms might be ideal locations for demonstrating agricultural solar energy applications such as crop drying. Biomass experiments would also be a contribution.

For industrial customers, what can be done to promote low temperature process heat from solar energy? At the research and development level, does TVA have a photovaltic cell program?

° Fluidized Bed Boilers. I appreciate TVA's interest in fluidized bed combustion technology and other new technologies for burning coal. I hope TVA activities will lead to widespread adoption of these techniques throughout the utility industry. What are TVA's plans for this type of technology?

° Flue Gas Desulfurization. I propose that the joint TVA and Federal Government study effort on scrubbers be expanded. This program should examine in detail the generic problems connected with current flue gas desulfurization technology. As a major user of scrubbers, TVA has a large stake in the success of such a program. More important, this is an opportunity for TVA, with Federal help, to solve some industry-wide environmental control problems.

Better technology to control small particles and sulphates that are recognized health hazards but not yet subject to controls are also needed. If TVA takes the lead in developing such technology, we may avoid much of the dehibilitating controversy that has plagued the environmental protection area.

Let me turn to two areas that are more difficult to specify but where we need social innovation of the sort that made TVA's name known worldwide. One is the development and introduction of a new land-use conservation ethic. In the 1930's, TVA pioneered the introduction of technologies that produced remarkable regional growth based on low-cost energy. Today, we must adjust to an era in which energy will be expensive. There is need to develop and implement technologies that are appropriate to this new economic condition. Programs to develop a new conservation ethic and techniques to achieve conservation would have important national and international consequences.

Nationally, there is a great interest in techniques for using non-conventional energy source such as solar energy instead of fossil fuels. Many people are looking for lifestyles and production arrangements that are less energy-intensive. Internationally, many countries are searching for technologies that are appropriate to small economies and require less dependence on imported energy.

A second area where TVA might serve as a model is public participation. In developing the National Energy Plan, I have been struck by the desire of the public to have an input into the decisions and policies that are being made. I have also been struck by the concern of the public that they may be exploited by large energy-producing organizations. New and more effective formats for informing the public as well as mechanisms for meaningful public participation are needed. It is a difficult task, but this is another challenge were TVA could lead the way.

As I said earlier, I appreciate TVA's history of leadership and its current programs in many of these areas. Nonetheless, the challenge for all of us is to do the maximum. I would like your thoughts on the contributions that the Tennessee Valley Authority can make in these or other areas.

Sincerely,

The Honorable Aubrey J. Wagner
Chairman
Tennessee Valley Authority
Knoxville, Tennessee

THE WHITE HOUSE

WASHINGTON

Date: April 8, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson
Jim Fallows

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Jim Schlesinger memo dated 4/8/77 re: Proposed Letter to Chairman of the TVA concerning energy

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 3 P.M.

DAY: Monday,

DATE: April 11

ACTION REQUESTED:

__X__ **Your comments**

Other:

STAFF RESPONSE:

____ **I concur.** ____ **No comment.**

Please note other comments below:

letter signed 4/15

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

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

THE WHITE HOUSE
WASHINGTON

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

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

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

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

		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		STRAUSS
		WELLS
		VOORDE

THE WHITE HOUSE
WASHINGTON

8 April 77

MEMO FOR RICK HUTCHESON

FROM: Jim Schlesinger

Attached is a draft letter to the Chairman of the TVA which the President requested.

Attachment

THE WHITE HOUSE

WASHINGTON

To Aubrey Wagner

Thank you for offering the Tennessee Valley Authority's help in dealing with the energy crisis. Given the magnitude of the crisis, I accept your offer with pleasure. TVA's unique institutional position, and its history of social and technological innovation, make it a valuable source of leadership and advice.

This letter catalogues many of the areas where change is needed. I recognize that TVA has already taken steps to help solve some of them, but I would appreciate knowing whether you believe there is more that can be done.

- Assistance in Private Home Weatherization. I understant that TVA has taken the commendable step of providing homeowners with interest free loans for energy conservation improvements. I hope other utilities will recognize the logic of TVA's views that it is less expensive to insulate a customer's home than to build the generating capacity necessary to provide him with additional energy. What has TVA done to let other utilities know of this approach? Is your plan being adopted elsewhere?

  Have you found that is enough simply to make money available? Or is there a need to go further-- for example, by offering "turnkey" services to the homeowner? Is the three year payback period long enough? Ideally, all homes in TVA's area should probably be weatherized. Will your program achieve this? Is your program designed to achieve this?

- Rate Design. In the 1930's and 1940's, TVA was noted for its innovative approach to electric rates. We need rate reform to provide for peak-load pricing, load management, elimination of declining block rates, fair charges for solar-backup power, and elimination of master-metering. You are the obvious institution to develop such rate designs and promote their use. What are TVA's activities in this area?

- Waste Heat Utilization. One of the most neglected sources of energy is waste heat. Working with firms in your region, can you provide leadership in establishing cogeneration projects? Also, what can be done to increase the effective use of waste heat from your own generating facilities?

- Power Pooling. TVA has been a leader in developing integrated system-management procedures and power pooling arrangements. However, the scope and efficiency of power pools need nationwide improvement. How can TVA help?

- Reserve Requirements. All utilities must maintain sufficient reserve to ensure their continuing reliability. But our present energy situation makes it necessary to keep excess reserves to a minimum. Some authorities have concluded that quality control, reliability programs, and new techniques for computing reserve requirements could reduce reserve requirements. What is TVA's view of this issue?

- Coal Cleaning. A major increase in the use of coal will require an expansion in coal cleaning and the development of a hitherto non-existent coal-cleaning industry. TVA, perhaps aided by the Appalachian Regional Commission, could promote marketing cooperatives and other means to help develop this technology.

- Coal Mining Technology. If the coal mines in TVA's area are to share in the coal industry's imminent expansion, major improvements in mining production and safety are needed. TVA assistance through demonstrations of long-wall mining and other technologies would be useful.

- Solar. Economical solar technologies are presently available, but they have received too little commercial attention. TVA could show the way. Specifically, in addition to ensuring that tariffs do not hamper development, you might consider financing and promoting solar heating and cooling with the same vigor and imagination you have given to promoting insulation.

  TVA's test and demonstration farms might be ideal locations for demonstrating agricultural solar energy application such as crop drying. Biomass experiments would also be a contribution.

  For industrial customers, what can be done to promote low temperature process heat from solar energy? At the research and development level, does TVA have a photovaltic cell program?

- Fluidized Bed Boilers. I hope TVA's activities in fluidized bed combustion technology and other new technologies for burning coal will encourage the widespread adoption of these techniques throughout the utility industry. What are your expectations for this type of technology?

- Flue Gas Desulfurization. The joint TVA and Federal Government study of scrubbers should be expanded. It should examine in detail the generic problems connected with current flue gas desulfurization technology. As a major user of scrubbers, TVA has a large stake in the success of such a program.

  Better technology is also necessary to control hazardous particles and sulphates that are not yet subject to controls.

There are two other areas where we need social innovation of the sort that made TVA's name known worldwide. One is the implementation of a new ethic of land-use conservation. In the 1930's TVA led the way to remarkable regional growth based on low-cost energy. Today, we must adjust to the fact that energy has become, and will remain, expensive. Consequently we need to develop and implement technologies that are appropriate to this new economic condition. Nationally, there is a great interest in techniques that would allow us to rely more heavily on new energy sources like solar energy instead of fossil fuels. Many Americans are looking for less energy-intensive methods of production. And internationally, there is growing interest in new technology that requires less dependence on imported energy.

Public participation is a second area where innovation is important. In developing the National Energy Plan, I have been impressed by the depth of the public's desire to share in the formulation of policy. I have also been reminded of the public's widespread concern that energy consumers may be exploited by large energy-producing organizations. New and more effective ways of informing the public and encouraging public involvment are needed. TVA could lead the way in this effort.

I appreciate your offer of help, and I would like your thoughts on the contributions that the Tennessee Valley Authority can make in these or other areas.

Sincerely,

The Honorable Aubrey J. Wagner
Chairman
Tennessee Valley Authority
Knoxville, Tennessee

THE WHITE HOUSE

WASHINGTON

Date: April 8, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson
Jim Fallows

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Jim Schlesinger memo dated 4/8/77 re: Proposed Letter to Chairman of the TVA concerning energy

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 3 P.M.

DAY: Monday,

DATE: April 11

ACTION REQUESTED:

_X_ Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

THE WHITE HOUSE
WASHINGTON

8 April 77

MEMO FOR RICK HUTCHESON

FROM: Jim Schlesinger

Attached is a draft letter to the Chairman of the TVA which the President requested.

Attachment

THE WHITE HOUSE

WASHINGTON

To Aubrey Wagner

Thank you for your offer of the Tennessee Valley Authority's help in dealing with the energy crisis. Given the magnitude of that crisis I accept your offer with pleasure. TVA's unique institutional position, and its history of social and technological innovation make it the obvious leader in many areas where change is needed.

This letter catalogues some of these areas. I appreciate that TVA has already moved ahead toward solving some of the problems listed below. However, even in those cases, I would appreciate knowing whether you believe there are further opportunities for TVA to raise a standard for others to follow.

- Assistance in Private Home Weatherization. I understand that TVA is providing loans at a zero rate of interest to homeowners to make energy conservation improvements. This is outstanding. I hope other utilities will accept TVA's logic that it is less expensive to insulate a customer's home than build the capacity to provide him energy. What is TVA doing to spread knowledge of its plan and its impacts to other utilities? Is the TVA plan being adopted elsewhere?

  One major concern is whether it is adequate simply to make money available. Is there a need to go further and say offer "turnkey" services to the homeowner? Also, is the three year payback period long enough? It is vital that all homes in TVA's area are weatherized. Will your program achieve this?

- Rate Design. In the 1930's and 1940's, TVA was a pioneer in developing innovative electric rates. The time has come for another major change in the structure of rates. We need widespread adoption of cost-tracking rates that provide for peak-load pricing, load management, elimination of declining block rates, fair charges for solar-backup power, elimination of master-metering and similar reforms. TVA is the obvious institution to develop innovative rate designs and promote their implementation. What are TVA's activities in this area?

- Waste Heat Utilization. One of the most underutilized sources of energy is waste heat. TVA could pioneer in establishing cogeneration projects with firms in its region. Also, what can be done to increase utilization of the waste heat from TVA's generating facilities?

- Power Pooling. TVA has been a leader in developing integrated system-management procedures and power pooling arrangements. However, more needs to be done nationwide to improve the scope and efficiency of power pools. Can TVA contribute to improving the efficiency of inter-connections?

- Reserve Requirements. It is vital that all utilities maintain sufficient reserves to assure system reliability. However, our critical energy situation also makes it important to minimize excess reserves. Some authorities have concluded that quality control, reliability programs, and new techniques for computing reserve requirements could reduce reserve requirements. What is TVA's view of this issue?

- Coal Cleaning. As a major user of coal and as the utility supplying many coal producers, TVA could exercise significant leadership in advancing coal cleaning. A major increase in coal utilization will require an expansion in coal cleaning and the development of a hitherto non-existent coal-cleaning industry. TVA with, perhaps, the Appalachian Regional Commission, might promote marketing cooperatives or otherwise seek to assist the development of coal cleaning technologies and ways to provide cleaning services.

- Coal Mining Technology. Along the same lines, if the mines in TVA's area are to participate fully in the expansion of the coal industry, major improvements in mining production and safety are needed. TVA assistance through demonstrations of long-wall mining and other technologies would be useful.

- Solar. Economical solar technologies are available but they need help in commercialization. TVA could show the way. Specifically, in addition to ensuring that tariffs do not hamper development, TVA might consider financing and promoting solar heating and cooling as it is promoting insulation.

TVA's test and demonstration farms might be ideal locations for demonstrating agricultural solar energy applications such as crop drying. Biomass experiments would also be a contribution.

For industrial customers, what can be done to promote low temperature process heat from solar energy? At the research and development level, does TVA have a photovaltic cell program?

° Fluidized Bed Boilers. I appreciate TVA's interest in fluidized bed combustion technology and other new technologies for burning coal. I hope TVA activities will lead to widespread adoption of these techniques throughout the utility industry. What are TVA's plans for this type of technology?

° Flue Gas Desulfurization. I propose that the joint TVA and Federal Government study effort on scrubbers be expanded. This program should examine in detail the generic problems connected with current flue gas desulfurization technology. As a major user of scrubbers, TVA has a large stake in the success of such a program. More important, this is an opportunity for TVA, with Federal help, to solve some industry-wide environmental control problems.

Better technology to control small particles and sulphates that are recognized health hazards but not yet subject to controls are also needed. If TVA takes the lead in developing such technology, we may avoid much of the dehibilitating controversy that has plagued the environmental protection area.

Let me turn to two areas that are more difficult to specify but where we need social innovation of the sort that made TVA's name known worldwide. One is the development and introduction of a new land-use conservation ethic. In the 1930's, TVA pioneered the introduction of technologies that produced remarkable regional growth based on low-cost energy. Today, we must adjust to an era in which energy will be expensive. There is need to develop and implement technologies that are appropriate to this new economic condition. Programs to develop a new conservation ethic and techniques to achieve conservation would have important national and international consequences.

Nationally, there is a great interest in techniques for using non-conventional energy source such as solar energy instead of fossil fuels. Many people are looking for lifestyles and production arrangements that are less energy-intensive. Internationally, many countries are searching for technologies that are appropriate to small economies and require less dependence on imported energy.

A second area where TVA might serve as a model is public participation. In developing the National Energy Plan, I have been struck by the desire of the public to have an input into the decisions and policies that are being made. I have also been struck by the concern of the public that they may be exploited by large energy-producing organizations. New and more effective formats for informing the public as well as mechanisms for meaningful public participation are needed. It is a difficult task, but this is another challenge were TVA could lead the way.

As I said earlier, I appreciate TVA's history of leadership and its current programs in many of these areas. Nonetheless, the challenge for all of us is to do the maximum. I would like your thoughts on the contributions that the Tennessee Valley Authority can make in these or other areas.

Sincerely,

The Honorable Aubrey J. Wagner
Chairman
Tennessee Valley Authority
Knoxville, Tennessee

THE WHITE HOUSE

WASHINGTON

Date: April 8, 1977 MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson
Jim Fallows

FOR INFORMATION:

1977 APR 8 PM 3 43

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Jim Schlesinger memo dated 4/8/77 re: Proposed Letter to Chairman of the TVA concerning energy

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 3 P.M.

DAY: Monday,

DATE: April 11

ACTION REQUESTED:

__X__ Your comments

Other:

STAFF RESPONSE:

____ I concur.

Please note other comments below:

__X__ No comment.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

THE WHITE HOUSE

WASHINGTON

Date: April 8, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson
Jim Fallows

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Jim Schlesinger memo dated 4/8/77 re: Proposed Letter to Chairman of the TVA concerning energy

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 3 P.M.

DAY: Monday,

DATE: April 11

ACTION REQUESTED:

_X_ Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

THE WHITE HOUSE

WASHINGTON

235

Date: April 8, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson
Jim Fallows

FOR INFORMATION:

X C Camp Schlesinger

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Jim Schlesinger memo dated 4/8/77 re: Proposed Letter to Chairman of the TVA concerning energy

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 3 P.M.

DAY: Monday,

DATE: April 11

ACTION REQUESTED:

__X__ Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required

cc: Schultze
Eizenstat
Rearrange & sharpen
more at
top - Keep
language sharp
JC

Today, I am announcing an anti-inflation program with the following elements:

-- Strengthening the ability of the Council on Wage and Price Stability to analyze and report on inflationary conditions in individual markets and industries.

-- An early warning system through the Council on Wage and Price Stability to forecast shortages and propose remedial actions before inflationary pressures develop.

-- Establishment of a framework for regular consultation among labor, business and government leaders in reaching our economic goals.

-- Moderation of the sharp fluctuations in the supply of commodities, which have triggered inflation in recent years, through the following:

-- negotiations to stabilize the world price of wheat, sugar and feed grains, and an open-minded look at price stabilizing agreements for other commodities;

-- farmer-held domestic food reserves to stabilize consumer prices and farmers' incomes;

Electrostatic Copy Made
for Preservation Purposes

-- legislation that will give me specific authority to sell raw materials from the nation's strategic stockpiles in the event of supplydisruptions during peacetime.

-- Full consideration of the economic cost of regulations, through a more effective economic impact statement for major government regulations.

-- Greater emphasis on achieving compliance with regulations through incentive and performance standards rather than detailed specification of means, and efforts to improve effectiveness and to reduce red tape and delay.

-- Incentives for business to increase investment in new productive capacity.

-- A new program to restrain increases in hospital costs.

-- Regular monthly meetings with administration officials and the Chairman of the Federal Reserve to insure better coordination of monetary and fiscal policies.

-- Employment policies that stress job skills training and improved job placement services.

-- Strict enforcement of the anti-trust laws, including a crackdown on price fixing and those who engage in monopolistic practices.

-- Efforts to encourage state and local governments to avoid increases in sales and other taxes that directly affect prices.

-- Efforts by the Department of Commerce and other agencies to eliminate costly delays in construction permit issuance.

-- More efficient federal procurement policies, including increased competitive bidding and a Defense Renegotiation Board that bears down on unwarranted cost overruns.

-- Reorganization of the Federal government to streamline the operations of the government, improve its efficiency, and make it a more effective instrument to achieve our national objectives within budgetary constraints.

-- Tight fiscal constraints, zero base budgeting and cooperation with the Congress to eliminate deficit spending in time of normal economic conditions.

-- Regular monthly meetings and close consultation with administration officials and the Chairman of the Federal Reserve.

-- Cooperation with other nations to strengthen the influence of the International Monetary Fund in more responsible international financial policy.

-- Development of a national commitment to reduce the waste of energy and other scarce commodities.

-- Maximum deregulation to encourage competition within regulated industries.

-- Initiation of zero base budgeting to aid in eliminating unnecessary federal programs and expenditures.

-- Revising OSHA legislation to permit detailed health regulations and the enforcement of safety standards through increased workmen's compensation payments.

-- Free international trade with a minimum of import constraints.

Reducing inflation is going to require a united national effort, and the federal government should lead and not be timid. But of course we cannot hope for easy answers from the government because there are none. Already I have had to make decisions to limit the inflationary impact of farm price supports and the minimum wage, and I have rejected excessively restrictive tariffs and quotas on imports of shoes and mushrooms. Efforts have been initiated to eliminate and to prevent unnecessary government spending on politically popular public works projects. Each of these decisions was difficult, but necessary to the overall goal of inflation reduction.

I believe that government, business and labor together can reasonably aim to control and reduce inflation to 4% by the end of this administration while still vigorously pursuing our commitment to full employment.

If we are to get inflation under control, American business leaders must voluntarily moderate their rate of price increases, and American workers must voluntarily moderate their rate of wage increases. In the long run, that is the only path to more jobs, stable prices, and greater real income for all our people.

~~CONFIDENTIAL~~ -- NOT FOR CIRCULATION

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

April 14, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT

SUBJECT: Addendum to Anti-Inflation Statement

I have sent copies of the draft statement to all members of the Executive Committee of the Economic Policy Group.

Secretary Marshall called to express his strong view that Page 19 of the statement should be revised in accordance with the attached. Secretary Marshall feels that the specific reference to Secretary Blumenthal alone, of all your economic advisers, makes the collaborative effort appear dominated by the management viewpoint. Secretary Marshall says that organized labor agrees with his view and would be appreciative of the suggested change.

The Vice President also believes that the reference should be a general one to your "principal economic advisers."

I raised this point with Secretary Blumenthal earlier today and he stated that the language had been negotiated and agreed to by AFL-CIO. Secretary Marshall informed me, however, that the AFL-CIO had agreed to the specific mention of Secretary Blumenthal only out of a reluctance to embarrass him to his face.

"DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 16, 1983"

[illegible] to monitor the results [illegible]. Most importantly, this joint effort must be voluntary and cooperative and not be based on coercive or self-defeating controls.

I have discussed this problem with representatives of labor and business and have received their assurances of complete cooperation in the development of a joint anti-inflation effort.

Accordingly, I have asked the President of the AFL-CIO, and the Chairman of the General Electric Company, to help to coordinate this new cooperation between labor, management, and the Government. Within the Government, I have asked ~~the Secretary of the Treasury, Mike Blumenthal, in his capacity as Chairman of the Economic Policy Group and the Council on Wage and Price Stability, and in collaboration with~~ my principal ~~other~~ economic advisers, to work with these gentlemen and other representatives of business and labor in developing the more detailed arrangements for implementing this part of my anti-inflation program.

I expect this work to begin immediately. While the collaborative effort ought to be a permanent one, I hope that some concrete approaches for private sector cooperation in reducing inflation can be developed with

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 11, 1977

MEMORANDUM FOR THE PRESIDENT

FROM Charlie Schultze CLS

SUBJECT: Draft of Anti-Inflation Statement

Attached is a CEA draft of the major parts of an anti-inflation statement. Stu Eizenstat and the EPG principals also have copies for comment.



4/9/77

DRAFT PRESIDENTIAL STATEMENT ON AN ANTI-INFLATION PROGRAM

Throughout my campaign for the Presidency, I stressed that the two most important goals for the American economy were providing jobs and reducing inflation. Two months ago, I sent to the Congress an economic stimulus package that was the first installment of my program to increase employment. Today, I want to outline the steps we must take together to control and reduce inflation.

Prices are no longer rising at the double-digit rate of 1974. But inflation continues to plague the American economy. Prices are still going up at a basic rate of about 6 percent a year. And this terribly cold winter has reminded us that the economy remains vulnerable to shocks that can trigger even higher inflation rates.

Inflation can jeopardize our most important national goals. It undermines our efforts to achieve a just distribution of income by hitting particularly hard at the poor and the disadvantaged. It undermines our efforts to reach and hold

Electrostatic Copy Made
for Preservation Purposes

a high level of employment. Measures to expand the economy and create more jobs will not work unless we control inflation. The business and consumer confidence that is essential to a healthy, growing economy will be eroded by rapidly rising prices.

We must clearly avoid a new outbreak of inflationary pressures as the economy returns to full employment. But we must also work to reduce the existing rate of inflation inherited from the past. To accomplish these tasks, we must understand the forces that have been causing inflation.

Perspectives on the Inflation Problem

Difficult inflationary problems began more than a decade ago, when poor management of budget financing during the Vietnam War led to excess demand and an overheated economy. Excess demand again became a problem in late 1972 and 1973, when all the major industrial countries around the world experienced a simultaneous boom in economic activity.

We know, however, that economic overheating is not the only source of rising prices. Since the end of 1973, the entire world economy has suffered from widespread unemployment and idle capacity -- and yet prices have continued to rise almost everywhere.

The sources of inflation in our country and in others are many and complex. Some of them have been beyond our control. For example, in 1972 crop failures here and abroad reduced supplies of food. This led to a 35 percent rise of consumer food prices in the United States during 1973 and 1974. Since late 1973, world prices of petroleum products have risen fourfold because of the actions of the OPEC countries, and this has resulted in a 50 percent rise in the price of fuel and electricity to American consumers. Prices of imports that we depend on have also been driven up by changes in foreign exchange rates and by periodic shortages of commodities traded in international markets.

Part of our inflationary problem stems from the changing role of government in national economic life. Over the past decade, our citizens have grown less tolerant of environmental pollution, dangers to the health and safety of workers, denial of opportunity to minority groups, inadequate retirement benefits and health care for the elderly, and a host of other serious economic and social problems. They have demanded that the Federal Government take forceful steps to improve the quality of life for all of our people.

In many cases measures to achieve these objectives add to costs and prices. Requiring industries to add new pollution control equipment or safety devices raises costs. So do increases in payroll taxes which finance medical care and social security benefits.

We will not back down on our commitment to a cleaner environment, to adequate health and safety standards, and to other improvements in the quality of life. But we must insure that

the methods by which we achieve these objectives do not involve unnecessary costs.

Government affects prices and costs in still other ways. Restrictions on international trade to protect American firms and workers tend to raise prices. Regulation of rates and prices in many industries often puts a floor under prices and reduces competition. Decisions on farm price supports, minimum wages, and medical insurance have direct effects on inflation. There is no way to avoid making difficult decisions in these areas, and each decision must balance our concern for particular groups with our concern for the economy as a whole.

Controlling inflation will require dealing as effectively as we can with each of its many causes. We will also have to find ways to break into the self-perpetuating spiral of costs and prices that develops once inflation has been underway for a prolonged period. Inflation inevitably leads to efforts by

individuals and business to raise their money incomes to protect themselves against rising costs and prices. The end result can only be continued inflation. It is not the fault of labor, nor of business, nor of any one group. No one gains, and everyone loses. Wages have not outpaced inflation -- since 1972 the real purchasing power of the average wage earner have actually fallen. Nor have profit rates recovered to the healthy levels of the mid-1960's.

Over the past several years, our national economy has been severely depressed. The resulting costs in terms of unemployment, increased poverty, lost income and production, reduced productivity growth, and inadequate expansion of our productive potential for the future have been staggering. Since 1974, we have lost nearly _____ billion in output and income because our economy has been operating at far below its potential.

Despite these enormous costs, inflation still persists. High unemployment is neither an effective nor an acceptable way of making progress against inflation. I am therefore setting forth today an anti-inflation program tailored to the nature of the problems we face. This program has three parts:

-- The Federal Government will pursue economic and budgetary policies that promote strong and durable growth in jobs and output, but also prevent the overstimulation that causes excess demand.

-- The Federal Government will take specific actions to improve the efficiency of the economy, expand the productive capacity of industry, reduce our vulnerability to economic disruptions, and attack the roots of particular inflationary problems.

-- I will ask business and labor to join voluntarily with Government in an effort to achieve our common objectives of providing jobs, controlling inflation and attaining economic stability.

Economic and Budgetary Policies

Today's inflation is occurring amidst widespread unemployment and extensive idle capacity. By any objective measure, the economy has ample room to expand without running into excess demands that could touch off a new round of inflation.

Yet many people in the business and financial community and among the public in general are fearful that current budgetary policies will lead to renewed inflationary pressures. I want to address those fears directly.

We have large budget deficits today because recovery from the worst recession in 40 years is still incomplete, and because stimulative measures are needed now to get the private economy moving again. As the recovery proceeds, however, it is imperative that budget deficits steadily shrink and eventually disappear. The combined total of private and public demands on the economy must not be allowed to exceed our productive capacity, for that is a sure-fire way to

reignite inflation. I have made a firm commitment to have a balanced budget in a prosperous economy by 1981, and I intend to honor that commitment.

Two steps are essential to balancing the budget. The first is a durable expansion in the private economy that will generate steady growth of jobs, incomes, and Federal revenues. My proposals for fiscal stimulus will put us on the road to full recovery, but they will also preserve the Federal Government's ability to move steadily toward budget balance. I urge the Congress to enact those economic proposals and to stay within the overall budgetary limits I proposed.

The second step is to moderate the growth of Federal spending in the years ahead. The budgets that I will submit will contain responsible expenditure ceilings, and I will work continuously within the Executive Branch and with the Congress to ensure that we stay within them.

If Federal resources are used wisely, I believe we

can control spending and still meet the vital needs that face the Nation. We can deal compassionately with the problems of the poor and the disadvantaged without being profligate. To do this, however, will require difficult choices, and I will make them. The budgets that I approve will reflect zero-based reviews of all Federal programs. No ineffective program will be immune to curtailment simply because it was already in the budget. But no critical program will be refused simply because it is new. The Congress, in carrying out the procedures established in the Budget Reform Act, has shown its concern for responsible budget policies. I believe we can work together to meet our country's needs,yet stay within prudent fiscal limits.

I made Government reorganization and managerial efficiency a keystone of my campaign for the Presidency. The Congress enacted, and last week I signed, a measure to give the President authority to reorganize the Executive Branch, subject to Congressional veto. I intend to use that authority to the

fullest to streamline the operations of the Federal Government, improve its efficiency, and make it a leaner, more effective instrument to achieve national objectives.

The course of fiscal policy I have outlined will aid the Federal Reserve in its efforts to stay on a prudent course of monetary and credit policy. A declining Federal deficit as we approach full employment will help avoid excessive increases in demands for money and credit that, if accomodated, would lead to inflation and ultimately to higher interest rates. Within that framework, the Federal Reserve can provide an expansion of money and credit consistent with moderate interest rates and a steady and noninflationary growth of employment and output.

Specific Actions by Government

Besides overall monetary and fiscal policies, there are a number of specific steps the Government can take to reduce our vulnerability to new inflationary pressures and to slow

the current inflation. I am proposing the following actions:

Early Warning System: I will instruct the Council on Wage and Price Stability to develop detailed forecasts of inflation trends in particular industries and sectors. The aim of this effort will be to detect emerging bottlenecks and other problems that, if left unattended, would lead to significant price increases. The Council will pay special attention to markets with a potential for future shortages, to markets of major economic importance, and to markets where government policies can have significant effects on domestic supply. When the Council perceives a serious problem, it will propose remedial actions to the Economic Policy Group for ultimate consideration by the President.

Commodity Reserves: When prices of raw materials and food rise, the effects tend to spread throughout the economy, raising the rate of price and wage increases generally. When

raw material prices fall, however, prices and wages do not respond fully. Reducing fluctuations in commodity prices, therefore, helps to reduce inflation. To assure adequate commodity supplies, several actions will be taken:

1) The Secretary of Agriculture has developed within existing legislation a program that provides for an orderly buildup of adequate reserves of food and feed grains. Under announced conditions, those reserves will be made available as a means of stabilizing markets and reducing speculative price fluctuations. This reserve will also help to promote export sales of agricultural commodities by demonstrating our ability to meet supply commitments even in the event of poor crop yields.

2) I have instructed my advisers to enter into negotiations for international programs to moderate fluctuations in markets for wheat and sugar, and to develop policy proposals for a similar program with respect to feedgrains.

3) United States negotiators have also been instructed to respond positively to international proposals for other commodity agreements that concentrate on stabilizing world prices.

4) I will shortly request legislation from the Congress to authorize specifically the use of existing strategic stockpiles of raw materials to meet supply disruptions during peacetime. To aid industry in evaluating future market conditions, this legislation should exclude use of the strategic stockpile for purposes of general price stabilization.

Incentives for Increased Investment and Capacity: The rate of expansion of capacity -- especially in the basic materials industries -- must be stepped up to head off problems of shortages that might otherwise occur in later years. Actions will be taken in several areas:

-- Strengthened investment incentives will be a key element of this Administration's program for

comprehensive tax reform.

-- I have asked the Secretary of Commerce to work with other Government agencies to investigate the general problem of delays in permit issuance by Government agencies which unnecessarily lengthen construction periods, and to recommend new procedures which will simplify and speed up the permit issuance process.

-- I have asked the Council on Wage and Price Stability to undertake a review of potential capacity problems in critical materials industries and to evaluate alternative means to provide incentives to accelerate the expansion of capacity in those industries.

Government Rate Setting Regulations: In the past, Federal regulations often have caused unnecessary price increases by failing to reflect opportunities for expanded competition within regulated industries. Too often, existing

regulations have had more effect in protecting the interests of regulated industries than in promoting efficiency and cost reductions. There is much that Congress and the Administration can do to reverse this situation.

The redirection or elimination of regulations that no longer serve national needs can directly lower prices for consumers. The relaxation of unduly restrictive regulations can improve the ability of the economy to adjust to changing economic circumstances.

This Administration has already indicated its strong support for reform of airline regulations. We are now evaluating specific suggestions for reforms of regulations affecting surface transportation, and will undertake a review of the potential for increased competition in other regulated sectors of the economy.

An Agency for Consumer Advocacy, which I have urged the Congress to establish, can also play a role in the fight

against inflation. Regulatory agencies establish rates, standards and incentives for businesses to follow, and the Government is a major purchaser of goods and services. Actions in these areas, and in others, can raise prices to consumers substantially. The Agency can use its powers of intervention and its ability to collect, analyze and disseminate information to help keep costs from rising unnecessarily.

Social Regulation: Actions can be taken to improve the environment and to protect consumers and workers against health and safety hazards without excessive costs or red tape.

--I have initiated efforts to simplify regulations and to promulgate them with less delay, two factors that can go a long way toward reducing the uncertainty surrounding business planning that is often caused by existing regulatory procedures.

--An interim review procedure will be established to encourage regulators to include economic analysis as an integral part of regulation writing, without lengthening the regulatory process. Agencies will be instructed to consider the full range of alternative approaches to a specific regulatory goal in terms of effectiveness and relative economic impact.

--An interagency group currently is studying the regulatory process to identify how regulatory agencies can place greater emphasis upon incentives and performance standards, rather than detailed specifications of the means by which the goals should be achieved.

Employment and Manpower Programs: We can reduce both unemployment and inflation by measures which improve job skills, increase the efficiency of the labor market and target job opportunities on groups suffering from very high unemployment rates.

--The public works and employment programs contained in my economic stimulus proposals are targeted on groups and areas with high unemployment.

--We have proposed a major expansion of programs to provide job opportunities and skill training for youths.

--We will work through the schools and other community organizations to strengthen job placement and employment counselling services to people seeking to enter or reenter the labor force.

--We will intensify our efforts to eliminate job discrimination based on race, sex or age.

--I have instructed the Secretary of Labor to develop measures for relocation assistance and improved job placement services to help workers find and employers fill job vacancies.

International Trade Policy: This Administration will carefully balance the benefits to consumers of freer trade with the need to moderate disruptive influences on American workers and firms. International trade can play an important role in the fight against inflation. It is the most effective

means of improving efficiency and maintaining competition within American industry. We benefit from lower prices and greater productivity by expanding our production in those industries where we have a competitive advantage compared to other countries, and trading for those goods which we find more costly to produce. Tariff and quota protections are costly. They cause our more efficient industries to lose export sales and employment, and consumers to pay higher prices.

We will emphasize the benefits of a freer trade system in international negotiations. In particular, the United States will push for a successful conclusion of multi-national trade negotiations in Tokyo.

At the same time, it is important that we develop better means to prevent import competition from severely disrupting individual domestic industries. I have

Electrostatic Copy Made
for Preservation Purposes

instructed the Secretaries of Labor and Commerce, in consultation with other agencies, to develop an effective program for industries that are adversely affected by trade. The program will emphasize assistance designed to improve the efficiency and competitive position of those industries.

Medical Care Costs: The cost of hospital care is increasing at more than twice the overall rate of inflation. The absence of effective policies has led to wasteful use of available medical resources. At the same time, there are serious problems in the quality and equality of access to medical care. The Secretary of Health, Education, and Welfare is currently working with representatives of the private sector and the Congress to develop a hospital cost containment program. We shall announce specific

details of this program by April 19 and hope to have it approved by the Congress and implemented by the beginning of the 1978 fiscal year.

Anti-Trust Laws: Resolute enforcement of the anti-trust laws can maintain and enhance the forces of competition, the surest guarantee that products will be available in the marketplace at competitive prices. The Justice Department will vigorously enforce the laws against those who fix their prices at artificial levels. When the degree of concentration in a market produces clearly anti-competitive results, the Department will bring cases designed to eliminate those restraints on competition. The recent policy of intervening in regulatory agency actions will also continue in order to inject competition into regulated industries wherever that is feasible.

I intend to play an active role in assuring that the measures I have outlined receive the highest priority in government agencies. I am prepared to make the difficult choices that will inevitably arise in every one of these areas.

[Final section on Enlisting the Support of Business and Labor to be written after further consultation with business and labor leaders. Blumenthal, Kreps and Schultze are meeting with some business people Tuesday morning. We are trying to set up a meeting with Blumenthal, Marshall and Meany.]

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

March 31, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: ARTHUR F. BURNS

SUBJECT: Proposals to Reduce Inflation

1. Curb the expansion of Federal spending and work diligently towards the gradual elimination of budget deficits.

2. Urge Congress to pass tax measures that will encourage the expansion and modernization of our industrial plant.

3. Resist increased barriers to our imports from foreign countries, and lead the entire world community toward a general reduction in trade barriers.

4. Resist new restrictions on agricultural production and urge Congress to remove some of the remaining restrictions.

5. Relax the regulation of transport industries -- in trucking, railroads, airlines, water transport -- so as to ease entry into the business, relax restrictions on routes, and permit rates to move freely within a zone of reasonableness.

6. Moderate the effects of Federal environmental standards on production costs by postponing target dates for compliance.

7. Establish model building codes that eliminate outdated or unnecessary restrictions, and rationalize present Federal, State, and local environmental regulations -- some of which are overlapping or contradictory.

8. Direct more vigorous enforcement of the antitrust laws.

9. Appoint an energetic young businessman with a good background in labor relations to head the Council on Wage and Price Stability.

10. Order the Council on Wage and Price Stability to be alert to apparent abuses of economic power, whether by business or labor, and to hold public hearings on price or wage increases when the public interest is significantly involved.

11. In the skilled construction trades, establish national bargaining committees that would have the power to reject local bargaining agreements and, thereby, reduce the likelihood of leapfrogging wage settlements.

12. Establish a national productivity center to assist local labor and business leaders to form productivity councils within individual enterprises in each of our sizable cities, with the objective of raising output per manhour. ←

13. Reform present Federally-funded training programs so as to emphasize training on the job and training for needed skills. ✓

14. Reduce or eliminate unreasonable restrictions on entry into various professions and skilled trades. ← no

15. Reform pension laws and regulations so as to enable or encourage individuals to postpone retirement.

16. Establish a comprehensive program of job vacancy statistics to supplement current statistics on unemployment.

17. Speed development of fully computerized job banks. ✓

18. Urge Congress to repeal the Davis-Bacon Act in order to curb the escalation of construction costs. no

19. Urge Congress to reduce the minimum wage for teenagers so as to encourage employers to hire unskilled youths and perhaps also give them on-the-job training. no

20. Address by the President on the dignity of honest work and the evils of featherbedding.

THE WHITE HOUSE

WASHINGTON

March 31, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT

SUBJECT: Arthur Burns

Pursuant to your request, I followed up on your telephone call with Arthur Burns on his inflation statement.

Attached are his talking points. He indicated that he would like to supplement these after his forthcoming trip to Phoenix.

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

March 31, 1977

The President
The White House
Washington, D. C.

Dear Mr. President:

I was pleased to hear from you this morning. And I very much hope that the attached memorandum, which I had to throw together very quickly, may be of some help to you. I realize, of course, that some items in my listing -- particularly No. 18 and No. 19 -- are extremely difficult, if not practically impossible, in today's political environment.

I am going off to Phoenix tomorrow morning, but I'll be back on Sunday and I would be glad to clarify or to expand upon any items in the enclosed memorandum that may be of interest to you.

With every good wish,

Sincerely yours,

Arthur F. Burns

Enclosure

THE WHITE HOUSE

WASHINGTON

3-31-77

To Charles Schultze

There is nothing in your inflation memo involving government spending restraints - future impact of initiating new programs - balancing the federal budget etc.

Why?

J. C.

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

a) Work on mtg to Congress
b) Consult c A. Burns

March 29, 1977

Susan -
hold for a week
J

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

In line with our discussion this morning I am attaching a summary of the CEA first draft on the anti-inflation policy.

There are a number of areas where it needs to be made more specific. It has been seen by other members of the Economic Policy Group, but their suggested revisions and additions are still to come.

Electrostatic Copy Made
for Preservation Purposes

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

ELEMENTS OF A COMPREHENSIVE ANTI-INFLATION STRATEGY

SUMMARY

A program to reduce the present rate of inflation and to prevent any future acceleration is a top priority of this Administration. Reducing inflation is important for its own sake. Indeed the majority of the U.S. public views inflation as our most serious economic problem. But it is also an essential ingredient in reaching other goals, particularly a high and sustained level of employment:

- measures to expand the economy and to create more jobs will be discredited in the event of any acceleration of inflation, even if that acceleration is not caused by excessive stimulus.

- while the Federal Reserve may be expected to supply the money needed to accommodate recovery, it will not continue indefinitely to finance the current rate of inflation, much less any step-up in the inflation rate.

- the attitudes of both consumers and business firms are strongly influenced by inflation; a declining rate of inflation will strengthen buying plans and investment programs; a rising rate would weaken them.

The Immediate Inflation Outlook and Feasible Long Run Targets

Clearly, the inflation problem is not curing itself. The underlying rate of inflation has been stuck close to 6 percent since mid-1975. Consumer prices rose 4.8 percent during 1976, compared to 12.2 percent and 7.0 percent in 1974 and 1975. But the 1976 performance was not nearly as good as it looks -- excluding food, it was 6 percent.

Unfortunately, the inflation news will look worse in the near future. Recent declines in farm prices will not continue. Energy prices have risen sharply in recent months. An anti-inflationary initiative is especially urgent in this situation.

The relations among wages, prices, productivity, and profits do not point to an improved inflation performance. The annual rate of increase in employment costs appear to have stabilized in the vicinity of 8 percent, and thus bears a normal historical relation to an inflation rate of 5-1/2 to 6 percent. Productivity growth since 1968 or 1969 has slackened considerably, and by more than can be explained by the recession itself. Business profit margins, on the average, have widened of late, after being substantially squeezed in the 1969 to 1974 period. Adjusted for capacity utilization, the cost-price structure is not far out of line with the average for the post World War II period, although there is a wide dispersion among industries.

Taking all of these factors into account, the current underlying rate of inflation is not likely to decelerate in the absence of specific governmental policy. Moreover, as higher utilization is attained, the risks of an acceleration will grow -- no matter how well the course of recovery is managed.

Goals

Policies to reduce inflation must be built upon a coherent overall strategy under which government actions are coordinated with those of the private sector on a voluntary and cooperative basis.

Over the next several years, a 5-1/2 to 6 percent real growth rate can be sustained without resulting in significant bottlenecks or capacity problems -- except perhaps in energy. A reasonable goal for dampening the basic inflation rate should aim at a reduction somewhat in excess of one-half percent annually over the next several years. More specifically the average rate of increase in the non-food, non-energy components of the CPI should be brought down to 5 to 5-1/2 percent a year from now and to about 4 percent by the end of 1979. Over the period, the realization of a 2 point slowdown in the inflation rate will require a commensurate slowdown of about 2 points in the annual rate of increase of hourly compensation. A pick up in the current disappointing rate of long run productivity growth would enable us to do even better both in slowing inflation and raising real wages. Efforts described below, will be required to safeguard against a major adverse impact from food and fuel prices.

Rejected Options

For reasons spelled out more fully in the main body of this paper, there are some approaches to inflation control which we have rejected:

1. Wage and Price Controls: They cannot be fairly administered; the longer they are in force the greater the inefficiencies they impose; and their depressing effect on investment and risk-taking is likely to be severe.

2. Numerical Guidelines: While a general statement about the average relationship between prices, wages, and productivity growth needed to achieve any given inflation target has significant educational value, it cannot be used as a rule in specific cases. Especially in view of the sharp changes in wages, prices and productivity since 1973, numerical guideposts are not the answer to the current situation.

PART I REDUCING PRESSURES, SHOCKS AND DISRUPTION

There are five major elements to this part of the anti-inflation program:

First, monetary and fiscal policies that provide for stable and sustained economic expansion but avoid inflationary excesses.

Second, the establishment of an early warning system to anticipate potential inflationary problems within individual sections of the economy.

Third, development of proposals to stimulate capacity expansion in basic materials.

Fourth, a review of U.S. policy toward commodity reserve programs.

Fifth, reform of regulatory procedures and redirection or elimination of regulation where it no longer serves legitimate national needs.

Each of these elements is discussed briefly below:

1. Monetary and Fiscal Policies

The administration should commit itself to the steady pursuit of an announced path of real output expansion, with a carefully planned fiscal policy and a coordinated effort to obtain Federal Reserve cooperation on monetary policy. Under the fiscal plans, as the economy expands, current budget deficits will steadily decline; budgetary resources will be conserved to make a budget balance at high employment feasible.

The roller-coaster nature of economic policy created many of the problems of recent years with respect to capacity shortages and unstable investment incentives. The private economy can adjust to changing future needs when those needs can be reasonably anticipated. But it cannot perform effectively under stop-and-go economic policies.

2. Early Warning System

A. The Council on Wage and Price Stability (COWPS) should be asked to supervise the development of a detailed forecast of inflation trends,

within the framework of the government's overall economic forecast, and to propose to the EPG, for ultimate consideration by the President, such actions that can be taken to deal with emerging problems. The COWPS efforts would focus on industries which

(a) are large;

(b) have a history of price sensitivity; (which obviously includes energy and agricultural commodities);

(c) have a meaningful concept of capacity;

(d) have a limited range of substitutes;

(e) have major upcoming wage settlements.

B. Estimates of future increases in capacity should be prepared for important industries.

C. "Worst case" scenarios should be investigated for commodities, like food, whose supply is inherently unstable, so that consideration could be given to "insurance" measures against the worst case developing.

D. COWPS should expand and improve its current studies of incentives for obstacles to the expansion of capacity in basic materials industries, and go beyond the studies to recommend actions that can remove obstacles.

E. International market developments should be carefully monitored. This is now done in various places throughout government. It needs to be pulled together and integrated with review of domestic industries and a consideration of indicated actions.

3. Commodity Reserves and Reducing Extreme Fluctuations in Commodity Prices.

Three sets of actions should be taken to prevent commodity inflation;

(i) The U.S. should approach international negotiations looking toward commodity stabilization agreements with an open mind, and be willing to enter into negotiations aimed at that purpose.

(ii) For the present, the existent U.S. strategic stockpile should be made available when necessary to prevent actual supply disruptions.

(iii) A detailed review should be undertaken of the advantages and disadvantages of using the strategic stockpile, and augmenting it when necessary, for prices stabilization purposes.

Sharp fluctuations in raw materials prices impose an inflationary bias. When raw commodity prices surge upward, the prices of goods which use those raw materials move up in response; when raw commodity prices fall, the prices of finished goods are not as likely to fall. As a

consequence, even when the long term trend of raw materials prices is not inflationary, sharp fluctuation around trend can, on balance, be inflationary. For some commodities -- grains, and a limited number of raw materials -- stabilization measures could be a useful part of an overall anti-inflation policy. For others, building stockpiles in slack periods can be helpful. Our stockpiles were of great value in 1973-74, when a major portion of U.S. consumption of many materials was met by stockpile sales. Many of these stocks have been exhausted. The value of the present stockpile is about $7 billion. Any major actions on commodity reserves needs to be integrated with U.S. policy on North-South commodity discussions.

A substantial reserve of food and feed grains is a necessity both from the perspective of an anti-inflation policy and as an adjunct to an effective program of export sales. It should be made clear that grain reserve policy will be used to reduce the size of fluctuations in grain prices from year to year, and not to raise or lower the long term trend of grain prices.

Grain reserves can be accumulated during periods of heavy production and low prices through the usual operation of the CCC loan program. The conditions for release of the commodity from storage must be developed in terms of triggering prices that meet the legitimate concerns of farmers, provide effective protection for consumers, and hold down budgetary costs. Most proposals incorporate a triggering price which is 150 to 200 percent above the support price. These proposals also imply that a level of total wheat and corn carry-over of about three billion bushels would meet most potential market needs. The amount of government reserves consistent with theis target would vary, depending upon the limitations against substitution with private holdings.

To adapt to long-term changes in supply and demand conditions in the world grain market, the lower and upper price bounds, which set in motion accumulation and release of stocks would themselves be flexible. If stocks threaten to go over long-term reserve objectives, support prices would be reduced and vice versa.

4. Incentives for Increased Investment and Capacity

The rate of expansion of capacity -- especially in the basic materials industries -- must be stepped up to head off problems of shortages that might otherwise recur in 1979-80. The administration has already acted to strengthen confidence in sustained economic expansion -- the key element in business' willingness to increase capacity. And there is evidence discussed earlier, that the base price-cost structure and profitability of many of the materials industries has improved. Additional action to promote adequate capacity should proceed along several lines:

(i) Faster promulgation of regulations and speedier processing of license applications should be achieved to reduce the delays and disincentives caused by regulatory procedures. (MORE ACTION?)

(ii) Following the initial step of a temporary addition to the investment tax credit, the major structural tax reform program of the administration will be designed to strengthen investment incentives. A thorough study will be made of the possibilities for effective government aids to investors for specific highly targeted expansion of facilities that are of especially high social priority.

(iii) The recycling of materials will be promoted, both to conserve raw materials and to reduce capital and energy requirements per unit of output. In particular, tax laws and transportation regulations must be reformed to eliminate features that currently discriminate against recycled materials.

5. Government Regulation

There are two distinct types of public regulation:

(i) traditional rate-setting regulation by independent regulatory agencies and state bodies; and (ii) health, safety, and environmental regulation, generally through agencies within the Executive Branch.

Traditional Rate Setting Agencies

The administration will press for enactment of legislation aimed towards reduced regulation of airlines. Reducing regulatory restrictions on fares and entry could ultimately reduce air fares by $1.5 to $2.0 billion a year.

The next most promising area for regulatory reform is the territory of the ICC. Estimates of the cost of entry restrictions, value-of-service procuring, and the regulation of investment by the ICC are usually in the range of $2 to $9 billion per annum. One estimate puts the potential reduction in common carriage fares on trucks and railroads at 20 percent.

Another promising area for reform concerns federal policy toward the insurance industry, which is exempted from antitrust statutes so long as it is regulated by state boards. State regulation, in turn, often inhibits price competition. A considerable reduction in premium charges could be anticipated if this policy were reformed to promote healthy price competition.

Environment, Health and Safety

A major reduction in the costs of environmental, health and safety regulations could be obtained by redirecting the approach:

(i) substitution penalties and performance standards for more detailed and rigid prescriptions for achieving a given result. The performance-standards approach seems most promising in OSHA's regulation of health and safety standards of the workplace;

(ii) simplifying regulations and promulgating them with less delay to reduce the costly uncertainty surrounding business planning;

(iii) redirecting effort to develop effective enforcement mechanisms by reducing the emphasis on detailed specification of how to meet the standards;

(iv) ensuring that the economic impact of major regulations is given due weight before the regulations are formulated. To achieve this end, the Economic Policy Group will establish an interagency committee to review the economic impact assessments that are currently required from each regulatory agency within the Executive Branch before issuing any regulations which have major economic consequences.

Part II: DAMPENING THE CURRENT RATE OF INFLATION

This part of the anti-inflationary program would consist of six major components.

First, establishing a dialogue among business, labor and the government; extending down to the level of individual industries, in order to explore means of accelerating productivity, avoiding supply shortages and moderating price and cost increases;

Second, pursuing a freer international trade system as a means of restraining inflation;

Third, improving the functioning of labor markets;

Fourth, using procurement policy as a restraining influence on inflation;

Fifth, cooperating with State and local governments to promote at all levels concerted policies that curb inflation;

Sixth, a series of programs dealing with problems in specific industries.

1. Establishing a Dialogue with Individual Industries

Any success in dampening an ongoing inflation must rely heavily upon the voluntary cooperation and actions of the private sector. There are a substantial number of issues which have a significant element of both public and private concerns. These go beyond prices and wage decisions to include productivity growth, skill shortages, work rules, the adequacy of capacity, impact of Federal regulations, trade policy, and tax issues.

Some of the issues are clearly economywide. All private decision-makers should be asked to behave in ways that facilitate the national goals of prosperity and price stability in which they all have a stake. Businessmen should recognize the public interest in their adopting a high-volume, high-investment, moderate margin strategy. Labor should know that the big potential for higher real incomes for American working families lies in more jobs and more productive jobs, not in wage increases so large as to force price hikes. People should test the responsibility of their proposed actions by asking themselves: "What would happen if everybody behaved that way?"

At the same time, a coherent discussion of industry problems and their implications for inflation must take place at the level of individual industries when the concerns are different, the inflation has different causes, and hence where different corrective measures will be required.

A. Wage Policy

The primary focus of effort should be aimed at preventing distortions in the wage structure which create inflationary pressures in future wage decisions. Recognition must be made of the need for variation in wage changes to reflect prior imbalances, and compensation increases must be assessed in light of work rule changes and measures which improve job security. As average price and wage increases are gradually moderated consistent with the inflation goals set forth earlier, the specific circumstances in each industry need to be taken into account.

1. The COWPS should prepare a review, for internal use only, of the most significant individual upcoming wage settlements. These reviews would provide a background on recent wage trends, competitive position of the industry, labor market conditions, productivity growth, and the potential for specific actions to improve productivity.

2. In those cases when individual settlements are perceived to have significant implications for future inflation trends, government representatives should seek informal discussions with both parties to discuss alternative less inflationary approaches. These alternatives might include changes in the size or composition of the basic wage package, or offsetting agreements to increase productivity.

3. COWPS should issue a final public report on the settlement, after the termination of the negotiations which examines its implications for future settlements. This would minimize inaccurate public reporting of the settlement and provide specific information about wage cost increases relevant to any subsequent action to raise prices.

B. Price Policy

The structure of the review for pricing decisions would parallel that for wages. The focus of the analysis would be on gross profit margins (depreciation, profit, and interest) of the industry. Wide variations in productivity, growth, and cost increases across industries preclude any general focus on prices. Just as for wages, there must be an allowance for special cases. Profit margins must be viewed within a historical perspective that recognizes previous cyclical variability, changing capital-output ratios, and future capacity requirements.

1. COWPS should prepare a review, for internal use only, of economic conditions when significant price actions are anticipated.

2. For those industries where significant inflationary pressures exist, government representatives should meet with the firms to discuss alternatives to price increases. These would include other cooperative means of avoiding potential bottlenecks, actions to speed up new capacity creation, and other issues which may contribute to reducing costs or expanding supply.

3. For industries which have major price increases or the potential for continuing future inflation problems, COWPS should publish a report which provides a public explanation of the problems in the industry and the inflation implications.

C. Provisions of Information

1. The COWPS would notify individual firms of a request for prior notice of price changes on the basis of general criteria which would include (1) large firms in concentrated industries, (2) likely candidates for shortages, and (3) markets where import restrictions may be a significant issue.

2. The COWPS should be appraised of the prospective magnitude of prior action at the time of notification and of the magnitude of wage increases immediately upon conclusion of the negotiations.

3. For a few industries of continuing concern because of supply problems a system of regular voluntary reporting would be desirable.

2. Trade Policy

International competition can frequently be the most effective means of insuring restraint on prices and costs and promoting increases in efficiency. In addition, tariff and quota protection for our least efficient industries comes at the expense of lost sales and employment in the other industries.

A. The current adjustment program for industries which lose sales to imports should be substantially strengthened. At the present time, for example, the provision of governmental financial assistance to individual firms -- either to enable them to compete more successfully against foreign competition or to convert to other lines of business -- is available only on relatively hard commercial terms.

B. Where feasible, greater emphasis should be placed upon deficiency payments rather than trade restrictions which increase the costs to consumers in excess of the benefits to the protected industry.

C. We should continue in multilateral trade negotiations to pursue reductions in tariffs and non-tariff barriers to trade.

3. Labor Markets

As the economy moves towards fuller employment, structural problems in the labor market could become of increased inflationary concern and will increase resistance to further reductions in unemployment. The effectiveness of current programs which are directed toward the problems of the low-skilled and disadvantaged will be enhanced by overall economic growth. But there is an equal need to develop programs specifically aimed at inflationary rigidities.

Structural barriers will not become a significant inflationary problem for some time, but efforts to develop a program must begin now. Such a program should increase the emphasis on anticipating future bottlenecks in high-skill occupations and improving the adjustment process by which labor moves from occupation of surplus to those where shortages exist.

4. Federal Procurement Policies

As the economy's largest single purchaser, the Federal Government can exert a direct restraining influence on inflation through its procurement policies.

- A program currently exists within OMB to implement the proposals of the National Commission on Procurement Policies. That program should proceed as rapidly as good management will allow.

- It should be made clear, as it was in the sixties, that the Federal Government will insist on procuring (and compensating contractors on cost-plus arrangements) only at the lowest price quoted by any available supplier. This can be a potent warning to any supplying firm (e.g., metals producers) that wants to lead its industry's price upward.

- A now dormant program could be revived to disseminate the consumer information compiled for Federal procurement purposes.

5. Federal-State-Local Cooperation

The governors and mayors should be enlisted in the anti-inflation effort in a variety of ways:

(i) They should be asked to apply the same cost-reducing standards to their own regulatory, procurement, and labor relations activities.

(ii) After a comprehensive review of Federal grant-in-aid programs, amendments and changes in operating procedures should be designed to remove restrictions which weaken incentives to find the lowest cost alternative for meeting specific goals.

(iii) State and local governments should be urged to rely on taxes that do not adversely affect prices and costs, rather than sales taxes, for future revenue increases.

(iv) Revenue-sharing and other grant formulas could be restructured to give States and cities added incentives not to raise -- and indeed to lower -- sales and excise taxes.

6. Special Industry Problems

In individual cases industries may have special problems which are not appropriately met by programs designed to respond to more general concerns. Two industries, construction and health care, have unique market structures which require such special efforts.

A. Construction

The construction industry has had a history of instability with respect to collective bargaining agreements. This instability can be traced to the fragmented nature of the industry which leads to wide disparities in wage rates among crafts and geographical areas. These disparities provide the basis for leapfrogging-type behavior of individual labor contracts.

The average rate of wage increase has not been a major problem in recent years because of extremely high unemployment and competition from non-union contractors. However, the reopening of substantial wage disparities and continued problems with restrictive work practices provide the basis for another round of cost inflation as construction activity accelerates.

A voluntary version of the Construction Industry Stabilization Board should be reestablished along the lines envisaged in the 1975 Common Situs Bill which was vetoed by President Ford. Such a program was very successful in the 1971-74 period.

B. Medical Care

Medical care costs are increasing at over twice the rate of overall inflation. The lack of an effective restraint on price increases results from the extensive insurance coverage of medical costs and the general mystique that surrounds the industry. This lack of restraint has led to extreme inefficiencies and underutilization of existing facilities.

HEW has proposed in the 1978 budget, and is now developing the details of a cost containment program which limits the increase in total hospital costs per admission. This program will require Congressional approval.

In summary, the program outlined above is designed to implement concretely the general approach of attacking inflation comprehensively, across-the-board with all the tools that the Federal Government can use equitably and efficiently. For the first time, inflation will be attacked by means that promote growth and jobs, rather than by bleeding the economy.

None of the actions spelled out above, taken alone, can have a significant impact on inflation. But, in combination, they can make enough difference to get the inflation rate unstuck and start a process of deceleration. The program can improve the climate of attitudes and expectations and dislodge the present pessimism about the inflation outlook.

Beyond the specific elements in the present program, the general strategy involves a commitment by the Administration to keep developing constructive and anti-inflationary measures. One area of particularly large potential for the future is the possible restructuring of Federal taxes to reduce costs and hence prices. For example, if Medicare (whose benefits have no relationship to past employment history) were financed through general income tax revenues rather than through employment taxes, economywide labor costs would be significantly reduced. Other areas of opportunity will open up as the anti-inflationary objective is generally applied to all Federal activities. For example, in the area of consumer protection, it points to the need for approaches that help the consumer shop more effectively and get more for his money. In short, this program is the beginning of a continuing effort to demonstrate that lower unemployment and lower inflation can be simultaneously and consistently pursued by the Carter Administration.

Items impacting CPI

Electrostatic Copy Made
for Preservation Purposes

Jody OK as is don't change without checking with me - J. C.

STATEMENT BY PRESIDENT CARTER ON INFLATION

I. SUMMARY

Today, I am announcing a series of measures aimed at controlling and reducing inflation. This program embraces the following elements:

-- Fiscal discipline to assure a balanced budget by FY 1981 as the economy returns to ~~full employment~~ normal.

-- An agreement with leaders of business and labor to establish a framework for consultation with government for reaching our objectives for job creation, inflation control and other ~~important~~ economic ~~goals.~~ priorities.

-- Efforts by the Council on Wage and Price Stability to analyze and ~~report~~ provide information on inflationary conditions in individual markets and industries.

-- An early warning system through the Council on Wage and Price Stability to forecast and prevent shortages and bottlenecks.

-- Effective incentives for business to increase investment in new productive capacity as part of comprehensive tax reform.

-- A new program to restrain increases in hospital costs.

-- Employment policies that stress job skills training, improved job placement services, and improved services to ~~help employers fill and workers find job vacancies~~ match job openings with available workers.

-- Encouragement of increased productivity in business and agriculture.

Electrostatic Copy Made
for Preservation Purposes

-- Initiatives to moderate the sharp fluctuations in the supply of commodities, which have triggered inflation in recent years, through the following:

-- Farmer-held food reserves to help stabilize consumer prices and farmers' incomes;

-- Negotiations to reduce fluctuations in the world price of sugar and grains, and an open-minded look at price agreements for other commodities;

-- Working with Congress to assure that raw materials from the nation's strategic stockpiles are made available in the event of supply disruptions during peacetime.

-- ~~Frequent~~ Regular monthly meetings between the Chairman of the Federal Reserve, myself, and my chief economic advisers in an effort to achieve better coordination of monetary and fiscal policies.

-- Full consideration of the economic cost of major government regulations, through a more effective analysis of their economic impact.

-- Greater emphasis on achieving compliance with regulations through incentive and performance standards rather than detailed specification of means, and efforts to improve effectiveness and reduce red tape and delay.

Electrostatic Copy Made
for Preservation Purposes

-- Reform of rate-setting regulation to encourage increased competition within regulated industries, including a major effort to deregulate the airline industry and other industries in which regulation unnecessarily stifles competition.

-- Cooperation with other nations to reduce worldwide inflationary trends, including support of the International Monetary Fund.

-- Using international trade policies to help assure competitive prices to consumers, while taking into account the legitimate needs of particular American industries and workers.

-- Development of procedures to eliminate costly and unnecessary delays in construction permit issuance by government agencies.

-- Strict enforcement of the anti-trust laws, including a crackdown on price fixing and monopolistic practices.

-- Reorganization of the Federal Government to streamline the operations of the government, improve its efficiency, and make it a more effective instrument to achieve our national objectives within budgetary constraints.

-- More efficient federal procurement policies, including increased competitive bidding and a stronger and more vigilant ~~Defense~~ Renegotiation Board.

Over the past year, the rate of inflation has averaged six per cent. Reducing that inflation is going to require a united national effort. The Federal Government will take

Electrostatic Copy Made
for Preservation Purposes

the lead. I have already ~~acted to limit the inflationary impact of farm price supports and the minimum wage, and I have rejected proposed~~ made budget ~~tough~~ decisions to reduce the federal deficit and restrain the costs of popular programs, and have rejected such excessive tariffs and quotas on imports of shoes and mushrooms. ~~Each of~~ These decisions ~~was~~ were difficult, but ~~each was~~ necessary to the overall goal of reducing inflation.

No one should look to government for easy answers, because there are none. And government cannot do the job alone. We face difficult choices ahead in energy and other areas of national importance. However, I believe that government, business and labor <u>together</u> can, as an interim goal, reasonably aim at reducing the rate of inflation by two percentage points by the end of 1979, while still vigorously pursuing our commitment to full employment.

All segments of the American economy must cooperate if we are to get inflation under control. In the long run, that is the only path to more jobs, stable prices, and greater real income for all our people.

II. <u>Sources of Today's Inflation</u>

Difficult inflationary problems began more than a decade ago, as large budget deficits during the Vietnam War led to excess demand and an overheated economy. That war was financed, in part, through the hidden tax of inflation.

Electrostatic Copy Made for Preservation Purposes

Excess demand became a problem again in late 1972 and 1973, when all the major industrial countries around the world experienced a simultaneous boom in economic activity.

We know, however, that economic overheating is not the only cause of rising prices. Since the end of 1973, the entire world economy has suffered from widespread unemployment and idle capacity -- yet prices have continued to rise almost everywhere.

Some of the sources of inflation have been beyond our control -- for example, the 1972 crop failures here and abroad. Those crop failures reduced supplies, which, along with the grain deal with the Soviet Union, contributed to a 35 percent increase in U.S. consumer food prices during 1973 and 1974.

World petroleum prices have increased nearly five-fold since late 1973 because of the actions of the OPEC countries, resulting in a 50 percent rise in the price of fuel and electricity to American consumers.

Another part of our inflation problem arises from government's changing role. Over the past decade and a half, the American people have grown less tolerant of environmental pollution, dangers to health and safety at work, and inadequate pensions and health care for the elderly. They have properly demanded that their government take forceful steps to fight

these ills. In certain cases the resulting measures, though necessary, add to costs and prices. Requiring industries to add new pollution control equipment or safety devices raises costs. So do increases in payroll taxes which finance medical care and social security benefits.

We will not go back on our commitments to a better quality of life. But we must insure that our methods of achieving this objective involve no unnecessary costs.

Government also affects prices and costs in other ways. Restrictions on international trade ~~tend to~~ may raise prices. The result of rate and price regulation in many industries is to cut down competition and put a floor under prices. Decisions on farm price supports, minimum wages, and medical insurance affect prices, too. Difficult choices face us in these and other cases.

On top of these causes is the persistent spiral of costs and prices that takes hold once people begin to expect continued inflation. Individuals and businesses try to raise their incomes to protect themselves against rising prices and costs. The end result of this process is more inflation. This cycle is not the fault of labor, or of business, or of any one group. But we must find ways to break out of it.

Our economy has been depressed since 1974. Despite inadequate demand -- despite unemployment, unused plant

capacity, increased poverty, inadequate growth rates -- inflation persists. High unemployment is a morally unacceptable -- and ineffective -- way of combatting inflation, and I totally reject that approach. Inflation must not be attacked by causing additional human misery.

III. Description of Anti-Inflation Program

The anti-inflation program I outlined at the beginning of this message -- and which I discuss in more detail below -- is tailored to the nature of the problems we face.

It has three basic parts:
Federal economic and budgetary policies that promote growth while avoiding overstimulation; specific governmental actions to fight inflation; and a voluntary effort by business, labor, and government to achieve our common objectives of providing jobs, promoting steady growth, and controlling inflation.

A. Economic and Budgetary Policies

By any objective measure, the economy has ample room to expand without running into excess demand. Yet many people fear that current budgetary policies will lead to renewed inflationary pressures. I want to address those fears directly.

Inadequate tax revenues from a stagnant economy -- not ~~proper~~ legitimate federal spending programs -- are the principal source of the deficits. We have large budget deficits today because recovery from the worst recession in 40 years is still incomplete, ~~and because stimulative measures are needed now to get the economy moving again.~~ As the recovery proceeds, the deficits must shrink and eventually disappear. The combined total of private and public demands on the economy must not be allowed to exceed our productive capacity, or inflation will surely be rekindled. I have made a firm commitment to have a balanced budget in a ~~prosperous~~ normal economy by FY 1981, and I intend to do everything I can to honor that commitment.

Two steps are essential to balancing the budget. The first is a durable expansion in the private economy that will generate steady growth of jobs, incomes, and federal tax revenues. My proposals for direct job creation and permanent tax reduction for low and middle income taxpayers will get us moving in that direction, and I again urge the Congress to enact them.

The second step is to discipline the growth of federal spending in the years ahead. The budgets that I will submit will contain responsible expenditure ceilings, and I will work continuously within the Executive Branch and with the Congress to ensure that we stay within them.

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

(A)

In order to insure closer economic consultation within the government, we are initiating regular monthly meetings between myself, the Federal Reserve Board Chairman, and some of my economic advisors.

Electrostatic Copy Made
for Preservation Purposes

The budgets that I approve will reflect zero based review of all Federal programs. The Congress, in carrying out the procedures established in the Budget Reform Act, has shown its concern for responsible budget policies. I believe that we can work together to meet our country's needs yet stay within responsible fiscal limits.

I made Government reorganization and managerial efficiency a keystone of my campaign for the Presidency. I intend to use the new reorganizational authority granted to me by the Congress to streamline the operations of the Federal Government.

(A) → The course of fiscal policy I have outlined should permit the Federal Reserve to provide an expansion of money and credit consistent with moderate interest rates and a steady and noninflationary growth of employment and output.

B. Specific Actions by Government

Besides well conceived monetary and fiscal policies, there are a number of specific steps the Government can take to reduce our vulnerability to new inflationary pressures and to slow the current rate of inflation. I am proposing actions in eleven areas:

1) Council on Wage and Price Stability: Our anti-inflation strategy will emphasize efforts to identify specific inflation problems as they begin to occur and to develop effective countermeasures. To achieve this objective:

-- The Council on Wage and Price Stability will expand its activities in the area of providing detailed and timely analysis of economic conditions in those industries and markets which are important to price stabilization. In many cases the information required for the Council's analysis is available from existing government sources. In some instances the Council will ask individual business firms and labor groups to provide, on a confidential basis, data which would not otherwise be available.

-- The Council will continue its previous practice of publishing factual information on wage, price, capacity, and other developments in particular sectors or industries. It will also continue to hold occasional public hearings on major inflation developments, as a means of improving public understanding and providing the public with an opportunity to make its views known.

-- The Council will provide to the relevant agencies analyses of the inflation implications of

Electrostatic Copy Made
for Preservation Purposes

specific government regulatory and legislative actions.

The statutory authority of the Council expires on September 30, 1977. I am asking the Congress to extend its life for two more years. I am also requesting a modest increase in appropriations for the Council so that it can fulfill its enlarged analytical role in the price stabilization effort.

2) Early Warning System: I will instruct the Council on Wage and Price Stability to develop detailed industry studies to detect emerging bottlenecks, capacity shortages, and other problems that, if left unattended, would lead to significant price increases. The Council will pay special attention to the basic materials industries, to markets with potential future shortages, to markets of major economic importance, and to markets where government policy can have significant effects on domestic supply.

3) Commodity Reserves: When prices of raw materials and food fluctuate upward, the effects tend to spread throughout the economy, raising prices and wages generally. Downswings in raw material prices, however, do not have corresponding effects on prices and wages. Reducing fluctuations in commodity prices, therefore, helps to reduce inflation. To assure adequate commodity supplies,

several actions will be taken:

-- The Secretary of Agriculture has developed within existing legislation a program that provides for an orderly buildup of farmer-held reserves of food grains during periods of high production and low prices. Under specified conditions, those reserves will be made available as a means of providing a more stable supply of farm commodities. This reserve will also help promote export sales of agricultural commodities by showing that we can meet supply commitments even when we have poor crop yields.

-- My Administration will enter into negotiations for international agreements for grains and sugar to reduce fluctuations in prices. We will also ~~support international proposals for~~ consider with an open mind other commodity agreements that concentrate on moderating price fluctuations.

-- We will work with Congress to assure that raw materials from our strategic stockpiles are made available to meet supply disruptions during peacetime. To aid industry in evaluating future market conditions, these efforts should exclude the use of the strategic stockpile for purposes of general price stabilization.

4) Incentives for Increased Investment and Expanded Capacity: The rate of expansion of productive capacity must be stepped up to head off possible shortages:

-- Effective investment incentives will be a key element of this Administration's comprehensive tax reform.

-- I have asked the Secretary of Commerce to work with other government agencies to investigate the general problem of delays in construction permit issuance by government agencies, and to recommend new procedures which will simplify and speed up the permit issuance process.

5) Government Rate Setting Regulations: In the past, federal regulations have often done more to protect regulated industries than to promote efficiency and cost reductions. There is much we can do to reverse this situation. The redirection or elimination of regulations that no longer serve national needs can lower prices for consumers.

This Administration has already indicated its strong support for reform of airline regulations. We will be looking at the potential for increased competition in other regulated sectors of the economy.

An Agency for Consumer Advocacy, which I have urged the Congress to establish, can play a useful role by intervening in regulatory procedures on behalf of the consumers who ultimately pay the bills.

6) Other Regulation: Actions can be taken to improve the environment and to protect consumers and workers against health and safety hazards without excessive

costs or red tape. eliminate unnecessary government

-- I have initiated efforts to ~~simplify~~ to simplify and regulations and promulgate ~~them~~ with less delay.

-- A review procedure will be established to encourage regulators to give proper weight to the economic impact of the regulations they write.

-- An interagency group now at work will suggest ways for regulatory agencies to emphasize incentives and performance standards, rather than detailed specifications of the means by which the goals should be achieved.

7) Employment and Manpower Programs: We can reduce both unemployment and inflation by measures which improve job skills, increase the efficiency of the labor market, and ~~match~~ target job opportunities ~~with~~ to groups suffering from very high unemployment rates.

-- The public works and employment programs contained in my economic stimulus proposals are targeted on groups and areas with high unemployment.

-- We have proposed a major expansion of programs to provide job opportunities and skill training for youths.

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

(B) Cooperation with other industrialized governments is vital to the reduction of worldwide inflation.

-- We will work through the schools and other community organizations to strengthen job placement and employment counselling services to people seeking to enter or reenter the labor force.

-- We will intensify our efforts to eliminate job discrimination based on race, sex or age.

-- I have instructed the Secretary of Labor to develop improved job placement services and computerized job banks to help workers find and employers fill job vacancies.

-- We will examine the feasibility of creating computerized job banks across the nation.

8) International Trade Policy: This Administration will balance the benefits to consumers of international trade with the need to moderate disruptive influences on American workers and firms. Trade can play an important role in the fight against inflation. It is an effective means of improving efficiency and maintaining competition within American industry. We get the benefits of lower prices and greater productivity when we expand our production in those

industries where we have a competitive advantage compared to other countries, while trading for those goods which we find more costly to produce. Tariff and quota protections may sometimes result in foreign retaliation against our own products. They cause our export industries to lose sales and employment, and consumers to pay higher prices.

We will emphasize the benefits of a freer trade system in international negotiations. In particular, the United States will push for a successful conclusion of the Tokyo round of trade negotiations.

At the same time, it is important that we develop better means to prevent import competition from severely disrupting individual domestic industries and to improve the efficiency and competitive position of affected industries.

9) Medical Care Costs: The cost of hospital care is increasing at more than twice the overall rate of inflation. We shall announce specific details of a hard-hitting hospital cost containment program later this month.

10) Anti-Trust Laws: Resolute enforcement of the anti-trust laws helps ensure that products will be available in the marketplace at competitive prices. The Justice Department will vigorously enforce the laws against those who fix their prices at artificial

levels. The recent policy of intervening in regulatory agency actions will also continue in order to inject competition into regulated industries whereever that is feasible.

11) Federal Procurement Policies: My Administration will implement many of the recommendations of the National Commission on Procurement Policies for streamlining and simplifying federal purchasing practices. We will also insist upon a ~~Defense~~ strengthened Renegotiation Board which bears down hard on excessive profits in government contracts.

I intend to play an active role in assuring that the measures I have outlined receive the highest priority in government agencies. I am prepared to make the difficult choices that will inevitably arise in every one of these areas.

C. Voluntary Cooperation Among Business, Labor, and Government

The combination of prudent economic and fiscal actions that I have proposed will guard against the risk of a renewed upsurge in inflation and also insure that the government itself is not a major force in sustaining inflation. But to be successful in reducing the current ~~rise~~ rate of inflation and moving towards price stability, the private sector must also play an important role.

Electrostatic Copy Made
for Preservation Purposes

In part, we have inflation today because we had it yesterday. Each group in the economy tries to recoup prior increases in costs or prices, but in so doing helps keep inflation going. If everyone could exercise restraint, the momentum would slow down, and we could move towards real price stability. But who can afford to show such restraint individually without assurances that others will do the same? Our difficulties occur precisely because there exists no process for mutual cooperation on a voluntary basis.

Establishing a Framework for Cooperation

Making progress in dealing with this problem has to be a long-term task. It requires continuous, persistent, and patient effort. A set of anti-inflation policies must be developed which will create jobs, stabilize prices, and promote general economic development with fairness and equity for all.

If this battle against inflation is to succeed, I am, above all, convinced that it requires a close collaboration between business, labor, and the Government. This collaborative effort should consist of working together to advise government on its objectives for our economy, for job creation, and inflation reduction, to help work out approaches to

achieve these objectives and to monitor the results on a continuing basis. Most importantly, this joint effort must be voluntary and cooperative and not be based on coercive or self-defeating controls.

I have discussed this problem with representatives of labor and business and have received their assurances of complete cooperation in the development of a joint anti-inflation effort.

Accordingly, I have asked the President of the AFL-CIO, and the Chairman of the General Electric Company, to help to coordinate this new cooperation between labor, management, and the Government. Within the Government, I have asked the ~~Secretary of the Treasury, Mike Blumenthal, in his capacity as~~ Chairman of the Economic Policy Group, ~~and the Council on Wage and Price Stability, and~~ in collaboration with my other economic advisers, to work with these gentlemen and other representatives of business and labor in developing the more detailed arrangements for implementing this part of my anti-inflation program.

I expect this work to begin immediately. While the collaborative effort ought to be a permanent one, I hope that some concrete approaches for private sector cooperation in reducing inflation can be developed within

the next several months. I shall personally be kept informed and meet with labor and business representatives from time to time as the need arises.

There are no magic solutions in the battle against inflation. It can be won only by hard, day-to-day, unglamorous, and often politically unpopular efforts, and by the voluntary cooperation and restraint of the American people. I pledge myself to the most vigilant effort. The American people deserve no less.