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~~TOP SECRET/INFORMANTS~~

THE WHITE HOUSE

WASHINGTON

~~TOP SECRET/CODEWORD~~
ATTACHMENTS

November 21, 1976

MEMORANDUM FOR: THE PRESIDENT
FROM: BRENT SCOWCROFT

SUBJECT: Meeting with the President-Elect

Attached is a briefing book on national security issues which you may find useful for your meeting with Governor Carter on Monday. This book consists of short factual descriptions of the current state of the most significant areas and issues of national security concern.

The book is designed simply as a ready reference and I do not recommend that you read through each item.

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~~TOP SECRET/CODEWORD~~
ATTACHMENTS

THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

November 19, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

LWS

[Handwritten initials]

SUBJECT: Meeting with President-Elect Carter

Several members of your Economic Policy Board have recently expressed their view that the EPB represents one of the most significant institutional innovations of your Administration. They have also indicated their hope that the EPB will be continued in the new Administration. Several have indicated that they intend to communicate their views on the EPB to their successors during the course of the transition.

The process which you instituted for making economic policy is very different than the process that existed in previous Administrations and may be a subject you will wish to raise during your meeting with Governor Carter.

Several principles and practices that have characterized the work of the EPB and its relation to you have contributed to its success. They include:

1. The EPB serves to ensure that the President is provided a broad range of views and alternatives on economic policy issues.
2. The EPB process incorporates into the consideration of a policy issue the views and the resources of all interested Executive Departments and agencies.
3. The EPB provides a mechanism whereby the President is presented with economic policy issues in a systematic way that all interested parties agree fairly presents the alternatives.
4. The daily EPB Executive Committee meeting provides for the regular interchange of Cabinet level policy makers.
5. The effective functioning of a policy making body such as the EPB, requires that the President's Assistant (the Executive Director) serve as an honest broker and be perceived as an honest broker by the participating Departments and agencies.

6. The staff of the Executive Director should be small so that it is not viewed as a competitor by member Departments and agencies. A large staff inevitably becomes an advocate in the process.
7. The effectiveness of the EPB as a mechanism for systematically making policy requires guidelines on what matters are taken to the President.
8. Most importantly, the effectiveness of a decision making body such as the EPB depends on it having the Presidential imprimatur -- it must be perceived within the Executive Branch as the President's vehicle. The President must not permit it to be circumvented through end runs to the Oval Office. Only if the President is committed, as you have been, to making his decisions through the decision making body will his Cabinet officers use it to seek a Presidential decision.



THE PRESIDENT HAS SEEN.....
THE SECRETARY OF THE TREASURY
WASHINGTON 20220

NOV 19 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Issues for Discussion with President-Elect Carter

In the preparation for your discussion with Governor Carter on Monday, I recommend consideration of four main Treasury issues: Personal and Corporate Tax Cuts, Financial Problems of the United Kingdom and Italy, the Financial Situation of New York City, and Basic Tax Reform. The first three are of immediate importance.

Personal and Corporate Tax Cuts:

In October 1975, the Administration proposed personal tax cuts of \$21 billion. These were to be accomplished through desirable permanent changes in the tax law, namely an increase in the personal exemption to \$1,000, a flat standard deduction, and lower marginal tax rates. In contrast, the tax cuts of the Tax Reform Act of 1976 represent an outgrowth of temporary anti-recession tax measures which were first enacted in March 1975. Thus, further tax reductions should involve a careful review of current tax provisions which may not be structurally sound. These include the refundable earned income credit which is a most inefficient way of moving towards a negative income tax and the optional per exemption tax credit or credit based on taxable income.

Other important issues which should be considered are:

(1) The aggregate volume of tax cuts needed in view of current economic conditions and budgetary objectives. The need for possible economic stimulus as well as the desire to achieve a posture of fiscal balance must be considered here.

(2) The distribution of future tax cuts. For example, low income taxpayers have already received relatively more generous benefits from earlier rounds of tax reduction.

(3) The coordination of tax reductions and tax reform. Tax reform may be much easier to accomplish in the context of a tax program which can lose revenues as opposed to one which must be revenue neutral.

(4) Coordination of individual tax cuts and tax policy to achieve capital formation objectives. Tax cuts for the purpose of stimulating the economy should take into account the need to remove current obstacles to capital formation. Prominent examples are the fact that high inflation rates tend to increase the real rates of taxation on income from capital and the double taxation of corporate dividends.

Financial Problems of the United Kingdom and Italy:

Both the United Kingdom and Italy are currently experiencing very difficult economic problems. Both countries have been over-consuming and are experiencing severe inflation (currently 14 percent in the United Kingdom and 16 percent in Italy). They have been financing this over-consumption by borrowing abroad. (The British have borrowed \$7 billion and used \$2 billion of their reserves this year; the Italians have borrowed \$1 billion). Both countries are beginning to experience difficulty in borrowing enough to finance prospective deficits and their exchange rates have periodically come under heavy pressure.

Both countries have applied to the International Monetary Fund for additional credit. The British are asking for \$3.9 billion and the Italians for \$500 million. In both cases, the sums represent all that they are entitled to borrow under current IMF policies. Fund procedures in cases like this require that the Fund be satisfied that the borrowing country will carry out a domestic stabilization program which can be expected to eliminate the deficit and enable the country to repay. Typically this involves statements of intent with respect both to fiscal policy and monetary policy. Negotiations are currently under way between the Fund management and the two countries. When these negotiations are completed -- probably in December -- if the Fund management is satisfied with the proposed stabilization programs, the loan requests will be brought before the Executive Board and it is at that time that the U.S. will take a formal stand. Meantime, we do not want to get involved.

It is apparent that both countries are under domestic political pressure and it is not yet certain that either will be able to agree to a stabilization program which will offer a reasonable chance of success and thus merit IMF approval. In the British case the financial markets are unlikely to have any confidence in a British program which does not involve a significant reduction in government expenditures and government borrowing. Mr. Callaghan would like to have the U.S. Government signal to the IMF its desire that the conditions not be too tight. The

British suggest that if they were to be forced to cut expenditures, a major portion of the cuts would come from defense and the support of NATO. They also imply that they would resort to import restrictions. On the other hand, if the program is not strong enough to win the confidence of the world banking and business community the money borrowed from the Fund will be quickly spent without getting an improvement in the underlying U.K. situation.

In Italy the key condition will be a modification of the wage indexing system. The Italian authorities, despite a very delicate political situation and, to date, the tolerance of the Communists, are making a courageous effort to gain labor acceptance to conditions which would meet the Fund requirements. If they are successful and their program is sufficiently promising, we may want to work out arrangements with the Fund to enable them to borrow more than \$500 million.

The British have also been pressing for international action to underwrite or take over up to \$10 billion in short term external debts -- the so-called sterling balances. They argue that it is these balances which are responsible for the pressure in their exchange rate. Our feeling has been that the pressure derives from the lack of confidence in British policies and will disappear when a convincing stabilization program is put into effect. We do not see these debts as an international responsibility and could not justify relieving the U.K. of them any more than we could justify taking over the large short term external debt of such countries as Mexico, Brazil, France, or Japan. The British request, which they now concede must follow agreement with the IMF, is in effect a request to obtain a substantially larger total of credit in exchange for meeting the IMF conditions. Our position has been that it was premature to consider this issue at all and that attention should be focused on the negotiations with the IMF.

New York City:

On November 19, 1976, the highest court of the State of New York ruled that the moratorium on the New York City notes violated the State Constitution. Because the decision was on State rather than on Federal Constitutional grounds, there is no right of further appeal. While a formal order will not be issued for at least 30 days, it appears certain that at least the holders of \$900 million in notes outstanding will be entitled to payment in full at some point in 1977. In addition, it is likely that former holders of \$700 million in notes (who exchanged their notes for MAC bonds) will also be entitled to cash.

The Court's ruling constitutes an event of default under the Credit Agreement between the United States and New York City. Accordingly, the first question is whether the Secretary of the Treasury should exercise his right to declare the agreement in default and demand immediate payment of the \$1.075 billion in Federal loans outstanding. A more important question from a practical standpoint is whether the Treasury should advance funds needed for operating expenses in early December. The amount required by the City during the month of December is \$750 million. If no advances are made, the City will run out of cash not later than December 6.

Basic Tax Reform:

The Treasury tax policy staff has been engaged over the past year in a study of alternative fundamental reform plans. A similar study by the Joint Committee on Taxation has been mandated by the Tax Reform Act of 1976 for submission to the tax writing committees of Congress before July 1, 1977.

The basic element of most reform proposals is base broadening. This tends to serve the objective of efficiency, since it permits lower rates and hence less differentiation among economic transactions. This also serves the objective of equity, since the extent to which people in similar circumstances are taxed similarly is improved. The major undertaking is to find a broad base which is also simple.

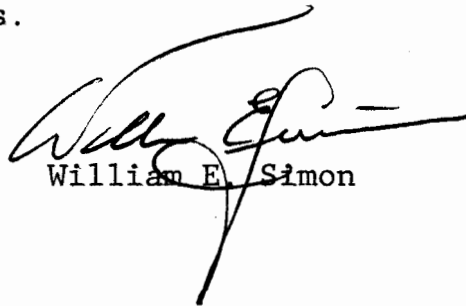
Treasury staff have been analyzing two approaches. Under the first one, favored by many reformers, the object is to tax income comprehensively which is understood as the total of all addition to spending power during the course of the year, whether exercised in spending for consumption or used to add to the taxpayers wealth. Unfortunately, this tax base is hard to measure once one gets past simple items like wages and dividends. Making the income tax simple under this definition is difficult because of the problems in assessing such items of increased wealth as accrued rights to future payments (pensions), increased value of assets (capital gains), reduced value of assets (depreciation), and accrued value of trust benefits.

The second approach which is far simpler uses the notion of income as cash flow. Under this approach, the problem of valuing accruals does not arise. In addition, such problems as inflation adjustment, treatment of corporation income, foreign subsidiary income, trusts, etc., are all relatively easily solved. However, even though present law contains many features of this

base already, this approach is more controversial. Nonetheless, a strong case can be made for this on grounds of equity and efficiency, as well as simplicity.

Whatever base is adopted a major restructuring of the tax law will involve significant redistributions of tax burdens. Accordingly Treasury staff has explored methods of making the transition to a reformed system so as to minimize windfall gains and losses.

A data base is being assembled by Office of Tax Analysis staff to permit stimulation of the burden distributions under alternative tax reform plans.



William E. Simon

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

INFORMATION

November 20, 1976

MEMORANDUM FOR THE PRESIDENT

FROM:

JIM CANNON 

SUBJECT:

Domestic Issues For Your Meeting With
Governor Carter

Here is a list of 21 key domestic issues which you might want to mention to Governor Carter during your meeting on Monday.

This list does not include, by any means, all the domestic issues the new Administration will face. I believe it may be helpful to highlight certain major domestic issues which Governor Carter and his Administration will face during their initial months in office.

I have reviewed this list with Jim Lynn and Paul O'Neill.

K12

8/15/88

KEY ISSUES SURVEY

The following is a brief survey of some key domestic items and issues which are likely to require action by the next administration during its initial months:

1. Social Security

Both the short-term and long-term fiscal problems of the Social Security system need to be resolved. Since Congress did not act on President Ford's proposals last year, the short-term issue requires immediate attention.

2. Agriculture Bill

The basic enabling legislation for the farm commodity programs expires next year.

3. OSHA Noise Standard

OSHA has published proposed noise standards which are both costly and controversial. The public comment period closes on December 8 and normally the final standards would be announced within 60 days.

4. New York City

The recent court action on the City's debt obligations intensifies the continued difficulties of New York City and will require the Secretary of the Treasury to review the continuing Federal loans carefully.

5. Illegal Aliens

It is estimated that there are anywhere from 6 to 8 million illegal aliens in the country and that an additional 1 million or more enter each year. The problems associated with this fact -- loss of jobs to American citizens, added burdens on welfare and social services programs -- have reached critical proportions along the Southwest border and in some northern cities.

6. Postal Service

On March 15, the Commission on Postal Service will submit its recommendation for lasting solutions to

the problems of the postal service such as spiraling wages, declining volume and revenues, and increased competition.

7. Puerto Rico

The basic relationship between the U.S. and the Commonwealth of Puerto Rico is currently being reviewed by both the Administration and the Congress. A number of fundamental questions must be resolved.

8. Nuclear Policy

Administration action will be necessary to enable increased use of nuclear energy, to resolve many of the questions of safety and to control proliferation.

9. Clear Air Act

Questions regarding amendments dealing with auto emission standards and the control of stationary sources of air pollution are likely to be brought before the new Congress early.

10. Passamaquoddy Indian Claims on Maine

Serious legal challenge to ownership of 12 million acres of land in Maine (nearly 60% of total area of the state) is being pursued by the U.S. government under a court interpretation of the United States' trust responsibility to the Passamaquoddy tribe.

11. Aviation Noise Statement

Imposition of aircraft noise standards to the entire domestic air fleet has begun and will be phased in over the next eight years. Continued surveillance of the financial implications of this decision must be maintained.

12. Federally Mandated Pensions (Black Lung)

Renewed interest is certain in the proposal to provide black lung benefits for all miners after a certain number of years regardless of any showing of the presence of disease. Consideration of this proposal should include recognition of the potential similar demands from other industrial groups.

13. Food Stamp/Welfare Reform

There is a continuing need to substantially overhaul the Food Stamp program. This could be viewed in conjunction with a total revamp of federal income assistance programs and reform of the Medicaid program.

14. Crime and Drug Abuse

Significant progress has been made in both of these areas during the past two years. Nevertheless, they persist as major problems facing the nation. Enactment of a comprehensive Federal Criminal Code and expansion of the Federal antinarcotics effort will be major items facing the Administration and the Congress in the next legislative year.

15. Communications

Much work has been completed in anticipation of a fundamental examination of telecommunications. The Congress, particularly, the House Subcommittee on Communications, has indicated its intention to initiate a review of the Communications Act of 1934, the legislative basis for Federal regulation of broadcasting, telephones and other telecommunications industries.

16. Urban Aid

It is clear that substantial improvement can be made and will be sought in the delivery of Federal programs which are already on the books to aid the cities.

17. Civil Rights

The rapid expansion of Federal civil rights guarantees has resulted in a proliferation of agencies and programs designed to carry out these laws. Currently, more than a dozen agencies have principal enforcement responsibilities in this area. There is a need to consolidate Federal civil rights enforcement activity and to insure that it is being effectively carried out.

18. Regulatory Reform

The issue of regulatory reform has moved forward for two years. There is a continuing need for substantive changes in the regulation of a variety of industries such as airlines, trucks, railroads, natural gas, financial institutions, etc. Ford Administration bills have been proposed and some revisions will be prepared before January 20.

19. Olympic Sports

The President's Commission on Olympic Sports will issue its final report by January 15, 1979. It will recommend methods for eliminating disruptive disputes between rival sports federations and explore means for increasing private sector involvement in the financing of Olympic Sports.

20. Water Pollution Control Amendments

The current law governing the national effort to clean up the rivers and lakes (P.L. 92-500) is due for major revision this year. Both the re-assessment of the dates set in original law that are required for attainment of standards, and the extent to which the Federal Government should assume the financial burden of the program will be at issue.

21. Energy

The broad but pressing issue is what additional steps should the nation take to reduce our growing dependence on imported oil and to develop alternative energy sources to replace declining world reserves of oil and natural gas.

THE PRESIDENT HAS SEEN.....

EUROPE

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 01029

Collection/Series/Folder ID No. : 004700009
Reason for Withdrawal : NS,National security restriction
Type of Material : BRP,Briefing Paper(s)
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EAST ASIA

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 01031

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MIDDLE EAST

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 01032

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LATIN
AMERICA

SECRET - GDS

LATIN AMERICA ISSUES

Panama Canal Treaty Negotiations - The United States has been committed since 1964 to Panama Canal negotiations and to an effort to reach a mutually satisfactory agreement. The negotiations are being watched by all Latin America as an indication of our good faith in carrying out our promise to deal with Latin American countries on a basis of "juridical equality" and to resolve differences through negotiation. The most difficult issues remaining to be resolved are the duration of US operation and defense of the canal and the related questions of "post-treaty" defense and neutrality. The Panamanians, thus far, have insisted that the treaty presently being negotiated (i. e., all US rights to operate and defend the canal) must terminate by the year 2000.

Cuba - There is at present no movement toward normalization of relations with Cuba. Castro's activist policies in Africa and the Caribbean (including his promoting the cause of Puerto Rican independence) are inconsistent with the principles of independence and non-intervention. The extension of Cuban influence in Latin America and Cuba's adventuring in Africa, whether self-motivated or as a Soviet surrogate, works to our strategic disadvantage.

Human Rights - The human rights issue has been a particularly troublesome one for us in Latin America since our overriding concern for human rights has impaired our relations with some of the countries in the area with whom our long-term interests would otherwise dictate close cooperation. The Congressional approach to this problem also has reawakened a spectre we have been working hard to put to rest -- unilateral US intervention in the internal affairs of Latin American countries. The question is not whether we should attempt to use our influence in this matter but how to do it so as to maximize possibilities of success and minimize adverse effects on other matters of interest to us.

SECRET - GDS

KR 5/24/88

AFRICA

SECRET

AFRICA

Rhodesia - Following Secretary Kissinger's missions to Africa in April and September, Ian Smith agreed to majority rule for Rhodesia within two years and participation in a conference designed to bring this about. The Rhodesian and the three black nationalist delegations have been meeting in Geneva under British chairmanship since October 28. So far there has been almost no agreement, as the various delegations spar publicly and negotiate privately. A British proposal to set independence for March 1, 1978, or as much as three months sooner if procedures can be completed, has been accepted by the Rhodesian delegation and two of the black ones. The more "radical" third black delegation, however, has rejected it. The conference hopefully will be moving on to the series of issues relating to formation of a transition government. In varying degrees, the Presidents of Rhodesia's black neighboring countries, as well as Prime Minister Vorster of South Africa, have been helpful in supporting the negotiations. Our best estimate is that the will exists to reach a negotiated settlement in Geneva but the hazards are immense and, at a minimum, the process will take time. Our central concern from the outset has been to prevent continuation of an expanding civil war, with all that portends for Soviet/Cuban intervention.

Namibia - Secretary Kissinger also discussed the future independence of this South African controlled territory during his African negotiations. Considerable progress was made toward South African agreement to independence by the end of 1978, and to deal with the United Nations and the principal liberation movement, SWAPO, in the interim. A South African dominated constitutional conference has been meeting for some time in Namibia. The matter at present awaits a statement of the position of the head of SWAPO, who is facing divisions within his own movement. He may wish to strengthen his own position before going to the negotiating table. In the meantime, the U. S. (together with the UK and France) recently vetoed a UN Security Council resolution which would have called for a boycott of South Africa until it grants independence to Namibia. Our position is that progress has been made and the door should be left open for negotiations. There is a basis for optimism that negotiations can be convened in Geneva early next year.

SECRET /GDS

KR 5/24/88

Angola - Approximately 13,000 Cuban troops remain in Angola and the minority government of the country is still fighting insurgent forces -- predominantly in the southern border area. Nevertheless, you have decided to abstain rather than veto Angola's application for UN membership which will very shortly be coming to a vote. The decision reflected: (1) our interest in encouraging cooperation from Angola on the Rhodesian and Namibian issues; and (2) our interest in demonstrating to other African leaders that we are not inflexible and that we do take account of their concerns (the OAU unanimously supports Angolan admission). We will continue to make clear our objection to the Cuban presence.

Horn of Africa - Civil war in Ethiopia and long-standing tension between Ethiopia and Somalia over disputed territory have created a volatile situation in the Horn of Africa that risks further aggravation when the French grant independence late in 1977 to their last remaining African colony, the French Territory of the Afars and Issas (also known by its capital city as Djibouti). We have begun discussions with the French over how we can support their willingness to maintain a small French garrison in Djibouti after independence, primarily as a buffer to Somali and Ethiopian desires to co-opt or conquer the new state. The Soviets have provided substantial military assistance to Somali and are beginning to assist Ethiopia as well. The problems in the Horn could affect the important communication route through the Red Sea, as well as Arab and Israeli interests and the long-term stability of neighboring African states, such as Sudan and Kenya.

Western Sahara - Morocco and Mauritania on the one hand and Algeria on the other have been disputing the status of the so-called Western Sahara, until a year ago a Spanish territory. At stake are immense, marketable phosphate deposits. Morocco and Mauritania have annexed the territory and divided it between them. Algeria has been supporting an independence movement, but has received little backing from the rest of the world. We have tried to stay out of this issue, except that we provide economic and military assistance to the Algerian position in UN debates. There are some indications that the Algerians would like to get out from under this issue, which is economically burdensome and not winning them friends elsewhere.

DEFENSE

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 01033

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ECONOMIC

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 01034

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Description : re economic matters
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INTELLIGENCE

~~TOP SECRET/CODEWORD~~

DECLASSIFIED

E.O. 12356, Sec. 3.4.

MR 89-26, #8, NSC Ltr. 2/21/92
(with NSA and CIA concurrence)
By KBH, NARA, Date 4/14/92

INTELLIGENCE

NSC Semiannual Review - One requirement imposed as a result of your review of the Intelligence Community was an NSC review of the Community and its intelligence product. In setting up this review process, it was determined that, in order to insure the maximum impact on program planning, budget decisions and management policies, the review cycle should be geared to the fiscal year. In any event, at this time, the DCI's Intelligence Community Staff has completed an assessment of the quality of the finished intelligence product and both the Committee on Foreign Intelligence (CFI) and Operations Advisory Group (OAG) have drafted reports for the NSC. These reports will be ready for your review shortly.

Electronic Surveillance - Over the last two years a number of restrictive measures have been taken which have reduced the collection, dissemination and use of foreign intelligence derived from electronic intercept and surveillance. In addition, there is still interest in some quarters in the Congress in additional restrictive legislation. Some intelligence producers and consumers believe these restrictive measures have gone too far. The President's Foreign Intelligence Advisory Board, for example, believes that "in the rush to protect Fourth Amendment rights from encroachments -- real or imagined -- there has been insufficient consideration of the impact the new restrictive measures will have on the Government's ability to protect the full range of rights guaranteed by the Constitution." The Intelligence Community has completed a detailed assessment of the problems and will shortly recommend modifications in the guidelines.

National Foreign Intelligence Program (NFIP) - The Committee on Foreign Intelligence (CFI) has completed its review and approval of the National Foreign Intelligence Program (NFIP) Budget for FY '78 and the program plan for FY '79 through '82. The FY '78 budget level is approximately 14% above last year's request -- representing 7% real growth to meet increasing demands on national intelligence. The program provides for a prudent balance between performance and fiscal risk for strategic overhead reconnaissance programs, much needed modernization of NSA activities, and essential improvement to narrow the gap in indications and warning and support to our operational forces. You are scheduled to review the NFIP budget on Tuesday.

~~TOP SECRET/CODEWORD/XGDS~~