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Series: General correspondence

Sub-Fonds: Records of President Robert S. McNamara

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McNamara Papers

Chronological file (incoming)
1979 (May-June)

229

494/4/22

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Executive Director

27 June 1979

TO: Mr. Robert S. McNamara, President

FROM: R. A. Johnston Johnston.

SUBJECT: IBRD General Capital Increase (R79-57/2)

With reference to paragraph 16 of the draft report included in this document, my Australian authorities have asked me to register their view that no shares issued under the general increase proposals should have effect at the 1980 elections.

6/28

It was their understanding (and my own) that this was the intention of the original paragraph. The amended paragraph will have the effect of making subscriptions under the special increase arrangements eligible to be voted at the 1980 elections.

Eligibility of these additional votes would seem likely to enhance the prospect of additional candidates coming forward for Board election in 1980.

My authorities are mindful that it could be said to be inequitable to allow the special issues already made to France, Japan, Yugoslavia and the eleven other countries to be counted whilst dis-allowing future issues. They believe, however, that an equally valid argument could be couched in terms that all subscriptions to shares which will need to be made out in the general increase should take effect from a common date.

206

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

494/4/21

TO: Mr. Robert S. McNamara (thru Mr. Wm. Clark)   DATE: June 26, 1979

FROM: John E. Merriam

SUBJECT: Your Meeting with White House Fellows - June 26, 1300 Hrs., in your Conference Room

Since most White House Fellows are working closely with Cabinet-level decision makers in the Carter Administration, they would be interested in knowing how the work of the Bank affects U.S. policy in various areas. What the Bank can gain from this meeting is to achieve a broader understanding of its work in a wide range of U.S. agencies at the highest levels. Following are several possibilities:

1) Agriculture. The sharp rise in grain prices this June, as a consequence of increased Soviet needs for imported grain, has put pressure on world prices, and on reserves. In 1978 Bank projects added an estimated 50 million tons of grain to the production of LDC's -- food grown in poor countries, by poor people, where they get the most benefit from it.

2) Oil & Energy. By 1983 Bank financed projects in oil and gas will yield an estimated 300,000 barrels per day of additional resources in LDC's. The U.S. Treasury has calculated that by 1985 the Bank's total energy program will produce the equivalent of 2.5 million barrels per day. What Federal program is doing as much? This is a program, not simply approved by the U.S. or the OECD, but by LDC's and OPEC members as well.

3) Nutrition. Bank research has shown that relatively minor shifts in income distribution or improvement in incomes of the poorest sector of LDC societies can have very significant effects on improving nutrition. The Bank's agricultural lending program, which includes the financing of land reform and expansion of employment for landless rural people, is clearly an appropriate response -- meeting a basic human need, and, indeed, a basic human right.

4) Burden-Sharing -- financial and beyond.

(a) Egypt. The Bank as leader of Egypt's Consultative group has organized a flow of $3280 million in bilateral loans and grants in the last year of which $724 has come from the U.S., $101 from the Bank itself and $2455 from other sources.

(b) Mexico. In Mexico the Bank is working with the Government to insure that its oil revenues are used for appropriate investment opportunities. This will encourage political stability -- as Lopez Portillo seeks to move to multi-party democracy. It will also help reduce migration flows. Mexicans would prefer to stay at home if economic opportunity is adequate.

.../

5) Defense. An additional dollar spent on development probably contributes more to world security than a dollar spent on armaments. The Bank's work not only expands the flow of development resources at minimum cost to the taxpayer; it also help member states adopt economically-oriented, as opposed to militarily-oriented, policies.

JEM:apz

303

494/4/25

Canadian International Development Agency
President

Agence canadienne de développement international
Président

June 15, 1979

Mr. R.S. McNamara
International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
USA

Dear Mr. McNamara:

A busy travel schedule and recent events in Ottawa have delayed my writing to thank you for the opportunity of visiting the Bank several weeks ago.

I consider the discussions with you, as well as your senior officials, to have been most useful and would look forward to this type of policy level review taking place on a more regular basis. For example, there could be an agenda focussing on specific issues, countries or sectors of concern to our two organizations and the meetings could alternate between Washington and Ottawa.

4/26

You may be interested to know that there have been some follow-up discussions within CIDA on the health and population issues raised at the Bellagio meeting. I would expect that Earl Drake, on behalf of Canada, may offer some positive comments in both the informal and formal Board discussions of these matters.

Yours sincerely,

Michel Dupuy

Michel Dupuy

200, rue Principale
Hull, Quebec
Canada
K1A 0G4

200, rue Principale
Hull (Québec)
Canada
K1A 0G4

Canadian International Development Agency
President

Agence canadienne de développement international
Président

June 15, 1979

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Michel Dupuy

200, rue Principale
Hull, Quebec
Canada
K1A 0G4

200, rue Principale
Hull (Québec)
Canada
K1A 0G4

568

494/4/20

CHARLES McC. MATHIAS, JR.
MARYLAND

COMMITTEES:
APPROPRIATIONS
JUDICIARY
GOVERNMENTAL AFFAIRS
INTELLIGENCE

United States Senate

WASHINGTON, D.C. 20510

June 14, 1979

Mr. Robert S. McNamara
1818 H Street, N. W.
Washington, D. C. 20433

Dear Mr. McNamara:

Because of your past interest in population questions, I wanted to let you know that on May 1, 1979, I introduced a Senate Resolution calling upon the President to create an ambassador at large position to be filled by an individual who would have primary responsibility for formulating and carrying out United States policy on world population affairs. This Resolution has been referred to the Senate Foreign Relations Committee for consideration.

6/26 I enclose a copy of my statement on this issue and the Resolution for your information.

With best wishes,

Sincerely,

Charles McC. Mathias

Charles McC. Mathias, Jr.
United States Senator

CM:cym
Enclosure

49/4/20

COMMITTEES:
APPROPRIATIONS
JUDICIARY
GOVERNMENTAL AFFAIRS
INTELLIGENCE

CHARLES McC. MATHIAS, JR.
MARYLAND

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CM:cym
Enclosure

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 96th CONGRESS, FIRST SESSION

Vol. 125 WASHINGTON, TUESDAY, MAY 1, 1979 *No. 52*

Senate

SENATE RESOLUTION 142—SUBMISSION OF A RESOLUTION WITH RESPECT TO DESIGNATING AN AMBASSADOR AT LARGE FOR WORLD POPULATION AFFAIRS

Mr. MATHIAS submitted the following resolution, which was referred to the Committee on Foreign Relations:

S. Res. 142

Whereas the current global population of more than four billion is already overburdening many of the planet's ecosystems and is expected to double within thirty-five years;

Whereas the demographic pressures of runaway population growth are subjecting the people of the world, especially the more than one-third of the population of the world living under the poverty level, to new, unbearable burdens;

Whereas the world population problem increasingly affects a broad range of foreign policy issues, including economic development, world hunger, energy and natural resources, basic human rights, public health, unemployment, social unrest, political instability, emigration, and local conflicts; and

Whereas in the past ambassadors-at-large have been assigned to duties in areas of critical global problems, thus affirming the dedication and commitment of the United States Government to solving such problems: Now, therefore, be it

Resolved, That it is the sense of the Senate that the President, after consulting with the Secretary of State, should accord the rank and status of ambassador-at-large on an individual who has the credentials and experience requisite for such rank and status and who shall be primarily responsible to the Secretary of State for formulating and carrying out United States policy on world population affairs.

Sec. 2. The Secretary of the Senate shall transmit a copy of this resolution to the President.

● Mr. MATHIAS. Mr. President, in Washington, we are constantly reminded of the world's population problems by a clock that has been installed at one of the city's busiest intersections. If you hit the traffic light wrong, you can watch the clock tick off the world birth count at the rate of 172 new lives a minute. The birth hand on that clock moves almost three times as fast as the second hand on your wristwatch. It is a sobering thing to see and to think about.

It took about 3 million years to reach a world population of 1 billion. Then, in only 100 years, it doubled. In another 30 years, the population reached 3 billion and 15 years later it hit 4 billion. The consequences of unchecked excessive world population will be suffered by all nations and will be attended by shortages of food and other vital resources and diminishing living space. One billion new jobs will have to be created by the year 2000 to keep pace with the anticipated growth in the world work force.

Those who have studied world population statistics and projections understand the grave implications of a world in which by the year 2000, Latin America is expected to have another 275 million people; Africa, another 390 million, and Asia another billion and a quarter. These people must be fed, clothed, sheltered, educated, and employed. Time and again experts have warned us that our resources will be unable to sustain such vast numbers of additional people. By 1986, at the rate things are going, we will have a shortage of 100 million tons of food to feed the world.

Thus, world overpopulation is clearly a very serious problem.

Too often in our fast-paced age, we find ourselves struggling with issues that have already reached crisis proportions instead of anticipating problems and moving to meet them with well-conceived, responsible plans of action and programs in a timely way. Most demographers have identified the problem of world overpopulation as an imminent crisis. It is, therefore, incumbent upon this Nation to recognize the magnitude and severity of this problem and to commit itself to addressing it humanely and expeditiously.

I am submitting a resolution today calling upon "the President, after consulting with the Secretary of State, to designate an Ambassador at Large for world population affairs." This resolution specifies that the position be accorded to "an individual who has the credentials and experience requisite for such rank and status."

Whenever the United States has identified an issue of overriding importance in recent years, we have designated as Ambassadors at Large some of our most eminent statement—men such as Elliot Richardson, Ambassador at Large and Special Representative of the President for the Law of the Sea Conference and Chief of the U.S. Delegation; Arthur Goldberg, Ambassador at Large and U.S. Representative to the Conference on Security and Cooperation in Europe; our distinguished former colleague, Dick Clark, Ambassador at Large and Coordinator for Refugee Affairs, and most recently Robert Strauss' nomination as Ambassador at Large for the Middle East negotiations.

Each of these problems has global significance and future implications which demand the special attention given them by the United States. But a world growing at the rate of 275,000 people a day surely deserves no less attention.

There are both symbolic and substantive reasons for designating an Ambassador at Large for world population affairs. Symbolically, it will serve notice to the entire world that the United States recognizes the population issue as one of the most significant confronting mankind and that this Nation is committed to shouldering its share of the responsibility for finding solutions. Substantively and more importantly, an Ambassador at Large for world population affairs would be able to communicate personally and directly with world leaders and explore what needs to be done and how the United States can assist in dealing with this problem.

There are encouraging indications that the world population problem can be alleviated before it reaches irreversible dimensions. In the decade and a half since the United States has been earmarking funds for world population assistance, there have been remarkable achievements in lowering fertility rates in countries that once appeared headed on a collision course with disaster. Some of these accomplishments have astonished even those directly responsible for developing and implementing the programs that were so successful. But much more needs to be done before we can be certain that the population problem can and will be solved. The appointment of an Ambassador at Large for world population affairs will be convincing evidence of our dedication to finding humane, rational and workable solutions for this fundamental crisis that faces us all and it will give impetus to a process that cannot sustain delay.●

494/4/19

CHARLES McC. MATHIAS, JR.
MARYLAND

United States Senate
WASHINGTON, D.C. 20510

June 8, 1979

The Honorable Robert S. McNamara
President, International Bank
for Reconstruction and Development
1818 H Street N. W.
Washington, D. C. 20433

Dear Bob:

I would give a lot to have made your University of Chicago speech myself. It is a magnificent statement of the great moral and security issues of our time. Second best was to introduce it into the Congressional Record where I hope it will receive the wide attention it deserves. Enclosed is a copy of yesterday's Record which contains my introductory remarks and your speech on page S. 7231.

I intend to keep your speech close at hand throughout the SALT debate to remind me of where sanity lies.

With best wishes,

Sincerely,

Mac

Charles McC. Mathias, Jr.
United States Senator

CM:pns
Enclosure

6/13 To Senator Mathias
Mac, your note, and your remarks for the Record, are the nicest compliments I have received in a long time. Many many thanks!
I, as an international servant, can not speak out on SALT. But you are right in thinking I had it in mind while speaking in Chicago.
Best wishes,
RSM

509

UDS 494/4/18

DEPARTMENT OF STATE

Washington, D.C. 20520

June 7, 1979

The Honorable
Robert McNamara
President
World Bank
Washington, D.C.

Dear Bob:

Your early instincts about this UN Conference on Science and Technology for Development were quite right. It has tended to be unduly politicized. Such important issues as mobilizing international science and technology for collaborative research and development on global problems to alleviate poverty are receiving scant attention compared to criticisms of transnational corporations.

6/12

Yet I find much good work has been done on the margins of the Conference to set the facts straight and clarify the issues, especially by the UNDP and Barbara Ward's Jamaica Symposium. Incidentally, Jamaica benefited greatly from the very able help of the Bank's Charles Weiss.

I am wondering if other groups, such as the Brandt Commission, might take an interest in the worthwhile purposes of UNCSTD and at the same time further their own efforts in the North-South dialogue. I am asking Jim Grant of ODC to contact Katherine Graham and Pete Peterson to see what might be done in this regard, perhaps at the Commission's July meeting in Vienna. If you have any views on how the Commission might nudge UNCSTD to produce concrete results, they would be welcome indeed.

Sincerely,

Ted Hesburgh

Theodore M. Hesburgh
Ambassador
Chairman, U.S. Delegation
to the UN Conference on
Science and Technology
for Development

DEPARTMENT OF STATE

Washington, D.C. 20520

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Robert McNamara
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Sincerely,

Ted Hesburgh

Theodore M. Hesburgh
Ambassador
Chairman, U.S. Delegation
to the UN Conference on
Science and Technology
for Development

486

494/4/17

THE WHITE HOUSE

WASHINGTON

May 29, 1979

Dear Bob,

You may remember that at the recent Brookings Trustees' dinner I mentioned the slow but continuing progress the Administration was making in attacking micro-economic causes of inflation -- even as it attacks the macro-economic causes by fiscal and monetary restraint.

A day or two later, when I happened to walk in to work with Fred Kahn, the President's counsel on inflation, I asked him if he had any summary of what was being accomplished on the micro-economic front. He has now given me the attached. I'm sending it to you and a few other trustees, in the belief that you will find it of interest.

I don't argue that everything is being done that should be done -- only that some progress is being achieved. The interest and support of private leaders such as yourself is crucial to that continuing progress.

Yours,

Henry Owen

The Honorable Robert S. McNamara
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

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INCOMING MAIL UNIT

H. Owen (551)

THE WHITE HOUSE

WASHINGTON

May 14, 1979

MEMORANDUM FOR INTERESTED PARTIES

FROM: FRED KAHN Fred

SUBJECT: The Regulatory Reform Plank in the President's Program

I think you may find of interest and value the attached letter I wrote to John deButts at his request, with a partial list of the ways in which we have been delivering on the promise of regulatory reform in the President's anti-inflation program.

Attachment

THE WHITE HOUSE

WASHINGTON

May 10, 1979

Dear John:

I am happy to send you the list I promised of ways in which the Administration is delivering on its promise of regulatory reform.

Some of the actions on the list are having immediate effects; others are intended to produce future results. All represent and reflect a genuine effort.

I've tried to classify them under various headings but have had some trouble doing so because the categories often overlap. You will observe, however, that what we have here are actions (1) reducing or removing government restrictions on competition, (2) introducing economic considerations into regulatory decisions, while giving full weight (where pertinent) to the important social benefits that the regulatory programs were enacted to protect, (3) improving regulatory procedures, and (4) eliminating unnecessary regulation.

In general, items 1 through 7 on the list reflect reductions or other improvements in economic regulations; items 8 through 13 establishment of procedures to improve the management of the regulatory process and to assure that agencies take costs into account; items 14 through 23, actions that reduce costs in social regulations; and item 24, even more than the others, contains all these elements.

All of these actions reflect the high priority that the President has placed on regulatory reform. I know of no other Administration that has come anywhere close to ours in giving attention to the regulatory process, to eliminating or reducing outdated programs, and to managing programs in such a way as to minimize the burdens of achieving the statutory goals.

1. Airline deregulation. This one antedates the President's October promise, but represents such a satisfying completed action that I cannot refrain from mentioning it.

2. The Administration has already submitted to Congress a proposed bill for rail deregulation.

3. We are in the final stages of putting together a series of legislative options to fulfill our promise to move toward deregulation of motor carriers.

4. We expect to move next on intercity buses.

5. In communications, the FCC has already moved to eliminate burdensome rules on cable TV operators and on licensing radio operators, has rewritten its rules on citizens band from gobbledygook into plain English, and is now moving to reduce regulation of radio licensees still further. Also the Administration is working with Congress to update the Communications Act to reduce regulatory controls and to take account of the ways in which technological changes may have made traditional industry boundaries obsolete.

6. The President has settled upon a definite time schedule for total deregulation of crude oil prices by October 1981. In addition, the Department of Energy has just deregulated aviation fuel.

7. An interagency group is developing proposals for reform of Regulation Q, setting limits on interest rates payable to depositors, and for offsetting relaxation of restrictions on the permissible credit activities of thrift institutions. We expect to send a recommendation to the President soon.

   The Federal Reserve Board has undertaken a proceeding to consider authorizing new categories of time deposits, which would offer liberalized interest ceilings for small depositors. This effort has the additional virtue that it may be expected to some degree to encourage saving.

8. The Administration has established the Regulatory Council, an organization of regulatory agencies, with the responsibility for (a) publishing every six months a calendar of major regulatory actions under consideration, which will include an estimate of economic costs of each, and (b) coordinating policies among the agencies to eliminate inconsistencies and duplications. As the first of these projects, the Council will coordinate regulations on carcinogens issued by OSHA, FDA, EPA, and the Consumer Product Safety Commission. In addition, it is undertaking a coordinated look at the multiplicity of regulations affecting selected

major industries, to ensure consistency and optimum balance. The first industries selected are steel, automobiles, banking, housing and health care.

9. The Regulatory Analysis Review Group, composed of senior White House and Administration officials, subjects the more important regulatory proposals of the executive agencies to rigorous analysis; this analysis is then placed in the public record, and when necessary, is discussed by Presidential advisors and the regulatory agency before a final rule is issued. To date RARG has subjected to this kind of scrutiny such regulations on DOT's rules on non-discrimination on the basis of handicap; EPA's rules on disposition of hazardous wastes, new source performance standards for electric utilities, and ozone; DOE's rules on conversion to coal by power plants and factories; and OSHA's rules on worker exposure to acrylonitrile. On the basis largely of the first Regulatory Calendar, RARG is now in the process of targeting major proposed regulations for review during the remainder of the year.

10. The Council on Wage and Price Stability intervenes directly in regulatory proceedings in an effort to ensure that rules are cost-effective and non-inflationary. I attach a list of those filings during the past year -- 27 of them.

11. The Regulation Reform Act of 1979. The President proposed this legislation in March. It would require that when agencies develop major regulations, they list alternative means of accomplishing the objectives, and the costs and benefits of each, and select the least costly way of achieving those objectives or explain its failure to do so. Each agency would be required to establish a schedule to review its major rules, over a 10-year cycle, to ensure the retention of only the rules for which a case can still be made. Agencies would publish semi-annual agendas of the rules they are working on and set deadlines for completing each proceeding. There are also provisions to eliminate needless legal formalities and delay. In many respects, this legislation embodies the substance of Executive Order 12044, which the President issued in 1978, and which applies to Executive Branch agencies only. I attach the

President's message of this March setting out in more detail the Administration's program in this important area.

12. Sunset. In addition to the provisions of the Regulation Reform Act of 1979 that call for periodic review of particular regulations, the Administration is supporting sunset legislation to assure that the laws establishing regulatory and other programs are reviewed periodically.

13. The Administration will soon propose legislation and issue an executive order to reduce paperwork. It will centralize the task of reviewing paperwork requirements in the Office of Management and Budget; establish a "paperwork budget" to set limits for Executive agencies; create a centralized system to help each individual agency determine whether some particular information that it requires is already available elsewhere; and require agencies to give special consideration to the problems imposed on small businesses by the obligation to fill out Federal forms.

14. On April 16 the President announced his recommendations to Congress on the additional areas that should be included in the National Wilderness preservation system as a result of RARE II. They reflect a reasonable and prompt division of the outstanding acreage (15.1 million acres for Wilderness designation, 36.1 million to be managed for multiple purposes, and 10.5 million for further review), and they would supply a much-needed certainty about the future availability of a very large number of acres (36.1 million) for multiple uses, while also doubling the National Forest Wilderness system.

15. EPA has established a "bubble" policy, which would permit plants to achieve emissions limitations on a plant-wide basis rather than equally from each of a plant's separate sources of emissions. This approach, which would give individual businesses far greater flexibility in devising the most cost-effective way of achieving emissions limits, would, EPA estimates, permit cost-savings on the order of 25 percent. It reflects the essential principle of relying on performance rather than specific design standards.

16. EPA is permitting proposed new sources of emissions to be sited in "non-attainment" regions, provided they obtain offsetting reductions in the emissions from existing sources, and is proposing the use of marketable permits for siting facilities in "attainment" areas.

17. OSHA has withdrawn nearly 1,000 nit-picking rules, and eliminated reporting requirements affecting at least 40,000 businesses.

18. COWPS has recently submitted comments on EPA's proposed rules for the control of diesel particulates, urging moderation. In addition, we have arranged for the commissioning of a major study by the National Academy of Sciences to examine the complex interrelationships between environmental and energy goals in the prospects for the diesel engine.

19. The Administration has proposed legislation to prevent the otherwise automatic application of the Delaney Amendment and other laws which proscribe the use of nitrites in processed meats, in order to make possible the offsetting of one kind of health consideration (prevention of botulism) against another (possible carcinogenicity), taking into account economic considerations.

20. The DOT regulations on the access of the handicapped to rapid rail public transportation reflects substantial attention to cost-benefit principles. Specifically it reflects our determination to consider the cost of alternative ways of meeting regulatory goals and choosing the most effective; and -- a specific embodiment of that principle -- being less strict in the requirements for retrofitting existing facilities than in designing new ones, while at the same time taking a major step in assuring integration of the handicapped into the mainstream of American life.

21. Surface mining regulations, issued by the Department of the Interior, allow for a wider variety of methods for achieving environmental goals, at lower costs, than the regulations originally proposed.

22. EPA's <u>ozone regulations</u>, issued this year reflect a relaxation based on currently available scientific evidence, and are explicitly subject to reexamination within two years on the basis of the results of an accelerated program of further scientific evaluation of the health effects of ozone at different levels of concentration.

23. In setting its <u>new source performance standards</u> on sulfur oxide emissions from coal-fired electric generating plans, EPA is explicitly weighing economic considerations.

24. We have developed a <u>state and local anti-inflation program</u>, which now has the support of governors in 47 states, that gives heavy emphasis to the elimination of needless and excessively burdensome regulatory restraints -- such as excessively restrictive land-use ordinances and building codes, prohibitions on the substitution of generic for brand name drugs, and unduly restrictive occupational licensing; the list of suggested actions is much too long to incorporate here, but I will of course supply it if you think it would be helpful. I truly believe, that every one of these actions can honestly be cited as a genuine effort to deliver on the President's promise. And there will be more down the road, some of them soon.

Sincerely,

Alfred E. Kahn
Advisor to the President
on Inflation

Mr. John D. deButts
Chairman
The Business Council
888 Seventeenth Street, N.W.
Washington, D. C. 20006

Enclosure

Regulatory Filings by the Council on Wage and Price Stability

AGENCY	TOPIC	DATE
FRB, FHLBB, and FDIC	New categories of time deposits	May 4, 1979

The Council submitted comments to the Federal Reserve Board, Federal Home Loan Bank Board, and Federal Deposit Insurance Corporation on proposals to create new categories of time deposits to benefit small savers. While supporting the proposals as a step in the right direction, the Council urged the banking regulators to remove restrictions on time deposits and allow the market to determine interest rates and savings classes.

EPA	Diesel particulate standards	April 19, 1979

The Council submitted comments to EPA on proposed particulate standards for diesel automobiles and light-duty trucks. The report suggested that EPA move with care in this area because of the substantial costs in meeting the 1983 standard and the possible discouraging effect on diesel technology, which offers very favorable fuel economy and low emissions of hydrocarbons and carbon monoxide.

EPA	Premanufacture notification for chemicals	March 26, 1979

The Council submitted to EPA a staff report outlining a list of concerns with the proposed premanufacture notification requirements for chemical manufacturers.

EPA	"Bubble concept"	March 23, 1979

The Council partially supported the EPA's proposed "Bubble Concept" for controlling air pollution. The Council suggested additional ways in which air and water pollution can be reduced at lower costs. (CWPS-315)

ICC Motor carrier rates March 20, 1979

The Council asked the ICC to suspend rate increases by six of the nation's motor rate bureaus and asked the Commission to seek additional information from a seventh bureau before granting the rate request.

FHLBB Branch savings and loan offices March 16, 1979

The Council supported a FHLBB proposal to allow state-wide branching of Savings and Loan Associations only if branching through bank mergers is discouraged in favor of de novo branching.

EPA Coal regions February 26, 1979

The Council opposed action by EPA to declare Ohio a local coal region under section 125 of the Clean Air Act and require Ohio utilities to purchase high sulfur Ohio coal and install costly scrubbers to meet air quality standards.

ICC Intercity bus fares February 16, 1979

The Council supported a petition by Trailways, Inc. to allow for limited upward rate flexibility for intercity buses, but only if accompanied by freedom of entry and elimination of anti-trust immunity for rate bureaus.

DOE Small refiner bias February 5, 1979

The Council supported DOE efforts to reduce the small refiner bias subsidy of $1.1 billion per year. The Council believes the bias should be reduced even further than DOE proposes.

ICC Entry into motor carrier industry February 5, 1979

The Council supported efforts by the ICC to relax its standards for entry into the trucking and intercity bus industries but urged the ICC to ease entry still further.

ICC Motor carrier revenue proceedings January 26, 1979

While the Council supported the concept of trucking industry filing for a rate increase in anticipation of the Teamsters Wage negotiations, this support was conditioned on the industry filing expected rate requests based on possible wage settlements.

EPA Effluent guidelines December 11, 1978

The Council criticized EPA's test of reasonableness for existing effluent limitation guidelines for Best Conventional Pollution Control Technology. The Council suggested a methodology for providing more pollution control at lower costs.

ICC Railroad rate request December 2, 1978

The Council stated that the rate increases filed by the railroads appeared to fall within the anti-inflation guidelines.

DOT Drivers' hours of service November 20, 1978

While supporting the Bureau of Motor Carrier Safety's efforts to reduce truck and bus accidents, the Council asked BMCS to investigate whether other actions would prove more cost effective in reducing accidents.

ICC Small shipments November 6, 1978

The Council supported a petition by Trailways, Inc. to deregulate the transportation of small shipments weighing 500 pounds or less. Such a move would benefit both the bus industry and consumers.

ICC Contract carriers October 18, 1978

The Council supported an ICC policy to relax entry restrictions in the contract form of transportation to allow contract carriers to serve more than eight companies.

ICC Intercity and charter bus fares October 16, 1978

The Council supported a petition by Trailways, Inc. to allow downward price flexibility for regular route intercity bus fares, and supported upward and downward fare flexibility for charter bus service only if entry is deregulated.

ICC For-hire trucking September 19, 1978

The Council supported allowing private carriers to carry goods of other companies on backhauls. This would eliminate some empty backhauls by private carriers and increase efficiency in the trucking industry.

ICC Southern Motor Carriers Rate Conference, Inc. September 15, 1978

The Council criticized the ICC for allowing a high rate of return on stockholders equity less intangibles. The Council recommended that the ICC set the rate of return at the average for manufacturing industries.

ICC Collective ratemaking September 11, 1978

The Council requested that the ICC disapprove of shippers setting collective rates. This practice reduces competition and adds to inflation.

EPA Drinking water August 31, 1978

The Council outlined a methodology for addressing the benefits as well as costs in developing drinking water regulations and urged EPA to use and improve upon this methodology in order to insure the greatest protection of health for whatever additional costs are imposed.

EPA Electroplating pretreatment standard August 30, 1978

The Council stated that EPA provided an inadequate analysis of its proposed standards. Besides methodological problems with the approach EPA used to derive the standards, EPA did not provide information on the benefits or costs of alternative standards.

ICC Truck rates July 5, 1978

The Council presented a report to the ICC on the rates of return on equity in various industries and recommended that the ICC establish a lower rate of return for the trucking industry in establishing transportation prices.

ITC Copper imports June 28, 1978

The Council asked the ITC not to provide import relief in the form of higher tariffs for copper imports. Such an action would be inflationary. If industry relief is necessary, trade adjustment assistance would be less inflationary.

EPA Motorcycle noise June 22, 1978

The Council questioned whether the proposed engineering standards to reduce motorcycle noise would be effective since most violators use owner-modified exhaust systems that are not likely to be much affected by the regulation. The Council recommended a better enforcement system to reduce noise emissions from owner-modified exhaust systems.

DOL Executive compensation June 9, 1978

The Council recommended that the Department of Labor examine the economic implications of alternative ways of determining which employees should be exempted from executive compensation under the Fair Labor Standards Act. The Council also asked DOL to show the basis for determining the minimum salary exempt level.

DOE El Paso Eastern May 8, 1978

The Council favored the use of modified marginal cost pricing for liquified natural gas (LNG) rather than rolled in pricing.

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

I am today announcing a program of major reforms in the regulatory process, including both legislative and executive action. This program will make new regulations more efficient and effective; ensure reviews of existing regulatory laws and individual rules to eliminate or revise those that are outmoded; and reduce the burden of regulation and paperwork without jeopardizing our progress toward vital regulatory goals.

Since the first Federal regulatory agency was established nearly a century ago, regulatory programs have grown steadily in number, scope, and impact. During that time, however, little attention has been paid to the management of the regulatory process. There was little effort to re-examine rules which no longer served the public or to ensure that needed programs are run on a common sense basis, so that missions are accomplished with maximum results and minimum burdens.

The time has come to stop this neglect. Just as we have injected a new sense of discipline into the management of Federal budgetary and personnel resources, we must reform the government's regulation of others' resources.

Much of Federal regulation is vitally important to modern society. Goals such as equal opportunity, a healthy environment, a safe workplace, and a competitive and truthful marketplace cannot be achieved through market forces alone. In the last decade, the regulatory programs created to achieve these goals have produced a wide range of benefits, such as:

- Workplace health standards have been established which are protecting more than two and one-half million workers exposed to cancer causing substances, such as asbestos, arsenic, and vinyl chloride.

- Automobile safety devices such as seat belts, collapsible steering wheels, interior padding, and side door strength are saving an estimated 9,000 lives per year.

- Fuel economy standards are reducing automobile gasoline consumption by about 1.5 billion gallons this year.

- Populated areas have more protection against fires, explosion and the spilling of hazardous materials transported by rail because of new rules on tank cars.

- We are making real progress on water pollution. Salmon are swimming in the Connecticut River for the first time in almost two centuries.

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- o Regulations requiring child-proof containers for such products as household cleaners and drugs have prevented as many as 200,000 accidental poisonings of young children.

- o Emission controls for automobiles helped reduce carbon monoxide air pollution by 20% between 1972 and 1977.

The regulatory programs that produced these benefits are essential to the Nation's well-being. I am committed to continuing this progress.

The overall regulatory system, however, has become burdensome and unwieldy. We now have 90 regulatory agencies issuing some 7,000 rules each year. When Congress established these programs, it usually focused on isolated objectives. There was little effort to coordinate overlapping agency mandates or to assess cumulative impact. Little attention was given to analyzing the benefits and costs of proposed rules or to using regulatory approaches which could reduce the cost of achieving the goals. Many regulatory programs were allowed to continue unreviewed for decades, in spite of changing conditions. Some rules, such as certain rules affecting transportation rates and routes, came to do more harm than good by crippling competition. The last comprehensive legislation to improve regulatory procedures was passed more than 30 years ago.

We can no longer afford this neglect. Regulation has a large and increasing impact on the economy. Uncertainty about upcoming rules can reduce investment and productivity. Compliance with regulations absorbs large amounts of the capital investments of some industries, further restricting productivity. Inflexible rules and massive paperwork generate extra costs that are especially burdensome for small businesses, state and local governments, and non-profit groups. Regulations that impose needless costs add to inflation.

Our society's resources are vast, but they are not infinite. Americans are willing to spend a fair share of those resources to achieve social goals through regulation. Their support falls away, however, when they see needless rules, excessive costs, and duplicative paperwork. If we are to continue our progress, we must ensure that regulation gives Americans their money's worth.

During the past two years, I have used my authority as President to improve regulatory management.

- o After extensive public comment, I issued Executive Order 12044, establishing far-reaching new procedures for development of regulations by Executive agencies. Under that Order, agencies are now analyzing the costs of all major new regulations to seek out the most cost-effective approach; they are expanding opportunities for public participation; and they are starting to identify and eliminate out-dated rules.

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- To assist individual agencies in meeting the goals of Executive Order 12044, I established the Regulatory Analysis Review Group, which prepares reports on particularly important proposed rules.

- Until this year, there was no way to get a picture of upcoming regulations. Now, each agency is publishing agendas of the rules it is developing. To provide a government-wide picture of major rules, I have established a Regulatory Calendar to be published twice a year. The first Calendar, issued last month, listed 109 rules being developed this year.

- I created the Regulatory Council to prepare the Calendar and use it to identify and deal with areas of overlapping and conflicting regulations. The Council is composed of Executive regulatory agencies plus those independent commissions that agreed to join.

The men and women I appointed to head the regulatory agencies are working to implement these steps and improve regulatory management. They are achieving results. HEW has eliminated 300 pages of rules. OSHA voided nearly 1,000 nitpicking rules, and the Federal Trade Commission cancelled 145 more. The FCC rewrote its rules on citizens band broadcasting into plain English. The FAA reduced the hours small airlines have to spend filling out their forms by more than two-thirds. EPA designed creative procedures that allow companies flexibility in meeting pollution standards, leading to potential savings of millions of dollars without sacrificing clean air goals. We reorganized regulation of pension programs to eliminate duplication and reduce paperwork.

These efforts will continue in 1979. We have important non-legislative initiatives underway, including: a wide-ranging review of rules affecting technological innovation; revisions of all OSHA safety standards to make them simpler and more flexible; overhauls of the regulations imposing costs on hospitals; streamlining EPA permit procedures; review of restrictions on banking; development of a coordinated policy on identification and regulation of cancer-causing substances; and increased research to improve the factual basis for regulatory decisions on toxic chemicals, air pollutants and radiation. We will continue to scrutinize major new rules to ensure that they accomplish their statutory mandates without imposing needless burdens.

These steps are having an impact. Regulatory programs were created by legislation, however, and we need legislation to achieve comprehensive reform. Last year we and Congress made an important beginning. The Airline Deregulation Act substantially deregulated a major industry and enabled more people to fly while saving passengers $2.5 billion in air fares.

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regulatory reform program has o elements:

- We must work together to review the laws that established the regulatory programs. Those that needlessly restrict competition, impose rigidity, or are otherwise out of date must be revised or eliminated.

- For the programs that are needed, we must assure that the statutory mandates are executed sensibly. We must identify alternative means of achieving goals, choose efficient and effective approaches, and improve planning and coordination. We must make it easier for the public and those affected by regulations to anticipate them, participate in developing them, comply with them, and benefit from them. We must provide common sense management for the regulatory process.

This year I am proposing that Congress act in three areas:

I. Regulation Reform Act of 1979

Once a statute creating a regulatory program is passed, the quality of the program depends mainly on the men and women who are running it. We have a competent and dedicated group of regulators in government now, and they are producing real advances in regulatory reform.

We need legislation to set uniform standards for the work they do and give them the tools to continue their progress. I am submitting, with this Message, a bill to revamp regulatory procedures. This bill strengthens the reforms introduced by E.O. 12044, makes them permanent, and applies them to the independent regulatory commissions. It also overhauls key parts of the Administrative Procedure Act, for the first time since 1946. It sets vital new rules for the regulators:

- Cost-Effectiveness: The bill requires that when an agency develops a major rule, it lists the alternative means of accomplishing the objective and the costs and benefits of each alternative. The public will be asked to comment on that analysis and to suggest any additional options that should be considered. The agency must select the least costly way to achieve the rule's objective, or -- if another is needed -- explain the reasons.

- Review of Old Rules: Each agency will establish a schedule to review its major rules and smaller rules which may be outmoded or ineffective. The reviews, to be conducted over a 10-year period, will be used to ensure that rules are kept up-to-date or eliminated.

- Planning and Management: The bill requires agencies to publish semi-annual agendas of upcoming rules; ensures that senior officials are fully involved in developing rules; and strengthens selection and oversight for the Administrative Law Judges who make many key regulatory decisions.

- Delay: To eliminate needless legal formality and delay, the bill revamps the procedures for agency hearings. It also requires that agencies set deadlines on most proceedings.

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- Public Participation: The b[illegible] helps those affected by regulation participate in the regulatory process, through more notice to the public, a longer comment period, and consultation with affected state and local governments. It also authorizes limited funding for groups that would present important information and could not otherwise afford to participate.

The Office of Management and Budget will oversee the key management reforms. The Administrative Conference of the U.S. will oversee administrative law judges and use of the participation funds. I will soon submit a reorganization plan to enable the Conference to carry out these missions.

II. Paperwork Reduction

The Federal Government must collect information from the public to enforce the laws, analyze the economy and establish sound public policy. But too many paperwork requirements are duplicative, unnecessary, or place an unreasonable burden upon small organizations. Over the past two years, we have cut the time the public spends filling out Federal forms by about 15%. But we must do more.

The job of reviewing Federal paperwork requirements should be performed in one place -- not divided as it is now, among OMB, GAO and other agencies. I shall submit legislation to the Congress to centralize this mission in the Office of Management and Budget.

In addition, I will soon issue an Executive Order to further reduce the paperwork burden. The Order will require agencies to consider the special problems that small businesses and organizations face in filling out Federal forms and will authorize simpler forms and requirements for such groups. It will establish a "paperwork budget" for Executive agencies and create an information locator system to help agencies determine whether the information they need is already available elsewhere. No report should be approved if the information can be obtained, within privacy and confidentiality protections, elsewhere in the government.

III. Reform of Individual Statutes

All regulatory programs were created by legislation and many of their problems can be solved only by amending individual statutes. Much of the trouble with regulation built up because laws have gone unchanged in spite of changing needs.

This problem applies to many Federal programs in addition to regulation. One answer is to pass a sunset bill. This legislation would set a schedule for Congressional review of each program, once every 10 years. The reviews would be timed so that related programs are considered simultaneously. To ensure that the reviews are serious, spending authority would terminate unless Congress acts to renew or revise the program.

Sunset will make a crucial contribution to the effort to cut the waste from government regulation and government spending. An excellent sunset bill passed the Senate last

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year. With the addition of sunset reviews for Federal tax expenditures, this legislation will make a great contribution to effective management. I urge Congress to put it into law.

In addition, my Administration will work with Congress this year to reform several individual regulatory statutes. We just submitted the first of our proposals to reduce economic regulation of surface transportation. We will submit legislation on drugs, nuclear plant siting, meat and poultry inspection and other areas. And we will work with Congress on bills already introduced to revamp regulation of communications.

To reform regulation, we and Congress must act in partnership, within our respective spheres of responsibility under the Constitution. The program I have stated follows that principle. From Congress, it asks reform of underlying statutes and modernization of the ground rules for administering them. From me, and from the agency heads I have appointed to help me execute the laws, it demands competent management and coordination.

I ask Congress to join me in this effort and to refrain from seeking authority to veto individual regulatory decisions and thereby to administer the laws itself. The legislative veto is an illusory solution to the problems of regulation. In some cases it would make rules weaker; in others it would make them stricter. But in all cases, it would increase delay, undermine fair procedures, and fragment responsibilities. It would disrupt our effort to manage the regulatory process, and it would distract Congress from the fundamental job of reforming underlying statutes. Any serious effort to administer the legislative veto would require a major increase in congressional staff and threaten the Constitutional division of power.

The program I am proposing will not solve all the problems overnight. But these steps will make regulation a more effective tool to improve our lives. They will help get needless rules and paperwork off our backs, and they will help marshal our resources to attack the real problems with maximum efficiency. By doing so, they will help us advance our national commitment to the regulatory goals we all believe in -- a healthier, safer and fairer America.

JIMMY CARTER

THE WHITE HOUSE,

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File

Paul R. Ignatius
Suite 559
1709 New York Avenue, N. W.
Washington, D. C. 20006

May 25, 1979

Honorable Robert S. McNamara
President
The World Bank
1818 H Street, N.W.
Washington, D. C. 20433

Dear Bob:

I am enclosing a somewhat refined version of the Memo that I sent you several weeks ago.

The new version does a better job in estimating costs, an area of weakness you noted in the earlier paper.

We have had good comments from Schlesinger and his Deputy, Jack O'Leary, as well as a number of other people who have reviewed the paper. There is an emerging feeling that the creation of a substitute fuel industry is an idea whose time has come. There is some feeling that our goal of a 5 million barrel per day capacity in the next 5 to 10 years is somewhat ambitious, although one or two qualified people have told me that they thought it could certainly be achieved within a 10 year period. Incidentally, I picked the 5 million barrel per day goal somewhat arbitrarily, but I was looking for a meaningful figure and thought that an objective of roughly 50% of our current imports would make a significant contribution toward lessening our dependence on unstable foreign sources.

I appreciate your willingness to get together with us and will give you a call sometime soon to find a convenient date.

Sincerely,

Paul

Attachment

Paul R. Ignatius
Suite 559
1709 New York Avenue, N.W.
Washington, D. C. 20006

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I appreciate your willingness to get together with us and will give you a call sometime soon to find a convenient date.

Sincerely,

Paul

Atta[chment]

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May 22, 1979

A PLAN TO PROVIDE UP TO
FIVE MILLION BARRELS OF OIL
PER DAY FROM SUBSTITUTE SOURCES

Introduction

The United States, if it has the will to do so, can create a synthetic oil industry capable of producing 5 million barrels per day - over 20% of our current needs - within the next five to ten years from sources such as shale, tar sands, heavy oils, coal, and farm crops. The synthetic fuels program would draw upon the proven experience of the innovative government-industry programs developed to meet other material shortages in World War II and the Korean War.

Three months after the attack on Pearl Harbor in December of 1941, 90 percent of the world's natural rubber facilities came under the enemy's control. By 1945, when World War II ended, 87 percent of the rubber consumed in the United States was synthetic. Nearly all of it came from government-owned plants built during the war with Reconstruction Finance Corporation money and operated by private industry.

Other critical materials shortages during World War II, notably in aluminum and steel, were met by additional plant capacity financed by the Defense Plants Corporation and other government agencies and operated by private companies under leases or management contracts.

In the Korean War we also faced materials shortages. This time we developed another method, under which the General Services Administration entered into market guarantee contracts with private industry to build new aluminum, copper and nickel capacity. Under these agreements, the private firm obtained private financing to build specified facilities, received 5-year tax amortization certificates, and gave the government the option to buy, at specified or prevailing market prices, any part of the output for five years that could not be sold to military or commercial users. Some of these facilities employed known processes with predictable costs (e.g., primary aluminum reduction) but others involved new products (e.g., ferro-nickel) with uncertain costs and marketability.

The long run cost of these programs to the Government was negligible. Most of the Government-owned World War II plants were sold to their private operators or others at prices that largely recouped their costs. Under the Korean War market guarantee contracts, the new capacity was privately financed. The Government did have to purchase some aluminum and other materials in excess of its own stockpile goals, but these excess inventories were later resold to private buyers or to the original producers at higher prices than the Government had paid.

Our Present Predicament

About half the petroleum we use is imported. More than half of our imports and even higher percentages of European and Japanese imports come from the Middle East. Our heavy dependence on these sources makes us highly vulnerable to sudden upward price movements resulting from interruptions to supply or from the actions of OPEC. Moreover, no one can be certain, looking ahead to the next five or ten years, that this oil will continue to flow uninterruptedly to our shores. Political changes, terrorist activities, overt military action, and natural disasters are among the possibilities that could lead to a significant reduction or even a halt of deliveries. Should this happen, the effect on the United States economy and our way of life would be extremely serious. The risks of not correcting the present situation are too great to bear.

The Shortcomings of Our Present Program

The Department of Energy (DOE) is pursuing a broad program to advance technology in a number of energy areas. Promising long-range applications, such as laser fusion, and medium range applications such as those based on solar technology, are expected to emerge from the DOE program. The substitute fuel program would not replace these DOE research efforts. But it would help greatly to fill the gap before the DOE programs, even if they achieve technical success, can fill a significant portion of our energy requirements.

Our concern is the immediate future, that is, the next five or ten years. For this period our present program relies primarily on savings from conservation and the increased output from domestic petroleum resources. Only limited progress has been made in conserving energy, and more clearly needs to be done. The President's decision to decontrol the price of U.S. crude oil is intended to stimulate domestic production. He estimates that the various conservation measures outlined in his April 5, 1979 program, together with new domestic oil production resulting from decontrol, will provide savings of from 864,000 to 1,539,000 barrels per day. Since we are using upwards of

20 million barrels per day -- about half of it imported -- we will still be heavily dependent upon foreign oil even if the program produces savings at the high end of the estimate.

Substantial additional supplies can be attained if the United States undertakes an expedited program to produce synthetic oil produced from sources and technologies that are already at hand. These supplies, together with the stimulus expected from the President's program, will help to provide the energy security the United States and its friends need in the critical period before solar and other energy applications are capable of making their full contribution.

A Program to Produce Synthetic Oil

The production program would be based on today's technology. Through joint government-industry efforts, we would create a synthetic oil industry in much the same way that we created a synthetic rubber industry almost 40 years ago and doubled our non-ferrous metal capacity almost 30 years ago.

The technology of synthetic oil is not in an early stage of research and development comparable to the intercontinental ballistic missile in 1950, the moon-landing program at its outset in 1960, or laser fusion today. It is a proven technology; Germany waged World War II on synthetic fuel produced from coal. South Africa has recently announced a program to produce oil and gasoline from coal. In the United States, a number of studies as well as prototype developments contemplate the eventual production of synthetic oil from coal.

Synthetic crude oil [comparable in its characteristics to imported crude oil] can also be produced from oil shale which, like coal, is available in enormous quantities in the United States. There are large deposits of oil shale in Colorado, Utah, and Wyoming. Environmental and other problems associated with its use and disposal, however, appear exceedingly difficult to overcome at the present time. Fortunately, there are important oil shale resources in Kentucky, Ohio, Indiana, Tennessee, and Alabama that seem to be generally free from the problems with Western shale. The Canadian tar sands can also be converted into fuels with existing technology. The production program might also include substitute fuels made from farm crops. Fuel mixtures of alcohol made from farm crops and gasoline have satisfactorily powered automobiles and agricultural vehicles, and offer the promise of saving worthwhile amounts of gasoline.

Large quantities of petroleum products (or substitutes like alcohol) could be made with known technology but at costs still above the present world prices of natural petroleum and its products. But while the future course of world oil prices remains uncertain, the trend will surely be upward in real terms -- the only questions are how sharply upward in real terms and how soon. A standing capacity to produce 5 million barrels daily from indigenous sources would be of incalculable value to the United States and the free world -- whether or not this capacity is continuously operated. Its existence -- in operation or standby -- would cushion the potential consequences of future political shocks, such as occurred in Iran this year and may well occur there or in other vital production centers again and again. By adding a significant additional operating or standby source of supply, it would also tend to dampen the inevitable upward trend of oil prices.

Depending on cost-price relationships, the political stability of the world oil trade, and balance of payments considerations, the United States and its friends would have several valuable options they do not now enjoy:

a) We could currently market the new output by subsidizing the difference, if any, between cost and market prices, and reducing imports by an equal amount (which might in turn lower world prices for our remaining needs).

b) We could currently purchase the new output and stockpile it as insurance against future political shocks..

c) Whenever supplies of natural petroleum at prevailing prices are deemed more attractive we could shut down some or all of the new plants. In the case of those privately built under market guarantee contracts, we would pay the owners a standby fee to cover their loan amortization needs plus a reasonable return on equity, with the right to order them reopened whenever it becomes timely to shift to option a) or b).

Proposed Petroleum Reserve Corporation

To carry out such a program, the United States should create a Petroleum Reserve Corporation, under the leadership of a proven business executive such as John deButts. The Corporation would be authorized to design and execute a program to create up to five million new barrels of petroleum and alcohol capacity per day, utilizing sources such as shale, tar sands, heavy oils, coal and farm crops. It would be authorized to issue bonds guaranteed by the United States. It would have authority to build new plants to be initially owned by the Government (financed by its bond issues or perhaps by using part of the proceeds of the proposed windfall tax) and operated by private industry under leases or management agreements. It would also have authority to enter into market guarantee agreements for new plants to be built and owned by private industry, with the triple option of a) buying any part of the output that is not commercially sold, b) paying the subsidy needed to make commercial sales, or c) ordering shutdown and paying a standby fee to cover amortization of debt and a reasonable profit, with the right to order reopening at any later time under option a) or b). The Corporation would analyze the feasibility of achieving its goals by employing various mixes of the sources, technologies and financing options available, and would then design its program and negotiate its contracts to suit.

The Corporation would also be empowered to finance the building of plants in Canada (e.g., for tar sands) and perhaps elsewhere, under firm intergovernmental agreements for making the output available. It could also be authorized to enter into joint ventures with other nations, under which they would participate in the financing risks in exchange for the right to a share of the output. It might also serve as a focal point for helping to identify environmental issues relating to the production program that require prompt resolution by the President.

Preliminary Cost Estimate

A rule-of-thumb used by energy planners suggests that the one time investment cost might be $20 billion for each one million barrels of synthetic capacity -- or $100 billion for the proposed program. The cost to the American taxpayer however, would be much less to the extent that the plants can be privately built under market guarantee contracts and to the extent that other countries participate in the governmental share of the financing. Recently, the Japanese and the West Germans have agreed in principle to participate in a U.S. Government-sponsored substitute fuel venture and to contribute half of its expected $700 million cost. With the participation of other governments and private industry, the American taxpayers' share of the capital cost of a 5 million barrel per day substitute fuel program might be held to a capital investment of $50 billion or less. Judging by the experience of World War II and the Korean War, even this investment would ultimately be recouped by selling the Government's share of the new plants to private industry. Moreoever, to put a $50 billion capital investment into perspective, we presently incur a trade deficit of more than $25 billion per year for each 5 million barrels per day of oil we import.

Looking at the downside risks of our petroleum future, $50 billion is a worthwhile insurance premium, much of which might be financed by the proposed windfall profits tax. Once the capacity is in being, we could respond more flexibly to any future energy development. If real oil prices stay level or go down, we could place the capacity in standby and this would be our only cost; or, if we preferred to reduce our oil imports, we could operate the capacity at the additional cost of the required operating subsidies. If real oil prices continue to go up -- which seems now to be the most likely of all the possibilities -- the plants would be self-supporting or close to that and most of our investment would be returned.

Additional Advantages

Apart from what it would do to resolve our present petroleum predicament, the proposed program would have other valuable psychological and economic advantages:

a) The program would give us all the psychological lift of "doing something" instead of just doing without. It would employ our managerial, technological, engineering and organizing talents to achieve a productive rather than a restrictive result.

b) If present expectations of a natural or induced recession by 1980-81 prove correct, the program would stimulate the capital goods and construction markets at the very time when a stimulus would be helpful.

c) The program would give us a vehicle for acting jointly with other concerned industrial democracies to meet the joint actions of OPEC in a non-confrontational manner that OPEC's members could not oppose and might even support.

The public reception to such a program should be highly favorable. The right time to adopt it is now.

Paul R. Ignatius
Eugene M. Zuckert
Lloyd N. Cutler

Paul R. Ignatius
Suite 559
1709 New York Avenue, N. W.
Washington, D. C. 20006

April 19, 1979

Honorable Robert S. McNamara
President
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Dear Bob:

I mentioned the other day that Gene Zuckert, Lloyd Cutler, and I were working on a plan to lessen our dependence on foreign energy sources. A copy is enclosed.

After you have had a chance to look at it, we would very much like to discuss it with you.

Sincerely,

Paul

Enclosure

4/24 To Mr. Ignatius
1. Paul, I'd be happy to meet with you.
2. A key point is the estimated capital cost ($50b) + related production cost for 5m barrels. What do you have to support the figures?
3. Have you compared this with Rockefeller Energy Corporation
Bob

April 19, 1979

A PLAN TO PROVIDE UP TO
FIVE MILLION BARRELS OF FUEL
PER DAY FROM SUBSTITUTE SOURCES

Introduction

This paper outlines a plan to create a synthetic fuels industry capable of producing 5 million barrels per day from sources such as shale, tar sands, heavy oils, coal, and farm crops.

During World War II, the United States created a synthetic rubber industry to replace the natural rubber lost to enemy action. During the Korean War, our capacity for making aluminum and other critical materials was greatly expanded through an innovative government program. The synthetic fuels program would draw upon the proven experience of these prior efforts.

Need

About half the petroleum we use is imported. More than half of our imports and even higher percentages of European and Japanese imports come from the Middle East. Our heavy dependence on these sources makes us highly vulnerable to sudden upward price movements resulting from interruptions to supply or from the actions of OPEC. Moreover, no one can be certain, looking ahead to the next five or ten years, that this oil will continue to flow uninterruptedly to our shores. Political changes, terrorist activities, overt military action, and natural disasters are among the possibilities that could lead to a significant reduction or even a halt of deliveries. Should this happen, the effect on the United States economy and our way of life would be extremely serious. The risks of not correcting the present situation are too great to bear.

The Present Program

The Department of Energy (DOE) is pursuing a broad program to advance technology in a number of energy areas. The production program outlined in this paper would not replace the DOE effort. Promising long-range solutions to our energy problems, such as laser fusion, and somewhat shorter range solutions, such as those based on solar technology, are expected to emerge from the DOE program.

Our concern is the immediate future, that is, the next five or ten years. For this period our present program relies too heavily on savings from conservation and the increased output from domestic petroleum resources. Some progress has certainly been made in conserving energy, and more clearly needs to be done. The President's decision to decontrol the price of U. S. crude oil is intended to stimulate domestic production. He estimates that the various conservation measures outlined in his April 5, 1979 program, together with new domestic oil production resulting from decontrol, will provide savings of from 864,000 to 1,539,000 barrels per day. Since we are using upwards of 20 million barrels per day -- about half of it imported -- we will still be heavily dependent upon foreign oil even if the program produces savings at the high end of the estimate.

Substantial additional supplies can be attained if the United States undertakes an expedited program to produce substitute fuels. These supplies, together with the stimulus expected from the President's program, will help to provide the energy security the United States and its friends need in the critical period before solar and other energy applications are capable of making their full contribution.

Production Program Concept

The production program would be based on today's technology. Through a government-assisted effort, we would create a synthetic fuels industry in much the same way that we created a synthetic rubber industry almost 40 years ago.

The technology of synthetic fuels is not in an early stage of research and development comparable to, say, the intercontinental ballistic missile in 1950 or the moon-landing program at its outset in 1960. Germany waged World War II on synthetic fuel produced from coal. South Africa has recently announced a program to produce oil and gasoline from coal. In the United States, a number of studies as well as prototype developments contemplate the eventual production of synthetic fuels from coal.

Synthetic crude oil comparable in its characteristics to imported crude oil can also be produced from oil shale which, like coal, is available in enormous quantities in the United States. There are large deposits of oil shale in Colorado, Utah, and Wyoming. Environmental and other problems associated with its use and disposal, however, appear exceedingly difficult to overcome at the present time. Fortunately, there are important oil shale outcroppings in Kentucky, Ohio, Indiana, Tennessee, and Alabama that seem to be generally free from the problems with Western shale. The Canadian tar sands can also be converted into fuels with existing technology.

The production program might also include substitute fuels made from farm crops. Fuel mixtures of alcohol made from farm crops and gasoline have satisfactorily powered automobiles and agricultural vehicles, and offer the promise of saving worthwhile amounts of gasoline.

World War II and Korean Experience

Three months after the attack on Pearl Harbor in December of 1941, 90 percent of the world's natural rubber facilities came under the enemy's control. In 1945, when World War II ended, 87 percent of the rubber consumed in the United States was synthetic, with nearly all of it coming from government-owned plants built with Reconstruction Finance Corporation money and operated under its direction by private industry. Other critical materials shortages, notably in aluminum and steel, were met by additional plant capacity financed by the Defense Plants Corporation and other government agencies and operated by private companies under leases or management contracts.

In the Korean War we also faced materials shortages. This time we developed another method, under which the General Services Administration entered into market guarantee contracts with private industry to build new aluminum, copper and nickel capacity. Under these agreements, the private firm obtained private financing to build specified facilities, received 5-year tax amortization certificates, gave the Government the option to buy a portion of the output, and could require the Government to buy, at specified or prevailing market prices, any part of the output for five years that could not be sold to military or commercial users. Some of these facilities employed known processes with predictable costs (e.g., primary aluminum reduction) but others involved new products (e.g., ferro-nickel) with uncertain costs and marketability.

The long run cost of these programs to the Government was negligible. Most of the Government-owned World War II plants were sold to their private operators or others at prices that largely recouped their costs. Under the Korean War market guarantee contracts, the Government did have to purchase some aluminum and other materials in excess of its own stockpile goals, but these excess inventories were later resold to private buyers or to the original producers at higher prices than the Government had paid.

Application to Our Present Predicament

These tested methods seem highly adaptable to our present petroleum predicament. They offer a way to replace fairly quickly a significant portion of our oil imports with substitute fuels, and to place some ceiling on the upward trend of imported petroleum prices. Large quantities of petroleum products (or substitutes like alcohol) can be made from a variety of indigenous U.S. and Canadian sources (shale, tar sands, heavy oils, coal and farm crops) with known technology but at costs still above the present world prices of petroleum and its products. The future course of world oil prices remains uncertain, but the trend will surely be upward in real terms - the only questions are how sharply upward and how soon. A standing capacity to produce 5 million barrels daily from indigenous sources would be of incalculable value to the United States and the free world - whether or not this capacity is continuously operated. Its existence - in operation or standby - would cushion the potential consequences of future political shocks, such as occurred in Iran this year and may well occur there or in other vital production centers again and again. By adding a significant operating or standby source of supply, it would also dampen the normal upward trend of oil prices.

Depending on cost-price relationships, the political stability of the world oil trade, and balance of payments considerations, the United States and its friends would have several valuable options they do not now enjoy:

a) Currently consuming the new output by subsidizing the difference, if any, between cost and market prices, and reducing imports by an equal amount (which might in turn lower world prices).

b) Currently purchasing the new output and stockpiling it as insurance against future political shocks.

c) Shutting down some or all of the new plants and, in the case of those privately built under market guarantee contracts, paying the owners a standby fee to cover their loan amortization needs plus a reasonable return on equity, with the right to order them reopened whenever it becomes timely to shift to option a) or b).

Proposed Petroleum Reserve Corporation

To carry out such a program, the United States should create a Petroleum Reserve Corporation, under the leadership of a proven business executive such as John deButts. The Corporation would be authorized to design and execute a program to create up to five million new barrels of petroleum and alcohol capacity per day, utilizing sources such as shale, tar sands, heavy oils, coal and farm crops. It would have authority to build new plants to be initially owned by the Government (perhaps using part of the proceeds of the proposed windfall tax) and operated by private industry under leases or management agreements. It would also have authority to enter into market guarantee agreements for new plants to be built and owned by private industry, with the triple option of a) buying any part of the output that is not commercially sold, b) paying the subsidy needed to make commercial sales, or c) ordering shutdown and paying a standby fee to cover amortization of debt and a reasonable profit, with the right to order reopening at any later time under option a) or b). The Corporation would analyze the feasibility of achieving its goals by employing various mixes of the sources, technologies and financing options available, and then design its program and negotiate its contracts to suit.

The Corporation would also be empowered to finance the building of plants in Canada (e.g., for tar sands) and perhaps elsewhere, under firm agreements on the terms for making the output available. It could also be authorized to enter into joint ventures with other nations, under which they would participate in the financing risks in exchange for the right to a share of the output.

Preliminary Cost Estimate

The one-time capital cost of a 5 million barrel per day program might be on the order of $50 billion spread over five or more years, though further study is needed before the cost can be estimated with confidence. Much of this might be privately financed, and the balance would be one of the most logical ways to recycle the proposed windfall profits tax. Looking at the downside risks of our petroleum future, $50 billion is a worthwile insurance premium. Once the capacity is in being, we could respond more flexibly to any future energy development. If real oil prices stay level or go down, we could place the capacity in standby and this would be our only cost; or, if we preferred to reduce our oil imports, we could operate the capacity at the additional cost of the required operating subsidies. If real oil prices go up, the plants would be self-supporting or close to that and most of our investment would be returned.

Additional Advantages

Apart from what it would do to resolve our present petroleum predicament, the proposed program would have other valuable psychological and economic advantages:

a) The program would give us all the psychological lift of "doing something" instead of just doing without. It would employ our managerial, technological, engineering and organizing talents to achieve a productive rather than a restrictive result.

b) If present expectations of a natural or induced recession by 1980-81 prove correct, the program would stimulate the capital goods and construction markets at the very time when a stimulus would be helpful.

c) The program would give us a vehicle for acting jointly with other concerned industrial democracies to meet the joint actions of OPEC in a non-confrontational manner that OPEC's members could not oppose and might even support.

The public reception to such a program should be highly favorable. The time to adopt it is now.

Paul R. Ignatius
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429

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In reply please refer to: DG
Prière de rappeler la référence:

Geneva, 7 May 1979

Dear Bob,

Thank you for your letter of 26 April 1979 and for the latest draft of the paper on Bank Lending for Health. I think it is now in extremely good shape, containing all the right philosophy about health and development, and I hope it will have the desired effect on your Board. Since WHO has been a pioneer in building up that philosophy and translating it into action, I should like to pledge the Organization's full cooperation with the Bank so that countries committed in practice to our joint philosophy will be given priority for Bank lending for health.

5/21

The Thirty-second World Health Assembly, which has just commenced, has as its central theme the formulation of strategies for health for all by the year 2000, based on the type of primary health care that was adopted at Alma Ata and that your paper outlines. Our Executive Board has proposed to the Health Assembly that full use be made of WHO's most important constitutional role, namely, the coordinating authority on international health work, in order to ensure the coherent preparation and implementation of these strategies. You may find it useful to let your Board know about WHO's responsibilities and commitments either as part of the paper or in other ways so that they can be sure that your proposal is in entire accord with the latest national and international political action for health.

With many thanks for your untiring efforts for the health of the people of the developing world and with my best personal wishes,

Yours sincerely,

Halfdan

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