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<u>Box Number</u>	<u>Folder Number</u>	<u>Document Date</u>	<u>Document Type</u>	<u>Document Description</u>
16	7	01/18/1969	Report	(cont from 16:6) Recommendations for Early Action or Consideration: A Report to the President-Elect. Submitted by Arthur F. Burns, Chairman, Program Coordination Group. 47 pages.

the employee.)

- (c) Poverty area investment tax credit. Under this proposal a 50 per cent tax credit would become available to a business firm with respect to outlays for depreciable plant and equipment in amounts up to \$3,000 for each employee, residing in the poverty area, who is added in the taxable year to the payroll of the business in the poverty area.
- (d) Tax incentives for poverty area capitalism and entrepreneurship. Here the Task Force urges the exploration of the possibilities of adapting tax provisions governing cooperatives to the problem of encouraging entrepreneurial capitalism in poverty areas.
- (e) Tax incentives for improving poverty area housing. Various devices are suggested, among them a tax credit of 50 per cent of the increase in maintenance outlays in respect of residential property in certified poverty areas.

The several tax credits and other incentives suggested by the Task Force are of unequal merit. The "poverty area payroll tax credit", the "on-the-job training tax credit", and the "poverty area investment tax credit" appear to be particularly attractive supplements

to the voluntary program described earlier in this report.

You should ask the Secretary of the Treasury to undertake at once, with the aid of the Council for Urban Affairs, a thorough study of the proposals by the Task Force to improve economic and social conditions in poverty areas. It would be very helpful to have the Secretary give you by a very early date his preliminary impressions of the practicability, both financial and political, of these proposals.

5. Human Investment Act

This Act, originally introduced by Senator Prouty, has been actively promoted by prominent Republicans in the Congress. You strongly endorsed it during the campaign.

The Act is modeled on the investment tax credit. It seeks to train workers who are presently unemployed, and also to upgrade the skills of workers already on payrolls.

The main doubt raised by the Act is whether its purpose cannot be achieved at much smaller expense. Critics have rightly pointed out that, as the Act is now written, employers would receive tax benefits merely for continuing the training programs that many of them conduct anyhow in the interest of profitable management of their businesses. Critics have also raised the question whether the proposed

tax credit would stimulate any significant amount of additional training in skills -- that is, over and above what is provided by the training programs now being conducted without special tax benefits.

These criticisms can be met through amendments of the Human Investment Act; that is, by replacing the tax credit stipulated in the Act with the "on-the-job training tax credit" and the "poverty area payroll tax", which were previously discussed in this report under the heading of Tax Incentives to Private Efforts. These tax credits would be at a higher rate. They also have the great merit of being limited to increases of the employment and training provided by employers. Hence, they could accomplish the broad purpose sought by the present version of the Human Investment Act at a smaller cost to the Treasury, and they would not be subject to criticism on the ground of being a blunt instrument that provides a windfall to business at the expense of the general taxpayer.

This proposal for amending the Human Investment Act should be discussed at an early date with the Secretary of the Treasury, Senator Prouty, and other Congressional leaders.

6. Community Self-Determination Act

A combination of tax incentives of the kind described

in the preceding item (Tax Incentives to Private Efforts) would appear to be a more constructive approach to improving poverty-area conditions than that contemplated by the Community Self-Determination Act.

The latter proposal, sponsored in 1968 by Senator Percy with the strong support of the Congress on Racial Equality, would establish an elaborate new apparatus of community development corporations and community development banks, besides making special tax incentives available to poverty-area business undertakings. The "community control" features of the proposal could very well lead to the exercise of considerable monopoly power in economic affairs by vocal and politically astute local leaders (not necessarily those with the most business acumen), and it could also lead to dubious use of financial resources.

Despite its questionable features, the measure is likely to be pressed in the 91st Congress. Thirteen Republicans joined Senator Percy in introducing the bill, and a similar legislative proposal was made by 19 Democratic Senators. It would be useful to try to steer Congressional thinking into more constructive channels.

7. Supply of Skilled Construction Workers

Progress in housing and urban development will depend on increasing the supply of skilled labor.

The Task Force on Housing and Urban Development reports as follows: "The new Administration should press forward with new programs relating to (1) ending discrimination in minority hiring, (2) job opportunities, and (3) introducing off-site fabrication in the construction field. Current restrictive practices in these areas, if permitted to continue, will prevent the nation from achieving its over-all construction goals. The construction trades unions must be made aware that they have an obligation and a role in improving and increasing the nation's housing inventory."

The Task Force on Manpower has also directed special attention to construction: "The President must set a policy calling for establishment of effective training programs for construction trades, management of housing, and related skills."

The convergence of the interest in housing and in the manpower problem of the construction industry creates an obvious field for interdepartmental cooperation. You should call this to the attention of the Secretaries of Labor and HUD.

8. Review of Davis-Bacon Act

It is widely believed that the Davis-Bacon Act has contributed materially to the sharp rise in construction costs.

It is highly important to check this belief. The Secretary of Labor should be asked to appraise experience under this legislation with a view to its possible amendment or repeal.

9. Equal Employment Opportunity Commission

The Equal Employment Opportunity Act does not grant to the Equal Employment Opportunity Commission the power to enforce its orders. In the event that investigation discloses a pattern or practice of discrimination and efforts to obtain voluntary compliance fail, the charging party must proceed on its own to obtain enforcement in a court of law.

In the 90th Congress, Charles Goodell introduced legislation that would grant to the Commission the power to seek an appropriate remedy in a court of law in the event mediation and voluntary compliance efforts failed. This is in contrast to the Johnson Administration's proposed legislation that would have granted the Commission broad NLRB enforcement powers. Under this approach, the

Commission would operate as investigator, prosecutor, judge, and jury.

It can be anticipated that legislation similar to the Johnson Administration proposal will be introduced in the 91st Congress by Democratic members. You should instruct appropriate Administration officials, including the Secretary of Labor, to consult the Republican legislative leaders with respect to this matter as soon as possible.

Social Security

XIII - SOCIAL SECURITY AND VETERANS PROGRAMS

1. Cost-of-Living and other Adjustments

During the campaign you proposed an automatic cost-of-living adjustment in social security benefits, so that benefits will go up automatically to the same degree as prices.

This proposal has the fine quality of justice for older people, but it may be opposed on two grounds. First, decreases in benefits would hardly be practical if and when the price level declines. Second, and much more important, automatic increases in social security benefits would tend to institutionalize inflation; that is to say, elderly people, who now offer powerful resistance to inflationary policies, would tend to lose interest in the problem of inflation once they are assured of steady real benefits.

In view of these difficulties, it would be best to propose later in the year an increase in social security benefits that would compensate the people on social security for the recent increase in prices, but which would not promise automatic increases in the future. Congressman Wilbur Mills, incidentally, favors this approach.

A special message on Social Security would probably be the best vehicle for presenting your recommendations

on this subject, and also your other proposals on social security (Nixon Speaks Out, pp. 174-79). The Secretary of HEW should be asked to prepare a working draft of this message.

2. Problems of the Aged

During the campaign you expressed a desire to hold a special White House Conference on the Problems of Older Americans. You also indicated that you would appoint a special White House Assistant on the Aging to keep you "informed of new ideas and in touch with the many councils and organizations devoted to the cause of the elderly."

In view of the intense pressures of the early months of your Administration, the White House Conference should probably be held in 1970 rather than 1969.

The promise concerning the special assistant should, however, be discharged promptly. This can be done by appointing a special White House Assistant on the Aging or by charging one of the special assistants with the responsibility^{of}/attending, among his other duties, to the problems of the aged. Since the number of assistants at your disposal will be quite limited, the latter course is preferable.

Planning for the Conference should be done by the

White House with the aid of the Department of HEW.

3. Veterans Programs

The Republican Platform made several specific proposals for improving veterans' programs. Congressman Ross Adair, the ranking Republican on the House Veterans Committee, has made somewhat similar proposals.

It would be desirable to request the new head of the Veterans Administration to make a prompt evaluation of these proposals, and to have him check his evaluation with the Secretary of HEW before communicating with the White House.

It would also be desirable to request the Secretaries of Labor and Defense to join in making plans for the employment of veterans, particularly Negroes, when the war in Vietnam ends.

Health Care

XIV - HEALTH CARE

1. Medicaid

The costs of Medicare and Medicaid are mounting. The increase in costs appears to be out of all proportion to the benefits derived by poor people.

Senator John J. Williams writes: "Medicaid as it has been expanded by executive orders and regulations within the past four months will add another one to two billion dollars annual cost to this program [in fiscal 1970.] Unless the President takes prompt action to rescind these regulations, they become fully effective July 1969."

The advice of the Secretary of HEW on this recommendation should be sought at once. At the same time, the Secretary should be asked to review the several alternative proposals for improving Medicaid that the Task Force on Health has submitted.

2. Medicare

There is a likelihood that early financing decisions will have to be made in connection with Medicare, in part because premium rates were not increased by the outgoing Administration. Pressures will develop both within and

outside the Congress to make changes in the program, and one of the proposals likely to be pressed is supplementary financing for Medicare with general Treasury revenues. In all probability, recommendations will also be advanced for extending coverage to groups not now eligible.

It is important to try to head off any build-up of pressure for using general Treasury revenues to finance Medicare. If we move in that direction, it will become increasingly difficult to resist proposals for progressively liberalizing the program. For that very reason, it would be well to heed the advice of the Task Force on Health to undertake a prompt study of the unresolved issues surrounding Medicare, and you should so instruct the Secretary of HEW.

3. Hill-Burton Act

The Chairman of the House Interstate and Foreign Commerce Committee has indicated that extension of the Hill-Burton Act, which authorizes Federal aid for the construction of community hospitals, will have top priority in the 91st Congress.

Given the pressing need for hospital construction and modernization in many parts of the country -- brought on in significant part by Medicare and Medicaid -- it

seems certain that a concerted effort will be mounted to get the authorization dramatically increased. Since the Hill-Burton Act is but one of a number of Federal programs concerned with construction of health facilities, there is a need to coordinate this piece of legislation with other undertakings, a point emphasized by the Task Force on Health.

The recent statement of intention by the Chairman of the House Interstate and Foreign Commerce Committee underlines the importance of an early conference between the Secretary of HEW and appropriate legislative leaders. One of the issues that should be explored is the possibility of moving in the direction of block grants in this area. You made favorable mention of that possibility during the campaign.

Welfare
Programs

XV - WELFARE PROGRAMS

1. Need for Critical Review

In recent years, welfare programs have greatly proliferated and their cost is mounting dangerously despite the general advance of prosperity. As you stated in a recent address, "it is time to admit that the maze of current Federal, state, and local welfare programs has alienated the taxpayers who supported them, the social workers who administer them, and the poor who depend on them."

What is now urgently needed is a thorough reexamination of existing welfare programs and policies with a view to their simplification, to the elimination of abuses, and -- most important of all -- to the creation of opportunity and incentives for moving poor people off welfare rolls and onto private payrolls.

There can be little doubt that the great disparity in the benefits allowed by the individual states has served to augment the welfare load of the more liberal states. A common national standard would remove this difficulty, but such a standard would probably approximate the benefit levels in the most liberal state and thus run up costs inordinately. The problem can, however, be handled gradually -- that is, by moving over a term of

years to a national standard.

The Task Force on Public Welfare has basically accepted the Johnson Administration's approach to welfare problems and has recommended liberalization of various benefits under existing law. While some of its detailed recommendations deserve respect, another study -- whether by a special task force or some other way -- is urgently needed.

It is recommended that you promptly request the new Council for Urban Affairs to make the welfare maze its first order of business, that it seek to simplify and rationalize the approach to welfare, that it explore ways of reducing the number on welfare rolls, that it obtain the advice of another task force composed of informed and tough-minded citizens, and that it secure the full cooperation of the Bureau of the Budget in this urgent enterprise.

2. Food for the Poor

At the present time there are a number of uncoordinated Federal food distribution programs. The Director of the Budget should be requested to furnish an early report on these programs and the feasibility of unifying them.

3. Declaratory Applications

The Department of HEW has proposed the mandatory use of a declaratory application, under which individuals would establish their eligibility for public assistance, by July 1. You have endorsed this principle, and so too has the Task Force on Public Welfare.

The Secretary of HEW should be requested to report promptly on his views concerning this proposal and its implementation.

Business
Regulation

XVI - BUSINESS REGULATION

1. One-bank Holding Companies

Because of a "loophole" in the Bank Holding Company Act of 1956, holding companies that include only one bank among their affiliates are also permitted to engage in nonbanking activities. Federal legislation is needed to prevent the one-bank holding company (OBHC) movement from radically changing the face of American capitalism in the years ahead.

The fears of those who foresee the development of 50 to 100 conglomerate power centers, each controlling one large commercial bank, appear to be supported by the tremendous upsurge in the formation of OBHC's; from less than 600 with deposits of \$14 billion in mid-1965, to over 800 with deposits of \$100 billion today.

The task of finding a legislative solution that will prevent a significant restructuring of the U.S. economy without further hamstringing financial competition is tough but necessary. The interests of several politically strong groups are involved, including the 500 or so small OBHC's of the "traditional type" which have made constructive contributions to their communities; the large conglomerates which want to avoid any Federal regulation; the new OBHC's being built around large

commercial banks, such as the Bank of America; the Association of Registered Bank Holding Companies, which are already federally regulated; and the American Bankers Association, which has a powerful grassroots lobbying mechanism. Competent observers agree, however, that the legislative task is not insuperable, especially if your Administration moves quickly to adopt a position which is also supported by the three Federal banking agencies, key Congressional leaders, and the American Bankers Association.

At the earliest opportunity, you should urge the Secretary of the Treasury and the Chairman of the Federal Reserve Board to assume leadership in the search for a solution.

2. Interest Ceilings on Deposits

Present legislation prohibiting payment of interest on demand deposits and authorizing Federal regulatory agencies to fix maximum interest rates on savings deposits and savings and loan shares needs reconsideration.

These ceilings have two adverse effects. First, they cause shifts of funds into and out of financial institutions as market interest rates fluctuate, resulting -- or threatening to result -- in difficulties for the institutions and their customary borrowers. Desire to avoid

these difficulties limits the Federal Reserve authorities in tightening credit when economic stability would require it. Second, the ceilings on interest payments force competition among financial institutions to take the form of provision of excessive offices and services rather than in interest payments.

While this problem is not urgent now, it may become so at any time. It would be well to seek the advice of the Secretary of the Treasury on an early occasion.

3. Occupational Safety

It appears fairly certain that Congress will consider occupational safety legislation early in the 91st Congress. An Occupational Safety and Health Act was reported over Republican objections by the House Education and Labor Committee late in the 90th Congress. There are firm indications that the recent Farmington mine disaster will result in a Congressional inquiry into the present enforcement of the mine safety laws, and that legislation amending the Federal Coal Mine Safety Act will be introduced when the 91st Congress convenes.

Congressman John M. Slack points out that substantial results cannot be expected from mere passage of new laws. He argues that "as a long-term approach to minimizing the risks for the miner we must proceed along lines which

will make it feasible to perform the maximum amount of work from a location above ground." To accomplish this, he recommends the addition of some \$5 million to the budget of the Office of Coal Research, with the stipulation that the money be spent (a) on the exploration of devices for the creation of self-sustaining climates underground, and (b) on the development of means whereby much of the mining function can be performed underground.

Congressman Slack's proposal is constructive. You should advise the appropriate Administration officials, particularly the Secretaries of Labor, Commerce, and Interior to get together as soon as possible with the legislative leaders to determine what course of action should be taken.

4. Pension and Welfare Disclosure Act

Congressman John Dent, Chairman of the Labor Subcommittee of the House Education and Labor Committee, has indicated that he will hold hearings on amendments to the Pension and Welfare Disclosure Act. The amendments in which he has expressed an interest are as follows:

- (a) More detailed reporting
- (b) Greater fiduciary responsibility
- (c) Compulsory vesting after 10 years
- (d) Compulsory insurance for the fund

(e) Specific funding requirements

(f) Portability

When the original Pension and Welfare Act was drafted, there was good cooperation on the part of the insurance companies, pension experts, the Labor Department, and the House Education and Labor Committee. The amendments that are now under consideration are so far-reaching that another cooperative effort is definitely in order. Most knowledgeable people are of the opinion that something must be done. Much money is involved and many of the pension plans are shaky in conception and operation.

You should advise the Secretaries of Labor and Commerce to put together promptly an appropriate study group, with an early deadline for reporting. The development of an Administration position should await the report of this group.

Crime

XVII - CRIME AND LAW ENFORCEMENT

1. National Law Enforcement Council

During the campaign you made a pledge to establish a National Law Enforcement Council, at a Cabinet level, with a view to coordinating Federal policy on the control and prevention of crime. Such a Council can be established at once by Executive Order and this should be done. But in order to derive maximum usefulness from the Council, over the long term, it would also be wise to draw plans to establish it on a legislative base in the near future.

Under legislation proposed by Congressman Poff and Senator Hruska, the Council would have the following duties:

- (a) Advise and assist the President with respect to Federal responsibilities in the law enforcement field.
- (b) Prepare a special yearly law enforcement report to the Congress.
- (c) Review the new state and local law enforcement programs.
- (d) Review actions taken to increase effective coordination among Federal, state, and local law enforcement agencies.
- (e) Recommend, where necessary, additional legislation for strengthening Federal assistance in

the law enforcement field.

You should seek the advice of the Attorney General promptly, with a view to submitting just as soon as possible a recommendation to the Congress for the establishment of a National Law Enforcement Council along the lines indicated.

2. Crime in the District of Columbia

At this point in time, the District of Columbia, where the Federal government has the primary responsibility for law enforcement, is one of the major keys to the nation's crime problem. It also presents your Administration with a unique opportunity.

Normally, plans and programs of a new administration take months to develop and years to implement. Tangible results are slow to emerge. However, in this instance the results could be swift and dramatic. In fact, this process has already started. Recently, Mayor Washington vetoed the City Council's highly restrictive regulations on the use of firearms by the police. This veto has given fresh encouragement to the residents and businessmen of the District and a much needed boost to the morale of the police.

In order to establish that the Nixon Administration intends to carry forward its promises in the field of law enforcement, you should instruct the Attorney General to evaluate at once the following recommendations for the District of Columbia:

- (a) Increase the number of judges and other judicial and prosecuting personnel, so as to speed reduction in the huge backlog of criminal cases. Delays in prosecution bog down the prosecutors and courts, discourage the police, make convictions more difficult, and permit the defendants to roam the streets and commit additional crimes.
- (b) Reorganize the U.S. Attorney's Office for the District. This Office has been poorly administered, besides being understaffed.
- (c) Institute an immediate study of the operation of the correctional system. With the exception of the Youth Center, all of the D.C. correctional institutions are antiquated and overcrowded.
- (d) Bring the Metropolitan Police Department to its full authorized strength of 4,100.

Recommendations along these lines were made by you during the campaign and have also been made by Congress-

man Poff and Senator Hruska.

3. Bail Reform

The Bail Reform Act of 1966 was inadequately considered and hastily enacted. Due to its mandatory release requirements, hundreds of dangerous defendants have been turned loose to roam the streets. Early consideration should be given to revising the present bail statute, so that courts will have the authority to detain predictably dangerous defendants. Legislation that would accomplish this has been introduced by Congressman Richard Poff.

Senator Sam Ervin, Chairman of the Subcommittee on Constitutional Rights of the Senate Judiciary Committee, has indicated that he will hold hearings on the subject of bail reform early in this session of the Congress. The Attorney General will be invited to appear and testify at these hearings; hence the early development of an administration position is imperative.

You should discuss the problem of bail reform with the Attorney General as soon as possible. The seriousness of the problem may even warrant a separate message to Congress.

4. Narcotics Problem

The number of narcotic or drug addicts in the United States is not known precisely, but it cannot be small. This is an area where the Federal government has a primary responsibility, and there is an intense public interest in how it is exercised.

As soon as possible, a Presidential Message on the narcotics problem should develop the various recommendations that you made during the campaign. The message might cover the following points:

- (a) ✓ Instruction to the Attorney General to call at the earliest possible date a national convocation of law enforcement officials to discuss ways and means to curb the traffic in drugs.
- (b) Request for an appropriation to employ several hundred additional customs agents.
- (c) Initiation of discussions with other countries for the purpose of establishing multi-national commissions to stem the flow of drugs into the United States.
- (d) Request the National Institute of Health to intensify its research into the causes of narcotics addiction.

- (5) Greater effort in the implementation of the 1966 Rehabilitation Act.
- (6) Provision for Public Health Service hospitals for the treatment of narcotics addicts in New York City, Chicago, and Los Angeles.

The advice and assistance of the Attorney General and Secretary of HEW should be sought in the drafting of the messages.

5. Obscenity

During the campaign you promised to deal with the issue of obscenity, particularly the use of the mails to forward obscene materials to juveniles.

You should therefore request the Attorney General and the Postmaster General to hold an early meeting on this problem, with a view to determining what can be done under present laws and what new legislation may be needed. The work of the United States Commission on Obscenity and Pornography, which was created in October 1967, should of course be reviewed.

Any new legislation that may be proposed should be sensitive to the concept of freedom that inspires and informs writers and artists.

6. Unified Correction Service

At present, there is much duplication and confusion in the field of correction and rehabilitation. The Justice Department (Bureau of Prisons, Parole Board, Office of Pardon Authority), the Department of HEW (Welfare Administration, Office of Education, Vocational Rehabilitation Administration, Public Health Service), the Labor Department, the Office of the President, and the Administrative Office of the Courts -- all have responsibilities in the area.

This tangled array of departments, agencies, and bureaus led the Republican Coordinating Committee, of which you were a member, to recommend the creation of a consolidated Federal Correction Service.

In his 1967 Crime Message to Congress, President Johnson made a similar proposal, which became the subject of hearings by the House Judiciary Committee. Strong criticisms of the proposal were developed, and they suggest the need for caution.

You should establish a task force to study this problem and to make specific recommendations that might prepare the way for a consolidated Federal Correction Service.

7. Organized Crime

In view of the importance of the problem of organized crime and also your discussion of it during the campaign, you should consider a special message to the Congress on this subject.

The message might deal with the following:

- (a) Your proposal for a permanent Joint Congressional Committee on Organized Crime.
- (b) The proposal of the President's Crime Commission and of the American Bar Association to establish extended terms of imprisonment for "professional criminals".
- (c) The proposal (as provided by legislation introduced in the 90th Congress by Congressman Poff and Senator Hruska) to outlaw the investment in legitimate business concerns of the income derived by crime syndicates from other enterprises, if such income has not been reported on Federal tax returns.
- (d) Recommendation to the Congress that the Internal Revenue Service be given the authority (which it no longer appears to have under a recent Supreme Court decision) to enforce the wagering tax laws.

The Attorney General and the Secretary of the Treasury should be consulted on the proposed message.

International
Econ. Relations

XVIII - INTERNATIONAL ECONOMIC RELATIONS

1. U.S. Investing and Lending Abroad

The broad objective of the new Administration must be to move away from the system of controls over foreign lending and investing. As you explained during the campaign, these controls are alien to our traditions and contrary to the spirit of our international commitments.

In view of the precarious state of our balance of payments, it would be hazardous to dismantle at once the controls that have recently piled up. We can, however, move promptly to simplify the controls and thus lower the costs to business and government; to reduce serious inequities in the controls; and to diminish their harmful effects on the development of U.S. exports.

The following changes, by Executive Order, in the controls over U.S. direct investment abroad deserve your serious consideration:

- (a) Raise the exclusion limit from \$300,000 previously announced for 1969 to perhaps \$1 million (investments below this level not being subject to restriction).
- (b) Drop the distinction by categories or countries (investments in Canada, however, continuing

to be exempted).

- (c) With respect to investments above the exclusion level, allow companies to choose between (i) a base-year formula of the present type and (ii) a more dynamic approach whereby investment amounts would be geared to a company's success in raising its foreign earnings. Initially, 35 per cent of prior-year earnings might be an appropriate ratio.

Further, the Federal Reserve Board's guidelines limiting foreign credit extensions by U.S. banks need revision in at least one major respect; that is, to exempt credits for financing bona fide U.S. exports.

Finally, the Interest Equalization Tax that is imposed on foreign securities floated in this market may be safely reduced, now that our interest rates are no longer markedly lower than those abroad. This can be done by Executive Order. However, continuation of the taxing authority beyond the expiration date of next July 31 would seem prudent, and this will require legislation.

You should seek the advice of the Secretary of the Treasury and the Chairman of the Council of Economic Advisers on these suggestions for moving at once toward dismantling of the direct controls on our foreign investing and lending.

2. Foreign Aid

During the course of the campaign you urged that "we ought to turn our foreign aid programs more in the direction of stimulating private enterprise, less in the direction of financing government enterprise." One possible means of accomplishing this has just been suggested by the International Private Investment Advisory Council. This Council was created under the terms of the Foreign Assistance Act of 1966 to advise the Agency for International Development.

The Council has proposed a new federally-chartered corporation for the purpose of promoting private capital investment in the less developed countries. Newspaper accounts indicate that a number of Republican legislators are favorably inclined toward the proposal, and it thus seems likely that you will be asked to support it.

The proposed corporation would take over AID's present investment-guarantee program, which insures investors in developing countries against loss from certain risks of a political and business nature. Besides its investment-guarantee activities, the corporation would have authority to make loans to private parties either in dollars or in local currencies. The corporation could issue its own securities with principal and interest guaranteed by the U.S. government, and it would also have the right to

borrow directly from the Treasury.

Some features of the proposal are soundly conceived. Importantly, the principle of co-insurance is honored and safeguards are provided against direct loans that would compete with wholly private financing. There are numerous features which need to be clarified, however, and it would seem advisable for you to ask the Secretary of the Treasury and the new head of the Agency for International Development to explore the proposal.

Whatever its technical merits, there are both budgetary and balance-of-payments reasons for moving cautiously toward the establishment of the proposed corporation.

The proposal does not contemplate a substitution of private capital investment in underdeveloped countries for present government-to-government foreign aid. Instead, the new corporation would complement foreign-aid programs, and it would be specifically aimed at an expansion of total private investment activities. This would not be a desirable development at a time such as the present, when the resources available for use in this country are under strain and when our balance-of-payments position is precarious. Moreover, the corporation's authority to borrow directly from the Treasury may constitute an additional burden on the Federal budget.

3. Textile Imports

Representatives of the textile industry have recently submitted suggestions on how you might fulfill the promise to extend current limitations on imports of cotton textiles to other fibers. The industry proposes that negotiations be started at once with the major countries producing textiles for the purpose of arranging "voluntary" import limitations on articles made of wool, manmade fibers, and blends; but in the event that such negotiations fail, the industry urges that you support a legislative solution, that is, a textile quota bill.

Clearly, every effort should be made to negotiate a "voluntary" agreement, since acquiescence in legislative mandatory quotas for textiles is bound to stimulate requests for quotas from other sectors of American industry. If quota bills proliferate, our nation's long-term policy of liberal trade will be in grave jeopardy.

The Task Force on International Trade concurs in the proposal for the negotiation of a multilateral agreement. More specifically, it suggests that:

- (a) You make a public statement, as promptly as possible, that you intend to seek an international arrangement covering the textile trade, and that you are designating a high official

to communicate to appropriate officials in other nations your hope that a suitable agreement will be promptly achieved.

- (b) Besides visiting the foreign capitals, your emissary should call upon the GATT Director General to advise him of your position and to seek a meeting under GATT auspices of the nations involved.
- (c) In advance of the meeting, consultations should be held with management and labor representatives, so that the advice and experience of textile industry people may be secured.

These suggestions are entirely reasonable, but you should discuss them with the Secretaries of State and Commerce before taking formal action.

4. Tariffs and Other Trade Barriers

To counter the political response to the new or impending limitation of steel and textile imports, it is important that you concurrently stress your commitment to a liberal trade policy. Without that, it will be extremely difficult to get other nations to enter into meaningful negotiations for the removal of existing obstacles to our exports.

To implement this objective, the following points deserve careful consideration:

- (a) A major new initiative to reduce nontariff barriers is needed. Work is already being done within GATT to assemble basic information on the extent of nontariff barriers and to identify those which have a significant impact on trade.
- (b) The Trade Expansion Act of 1962 expired in 1967, and you therefore lack the power that earlier Presidents had to modify tariff rates. The Johnson Administration proposed legislation to extend the President's bargaining power on tariffs, with the understanding that it would not be used for a major new initiative; but the Congress failed to act. Without this power, it will be exceedingly difficult to bargain even on nontariff matters.
- (c) Foreign border taxes are multiplying, and we may therefore be forced to consider the desirability of our responding by a border tax of our own -- perhaps, to begin with, to the modest extent that existing sales taxes seem to permit.
- (d) Elimination of the "American selling price method" of determining the value of U.S. imports of

certain chemical products may be an essential pre-condition to meaningful negotiations on nontariff barriers.

- (e) To assist firms and workers that are injured as a result of tariff concessions, the provisions of existing law need to be liberalized so that they may be readily applicable in cases of real injury.
- (f) Enactment of quota bills and similar restrictive legislation should be opposed, first, because they would result in prompt retaliation by other nations to the detriment of our exports, second, because they could lead to a spiraling of trade restrictions with serious consequences for the growth of the entire world economy.

These policy suggestions, despite their reasonable ring, raise difficult political questions. The textile, steel, dairy, oil, lumber, cement, and chemical industries are all eager to obtain additional protection against foreign imports. One way or another, the trade and tariff problems facing us will have to be dealt with this year. Before presenting legislation to the Congress, the potential problem areas should therefore be carefully identified by the Departments of State and Commerce. If a promising bill is to be submitted before mid-year, economic

and political probing must get under way at once; and you should so instruct the Departments concerned.

5. Tax on Foreign Deposits

Under the Foreign Investors Tax Act of 1966, bank deposits of nonresident aliens and foreign corporations will lose their exemption from income and estate taxes, effective December 31, 1972.

This law should be reviewed at an early date with a view to remedial legislation. Early action is essential since many foreign depositors are expected to remove their deposits from the United States well ahead of the effective date and, in fact, some have already done this. The amounts involved are substantial and their withdrawal would injure our balance of payments.

This item should be referred to the Secretary of the Treasury.

6. Telecommunications

You should be aware that President Johnson recently received a Report on Telecommunications from a Task Force which had studied communications problems over a 15-month period. The report makes a variety of far-reaching recommendations pertaining to both domestic and interna-

tional communications matters, some of which are bound to be highly controversial.

It would be appropriate to establish promptly a small review committee to assess the report, with a view to developing legislative recommendations. Dr. DuBridge can advise you about the composition of the review committee.

Seeking Dr. DuBridge's advice, together with that of the State Department, is indicated in connection with another telecommunications matter. An international conference, aimed at establishing definitive arrangements for a Global Commercial Communications Satellite System, is scheduled to meet in Washington in late February. This provides very little time for incoming officials to prepare themselves. It would therefore seem desirable to postpone the meeting until later in 1969.

7. International Space Cooperation

It would be advisable to ask Dr. DuBridge and the Secretary of State to explore possibilities of new initiatives in international space cooperation.

The Task Force on Space favors the "active study" of such possibilities, noting that in the case of the Soviet Union the "most promising" area for joint undertakings probably lies in unmanned planetary exploration,

a field in which Soviet competence matches our own. Keeping alert to such possibilities seems important not only because of the dollar savings that may be realized but even more, perhaps, because of the political advantages that could flow from a prominent joint effort with the Soviet Union.

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