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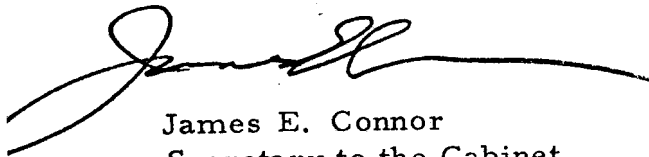
THE WHITE HOUSE
WASHINGTON

September 2, 1975

MEMORANDUM FOR THE VICE PRESIDENT

The President has reviewed the Domestic Council Discussion Memorandum (DCM) #1 - "Overview" and added the following notation:

"Very well Done"



James E. Connor
Secretary to the Cabinet

Vice Pres.
Very well done.

THE PRESIDENT HAS SEEN...



DOMESTIC COUNCIL DISCUSSION MEMORANDUM (DCM) #1:

"OVERVIEW"

(Draft: August, 1975)

INTRODUCTION

In a "Memorandum for the Vice President" dated July 24, 1975, the President directed the Vice President and the Domestic Council "to undertake a review of the major domestic issues and develop initial discussion papers which could serve as a beginning point for an Administration posture for the State of the Union message and legislative action."

The President specifically directed that:

- "This review should include a discussion of social issues, those dealing with our resource capacity, those that pertain to our economic growth, and other related issues such as housing, transportation, and intergovernmental relations.
- "This process should be completed by mid-September so that we can make decisions on future initiatives by the end of the year."

The purposes of this "Overview Memorandum" are to:

- outline the fundamental substantive problems which require Presidential attention -- and which are analyzed further in the associated Appendices.
- define a set of themes and principles -- the framework for a comprehensive Ford Administration domestic policy philosophy -- to: (a) help ensure consistency and compatibility among decisions made in specific issue areas and (b) allow more coherent and compelling articulation of the rationale underlying such decisions; and
- provide a focus for discussion of the broad substantive and political considerations which should determine strategic and tactical issues of emphasis and initiative.

The remainder of this memorandum is organized broadly as follows:

- PART I: ISSUES OF FUNDAMENTAL DOMESTIC POLICY CONCERN
 - (A) THE COMING STATE OF THE UNION
 - (B) FUNDMENTAL SUBSTANTIVE ISSUES
- PART II: FRAMEWORK FOR A COMPREHENSIVE FORD DOMESTIC POLICY STRATEGY
 - (A) DOMESTIC POLICY THEMES AND PRINCIPLES
 - (B) ISSUES OF EMPHASIS AND INITIATIVE

In the associated Appendix, issues identified in Part I are discussed in greater detail -- and analyzed in relation to the framework formulated in Part II. The Appendix treats domestic policy issues in four broad areas -- as suggested by the titles of the associated "Discussion Papers:"

- "Domestic Policy Discussion Paper #2: Humane Concern"
- "Domestic Policy Discussion Paper #3: Economic Growth"
- "Domestic Policy Discussion Paper #4: Resource Development"
- "Domestic Policy Discussion Paper #5: Infrastructure Improvement"

PART I: ISSUES OF FUNDAMENTAL
DOMESTIC POLICY CONCERN

A: THE COMING STATE OF THE UNION

The opening of President Ford's first State of the Union Address, in January, 1975 was sombre: "I must say to you that the State of the Union is - not good"

- "Millions of Americans are out of work. Recession and inflation are eroding the money of millions more. Prices are too high and sales are too slow."
- "This year's Federal deficit will be about \$30 billion; next year's probably \$45 billion. The national debt will rise to over \$500 billion. Our plant capacity and productivity are not increasing fast enough. We depend on others for essential energy."
- "Some people question their Government's ability to make hard decisions and stick with them. They expect Washington politics as usual."

For several reasons, the President was able to strike this sombre tone -- highly unusual for a State of the Union Address -- without adverse political effect. In part, this was because the President was new and was not personally held accountable for the State of the Union. But further, in reaction to Watergate -- in reaction, also, to years of overpromise and excessive Presidential rhetoric -- the nation yearned for a symbol of frankness. The facts were largely evident; and although they were painful, their direct acknowledgment was a welcome symbolic event.

By January, 1976, circumstances will -- as a political matter -- be fundamentally different:

- Frankness and openness will, no doubt, be appreciated; but, in all probability they will be taken increasingly for granted. (The notoriously short public memory cannot be expected suddenly to improve.)
- The President will be viewed as an accountable incumbent -- judged on the basis of substance as well as symbol. The President will have demonstrated an ability "to make hard decisions and stick with them" -- but in the context of Presidential politics, there will be increased questioning of his ability to make the "right" decisions.

- The State of the Union -- as measured by the state of the economy -- will be somewhat "better." But Democrats will surely question whether it is sufficiently so. With unemployment still above seven percent, the auto and housing industries still depressed, inflation and interest rates still troublesome, there will be no lack of targets for political attack.
- The President will have demonstrated a capacity for vetoing, but critics can be expected to continue to press the emerging theme which questions his capacity for "vision." Although much of America is undoubtedly nostalgic, references to parallels with President Coolidge will not, on balance, help. Presidential aspirants will undoubtedly cite the Bicentennial -- the eve of America's entry into her third century -- as an occasion to look not only to the past, but to the future.

In short, it is reasonable to expect that the State of the Union in 1976 will receive more serious critical attention than is ordinarily the case. And it is arguable from a variety of perspectives -- economic, philosophical, social-psychological and political -- that actions taken with regard to the state of the union in 1976 may be of considerably greater than ordinary consequence.

The political environment in which policies must be articulated is complicated by one major fact of modern American political life: A Republican Presidential candidate must appeal to "conservatives" in order to gain nomination, and to a broad base of "independents" and "moderates" in order to gain election. Moves "right" then "left" are viewed as opportunistic. The key, rather, is to frame a strategy which appeals to a wide base -- including both "right" and "center" -- and which is internally consistent.

The challenge for the President will be to combine: (a) an appreciation of the traditional virtues and values of America's simpler past -- characteristics of openness, forthrightness, unostentatiousness, fairness and values of private enterprise, free markets, minimal government, dispersed power -- with (b), a sophisticated appreciation and positive program for the problems of America's increasingly complex present and future. The first half of this formulation is likely to appeal to both old and new "conservatives"; the second half will gain support among the broad range of sophisticated "independents" and will help in the defense against liberal attacks of "do-nothing-ism." The combined effect would seem to allow the widest possible base of support.

The discussion which follows attempts to address both parts of the challenge -- by applying principles which are consistent with (a) to the solution of problems consistent with (b).

B. FUNDAMENTAL SUBSTANTIVE ISSUES

To this end, this discussion first identifies and highlights a highly limited number of problems which are of fundamental import -- as measured by severity of effect and number of people directly or indirectly affected; by actual or potential economic consequence; or by the potential significance of an associated issue of principle for the continued health of American society. (As the competition for public attention and support increases in the context of Presidential politics, the list of visibly identified "problems" will, of course, increase. However, a sound domestic strategy must be capable of ensuring, insofar as possible, that attention and resources are properly concentrated on problems which are fundamental.)

To suggest that a problem is of fundamental import is not, of course, to argue that specific remedial initiatives ought to be undertaken. Identification of problems and determination of appropriate remedial actions are clearly separable stages of policy development. But, at a minimum, a decision not to initiate special remedial action in a given area ought to be made on the basis of conscious and defensible policy analysis -- in full recognition of the nature of the problem -- not by oversight or general default. Hence, the following should be examined primarily as a substantive problem agenda -- holding in abeyance, at this stage of discussion, the questions of whether and what remedial initiatives are appropriate. (These questions are treated in the final part of the Overview Memorandum and in the Appendices.)

Note: This memorandum omits issues which are primarily of symbolic interest or of relatively minor substantive import -- e.g., pornography or gun control -- in spite of the fact that these may be of considerable political consequence. Similarly, it does not treat potential responses which would be primarily symbolic in intent -- e.g., creating a special Commission, calling a special meeting, visiting a special place or event, having a special picture taken, making a special appointment, etc. It is assumed that these will be addressed, as necessary and appropriate, in other contexts. They do not significantly affect the basic shape of Presidential policy. Symbolic issues and gestures can, of course, be used to emphasize, augment, counter-balance or even substitute for, basic substantive policy positions. But in general they are used most effectively after the basic policies have been determined -- and it is the further development of basic policies which this memorandum seeks to advance.

(1) ISSUES OF HUMANE CONCERN

It is inherent in the capitalist system that differing individuals, with differing capacities for contribution, and with differing propensities for risk, are rewarded differently. Some earn more, some less -- and the incentives for further enterprise derive therefrom. A related problem for capitalist society, however, is how to deal with those who end up on the low end -- and particularly, those who have limited ability to help themselves. In part, this is an ethical problem. But with rising mobility and the decline of the extended family as a care-taking institution, with the rise of the progressive income tax as a tool of federal policy and the decline of the private charity system, with mass exposure to alternative life styles through television,

and with rising definitions of "rights" in a visibly affluent society, those "on the low end" are increasingly determined to be heard politically, to be treated more humanely and, if necessary, to change "the system." Increasingly, therefore, the ethical problem takes on the added character of a fundamental practical problem.

The problem is complicated by the obvious fact that to provide satisfactorily for the needy requires additional resources. (This is not to argue that improvements cannot be made within present budget constraints; it is simply to suggest that full improvement within such constraints would still leave major problems of inequity or inadequacy.) Defense expenditures are frequently suggested as a source for these resources. But in constant dollars, defense expenditures are now at roughly pre-Korean War levels (in spite of the shift from the draft to the more expensive all-volunteer force). A more plausible source is increased federal revenues. This too is viewed as problematic by many who view growing federal budgets -- and the prospect of increased tax burdens for a narrowing base of productive workers -- with fear for the continued health of the American incentive system.

But while the incentive system would clearly be threatened at some point of governmental over-responsiveness, it is equally clear that the stability of American society itself could be threatened at some point of governmental under-responsiveness. The key is to strike the right balance. In this context it is noteworthy that while in the past twenty years federal payments to individuals alone have risen from 16% to 47% of federal expenditures, and while federal expenditures have quintupled in this period, it is also the case that income distribution (post-tax and transfer) has remained relatively constant, that federal expenditures as a percent of GNP have also remained relatively constant (in the 18 - 22% range -- now at 21.9%), and that the U.S. remains one of the lowest taxing countries in the developed world. It is noteworthy, further, that while the federal debt has increased in absolute dollars -- roughly doubling in the past twenty years -- it has decreased steadily as a percent of GNP: from 72.5% of GNP in 1955 to 37.6% in 1975.

In the area of humane concern, the three most important problems requiring Presidential attention would seem to be the following:

(a) Reforming Low-income Support Programs.

In spite of America's affluence, 24.3 million Americans (11.6%) remain below the official poverty level (defined as income of less than \$5,038 per year for a non-farm family of four and less than \$4,302 per year for a farm family of four). A significant reform (SSI) providing a minimum income for the aged, blind and disabled was enacted in 1972. The recently expanded -- and somewhat troubled -- Food Stamp program now provides an "in-kind" minimum for all lower-income Americans. But the relationship among various welfare programs is highly problematic. The incentive structure frequently discourages work. Inequities abound -- particularly for the working poor. And although the present system is almost universally condemned, "welfare reform" remains a major unresolved issue on the national agenda as it has since at least August 8, 1969, when President Nixon proposed a federal floor under the incomes of all families with dependent children. Apart from President Ford's televised

statement that welfare reform is "mandatory," the Administration has not taken a position publicly on this issue. Among the major contending alternatives to the present system are: the National Welfare Reform Act proposed by several conservative Congressmen and modelled after the "California Blueprint" (being advanced nationally by former-Governor Reagan); the "Income Supplement Program" (ISP) proposed by HEW under Caspar Weinberger; and an "incremental" reform strategy being advocated by several reformers who believe that no other approach to this highly contested problem is practicable politically. (These alternatives -- and the status quo -- are analyzed in the attached Appendix.)

(b) Improving Health Finance and Delivery

There are two major problems in the health sector -- problems of inequity and problems of excessive cost. With regard to equity, it is noteworthy that access to health care is increasingly viewed as a "right," but, for example, more than 20 million Americans (most of whom would benefit from insurance) are not covered by any public or private health insurance plan. With regard to costs, it is noteworthy that the growing health sector now exceeds 8% of GNP -- approximately \$120 billion per year -- and that it continues to be one of the most inflationary sectors of the economy. Other than in the period of federal price controls, physician fees have been increasing at 1.5 times the rate of the CPI and hospital costs have been rising 2 to 3 times faster than the CPI. (This is not a peculiarly recent phenomenon: Hospital costs rose at a consistent 3 to 4 times the CPI in the period 1950 - 1970.) There are, further, inefficiencies which derive from a combination of problematic financing mechanisms, regulatory mechanisms and the structure of the health and insurance industry. The principal proposals for dealing with these problems involve forms of "national health insurance" (NHI) -- which, at a minimum, address some of the major equity problems. They also tend to emphasize the possibility of more workable regulation through NHI. (Alternatives which might move the health industry toward a more "workable competition" are generally underrepresented.) The principal contending health insurance proposals are of three types: freestanding catastrophic plans (e.g., the Long-Ribicoff plan); complete public financing plans (e.g., Senator Kennedy's proposed Health Security Act); and mixed public-private plans (e.g., the Ullman bill, the AMA and HIAA bills, and the "CHIP" proposal endorsed by the President in his Inaugural Address but not reintroduced by the Administration). (These and related alternatives -- and the status quo -- are analyzed in the attached Appendix.)

(c) Rationalizing the Social Insurance System.

The Social Security program recently celebrated its 40th birthday -- and among governmental programs generally, it continues to enjoy virtually unrivaled public respect. The Old Age, Survivors and Disability Insurance program (OASDI) now provides monthly cash benefits to more than 31.1 million Americans (with average monthly benefits of \$194 for retired workers, \$220 for disabled workers, \$181 for aged widows and

widowers, and \$131 for children of deceased workers). But the American social insurance system -- including Social Security -- has serious problems. The Social Security trust funds require additional financing -- but there is increasing resistance to additional employer-employee taxation. Pressures for general revenue financing are mounting. Some commentators (notably Martin Feldstein) argue that the current social security system has an adverse effect upon capital formation. The Disability Insurance program threatens to grow beyond control -- 687,000 recipients in 1960; 2,665,000 in 1970; more than 4 million recipients currently. Unemployment Insurance has been extended -- and may be developing in directions inconsistent with its original rationale. The new Supplemental Security Income program provides minimum payments which may be sufficiently high to undermine the work-related Social Security incentive system. In general, the administrative relationships among the many public programs (and private pension and insurance programs) is problematic; and the "wage-replacement" rationale of these programs is being seriously eroded -- replaced increasingly with a "welfare" rationale. This complex area is of major economic and social import. And although its complexities are not widely understood, it is an area of major public concern -- particularly among the aged. At a minimum, decisions on social security financing are virtually inescapable in the near term. (Alternative financing proposals -- and the broader issues of structural rationalization -- are treated in the attached Appendix.)

In identifying only a highly limited number of "problems of fundamental concern" (the above 3 in the area of "Humane Concern"), it is of course a consequence that some important issue areas are, in effect, relegated to apparent secondary status. (This, of course, does not necessarily mean that they will be omitted from programmatic or rhetorical attention -- it is to suggest simply that they do not demand Presidential attention in the context of an examination of areas for possible major initiative.)

Obvious among these are the following:

- civil rights -- where important gains have been made in the past decade, and where continued gains may best be made through the courts, through continued application of current statutes, and through effective treatment of the fundamental problems of humane concern and economic growth discussed in this memorandum;
- crime -- where attempts at both rehabilitation and punitive deterrence have proved disappointing; where the basic causes of crime, though ill-understood, seem largely beyond the scope of the criminal justice system; and where a reasonable short-term strategy, given the uncertain state of the art, is to continue the Administration's strategy of concentrating on removing serious repeat-offenders from circulation within general society;

- problems of special target populations (children, the aged, disadvantaged minorities, etc.) -- where serious treatment of the fundamental income-related problems outlined above would undoubtedly have major beneficial effect; indeed, where concentration on income-related problems would probably yield a more significant beneficial effect than any other broad strategy.

(2) ISSUES OF ECONOMIC GROWTH

Until recently, the value of economic growth was accepted generally as an article of faith -- essential to ensure both "full" employment and the productive base upon which provision for humane concerns depends. But projections of the supply and demand for scarce resources and projections of environmental degradation associated with growth have led some analysts to argue that there are -- or ought to be -- "limits to growth." Such arguments, however, have typically assumed that technological advance, which is difficult to predict, would proceed linearly not exponentially -- that is, that technological advance would not keep pace with the growth in population, demand for scarce resources, and waste. This is a highly questionable assumption -- an assumption which is inconsistent with the recent experience of technological development -- and an assumption which is neither widely accepted, nor accepted here. Rather, it is assumed here that growth must remain a national objective and that rapid technological development -- particularly in the areas of resource development and environmental protection -- must be encouraged to ensure that growth is both healthy and sustainable.

As is well known, the economy has recently suffered a decline in growth. GNP -- which in constant dollars increased by 6.6% from 1970-71 and by 5.9% from 1971-72 (and which had increased, in constant dollars, by almost 50% in the period 1961-69) -- decreased by 2.2% from 1973 to 1974. Unemployment (which had steadily decreased from 7% to 3.5% in the period 1961-69) recently peaked at 9.2%. Inflation, which had previously tended to move in the opposite direction from unemployment, exceeded an annual rate of 12% in the latter portion of 1974. Economic policy, accordingly, has had to deal with the compound problem of "stagflation."

Fiscal and monetary policy have been the principal subjects of discussion and debate in this context. These are under continuing review through the Economic Policy Board and the Council of Economic Advisors. The monetary policy component, of course, is largely beyond the President's control. Both are discussed in the associated issue papers -- but with the understanding that lead responsibility for analysis rests with the CEA and EPB. It is noteworthy that both are broad countercyclical tools which do not directly get at such narrower fundamental problems as those of food and energy costs (which, as it happens, now account for more than 30% of the

CPI and a considerably higher percent of the increase in the CPI), productivity, technology development, capital formation, and inefficiency in regulated industries. These narrower problems, essential to the middle and long term health of the economy, are treated further below -- along with the problem of formulating a comprehensive policy to reduce unemployment as well as inflation.

(a) Increasing the Rate of Capital Formation

It is widely agreed that capital formation is essential to technological development, productivity improvement, protection of the U.S. position in world markets, and an improved standard of living. But it is increasingly widely debated as to how best to encourage necessary capital formation -- and, to a lesser extent, whether there is a major capital formation problem at all. The extreme positions are represented by Secretary Simon and AFL-CIO President Meany. Secretary Simon argues: that as a percent of national output, total U.S. fixed non-residential investment in the period 1960-1973 ranked last among 11 major industrial nations of OECD -- 13.6% for the U.S. as compared, e.g., to 29% for Japan and 20% for West Germany; that U.S. economic growth and productivity growth are lagging; that future capital requirements for gross private investment will exceed \$4 trillion in the 1974-85 period; that an extension of current patterns of investment and corporate profitability will be insufficient to finance this investment; and that government policy -- and particularly tax policy -- must be reoriented to encourage greater private investment and less consumption. This Mr. Meany interprets as a policy of giving more to big corporations and the rich -- "the old, discredited, trickle-down doctrine of the 1890's and 1920's." He argues that if the economy were operating at 4% unemployment rather than its recent levels, there would be a federal budgetary surplus and sufficient funds for increasing business investment -- with the exception of certain highly selective problems of investment, such as capital-intensive nuclear power plants, for which he recommends specially tailored proposals. (These alternative positions -- and selected positions in between -- are analyzed further in the attached Appendix.)

(b) Rationalizing Governmental Regulation

Since the ICC was established in 1897, governmental regulation has been increasing steadily. Its early rationale concerned problems of monopoly and of potentially destructive competition -- regulation was primarily "economic regulation." Increasingly, the underlying market imperfections have been of a different character -- problems of health, safety, and environmental protection not adequately addressed by natural market forces -- giving rise to "conduct regulation." Although both general forms of regulation are clearly necessary in certain circumstances, the management of such regulation has been less than wholly successful. Precise estimates of the costs of regulation are not available, but the CEA estimates that costs may be as high as 1% of GNP. The apparent relationship of benefits to costs varies widely -- and in some cases the balance is clearly unfavorable.

From differing perspectives, major reviews of governmental regulation -- and of possibilities for "de-regulation", "re-regulation", and regulatory process improvement -- have recently commenced within the Administration and the Congress. (These issues are analyzed in detail in the attached Appendix.)

(c) Reducing Unemployment

While there is undoubtedly an increased base of support for "fiscal responsibility," the Administration remains vulnerable for its apparent willingness to accept high levels of unemployment as a consequence of its concentration on reducing inflation (a concentration which appears less than complete in the key areas of food and energy). If the economic recovery is slow, and if unemployment remains high, pressures for governmentally induced job creation will mount. Apart from fiscal and monetary policy, there is, of course, a wide range of possible approaches to job creation -- some of which merit serious consideration, if only as a matter of contingency planning. It seems likely that an emphasis on capital formation as a job creation strategy will not gain wide appeal; and it is now widely agreed that a general manpower training strategy is inappropriate to conditions of high unemployment. Hence, pressure will likely be focused on the creation of public service jobs of one sort or another. (These and related alternatives are analyzed in the attached Appendix.)

Note re Inflation: Although importantly related, the foregoing problem areas do not directly focus on the problem of inflation. This is not to suggest that inflation is not important. It is and must remain a fundamental concern. But fiscal and monetary policy are the primary tools for controlling inflation. And it is assumed throughout this paper that controlling the budget will remain a major concern. Accordingly, it is further assumed that changes in policy are to be accommodated within tight budget constraints; and that insofar as new initiatives might require resources beyond the limits set by sound fiscal policy, they may be announced in the near term -- but only with explicit statements that they are not to be implemented until a specified date at which necessary resources are anticipated to be available. (This proviso is not taken to apply to energy policy -- which the President specifically excluded from such limitation in his first State of the Union message.)

Apart from fiscal and monetary policy, the most important foci for concern with inflation are the areas discussed below under the heading, "Issues of Resource Development."

(3) ISSUES OF RESOURCE DEVELOPMENT

Before 1970, the American people devoted little attention to problems of resource scarcity. Food, energy, minerals and other materials seemed inexhaustible; few paid attention to the quality of our air and water. Although year to year supply shortages might raise the price of a commodity or mineral, there was no real apprehension in the public consciousness either of the growing dependence of the United States upon foreign supplies of energy and certain materials, of dependence upon foreign demand in the determination of prices of basic foodstuffs, or of the deteriorating quality of our air and water and the economic consequences of continued abuse of the environment.

In the early 1970's attention to the issue of preserving our environment increased. The Clean Air Act Amendments of 1970 and the creation of the Environmental Protection Agency symbolized a developing American ethos -- "Spaceship Earth". Attention to conservation of scarce resources naturally led to examination of U.S. and world dependence upon a fixed and diminishing supply of natural resources: the Club of Rome and others began to draw further public attention to the exhaustibility of world minerals and energy resources.

Just as attention was increasingly focusing on these vital issues, a series of shocks brought the issues of resource capacity home -- to the supermarket, factory, and gasoline pump. The oil embargo of October 1973 and subsequent energy price changes severely jolted the U.S. economy; the cost of imported oil quadrupled. The inadequacy of domestic supplies, the U.S. dependence upon the OPEC cartel, the limits of long-term dependence upon fossil fuels and the dependence of broad sectors of our economy upon energy inputs became subjects of everyday conversation throughout the country. Food prices soared, spurred by foreign demand. The price of beef almost doubled; wholesale prices of sugar rose from 11¢ to 60¢ a pound; bread and other staples rose in price dramatically. International forces seemed to render inflation beyond conventional domestic means of control.

Food and energy alone, directly and indirectly, account for as much as 40% of the Consumer Price Index; indirectly, investments in cleaning up our air and water pass through another amount which may be as high as 10%. It is not surprising, then, that issues of resource scarcity and development -- intertwined as they are with the basic performance of the U.S. economy and so visible to consumers and workers -- currently command U.S. public attention.

The three most important resource issues requiring Presidential attention would seem to be the following. (These complex issues are defined in detail -- as are trade-offs among them -- in the attached Appendix.)

(a) Ensuring an Energy Supply Adequate to Support American Economic Growth

Of the problems addressed under the general heading of "Resource Development," energy is both substantively and politically the dominating issue on the current national agenda. An important part of the longer-term problem (1985 onwards) of U.S. energy supplies is the problem of substituting new energy sources for a diminishing world supply of fossil fuels. To this end, a major government-funded research and development effort into alternative energy sources is widely accepted as an important component of energy policy. The more contested issue, politically and substantively, is the determination of a U.S. energy strategy for the next ten years. Currently the United States imports 6 million barrels of oil daily -- roughly one-third of domestic oil consumption and one-sixth of energy consumption -- principally from North African and Mid-East sources. The critical shorter-term problem is to assay the risk of this dependence, to judge the likelihood that U.S. demand decreases can

contribute to breaking the OPEC cartel, and to decide how much America is willing to pay to reduce our dependence on these sources. Decisions to conserve energy at net economic loss, to spur uneconomic domestic supplies, to create stockpiles, or to develop more stable but higher-priced foreign sources depend upon this judgment. It is important to note in this regard that (i) we are in a very early stage of a complex economic transition from low cost to higher cost energy, in which the longer-term specific demand reductions inevitably caused by high energy prices have just begun, (ii) the costs of an accelerated transition -- in economic, environmental, social and political terms -- are likely very high, (iii) energy policy is inextricably tied to foreign policy (involving political objectives in the Mid-East, and involving economic and political risks to world order.)

(b) Limiting Domestic Food Price Inflation while Protecting Farm Income.

Recent activity in the commodity markets as a result of the Russian wheat purchase suggests the possibility of another round of food price increases. In any case, the dependence of U.S. prices on world demand, in the absence of U.S. stockpiles or world reserves, is increasingly clear. Furthermore, world demand continues to increase: 1974 exports were \$21.3 billion -- more than double those of 1972. And there are limits on the return to be expected from policies intended to add domestic capacity: crop acreage between 1972 and 1974 rose by only 37 million acres, even though 60 million acres were released from acreage controls. In spite of increasing international demand pressures, farm income is down. Latest Agriculture figures suggest a 1975 aggregate income of \$24 - \$26 billion (the first quarter seasonally adjusted rate was \$19.5 billion; the second quarter, \$20.5 billion), compared to \$27.7 billion in 1974 and the record \$33.1 billion in 1973. What these figures reflect, of course, is the dramatically increased costs to the farmer of fuel, fertilizer and other essentials for food production. (And the difference between higher supermarket prices and lower farm income suggests that increasing costs, profits, or both in the food distribution system should be a major concern.) Having achieved the goal of eliminating acreage restrictions and subsidies for major crops (except cotton, peanuts, tobacco) -- having moved American agriculture into a full market economy -- the U.S. is now faced with the need for a carefully articulated and comprehensive food strategy. This strategy must be capable of assuring adequate income for American farmers and acceptable prices for American consumers -- in the face of increasing international pressures (both market and humanitarian) for American supplies. (Alternative strategies in this problem area are analyzed in the attached Appendix.)

(c) Protecting and Improving Environmental Quality

This important problem area conflicts directly with key parts of (a) above, and must be carefully treated in the articulation of a comprehensive energy strategy. Great strides have been made in improving our air and water quality since 1970, but the new emphasis on development of coal resources, nuclear power, and offshore oil and gas recovery

pose particularly difficult trade-off problems. Protecting the environment has been and remains an important issue substantively and a broadly supported goal politically. In the context of a comprehensive energy strategy, it is particularly important to be able to articulate a broad and convincing policy for protecting the quality of the environment. Such a policy must treat the important interrelationships among not only environmental problems and energy, but also environmental problems, capital formation and inflation. (These issues are analyzed in the attached Appendix.)

(4) ISSUES OF INFRASTRUCTURE IMPROVEMENT

The basic economic and political systems of a society are, of course, most fundamental to its health and development. There is, however, a set of identifiable major sub-systems on which the basic economic and political systems depend for efficient support and continued viability. These are subject primarily to a form of attentive collective control -- even if through market arrangements or socially enforced norms. Typically the lead times and investment required to change such sub-systems are large. Together such sub-systems comprise what is here referred to as "infrastructure."

Among such sub-systems are, e.g., the transportation system, the system for determining patterns of housing and land use, the intergovernmental relations system and the education system -- discussed here below.

At this stage in America's development, perhaps the most fundamental infrastructure problem is rationalizing the allocation of roles and responsibilities among levels of government and the private sector -- as in:

(a) Advancing Comprehensive Transportation Policy

Northeast railroads are in the process of reorganization under bankruptcy. There are serious questions as to the viability of railroads in general under current regulatory conditions -- a 3% return on investment is characteristic of a "good" year. Nonetheless, the society is dependent on rail transport for 38% of all freight transport (in ton miles) and a higher percentage of certain key commodities (70% of all coal, 78% of all lumber, 66% of all food). Pressure mounts to deregulate, on the one hand, and to nationalize on the other. The productivity of the ICC-regulated trucking industry is widely thought to be far less than it could be. Air transport is less visibly suffering under regulation -- but there is persuasive evidence of undesirable domestic airline inefficiency due to the current allocation of routes and rates. And among international carriers, there is an increasingly apparent need for either major subsidy or major restructuring or both. Automobile transport continues to consume roughly 5 million barrels of oil per day in spite of dramatic increases in the price of gasoline. For a variety of reasons -- particularly the energy crisis -- urban mass transit is of increasing interest to policy makers (although in spite of recent investment, public transit still accounts for less than 5% of urban trips). There are already symptoms, however, of a faddish leap -- encouraged by the availability of federal grants -- to urban rail mass transit which, at 50-100 million dollars per mile is virtually certain to be cost-ineffective

in all but a dozen or so cities. With regard to transportation in general, government is involved at virtually every level -- with various tax policies, economic regulatory policies, environmental regulatory policies, direct and indirect subsidies; but without any clear, comprehensive policy as to the governmental role in ensuring the health, of and shaping the relative balance among, major modes of transportation. (Comprehensive policy alternatives are analyzed in the attached Appendix.)

(b) Improving Housing and Land Use

Housing is of topical concern because of the lagging rate of housing starts and the historical importance of the housing sector to economic growth. For this reason alone, housing policy will be a major subject of debate. But the housing problem is considerably deeper than a problem of adjustment to economic cycles. Some minimum level of housing quality is obviously essential to civilized life -- and 7 million American families now live in substandard housing and are unable to afford any better. An additional 9 million are paying a disproportionately high share of their income for the most modest of housing. Only the top 15 percent of U.S. families have sufficient income to buy a median-priced new home. The problem can be broadly conceived as: (i) a problem of income distribution -- in relation to which the new "Section 8" program and the "housing allowance" experiments seem to mark an appropriate direction for federal policy change; and (ii) a problem of transition to a more efficient housing system -- with a need for increased productivity and improved technology in the production process and for fundamental reorganization of living, leisure and transportation arrangements in relation to space (i.e., a decline in traditional single-family housing patterns). While an improved market-oriented strategy would seem to be appropriate for these problems, there are associated problems which cannot satisfactorily be treated by market forces alone -- involving "externalities" of transportation efficiency, energy conservation, environmental protection and community development -- and which require improved mechanisms for land-use planning. (These issues are analyzed in the attached Appendix.)

(c) Rationalizing Intergovernmental Relations

As is well known, the decade of the 1960's was a period of sudden, dramatic and administratively chaotic federal program proliferation. The 1970's may be characterized as a period of attempted consolidation. Although revenue sharing has been enacted and the rate of categorical program proliferation has slowed, much remains to be done to make the intergovernmental "delivery system" capable of efficient delivery -- and more directly accountable to the people. Further, the allocation of roles and responsibilities among levels of government remains in serious need of rationalization. And further still, the problems of limited state and local revenue-raising capacities (which led in part to the "look to Washington" syndrome) demand serious attention -- as the "Washington"-centered programs of the 60s now experience severe upward budgetary pressure, as federal fiscal policy limits the federal capacity to respond, as public employees demand higher wages, and as states and localities feel the pinch. (These issues are analyzed in the attached Appendix.)

(d) Education

In the 1950s and 1960s, first elementary and secondary and then higher education experienced rapid expansion in enrollment, plant and expenditures -- as a result of increasing affluence, the demographic effects of the World War II "baby boom," and the traditional American faith in the value of education. Beginning in the late 1960s, these upward trends began to weaken. The "Coleman Report" provided evidence which seriously questioned traditional notions as to the effects upon educational outputs of variations in educational inputs. In general, there has been an increasing basis for questioning the return on incremental investment in education. At the same time, population trends have lessened the need for what, in many cases, has proved to be excessive plant capacity. In the struggle for survival, certain private educational systems have been particularly adversely affected. Since 1969, the Republican Administration's position has been to favor: improving experimentation; improving access to educational alternatives and improving student- and parent-based choice (as, e.g., through vouchers and through student aid); and, thereby, increasing the range of educational alternatives in the "marketplace." There are now, however, strong pressures for an increased federal role in directly aiding educational institutions, equalizing inter-state educational expenditures, and providing funds to serve the growing day care population. (These issues are analyzed in the attached Appendix.)

SUMMARY OF FUNDAMENTAL SUBSTANTIVE ISSUES

The following list summarizes the fundamental substantive problem areas (outlined above) which would seem to merit Presidential attention:

- (1) Issues of Humane Concern
 - (a) Reforming Low-Income Support Programs
 - (b) Improving Health Finance and Delivery
 - (c) Rationalizing the Social Insurance System
- (2) Issues of Economic Growth (in addition to fiscal and monetary issues)
 - (a) Increasing the Rate of Capital Formation
 - (b) Rationalizing Governmental Regulation
 - (c) Reducing Unemployment
- (3) Issues of Resource Development
 - (a) Ensuring an Adequate Energy Supply
 - (b) Limiting Food Price Inflation While Protecting Farm Income
 - (c) Protecting and Improving Environmental Quality
- (4) Issues of Infra-structure Improvement
 - (a) Advancing Comprehensive Transportation Policy
 - (b) Improving Housing and Land Use
 - (c) Rationalizing Intergovernmental Relations
 - (d) Ensuring a Sound Educational System

As noted, the associated issues are analyzed in the attached Appendix.

PART II: FRAMEWORK FOR COMPREHENSIVE

FORD DOMESTIC POLICY STRATEGY

Part I (above) identified a limited number (13) of fundamental substantive problem areas which merit Presidential attention. Part II is intended to develop a framework which would allow the formulation of a comprehensive strategy for addressing these problems. Accordingly,

- Part II first identifies a set of themes and principles -- to permit consistent analysis of alternative proposed solutions, to guide choice among alternative proposed solutions, and, ultimately, to help justify the chosen set of proposed solutions. (The analysis of alternative proposed solutions is in "Domestic Council Discussion Papers 2 - 5" -- the attached Appendices.)
- Part II then discusses substantive and political considerations as to the relative emphasis and initiative to be associated with the programmatic solutions which the principles would seem to dictate.

A. DOMESTIC POLICY THEMES AND PRINCIPLES

The following themes and associated guiding principles are intended to be consistent with what are assumed, at present, to be Ford Administration preferences. Although they are not all interdependent, they are intended, further, as a coherent set.

The more abstract themes are, of course, relatively non-controversial. They may provide a politically attractive and substantively responsible rhetorical framework -- in relation to which a Ford domestic strategy may be better articulated. However, as themes are reduced to more specific principles -- as they imply specific choices among programmatic alternatives -- they quickly become controversial. (In order to make clear the substantive and political issues involved, selected programmatic implications associated with particular principles are specified.)

Theme 1: FORGING A NEW PHILOSOPHIC CONSENSUS

Mid-twentieth century American domestic policy has been characterized by philosophical (and social) instability.

Particularly in the sixties, America was strained by competing, would-be guiding, social policy philosophies -- Kennedy-Johnson "New Frontier" - "Great-Society" - "War-on-Poverty" social-activism, on the one hand, and Nixonian "New Federalism" on the other. To some extent, with the recent signs of re-emergent anti-centralist spirit, the competing philosophical strains have achieved a form of stability: a stalemate. But the stalemate is hardly satisfactory; the stability is hardly rational. The lack of clear philosophical stability -- the lack of a stable philosophical consensus -- has rendered the structure of government itself somewhat irrational and shaky. "Delivery systems" have been stacked upon and across "delivery systems" -- to a point where it is hardly surprising that government, so often, fails to deliver and fails to support itself.

It seems a reasonable suspicion that many Americans are frustrated with shifting to and fro. There is likely a considerable degree of latent sentiment in favor of settling, for a while, on some stable foundation for domestic problem-solving, some sensible domestic policy philosophy -- with a reasonable prospect that it can work.

The chances of building consensus around a philosophy which the Administration could endorse have lately improved. The recent election of Democratic Governors has resulted in a decrease in expressed Democratic fears of allocating power to states. "Watergate" in general has, somewhat ironically, helped widen the base of support for the dispersion of central power. Frustration with Government-intervention-as-the-answer is rising -- particularly as the general perception of governmental "failure" increases. (This frustration has notably been capitalized upon not only by traditional conservatives, but by selected Democrats ranging from Brown to Wallace.) The time may be right for the forging of a new consensus.

But, it seems reasonable to suggest further, that an exclusively negative philosophy -- emphasizing only what government cannot or should not do -- is unlikely to be able to command a stable majority of support. To have wide appeal -- to build a new consensus -- a philosophy will have to provide a sense of the possible, not just the impossible; it will have to appeal to people's hopes, not just their fears.

While the need to "forge a new philosophic consensus" does not itself imply programmatic choices, it does imply that there will be some consistent framework for making choices. The themes and principles outlined below should provide such a framework -- a framework which, depending on emphasis, could indeed allow the building of a broad new consensus.

Theme 2: ASSURING CONTINUED AMERICAN INDEPENDENCE

In the Bicentennial context, this general theme is of potential rhetorical value.

Associated Principles. In one way or another, virtually every theme and principle discussed below (and, of course, foreign policy principles not included here) could be made to support this theme -- if rhetorical purposes so demanded. Among the principles obviously to be associated with this theme are:

- (a) To assure that resources essential to the continued health of the American economy are adequately supplied, the United States must either produce them domestically (or produce economically and environmentally acceptable substitutes); or, through foreign policy, the United States must assure that such supplies are available on a stable and economically acceptable basis. This most obviously applies to energy policy. It is important to note that, as stated, the principle does not necessarily imply "self-sufficiency."
- (b) [Among other themes and principles which might be associated with "Assuring Continued Independency" see particularly the discussion of principles (a) - (d) related to "Theme 3: Building on America's Proven Strengths" below.]

Theme 3: BUILDING ON AMERICA'S PROVEN STRENGTHS

At an abstract level, this theme is widely acceptable -- perhaps especially in the Bicentennial context (although, it must be noted, almost anything can be framed in relation to Bicentennial spirit). Controversy quickly arises, however, when the essentially individualistic, free-enterprise interpretation of this theme is specified.

Associated Principles. Most Republicans, most "conservatives," many "working poor populists," many "moderates," and some "radicals" would affirm the following principles as consistent with "America's proven strengths:"

- (a) Governmental policy should be consistently guided by an appreciation of the essential value of work. This principle dictates a welfare policy in which there is either a specific work requirement (for those who are able) or a strong income incentive to work. But note: articulation of this principle in the context of high unemployment invites the extension of the argument to demands for a "full-employment economy" and/or a public employment program.
- (b) Governmental policy should be consistently guided by an appreciation of the essential value of incentives for enterprise, initiative and innovation. With regard to welfare, this argues for effective economic incentives to encourage and reward work. In the services area, it would favor "voucher" programs and "purchase of service" programs, rather than direct governmental provision of services. With regard to health, it argues for a system which allows and encourages competition among health providers; and it favors incentives for innovation through, e.g., health maintenance organizations. In general, it tends to favor the encouragement of satisfactory private response through the market place -- as in the case of encouraging energy conservation and new energy source development through "decontrol." Except in cases of natural monopoly or potentially destructive competition, it tends to argue in favor of approaches to "workable competition" rather than economic regulation.
- (c) Governmental policy should be consistently guided by an appreciation of the essential value of respect for the individual -- individual choice, individual dignity, and individual privacy. In the welfare area, this tends to argue for an "income strategy" -- a strategy which allows beneficiaries to make choices in the market place. And it argues further for a system administered without the intrusive social - worker invasions of privacy which are characteristic of the present system -- that is, it argues for a system more like the tax or social security systems. In health, this principle argues against an over-bureaucratized, governmentally managed system which might undesireably limit the range of individual choice and might sacrifice the traditional virtues of the private, doctor-patient relationship. In housing, this principle tends to favor an approach which provides direct "housing allowances" to the poor, rather than federally subsidized housing. With regard to "food stamps," this is an additional argument for "cashing out."

(d) Governmental policy should be consistently guided by an appreciation of the essential value of the widespread distribution of power. In social policy, this tends again to argue in favor of the "income strategy" which distributes power widely to individuals. And in general, it places the burden of justification upon those who would wish to centralize any governmental function. This is, of course, not to argue absolutely against centralization. It is to suggest that there must be tests and justifications for centralization. (See Theme 6," Principle (a), below.)

Theme 4: FOSTERING SUSTAINABLE ECONOMIC GROWTH

In the current economic context this theme takes on added importance.

Associated Principles. Most of the principles discussed in relation to other themes relate, at least indirectly, to this theme. (See particularly 2(a), 3(a), 3(b), 5(a), 5(b), and 5(d).) Additional principles which merit emphasis are as follows:

- (a) Government policy must be concerned about BOTH inflation and unemployment. (Further elaboration of this principle depends principally upon decisions being made in the context of fiscal and monetary policy.) It is noteworthy, however, that the importance of food and energy to the CPI have tied inflation increasingly to issues of foreign policy -- and not just domestic fiscal and monetary policy.
- (b) Governmental policy must weigh the secondary costs of apparently beneficial intervention -- and consider the net relationship of benefits to TOTAL costs in setting policy. This applies particularly in the analysis of energy-environment-inflation trade-offs and in the analysis of governmental regulatory policies.
- (c) Efficient infra-structure must be viewed as essential to the economic health of an increasingly complex society. This applies particularly to the structure of capital markets, the transportation system, and the structure of government.

Theme 5: MAKING BEST USE OF LIMITED RESOURCES

In the past, this theme was taken to be exclusively characteristic of conservatives and some technocrats -- it was rarely taken seriously by liberals who viewed it with skepticism as a rationalization for non-humanitarian preferences. But recently the seriousness of resource problems has been pointedly communicated by the energy crisis, the economic crisis, the growing federal deficit, and the plight of the city of New York. The need to make best use of limited resources is increasingly widely appreciated -- its articulation is less troublesome politically.

Associated Principles. The following principles would appropriately be associated with the Limited Resources theme:

- (a) When intended benefits can be more efficiently provided without large bureaucracies and large administrative costs, limited resources ought not be spent to support these costs. This principle tends to imply a preference for cash transfer programs and "purchase of service" programs rather than direct service programs. And in cases where publicly-subsidized benefits are uniform nation-wide, and where necessary local discretionary authority is minimal, it tends to favor centralized federal administration.
- (b) The limited resources perspective must be system-wide. That is, a federal resource "saving" is not meaningful if it necessitates more than off-setting state, local or private costs (and vice-versa). With regard to health insurance, for example, this principle suggests that regulatory requirements for employer-financed health insurance could not be justified simply by reference to governmental budgetary savings -- that system-wide effects would have to be taken into account. Similarly, "savings" associated with a policy change in one area must be viewed in relation to possible secondary effects in another -- as, e.g., in the case of energy-environment trade-offs.
- (c) Limited public resources spent for the provision of services or direct benefits, in the social program area, ought to be focused on the problems of the most needy -- the poor and those unable to help themselves. This principle tends to imply the following programmatic preferences: It would not favor use of wage replacement social insurance programs as a means to reduce poverty; rather, it would favor use of separate programs (including the tax system) specifically focussed to redistribute income to the poor. Within the limits set by 5(a) above, it would tend to favor means-tested graduated fee schedules for service and "voucher" programs.
- (d) Limited resources ought not to be spent on full-scale programs where the effectiveness of the basic program technology has not first been satisfactorily tested on a meaningful "pilot" scale. Had this principle been applied in the sixties, much of the dissatisfaction with the failures of the "Great Society" would have been avoided. It is important to note that this principle does not necessarily argue that the government should "do nothing" -- but simply that it should not leap to large scale without first seriously experimenting on a smaller scale. This applies in the new energy and environmental areas as much as in the social areas.

Theme 6: INCREASING GOVERNMENTAL RESPONSIVENESS AND ACCOUNTABILITY

The decline of confidence in government began prior to Watergate and was, of course, exacerbated by it. Confidence is now unsatisfactorily low. Americans are frustrated not simply at the apparent lack of governmental capacity, but also at the lack of effective means to hold appropriate individuals accountable.

Associated Principles. In this context, the following principles must be viewed as increasingly appropriate.

(a) Government ought not to try to do on full scale what it cannot satisfactorily do on a pilot basis. (See 5(d) above.)

(b) Governmental roles and responsibilities ought to be allocated among levels of government in a way that places the burden of justification on those who would centralize functions (and thereby tend to render government less responsive to local preferences).

Among the cases possibly justifying a more centralized governmental role are those where: (i) the benefit of governmental activity necessarily crosses jurisdictional lines; (ii) there is a compelling argument for uniform benefits and uniform administration across jurisdictional lines; or (iii) there is a demonstrable national need for governmental stimulus to start action in a given substantive area -- action which would not otherwise satisfactorily be taken, and where the cost of inaction is in some agreed-upon sense a national cost.

(c) The burden of justification must be placed on those who would "complexify" government -- the simpler it is, the easier it is to comprehend, to administer and to hold accountable. This tends to argue for replacement of the current complex and confused welfare system with a simpler, more uniform approach. It tends similarly to argue for grant consolidation and simplification of the overall intergovernmental grant structure.

(d) Administrative procedures must be devised and applied to prevent fraud and to ensure quality control. The erosive effects of cynicism about government are reinforced by the inevitable exposure of the consequences of administrative sloppiness, irresponsibility and corruption. The protection of democratic government requires that programs be designed and administered to prevent abuse -- while also protecting individuals' rights to freedom, dignity and privacy (3 (c) above).

(e) Executive functions -- whether delegated or not -- ought to be within the control and direct responsibility of identifiable elected officials. In a democracy, elections are theoretically a principal means of ensuring accountability. But the governmental authority structure is highly confused; key decision points are often difficult to identify; and key decision-makers are often invisible to the public -- and beyond the effective control of voters. This principle would tend to consolidate executive responsibility under units of general purpose government -- whose chief executives are accountable to the people through established democratic processes.

Theme 7: RESTORING A SENSE OF FAIRNESS

Many would suggest that commitment to fairness is a proven American strength. (And there are, of course, many who would dispute the point.) Fairness is, in any case, worth identification as a theme in its own right.

Associated Principles. The following principles would properly be associated with restoring a "sense of fairness":

- (a) Those situated similarly in need ought to be treated similarly. This principle -- known as a principle of "horizontal equity" -- is being advanced in the courts most notably through the "right to treatment" cases. It argues, in effect, that resources must be provided equitably to an entire beneficiary class "similarly situated in need" if they are provided for selected members of that class. If the current social program structure is retained, the cost implications of this principle are in the hundreds of billions of dollars.
- (b) Among those expected to work -- as also among those who (by virtue of age or health status) are not expected to work -- those who earn more ought not, by governmental action, be placed in a position of net disadvantage relative to those who earn less. Or more simply: Those who earn more should "take home" more. This is the so-called "vertical equity" principle. In the welfare area, it requires coverage of the "working poor." And in general, it requires an explicit or implicit tax structure which is free of elements which might make one worse off for working and earning more -- i.e., it must be free of so-called "notches."
- (c) Those who are needy and unable satisfactorily to help themselves ought to receive some minimal set of benefits as a matter of humane concern. The specific level and character of these benefits must be determined through the political process -- for it necessarily involves value judgments. This determination ought also to be consistent with other principles noted here -- particularly those concerning limited resources, work incentives and "horizontal equity." (It is, of course, the case that minimum benefits are already distributed widely -- there remain, however, questions of adequacy and of the system of distribution.)
- (d) To the extent that a prior history of unfairness has left a group disadvantaged, governmental intervention may be justified to restore a sense of fairness. This principle obviously legitimizes a whole range of possibly controversial interventions. The merits of any given form of intervention must be judged in relation to the particular disadvantage involved. But it is important to emphasize that the concept of fairness should not allow new unfairness as a remedy for old -- it should not allow, e.g., "reverse discrimination."

Note: It is perhaps important to make clear that to the extent that Themes 1 - 6 tend to be "conservative" and to favor the private sector, it is the more important that a degree of counterbalancing emphasis be given to Theme 7 -- "fairness" -- if a wide base of support is sought. Indeed, it is arguable that it was the lack of a satisfactory private-based system for ensuring fairness which led to much of the governmental intervention in its currently unsatisfactory form. The key now would seem to be to ensure fairness through forms of governmental intervention which are in accord with the principles articulated above -- i.e., in a manner which is efficient, which is not harmful to necessary incentives for work and enterprise, and which is subject to effective public accountability.

B. ISSUES OF EMPHASIS AND INITIATIVE

The identification of fundamental problems and of principles to be applied in their resolution is essential to the formulation of a domestic strategy, but it (even with the analysis referred to in the attached Appendices) is not sufficient.

The dynamics of public policymaking being what they are, there will be pressure to solve all fundamental problems immediately. But limited resources -- and politics -- will not allow such an approach.

A determination as to which problems are to receive more immediate emphasis and initiative is a necessary further component of a comprehensive framework for domestic policymaking. This determination requires both substantive and political analysis.

The substantive problem can be addressed, in part, by examining the interrelationships among fundamental problem areas -- trying to isolate those which most importantly affect several others. There are, of course, numerous important interrelationships among the problem areas. For example:

- Decisions in the energy area clearly can affect the environment, capital formation, inflation, the distribution of wealth, transportation, housing and employment.
- Decisions in the food area clearly can affect inflation and the distribution of wealth.
- Decisions on the economy affect the distribution of wealth, social insurance programs, employment programs, capital formation and housing.
- Decisions on social insurance programs and decisions on the environment both may affect capital formation and employment.
- Decisions on housing, transportation, and issues of humane concern can affect the health of the economy; etc.

It is the very fact of these interrelationships which requires that domestic policy be viewed comprehensively. The specific interrelationships -- and the implications of policy decisions in one area for decisions in other areas -- are discussed in detail in the attached Appendices. But it is generally clear that, in the current context, energy and the economy are of first importance among the fundamental problems. A failure to deal satisfactorily with these two areas would have profound adverse affect on all others.

It is assumed, therefore, that these two areas -- energy and the economy-- must be subject for emphasis and initiative in any near-term strategy. In effect they provide a basic minimum to which other areas of initiative might -- or might not -- be added,

The strategic choice then may be most broadly conceived as a choice among three basic types of strategy: (1) a "low initiative/strict fiscal restraint strategy"; (2) a "mixed emphasis strategy"; and (3) a "time-phased, comprehensive restructuring" strategy. The arguments for and against each of these are outlined as follows:

(1) LOW INITIATIVE/STRICT FISCAL RESTRAINT STRATEGY

This strategy would emphasize initiatives in the energy conservation and energy resource development area and would otherwise concentrate on preventing inflation through strict fiscal restraint -- and perhaps also through proposals to increase productivity by encouraging greater capital formation and by selective de-regulation. It would reject excessive Congressional spending proposals. Its rhetoric would presumably lament the irresponsibility and inaction of Congress and the growth of big and ineffective Washington-based government.

(a) Arguments in Favor

- Assuming the economy successfully turns around, it is likely that the principal continuing medium-term fiscal policy requirement will be to control federal expenditures. And it is arguable that any deviation from a strict fiscal restraint policy could make vetoes more difficult to sustain -- because it would, in principle, legitimize new spending initiatives.
- This strategy would have potential political appeal as follows: It would clearly appeal to traditional "conservatives." It would also have some appeal for the apparently growing number of people who are anti-big-Government/anti-Washington. This group includes both those who disagree with the recent purposes of governmental intervention and those who affirm the purposes but have come to doubt governmental efficacy -- as symbolized by Governors Wallace, on the one hand, and Brown and Dukakis, on the other. To the extent it may be desirable, this strategy permits campaigning against the Congress.

(b) Arguments Against

- This strategy would fail to provide approaches to the solution -- or alleviation -- of many of the major problems which are widely agreed to be facing American society. It would conceivably result in the Democratic imposition of would-be solutions -- along lines less favorable than those which might be possible if the President had competing proposals of his own.
- As a political matter, this strategy has several liabilities. While it may serve the President well in the pre-convention phase, it leaves no room for a post-convention move to the "center" -- without creating the appearance of political opportunism. It would be vulnerable as a strategy for "big business and the rich." And it would leave the President vulnerable to charges of "failure of leadership," failure of "vision," "Hooverism" and "Coolidge-ism."

(2) MIXED EMPHASIS STRATEGY

This strategy would include the energy conservation and resource development initiatives of the first strategy; but it would otherwise be less negative in its cast. Its focus would be less on controlling inflation through strict fiscal restraint; rather it would emphasize "fiscal responsibility" -- along with the initiatives to improve productivity through increased capital formation and selective re-regulation. It might include a more vigorous federal initiative in energy resource development. And it would include a small number (say, two) of carefully selected initiatives from the areas of "Infrastructure" and "Humane Concern" -- initiatives which could serve, if necessary, as fiscal stimuli, and in any case, as symbols of concern -- but initiatives which could be accommodated within the limits of available resources. (These initiatives might take the form of a "housing allowance" program or a health insurance program, for example -- or, more boldly, a new "income security program.")

(a) Arguments in Favor

- This strategy would seem "responsible" -- attempting to combine a degree of fiscal conservatism with positive attention to selected major domestic policy problems in areas beyond energy and the economy, areas of humane concern and infrastructure improvement, areas which are clearly in need of remedial attention.
- As a political matter, this strategy would reduce the President's vulnerability to charges of "do-nothing-ism: and "insensitivity." It would conceivably allow him to broaden his base of support by maintaining appeal for conservatives while also providing the basis for a wider "moderate" appeal. (This is a matter of political judgment which is contested below.)

(b) Arguments Against

- While some fundamental problems would be addressed, others would remain untreated. And it is arguable in the social policy area, for example -- where costs are spiraling beyond control and where inequities nonetheless remain -- that comprehensive restructuring is required.
- As a political matter, this strategy -- in trying to achieve a "balanced" position -- could lose the "purity" which holds appeal for many conservatives. At the same time, it would inevitably be criticised as "too little" by partisan liberals. In short, it could conceivably combine the "worst of both worlds."

(3) TIME-PHASED, COMPREHENSIVE RESTRUCTURING STRATEGY

This strategy would include the energy initiatives, the capital formation initiatives and the re-regulation initiatives as above. But it would also include public identification of all the fundamental problems discussed in Part I above --along with description of a full set of initiatives intended to address these problems in a manner fully consistent with Ford Administration principles. However, this strategy would insist that implementation of these initiatives be time-phased to accord with the dictates of sound fiscal policy. Accordingly, although the full policy approach would be outlined in the State of the Union Message, submission of the formal legislative proposals would be time-phased; and similarly, the proposed dates of enactment would be time-phased, to allow for further adjustments to the dictates of sound fiscal policy.

(a) Arguments in Favor

- This strategy would show an appreciation of the full range of fundamental problems facing American society -- and it would address these problems in a positive, principled and comprehensive manner. It would nonetheless be fiscally responsible in that its time-phasing would be explicitly in response to fiscal constraints and in that its restructuring proposals -- in accord with Ford principles -- would offer the best middle-and long-term approach to federal budget control.
- As a philosophy, it would appeal to traditional conservatives and to newer "anti-Washington/anti-big-Government" types. But, being also a well-thought-through and positive program, it might also appeal to a broad center. (It is noteworthy that the time-phasing could allow emphasis on philosophy in the pre-convention period and on positive programs in the post-convention period.) It would, in effect, provide the basis for the forging of a "new philosophic consensus." If the President were elected on this "platform", his election could be interpreted as a mandate in support of a domestic program which might otherwise be more difficult to advance in a Democratically controlled Congress.

(b) Arguments Against

- Although this strategy would intend to be fiscally responsible, it could, in practical effect, lead to a Pandora's box of Democratic counterinitiatives -- bidding the price of reform up to unacceptable levels.
- Unless the positive proposals are specified in the near term (before the Presidential primaries), they could seem to be opportunistic electioneering. Yet the very act of offering positive proposals -- however conservative the underlying principles -- could alienate a portion of the conservative constituency.

For a more specific sense of what specific proposals might be subjects for initiative in either strategy 2 or strategy 3, it is necessary to examine the analysis of specific policy issues and alternatives -- within the 13 identified problem areas -- in the attached Appendix.

Appendix

Domestic Council Discussion Memorandum #2: Humane Concern
Domestic Council Discussion Memorandum #3: Economic Growth
Domestic Council Discussion Memorandum #4: Resource Development
Domestic Council Discussion Memorandum #5: Infrastructure Improvement

APPENDIX

The Appendix is to be completed by the end of September, 1975 -- and is to include an analysis of each of the major issues identified in the "Overview." These issues are to be treated in four papers corresponding to the four broad issue areas outlined in the "Overview":

- "Domestic Council Discussion Memorandum #2: Humane Concern"
- "Domestic Council Discussion Memorandum #3: Economic Growth"
- "Domestic Council Discussion Memorandum #4: Resource Development"
- "Domestic Council Discussion Memorandum #5: Infrastructure Improvement"

