1/18/78

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WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Attendee List	for Meeting of Board of Trustees of the Council of the Americas w/President Carter, 3 pgs.	1/18/78	C

FILE LOCATION

Office of the Staff Secretary - Presidential Files; Folder: 1/18/78

RESTRICTION CODES

(A) Closed by applicable Executive Order governing access to national security information.
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WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Memo	~~Warren Christopher to Pres. Carter, 4 pp.~~ opened per RAC NLC-126-11-7-1-1, 3/21/13	12/13/77	A
Memo	Bob Lipshutz to Pres. Carter, 1 pp., re: personal matter	1/18/78	C
Memo	Frank Moore to Pres. Carter, 8 pp. re: Mtg. w/Senator William Proxmire	1/17/78	C

FILE LOCATION
Carter Presidential Papers-Staff Offices, Office of the Staff Sec.-Pres. Handwriting File 1/18/78 BOX 68

RESTRICTION CODES

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THE PRESIDENT'S SCHEDULE

Wednesday - January 18, 1978

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

8:45 (15 min.) — Congressman Joe D. Waggonner. (Mr. Frank Moore). The Oval Office.

9:15 (15 min.) — Congressman Carl D. Perkins. (Mr. Frank Moore). The Oval Office.

10:00 (15 min.) — Senator William Proxmire. (Mr. Frank Moore). The Oval Office.

10:30 — Mr. Jody Powell - The Oval Office.

11:00 (20 min.) — Presentation of Diplomatic Credentials. (Dr. Zbigniew Brzezinski) - The Oval Office.

11:30 (15 min.) — Meeting with Council of the Americas. (Mr. Joe Aragon) - The Cabinet Room.

11:45 (10 min.) — Secretary Harold Brown. (Dr. Zbigniew Brzezinski). The Oval Office.

1:00 (15 min.) — Meeting with Consumer Leaders. (Ms. Esther Peterson). The Cabinet Room.

THE WHITE HOUSE
WASHINGTON

1/18/78

Mr. President:

OMB concurs.

Rick

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~~CONFIDENTIAL~~

8282

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

1/18/77 C

~~CONFIDENTIAL~~ - GDS

January 17, 1978

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI

SUBJECT: Arms Sales Case: Saudi Arabian Army Ordnance Corps

In the memorandum at Tab A, Warren Christopher asks that you approve a $605 million amendment to our basic contract with the Saudis to assist in developing a complete logistics supply system for their Army. This amendment provides for construction and services to support U.S.-origin equipment being delivered to mechanize two Saudi infantry brigades. Of the total, approximately $145 million is for the direct maintenance of combat equipment and would count toward the FY 1978 sales ceiling. This sale is classified as a Major Follow-on Support Case for which a total of $1.5 billion has been allocated for fiscal 1978. This case is non-controversial and has been pushed forward ahead of other cases because of several high level approaches from the Saudi government urging us to expedite this case so that the present agreement with the U.S. contractors does not lapse. (C)

This program supports our continuing interest in the Saudi's ability to protect and defend their petroleum resources. (C)

RECOMMENDATION

That you approve the proposed amendment at Tab A.

Approve_____ Disapprove_____

~~CONFIDENTIAL~~ - GDS

Jan 4/6/80

~~CONFIDENTIAL~~

7729180

DEPARTMENT OF STATE
WASHINGTON

December 13, 1977

~~CONFIDENTIAL~~

MEMORANDUM FOR: THE PRESIDENT

FROM: Warren Christopher, Acting WC

SUBJECT: Request for Decision on Conventional Arms Transfer Case

I. ISSUE

Another Foreign Military Sales (FMS) case, this one involving the extension and amendment of a contract between the U.S. Army Corps of Engineers and the Saudi Arabian Army Ordnance Corps, has reached the point of decision prior to Congressional notification. The case meets current policy guidelines, and I recommend that it be approved. The Department of Defense and the Arms Control and Disarmament Agency concur.

II. BACKGROUND

The case involves providing assistance in the development of a complete logistics supply system for the Saudi Arabian Army. There have been six approved amendments to this basic contract since 1972. This proposed seventh amendment provides for contract management, construction and fiscal services support in order to continue the development of this logistics supply system. The logistics supply system requires some augmentation to support the US-origin equipment presently being delivered to mechanize two Saudi infantry brigades. The total value of this case

DECLASSIFIED
Per; Rac Project
ESDN; NLC-126-11-7-1-1
BY KS NARA, DATE 2/21/13

is $604.5 million; however, only $145.5 million is attributable to the direct support and maintenance of equipment. The $145.5 million would count toward the worldwide ceiling on arms transfers. The balance, $459 million, is attributed to the construction of warehouses and maintenance shops as well as the management of fiscal services.

Approval of this amendment would involve the continued stationing of some 36 U.S. Government employees and an increase in civilian contract personnel, not necessarily all U.S. citizens, from 800 to 1400 in Saudi Arabia. Urgency exists with regard to this case since the current amendment expired in November. While the present amendment is being temporarily extended until early spring of 1978, a new amendment must be signed by mid-March to avoid disruption of an ongoing program which supports our continuing interest in developing the capability of the Saudis to defend their petroleum resources.

As an indication of Saudi interest in this program, we have had two appeals personally from Prince Sultan, Saudi Minister of Defense and Aviation, asking for our prompt action so that the program can continue.

III. RECOMMENDATION

I recommend that you approve the proposed case, and accordingly, authorize its formal certification to Congress when it reconvenes in January 1978.

✓

Approve_____ Disapprove_____

JC

ID 780217

THE WHITE HOUSE

WASHINGTON

DATE: JAN 17 78

FOR ACTION: JIM MCINTYRE concur/phone

INFO ONLY:

~~CONFIDENTIAL~~

FROM: RICK HUTCHESON WHITE HOUSE STAFF SECRETARY PHONE 456-7052

SUBJECT ~~CONFIDENTIAL~~ BRZEZINSKI MEMO DATED 1/17/78 RE ARMS SALES CASE: SAUDI ARABIAN ARMY ORDNANCE CORPS

RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY

BY 1200 PM THURSDAY JAN 19 78

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD; DO NOT FORWARD.

PLEASE NOTE OTHER COMMENTS BELOW:

DECLASSIFIED
Per; Rac Project
ESDN; NLC-126-11-7-1-1
BY LCS NARA, DATE 3/21/13

DECLASSIFIED
Per; Rac Project
ESDN; NLC-126-11-7-1-1
BY KS NARA DATE 3/21/13

THE WHITE HOUSE
WASHINGTON

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

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

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

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

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

780239

THE WHITE HOUSE
WASHINGTON
January 18, 1978

Stu Eizenstat

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

Rick Hutcheson

TAX MESSAGE

THE WHITE HOUSE
WASHINGTON

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

1-17

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

	ENROLLED BILL
	AGENCY REPORT
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		PETERSON
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		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

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Stu -
pp 1-13
ok
J.C.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

January 17, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: TAX MESSAGE

Attached are (1) a draft of the Tax Message and (2) a set of tables which would accompany the Message. The draft has been prepared in cooperation with Treasury, with substantial input from CEA and review by OMB and Jim Fallows. Jim has briefly reviewed the first 13 pages (where you introduce and explain the program) and the concluding page and is basically satisfied.

The Message is fairly long because the bulk of it sets out in detail the elements of the program. This is in accord with standard practice in Presidential Tax Messages.

You may not wish to read pages 13a - 56 which are technical descriptions of the items in the program. They are accurate and technically sound.

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DRAFT 1/17/78
8 P.M.

TO THE CONGRESS OF THE UNITED STATES:

I recommend that Congress enact a series of proposals that will reform our tax system and provide $25 billion in net tax reductions for individuals and business.

Fundamental reform of our tax laws is essential and should begin now. Tax relief and the maintenance of a strong economy are essential as well. The enactment of these proposals will constitute a major step towards sustaining our economic recovery and making our tax system fairer and simpler.

The Need for Tax Reduction

I propose tax reductions consisting of:

-- $17 billion in net income tax cuts for individuals, primarily low and middle-income taxpayers, largely through across-the-board reductions in personal tax rates.

-- $6 billion in net income tax cuts for small and large corporations, through reductions in the tax rates which apply to small as well as large firms and extending the coverage of the investment tax credit.

-- $2 billion for elimination of the excise tax on telephone calls and a reduction in the payroll tax for unemployment insurance.

These tax reductions are a central part of the Administration's overall economic strategy, which will rely principally upon growth in the private sector to create the new jobs we need to achieve our high-employment objective. The tax reductions will more than offset the recent increase in social security taxes and will provide the consumer purchasing power and business investment strength we need to keep our economy growing strongly and unemployment moving down.

Together with the jobs programs that I will outline in my Budget Message, these tax cuts should assure that our economy will grow at a 4-1/2 to 5 percent pace through 1979, with unemployment declining to between 5-1/2 and 6 percent by the end of 1979. Without the tax cuts, economic growth would slow markedly at the end of 1978 or in 1979. Unemployment would be unlikely to fall below 6 percent and, by the end of 1979, might be moving upward.

This tax program will mean an additional 750,000 jobs for American workers in 1979. It should lead to a pattern of economic growth which is steady, sustainable, and noninflationary.

In addition, I believe that our taxpayers, particularly those in the low and middle-income brackets, deserve significant tax relief -- I am determined to reduce Federal income taxes as a share of our Gross National Product and as a share of our citizens' personal income.

The Need for Tax Reform

The $25 billion in tax reductions are net reductions, after taking account of $9 billion in revenue-raising reforms which I am also proposing. Indeed, the substantial cuts in personal and corporate tax rates which I recommend would not be desirable in the absence of significant reform.

But these reforms stand on their own merits and would be long overdue even if I were not proposing any net tax reductions to accompany them. They focus on simplification for the individual taxpayer and the elimination of some of the most glaring tax preferences and loopholes.

Guided by the need for tax simplification and tax equity, I propose that Congress adopt reforms that would:

-- Strengthen the minimum tax on items of preference income for individuals.

-- Sharply curtail tax shelters through reform of real estate depreciation and other measures.

-- Repeal the special alternative tax on capital gains, which only benefits individuals in the highest tax brackets.

-- Eliminate the deductions claimed by businesses for theater and sporting tickets, yachts, hunting lodges, club dues, and first-class airfare and limit the deduction for the cost of meals to 50 percent.

-- Phase out DISC and the deferral of tax on foreign profits over a three-year period.

-- Replace the personal exemption and general tax credits with a $240 per person credit.

-- Simplify return preparation and record-keeping by:

  . eliminating the deductions for sales, personal property, gasoline, and miscellaneous taxes;

  . combining the separate medical and casualty deductions and allowing them only to the extent they exceed 10% of adjusted gross income;

  . repealing the deduction for political contributions but retaining the credit; and

  . liberalizing and modifying the Subchapter S and depreciation rules applicable to small business.

-- Include unemployment compensation benefits in the taxable income of taxpayers above certain income levels.

-- Ensure that the tax preferences available for fringe benefits assist rank-and-file workers as well as executive officers.

-- Provide a taxable bond option for local governments and modify the tax treatment of industrial development bonds.

-- Require accrual accounting for large corporate farms.

-- Reduce the bad debt deductions available to savings and loan associations and commercial banks and tax credit unions on the same basis as savings and loan associations.

These reforms will make our tax system both fairer and simpler. Many of them are targeted at tax preferences and subsidies for activities that do not deserve special treatment and that largely benefit those who have no need for financial assistance. The average working man and woman pays for the loopholes and the special provisions in our tax laws -- because when some do not pay their fair share, the majority must pay higher taxes to make up the difference.

Low and middle-income workers, struggling to make ends meet, are discouraged by tax laws that permit a few individuals to live extravagantly at the expense of government tax revenues. The privileged few are being subsidized by the rest of the taxpaying public when they routinely deduct the cost of country club dues, hunting lodges, swimming pools, elegant meals, and night club shows. But the average worker's rare "night on the town" is paid for out of his <u>own</u> pocket with <u>after-tax</u> dollars.

Likewise, individuals who pay taxes on nearly every penny of earnings are treated unfairly compared to the few who are able to "shelter" their high incomes from taxes.

Some persons with incomes exceeding $200,000 have little or no tax liability, while other high-income individuals return to the Federal government nearly 60 cents of every dollar received. There is no good reason for next-door neighbors, in the same economic circumstances, to have vastly different tax bills depending on which one has found more tax shelters and loopholes.

In addition to the expense account items and unjustified preferences for individuals, there are a number of equally inappropriate and inefficient corporate tax subsidies. It is difficult, for example, to justify the DISC export subsidy under which we pay over $1 billion a year in foregone tax revenue (mostly to our largest corporations) to encourage our firms to do what they would do anyway -- export to profitable foreign markets. Nor can we rationalize proposals to reduce business taxes to increase investment at home while the deferral subsidy encourages multinational corporations to invest overseas by letting them pay lower taxes on their foreign profits than they pay on money earned in the United States.

I ask Congress to join with me to end these unwarranted subsidies and return the revenue to the vast majority of our taxpayers who want no more or less than to pay their fair share.

The tax reforms and tax reductions which I am proposing have been carefully balanced to coordinate with our overall economic and budgetary strategy. Large tax reductions are premised on substantial reforms.

I must, therefore, caution that fiscal prudence will require significantly reduced tax cuts for low and middle-income taxpayers if we cannot help finance the reductions I have proposed through enactment of these revenue-raising reforms. For this reason, I am proposing a balanced tax program, and I urge Congress to consider these recommendations as an integrated package.

Tax Reduction and Simplification for Individuals

Under this tax program, virtually all Americans will receive substantial tax relief, principally through a simple, across-the-board reduction in personal tax rates. Lower withholding rates will be put into effect October 1, 1978, and taxpayers will experience an increase in take-home pay and purchasing power as of that date.

The typical taxpayer in all income classes up to $100,000 will pay lower taxes. But the bulk of relief has been targeted to low and middle-income taxpayers.

The $240 credit will be especially beneficial for low and middle-income families. It will remove millions of Americans at or near the poverty level from the income tax rolls. No longer will the tax savings for dependents

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be worth more to high income than low income families. Instead, the credit will be worth just as much to the moderate income blue-collar worker as to the wealthy executive.

Over 93% of the net individual tax relief will be provided to individuals and families earning less than $30,000 per year and every income class up to $30,000 will bear a smaller share of the overall tax burden than it does now. (See Table .) The following chart shows the tax savings for the typical family of four in various income classes:

Income ($000)	Net Tax Cut ($)	Net Tax Cut (%)
10-15	278	32
15-20	278	16
20-30	337	11

For most persons in the low and middle-income brackets, there will be a sizeable net reduction in combined income and payroll taxes even after the scheduled social security tax increases are taken into account. (See Table). Without this cut in income taxes, the social security tax increases would cause a reduction in the take-home

pay of American workers. With this tax program, we will have restored the integrity of the Social Security system -- returning that system to a sound financial basis and assuring the stability of future benefits for retired workers -- without increasing total taxes for most working people or causing a slowdown in our economic recovery.

We must also act to ease the burdens of tax return preparation and recordkeeping. We have a tax system that requires millions of individuals to compute their own tax liability. The government relies upon the good faith and conscientiousness of our taxpayers to an extent unparalleled in the rest of the world. But in order for our system to remain successful, it must be comprehensible to the average taxpayer.

Judged by this standard, the current tax structure is seriously defective. Millions of honest and intelligent Americans find themselves confused and frustrated by its complexity. The cost of this complexity is enormous in terms of hours and dollars spent.

Accordingly, tax simplification has been a goal of this Administration from the outset. The tax return individuals will file between now and April 15 has been simplified as a result of the Tax Reduction and Simplification Act which I proposed and Congress enacted last year. The short form 1040A has been reduced from 25

lines to 15 lines. Form 1040 has been restructured so that it can be completed more systematically. Tax tables have been revised to reduce arithmetic computations. The language of the tax forms and the instructions have been made more understandable.

The simplification efforts that were begun in 1977 will be continued and expanded in the tax program I am presenting today. The replacement of the existing personal exemption and general tax credits by the $240 personal credit will simplify return preparation for taxpayers and enable millions of individuals at or below the poverty level to file no tax return. Changes in itemized deductions (which will be more than offset by the rate cuts) will increase the number of nonitemizers to 83% of all taxpayers. Nearly 7 million Americans will be able to switch to the standard deduction and avoid keeping detailed records for tax purposes. The preparation of returns by itemizers will be simplified, and the tax program will reduce record-keeping burdens on small businesses.

Business and Anti-Inflation Tax Reductions

Our Nation's employment and anti-inflation goals cannot be met without a strengthening of private business investment. In recent years, capital spending in the United States has been inadequate. Capacity growth in manufacturing has declined from a growth rate of about

4.5 percent during the period 1948-1969, to 3.5 percent from 1969-1973, and to 3 percent from 1973-1976. Real business fixed investment in the third quarter of 1977 was 5% below its 1974 peak.

In order to encourage needed capital outlays in the period ahead, my tax program contains annual net business tax reductions of approximately $ billion. The corporate tax rate will be reduced on October 1, 1978 from 20% to 18% on the first $25,000 of income and from 22% to 20% on the second $25,000 -- this will result in a 10% reduction in tax liability for most small corporations. The tax rate for large corporations will be cut from 48% to 45% on October 1, 1978 and to 44% on January 1, 1980.

I also recommend several important changes in the existing 10% investment tax credit: the credit should be made permanent; liberalized to cover up to 90% of tax liability; made fully applicable to qualified pollution control facilities; and extended to investments in industrial and utility structures (including rehabilitation of existing structures). These changes should be particularly beneficial to developing businesses that are seeking to expand their productive facilities and should help to increase expenditures for the construction of new factories.

The corporate rate reductions and extensions of the investment tax credit which I am proposing will encourage capital formation by providing an immediate increase in cash flow to business and by enchancing the after-tax rewards of investment.

All small businesses will receive significant cuts in their tax rates under my program: reducing the bottom as well as the top corporate rates will be of special benefit to small corporations; small business proprietorships and partnerships will benefit from the individual rate cuts. In addition to these tax reductions, my program will simplify and liberalize the depreciation rules applicable to small business and the provisions governing the deductions of losses on stock held in small companies.

Vigorous business investment will help ease inflationary pressure by averting capacity shortages that might otherwise occur as our economy continues to grow. The $2 billion reduction in telephone excise taxes and employer payroll taxes should provide additional relief from inflation by reducing costs and prices. These tax measures, applied in conjunction with other anti-inflation policies announced in my Economic Report, will support the objective of reducing and containing the rate of inflation.

The combination of these tax cuts and needed business tax reforms (which will help to finance the cuts) will result in a tax system that meets the needs of the broad spectrum of U.S. business more efficiently and equitably.

A detailed description of my program follows.

RECOMMENDATIONS TO REDUCE TAXES AND SIMPLIFY RETURNS FOR THE AVERAGE TAXPAYER

Tax Reductions for Individuals

Individual taxes will be reduced through across-the-board rate cuts and substitution of a single $240 personal credit for the existing personal exemption and alternative general credits. This tax relief will be reflected in decreased withholding rates for employees as of October 1, 1978.

I am also recommending that individuals be compensated for increased costs resulting from energy taxes. Under the provisions of my National Energy Plan, net proceeds of the crude oil equalization tax are returned to Americans by per capita rebates. In the event Congress enacts energy legislation without a provision equivalent to the rebate, I will propose further individual tax cuts equal to the net proceeds of the crude oil tax. Those proceeds should be returned directly to the American people.

(1) Rate Cuts. The proposed rate schedule will range from a lowest bracket of 12 percent to a top bracket of 68 percent, compared with the current 14 to 70 percent range. As under current law, the top rate bracket will apply with respect to income in excess of $200,000 for joint returns and $__ for single returns. The entire schedules are set forth in Tables __ through __. This new rate structure will, in and of itself, increase the overall progressivity of the individual income tax because the cuts are proportionately larger in the low and middle-income brackets. See Table __.

(2) Per Capita Tax Credit. The tax benefits for dependents currently favor the wealthy over persons with modest incomes. A taxpayer is now entitled to a $750 exemption for each family member in addition to a general tax credit, which is equal to the greater of $35 per family member or 2 percent of the first $9,000 of taxable income. The net effect of the complicated series of exemptions and credits is this: a family of four in the 50 percent tax bracket enjoys a tax savings of $1,680 for dependents while low-income families save about one-third of that amount.

I propose that the existing exemption and general credits be replaced with a single credit of $240 per family member. Unlike the current structure, the new credit will provide the same benefit at all income levels; for a family with four members, the per capita credit will be worth $960 whether that family is middle-class or wealthy. The $240 credit will ensure that most families at or near the poverty level will pay no taxes. Also, a single tax credit will simplify tax return preparation by eliminating the confusion caused by the existing combination of exemptions and alternative credits.

Changes in Itemized Deductions

The primary source of complexity in the tax laws for many middle-income individuals is itemized deductions. Average taxpayers have to maintain burdensome records in order to substantiate the deductions and are required to decipher complex tax rules to complete their tax returns. Restructuring of itemized deductions is essential if the tax laws are to be simplified for typical, middle-class individuals and families.

I am recommending changes in itemized deductions that will enable approximately 6.6 million taxpayers to switch to the simple standard deduction. The number of taxpayers who use the standard deduction will be increased from __ percent to __ percent. And the calculation of the deductions for itemizers will be simplified greatly.

The deductions that will be curtailed are ones that add complexity and inequity to the tax system without advancing significant objectives of public policy. We will have a simpler, more efficient tax system if we eliminate these deductions and return the revenue directly to taxpayers through the rate cuts I propose.

(1) State and Local Taxes. The special deduction will be eliminated for general sales taxes, taxes on personal property (but not on houses or buildings), gasoline taxes, and miscellaneous taxes. These itemized deductions are claimed at nearly uniform rates by all itemizers and result in a relatively small tax benefit. For those taxpayers who do not use the published deduction tables, the record-keeping burden can be substantial.

Moreover, a deduction for these types of taxes cannot be defended on public policy grounds. A deduction for gasoline taxes runs counter to our national effort to conserve energy sources. And the present level of State sales taxes cannot be said to depend upon the fact that those State taxes are deductible for Federal income tax purposes.

(2) Political Contributions Deduction. Political contributions are now deductible as an itemized deduction in an amount not exceeding $200 for a joint return. Alternatively, a taxpayer may claim a credit against his tax for one-half of his political contributions, with a maximum credit of $50 on a joint return.

The reform program will repeal the political contribution deduction but retain the credit. The deduction is undesirable because it provides a larger subsidy to high-bracket contributors. Due to the present deduction, the wealthiest individuals can contribute $200 at an after-tax cost to them of only $60; middle-income Americans incur a cost of $150 for the same contribution. Elimination of the deduction

will enhance tax equity and diminish the confusing complexity of the current scheme of deductions and credits.

(3) Medical and Casualty Deductions. The medical expense deduction is one of the most complicated items on the tax forms. Currently, one-half of health insurance premiums (up to $150) is deductible outright for those who itemize. Other medical expenses (including additional health insurance premiums) are deductible to the extent they are in excess of 3 percent of adjusted gross income. The latter category of deductibility also includes medicines and drugs to the extent they exceed 1 percent of adjusted gross income. And there is a separate deduction for damage to property from a casualty (such as theft or fire) if the loss exceeds $100 and is not reimbursed by insurance.

I recommend substantial simplification of these provisions. The deductions for medical and casualty expenses will be combined, and a new "extraordinary expense" deduction will be available for medical and casualty expenses in excess of 10 percent of adjusted gross income. In the case of casualty losses, the

excess over $100 will be included in this computation. Medical insurance premiums and medicines will be treated the same as other medical expenses.

Medical and casualty expenditures should properly be deductible only when they are unusually large and have a significant impact on the taxpayer's ability to pay. The medical expense deduction originally met that standard. But, as a result of the changing relationship between medical costs and income, that standard is no longer satisfied. Substantial recordkeeping burdens and administrative problems can be eliminated through the proposed simplification of the deduction and the redefinition of "extraordinary" in the light of current experience among taxpayers.

PROPOSALS TO CURTAIL INAPPROPRIATE SUBSIDIES, SPECIAL PRIVILEGES, INEQUITIES AND ABUSES OF THE TAX SYSTEM

Entertainment and Other Expenditures for Personal Consumption

One feature of the current tax system that is most disheartening to average taxpayers is the favorable tax

treatment accorded extravagant entertainment expenses that are claimed to be business-related. Some individuals are able to deduct expenditures that provide personal enjoyment. And, even where entertainment expenditures may have some relationship to the production of income, they provide untaxed personal benefits to the participants. $__ billion of tax revenue is lost every year through these tax preferences.

For example, one person claimed a deduction of $17,000 for the cost of entertaining other members of his profession at his home, at a country club, at sporting events, at restaurants, and at a rental cottage. Another individual wrote off the cost of business lunches 338 days of the year at an average cost far exceeding $20 for each lunch. But there is no deduction in the tax laws for the factory worker's ticket to a football game or the secretary's lunch with fellow workers.

These special tax advantages for the privileged few undermine confidence in our Nation's tax system. The disparity must be eliminated by denying a deduction for expenditures to the extent they provide the participants with such untaxed personal enjoyment and benefits.

(1) Theater and Sporting Events. No deduction will be permitted for purchases of tickets to theater and sporting events. Present law, by allowing a deduction for the purchase of such tickets, provides a "two for the price of one" bargain to some taxpayers. As long as an individual is in the 50 percent tax bracket or above, he may be able to invite a business friend at no cost to himself by having the Federal government pay for at least one-half of the total ticket cost. The overwhelming majority of our citizens pay for their theater and sports tickets out of their own after-tax dollars. No taxpayer should be asked to help subsidize someone else's personal entertainment. This subsidy now costs the Treasury $__ million per year.

(2) Other Entertainment Expenses. The tax reform program will also deny deductibility of any expenses of maintaining facilities such as yachts, hunting lodges and swimming pools and for fees paid to social, athletic, or sporting clubs. During a recent tax year, one small corporation deducted $67,000 for yacht expenses incurred in entertaining customers and potential customers on cruises and fishing trips.

Another small company deducts over $100,000 a year to maintain hunting and fishing lodges to entertain employees of customers. Asking our taxpayers to subsidize these kinds of activities for a tiny minority, many of them among our wealthiest citizens, strikes at the credibility and integrity of our tax system.

(3) Business Meals. 50 percent of currently deductible business entertainment expenses for food and beverages will remain deductible, and 50 percent will be disallowed. A substantial portion of business meal expenses represents the cost of personal consumption that must be incurred regardless of the business connection. We should not ask the millions of Americans who work on farms, in factories and offices to subsidize through their tax dollars the high-priced lunches and dinners of a relatively small number of their fellow citizens. This public subsidy of private consumption costs the Treasury $__ million per year. The 50 percent disallowance represents a reasonable and fair approach to compensate for the untaxed personal benefit involved.

(4) Foreign Conventions. Many professional, business, and trade organizations can furnish their members with tax-deductible foreign vacations. The method of conferring such tax-subsidized luxury is to sponsor a foreign convention during which only a small portion of time is devoted to business activity. A brochure for one professional organization provides the appropriate atmosphere in promoting its foreign seminars:

> "Decide where you would like to go this year: Rome. The Alps. The Holy Land. Paris and London. The Orient. Cruise the Rhine River or the Mediterranean. Visit the islands in the Caribbean. Delight in the art treasures of Florence."

The Tax Reform Act of 1976 placed some limits on the deductibility of foreign convention expenses. But the rules still permit taxpayers to take two foreign vacations a year partially at public expense--an exception that did not escape the attention of the organization whose 1977 brochure I have quoted.

I am proposing that the deductibility rules for foreign conventions be modified in a manner that will curb abuses while relaxing the current restrictions on conventions held in foreign countries for legitimate business purposes. The two convention rule will be

stricken. In its place will be a rule that denies deductibility for foreign convention expenses unless factors such as the purpose and membership of the sponsor make it as reasonable to hold the convention outside the United States and possessions as within.

(5) First Class Air Fare. Another example of public support for private extravagance is the deductibility of first class air fare. Business travel constitutes a legitimate cost of producing income. However, the business purpose is served by purchasing a ticket at coach fare. The undue generosity of a deduction for first class air fare was recognized by Congress in 1976 when a deduction was denied for first class flights to foreign conventions. I propose that the rule be extended to tickets for domestic business travel.

Tax Shelters

Through tax shelters, persons can use "paper" losses to reduce taxes on high incomes from other sources. These shelter devices can slash the effective tax rate for many affluent individuals far below that

of average income Americans. Moreover, such shelters attract investment dollars away from profit-seeking businesses and into ventures designed only for tax write-offs; legitimate businesses suffer competitive disadvantages as a result.

In the Tax Reform Act of 1976, Congress enacted reforms intended to restrict tax shelter abuses. The principal methods used in that legislation were revisions of the minimum tax and the adoption of an "at risk" rule to limit the deductibility of certain tax shelter losses.

However, some promoters have now adapted their operations to provide shelters in forms that were not specifically covered by the 1976 Act. In fact, shelter activity in 1977 may have surpassed the level reached in 1976. Form letters, addressed to "All of Us Who Wish to Reduce Our Taxes," boldly promise tax write-offs several times larger than the amount invested, and persons are urged to pass the message along "to anyone you think may have interest in tax reduction." Tax shelter experts promote their services in large and expensive advertisements in the financial sections of our Sunday papers.

Such flagrant abuses of the tax laws should not be tolerated. I recommend action that will build upon the 1976 reforms and further reduce tax shelter abuses.

(1) Strengthening of the Minimum Tax. The minimum tax has proved to be one of the most useful devices to limit the attractiveness of tax shelter schemes, and it should be made still more effective. In its current form, the minimum tax is imposed at a rate of 15 percent on the amount of certain tax preference items enjoyed by a taxpayer. But the total amount of tax preferences can be reduced by the greater of $10,000 or one-half of regular tax liability (in the case of individuals) before the minimum tax is applied.

I recommend that the minimum tax for individuals be strengthened by eliminating the offset of one-half of regular tax liability against preference income. This change will make the minimum tax more progressive and a more sharply focused deterrent to the use of tax shelters. Persons making excessive use of preferences will be taxed on their preference income without regard to regular tax liability. On the other hand, those individuals with modest preference income will still be

totally exempted from the minimum tax by the $10,000 preference offset, and there will be no minimum tax on the sale of a personal residence. Ninety-eight percent of the $229 million in revenue raised by this proposal will come from taxpayers with incomes exceeding $100,000, and more than 77 percent will come from the income class over $200,000.

(2) Extension of "at risk" Rule. One of the 1976 reforms that should be toughened is the "at risk" rule. That rule denies deductibility for a shelter investor's paper losses that exceed his cash investment and indebtedness for which he has personal liability. My tax reform plan will generally extend the "at risk" provisions to cover all activities except real estate carried on individually, through partnerships, or by corporations controlled by five or fewer persons.

(3) Changes in Real Estate Depreciation. Reform of real estate depreciation practices is needed to reduce much of the wasteful tax shelter investment that has led to over-building of commercial real estate in such forms as shopping centers and office buildings. Real estate shelters were left virtually untouched by the 1976 Act. Consequently, these shelters have continued to thrive.

It is time to move depreciation for tax purposes more closely into line with a measurement of actual economic decline. The reform program will generally require taxpayers to base their depreciation for buildings on the straight-line method, using the present average tax lives claimed by taxpayers for different classes of property. Exceptions from the general rule will be granted until 1982 for new multi-family housing, which will be permitted to use a 150 percent declining balance method; new low-income housing will remain eligible for a 200 percent declining balance method until 1982, and for 150 percent thereafter. Needed investment in industrial plants will be encouraged by an extension of the investment credit, as explained below. The investment credit is a more efficient and straight-forward means to provide a tax subsidy for such construction.

(4) Taxation of Deferred Annuities. Another flourishing tax shelter gimmick is the deferred annuity contract. Currently, a person can generally invest in an annuity contract and postpone taxation on the interest build-up until the annuity is actually received.

Although originally designed primarily to provide a safe flow of retirement income, the deferred annuity contract is now used commonly as a convenient tax dodge for a wide range of investment opportunities. The shelter benefits are aptly described by the promotional literature:

"HOW TO POSTPONE TAXES LEGALLY AND EARN INTEREST ON UNCLE SAM"S MONEY...With An Investment That Never Goes Down, Always Goes Up, And Is Guaranteed Against Loss."

I recommend that this tax abuse be eliminated. Under my proposal, the earnings of most deferred annuities will be taxed currently to the purchaser. However, in order that an individual may still use a deferred annuity with guaranteed interest as a means to provide retirement income, the proposal will allow each person to designate a single contract, contributions to which may not exceed $1,000 annually, as a contract that will remain eligible for tax deferral. Also unaffected will be the tax treatment of qualified employee annuities.

(5) Classification of Nominal Partnerships as Corporations for Tax Purposes. In many cases, tax shelter schemes can offer the desired tax benefits to investors only if the shelter vehicle is organized as a

partnership rather than a corporation. At the same time, limited partnerships can now provide traditional non-tax attributes of a corporation, such as limited personal liability, centralized management, and transferability of interests without sacrificing partnership tax benefits.

Tax shelter promoters should not be able to obtain the non-tax attributes of a corporation while using technicalities to avoid corporate tax treatment. I recommend that new limited partnerships with more than 15 limited partners be treated as corporations for tax purposes; however, partnerships engaged primarily in housing activities will be excepted until 1982 from this classification rule.

(6) Tax Audit of Partnerships. Tax shelter partnerships are not subject to the tax assessment mechanism of the Internal Revenue Service. I recommend that legislation be enacted to permit a partnership to be treated as an entity for the purpose of determining tax issues. Tax shelters based on illegitimate deductions should not be permitted to succeed merely because of the difficulties involved in conducting an IRS examination of their activities.

Termination of Alternative Tax for Capital Gains

The wages of most workers are fully subject to tax at the rates contained in the published tax tables. But persons whose income arises from the sale of stock or land generally receive preferred treatment; a deduction for long-term capital gains has the effect of taxing these gains at a rate that is one-half of the rate for ordinary income. This preference results in an annual revenue loss to the Treasury of $__ billion.

Taxpayers in the highest income brackets are granted an additional tax preference over and above the special capital gains deduction. Individuals above the 50 percent tax bracket can take advantage of a 25 percent tax ceiling on the first $50,000 of capital gains, a provision known as the "alternative tax." The benefits of this provision go exclusively to persons with taxable incomes exceeding $52,000 (if filing a joint return) or $38,000 (if filing a single return)--less than __ percent of all taxpayers.

Through the alternative tax, the wealthiest investors can shield nearly 65 percent of their capital

gains from taxation--a benefit that is grossly inequitable when middle-class investors are taxed on one-half of such gains, and most workers are taxed on every cent of their wages and salaries. The alternative tax costs the Treasury over $100 million every year, almost 90 percent of which goes to taxpayers in the $100,000 and over income classes. I propose the repeal of this unfair and complicated tax benefit.

Fringe Benefits Unavailable to Rank-and-File Workers

Our tax system generally operates under the principle that employees should be taxed on their compensation no matter what form that compensation assumes. A worker who receives cash wages that he uses to provide benefits for his family should not ordinarily be taxed more heavily than the employee who receives those benefits directly from his employer. There are now exceptions to this general rule for certain types of employee benefits. I urge Congress to act so that these tax preferences benefit rank-and-file workers as well as the executive officers.

(1) Non-discrimination Requirement for Health and Group Life Plans. An example of a tax-preferred

employee benefit is a health or group life insurance plan. If an individual purchases medical insurance, the premiums are deductible only within the limits applicable to the medical expense deduction. However, if an employer establishes a medical insurance program for its employees, the premium payments by the employer are deductible while neither the premiums nor the benefits are taxable to the employee.

Although this tax preference was designed in theory to secure basic protections for a wide range of employees, it often serves instead to subsidize expenses of only the high-level corporate managers. It is now possible for a businessman, through his controlled corporation, to establish a health plan that covers only one employee--himself--and permits all of his medical and dental expenses to be deducted. Meanwhile, that corporation's other employees have to provide health care for their families with non-deductible expenditures.

To curb this abuse, I recommend denial of the tax exemption for employer-established medical, disability, and group life insurance plans if those plans discriminate in favor of officers, shareholders, and higher-paid employees. Preferential tax treatment is now available

to pension plans only if non-discrimination standards are met. The tax law should require similar non-discriminatory treatment for workers in the case of medical, disability, and group life insurance plans.

(2) Employee Death Benefits. Current law provides an exclusion for the first $5,000 of payments made by an employer on account of the death of an employee. I recommend the repeal of this exclusion. Typically, these death benefits are in the nature of deferred wages that would have been paid to employees in high tax brackets. Adequate tax relief for an employee's heirs is provided through a complete tax exemption for insurance proceeds.

(3) Integration of Qualified Retirement Plans and Social Security. Certain employer-sponsored retirement plans have a preferred tax status. Employer contributions to a qualified plan are currently deductible while the employee can defer taxation until retirement benefits are received. Although qualification for this special treatment is generally dependent upon non-discriminatory coverage of employees, the tax laws now permit a qualified plan to cover only employees who

earn amounts exceeding the social security wage base--a base that will rise to $25,900 by 1980 under the recently enacted social security financing legislation.

It is unfair to grant tax preferences for private pension plans that bar all low and middle-income employees from participation. I propose that a new integration formula be enacted so that no qualified pension plan can provide greater benefits for highly compensated employees unless all employees receive some coverage under the plan.

Unemployment Compensation

Unemployment compensation is a substitute for wages that generally provides needed relief to persons in financial distress. But, in some cases, the unemployment compensation system discourages work for taxable income. Since unemployment benefits are tax-free, they are more valuable than an equivalent amount of wages. This means that if two individuals have the same total income, the one who does not work several months and receives unemployment compensation will be better off

financially than his colleague who works the whole year. There can be no justification for conferring this tax-free benefit upon middle and upper-income workers.

I propose that the current tax exemption for unemployment compensation benefits be phased out as an individual's income rises above $20,000 for single persons or $25,000 for married couples.

Taxable Bond Option and Industrial Development Bonds

Present law exempts from Federal taxation the interest received on certain bonds issued by state and local governments. There are now two general categories of tax-exempt bonds: obligations issued for the benefit of the state and local government itself, and industrial development bonds issued by the government to provide private facilities such as pollution control equipment, sports facilities, waste disposal facilities, and industrial parks. Also, there is a "small issue" exemption for certain industrial development bonds with

face amounts that do not exceed $1 million, or $5 million where the total cost of capital expenditures on the financed facility does not exceed the $5 million amount.

My tax program preserves the freedom of state and local governments to issue tax-exempt bonds. I am recommending reforms that will restrict the tax avoidance opportunities available to the wealthy in the tax-exempt market while, at the same time, increasing the ability of state and local governments to obtain low-cost financing. In particular, I propose the following:

(1) Option for Bonds Benefitting Governmental Units. State and local governments will be given the

option of continuing to issue tax-exempt bonds or issuing fully taxable bonds, accompanied by a direct Federal subsidy to the governmental units. For bonds issued in 1979 and 1980, the subsidy will be equal to 35 percent of the interest cost; the subsidy will rise to 40 percent for bonds issued after 1980. The Federal government will not seek to control the purposes for which state and local governments use subsidized financing. State and local governments will benefit under the taxable bond option regardless of whether they issue taxable or tax-exempt bonds: those issuing taxable bonds will benefit directly from the interest subsidy, and those continuing to issue tax-exempt bonds will benefit because the reduced supply of such bonds will allow governments to sell them at lower interest rates.

(2) Pollution Control Bonds for the Development of Industrial Parks. The tax exemption will be removed for interest on pollution control bonds, bonds for the development of industrial parks and bonds to finance construction of private non-profit hospitals (unless there is a certification by the state that a new hospital is needed.) These activities are essentially for the benefit of private users, and the tax exemption for the bonds has the effect of undermining the financing of

governmental functions. Moreover, the general exemption for hospital bonds encourages excessive expansion of unneeded hospital facilities and runs counter to the Administration's Hospital Cost Containment proposal.

(3) Small Issue Exemption. The existing "small issue" exemptions will be retained only for depressed areas; and, with respect to those areas, the $5 million exemption will be raised to $10 million.

(4) Option for Certain Industrial Development Bonds. Other industrial development bonds that now enjoy tax-exempt status (such as those to finance sports facilities, housing, airports and convention facilities) will be eligible for the taxable bond option on the same terms as obligations issued for the benefit of state and local governments.

Accrual Accounting for Large Corporate Farms

Most taxpayers that are in the business of selling products must use an accrual method of accounting so that income is reflected accrurately for tax purposes. However, farmers have historically been permitted to

use the simpler cash method on the grounds that they lack the accounting and bookkeeping expertise required by the accrual system.

Congress acted in 1976 to deny the cash accounting privilege to most large corporate farms (with annual gross receipts exceeding $1 million), but retained an exception for large corporations that are "family owned." This distinction between family and nonfamily corporations bears no relationship to the rationale of preserving simple bookkeeping methods for small farmers. It has resulted in severe competitive imbalances between large corporations now required to use accrual accounting and those that are equally large but happen to fall within the definition of a "family farm."

This inequitable exception should now be eliminated. Corporate farms with gross receipts exceeding $1 million cannot fairly claim that they lack the sophistication necessary to comply with accrual accounting standards. Nor can lack of financial sophistication be claimed by farm syndicates used as investment vehicles by nonfarmers. Therefore, I recommend that the accrual accounting requirement cover corporations with gross receipts

greater than $1 million, regardless of their ownership, and all farm syndicates.

Tax Treatment of Financial Institutions

Financial institutions now have a favored tax status that is based largely on outmoded concepts regarding the nature of these businesses. Commercial banks, mutual savings banks and savings and loan associations were permitted to deduct artificially inflated reserves for bad debts in order to protect the banking system from catastrophic losses that were prevalent prior to the extensive banking legislation of the 1930's. Credit unions were exempted from taxation in the days when these institutions were small entities with close bonds among the members and few powers to provide extensive financial services. I am recommending changes that will recognize the contemporary practices of financial institutions and will bring the tax treatment of commercial banks, savings and loan associations and credit unions more in line with the taxation of other businesses. These reforms will raise over $__ million per year in revenue.

(1) Commercial Banks. Commercial banks may now claim bad debt deductions that greatly exceed their actual losses. Under legislation enacted in 1969, this special bad debt deduction is scheduled for elimination after 1987. I propose that the effective date for repeal be accelerated so that beginning in 1979 banks, like other businesses, will base their bad debt reserves on their own experience in the current and 5 preceding years.

(2) Mutual Savings Banks and Savings and Loan Associations. Mutual savings banks and savings and loan associations are also permitted a special bad debt deduction that bears no relationship to actual experience. These thrift institutions are generally entitled to deduct 40 percent of their net income (this percentage is scheduled to apply in 1979) as a bad debt reserve as long as a significant portion of their deposits is invested in real estate loans. My tax program will reduce the percentage to 30 percent over a 5-year period.

(3) Credit Unions. Credit unions are tax-exempt. Yet, their powers and functions are defined so broadly

that the term "credit union" can include financial institutions that are functionally identical to a savings and loan association. The tax exempetion provides them with an unfair financial advantage over their competitors. I propose that the tax exemption be phased out over a 4-year period, and that credit unions be taxed in the same manner as mutual savings banks and savings and loan associations after 1982.

Domestic International Sales Corporation (DISC)

Business incentives form an integral part of my tax program. I am recommending measures that will encourage American businesses to invest in productive facilities and to create jobs. However, adoption of those incentives must be accompanied by the elimination of tax preferences that have proved to be wasteful. The so-called "DISC" provision is a prime example.

In 1971, Congress enacted a special tax program for exports. This program permitted tax benefits for exports channeled through a company's specially created subsidiary, usually a paper organization, known as a domestic international sales corporation (DISC).

Artificial pricing rules on transactions between the parent company and its DISC permit a favorable allocation of export profits to the DISC, and the taxation of one-half of the DISC income is deferred as long as these profits are invested in export related assets.

DISC has proved to be a very inefficient and wasteful export subsidy in the current international monetary system. A recent Treasury study indicates that DISC may have contributed only $1 to $3 billion to U.S. exports in 1974--an increase of less than 2 percent in total exports--at a tax revenue cost of $1.2 billion. In the long run, even these increased exports are probably offset by rising imports that result from the operation of the flexible exchange rate system. DISC does nothing for, and may even disadvantage, our import sensitive industries and our exporters not using the DISC provision. Independent experts believe that DISC may have had no positive effect on our balance of payments.

Congress has recognized the wasteful nature of DISC and, in 1976, limited its applicability. However, DISC continues to cost U.S. taxpayers over $1 billion per year, with __ percent of DISC benefits going to the largest __ percent of companies.

I propose the elimination of one-third of DISC benefits in 1979, two-thirds in 1980, and all DISC benefits in 1981 and thereafter.

Foreign Tax Deferral

Domestic corporations can now avoid paying a U.S. tax on the earnings of their foreign subsidiaries as long as those earnings remain overseas. A U.S. tax is generally deferred until dividends are paid by the subsidiary to its domestic parent, and then U.S. tax liability is offset by a tax credit for foreign income taxes paid on those remitted earnings. __ percent of all the benefits of tax deferral is obtained by the __ largest multinational corporations.

I recommend that this deferral privilege be phased out over a 3-year period. At least one-third of a foreign subsidiary's earnings will be taxed to the U.S. parent in 1979, at least two-thirds in 1980, and all the subsidiary's earnings after 1980. The tax reform program is designed to create incentives for investment in the United States and the creation of jobs for American workers. Tax deferral runs counter

to these objectives. By providing a preference for foreign source income, the current deferral provision provides an incentive for investing abroad rather than in the United States, thereby having the effect of reducing job opportunities for Americans. Moreover, deferral can encourage multinational corporations to manipulate internal transfer prices in order to allocate income to low-tax countries.

There is no reason to defer the imposition of a U.S. tax just because business operations are conducted abroad rather than in the United States, regardless of the motivation for creating a foreign subsidiary. Congress eliminated in 1969 certain special tax preferences for businesses conducted in the United States through multi-layered corporations. I propose that Congress act in a similar manner to end the present preference for business operations conducted internationally through such multinational corporate structures.

The foreign tax credit will be retained in its present form. Therefore, elimination of deferral will not result in a double taxation of overseas earnings.

And, in the event it appears to be in the national interest to permit tax deferral with respect to specific countries, such treatment can be provided selectively under negotiated tax treaties involving mutual concessions.

SPECIAL TAX REDUCTIONS PROPOSED TO REDUCE COSTS FOR CONSUMERS AND BUSINESSES

I propose two tax reduction measures--outside the income tax system--that will assist our efforts to attain price stability.

Repeal of Excise Tax on Telephone Services

The present 4 percent excise tax on amounts paid for telephone services is now being phased out at the rate of 1 percentage point a year, with full repeal scheduled as of January 1, 1982.

I recommend complete repeal of this tax as of October 1, 1978. This action will reduce the cost of

living directly. It will also lower consumer prices indirectly through a reduction of the business cost associated with telephone services. Repeal will be especially beneficial to low and middle-income individuals, who bear a disportionately large burden of the current excise tax.

Federal Unemployment Insurance Tax

I recommend a reduction in the Federal unemployment insurance tax to reduce the payroll costs of employers. On January 1, 1978, the unemployment insurance tax rate rose from 0.5 percent to 0.7 percent of an employer's taxable wage base. This tax increase was instituted in order to replenish general revenue funds that have been loaned to the unemployment insurance trust fund during recent periods of high unemployment. But the issue of unemployment compensation financing requires a thorough reexamination to determine the best means of providing future benefits. To this end, I will soon appoint the National Commission on Unemployment Insurance which the Congress established to make this study and make recommendations. In the meantime, I am guided by my concerns about inflation. I propose that the tax rate be reduced to the 0.5 percent level as of January 1, 1979.

RECOMMENDED BUSINESS INCENTIVES TO FOSTER GROWTH OF THE ECONOMY

Corporate Rate Cut

I recommend a corporate rate cut that will reduce business taxes by $__ billion. Tax relief in this form is sizable, easily understood by taxpayers, and applicable across the board.

The corporate tax rate is now 20 percent on the first $25,000 of income, 22 percent on the next $25,000, and 48 percent on corporate income exceeding $50,000. Effective October 1, 1978, this program will reduce the first two rate brackets to 18 and 20 percent, respectively, and the rate to 45 percent on taxable income in excess of $50,000. The top rate will be reduced an additional point, to 44 percent, on January 1, 1980. Small as well as large corporations will benefit from these rate cuts.

A corporate rate reduction of this magnitude will increase capital formation and help to assure a sustained economic recovery. In recent years, the level of business fixed investment has been unsatisfactory.

One of the primary causes of this inadequate investment performance has been the low rate of return businesses receive on their investments--after tax liability is taken into consideration. The lower tax rates I recommend will enhance the anticipated after-tax profits on corporate investment projects and increase cash flow immediately. Businesses will thereby be encouraged to increase capital spending and to create jobs for American workers. Corporate rate cuts this large are made possible by, and depend upon, passage of the revenue-raising business tax reforms I have described earlier.

Liberalization of Investment Tax Credit

The investment tax credit has proven to be one of the most potent tax incentives for capital formation. It provides a direct reduction in tax liability generally equal to 10 percent of a business' qualifying investments. But there are now several limitations that restrict its effectiveness.

I recommend changes that will make the investment credit a stronger, more efficient, and more equitable incentive. These changes will reduce business taxes by $__.

(1) Permanent 10 Percent Credit. The present 10 percent investment credit is not a permanent feature of the Internal Revenue Code. On January 1, 1981, the credit level is scheduled to revert to 7 percent. I propose that the credit be extended permanently at a 10 percent rate so that businesses can plan ahead with greater certainty of the tax benefits that will be associated with projected capital expenditures.

(2) Increased Tax Liability Ceiling. The investment credit claimed during any taxable year cannot generally exceed $25,000 plus 50 percent of tax liability in excess of that amount (with excess credits being eligible for a 3-year carryback and a 7-year carryforward). My tax program will provide a ceiling of 90 percent of tax liability (including the first $25,000) and will thereby increase the incentive for those businesses with relatively high investment needs and low taxable income. Developing businesses and firms suffering from temporary business reversals will be helped to compete more effectively with their larger or more stable competitors.

(3) Eligibility of Structures. The investment credit now applies only to machinery and equipment. My

tax program will extend eligibility for the credit to utility and industrial structures, where investments have been especially sluggish. Investment in these structures reached its peak over 4 years ago and is now 16 percent below that level. It is important that we act to remedy the existing tax bias against structures and encourage balanced industrial expansion. In order to ensure that this provision has no anti-urban bias, I propose that the investment credit be available for both new structures and the rehabilitation of existing structures.

I recommend that this provision apply to construction costs incurred after December 31, 1977. In the case of new structures, there will be an additional requirement that the facility be placed in service after that date.

(4) Liberalized Credit for Pollution Control Facilities. I propose that pollution abatement facilities placed in service after December 31, 1977 be allowed to qualify for a full 10 percent credit even if the special 5-year amortization provision is claimed under existing law. Currently, only a 5 percent credit may be combined

with rapid amortization. This proposal will provide significant tax relief for industries that are forced to make pollution control expenditures in order to comply with environmental regulations.

Revision and Simplification of Regulations Under the Asset Depreciation Range System

The asset depreciation range (ADR) system provides substantial tax benefits to businesses. Under ADR, a taxpayer can claim depreciation deductions with reference to generous class lives that are prescribed for categories of assets, and the taxpayer can select useful lives within a range that extends from 20 percent below to 20 percent above the designated class life. However, certain complexities in the ADR regulations discourage most businesses, especially small ones, from electing this depreciation system and impose administrative burdens on those businesses which do use ADR.

I recommend legislation expressly permitting the Treasury Department to issue regulations that will simplify the ADR system. Included among the changes will be a termination of the annual reporting requirement.

Proposals Focused on Small Business

Small businesses will share in the benefits provided by the corporate rate cut and changes in the investment tax credit. For example, a small corporation with annual income of $50,000 will save $1,000 in taxes due to corporate rate reductions. For that corporation, tax liability will be reduced by nearly 10 percent. Moreover, those small businesses conducted in partnership or sole proprietorship form will benefit substantially from the rate cuts I have proposed for individuals.

But in addition to providing these tax incentives for all businesses, I recommend three proposals designed specifically to assist small businesses. First, my tax program will simplify and liberalize the rules (Subchapter S) that treat certain small corporations as partnerships; the number of permissible shareholders will generally be increased from 10 to 15, and the rules governing subchapter S elections will be made less stringent. Second, a simplified method of depreciation will be authorized for small businesses that will provide tax benefits similar to the current ADR system without

TREASURY ACCIDENTALLY DROPPED p. 55

CONCLUSION

The recommendations I have described would effect major and much-needed change in our Nation's tax laws. Anything less would fail to address our dual challenges of sustaining economic growth and making the tax system fairer and simpler.

Now is the time to act on our tax proposals. Most of the tax cuts are scheduled to take effect on October 1, 1978 in order to provide needed tax relief this year and to prevent a lull in the economy as we begin the next fiscal year. Even though the reforms I propose are significant, they should not prevent passage of a complete tax package during this Congressional session. The American people deserve prompt enactment of a tax reform and reduction program.

TABLES

January 17, 1978 3:00

Summary of Tax Proposals

Proposal	Liability effect calendar year 1979 ($ billions)
• Reduce individual tax rates and adopt $240 personal credit	-23.5
• Limit itemized deductions	+5.8
• Restrict tax shelters and other opportunities to receive tax-preferred income	+1.0
• Restrict deductions for entertainment and travel expenses	+1.5
• Reduce corporate tax rates	-6.0
• Liberalize investment tax credit	-2.4
• Curtail business tax preferences	+1.1
• Reduce telephone excise and unemployment taxes	-2.0
• Total	-24.5

Office of the Secretary of the Treasury
Office of Tax Analysis

January 16, 1978

The Effect of Tax Reform Proposals on Calendar Year Tax Liability

($ millions)

	Full year 1976	Calendar Years 1978	1979	1980	1981	1982	1983
$240 credit and reduced tax rates	-17,305	-6,067	-23,538	-26,583	-30,272	-34,732	-40,110
Itemized deduction changes:							
Repeal gasoline tax deductions	582		862	983	1,121	1,277	1,456
Repeal sales tax deductions	1,672		2,477	2,824	3,219	3,670	4,184
Repeal miscellaneous tax deductions	384		569	649	739	843	961
Deduction for medical and casualty expenses	1,396		1,909	2,119	2,352	2,611	2,898
Repeal political contributions deduction	2		2	4	2	3	3
Repeal capital gains alternate tax	113		140	151	162	174	187
Individual real estate tax shelters	320		61	181	296	407	514
Taxation of unemployment benefits	275		212	207	204	204	214
Tax interest element of annuity contracts	320		12	26	40	57	80
Minimum tax change	229		284	306	329	353	380
Taxable bond option (individual)	255		197	592	1,080	1,666	2,218
Extend 10 percent investment tax credit to structures (indiv.).	-36	-47	-54	-65	-73	-79	-86
Limit individual tax credits to 90 percent of tax before credits	38		52	58	64	71	79
Tax qualified retirement plans and employee death benefits	30		32	32	33	33	34
Corporate real estate shelters	180		40	118	194	265	335
Corporate family farm accounting	30		40	25	10	5	7
Bad debt reserves:							
Commercial banks	196		227	232	232	23	--
Mutual savings banks and savings and loans	82		37	85	145	221	316
Credit unions	82		22	50	83	123	171
Entertainment expenses	1,125		1,476	1,633	1,771	1,932	2,107
Taxable bond option (corporations)	-24		-15	-47	-79	-113	-150
Phase-out DISC over 3 years	852	193	664	1,228	1,513	1,613	1,751
Phase-out deferral of tax on foreign source income	523		88	280	768	830	897
Corporate tax rate reduction	-5,718	-1,349	-5,965	-8,516	-9,228	-10,010	-10,764
At risk limitation (corporations)	10		14	10	8	5	6
Increase investment tax credit limit to 90 percent	-71		-882	-576	-114	-194	-205
Extend 10 percent investment tax credit to structures (corporations)	-1,055	-1,100	-1,389	-1,649	-1,869	-2,074	-2,268
Nondiscrimination rule for health and group term life plans	29		32	33	34	35	36
Full investment tax credit for pollution abatement facilities	-90	-142	-93	-107	-127	-115	-144
Total individual	-11,725	-6,114	-16,783	-18,516	-20,704	-23,442	-26,988
Total corporate	-3,849	-2,398	-5,704	-7,201	-6,659	-7,454	-7,905
Subtotal tax reform	-15,574	-8,512	-22,487	-25,717	-27,363	-30,896	-34,893
Repeal telephone excise tax	--	-355	-1,200	-900	-500	--	--
Reduce unemployment payroll tax rate	--	--	-850	-900	-950	-1,000	-1,050
Total	-15,574	-8,867	-24,537	-27,517	-28,813	-31,896	-35,943

Office of the Secretary of the Treasury
Office of Tax Analysis

January 16, 1978

Summary of Revenue Effects of Income Tax Reductions,
Tax Reforms, Telephone Excise and Unemployment Insurance
Tax Reductions

($ billions)

	Fiscal years				
	1979	1980	1981	1982	1983
Individual Income Tax:					
Tax reductions	-22.5	-25.7	-29.2	-33.4	-38.5
Tax reforms	4.2	7.4	8.9	10.6	12.3
Net change	-18.3	-18.2	-20.3	-22.8	-26.2
Corporation Income Tax:					
Tax reductions	-6.3	-9.4	-11.1	-11.8	-12.8
Tax reforms	1.1	3.0	4.3	5.0	5.2
Net change	-5.1	-6.5	-6.8	-6.8	-7.6
Telephone Excise and Unemployment Insurance Tax Reductions	-1.6	-2.0	-1.6	-1.2	-1.1
TOTAL	-25.0	-26.6	-28.6	-30.8	-34.9

Office of the Secretary of the Treasury
Office of Tax Analysis

January 17, 1978

Note: Figures may not add to totals due to rounding.

Expanded Income and Tax Liability Under Present Law
And Tax Reform Proposals (Personal Only)

(1976 Levels of Income)

($ millions)

Expanded Income Class ($000)	Number of Returns (thousands)	Expanded Income	Present Law: Tax Liability	Present Law: Effective Tax Rate	Administration Proposal: Tax Liability	Administration Proposal: Effective Tax Rate
Less than 5	25,474	57,557	141	0.2%	-251	-0.4%
5 - 10	20,109	149,590	8,227	5.5%	6,368	4.3%
10 - 15	16,106	201,036	18,071	9.0%	15,361	7.6%
15 - 20	11,824	205,086	23,009	11.2%	20,148	9.8%
20 - 30	9,907	237,041	32,778	13.8%	29,593	12.5%
30 - 50	3,347	124,836	22,017	17.6%	20,971	16.8%
50 - 100	985	67,484	16,492	24.4%	16,344	24.2%
100 - 200	198	27,371	8,084	29.5%	8,261	30.2%
200 and over	49	21,573	6,476	30.0%	6,838	31.7%
Total	87,998	1,091,573	135,293	12.4%	123,633	11.3%

Office of the Secretary of the Treasury
Office of Tax Analysis

January 13, 1978

Note: Details may not add to totals due to rounding.

Income Tax Liabilities: Present Law and Administration Proposal
(Personal Income Only)

(1976 Levels of Income)

Expanded Income Class	Present Law		Administration Proposal		Tax Change	
	Tax Liability	Percentage Distribution	Tax Liability	Percentage Distribution	Tax Liability	Change as Percent of Present Law Tax
($000)	($ millions)	(percent)	($ millions)	(percent)	($ millions)	(percent)
Less than 5	141	0.1%	-251	-0.2%	-392	-278.0%
5 - 10	8,227	6.1	6,368	5.2	-1,859	-22.6
10 - 15	18,071	13.4	15,361	12.4	-2,710	-15.0
15 - 20	23,009	17.0	20,148	16.3	-2,861	-12.4
20 - 30	32,778	24.2	29,593	23.9	-3,185	-9.7
30 - 50	22,017	16.3	20,971	17.0	-1,046	-4.8
50 - 100	16,492	12.2	16,344	13.2	-148	-0.9
100 - 200	8,084	6.0	8,261	6.7	177	2.2
200 and over	6,476	4.8	6,838	5.5	362	5.6
Total	$135,293	100.0%	$123,633	100.0%	$-11,660	-8.6%

Office of the Secretary of the Treasury
Office of Tax Analysis

January 15, 1978

Note: Details may not add to totals due to rounding.

Burden Table

Single Returns

(1976 Levels of Income)

Expanded income class ($000)	Average tax present law (dollars)	Average tax under proposal (dollars)	Average tax change (dollars)	Percentage change (percent)
Less than 10	217	181	-36	-16.4%
10 - 15	1,595	1,519	-76	-4.8
15 - 20	2,768	2,591	-177	-6.4
20 - 30	4,236	3,917	-319	-7.5
30 - 50	8,254	7,660	-594	-7.2
50 - 100	18,465	17,889	-576	-3.1
100 - 200	42,015	41,714	-301	-0.7
200 and over	161,723	167,760	6,037	3.7

Office of the Secretary of the Treasury
Office of Tax Analysis

January 10, 1978

Burden Table
Joint Returns
No Dependents

(1976 Levels of Income)

Expanded income class ($000)	Average tax present law (dollars)	Average tax under proposal (dollars)	Average tax change (dollars)	Percentage change (percent)
Less than 10	168	95	-73	-43.6%
10 - 15	1,104	983	-121	-11.0
15 - 20	2,084	1,906	-178	-8.5
20 - 30	3,615	3,308	-307	-8.5
30 - 50	6,921	6,535	-386	-5.6
50 - 100	17,020	16,647	-373	-2.2
100 - 200	40,403	40,956	553	1.4
200 and over	132,121	137,140	5,020	3.8

Office of the Secretary of the Treasury
Office of Tax Analysis

January 10, 1978

Burden Table
Joint Returns
One Dependent

(1976 Levels of Income)

Expanded income class	Average tax present law	Average tax under proposal	Average tax change	Percentage change
($000)	(..... dollars .....)			(.. percent ..)
Less than 10	65	-38	-103	-157.8%
10 - 15	1,024	824	-200	-19.5
15 - 20	1,922	1,696	-226	-11.7
20 - 30	3.392	3,063	-329	-9.7
30 - 50	6,709	6,327	-382	-5.7
50 - 100	16,938	16,625	-313	-1.8
100 - 200	41,993	42,264	271	0.6
200 and over	121,583	125,202	3,620	3.0

Office of the Secretary of the Treasury
Office of Tax Analysis

January 10, 1978

Burden Table
Joint Returns
Two Dependents

(1976 Levels of Income)

Expanded income class ($000)	Average tax present law (dollars)	Average tax under proposal (dollars)	Average tax change (dollars)	Percentage change (percent)
Less than 10	9	-79	-88	-975.6%
10 - 15	867	589	-278	-32.1
15 - 20	1,739	1,461	-278	-16.0
20 - 30	3,117	2,780	-337	-10.8
30 - 50	6,287	5,979	-308	-4.9
50 - 100	16,336	16,088	-248	-1.5
100 - 200	40,885	41,087	202	0.5
200 and over	127,666	130,473	2,807	2.2

Office of the Secretary of the Treasury
Office of Tax Analysis

January 10, 1978

Burden Table
Joint Returns
Three Dependents

(1976 Levels of Income)

Expanded income class ($000)	Average tax present law (dollars)	Average tax under proposal (dollars)	Average tax change (dollars)	Percentage change (percent)
Less than 10	-41	-81	-40	-97.7%
10 - 15	693	367	-326	-47.0
15 - 20	1,562	1,218	-344	-22.0
20 - 30	2,867	2,514	-353	-12.0
30 - 50	5,872	5,609	-263	-4.5
50 - 100	15,924	15,785	-139	-0.9
100 - 200	40,417	40,827	410	1.0
200 and over	126,915	130,397	3,483	2.7

Office of the Secretary of the Treasury
Office of Tax Analysis

January 10, 1978

Burden Table
Joint Returns
Four Dependents

(1976 Levels of Income)

Expanded income class ($000)	Average tax present law (dollars)	Average tax under proposal (dollars)	Average tax change (dollars)	Percentage change (percent)
Less than 10	-64	-70	-6	-9.9%
10 - 15	526	177	-349	-66.3
15 - 20	1,375	985	-390	-28.3
20 - 30	2,590	2,248	-342	-13.2
30 - 50	5,720	5,521	-199	-3.5
50 - 100	16,529	16,593	64	0.4
100 - 200	42,090	42,707	617	1.5
200 and over	127,755	131,298	3,543	2.8

Office of the Secretary of the Treasury
Office of Tax Analysis

January 10, 1978

Income Tax and FICA Tax Changes

Four Person, One-earner Families

Wage income	Income tax 1/	FICA tax 2/	Total tax
$ 5,000	0	14	14
10,000	-312	28	-284
15,000	-258	42	-216
20,000	-270	120	-150
25,000	-320	298	-22
30,000	-322	298	-24
40,000	-218	298	80
50,000	-80	298	218
100,000	590	298	888

Office of the Secretary of the Treasury
Office of Tax Analysis

January 15, 1978

1/ Assumes deductible expenses equal to 23 percent of income under present law and 20 percent under the proposal.

2/ Change in FICA tax calculated assuming present law rate and base for 1979 (6.13 percent and $22,900), employees' share only and assuming prior law rate for 1977 (5.85 percent) and prior law estimated base for 1979 ($18,900), employees' share only.

Individual Tax Rate Schedules For
Joint Returns

Taxable Income Bracket 1/	Present Law: Tax At Low End of Bracket	Present Law: Tax Rate on Income In Bracket	Tax Proposal: Tax At Low End of Bracket	Tax Proposal: Tax Rate on Income In Bracket
0 - 500	0	14%	0	12%
500 - 1,000	70	14	60	12
1,000 - 2,000	140	15	120	14
2,000 - 3,000	290	16	260	16
3,000 - 4,000	450	17	420	17
4,000 - 8,000	620	19	590	18
8,000 - 12,000	1,380	22	1,310	19
12,000 - 16,000	2,260	25	2,070	20
16,000 - 20,000	3,260	28	2,870	23
20,000 - 24,000	4,380	32	3,790	27
24,000 - 28,000	5,660	36	4,870	32
28,000 - 32,000	7,100	39	6,150	36
32,000 - 36,000	8,660	42	7,590	39
36,000 - 40,000	10,340	45	9,150	42
40,000 - 44,000	12,140	48	10,830	44
44,000 - 48,000	14,060	50	12,590	48
48,000 - 52,000	16,060	50	14,510	48
52,000 - 54,000	18,060	53	16,430	51
54,000 - 62,000	19,120	53	17,450	51
62,000 - 64,000	23,360	53	21,530	51
64,000 - 76,000	24,420	55	22,550	54
76,000 - 88,000	31,020	58	29,030	57
88,000 - 90,000	37,980	60	35,870	57
90,000 -100,000	39,180	60	37,010	60
100,000 -110,000	45,180	62	43,010	60
110,000 -120,000	51,380	62	49,010	62
120,000 -130,000	57,580	64	55,210	62
130,000 -140,000	63,980	64	61,410	64
140,000 -150,000	70,380	66	67,810	64
150,000 -160,000	76,980	66	74,210	65
160,000 -175,000	83,580	68	80,710	65
175,000 -180,000	98,780	68	90,460	66
180,000 -200,000	97,180	69	93,760	66
200,000 and over	110,980	70	106,960	68

Office of the Secretary of the Treasury
Office of Tax Analysis

January 17, 1978

1/ The zero bracket is not shown in this table. To include the zero bracket, increase all taxable incomes shown by $3,200.

Individual Tax Rate Schedules For
Single Returns

Taxable Income Bracket 1/	Present Law: Tax At Low End of Bracket	Present Law: Tax Rate on Income In Bracket	Tax Proposal: Tax At Low End of Bracket	Tax Proposal: Tax Rate on Income In Bracket
0 - 500	0	14	0	12
500 - 1,000	70	15	60	13
1,000 - 1,500	145	16	125	15
1,500 - 2,000	225	17	200	15
2,000 - 3,000	310	19	275	18
3,000 - 4,000	500	19	455	19
4,000 - 6,000	690	21	645	20
6,000 - 8,000	1,110	24	1,045	20
8,000 -10,000	1,590	25	1,445	22
10,000 -12,000	2,090	27	1,885	23
12,000 -14,000	2,630	29	2,345	25
14,000 -16,000	3,210	31	2,845	25
16,000 -18,000	3,830	34	3,345	29
18,000 -20,000	4,510	36	3,925	29
20,000 -22,000	5,230	38	4,505	33
22,000 -24,000	5,990	40	5,165	33
24,000 -26,000	6,790	40	5,825	38
26,000 -28,000	7,590	45	6,585	38
28,000 -32,000	8,490	45	7,345	41
32,000 -36,000	10,290	50	8,985	46
36,000 -38,000	12,290	50	10,825	50
38,000 -40,000	13,290	55	11,825	50
40,000 -44,000	14,390	55	12,825	51
44,000 -48,000	16,590	60	14,865	57
48,000 -50,000	18,990	60	17,145	58
50,000 -52,000	20,190	62	18,305	58
52,000 -54,000	21,430	62	19,465	60
54,000 -60,000	22,670	62	20,665	60
60,000 -62,000	26,390	64	24,265	60
62,000 -64,000	27,670	64	25,465	63
64,000 -70,000	28,950	64	26,725	63
70,000 -76,000	32,790	66	30,505	63
76,000 -80,000	36,750	66	34,285	66
80,000 -88,000	39,390	68	36,925	66
88,000 -90,000	44,830	68	42,205	66
90,000 -100,000	46,190	69	43,525	67
100,000 and over	53,090	70	50,225	68

Office of the Secretary of the Treasury — January 17, 1978
Office of Tax Analysis

1/ The zero bracket is not shown in this table. To include the zero bracket, increase all taxable incomes shown by $2,200.

THE PRESIDENT HAS SEEN. 9:15 AM

THE WHITE HOUSE

WASHINGTON

January 17, 1978

MEETING WITH REP. DAVID R. OBEY (D-WIS. 7)
Wednesday, January 18, 1978
9:15 A.M. (15 minutes)
The Oval Office

From: Frank Moore FM/pd.

I. PURPOSE

To discuss the legislative agenda and priorities for the coming year.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

Background: Rep. Obey is a member of the Appropriations Committee (19) and the Budget Committee (12). In addition to his committee assignments, Rep. Obey is Chairman of the Commission on Administrative Review, which was created to stem abuses after Rep. Wayne Hays' resignation. He has been the Speaker's choice to handle especially sensitive problems in the House.

Participants: The President, Rep. David Obey, and Frank Moore.

Press Plan: White House photographer.

III. TALKING POINTS

1. As a member of the Labor-HEW Appropriations Subcommittee, Rep. Obey is a key liberal whose agreement on funding levels for social programs is essential to avoid a major increase in budget amounts.

2. Rep. Obey is particularly interested in worker health and safety.

   -- He was especially concerned about an OMB imposed personnel ceiling that eliminated a number of National Institute for Occupational Safety and Health health research staff positions.

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3. Rep. Obey is a member of the "Doc" Long Foreign Operations Subcommittee (Appropriations). From this position, he had consistently supported foreign aid decisions and resisted restrictions on commodities or for human rights violations. This past year, his dissatisfaction with the above-mentioned NIOSH staff reductions persuaded him to point up the inconsistency that allows money to go overseas and not for worker health research at home. He stated his opposition to increasing foreign aid budgets until the Administration took some specific action with regard to research in the worker health area.

4. He should be told about, in as a specific way as possible, our education funding decisions.

   -- We have added $664 million for Title I of the Elementary and Secondary Education Act.

   -- We plan to increase Basic Educational Opportunity Grants from the current $1,600 maximum to a $1,800 maximum per student and increase the asset level to $25,000. The result of both actions will vastly increase the amount of aid to students.

   -- We are proposing gradual reforms to Impact Aid that will shift the focus from saving the program to actually reforming the program.

5. Ask for Rep. Obey's assistance in all matters coming before the Appropriations Committee -- specifically, working with us on foreign assistance.

11:30 AM

THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

January 17, 1978

MEETING WITH BOARD OF TRUSTEES OF
THE COUNCIL OF THE AMERICAS
Wednesday, Jan. 18, 1978
11:30 am (15 minutes)
The Cabinet Room

From: Joe Aragon JA

I. PURPOSE

To receive the endorsement of the Council of the Americas for the Panama Canal Treaties and discuss with the corporate executives the importance of the Treaties to U.S.-Latin American relations.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: The Council of the Americas is a non-profit association of over 200 major U.S. corporations comprising nearly 90% of private U.S. investment in Latin America and the Caribbean. They have been very active in the effort to inform the Congress and educate the American people on the need for a new treaty relationship with Panama. In January of 1976 they formed a work group on Panama which published a pro-con "issues booklet" which was distributed nationally through world affairs councils, the press and civic associations.

Last September the Executive Committee of the Council recommended to the Board of Trustees that it endorse the Treaties and make a public statement on their ratification. The Board of Trustees was polled by mail and by December the vote was in, overwhelmingly in support of the Treaties.

The Trustees want to convey to you personally their decision to endorse the Treaties. In addition, they hope to use this meeting as a way of publicly underscoring their position and generating media interest. By taking the lead on this issue they will persuade other members of the business community to follow suit. On Jan. 20 Henry Geyelin, President of the Council will submit testimony before the Senate Foreign Relations Committee and re-emphasize at this time the Council's endorsement.

B. Participants: Twenty-one representatives of the 63 member Board of Trustees of the Council of the Americas (list of participants attached); Dr. Zbigniew Brzezinski; Ambassador Ellsworth Bunker.

C. Revised Press Plan attached.

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III. TALKING POINTS

1. It would be useful to acknowledge the long-standing interest and support of the Council in the negotiations of the new Treaties with Panama. They have been working to educate the public on this vital issue for approximately two years.

2. It would also be useful to emphasize to them how important their continued support is and how crucial the role of the business community is in persuading the Senate that these Treaties should be ratified.

3. In view of forthcoming foreign policy issues that will be of concern to the country and therefore to the business community, it might be helpful if you expressed interest in again seeking the support of the Council, particularly on issues affecting relations between North and South.

Revised Press Plan: White House photo session; when you walk in the tv cameras will begin filming. Augustine Marusi, Chairman of the Board and Henry Geyelin, President of the Council will stand and greet you. They will very briefly inform you of the Council's decision to endorse the treaties and work for their ratification. Once you have thanked them for the endorsement the cameras will end their filming and leave. You can then proceed with the meeting.

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
Attendee List	for Meeting of Board of Trustees of the Council of the Americas w/President Carter, 3 pgs.	1/18/78	C

FILE LOCATION

Office of the Staff Secretary - Presidential Files; Folder: 1/18/78

RESTRICTION CODES

(A) Closed by applicable Executive Order 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.

8:45 AM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

January 17, 1978

MEETING WITH REP. JOE D. WAGGONNER (D-4-LA)
Wednesday, January 18, 1978
8:45 a.m. (15 minutes)
The Oval Office

From: Frank Moore FM/BR

I. PURPOSE

To discuss the legislative agenda and priorities for the coming year with emphasis on social security legislation, your economic package, hospital cost containment, and welfare reform.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

Background: While he is a relatively junior member of the House, Joe D. has become the leader of the conservative coalition. He could be very effective in serving as your link to this group much as Mo Udall does with the western coalition. His interests are pervasive and tend to generally run counter to a majority of our interests. Joe D. is an individual who, even when he vigorously opposes you, will not deceive you or actively try to hurt you. He has given our staff excellent advice on many occasions, even when that advice was against his best interests.

A personal note: Joe D. is the chairman of the Louisiana State Mardi Gras Ball which is held annually in Washington and will be this weekend, the 21st. He has asked that you or Mrs. Carter drop by the Friday morning tour that we have arranged for the Mardi Gras princesses. While he is aware that that event is not on your schedule, he may mention to you the possibility of your dropping by to say hello to the princesses.

Participants: The President and Rep. Waggonner.

Press Plan: White House Photographer

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III. TALKING POINTS

1. Joe D., in conjunction with Rep. Dan Rostenkowski, was very instrumental in working out the elimination of the Roth amendment to clear the way for passage of the Social Security bill. He did not agree with our recommendation that general revenues be used to finance the administration, but did not lead an all out charge against us.

2. A general discussion of the economic package would be useful. If Joe D. would agree to support the major components of the package, it would be a great step forward toward accomplishing this in the committee and in the House.

3. Joe D. opposes our hospital cost containment bill but could support the Rostenkowski bill which provides some additional exemption for small hospitals. Our goal at this point is to get a bill to the House floor and his support to accomplish that would be in our best interest.

4. Joe D. has not taken a strong stand on welfare reform. You should stress that one consolidated federal cash program and national uniform eligibility rules will greatly reduce fraud and errors in our welfare system, the strong job requirement, and the fiscal relief and flexibility of state supplementation for the states.

5. Joe D. is very close to Russell Long. You might ask for his assistance at some point in the future in dealing with Chairman Long when the need arises.

THE WHITE HOUSE

WASHINGTON

January 17, 1978

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Press Plan: White House Photographer

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1:00 meeting w Consumer leaders

Consumers
1-18-78

THE WHITE HOUSE
WASHINGTON

Rhoda Kalapatkin

~~Pat~~ Participation

Mark

Sandra Willett

Lola Redford
Rob Nathan Bill ✓

Kathleen O'Reilly

Coop Bank bill

↑ Independent → Private → market int rates

Ralph

Betsy Wood

Mercedes Kelly - No-Fault

Glen Nishimura - Cons Educ
No budget funds

THE WHITE HOUSE
WASHINGTON

Alfreda Riley - Health Care

Jim Boyle Delay Trucks
St Atty Gen - Anti-trust

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Presentation of Diplomatic Credentials 11/18/78

THE WHITE HOUSE
WASHINGTON

Quiñónez - El Salvador
Pres Romero
HRts Commission
Honduras border dispute

Lamport - Guatemala
Pres Lanegerud

Belize -
Human Rts

Martha de Pira

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Promise meeting 11/18/78

THE WHITE HOUSE
WASHINGTON

Promise

Federal Bank Commission
B.H. - admin. support

FDIC - Fed Reserve - Comp
Consolidate for
bank regulation only
Stu/Charlie

NYC

571 - Bank regulation
now in House - move

Community Dev. Sec Harris right
re 75:25 ratio

Hum - Hawkins - bills
goal for inflation also

Shipbuilding claims $2m B

1/18/78

THE WHITE HOUSE
WASHINGTON

David Obey MIDE

a) 2 personnel systems AID

b) IFI - access to financial data fm banks.

c) Explain area-by-area general need - philosophy - etc on aid - not $

Tie tax cuts to inflation control

Labor - no contact ē Marshall
need anti-substitution in CETA

NCI - NIOSH - OSHA personnel ceilings

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Industry Group Criticizes OSHA On Its No-Risk Policy on Cancer

WASHINGTON, Jan. 13 (UPI) — An industry group charged Friday that the Carter Administration's effort to eliminate all risk of cancer at job sites was absurd because a worker's life was full of risks.

"Why should we have a no-risk policy in the work place?" asked the president of Dow Chemical, Paul Oreffice, during a news conference caled by the American Industrial Health Council. "We don't have a no-risk atmosphere in other places in our lives. We take a risk every day we get out of bed. No-risk is not an acceptable concept. We have a lot of automobile accidents, but we don't say you must drive at no detectible speed."

The concil, a chemical industry lobbying group, made a counterproposal to the policy of the Occupational Safety and Health Administration for regulating cancer-causing chemicals at job sites. OSHA would reduce all known carcinogens to the lowest feasible exposure level. The council would reduce the exposure to a level of acceptable risk.

REMEMBER THE NEEDIEST!

N.Y. Times
Sunday, Jan 15, 1978

President of Company NCI contracts with to tell us which chemicals cause cancer And should be regulated.

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7TH DISTRICT, WISCONSIN

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LAWRENCE DAHL
JERRY MADISON

FIELD REPRESENTATIVE:
MARTIN HANSON

DAVID R. OBEY

COMMITTEES:
BUDGET
APPROPRIATIONS

SUBCOMMITTEES:
LABOR-HEW
FOREIGN OPERATIONS

CHAIRMAN
COMMISSION ON
ADMINISTRATIVE REVIEW

WASHINGTON OFFICE:
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PHONE: 202-225-3365

ADMINISTRATIVE ASSISTANT:
LYLE STITT

Congress of the United States
House of Representatives
Washington, D.C. 20515

October 3, 1977

MEMORANDUM

TO: Vice President Walter Mondale
FROM: Congressman David R. Obey
RE: OMB ACTIONS REGARDING OCCUPATIONAL AND ENVIRONMENTAL HEALTH AND THE ADMINISTRATION OF AGENCY FOR INTERNATIONAL DEVELOPMENT

In February OMB froze all government agencies below congressionally mandated position ceilings. This was of particular consequence to agencies which Congress had deemed in need of increased staff. One of the worst hit areas was occupational and environmental health. NIOSH, which had finally begun to overcome various recruiting problems which the agency had faced in previous years, was frozen 100 positions below the staff level contained in the fiscal year 1977 appropriations bill. NIEHS was frozen 50 positions below what Congress had intended it to have. 77 positions at NCI for work on environmental cancer mandated in the appropriations bill were also frozen. This seriously delayed a number of important projects which the Congress had intended to have carried out in this fiscal year but which cannot be accomplished as the result of the OMB action.

First, NIEHS had been directed to establish a program for screening large numbers of potentially toxic chemicals using newly developed short-term tests. The agency was to use approximately half of the 50 new positions for this effort. Since they still do not have the staff, the program did not get off the ground this fiscal year.

Second, NIEHS was also directed to develop a cooperative effort with the Cancer Institute to measure noncancerous health effects on the the thousands of animals which NCI is subjecting to chemical exposure. This would have saved tax money had there been the staff to implement it. It might also have identified some major unknown hazards.

Third, NIOSH was directed to begin a program to determine the effect of workplace exposures on the unborn. It is suspected that hundreds, perhaps thousands, of chemicals found in the workplace can cause fetal damage and affect the reproductive ability of workers. Currently there is not a single federal standard to protect the unborn from such exposures. Ten positions were provided for this effort in fiscal year 1977. Because of the freeze, the program was not permitted to get underway. This also prohibited expansion of this vital program in FY '78.

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

Fourth, a new initiative in the area of respiratory disease, including research on grain workers in the Twin Ports, has been hampered. NIOSH was provided 17 positions for that program and all were frozen.

Fifth, a major irritation to businesses and workers alike has been the inadequacy of OSHA safety standards. They are overly complex, written in impossible to understand language and, in many cases, are not even relevant to good safety practices. NIOSH has a responsibility in this matter as well as OSHA does, since NIOSH is responsible for recommending new and revised standards. Ten positions were provided for that effort. All were frozen.

Sixth, while standards may be imposed to protect workers from a particular chemical, there are often no satisfactory means for workers, employers or OSHA to determine if the standards are being met because there is no practical way of testing for the chemical's presence in the workplace. Ten positions were earmarked for these purposes.

Seventh, NCI's testing of cancer-causing chemicals is a national disgrace. Because of a lack of staff, more than 200 chemicals which had been tested were never even reported on. For instance, these included tests showing that kepone caused cancer that were completed within days of the time the Life Science plant began manufacture of the chemical, but no report was issued until more than a year after the plant had been shut down. The Committee provided 60 positions to NCI to get that program going and get those reports out. Those positions were frozen.

Eighth, in FY '76 there were a total of six persons in the entire national war on cancer looking at the effect of environmental causes on human beings. The Committee increased that number by 17. Some, but not all, of those positions were frozen.

Now the freeze has been lifted and new ceilings have been imposed. They are uniformally lower than those contained in the appropriations reports. These levels are not arrived at lightly. We do not do it for an intellectual exercise. We do it to answer real needs.

OMB eliminated 10 positions or 20% of last year's appropriated level for NIEHS. That will not just delay short-term testing and examination of cancer tests for other types of disease; it will permanently cripple those efforts. OMB cut NIOSH by 30 positions or nearly 3/4 of everything Congress had given them last year for studies on the unborn, reform of safety regs, respiratory disease and so on.

OMB cut NCI by 77, the exact number we had provided the Institute for Environmental Cancer. NCI had, in the meantime, become so convinced of the need to expand their efforts in that area that they have moved positions allocated to other parts of the Institute to permit an increase of 77 in the environmental area. This means, however, that 30 additional positions for environmental cancer contained in the FY '78 bill will have to be used to offset those transfers.

At OSHA we only have enough inspectors to go into each workplace in America once every 50 years. Further, the majority of inspectors are in safety without ability to enforce health standards which account for 80 to 90% of the deaths. We have tried to shift the emphasis to health. We fought very hard last year over the appropriate position ceiling at OSHA and arrived at the figure 2,717. Now a clerk at OMB has decided that it should be 2,555.

And it is not just positions. There is a terrible shortage of trained professionals in the area of environmental health research. This year the revised Carter budget requested a cut in our training efforts for basic research from $4 million the year before to $1.4 million this year. They further urged that the four million dollars appropriated for last year be rescinded and it probably would have been if Califano, Dr. Rall and others had not fought tooth and nail to prevent it.

In terms of occupational health specialties, the Administration cut the agency request of $7.4 million for training occupational health physicians, nurses and industrial hygienists back to $3 million. That would have precluded the designation of the new training center at the University of Minnesota.

One of the greatest failings of our whole occupational health effort is that neither the workers nor the businessmen really understand the nature of the hazards which exist or the need for efforts to protect against those hazards. In many countries, the main thrust of the entire OSHA program is to educate people about the hazards in order to get voluntary compliance. But not in the U.S. We spend less than 1% and when the House tried to move that up to 3%, OSHA applauded, the Labor Department applauded, but OMB said no and required Marshall to send a letter to the Senate saying the money wasn't needed. That is not only not open government, it is damn poor policy.

And at the same time the Administration is impounding appropriated position levels for the most critical health needs which I think this country has, it is not facing up to the outrageous mess in our foreign assistance program. People inside AID -- different people who don't even know each other -- tell me that you could cut the staff of the agency in half and improve the operation. When AID was started, 31% of the personnel were in Washington. Now 63% are in Washington. Many of them are Vietnam retreads who have no specific skills in development assistance and do nothing but bump into each other all day long, put sole source contracts (more than 50% of all AID contracts are sole source) to their buddies and drown the field with paperwork. The grade levels of both the civil service and Foreign Service employees are equally outrageous. Of the 8 Foreign Service grade levels, more then one-half of all AID employees are in the top 3 grades. If we cut the agency a thousand positions, it wouldn't be enough but it would be a step in the right direction. Since the dollars eaten up by AID appear to be coming from positions which in many instances I personally added, I think you can understand my frustration.

THE WHITE HOUSE
WASHINGTON

1-18-78

Charlie
Stu

Assess for me:

a) S 71

b) Federal Bank Commission bill - to consolidate bank regulation which is now under 3 agencies

J.C.

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ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE
WASHINGTON

January 18, 1978

Stu Eizenstat
Jim McIntyre

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

Rick Hutcheson

RE: ADMINISTRATION POLICY ON ASSISTANCE TO MIDWEST RAILROADS

THE WHITE HOUSE
WASHINGTON

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

cc Adams

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

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

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

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

THE WHITE HOUSE
WASHINGTON

1/17/78

Mr. President:

OMB and Eizenstat's office have reviewed Secretary Adams' remarks, and generally concur. They will convey specific suggestions directly to DOT.

(I have not attached the speech.)

Rick

ADMINISTRATIVELY CONFIDENTIAL

THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

JAN 13 1978

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR THE PRESIDENT

ATTENTION: Mr. Rick Hutcheson, Staff Secretary

FROM: Brock Adams

SUBJECT: Administration Policy on Assistance to Midwest Railroads

I have called a meeting in Chicago on January 18-19 for public discussion of railroad problems and solutions in the Midwest. My motivation in calling the meeting is the recent bankruptcy of the Milwaukee Road and the long term problem of excess rail plant in that region of the country. The meeting will launch a process of restructuring rail facilities in the Midwest under the provisions of Section 401 of the 4-R Act. I want in this memorandum to inform you what I plan to say in Chicago and indicate some of the public and political responses that may be triggered by my actions.

My memorandum to you of December 2, 1977, was a comprehensive review of the railroad problem and my view of the direction our policy should take. In 1973, the rail problem in the Northeast reached crisis proportions and occasioned a government sponsored reorganization plan and refinancing. We would like to avoid that happening in the Midwest, which is the next weakest part of the rail system. Your marginal notes on my December 2 memorandum indicated general agreement with my listing of causes of the problem and added an even stronger statement: "Too many railroads, too much track, too many employees, increasing dependence on government bailouts, too much past (present?) use of railroad money for non-related investment."

I want you to know that I am now taking direct action based on the memorandum and your assessment. If we do not have a strong, innovative railroad policy, Congress will move to its own traditional type of bailout solution.

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I will say at the meeting in Chicago that this is the last and best opportunity for a private enterprise solution. We use our existing statutory authority of Section 401 of the 4-R Act by trying to have the railroads (both in and out of bankruptcy) restructure through market swaps, joint use arrangements, and abandonment proposals. We will use the existing Title V funds of the same law to leverage restructuring, including, if necessary, establishment of subsidiary or jointly owned corporations which pledge assets as security for the Title V funds. (This will help overcome the problem of insuring security for government loans to bankrupt or marginal carriers in cases where earning power does not provide adequate security but where we do believe the project is desirable for the national railroad system.)

I will not urge (or oppose) mergers of existing corporate structures. Mergers themselves don't insure the slimming down of excess facilities that can only come from market swaps, line by line consolidation, or abandonment, but after this process is underway, some mergers may be desirable. I will certainly urge purchase by profitable carriers of viable pieces of the faltering railroads. Good

The idea is to make the most of existing authorities and funds. The danger is in going too far in any one direction and thereby destroying our ability to pull together all the parties who need to cooperate in finding permanent solutions. Let me give some examples:

- o If I advocate liquidation of bankrupt carriers, labor, most shippers, states, rural communities, and the carrier managements (and Trustees) will rise together against us. We should follow the more deliberate process of 401 restructuring -- but not provide bailout funds.

- o If I advocate wholesale and immediate abandonments, labor, some shippers and most states will move to clog the ICC abandonment process and urge (probably successfully) Congress to greatly expand the existing subsidy program. Instead, I'm proposing changes in the branchline subsidy program to rehabilitate some lines before they reach the point of no return -- and provide for only a two-year transition operating subsidy on lines that are approved for abandonment. The states must make priority choices within this authority.

- o If I advocate no loan assistance for bankrupt carriers and press the other marginal carriers too strongly with respect to their ability to repay loans, I violate the intent of the 4-R Act and also risk pushing more marginal lines into bakruptcy. Congress would react with legislation that would give us even less discretion. Instead, I intend to make the existing programs work, by seeking new entities that can pledge security and by leveraging the funds for restructuring purposes.

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- o If I advocate mergers, rather than 401 restructuring, we run the risk of only the poor lines getting together, and then when they fail, we have a larger bankrupt carrier on our hands. Again, I want to avoid having a Conrail-type solution in the Midwest.

I am sending to you a copy of my remarks to be delivered in Chicago before the event. That statement will make it clear that our job is maintaining adequate rail service, not inadequate railroad companies.

ID 780163 THE WHITE HOUSE

WASHINGTON

DATE: JAN 16 78

FOR ACTION: STU EIZENSTAT JIM MCINTYRE



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

JODY POWELL JACK WATSON

FROM: RICK HUTCHESON WHITE HOUSE STAFF SECRETARY PHONE 456-7052

SUBJECT ADAMS MEMO DATED 1/13/78 RE ADMINISTRATION POLICY ON ASSISTANCE TO MIDWEST RAILROADS -- ADMINISTRATIVELY CONFIDENTIAL

RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY

BY JAN 16 78

ACTION REQUESTED: YOUR COMMENTS ARE REQUESTED ON AN IMMEDIATE TURNAROUND BASIS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD; DO NOT FORWARD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE
WASHINGTON

Admin confid

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

ACTION	FYI	
	✓	MONDALE
		COSTANZA
✓		EIZENSTAT
		JORDAN
		LIPSHUTZ
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	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

		ARAGON
		BOURNE
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		BUTLER
		CARP
		H. CARTER
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		MITCHELL
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		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

REMARKS PREPARED FOR DELIVERY BY
SECRETARY BROCK ADAMS
MIDWESTERN RAILROAD RESTRUCTURING MEETING
CHICAGO, ILLINOIS
JANUARY 18, 1978

1/9/78

I AM SURE WE WOULD ALL PREFER TO BE HERE UNDER HAPPIER CIRCUMSTANCES, BUT THE ISSUE AT HAND - UNPLEASANT THOUGH IT MAY BE - DEMANDS OUR UNDIVIDED ATTENTION AND OUR CONCERTED ACTION. I APPRECIATE THE RESPONSE TO THIS PUBLIC HEARING. I THANK YOU ALL FOR COMING. I SPOKE WITH CHAIRMAN DAN O'NEAL ABOUT TODAY'S MEETING AND I AM PLEASED THAT HE HAS SENT A REPRESENTATIVE. HE HAS ASSURED ME THAT THE FULL RESOURCES OF THE COMMISSION ARE AVAILABLE TO ASSIST IN FINDING A WORKABLE, FINANCIALLY PRACTICAL SOLUTION TO THE PROBLEM THAT BRINGS US TOGETHER TODAY.

- more -

WHILE THE SPECIFIC EVENT THAT PRECIPITATED THIS MEETING WAS THE BANKRUPTCY OF THE CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD, THE FAILURE OF THAT LINE IS - AS I SAID IN SCHEDULING THIS HEARING - "ONLY THE TIP OF THE ICEBERG." THIS IS THE SECOND BANKRUPTCY IN THE MIDWEST IN THE PAST THREE YEARS, AND THERE ARE OTHER CARRIERS IN THIS REGION THAT ARE IN POOR FINANCIAL CONDITION. AS YOU KNOW, I AM NOT A NEWCOMER TO THE PROBLEMS OF THE NATION'S RAILROADS. I SPENT CONSIDERABLE TIME DURING MY YEARS IN CONGRESS WORKING IN SUPPORT OF LEGISLATION THAT WOULD PRESERVE AND IMPROVE RAIL SERVICE. IN FACT, AS ONE OF THE CONGRESSIONAL ARCHITECTS OF THE 3-R AND 4-R ACTS, I CONCURRED IN LANGUAGE DIRECTING THE SECRETARY OF TRANSPORTATION TO TAKE CERTAIN ACTIONS IN THE PUBLIC INTEREST WHICH, AS SECRETARY, I AM NOW OBLIGATED TO FULFILL. THERE IS, IN FACT, A BIT OF VERSE THAT DESCRIBES "MY JOB" AND IT GOES LIKE THIS:

MY JOB

IT'S NOT MY PLACE TO RUN THE TRAIN,
THE WHISTLE I CAN'T BLOW;
IT'S NOT MY PLACE TO SAY HOW FAR
THE TRAIN'S ALLOWED TO GO.
IT'S NOT MY PLACE TO SHOOT OFF STEAM
NOR EVEN CLANG THE BELL,
BUT LET THE DAMN THING
JUMP THE TRACK. . .
AND SEE WHO CATCHES HELL!

THE TRUTH IS, WE FACE A POTENTIALLY DISASTROUS RAIL SITUATION IN THE MIDWEST, AND THE DIMENSIONS OF THAT PROBLEM - AND THE COSTS OF COPING WITH IT - WILL ONLY BE AGGRAVATED BY DELAY OR VACILLATION. IT IS THEREFORE ESSENTIAL THAT WE WORK TOWARD A SOLUTION AS SWIFTLY AS POSSIBLE.

I HOPE THAT IN WEIGHING THE OPTIONS BEFORE US WE WILL PUT ASIDE AS UNDESIRABLE ANY CONSIDERATIONS OF LARGE-SCALE REORGANIZATION LEGISLATION. WE DO NOT WANT, NOR DO I BELIEVE WE NEED, A "CONRAIL WEST." THERE ARE, IN MY JUDGEMENT, ADEQUATE LEGAL PROVISIONS AND AMPLE RESTRUCTURING OPPORTUNITIES TO SUPPORT A PRIVATE SECTOR SOLUTION TO RAIL PROBLEMS HERE IN THE MIDWEST.

FOR MY PART IN THIS HEARING LET ME OUTLINE, FIRST, THE DIFFERENCES BETWEEN THE RAIL SITUATION HERE AND IN THE NORTHEAST; SECOND, INDICATE WHY I BELIEVE A COOPERATIVE RESTRUCTURING PROCESS IS PREFERABLE TO THE KIND OF GOVERNMENT RAIL REORGANIZATION INSTITUTED IN THE NORTHEAST; AND, THIRD, SUGGEST HOW WE MIGHT PROCEED TOWARD SUCH A SOLUTION.

WE ARE FORTUNATE IN THAT SECTION 401 OF THE 4-R ACT* PERMITS RAIL AND TRANSPORTATION DEPARTMENT OFFICIALS TO GET TOGETHER, WITH ALL INTERESTED PARTIES, TO SEARCH OUT SOLUTIONS TO THE PROBLEMS OF AILING RAIL LINES. IT IS THAT AUTHORITY, WHICH I ALSO VIEW AS A RESPONSIBILITY, THAT IS THE GENESIS OF THIS HEARING. I BELIEVE THAT EVERYONE CONCERNED - SHIPPERS, CONSUMER REPRESENTATIVES, LABOR AND MANAGEMENT, AND FEDERAL, STATE AND LOCAL OFFICIALS - MUST SHARE IN SEEKING A RESOLUTION TO THE PROBLEM BEFORE US.

*THE 1976 RAILROAD REVITALIZATION AND REGULATORY REFORM ACT.

WE MAY NOT FIND A SOLUTION TOTALLY SATISFACTORY TO EACH PARTICIPANT, BUT WE MUST FIND ONE ESSENTIALLY ACCEPTABLE TO ALL. I ASK FOR THE COOPERATION AND GOOD FAITH OF EVERYONE AS WE WORK TOGETHER TO DESIGN ANSWERS TO THE RAILROAD PROBLEM HERE IN AMERICA'S HEARTLAND.

THERE ARE SEVERAL REASONS WHY THE FORMULA FOR RESCUING THE FREIGHT RAILROADS IN THE NORTHEAST - AS APPLIED IN THE RAIL REORGANIZATION AND RECOVERY (3-R) ACT - SHOULD NOT BE ADOPTED IN THE MIDWEST.

FOR ONE, THE ECONOMIES OF THE TWO REGIONS ARE DIFFERENT. THE NORTHEAST IS INDUSTRIAL; THE MIDWEST AGRICULTURAL. GENERALLY SPEAKING, THE ECONOMIC DECLINE WAS SHARPER IN THE NORTHEAST RELATIVE TO THE REST OF THE COUNTRY.

- more -

THE RAILROAD STRUCTURES THEMSELVES ALSO ARE DIFFERENT. THE PENN CENTRAL WAS FAR MORE DOMINANT IN THE NORTHEAST THAN ANY SINGLE CARRIER IS IN THE MIDWEST. SEVEN OTHER CARRIERS IN THE NORTHEAST ALSO WERE IN BANKRUPTCY. MOREOVER, IN THE CONGESTED NORTHEAST A MANUFACTURER IS OFTEN DEPENDENT ON A SINGLE RAIL LINE, WITH NO OR FEW OTHER SHIPPERS USING THAT SAME LINE. IN THE MIDWEST, ON THE OTHER HAND, SHIPPERS MAY HAVE THE CHOICE OF SEVERAL LINES, THE RESULT OF "SPIDER WEB" RAIL CONSTRUCTION IN THE LAST CENTURY WHICH SPUN TRACK IN ALL DIRECTIONS THROUGHOUT THE PLAINS. IOWA AND KANSAS EACH HAVE MORE THAN 7,500 MILES OF TRACK, COMPARED TO 5,200 IN NEW YORK STATE AND ONLY SOME 7,000 MILES OF TRACK IN ALL OF CALIFORNIA.

THERE IS ALSO THE MATTER OF RAIL PASSENGER SERVICE, THE NEED FOR WHICH IS MUCH MORE ACUTE THROUGHOUT THE DENSELY POPULATED NORTHEAST THAN IT IS IN THE MIDWEST - CHICAGO ITSELF, OF COURSE, BEING AN EXCEPTION TO THAT DISTINCTION.

- more -

FOR THESE REASONS, THEN, THE NORTHEAST CARRIERS WERE IN THE MOST DIFFICULT POSITION OF ALL. THEIR REORGANIZATION REQUIRED A MAJOR GOVERNMENTAL PLANNING PROCESS, DURING WHICH FUNDING OF $660 MILLION IN TRUSTEE CERTIFICATES, GRANTS AND REHABILITATION LOANS WERE REQUIRED TO KEEP THEM ALIVE. IN ORDER TO PROVIDE AN INCOME-BASED REORGANIZATION AND TO CAPITALIZE THE NEW COMPANY - CONRAIL - WE HAVE, THUS FAR, AUTHORIZED $2.1 BILLION IN PREFERRED STOCK AND INCOME DEBENTURES.

STILL, WHILE THERE HAVE BEEN TOO MANY RAIL FACILITIES IN THE NORTHEAST, THE BASIC PROBLEM WAS NOT ONE OF "TOO MANY CARRIERS" OR "REDUNDANT FACILITIES" OR "EXCESS PLANT" TO THE EXTENT THAT THOSE FACTORS HAVE AFFECTED THE RAILROADS IN THE MIDWEST. THE REGION HAS BEEN OVERBUILT FOR YEARS, AND DESPITE SEVERAL MERGERS AND A SUCCESSION OF CONSOLIDATION PLANS THERE ARE STILL FIVE CARRIERS OPERATING BETWEEN CHICAGO AND OMAHA AND EIGHT BETWEEN CHICAGO AND KANSAS CITY.

BUT IN THE YEARS THAT I HAVE SPENT ON RAIL MATTERS, I HAVE CONTINUALLY BEEN AMAZED BY THE STAYING POWER OF THE RAILROADS. DESPITE HIGH FIXED COSTS, SUBSTANDARD EARNINGS AND AGING FACILITIES, RAILROADS CONTINUE TO PROVIDE SERVICE. RAILROADS ARE ALSO HIGHLY COMPETITIVE AMONG THEMSELVES. WHILE COMPETITION IS NORMALLY A HEALTHY THING, IN AN OVERBUILT REGION LIKE THE MIDWEST IT MEANS THAT THERE IS TOO MUCH SERVICE, AT RATES TOO LOW TO SUPPORT THE EQUIPMENT AND FACILITY INVESTMENTS THAT WOULD IMPROVE EFFICIENCY.

STILL, BECAUSE THE PROBLEM IS PRIMARILY ONE OF LOW DENSITY TRAFFIC, I DO NOT BELIEVE A CONRAIL-TYPE SOLUTION IS EITHER NECESSARY OR ADVISABLE FOR THE MIDWEST. THERE ARE THREE REASONS FOR FAVORING AN ALTERNATIVE COURSE OF ACTION.

FIRST, THE UNDERLYING MARKETS HERE ARE STRONG. GRAIN AND OTHER FARM COMMODITIES, WESTERN COAL, CHEMICALS FROM THE GULF COAST AND OVERHEAD TRAFFIC TO THE WEST ARE GROWING SOURCES OF RAIL BUSINESS. THE RAILROADS, HOWEVER, MUST DO A BETTER JOB OF ADAPTING TO THESE MARKETS AND SOME INVESTMENTS DOUBTLESS WILL BE NEEDED TO TAP THEM. THERE MUST ALSO BE AN UNDERSTANDING ON A FAIR DIVISION OF THE REVENUES. EACH OF THESE REQUIREMENTS IS DIFFICULT, BUT NOT IMPOSSIBLE.

SECOND, MUCH OF THE "EXCESS PLANT" CAN BE STRIPPED AWAY WITHOUT TERMINATING SERVICE TO IMPORTANT SHIPPING POINTS. THIS CAN BE DONE IN SEVERAL WAYS. "MARKET SWAPS," FOR EXAMPLE, CAN SHORTEN DISTANCES AND ELIMINATE THE NEED FOR SOME SECONDARY TRACKS OR EVEN CERTAIN MAINLINES. "JOINT USE" ARRANGEMENTS CAN CONSOLIDATE OVERHEAD SERVICES ON FEWER FACILITIES, WITH OLD MAINLINES PERHAPS REVERTING TO LOCAL SERVICE OR BEING ABANDONED. BRANCH LINE ABANDONMENTS CAN BE SPEEDED UP, ESPECIALLY WHERE ALTERNATIVE SERVICE IS AVAILABLE. PURCHASE OF SOME LINES BY STRONGER CARRIERS IS ANOTHER IMPORTANT OPTION.

I'VE AVOIDED TALKING ABOUT MERGERS AS A MEANS OF REDUCING "EXCESS PLANT," BECAUSE I'VE COME TO BELIEVE THAT MERGER PER SE IS FAR LESS PROMISING AS AN EFFECTIVE WAY TO IMPROVE THE ECONOMICS OF RAILROADING THAN THESE OTHER ELEMENTS I JUST MENTIONED. MERGER HAPPENS AT THE CORPORATE LEVEL. "MARKET SWAPS," "JOINT USE," AND ABANDONMENTS ARE THE ELEMENTS THAT ACTUALLY REDUCE PLANT, WHETHER AS PART OF A MERGER OR AS STEPS SHORT OF MERGER. THEY ARE WHAT COUNT. THIS IS WHY WE EMPHASIZE THE "RESTRUCTURING" OF RAIL SERVICE RATHER THAN MERGERS. IT IS A CRITICAL DISTINCTION, ONE THAT I WILL BE MAKING REPEATEDLY. I COULD SAY FEW THINGS OF MORE IMPORTANCE TODAY THAN TO CONSIDER WHY THIS IS SO.

- more -

LET ME BE CLEAR THAT I AM NOT AGAINST MERGERS, BUT I BELIEVE ANY PROPOSED MERGER MUST PASS TWO ACID TESTS: WILL THE CONSOLIDATION HELP IN THE RESTRUCTURING OF THE INDUSTRY, TO IMPROVE PROFITABILITY; AND WILL IT BE IN THE PUBLIC INTEREST, IN TERMS OF SERVICE.

HERE IN THE MIDWEST I BELIEVE CIRCUMSTANCES FAVOR RESTRUCTURING. IT IS IN THE INTERESTS OF ALL CARRIERS TO REDUCE COSTS FOR THE SAME TOTAL REVENUE, AND I KNOW MOST, IF NOT ALL, ARE WILLING TO PURSUE THESE OPPORTUNITIES. THE ROCK ISLAND, AS YOU KNOW, HAS ALREADY PROPOSED A PLAN CALLING FOR THE CONSOLIDATION AND COORDINATION OF ITS FREIGHT SERVICES WITH THOSE OF FOUR OTHER MIDWEST RAILROADS. UNDER THIS PLAN, THE CONSORTIUM OF PRIVATELY-OWNED RAILROADS WOULD JOINTLY SHARE TERMINALS, RAIL YARDS, EQUIPMENT AND REVENUES. I WOULD RESERVE JUDGMENT ON THIS SPECIFIC PLAN, HOWEVER, UNTIL THE COSTS AND PROSPECTIVE BENEFITS CAN BE FULLY ASSESSED.

- more -

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I PROPOSE, THEREFORE, THAT WE PURSUE THE PROVISIONS OF SECTION 401 OF THE 4-R ACT TO THE FULLEST. THE LAW ALLOWS GOVERNMENT TO ASSIST IN THE RESTRUCTURING, WITHOUT GETTING FINANCIALLY INVOLVED - IT SUSPENDS THE ANTI-TRUST RESTRICTIONS AGAINST CARRIER DISCUSSIONS.

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- more -

THIS IS THE LAST, BUT IT MAY ALSO BE THE BEST OPPORTUNITY THAT HAS COME ALONG FOR A PRIVATE SECTOR SOLUTION OF THE MIDWEST RAILROAD PROBLEM. TO WALK AWAY FROM IT NOW WOULD BE TO MARK THE BEGINNING OF THE END. NONE OF US - CARRIERS, LABOR, SHIPPERS, COMMUNITIES, OR GOVERNMENT - CAN AFFORD THAT. PERHAPS IT IS NOT A PLEASURE TRIP THAT HAS BROUGHT US TO THIS FORUM. WE MEET OUT OF NECESSITY; BUT ALSO AS PRUDENT AND RESPONSIBLE PEOPLE, JOINED IN A COMMON CONCERN FOR THE PRESERVATION AND IMPROVEMENT OF RAIL SERVICE. LET US REASON WELL TOGETHER. LET US ACT WILLINGLY, WISELY, AND EXPEDITIOUSLY.

####

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

JAN 16 1978

MEMORANDUM FOR RICK HUTCHESON

THROUGH: Bo Cutter

FROM: Dennis O. Green

SUBJECT: OMB Recommendations on Secretary Adams' Proposed Chicago Comments

We agree with the general tone of the statement; it is premature to rush into massive Federal aid to the region as was done in the Northeast.

We believe, however, that the specifics of the statement contradict that objective. By proposing Federal assistance to plan and fund a restructuring of the entire Midwest, an intensive Federal involvement is inevitable. To that end, we recommend that the Secretary say:

-- The Federal Government is ready to facilitate consideration of this problem, but the initiative must come from the private sector.

-- Efforts should concentrate on the immediate problem of the Milwaukee Railroad and procedures developed for addressing the entire region.

-- The purpose of the hearing is to listen to the concerns of the attendees, rather than make specific Federal proposals or promises.

If the President accepts this approach, we will suggest modifications to the Secretary's statement. Attached is an edited version of the statement to show the recommended changes.

Dennis O. Green
Associate Director for
Economics and Government

Attachment

ADMINISTRATIVELY CONFIDENTIAL

THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

JAN 13 1978

MEMORANDUM FOR THE PRESIDENT

ATTENTION: Mr. Rick Hutcheson, Staff Secretary

FROM: Brock Adams

SUBJECT: Administration Policy on Assistance to Midwest Railroads

I have called a meeting in Chicago on January 18-19 for public discussion of railroad problems and solutions in the Midwest. My motivation in calling the meeting is the recent bankruptcy of the Milwaukee Road and the long term problem of excess rail plant in that region of the country. The meeting will launch a process of restructuring rail facilities in the Midwest under the provisions of Section 401 of the 4-R Act. I want in this memorandum to inform you what I plan to say in Chicago and indicate some of the public and political responses that may be triggered by my actions.

My memorandum to you of December 2, 1977, was a comprehensive review of the railroad problem and my view of the direction our policy should take. In 1973, the rail problem in the Northeast reached crisis proportions and occasioned a government sponsored reorganization plan and refinancing. We would like to avoid that happening in the Midwest, which is the next weakest part of the rail system. Your marginal notes on my December 2 memorandum indicated general agreement with my listing of causes of the problem and added an even stronger statement: "Too many railroads, too much track, too many employees, increasing dependence on government bailouts, too much past (present?) use of railroad money for non-related investment."

I want you to know that I am now taking direct action based on the memorandum and your assessment. If we do not have a strong, innovative railroad policy, Congress will move to its own traditional type of bailout solution.

I will say at the meeting in Chicago that this is the last and best opportunity for a private enterprise solution. We use our existing statutory authority of Section 401 of the 4-R Act by trying to have the railroads (both in and out of bankruptcy) restructure through market swaps, joint use arrangements, and abandonment proposals. We will use the existing Title V funds of the same law to leverage restructuring, including, if necessary, establishment of subsidiary or jointly owned corporations which pledge assets as security for the Title V funds. (This will help overcome the problem of insuring security for government loans to bankrupt or marginal carriers in cases where earning power does not provide adequate security but where we do believe the project is desirable for the national railroad system.)

I will not urge (or oppose) mergers of existing corporate structures. Mergers themselves don't insure the slimming down of excess facilities that can only come from market swaps, line by line consolidation, or abandonment, but after this process is underway, some mergers may be desirable. I will certainly urge purchase by profitable carriers of viable pieces of the faltering railroads.

The idea is to make the most of existing authorities and funds. The danger is in going too far in any one direction and thereby destroying our ability to pull together all the parties who need to cooperate in finding permanent solutions. Let me give some examples:

- o If I advocate liquidation of bankrupt carriers, labor, most shippers, states, rural communities, and the carrier managements (and Trustees) will rise together against us. We should follow the more deliberate process of 401 restructuring -- but not provide bailout funds.

- o If I advocate wholesale and immediate abandonments, labor, some shippers and most states will move to clog the ICC abandonment process and urge (probably successfully) Congress to greatly expand the existing subsidy program. Instead, I'm proposing changes in the branchline subsidy program to rehabilitate some lines before they reach the point of no return -- and provide for only a two-year transition operating subsidy on lines that are approved for abandonment. The states must make priority choices within this authority.

- o If I advocate no loan assistance for bankrupt carriers and press the other marginal carriers too strongly with respect to their ability to repay loans, I violate the intent of the 4-R Act and also risk pushing more marginal lines into bakruptcy. Congress would react with legislation that would give us even less discretion. Instead, I intend to make the existing programs work, by seeking new entities that can pledge security and by leveraging the funds for restructuring purposes.

- If I advocate mergers, rather than 401 restructuring, we run the risk of only the poor lines getting together, and then when they fail, we have a larger bankrupt carrier on our hands. Again, I want to avoid having a Conrail-type solution in the Midwest.

I am sending to you a copy of my remarks to be delivered in Chicago before the event. That statement will make it clear that our job is maintaining adequate rail service, not inadequate railroad companies.

REMARKS PREPARED FOR DELIVERY BY
SECRETARY BROCK ADAMS
MIDWESTERN RAILROAD RESTRUCTURING MEETING
CHICAGO, ILLINOIS
JANUARY 18, 1978

1/9/78

I AM SURE WE WOULD ALL PREFER TO BE HERE UNDER HAPPIER CIRCUMSTANCES, BUT THE ISSUE AT HAND - UNPLEASANT THOUGH IT MAY BE - DEMANDS OUR UNDIVIDED ATTENTION AND OUR CONCERTED ACTION. I APPRECIATE THE RESPONSE TO THIS PUBLIC HEARING. I THANK YOU ALL FOR COMING. I SPOKE WITH CHAIRMAN DAN O'NEAL ABOUT TODAY'S MEETING AND I AM PLEASED THAT HE HAS SENT A REPRESENTATIVE. HE HAS ASSURED ME THAT THE FULL RESOURCES OF THE COMMISSION ARE AVAILABLE TO ASSIST IN FINDING A WORKABLE, FINANCIALLY PRACTICAL SOLUTION TO THE PROBLEM THAT BRINGS US TOGETHER TODAY.

- more -

WHILE THE SPECIFIC EVENT THAT PRECIPITATED THIS MEETING WAS THE BANKRUPTCY OF THE CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD, THE FAILURE OF THAT LINE IS - AS I SAID IN SCHEDULING THIS HEARING - "ONLY THE TIP OF THE ICEBERG." THIS IS THE SECOND BANKRUPTCY IN THE MIDWEST IN THE PAST THREE YEARS, AND THERE ARE OTHER CARRIERS IN THIS REGION THAT ARE IN POOR FINANCIAL CONDITION. AS YOU KNOW, I AM NOT A NEWCOMER TO THE PROBLEMS OF THE NATION'S RAILROADS. I SPENT CONSIDERABLE TIME DURING MY YEARS IN CONGRESS WORKING IN SUPPORT OF LEGISLATION THAT WOULD PRESERVE AND IMPROVE RAIL SERVICE. IN FACT, AS ONE OF THE CONGRESSIONAL ARCHITECTS OF THE 3-R AND 4-R ACTS, I CONCURRED IN LANGUAGE DIRECTING THE SECRETARY OF TRANSPORTATION TO TAKE CERTAIN ACTIONS IN THE PUBLIC INTEREST WHICH, AS SECRETARY, I AM NOW OBLIGATED TO FULFIL. THERE IS, IN FACT, A BIT OF VERSE THAT DESCRIBES "MY JOB" AND IT GOES LIKE THIS:

- more -

In dealing with this bankruptcy we must insure that we develop the approaches to dealing with the larger question of excess capacity in the Midwest.

MY JOB

IT'S NOT MY PLACE TO RUN THE TRAIN,
THE WHISTLE I CAN'T BLOW;
IT'S NOT MY PLACE TO SAY HOW FAR
THE TRAIN'S ALLOWED TO GO.
IT'S NOT MY PLACE TO SHOOT OFF STEAM
NOR EVEN CLANG THE BELL,
BUT LET THE DAMN THING
JUMP THE TRACK. . .
AND SEE WHO CATCHES HELL!

THE TRUTH IS, WE FACE A POTENTIALLY DISASTROUS RAIL SITUATION IN THE MIDWEST, AND THE DIMENSIONS OF THAT PROBLEM - AND THE COSTS OF COPING WITH IT - WILL ONLY BE AGGRAVATED BY DELAY OR VACILLATION. IT IS THEREFORE ESSENTIAL THAT WE WORK TOWARD A SOLUTION AS SWIFTLY AS POSSIBLE.

I HOPE THAT IN WEIGHING THE OPTIONS BEFORE US WE WILL PUT ASIDE AS UNDESIRABLE ANY CONSIDERATIONS OF LARGE-SCALE REORGANIZATION LEGISLATION. WE DO NOT WANT, NOR DO I BELIEVE WE NEED, A "CONRAIL WEST." THERE ARE, IN MY JUDGEMENT, ADEQUATE LEGAL PROVISIONS AND AMPLE RESTRUCTURING OPPORTUNITIES TO SUPPORT A PRIVATE SECTOR SOLUTION TO RAIL PROBLEMS HERE IN THE MIDWEST.

FOR MY PART IN THIS HEARING LET ME OUTLINE, FIRST, THE DIFFERENCES BETWEEN THE RAIL SITUATION HERE AND IN THE NORTHEAST; SECOND, INDICATE WHY I BELIEVE A COOPERATIVE RESTRUCTURING PROCESS IS PREFERABLE TO THE KIND OF GOVERNMENT RAIL REORGANIZATION INSTITUTED IN THE NORTHEAST; AND, THIRD, SUGGEST HOW WE MIGHT PROCEED TOWARD SUCH A SOLUTION.

WE ARE FORTUNATE IN THAT SECTION 401 OF THE 4-R ACT* PERMITS RAIL AND TRANSPORTATION DEPARTMENT OFFICIALS TO GET TOGETHER, WITH ALL INTERESTED PARTIES, TO SEARCH OUT SOLUTIONS TO THE PROBLEMS OF AILING RAIL LINES. IT IS THAT AUTHORITY, WHICH I ALSO VIEW AS A RESPONSIBILITY, THAT IS THE GENESIS OF THIS HEARING. I BELIEVE THAT EVERYONE CONCERNED - SHIPPERS, CONSUMER REPRESENTATIVES, LABOR AND MANAGEMENT, AND FEDERAL, STATE AND LOCAL OFFICIALS - MUST SHARE IN SEEKING A RESOLUTION TO THE PROBLEM BEFORE US.

*THE 1976 RAILROAD REVITALIZATION AND REGULATORY REFORM ACT.

WE MAY NOT FIND A SOLUTION TOTALLY SATISFACTORY TO EACH PARTICIPANT, BUT WE MUST FIND ONE ESSENTIALLY ACCEPTABLE TO ALL. I ASK FOR THE COOPERATION AND GOOD FAITH OF EVERYONE AS WE WORK TOGETHER TO DESIGN ANSWERS TO THE RAILROAD PROBLEM HERE IN AMERICA'S HEARTLAND.

THERE ARE SEVERAL REASONS WHY THE FORMULA FOR RESCUING THE FREIGHT RAILROADS IN THE NORTHEAST - AS APPLIED IN THE RAIL REORGANIZATION AND RECOVERY (3-R) ACT - SHOULD NOT BE ADOPTED IN THE MIDWEST.

FOR ONE, THE ECONOMIES OF THE TWO REGIONS ARE DIFFERENT. THE NORTHEAST IS INDUSTRIAL; THE MIDWEST AGRICULTURAL. GENERALLY SPEAKING, THE ECONOMIC DECLINE WAS SHARPER IN THE NORTHEAST RELATIVE TO THE REST OF THE COUNTRY.

- more -

THE RAILROAD STRUCTURES THEMSELVES ALSO ARE DIFFERENT. THE PENN CENTRAL WAS FAR MORE DOMINANT IN THE NORTHEAST THAN ANY SINGLE CARRIER IS IN THE MIDWEST. SEVEN OTHER CARRIERS IN THE NORTHEAST ALSO WERE IN BANKRUPTCY. MOREOVER, IN THE CONGESTED NORTHEAST A MANUFACTURER IS OFTEN DEPENDENT ON A SINGLE RAIL LINE, WITH NO OR FEW OTHER SHIPPERS USING THAT SAME LINE. IN THE MIDWEST, ON THE OTHER HAND, SHIPPERS MAY HAVE THE CHOICE OF SEVERAL LINES, THE RESULT OF "SPIDER WEB" RAIL CONSTRUCTION IN THE LAST CENTURY WHICH SPUN TRACK IN ALL DIRECTIONS THROUGHOUT THE PLAINS. IOWA AND KANSAS EACH HAVE MORE THAN 7,500 MILES OF TRACK, COMPARED TO 5,200 IN NEW YORK STATE AND ONLY SOME 7,000 MILES OF TRACK IN ALL OF CALIFORNIA.

THERE IS ALSO THE MATTER OF RAIL PASSENGER SERVICE, THE NEED FOR WHICH IS MUCH MORE ACUTE THROUGHOUT THE DENSELY POPULATED NORTHEAST THAN IT IS IN THE MIDWEST - CHICAGO ITSELF, OF COURSE, BEING AN EXCEPTION TO THAT DISTINCTION.

- more -

FOR THESE REASONS, THEN, THE NORTHEAST CARRIERS WERE IN THE MOST DIFFICULT POSITION OF ALL. THEIR REORGANIZATION REQUIRED A MAJOR GOVERNMENTAL PLANNING PROCESS, DURING WHICH FUNDING OF $660 MILLION IN TRUSTEE CERTIFICATES, GRANTS AND REHABILITATION LOANS WERE REQUIRED TO KEEP THEM ALIVE. IN ORDER TO PROVIDE AN INCOME-BASED REORGANIZATION AND TO CAPITALIZE THE NEW COMPANY - CONRAIL - WE HAVE, THUS FAR, AUTHORIZED $2.1 BILLION IN PREFERRED STOCK AND INCOME DEBENTURES.

STILL, WHILE THERE HAVE BEEN TOO MANY RAIL FACILITIES IN THE NORTHEAST, THE BASIC PROBLEM WAS NOT ONE OF "TOO MANY CARRIERS" OR "REDUNDANT FACILITIES" OR "EXCESS PLANT" TO THE EXTENT THAT THOSE FACTORS HAVE AFFECTED THE RAILROADS IN THE MIDWEST. THE REGION HAS BEEN OVERBUILT FOR YEARS, AND DESPITE SEVERAL MERGERS AND A SUCCESSION OF CONSOLIDATION PLANS THERE ARE STILL FIVE CARRIERS OPERATING BETWEEN CHICAGO AND OMAHA AND EIGHT BETWEEN CHICAGO AND KANSAS CITY.

BUT IN THE YEARS THAT I HAVE SPENT ON RAIL MATTERS, I HAVE CONTINUALLY BEEN AMAZED BY THE STAYING POWER OF THE RAILROADS. DESPITE HIGH FIXED COSTS, SUBSTANDARD EARNINGS AND AGING FACILITIES, RAILROADS CONTINUE TO PROVIDE SERVICE. RAILROADS ARE ALSO HIGHLY COMPETITIVE AMONG THEMSELVES. WHILE COMPETITION IS NORMALLY A HEALTHY THING, IN AN OVERBUILT REGION LIKE THE MIDWEST IT MEANS THAT THERE IS TOO MUCH SERVICE, AT RATES TOO LOW TO SUPPORT THE EQUIPMENT AND FACILITY INVESTMENTS THAT WOULD IMPROVE EFFICIENCY.

- more -

STILL, BECAUSE THE PROBLEM IS PRIMARILY ONE OF LOW DENSITY TRAFFIC, I DO NOT BELIEVE A CONRAIL-TYPE SOLUTION IS EITHER NECESSARY OR ADVISABLE ~~FOR~~ IN THE MIDWEST. THERE ARE THREE REASONS FOR FAVORING AN ALTERNATIVE COURSE OF ACTION.

FIRST, THE UNDERLYING MARKETS HERE ARE STRONG. GRAIN AND OTHER FARM COMMODITIES, WESTERN COAL, CHEMICALS FROM THE GULF COAST AND OVERHEAD TRAFFIC TO THE WEST ARE GROWING SOURCES OF RAIL BUSINESS. THE RAILROADS, HOWEVER, MUST DO A BETTER JOB OF ADAPTING TO THESE MARKETS AND SOME INVESTMENTS DOUBTLESS WILL BE NEEDED TO TAP THEM. THERE MUST ALSO BE AN UNDERSTANDING ON A FAIR DIVISION OF THE REVENUES. EACH OF THESE REQUIREMENTS IS DIFFICULT, BUT NOT IMPOSSIBLE.

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SECOND, MUCH OF THE "EXCESS PLANT" CAN BE STRIPPED AWAY WITHOUT TERMINATING SERVICE TO IMPORTANT SHIPPING POINTS. THIS CAN BE DONE IN SEVERAL WAYS. "MARKET SWAPS," FOR EXAMPLE, CAN SHORTEN DISTANCES AND ELIMINATE THE NEED FOR SOME SECONDARY TRACKS OR EVEN CERTAIN MAINLINES. "JOINT USE" ARRANGEMENTS CAN CONSOLIDATE OVERHEAD SERVICES ON FEWER FACILITIES, WITH OLD MAINLINES PERHAPS REVERTING TO LOCAL SERVICE OR BEING ABANDONED. BRANCH LINE ABANDONMENTS CAN BE SPEEDED UP, ESPECIALLY WHERE ALTERNATIVE SERVICE IS AVAILABLE. PURCHASE OF SOME LINES BY STRONGER CARRIERS IS ANOTHER IMPORTANT OPTION.

I'VE AVOIDED TALKING ABOUT MERGERS AS A MEANS OF REDUCING "EXCESS PLANT," BECAUSE I'VE COME TO BELIEVE THAT MERGER PER SE IS FAR LESS PROMISING AS AN EFFECTIVE WAY TO IMPROVE THE ECONOMICS OF RAILROADING THAN THESE OTHER ELEMENTS I JUST MENTIONED. MERGER HAPPENS AT THE CORPORATE LEVEL. "MARKET SWAPS," "JOINT USE," AND ABANDONMENTS ARE THE ELEMENTS THAT ACTUALLY REDUCE PLANT, WHETHER AS PART OF A MERGER OR AS STEPS SHORT OF MERGER. THEY ARE WHAT COUNT. THIS IS WHY WE EMPHASIZE THE "RESTRUCTURING" OF RAIL SERVICE RATHER THAN MERGERS. IT IS A CRITICAL DISTINCTION, ONE THAT I WILL BE MAKING REPEATEDLY. I COULD SAY FEW THINGS OF MORE IMPORTANCE TODAY THAN TO CONSIDER WHY THIS IS SO.

- more -

LET ME BE CLEAR THAT I AM NOT AGAINST MERGERS, BUT I BELIEVE ANY PROPOSED MERGER MUST PASS TWO ACID TESTS: WILL THE CONSOLIDATION HELP IN THE RESTRUCTURING OF THE INDUSTRY, TO IMPROVE PROFITABILITY; AND WILL IT BE IN THE PUBLIC INTEREST, IN TERMS OF SERVICE.

HERE IN THE MIDWEST I BELIEVE CIRCUMSTANCES FAVOR RESTRUCTURING. IT IS IN THE INTERESTS OF ALL CARRIERS TO REDUCE COSTS FOR THE SAME TOTAL REVENUE, AND I KNOW MOST, IF NOT ALL, ARE WILLING TO PURSUE THESE OPPORTUNITIES. THE ROCK ISLAND, AS YOU KNOW, HAS ALREADY PROPOSED A PLAN CALLING FOR THE CONSOLIDATION AND COORDINATION OF ITS FREIGHT SERVICES WITH THOSE OF FOUR OTHER MIDWEST RAILROADS. UNDER THIS PLAN, THE CONSORTIUM OF PRIVATELY-OWNED RAILROADS WOULD JOINTLY SHARE TERMINALS, RAIL YARDS, EQUIPMENT AND REVENUES. I WOULD RESERVE JUDGMENT ON THIS SPECIFIC PLAN, HOWEVER, UNTIL THE COSTS AND PROSPECTIVE BENEFITS CAN BE FULLY ASSESSED.

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- more -

You have heard my views and the perspective I bring to this problem. Beyond the offer of making the 401 process of the 4-R Act available, I have no specific proposals. Rather, I wish to hear from you on the actions that might be taken, first with the Milwaukee and then later for the entire Midwest

WE ARE PREPARED TO ASSIST IN ANY AND EVERYWAY POSSIBLE AND AT ALL LEVELS. AT JACK SULLIVAN'S SUGGESTION, I'VE ASKED ROBERT GALLAMORE, THE DEPUTY FEDERAL RAILROAD ADMINISTRATOR, TO TAKE ON THIS ASSIGNMENT. BOB HAS A LOT OF FAMILIARITY WITH THIS SUBJECT. HE HAS MY FULL CONFIDENCE AND I AM SURE HE WILL WIN THE CONFIDENCE OF EVERYONE HE DEALS WITH DURING THE COMING MONTHS.

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To Begin

####

Consumer Participants

Name	Organization	City
Erma Angevine	National Coalition for Consumer Representation	Washington, D.C.
James Boyle	Texas Consumers Association	Austin, Texas
Steven Brobeck	Cleveland Consumer Action	Cleveland, Ohio
Mark Green	Congress Watch	Washington, D.C.
Barbara Gregg	Office of Consumer Affairs	Montgomery Cty, Md.
Edna Johnson	Urban League	Baltimore, Md.
Rhoda Karpatkin	Consumer's Union	Mount Vernon, NY
Mercedes Dale Kelly	Consumer Protection Center	Baton Rouge, La.
Ralph Nader	Public Citizen	Washington, D.C.
Glenn Nishimura	Arkansas Consumer Research	Little Rock, Ark.
Kathleen O'Reilly	Consumer Federation of America	Washington, D.C.
Lola Redford	Consumer Action Now	New York, NY
Alfreda Riley	Consumer Research Advisory Council	Detroit, Mich.
Sandra Willett	National Consumers League	Washington, D.C.
Elizabeth Wood	Consumer Coop	New York, NY
Stanley Van Ness	Office of the Public Advocate State of New Jersey	Trenton, NJ

White House

Esther Peterson and staff

Frank Moore

Si Lazarus (for Stu Eizenstat)

1:00 PM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

THIS IS A SUPPLEMENT

January 18, 1978

Meeting with Consumer Leaders

January 18, 1978
20 Minutes
The Oval Office

From: Esther Peterson

Please add to the briefing paper for the President regarding the consumer meeting today at 1 p.m.

1. A strong statement of support of the Consumer Representation Bill when the press is present would be spendid.

2. I will have met with the group prior to the meeting. The President may want to tell them that he looks forward to a full report of all their concerns knowing that there will not be time today to discuss all of them.

3. Clarification of the President's statement regarding vetoes of the consumer bill: The bill has never been vetoed. In the 91st Congress the Senate passed the bill (1970) but it never cleared the Rules Committee in the House. In the 92nd Congress the House passed the bill (1971) and the Senate filibustered it. In the 93rd Congress the House passed the bill again (1974)* In the 94th Congress both the House and the Senate passed similar versions of the bill (1975). However, it did not go to conference because President Ford threatened to veto the bill.

4. Add to the list of people to attend: Midge Costanza and Les Francis.

*it was again filibustered in the Senate.

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1:00 PM

THE WHITE HOUSE

WASHINGTON

Meeting with Consumer Leaders
Wednesday, January 18, 1978, 1 p.m.
Duration: 20 Minutes

(from Esther Peterson)

I. Purpose

Consumer leaders requested this meeting, citing a similar meeting which you held about one year ago. They wish to discuss what has been accomplished for consumers during the past year and suggest consumer priorities for 1978. The meeting coincides with the tenth anniversary of the founding of Consumer Federation of America. Your meeting today is in place of your appearance at the Federation meeting.

II. Background

Office of Consumer Representation (OCR)

This bill is everybody's priority. The consumer leaders will be looking for indications of strong support from you.

Other issues likely to be raised include the following:

(a) Public Participation

In your April 6 Consumer Message to the Congress, you endorsed legislation to provide funds to assist citizen groups to participate in the proceedings before federal agencies, and in court suits against the government. This public participation legislation is still pending in the full committees of both houses of Congress. Unfortunately, Members of Congress perceive this legislation as duplicating the OCR bill. It is likely that the outcome of the fight for the OCR bill will affect the fate of the public participation bill.

(b) Consumer Cooperative Bank

The Consumer Cooperative Bank bill passed the House last year by one vote, without the support of the Administration. With a strong likelihood of passage in the Senate, the Domestic Policy Staff is very concerned about the possible need to compromise. In addition, support for key elements of the urban policy may depend upon the Administration's position on this bill. As a result, an internal review of the Administration's position is currently being undertaken.

(c) Class Action Reform

Your April 6 Consumer Message to Congress also pledged support for class action reform legislation. The Justice Department has circulated

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a draft reform bill to the public for comment. Consumer groups were concerned that the proposal does not create a federal right of action for consumer fraud. This will be among the issues the Department will address in preparing a final Administration proposal which is planned for February.

(d) No-fault Automobile Insurance

Federal no-fault automobile insurance legislation which the Administration endorsed last July would allow individual states to develop no-fault programs to meet their own needs but assure that the programs will be effective by establishing federal minimum benefit levels. Hearings have been completed in both houses and consideration by the Senate Commerce Committee is anticipated in February or March.

(e) Overturning Supreme Court decision in the Illinois Brick case

The Administration supports legislation to overturn the Illinois Brick decision which has the effect of prohibiting suits for damages by government officials brought on behalf of private citizens. Legislation is now under consideration by Judiciary subcommittees of both houses.

(f) Consumer Product Safety Commission (CPSC) and Federal Trade Commission (FTC) vacancies

The White House has announced that it will nominate Susan King and Edith Barksdale Sloan to CPSC vacancies. Their names will be submitted to the Senate on the first day of the session. The White House personnel office is reviewing several names for the FTC vacancy.

(g) Standing to Sue

In your April 6 Consumer Message to Congress, you supported legislation giving citizens broader standing to sue the government in certain circumstances. The Justice Department is circulating a draft bill and seeking a common approach with Senate supporters including Senators Metzenbaum and Kennedy.

Several other items may also come up including national health insurance, support for state and local consumer offices, tax reform, federal corporate accountability standards, nutrition education, international trade, and Food and Drug Law reform.

III. Participants and Press Plan

(a) Participants (see attached list)

(b) Press Plan

The meeting will be announced to the press. There will be a brief photograph session at the ~~conclusion~~ beginning of the meeting. After the meeting participants will have an opportunity to speak to the press.

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THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

EYES ONLY

January 18, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: Housing Starts (to be released 2:30 p.m. today)

Housing starts rose sharply in December to an annual rate of 2.3 million units, an increase of 8 percent over November. This is the highest level of starts since May 1973. Within the total, single family homes were started at a record rate. Multi-family units, while still below prior peaks in the early 1970s, also rose substantially in December to the highest level for the year.

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THE PRESIDENT HAS SEEN.

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

C

January 16, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY OF LABOR, Ray Marshall for

SUBJECT: NBC News Story on Buffalo CETA Program

At your suggestion, I have examined the transcript of the January 10 NBC News report on the Buffalo, New York, CETA program. I agree with you that the problems it raises are troublesome.

However, in assessing this news report, two things should be recognized. The performance of the Buffalo CETA prime sponsor is below the national average. And, there were errors of fact in the NBC report.

NBC ALLEGATIONS

As you remember, the NBC story made the following charges about the CETA program:

1). "Despite the promises, national figures show that only half the people hired under CETA are truly poor."

2). The jobs created under CETA are to meet the needs of the city of Buffalo, not the needs of the unemployed. Twenty percent of all city workers in Buffalo are paid for by CETA.

3). In Buffalo there is a waiting list of 8,000 people who want CETA jobs. As a result of this waiting list, CETA tends "to fill openings with the better-trained, the better-educated."

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COMMENT

1). NBC claims that half the CETA participants are not "truly poor." This is inaccurate.

Our analysis of the Fiscal Year 1977 data on Title VI of CETA (public service employment) shows that 66.5 percent of the participants are economically disadvantaged. For the last half of the fiscal year, the figure was 86 percent. In addition, 80.7 percent of the participants were unemployed at the time they entered the program. These figures contradict the NBC charge.

You will recall that we tightened the eligibility requirements for Title VI of CETA when we expanded the program as part of the Economic Stimulus Package. These new requirements apply to the more than 400,000 new CETA jobs that we have created. They require that a CETA participant come from a low-income family and either be unemployed for 15 weeks, be a recipient of AFCD, or be a veteran without full-time unsubsidized employment since leaving the service.

As you know, we inherited a CETA program with about 300,000 public service job slots. The new tightened eligibility requirements apply only to half of these old CETA jobs. It is possible that some of the examples that NBC used (such as a law school graduate working on property tax matters) are people who got their CETA jobs under the old, much less stringent, eligibility standards.

2). In effect, NBC claims that in cities like Buffalo CETA funds are little more than a form of revenue-sharing for hard-pressed municipal budgets.

As you remember, this was a standard criticism of the CETA public service jobs program that we inherited. To avoid this problem, we restructured CETA so that the new jobs would be specific, short-term projects that did not duplicate work already being done

by local government. The reason for this emphasis on CETA projects was to separate CETA workers from regular municipal employees.

Throughout the CETA expansion, we have been concerned about this "substitution" problem--the tendency of large cities to try to use CETA workers to replace regular city workers. This was one of the abuses which led us to require that Chicago reimburse us for almost $1 million in misspent CETA funds. A significant fraction of the new CETA jobs are in non-profit community-based organizations. One reason we are emphasizing these community-based organizations is to lessen the possibility of this kind of "substitution."

3). In focusing on college-educated CETA workers, NBC implies that CETA jobs are going to the most qualified of the unemployed, not those most in need.

NBC is correct in emphasizing that there are far more qualified applicants for CETA positions than there are jobs available. Whenever your pool of applicants is much larger than the jobs available, it is inevitable that a certain degree of "creaming" will take place.

However, it should be remembered that the new stringent CETA eligibility requirements are designed to focus the program on the long-term unemployed and the poor. Moreover, in designing their CETA projects, prime sponsors were instructed to take into consideration both the needs of the community and the skill levels of probable participants.

It is an unfortunate fact that, in some cities, unemployment rates are so high that college graduates meet the CETA eligibility standards. It should be remembered that, in the nation as a whole, almost 20 percent of the unemployed have had some college training.

NBC focused on the problem of a poorly educated worker whose possible CETA job had been filled by a college graduate. But I had found it disturbing that a college graduate could not find a better job. This is clear testimony that we are far from full employment.

We could, of course, tighten our targeting requirements further, and we are studying that possibility now. But when unemployment is high, targeting merely redistributes the burden of being unemployed. At present there are simply too few jobs for low-income workers. These days, finding a job is a game of musical chairs. Stacking the rules in favor of one player or another does not increase the number of chairs in the game.

As we move toward full employment, college graduates will voluntarily find other jobs and the CETA system will automatically serve an even higher proportion of the needy. In the interim, we cannot discriminate against unemployed workers who once went to college.

FOLLOW-UP ACTION

As I mentioned earlier, the performance of the Buffalo prime sponsor is below the national average. This is a problem that concerns us.

Our regional administrator in New York has a meeting scheduled with James Griffin, the new Mayor of Buffalo, to discuss these problems. All indications are that Griffin is committed to resolving the problems that have thus far hindered the CETA program in Buffalo.

ID 780197

THE WHITE HOUSE

WASHINGTON

DATE: JAN 16 78

FOR ACTION:

INFO ONLY: THE VICE PRESIDENT
HAMILTON JORDAN
JACK WATSON
CHARLES SCHULTZE
STU EIZENSTAT
JODY POWELL
JIM MCINTYRE

FROM: RICK HUTCHESON WHITE HOUSE STAFF SECRETARY PHONE 456-7052

SUBJECT MARSHALL MEMO DATED 1/16/78 RE NBC NEWS STORY ON BUFFALO CETA PROGRAM

RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY

BY JAN 16 78

ACTION REQUESTED: THIS MEMO IS FORWARDED TO YOU FOR YOUR INFORMATION

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD; DO NOT FORWARD.

PLEASE NOTE OTHER COMMENTS BELOW:

780153

THE WHITE HOUSE
WASHINGTON

January 18, 1978

Bob Lipshutz
Stu Eizenstat

The attached was returned in the President's outbox today and is forwarded to you for your information. The signed original has been given to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder

RE: CAB - DOCKETS 31564 and 31572
POLSKIE LINIE LOTNICZE

THE WHITE HOUSE
WASHINGTON

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

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

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

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

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

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

THE WHITE HOUSE

WASHINGTON

January 16, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ
STU EIZENSTAT

RE: CAB Decision Re Transatlantic Super-APEX, GIT and Special-APEX Fares Proposed by Polskie Linie Lotnicze (Dockets 31564 and 31572)

This is another in the series of CAB decisions vacating suspensions of various discount fares following negotiation of an appropriate ad hoc agreement with the country involved --in this case Poland. These fares represent 44 to 53 percent discounts for Polskie Linie Lotnicze service between the United States and Poland. The ad hoc agreement permits the fares to be suspended in the future if they prove predatory.

By signing the attached letter, you will permit these discount fares to be quickly implemented. We recommend that you approve the Board's action by signing the letter.

✓ Approve _____ Disapprove

THE WHITE HOUSE

WASHINGTON

Dear Mr. Chairman:

I have reviewed your proposed order (Dockets 31564 and 31572) dated January 9, 1978. That order would vacate previous suspensions to allow discount fares proposed by Polskie Linie Lotnicze to and from Poland to be quickly implemented.

I have decided to take no action and allow the Board's order to stand.

Sincerely,

Jimmy Carter

Honorable Alfred E. Kahn
Chairman
Civil Aeronautics Board
Washington, D. C. 20428

247

THE WHITE HOUSE
WASHINGTON

January 18, 1978

Jack Watson
Stu Eizenstat
Frank Moore

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

Rick Hutcheson

LETTER TO MARSHALL RE CONG. OBEY

THE WHITE HOUSE
WASHINGTON

1-18-78

To Ray Marshall

Meet with Congressman David Obey to insure better understanding between him & your department. He's a good man, & wants to help our programs.

J. Carter

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THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

January 18, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Lipshutz

SUBJECT: Coverage by Secret Service Uniformed Division in New York City of Middle East Countries' Missions

Pursuant to our discussion on Tuesday afternoon, I have authorized the Secretary of the Treasury to proceed with this additional coverage for a 30-day period commencing January 18, pursuant to the ~~attached~~ request from the Treasury and Department of State.

I also expressed the feeling which I am sure you share with me, to wit, that there is no excuse for these requests coming in at the last minute, as did this one. Warren Christopher and Bette Anderson have assured me that any future request regarding this type of matter will be sent in so that I will receive it on your behalf at least six days prior to the proposed effective date.

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

JAN 16 1978

MEMORANDUM FOR: The Honorable
Robert J. Lipshutz
Counsel to the President

FROM: Bette B. Anderson

SUBJECT: Coverage by Secret Service Uniformed Division in New York City

By memorandum to you of Friday, January 13, the Department of State, based upon security requirements, requested that the United States Secret Service Uniformed Division be authorized to provide protection to the following foreign diplomatic missions in New York City:

1) Israeli Mission to the U.N.

2) Syrian Mission to the U.N.

3) Egyptian Consulate General

4) Office of the Permanent Observor of the Palestine Liberation Organization

5) Offices of the Permanent Observor of the League of Arab States

The coverage would be during business hours only and for a period of 30 days.

This most recent State Department request would continue the coverage authorized by the President for a period of 30 days beginning December 19, 1977, and which expires Wednesday, January 18.

The Treasury Department has no objection to this request. We await your further direction.

DEPARTMENT OF STATE

Washington, D.C. 20520

January 13, 1978

MEMORANDUM FOR: The Honorable
Robert J. Lipshutz
Counsel to the President

FROM: Victor H. Dikeos, Acting
Assistant Secretary
for Administration

SUBJECT: U.S. Secret Service
Uniformed Division
Coverage

On December 19, 1977, The President authorized the U.S. Secret Service Uniformed Division to protect certain Middle East Missions and Offices in New York City for thirty days.

The Department of State has reviewed the protective needs of each Mission and Office. The recent and continuing diplomatic developments in the Middle East have prompted worldwide demonstrations and terrorist activity. The Palestine Liberation Organization representative in London, SAID Hammani, was assassinated in the London Office of The League of Arab States. The Arab League and the Palestine Liberation Organization maintain high profiles in New York City, including wide media coverage and active advertising campaigns advancing the Palestinian cause. According to New York City Police both organizations continue to receive threatening phone calls. Other potential targets are the Egyptian, Israeli and Syrian diplomatic missions. Recently two members of the Syrian Mission in London were killed by an as yet unexplained bombing. Secretary Vance's imminent trip to the Middle East will increase media coverage of events there, particularly events relating to the above-mentioned groups. The Department is concerned that during the current negotiations the possibilities are great that rejectionist groups could resort to violence in the United States in an attempt to influence the outcome of the negotiations.

We respectfully suggest that U.S. Secret Service Uniformed Division protection of the Egyptian Consulate, the Israeli and Syrian Missions to the United Nations, and the Offices of the Permanent Observers of the Palestine Liberation Organization and the League of Arab States be authorized to deter recurrence of the tragic events in London.

Such coverage is requested for a period of thirty days and would only be during business hours.

cc: Richard J. Davis
Department of the Treasury

January 18, 1978

To James Highet

I wanted to personally thank you
for your quick response which rescued
Annette on her recent trip with
Jeffrey. Your efforts are appreciated
by all of us.

Sincerely,

JIMMY CARTER

Mr. James Highet
677 Ala Moana Boulevard
Honolulu, Hawaii 96813

55 Thank you for rescue of Annette
on recent trip with Jeffrey

780119 1510

RECEIVED
JAN 21 1978
FEDERAL FILES

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THE WHITE HOUSE
WASHINGTON

Mr. President --

This was a USSS agent who apparently saved Annette from possibly losing her life in Hawaii when she was carried off by a wave or the undercurrent.... he apparently was hospitalized afterwards for a brief stay.

--ssc

I hadn't heard about it -
J

THE WHITE HOUSE
WASHINGTON

1/18/78

Susan—

Attached is the name and address of the agent who was so helpful.

A note of thanks and commendation would I think, be appropriate.

See you - sometime?

Al

James Highet
U.S. Secret Service
Suite 1002
Gold Bond Bldg.
677 Ala Moana Blvd.
Honolulu, H
96813