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DOMESTIC COUNCIL STUDY GROUP

Monday, May 6, 1975

2:30 p.m.

The Roosevelt Room



OFFICE OF THE VICE PRESIDENT  
WASHINGTON

May 1, 1975

MEMORANDUM FOR: THE VICE PRESIDENT

FROM: DICK ALLISON

SUBJECT: Material for the President in Preparation  
for the Anticipated Meeting of the Domestic  
Council

1. Attached is the final draft of a two-part memo for the President requesting approval of a Domestic Council meeting at a date to be specified. The memo furnishes:

a. Digests of Domestic Council members' estimates of national domestic needs and major policy problems (TAB A);

b. A suggested summary of about 12 commonly identified national needs, grouped within a proposed conceptual framework for national policy (TAB B).

2. Under separate cover, I have prepared a copy of the same memo which is cross referenced to the digests of the original documents prepared by Domestic Council members.

Attachment





THE VICE PRESIDENT  
WASHINGTON

April 30, 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT  
FROM: THE VICE PRESIDENT  
SUBJECT: Domestic Council Meeting

I. BACKGROUND

1. On February 27, with your approval, I invited the members of the Domestic Council to prepare estimates of our national domestic needs and major policy problems. I have reviewed their replies and enclose them in digest form at TAB A.

2. In the course of reading these replies, I was struck by about a dozen needs and problems which, in differing language and with varying emphasis, Domestic Council members seem to agree upon.

3. At TAB B, I have related these estimates of needs and problems to a conceptual framework that perhaps might be useful to you in shaping the goals and directing the course of our Nation. This conceptual framework has four aspects:

- I - Our Strength and Vitality as a Nation in an Interdependent World of Accelerating Change
- II - The Strength of Our Free Enterprise System and the Impact on It of Government Regulation and Intervention
- III - The Structure and Function of Our Federal System as the Framework for Individual Freedom and National Purpose
- IV - The Quality of Our National Life for Individuals and for Society

4. I suggest that, after you have reviewed these estimates of national needs and policy problems, you may want to convene a meeting of the Domestic Council in order to identify and select those topics which merit in-depth study and analysis by Domestic Council review groups.

The results of these analyses could provide the keystones of Administration strategy for the next 20 months.

## II. RECOMMENDATION

That you call a meeting of the Domestic Council for \_\_\_\_\_  
at \_\_\_\_\_ in order to:

- a. Select policy issues for further study;
- b. Establish appropriate Domestic Council review groups.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

### Attachments:

TAB A - Digests of Department and Agency Estimates of  
Major National Needs and Policy Problems

TAB B - Conceptual Framework and Summary Inventory of  
Major National Needs and Policy Problems



DIGESTS OF ESTIMATES OF  
MAJOR NATIONAL NEEDS AND POLICY PROBLEMS  
AS MADE BY:

ACTION AGENCY

DEPARTMENT OF AGRICULTURE

DEPARTMENT OF COMMERCE

COUNCIL OF ECONOMIC ADVISERS

COUNCIL ON ENVIRONMENTAL QUALITY

ECONOMIC POLICY BOARD

ENERGY RESOURCES COUNCIL

ENVIRONMENTAL PROTECTION AGENCY

DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

DEPARTMENT OF THE INTERIOR

DEPARTMENT OF JUSTICE

DEPARTMENT OF LABOR

DEPARTMENT OF TRANSPORTATION

DEPARTMENT OF THE TREASURY

VETERANS ADMINISTRATION

## ACTION AGENCY

- I. Design programs in special motivational categories for community placement of full-time volunteers, supported by federal manpower money, superior to any other public manpower programs.

### Examples

1. Seek expanded funding for PLS (Program for Local Service) and FGP (Foster Grandparents);
2. Seek expanded funds for "career assistance" to locally recruited low-income VISTA volunteers;
3. Ask for the amendment of basic legislation so as to obtain community contributions to programs costs, and to allow communities to tap revenue sharing monies for that purpose.

## DEPARTMENT OF AGRICULTURE

- I. Agricultural Production and Farm Income
  1. Decontrol production
  2. Provide income safeguards sufficient for investment incentives
  3. Assume adequate availability of fuel, fertilizers etc.
- II. Food Assistance for Welfare Purposes
  1. Redefine poverty more rationally, realistically and comprehensively
  2. Design a comprehensive national welfare strategy
  3. Better coordinate the many federal welfare assistance programs
  4. Reform USDA food-assistance programs and make them more cost-effective
  5. Get better data on the nature and extent of poverty-caused hunger and malnutrition in the U.S.
- III. An Efficient and Responsive Agricultural Marketing System
  1. Eliminate unproductive and inhibiting regulatory policies and procedures
  2. Create a competitive economic climate favorable to efficiency-increasing technological and institutional change
- IV. Land Use Policy and Planning
  1. Better coordinate federal, state and local efforts for wiser land use planning
  2. Achieve reasonable cost-benefit-risk trade-offs of environmental protection regulations related to land-use

DEPARTMENT OF COMMERCE

1. Revitalize the economy by enhancing the climate for private investment
2. Protect and stimulate the free market
3. Achieve balance between environmental and economic needs
4. Arrest the growth of government
5. Initiate an ocean policy study
6. Formulate statement on national tourism policy
7. Review institutional framework for science policy formulation and coordination within the Executive Branch
8. Improve capability to anticipate climate changes and their impact on food production
9. Produce statistical data illuminating emerging domestic problems in more detail

## COUNCIL OF ECONOMIC ADVISERS

### I. Stability and Economic Growth

1. Demand Management - Stimulate economic recovery without relapsing into inflation.
2. Expenditures policy - establish firm priorities to govern allocation of tax revenues, "both between the various expenditure programs and between outlays and future tax reductions."
3. Tax policy - Consider indexing income tax deductions and brackets, "so that in real terms the income tax an individual pays is invariant with the rate of inflation."
4. Regulatory reform.
5. Long-term growth - more systematic policy formulation.
6. Restoration of business investment to a more adequate level.

### II. Natural Resources

1. Examine and improve benefit-cost ratios for major environmental regulations.
2. Improve incentives to polluters to make changes in production and consumption techniques that would reduce pollution.
3. Deregulate natural gas.
4. Create adequate emergency petroleum supplies.
5. Coordinate energy policy and policy announcements.

### III. Human Resources

1. Income transfers:
  - Negative income tax;
  - Single-agency, simplified-eligibility welfare delivery systems.
2. Food stamps - modifications to make more efficient and equitable.
3. Health care - re-think national health care policies.
4. Unemployment insurance - reform.
5. Social security - refinancing.
6. Child care - reform.

### IV. Agriculture

1. Decontrol, while maintaining investment incentives;
2. Agricultural research.

COUNCIL ON ENVIRONMENTAL QUALITY

1. Environmentally acceptable development of domestic energy supplies.
2. Create a comprehensive regulatory structure to protect health from the effects of chemicals in the environment.
3. Improve land-use patterns to forestall economically and environmentally costly pollution.
4. Materials and energy conservation through resource recovery.
5. Adequately funded, efficient and environmentally protective public lands management.
6. Expanded ecological research for pollution control and resource management.

## ECONOMIC POLICY BOARD

1. Adequate capital formation to meet future requirements.
2. Re-examination (with a view towards reducing):
  - the size of the public sector of the economy;
  - the amount and type of government regulation of the private sector;
  - the role and dimension of economic planning.
3. Assessment of the economic consequences of a declining birth-rate and an aging population.
4. International economic inter-dependence.
5. Responding to critical scarcities.

ENERGY RESOURCES COUNCIL

1. Reduce national vulnerability through the reduction of petroleum imports.
2. Restrain energy demand and eliminate waste.
3. Increase energy supplies through exploitation and technological development.

ENVIRONMENTAL PROTECTION AGENCY

1. Development of a national land-use policy.
2. Reassessment of federal-state relations in light of the shift from categorical to block-grants.
3. Development of a coordinated urban transportation policy.
4. A more precise definition of the federal role in energy conservation programs.
5. Establishment of policy regarding the development of western energy resources.
6. Establishment of policy regarding the development of the outer continental shelf oil and gas reserves.
7. Establishment of policy regarding nuclear energy development.

DEPARTMENT OF HEALTH, EDUCATION AND WELFARE

1. Provide adequate income security through welfare reform and the resolution of Social Security financing.
2. Achieve equal access to human development activities, especially a comprehensive health insurance policy and a strategy for dealing with disability.
3. Achieve a more coherent and better coordinated delivery system for human services.

DEPARTMENT OF THE INTERIOR

1. Initiatives for energy independence
  - a. Discourage consumption and imports through price supports;
  - b. Conservation;
  - c. Increase energy supply from secure domestic sources.
2. Increase federal aid to the states for acquisition, development and operation of parks.
3. Create greater opportunities for self-determination for Indians.
4. Create a Department of Energy and Natural Resources.
5. Strengthen land-use planning procedures and institutions at the state level.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

1. Provide a realistic home ownership option for the majority of Americans.
2. House lower-income families.
3. Protect the consuming public.
4. Encourage and assist community development.

## DEPARTMENT OF JUSTICE

- I. A National Anti-Crime Program:
  - a. Reform of the Federal Criminal Code
  - b. Career Criminal Program
  - c. White collar crime and official corruption
  - d. Handgun control
  - e. Federal assistance to state and local criminal justice systems
  - f. Drug enforcement
  
- II. Minority Rights - Major Issues:
  - a. Extension of the Voting Rights Act of 1965
  - b. Cross-district busing
  - c. Retroactive seniority for minority employees
  - d. Indian rights
  
- III. The Right of Privacy - Major Issues:
  - a. Restriction on dissemination of criminal justice information
  - b. Development of standards to guide the acquisition, retention and dissemination of information by the F.B.I.
  
- IV. Major Economic Issues:
  - a. Foreign investment in the United States
  - b. Deregulation of surface and air transportation
  - c. Federal repeal of state fair-trade laws
  - d. No-fault insurance
  - e. Illegal aliens

DEPARTMENT OF LABOR

1. Better economic data and analyses.
2. Adjustment of unemployment insurance and manpower services to better meet the special problems of specific groups, areas and industries.
3. Welfare reform.
4. Ways of coping with the increasing number of illegal immigrants.
5. Vocational training and job placement.
6. Public sector collective bargaining.
7. Improved farm labor relations and farm labor standards.
8. How to deal with newly discovered occupational health and safety standards.
9. Workers' compensation reform.
10. Social security and private pensions: financing of increased costs and fairer sharing of private pensions subsidies.
11. Equal employment opportunities - evaluation of the effectiveness of present programs.

DEPARTMENT OF TRANSPORTATION

1. Revitalization of the railroad industry.
2. Effecting sound trade-offs among safety, economic, energy and environmental objectives in automobiles.
3. Modernizing economic regulation in transportation.
4. Promoting effectiveness in urban transportation.
5. Supporting no-fault automobile insurance.

DEPARTMENT OF THE TREASURY

1. Fiscal and monetary stability.
2. Encouragement of capital investment.
3. Achievement of energy independence.
4. Increased productivity through investment and regulatory reform.
5. Fulfilling society's welfare goals in reducing poverty and social problems.
6. Rehabilitation of Inter-governmental Relations.

## VETERANS ADMINISTRATION

1. Preparation of the veterans' health care system for the advent of national health insurance.
2. Evaluation of the impact of the \$36,000 salary ceiling on the VA medical program.
3. Evaluation of the impact on VA workload of the economic downturn.
4. Training disadvantaged veterans.
5. Job placement of the disabled.
6. Timely payment of veterans' benefits.
7. The impact of automation on veterans compensation, pension and education programs.
8. Better coordination of VA and other Federal, State and local programs, as they affect veterans.
9. Termination of Vietnam-era veterans benefits.
10. Expansion of the national cemeteries.
11. Provisions for addressing problems of morale and hostility to the Agency.



CONCEPTUAL FRAMEWORK AND SUMMARY INVENTORY OF MAJOR NATIONAL NEEDS  
AND POLICY PROBLEMS

## A. A CONCEPTUAL FRAMEWORK

A number of common themes emerge from the digests of Department and Agency reports in the preceding section. These themes reflect the central elements of a conceptual framework for our concerns as individuals and as a Nation. These central elements are:

### I. Our Strength and Vitality as a Nation in an Inter-dependent World of Accelerating Change

- The foundations of our national strength and vitality are unmistakable; they are:

- our unity of purpose;

- our over-riding concern for the individual as the ultimate source of political power and the ultimate purpose for the existence of national policy;

- our fidelity to the ethical principles of freedom and democracy.

- It is these foundations which determine:

- our ability to meet the needs of our people at home and to fulfill our international responsibilities as the leading free nation in the world;

- the strength of our economy;

- the way in which our economy and the structure and functioning of our government are interrelated;

- the methods by which the working-out of this inter-relationship accomplishes the objectives of our national economic and social policies.

### II. The Strength of Our Free Enterprise System and the Impact on It of Government Regulation and Intervention

- Our free enterprise economy is responsible directly and indirectly for generating 85% of the tax revenues that sustain the cost of government. Our free enterprise economy is thus the engine of our political and social system.

- To maintain itself, our free enterprise economy requires adequate capital for investment, sufficient supplies of energy and raw materials, a secure and reliable transportation network, and, above all, a framework of laws within which our economy can operate and make commitments for the future with some certainty;

- This framework of laws reflects our dedication to liberty, equality and freedom of choice. This framework is the ultimate manifestation of our concern for the quality of our society and our environment;

- The danger lies in the transformation of a nation governed by clear, reasonable and equitably enforced laws into a society ruled by proliferating, constantly changing, individually interpreted and often arbitrarily enforced regulations;

- This evolution from a government of laws to government by regulations will inevitably:

- Accelerate the centralization of power, weaken State and local government as central components of our federal system, and ultimately transform government into society's master rather than its servant;

- Stifle individual creativity, energy and initiative, leading to the destruction of our free-enterprise economy and to a loss of self-confidence and self-respect;

- Erode and ultimately destroy the two fundamental ingredients of liberty:

- freedom of choice;

- the belief that there is a reasonable chance that one's choice will make some difference.

### III. The Structure and Function of the Federal System as the Framework for Individual Freedom and National Purpose

- The genius of our federal system lies in:

- its separation of powers between the Executive, Legislative and Judicial branches of government; and

- its division of powers between the Federal, State and local levels of government;

- This double allocation of powers is an important guarantee of individualism and diversity within a framework of national unity;

- This American combination of unity and diversity is unique; it provides for the maximum freedom and opportunity for individual creativity, energy and initiative;

- These qualities of individual freedom within a framework of laws, sustained and nourished by our federal system, are the dynamic force behind our economic strength and the unparalleled prosperity of our free enterprise system.

#### IV. The Quality of Our National Life for Individuals and for Society

- Our social system rests on the assumption that government will do only those things for people which they cannot do for themselves;

- The danger is that too much government intervention and too many social programs will, because of their costs, depress the dynamism of our free-enterprise economy;

- This vast inventory of attempted short-term solutions to our social problems, concocted in an atmosphere of continuing emergency, without sufficient concern for their long-term implications for our federal system and free enterprise economy, will lead to the breakdown of our society as we know it.

B. WITHIN THIS CONCEPTUAL FRAMEWORK, A SUMMARY OF MAJOR NATIONAL NEEDS AND POLICY PROBLEMS

1. The conceptual framework just outlined provides a reference point for evaluating the estimates of national domestic needs and major policy problems which the Departments and Agencies have furnished and which have been prepared in digest form at TAB A, above.

2. What follows is a summary of those estimates of needs and problems within the terms of the conceptual framework just presented.

3. The result is an organized inventory of policy objectives and options which could merit in-depth study and analysis by Domestic Council review groups.

I. Our Strength and Vitality as a Nation in an Interdependent World of Accelerating Change

- To make America's bicentennial:

- A time for celebration of the magnificent achievements of two hundred years of social and economic history;

- A time for inspiration and rededication to the spirit and ideals which are the foundation of our Nation and our democracy;

- A time for gathering together:

- Our citizens, joining one another throughout the Nation in ceremonies of reunion and renewal;

- Our thoughts, of what we as a people have accomplished and of what tasks remain as yet undone;

- Our hopes, for strength in the face of a future fraught with grave dangers as well as astounding opportunities;

- Our determination

- Not to rest upon what we have done;

- Not to shrink before what lies ahead;

- But, with courage, intelligence and compassion, to advance as a people blessed in freedom.

- In planning our bicentennial:

- to capture, in word and in event, the essence of America's past;

- to set forth anew, perhaps in a modern version of the Federalist Papers or some similar document, our goals for the future and the course we shall set to achieve them.

## II. The Strength of Our Free Enterprise System and the Impact on It of Government Regulation and Intervention

In general, to determine the best method of ensuring that America's economic strength will be able to provide the level of quality of life for individuals and for society that we as Americans desire.

In particular, in the areas of

### 1. Capital Formation:

- To ensure the formation of sufficient capital to increase productivity and to meet present and future needs;

- To recognize and meet the need to divert a larger percentage of the Gross National Product to capital formation.

### 2. Coordinated Energy and Resource Policy:

- To formulate a coherent and coordinated energy and resources policy that is consistent with sound economic and ecological objectives;

- To consider and coordinate all of the regulatory issues involved in any proposed energy and energy-related projects, with special attention to their impact on entrepreneurial initiative;

- To consider the appropriate organization for achieving energy and resources goals.

### 3. The Economic Impact of Regulation:

- To design procedures and mechanisms for balancing environmental and other regulations with their social and economic costs, especially in terms of their possible negative social impact on individual and entrepreneurial initiative and creativity;

- To thoroughly analyze the impact of present Federal environmental programs, and, if warranted, to formulate a series of policy options for restructuring existing policies and procedures in specific respects.

4. Reducing the Impediments and Uncertainties of Conflicting, Changing and Overlapping Regulations:

- To simplify and clarify government regulations, thus reducing their inhibiting effect on the operation of our free market economy, by thoroughly reviewing and, when necessary, streamlining direct and indirect government regulatory policies;

- To consider the replacement of regulations by a system of rewards and incentives in appropriate industries and other economic activities.

5. Agricultural Decontrol with Income Safeguards:

- To decontrol agricultural production while providing income safeguards and other investment incentives;

- Thereby developing and maintaining an economic climate favorable to:

- Technological and institutional improvements;

- Assurance of adequate fuel and fertilizer supplies.

6. Transportation:

- To develop a coordinated and integrated overall passenger and freight policy in the following aspects:

- Auto

- Bus

- Truck

- Rail

- Air

- Sea

7. Income-Tax Indexing:

- To review the desirability of indexing income tax deductions and brackets so that, in real terms, the income tax an individual pays does not vary with the rate of inflation.

III. The Structure and Function of Our Federal System as the Framework for Individual Freedom and National Purpose

1. The Intrusiveness of the Federal Government:

- To examine ways to reduce the impingement of the Federal government on;

- the management and operation of State and local government;

- public and private entrepreneurial activity.

2. New Mechanisms for Government:

- To examine new frameworks for entrepreneurial activity, designed to accomplish broad objectives in the public and private sectors by combining maximum autonomy, initiative and creativity within a framework of law and policy guidance.

3. The Relationship of Federal, State and Local Government:

- To re-determine the allocation of responsibility and authority for certain functions of government, and the removal of overlapping and redundant authority and responsibility;

- To assess the impact of the reduction of categorical in favor of block grants;

- To develop coordinated policies and procedures for land-use planning and land-use management.

IV. The Quality of Our National Life for Individuals and for Society

1. Social and Economic Assistance:

- To develop a set of positive administrative and legislative policies and procedures to improve, consolidate and rationalize:

- a. Alternatives for health financing and delivery;
- b. Alternatives for restructuring or replacement of Federal programs of income assistance, including:
  - (1) AFDC (Assistance to Families with Dependent Children);
  - (2) Unemployment insurance;
  - (3) Social Security;
  - (4) Food Stamps and all related nutritional programs;
  - (5) The new 10% "earned income credit;"
- c. Possible approaches to consolidating existing categorical grant programs, including a rethinking and possible redivision of responsibilities among the Federal, State and local governments.

2. Social Indicators:

- To determine the feasibility of a periodic reporting system on selected aspects of the State of the Nation, through a series of statistical readings and interpretive comments on where we are now and where we are going as a Nation and as a society.

3. National Public Opinion and Morale:

- In conjunction, to determine the feasibility of a procedure for quickly sampling national public opinion and morale.

4. Marketability of Administration Proposals:

- To determine the feasibility of a plan for increasing the effectiveness of communication by the Administration with the public on major Administration proposals.



THE VICE PRESIDENT  
WASHINGTON

May 2, 1975

MEMORANDUM FOR: THE PRESIDENT  
FROM: THE VICE PRESIDENT  
SUBJECT: Domestic Council Review Group: Energy and Resource Policy and Finance

In response to your suggestion at our meeting on March 6 on the need to develop a program of positive action to meet the unemployment problem through the revitalization of the private enterprise system, you asked me to develop, with members of the Domestic Council, a more specific proposal.

What follows is a broad outline of a proposal developed out of my consultations with the following members of the Domestic Council:

The Secretary of the Treasury  
The Secretary of Commerce  
Director, Office of Management and Budget  
Administrator of the Federal Energy Administration  
Chairman of The Council of Economic Advisers  
Counsellor to the President for Economic Affairs  
Assistant to the President for Domestic Affairs  
Deputy Director of the Domestic Council

ENERGY AND RESOURCE POLICY AND FINANCE

The United States is at a crossroads. With high unemployment, this Congress is responding by passing a series of large-scale government programs that are adding substantially to the Federal deficit without increasing our productivity or improving our competitive position in the world.

The challenge before the nation is to devise a program:

- to strengthen the free enterprise system;
- to stimulate the economy and increase its productivity;
- to create productive jobs; and

- to achieve self-sufficiency in energy and raw materials while at the same time helping to restore confidence in government's ability to act effectively and confidence in the capacity of our free enterprise system to meet the people's needs.

This could be accomplished by legislation to create an energy and resource policy and finance corporation.

The prospects for tomorrow, for the years ahead, are far from promising -- unless action is taken now to meet the situation.

Action can be taken effectively -- action that recognizes the interrelationships of all these critical elements -- action that can help meet the urgencies for today and the needs of tomorrow.

#### Objectives:

A key to the whole effort is a self-liquidating financing vehicle sponsored and chartered by the Federal government that can:

1. Achieve the President's goal of energy self-sufficiency by 1985;
2. Assure adequate supplies of essential raw materials or their substitutes;
3. Assure the provision of essential transportation services;
4. Have the capacity to finance the conversion of vacant or underutilized plants to produce materials essential to achieve the above.

#### Operations:

The operation of this corporation will be to make investments in the capital facilities and equipment needed to achieve the foregoing objectives, and to do so through guarantees, loans, equity investments, construction or purchase, and lease or sale or other financing mechanisms.

#### Financing:

Initial capitalization of up to \$5 billion through the sale of common stock to the United States Treasury.

Authorization to issue up to \$200 billion in government-guaranteed obligations.

These obligations would be available for purchase by foreign, as well as domestic, investors.

Powers:

The corporation would have the broadest powers, on a self-liquidating basis, to carry on its operations and to establish subsidiary corporations for special purposes.

Organization:

Management of the corporation would be vested in a Board of Directors consisting of five (5) persons appointed by the President, by and with the advice and consent of the Senate. Of the five, all of whom would serve full-time, in staggered terms, not more than three could be members of any one political party and not more than one could be from each Federal Reserve district.

Termination:

The authority of the corporation to make investments or to make new financing arrangements will terminate ten years after its establishment.

\* \* \*

At meetings this morning with:

The Secretary of State  
The Secretary of Commerce  
The Chairman of the Federal Reserve System; and

David Packard, Chairman of the Business Council  
George Woods, Former President of the World Bank

I went over the above outline. It was our unanimous feeling that there is tremendous potential in the project, but that the concept should be amplified, with specific illustrations of how such a corporation would function.

RECOMMENDATION:

It was the unanimous feeling of this group that a Domestic Council review group be formed, on a very confidential basis to avoid leaks, to accomplish this. Treasury, Commerce and the Federal Reserve Bank have each agreed to assign a top staff person for this purpose, and we would add someone from Labor and OMB, together with Bill Seidman and Frank Zarb.

David Packard has agreed to get together a top group from business, industry, and finance to meet with me confidentially at the Business Council Conference a week from today in Hot Springs, West Virginia, to get their thought on the subject.

Target date for a report back to you is May 16, 1975.

This initiative might well be the basis of a major address to the nation by you in the latter part of this month, in which you outline:

- Your vision for the future of America;
- Your confidence in the tremendous opportunities that lie ahead;
- What is necessary for us in order to restore the people's faith in the future of America.

DECISION:

APPROVE \_\_\_\_\_

DISAPPROVE \_\_\_\_\_



THE VICE PRESIDENT  
WASHINGTON

May 2, 1975

MEMORANDUM FOR: The Secretary of the Treasury  
The Secretary of Commerce  
The Secretary of Labor  
Director, Office of Management and Budget  
Chairman, Federal Reserve System  
Administrator of the Federal Energy Administration  
Chairman of the Council of Economic Advisers  
Counsellor to the President for Economic Affairs  
Assistant to the President for Domestic Affairs  
Deputy Director of the Domestic Council

FROM: THE VICE PRESIDENT *had R*

SUBJECT: Domestic Council Review Group: Energy and Resource  
Policy and Finance

The President has directed proceeding with the proposal we have been considering for positive action to meet the unemployment problem and our energy needs by strengthening the private enterprise system. As a next step, the President has asked for specific illustrations of how this project would work.

BACKGROUND:

The United States is at a crossroads. With high unemployment, this Congress is responding by passing a series of large-scale government programs that are adding substantially to the Federal deficit without increasing our productivity or improving our competitive position in the world.

The challenge before the nation is to devise a program:

- to strengthen the free enterprise system;
- to stimulate the economy and increase its productivity;
- to create productive jobs; and
- to achieve self-sufficiency in energy and raw materials

while at the same time helping to restore confidence in government's ability to act effectively and confidence in the capacity of our free enterprise system to meet the people's needs.

The prospects for tomorrow, for the years ahead, are far from promising -- unless action is taken now to meet the situation.

Action can be taken effectively -- action that recognizes the interrelationships of all these critical elements -- action that can help meet the urgencies for today and the needs of tomorrow.

OBJECTIVES:

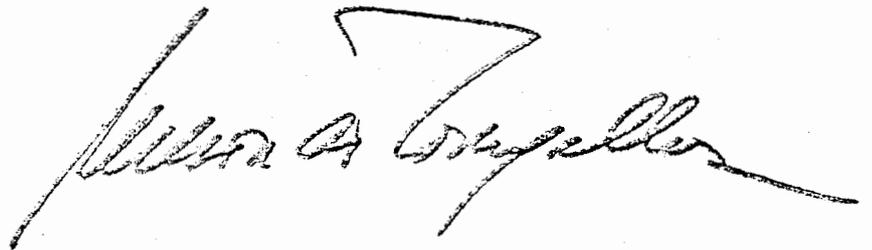
1. To achieve the President's goal of energy self-sufficiency by 1985;
2. To assure adequate supplies of essential raw materials or their substitutes;
3. To assure the provision of essential transportation services;
4. To have the capacity to finance the conversion of vacant or under-utilized plants to produce materials essential to achieve the above.

The study will be prepared by the Domestic Council staff in cooperation with appropriate representatives of your departments.

The study will be completed by May 14, 1975, for review by the Vice President prior to its consideration by the President.

FIRST WORKING MEETING

You and/or your representative are invited to attend the first working meeting of this Domestic Council Study Group; the meeting is scheduled for Monday, May 5th in the Roosevelt Room in the White House at 2:30 P.M.

A handwritten signature in dark ink, appearing to read "Nelson A. Rockefeller". The signature is written in a cursive style with a large, prominent initial 'N' and 'R'.

THE WHITE HOUSE  
WASHINGTON

May 3, 1975

JMC:

Attached is the material  
Jim Allison asked me to  
dex up to the Vice President.

p.

*Jim Cannon*

OFFICE OF THE VICE PRESIDENT  
WASHINGTON

May 3, 1975

MEMORANDUM FOR: THE VICE PRESIDENT  
FROM: DICK ALLISON  
SUBJECT: Draft Agenda: Domestic Council  
Review Group - Energy and Resource  
Policy and Finance

After conversations this morning with Jim Cannon and Dick Dunham, I have prepared and attached for your review a first working draft of an agenda for the review group's first meeting next Monday afternoon.

Attachment

FIRST WORKING DRAFT

DOMESTIC COUNCIL REVIEW GROUP - ENERGY AND RESOURCE POLICY AND FINANCE

Monday, May 6, 1975

2:30 p.m.

The Roosevelt Room

The White House

I. Purpose of the study: Presentation by the Vice President:

- The concept: meeting the unemployment problem and our energy needs by strengthening the private-enterprise system;
- The proposal: a corporation for energy and resource policy and finance:

II. Study Objectives: Specific illustrations of how the project would work (examples to be outlined by the Deputy Director of the Domestic Council):

- 1 billion barrel oil storage capacity (\$1 billion)
- 100 atomic energy plants (\$100 billion)
- conversion of electricity plants from oil to coal (\$10 billion)
- low-sulphur coal surface mining (\$1 billion)
- gas (including R&D) (\$10 billion)
- road-bed repair and new railroad cars to transport coal (\$10 billion)
- suspension-transmission of liquified coal
- purchase and maintenance of rights of way

- mining technology
  - coal liquification and gasification (in situ)  
(example of Kentucky state-private syndicate)
- production of aluminum from sand and clay
- conversion of idle plants to make equipment in short supply (\$1 billion)
- oil pipe and new connection pipelines  
(example in Alaska of need for 1 to 2 more pipelines; 2 1/2 billion barrel capacity) (\$0.5 billion)
- long-term projects (e.g., solar energy); venture-capital subsidiary corporation

III. Timetable (attached)

Attachment

TIMETABLE

(first working draft)

- May 14 - Submit study to the Vice President
- May 16 - Submit study to the President
- Week of May 23 - Presidential Address, and submit  
legislation to Congress
- June 1 - August 1 - Enactment of enabling  
legislation
- June 1 - August 1 - Discussions with investors
- August 1 - Establishment of the corporation

[5/5/75]

~~Surgu~~  
The Industrial Development Bank

I. Purpose -- to perform investment banking function to finance critical national industrial development in areas where capital is inadequate.

- o Emphasis on capital financing, creation of productive jobs.
- o Replacement of existing agencies. (?)

II. Philosophy

- o Analogous to state and community development corporations.
- o Addresses agreed-upon national economic problems and priorities.
- o Provides a means to solve critical capital formation problems in essential industries.

III. Structure

Ownership

Government owned  
Joint government and private  
Private (including staff?)  
International participation

Control

Administration approval or veto  
Congressional involvement  
Selection of "critical" industries

IV. Operations

Type

Direct loans  
Guarantees  
Equity participation

Emphasis -- Should be on banking functions not on R&D, grants or subsidies.

Need is for expansion and modernization of capital equipment.

Loan Priorities

Critical shortages  
Critical financing needs of essential industries  
(Financing off-shore projects related to U.S. shortages) (?)

V. Financing

Source of Funds

- o Federal -- loans or guarantee
- o Institutions
- o Corporations
- o General public
- o Foreign investors

Methods of Raising Funds

- o Appropriations
- o Debt securities
- o Stock
- o Combination

VI. Term

5 years, unless extended

MAY 6, 1975

ENERGY AND RESOURCE POLICY AND FINANCE

The United States is at a crossroads. With high unemployment, this Congress is responding by passing a series of large-scale government programs that are adding substantially to the Federal deficit without increasing our productivity or improving our competitive position in the world.

The challenge before the nation is to devise a program:

- to strengthen the free enterprise system;
- to stimulate the economy and increase its productivity;
- to create productive jobs; and
- to achieve self-sufficiency in energy and raw materials

while at the same time helping to restore confidence in government's ability to act effectively and confidence in the capacity of our free enterprise system to meet the people's needs.

This could be accomplished by legislation to create an energy and resource policy and finance corporation.

The prospects for tomorrow, for the years ahead, are far from promising -- unless action is taken now to meet the situation.

Action can be taken effectively -- action that recognizes the interrelationships of all these critical elements -- action that can help meet the urgencies for today and the needs of tomorrow.

Objectives:

A key to the whole effort is a self-liquidating financing vehicle sponsored and chartered by the Federal government that can:

1. Achieve the President's goal of energy self-sufficiency by 1985;
2. Assure adequate supplies of essential raw materials or their substitutes;

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A

3. Assure the provision of essential transportation services;
4. Have the capacity to finance the conversion of vacant or underutilized plants to produce materials essential to achieve the above.

Operations:

The operation of this corporation will be to make investments in the capital facilities and equipment needed to achieve the foregoing objectives, and to do so through guarantees, loans, equity investments, construction or purchase, and lease or sale or other financing mechanisms.

Financing:

Initial capitalization of up to \$5 billion through the sale of common stock to the United States Treasury.

Authorization to issue up to \$200 billion in government-guaranteed obligations.

These obligations would be available for purchase by foreign, as well as domestic, investors.

Powers:

The corporation would have the broadest powers, on a self-liquidating basis, to carry on its operations and to establish subsidiary corporations for special purposes.

Organization:

Management of the corporation would be vested in a Board of Directors consisting of five (5) persons appointed by the President, by and with the advice and consent of the Senate. Of the five, all of whom would serve full-time, in staggered terms, not more than three could be members of any one political party and not more than one could be from each Federal Reserve district.

Termination:

The authority of the corporation to make investments or to make new financing arrangements will terminate ten years after its establishment.

DOMESTIC COUNCIL REVIEW GROUP - ENERGY AND RESOURCE POLICY AND FINANCE

Monday, May 6, 1975

2:30 p.m.

The Roosevelt Room

The White House

I. Purpose of the study: Presentation by the Vice President:

- The concept: meeting the unemployment problem and our energy needs by strengthening the private-enterprise system;
- The proposal: a corporation for energy and resource policy and finance:

II. Study Objectives: Specific illustrations of how the project would work (examples to be outlined by the Deputy Director of the Domestic Council):

- 1 billion barrel
- oil storage capacity
- 100 atomic energy plants
- conversion of electricity plants from oil to coal
- low-sulphur coal surface mining
- gas (including R&D)
- road-bed repair and new railroad cars to transport coal
- suspension-transmission of liquified coal
- purchase and maintenance of rights of way

- mining technology
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(example of Kentucky state-private syndicate)
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(example in Alaska of need for 1 to 2 more pipelines; 2 1/2 billion barrel capacity)
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*CLEAN AIR WATER*

*Water*

*RR?*

*enriched uranium?*

*GAS in industrial states*

- mining technology:
  - coal liquification and gasification (in situ)  
(example of Kentucky state-private syndicate)
- production of aluminum from sand and clay
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[5/6/75]

SUBJECT: The Energy and Resources Problem and  
New Energy and Related Resource Development  
Initiatives

I. Introduction

A. Purpose

The purpose of this memorandum is to establish a review group to provide an updated assessment of the energy and related resource development problem so that a decision can be made on whether any major new energy policy initiatives should be proposed at this time.

The following tasks are discussed in this memorandum for a possible agenda:

1. Should the United States have a detailed, comprehensive resources development plan beyond the present one to achieve your energy independence, and economic development objectives?
2. Should the government take the necessary steps to allocate capital resources into the related economic sectors?
3. To achieve the proper allocation. . . .
  - a. Should the Administration propose changes in the tax system which discriminate in favor of energy?
  - b. Should a major program for government guarantees of energy-related debt be developed?
  - c. Should the Federal Government take steps to encourage financial institutions to invest a larger percentage of their funds in energy?
  - d. Should the Federal Government take steps necessary to channel significantly increased amounts of capital into new energy technology developments?
  - e. Should the Federal Government create an independent corporation to plan, finance and expedite attainment of the Nation's economic development goals?

## B. The Problem

Recently, energy independence goals were established and the development of domestic energy resources, the conservation of energy and the establishment of strategic energy reserves were argued as the Nation's first priority.

To achieve the necessary levels of domestic energy supply by 1985, it has been estimated that a total of \$500 billion to \$1 trillion of energy-related capital investment will be needed. Although there is no single estimate about which anyone is confident, we do think that this is a reasonable range of possibilities. To attain the goals which were established, the Nation requires many major new facilities. Your announced targets include

- 200 nuclear power plants
- 250 coal mines
- 150 coal-fired power plants
- 30 oil refineries
- 20 synthetic fuel plants
- many thousand oil and gas wells

While these are merely targets which may change over time, they do indicate generally that massive amounts of capital will be required for a comparable set of facilities and for other important investments, such as hydro-power installations, nuclear fuel production plants, pipelines and new railroad tracks and coal cars.

At present, no detailed energy plan exists which establishes yearly and regional goals for progress in new investment for domestic energy resources development and, consequently, it is difficult to identify and quantify the precise problems involved in achieving the energy independence goals. However, there is a general sense that many roadblocks continue to stand in the way of success.

For example, the investor-owned electric utility industry is in serious financial difficulty. Although there is no longer the imminent threat of bankruptcy or passing of a stock dividend, a basic recovery in bond ratings or stock valuations has not taken place. One indication

of the continuing nature of the financial problem is the discount of stock price from book value. At the end of February, only 16 of the largest 105 electric companies had stock valued at or greater than book value. Common stocks of the remaining 89 companies were selling at prices equal to approximately 70% of book value.

A semblance of financial stability has been achieved by a significant cut-back in capital expenditures. In 1974 there were 235 coal and nuclear plants delayed or cancelled, representing 114,000 megawatts of nuclear capacity and 74,000 megawatts of coal. Financing problems were indicated as the primary or contributing cause of nearly 70% of the nuclear cancellations and deferrals and 45% of the coal plant decisions. As a result, financing problems have jeopardized the Nation's energy objectives and the adequacy of further electricity availability.

### C. Current Administration Initiatives

In approaching the problem of how to achieve the energy independence goals, the Administration has assumed that the Government has a major role to play in eliminating any critical roadblocks and in providing the necessary incentives.

Initial steps toward the energy goals as outlined in the State of the Union Message, the Omnibus Energy Bill - primarily dealing with import curtailment, conservation, regulatory improvement and strategic reserves - have been taken. In addition, the proposed fiscal 1976 budget provides for total outlays for energy of over \$2 billion.

However, the assurance of new capital investment in energy and the construction of new energy-related projects may be required to achieve progress toward the goals.

## II. #1: Establishment of a Detailed Ten Year Plan for Energy Related Resource Development

It is apparent that the Federal Government does not have a plan which provides detailed targets for energy activities and investment by region on a year-to-year basis. If one asks, for example, how much new nuclear capacity should

should be under construction in the Southeast by 1977 in order to achieve the 1985 goals, a reasoned answer does not exist. However, without an answer, it is difficult - if not impossible - to anticipate bottlenecks, monitor the achievement of the 1985 objectives and initiate remedial actions where necessary.

Before deciding on the specific structure for any proposed national energy resources development planning body, however, it is important that you decide:

SHOULD THE UNITED STATES HAVE A DETAILED, COMPREHENSIVE RESOURCES DEVELOPMENT PLAN BEYOND THE PRESENT ONE TO ACHIEVE YOUR ENERGY INDEPENDENCE, AND ECONOMIC DEVELOPMENT OBJECTIVES?

III. #2: Allocation of Capital and Other Resources in Order to Effect the Ten Year Energy and Related Resource Plan

If the Administration develops a detailed ten year energy plan, it is probable that we will discover - if we do not already know - that the current system of pricing mechanisms, financial institution arrangements, energy institutions, tax structure and governmental regulation will not achieve the desired objectives. If not, then:

SHOULD THE GOVERNMENT TAKE THE NECESSARY STEPS TO ALLOCATE CAPITAL RESOURCES INTO THE RELATED ECONOMIC SECTORS?

IV. #3: Various Mechanisms for Allocation of Capital Resources

If a decision is made to allocate capital resources into the energy-related sectors, a number of mechanisms have been proposed to perform this task. While they are discussed separately, they are not necessarily mutually exclusive.

A. Discriminatory Tax Arrangements

Tax incentives could be developed - and many have been discussed - which discriminate in favor of energy-related investments (and investors) and thus influence the flow of capital into energy-related sectors.

Before getting bogged down in the specifics of the many rate-change and tax-deferral schemes (such as super-accelerated depreciation), you should decide:

SHOULD THE ADMINISTRATION PROPOSE CHANGES IN THE TAX SYSTEM WHICH DISCRIMINATE IN FAVOR OF ENERGY OR OTHER SPECIAL RESOURCE DEVELOPMENT AREAS?

B. Guarantees of Securities Issued by Energy-Related Businesses

Another way for the Federal Government to channel capital into energy-related investment would be for the Government to guarantee the debt of energy ventures. This type of mechanism would be similar to arrangements which currently provide guarantees for housing, small business and merchant marine loans.

Here, the decision is:

SHOULD A MAJOR PROGRAM OF GOVERNMENT GUARANTEES OF ENERGY-RELATED DEBT BE DEVELOPED?

C. Encourage Investment By Institutional Investors

A major portion of the capital which is formed in the United States flows through financial institutions, such as banks, insurance companies, pension funds and investment companies. It would be possible to influence this flow of capital via a series of legislative and administrative actions. For example, the Government could encourage banks to discriminate in favor of energy-related loans.

You must decide:

SHOULD THE FEDERAL GOVERNMENT TAKE STEPS TO ENCOURAGE FINANCIAL INSTITUTIONS TO INVEST A LARGER PERCENTAGE OF THEIR FUNDS IN ENERGY?

D. Energy Trust Fund or Energy Development Bank

At present, both the Federal Government and private industry are financing research and development in nuclear conversion and other promising energy technologies. In order to channel more funds into high risk energy research and development ventures,

pilot plants and the first commercial developments of new technologies, the Federal Government could establish a Federal Government institution (an "Energy Venture Capital Institution") to finance promising new technologies. Possible funding of this institution can come from Treasury appropriations out of the general national revenues, a variety of special Federal taxes or the sale of the institution's debt guaranteed by the U.S. Government.

The precise form of the institution is not of critical importance until you decide:

SHOULD THE FEDERAL GOVERNMENT TAKE STEPS  
NECESSARY TO CHANNEL SIGNIFICANTLY INCREASED  
AMOUNTS OF CAPITAL INTO NEW ENERGY TECHNOLOGY  
DEVELOPMENTS?

E. The Energy Independence Financing Corporation

Along with some of the new initiatives outlined above, the Administration could propose creation of an "Energy and Resource Policy Financing Corporation." This Corporation would be established by the Federal Government to expedite and finance the development of domestic energy and related resources where the American economy was not freely achieving its energy independence goals.

This Corporation would be authorized to raise as much as \$250 billion from the American capital market and to allocate this capital into energy-related investment and away from other competing uses. However, before the Corporation could make loans to or buy capital stock in businesses, there would have to be a finding that the investment was important to the attainment of the national energy independence goals and that alternative financing was not available on reasonable terms from other sources.

In those instances where no other entity was capable of performing a critical energy-related function, the Corporation would be authorized to establish a subsidiary to remove the bottleneck, e.g., to construct and lease a shale oil production facility or to commit to buy (and resell) the entire output of a synthetic natural gas plant.

To summarize, the Corporation would be the central institution planning and monitoring the step-by-step achievement of the energy independence goals and providing substantial amounts of capital to businesses and for projects which were found to be important to energy independence. It would be empowered to do anything of financial or business nature which was found to be necessary for the attainment of the energy goals.

The decision is:

SHOULD THE FEDERAL GOVERNMENT CREATE AN ENERGY INDEPENDENCE FINANCING CORPORATION TO PLAN, FINANCE AND EXPEDITE ATTAINMENT OF THE NATION'S ENERGY GOALS?

OUTLINE OF THE ENERGY AND RESOURCE POLICY  
FINANCING CORPORATION

THE CORPORATION

A corporation to be known as the Energy Independence Financing Corporation (the "Corporation") shall be created to allocate capital to those sectors of the economy which are of critical importance to the development of domestic sources of energy and attainment of the goal of energy independence for the United States.

CAPITAL STOCK

The Corporation shall have capital stock of \$50 billion subscribed by the United States, payment for which shall be subject to call in whole or in part by the Corporation.

The Federal Financing Bank shall be authorized to, and upon request of the Corporation shall, purchase stock in amounts up to a total of \$50 billion.

BORROWING AUTHORITY

The Corporation shall be authorized and empowered to issue, and to have outstanding at any one time, notes, debentures, bonds and other evidences of indebtedness in the aggregate principal amount of \$200 billion. Such obligations shall contain terms as to maturity, redemption, priority and interest, and such other terms, as may be determined by the Corporation with the approval of the Secretary of the Treasury.

The Federal Financing Bank shall be authorized to, and upon request of the Corporation shall, purchase notes, debentures, bonds and other evidences of indebtedness in amounts up to a total of \$200 billion. The Federal Financing Bank may, at any time, sell any obligations of the Corporation so acquired.

The obligations of the Corporation shall be fully and unconditionally guaranteed both as to interest and principal by the United States. In the event that the Corporation is unable to pay upon demand, when due, any obligation, the Federal Financing Bank shall pay the amount thereof and thereupon to the extent of the amount so paid by the Federal Financing Bank shall succeed to all the rights of the holder of the obligations.

AUTHORIZED PURCHASERS OF OBLIGATIONS

Obligations of the Corporation shall be eligible for purchase by the Federal Reserve Open Market Committee.

Obligations of the Corporation shall be eligible for purchase by any federally chartered or regulated commercial bank, savings and loan association, or mutual savings bank.

All obligations issued by the Corporation shall be lawful investments for, and may be accepted as security for, all fiduciary, trust, and public funds the investment or deposit of which is under the authority or control of the United States or of any officer or officers thereof.

FINANCIAL ASSISTANCE

To aid in achieving energy independence, the Corporation shall be authorized and empowered, upon such terms and conditions as it may determine, to make loans to, to purchase or guarantee the obligations of, and to subscribe to the capital stock of any business concern in order to

- enable such concern to finance the construction, conversion, or expansion of facilities, or the acquisition of equipment, plant, real property, machinery, supplies, or materials;  
or
- provide such concern with working capital;  
or
- aid such concern in the payment of current debts or obligations.

The term "business concern" shall mean any individual, corporation, company, association, firm; partnership, society, public authority, or other entity which is engaged in the development, manufacture, supply, importation, exportation, procurement or production of goods and services in the United States and which is found by the Corporation to be essential, by itself or as part of a larger industrial grouping, to the achievement of energy independence by the United States.

In providing financial assistance, the Corporation shall determine that alternative financing is not available on reasonable terms from other sources.

Financial assistance provided by the Corporation may be made upon such terms, and subject to such restrictions, as shall seem to the Corporation to be commensurate with the needs of the recipient.

Each loan shall bear interest at such rate as the Corporation may determine, giving consideration to the needs and capacities of the recipient as well as to the Corporation's need to sustain continuing operations out of the return from its investments.

All loans or obligations shall be, in the opinion of the Corporation, of such sound value, or so secured, as reasonably to assure retirement or repayment, and may be made or effected either directly or in cooperation with banks or other financing institutions.

The Corporation may, in compliance with applicable laws governing transactions in securities, sell in the open market all or any part of the capital stock, notes, bonds, debentures, or any other evidences of indebtedness of any business concern acquired by the Corporation.

#### SUBSIDIARY CORPORATIONS

When the Corporation shall determine that such action is necessary to aid in achieving energy independence for the United States, the Corporation may create or organize subsidiary corporations with power to

- produce, acquire, provide, carry, sell, or otherwise deal in commodities, materials and services;
- purchase and lease land;
- purchase, lease, build, convert and expand plants;
- purchase and produce equipment, facilities, machinery, materials, and supplies; and
- lease, sell, or otherwise dispose of such land, plants, facilities, equipment and machinery in order to induce business concerns to engage in the foregoing activities.

PURCHASE OF ASSETS

The Federal Financing Bank shall be authorized to purchase from the Corporation any asset of the Corporation at such price as may be agreed upon between the Federal Financing Bank and the Corporation.

The several Federal Reserve banks shall be authorized to purchase or discount any note, debenture, bond, or other obligation of a business concern, secured or unsecured, held by the Corporations.

AUDIT

The accounts of the Corporation shall be audited annually in accordance with generally accepted accounting standards by independent certified public accountants.