The original documents are located in Box 55, folder "1976/01/13 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

EPB/ERC EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

January 13, 1976

PRINCIPALS ONLY

1.	Countercyclical Assistance Act	Treasury
2.	Agency Responsibilities under the Energy Policy and Conservation Act	Zarb

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING
January 12, 1975

ATTENDEES: Messrs. Simon, Seidman, Lynn, Greenspan, Dunn Baker, Zarb, Dent, MacAvoy, Gorog, Porter, Collinson, Hormats, Schleede, Kasputys, Areena

1. Report on IMF Meetings

Secretary Simon briefly reported on the success of the recently concluded IMF meetings in Jamaica which resulted in a new Article IV legitimatizing floating rates as a system and increased access for developing countries to IMF funds.

2. Proposals to Repeal the Excise Tax on Trucks, Trailers and Buses

The Executive Committee reviewed the advantages and disadvantages of a repeal of the current excise tax on trucks, trailers and buses.

Decision

Mr. Collinson will prepare a draft letter in response to proponents of a repeal of the excise tax reflecting the discussion for review by the Executive Committee the week of January 19.

3. Food Deputies Report

The Executive Committee reviewed the Food Deputies Report, which is attached at Tab A. The discussion focused on the 1975-1976 world grain supply, the prospects for additional Soviet purchases, and the price outlook.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 9, 1975

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR ECONOMIC POLICY BOARD - EXECUTIVE COMMITTEE

FROM: Paul W. MacAvoy Paul MacAvoy

SUBJECT: Food Deputies Report No. 35

WORLD GRAIN SITUATION

This memorandum summarizes and discusses current estimates of world supply consumption and trade of grains and recent changes in these estimates. The basic data are presented in Table 1.

1. Supply

The grain supply picture for 1975/76 is now reasonably well determined, with USDA and private trade sources in essential agreement on the situation. Production in 1975/76 is now projected at 921.7 million metric tons, practically unchanged from a year earlier. This estimate incorporates the recent reduction of the Soviet grain crop to 137 million metric tons, and is consequently about 1.8 percent lower than the preceding (October 31) USDA estimate. Because beginning stocks are about 8 percent lower in 1975/76 than those coming out of the record 1973/74 season, total supply for 1975/76 is estimated to be 8.3 million metric tons (0.8 percent) lower than a year earlier. The only major instances where weather could yet make a difference is with respect to feed grains in Argentina and South Africa. But even if feed grain production should be reduced in these countries as much as 20 percent, world grain supplies would decline by only one-half of 1 percent.

World rice production in 1975/76 is projected at 347 million metric tons, 20 million tons (6 percent) above last year's level which, unlike the case of grains, was already a record crop. The rice estimate has increased 2 percent since October. The large supply is attributable to the past several years of high producer prices, an excellent Asian monsoon, and some increased use of high-

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Table 1. World Supply-Demand Balance of Grains and Rice

	1974/75 1/	1975/76 2/
	(millions of metric tons)	
Total Grains (Wheat, Rye and Feed Grains)		
Supply:		
Beginning stocks	110.6	101.9
Production	921.3	921.7
Total supply	1031.9	1023.6
Demand:		
Consumption 3/	930.0	924.2
Ending stock 3/	101.9	99.4
Total demand	1031.9	1023.6
Trade 4/	125.9	140.4
Rice		
Supply:		
Beginning stocks	10.4	10.5
Production	326.8	346.9
Total supply	337.2	357.4
Demand:		
Disappearance 5/	325.7	343.7
Ending stocks 3/	10.5	13.7
Total demand	336.2	357.4
Trade	7.5	7.2

1/ Year beginning July 1.

2/ USDA projection as of Dec. 19.

3/ Aggregate of differing local marketing years.

4/ Excludes trade within the EC.

5/ Includes ending stocks of several important producers whose stocks are unknown.

yielding varieties.

2. Demand and Price

The reduction of estimated world grain supplies since October has not increased world and U. S. grain prices. The reason is probably the trade's expectation that the additional Soviet shortfall will not be translated to world demand

There is disagreement on whether Soviet import capacity is nearer 2 million (USDA estimate) or 3 million (CIA estimate) metric tons per month. If capacity is indeed close to 30 million tons for the 15 month July 1975 through September 1976 period, it will constrain the Soviets from adding more than 3 to 4 million tons to the estimated 26 to 27 million tons they have already purchased. Thus the additional shortfall since October may not add to price. On the other hand, if capacity is 3 million per month then the Soviets could buy much more. A large increase could firm up prices.

With essentially fixed supplies, world price movements in the next several months will depend on such changes in demand. If feed use increases faster than expected in response to recent lower grain prices, the demands would increase. Some private sources predict feed grain use higher than currently projected by USDA. If increased feeding materializes together with a drought-reduced Argentine crop, feed grain prices would be likely to increase, although no run-up approaching that of last summer appears in the offing.1/ In contrast to feed grains, wheat demand is not likely to be subject to near-term unexpected increases and the large rice supply should help prevent sharp price increases. Food demand increases with economic recovery are likely in the industrial countries, but because the income elasticity of demand for food, especially food grains, is low demand increases may not be large.

1/ USDA's currently projected consumption of grain would leave world ending stocks at 99.4 million for 1975/76, down 1.5 million metric tons from a year earlier. However, projected ending stocks outside the Soviet Union are up by about 3.5 million tons. These aggregate stock figures are not as meaningful as those for a single crop in a single country because different areas and crops have different harvest seasons. Consequently, there is no date at which world stocks are reduced to anywhere near these levels. Moreover, for many small countries and for the U.S.S.R. and P.R.C., reliable data on stocks do not exist. Therefore, projected ending stocks may not be a good "bottom line" figure for judging the tightness of supplies.

THE WHITE HOUSE

WASHINGTON

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your information.

NATIONAL COUNCIL FOR URBAN ECONOMIC DEVELOPMENT
LEGISLATIVE BULLETIN

NEW YEAR PORTENDS HILL DECISIONS

The New Year will see important decisions on major anti-recessionary legislation -- brought closer to resolution by the U.S. House of Representatives and the Senate before the holiday recess -- after delays of more than three months.

The House and Senate reported out of conference and the Senate passed by an impressive voice vote a $6.2 billion package which includes a $2.5 billion accelerated public works program, a $1.5 billion program of fiscal assistance to states and localities, a $1.4 billion authorization for waste water treatment facilities, a $500 million extension of the Title X Job Opportunities Program, and a new interest subsidy program with expanded funding authorization in Title II of the Public Works and Economic Development Act (PW & EDA).

Of particular interest to urban economic developers is an amendment proposed by Rep. Robert A. Roe (D-N.J.) and adopted by the conferees, which changes Title IV of the PW & EDA to facilitate the designation of cities with population of 50,000 and over and to establish a special funding pot for such cities authorized at $100 million for the period ending Sept. 30, 1976.

ARC, Title V Extended

In a separate but distinctly related action, the House and Senate have adopted a bill which extends the Appalachian Regional Commission for four years and the Title V Regional Commissions for two years with expanded program and funding authorizations for the "Title Vs."

While the bills are separate, the deliberations on the multi-facted anti-recessionary program and the ARC/Title V bill were closely entwined and the politics looked at times like a three-dimensional chess game.

In general, urban interests agreed to support the ARC/Title V bill in return for rural support on the anti-recessionary package. The strategy was to develop sufficient support from all sectors, especially in the House, to prevent or override a Presidential veto.

Although congressional support for both bills is strong, the House is considered the shakier of the two bodies in the event of a veto and an attempted override. Because of this situation, the House leadership decided to delay the initial vote in that body until after the Christmas recess; hoping that wavering members might be persuaded by constituents during the holiday period to support the anti-recessionary bill, H. R. 5247.

National Council For Urban Economic Development
1620 Eye Street, N.W., Washington, D.C. 20006 202/293-5211 Kenneth Fry, Executive Dir.

The National Council for Urban Economic Development is a non-profit, non-partisan, tax-exempt organization which [illegible] in local assistance, communications, pragmatic research, and professional interchange. CUED is currently supported by membership [illegible] dues, a grant from the Ford Foundation, as well as grants and contracts from the Economic Development Administration of the U.S. [illegible] Commerce and the U.S. Department of Housing and Urban Development.

Views on a Presidential veto are mixed but those expecting the veto predominate. Predictions on a subsequent override vote, especially in the House, are almost impossible, particularly in the wake of the House's failure to override the President's veto of the tax cut extension. Many suggest that if the House could not override the tax cut veto, it cannot override any veto.

Others suggest that the House failed to override the tax cut bill because of peculiarities attached to that particular situation, and it is, therefore, unwise to draw conclusions regarding future override votes. (However, for any who would like to try, the House rollcall on the tax cut override vote is included in this *Legislative Bulletin*.

Probably the only sure statement at this time is that the final outcome, especially in the House, will depend largely on the message that members receive from their constituents while they are in their home districts over the holiday.

Something for Everybody

Because the anti-recessionary package contains "something for everybody" and because it is being linked psychologically (and politically) to the rural oriented ARC/Title V bill (which is expected to escape a veto despite Administration displeasure with the Title V provisions), it is difficult to determine which factions would fail to support the package either before or after a Presidential veto. There is some sense, however, that rural and especially Republican congressmen are the least inclined to support the program largely because of the total price tag. This position may be difficult to support, however, since the entire authorization is included in the congressional FY76 budget ceiling recently adopted by both the House and Senate.

The principal elements of the package reported out by the Conference Committee and, so far, adopted by the Senate, are as follows:

A. ACCELERATED PUBLIC WORKS PROGRAM

The Senate conferees agreed to accept the language of the so-called "Speaker's Bill" (H.R. 5247), passed overwhelmingly by the House in May. It authorizes "the Secretary [of Commerce] to make grants to any State or local government for construction (including demolition and other site preparation activities), renovation, repair, or other improvement of local public works projects (including but not limited to (1) those public works projects of State and local governments for which Federal financial assistance is authorized under provisions of law other than this Act, and (2) the architectural design, engineering, and related planning of local public works projects)."

An amendment suggested by Sen. James McClure (R-Idaho) and accepted by the conferees would authorize funds only for the *completion* of planning and architectural work previously begun. On-site construction must begin within 90 days of grant receipt.

The conference report accompanying the bill indicates that eligible projects "would include, but not be limited to, the following: demolition and other site preparation activities, new construction, renovation, and major improvements of public facilities such as municipal offices, courthouses, libraries, schools, police and fire stations, detention facilities, water and sewage treatment facilities, water and sewer lines, streets and roads (including curbs), sidewalks, lighting, recreational facilities, convention centers, civic centers, museums, and health, education and social service facilities." No funds can be used for the acquisition of real property.

Tied to Unemployment Rate

Whenever the national unemployment rate is equal to or in excess of 6.5 percent for three consecutive months, the legislation stipulates that first priority -- and 70 percent of the funds appropriated -- must go to projects in areas with unemployment rates in excess of the national rate. The remaining 30 percent of the funds must go to projects in areas having an unemployment rate between 6.5 percent and the national average.

In general, priority is given to applications from local government, although the conference report suggests that EDA, in administering the program, should not unduly delay action on state applications which clearly have merit.

The bill goes on to state that "information regarding unemployment rates may be furnished either by the Federal Government, or by States or local governments, provided the Secretary [of Commerce] determines that the unemployment rates furnished by States or local governments are accurate, and shall provide assistance to States or local governments in the calculation of such rates to insure validity and standardization."

Unemployment data generated under the CETA Title II or Title VI programs might be a good place to start in developing municipal rates.

The bill authorizes 100 percent Federal funding and further allows the Federal Government to supply the local share on pending grants from Federal and state agencies. A total of $2.5 billion is authorized for the period ending Sept. 30, 1977.

B. AMENDMENTS TO THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT

The Public Works and Economic Development Act was not extended -- it still expires on June 30, 1976 -- but there were some amendments to that act of substantial importance.

1. House members Robert A. Roe (D-N.J.) and Bella S. Abzug (D-N.Y.), in a daring move, were successful in adding a new Section 405 to the PW & EDA which allows for the almost automatic designation of cities with populations of 50,000 and more and authorizes a special funding pot for cities designated under this new section. Specifically, the new Section 405 allows any city, meeting nothing more than the 50,000 population requirement, to be designated as a redevelopment area upon submission and approval of an overall economic development program.

In addition, cities designated under Section 405 become eligible, upon submission of a redevelopment plan, to receive grants from EDA to be used subsequently by the city in the form of grants and loans to carry out the redevelopment plan. Funds returned to the city as loans are repaid may be retained by the city in a revolving fund to be re-used in grants and loans.

Section 405 authorizes $50 million in FY76 and another $50 million for the transitional quarter ending Sept. 30, 1976, for such grants.

The legislation is clear to say that cities with designation *only* under Section 405 may receive grants only from the specially authorized pot as well, of course, as from the other provisions of the PW & EDA which are not restricted to redevelopment areas. However, cities which already have, or could get, designation under one of the existing provisions of Section 401 of the PW & EDA continue to be eligible for the full range of EDA programs (most notably Titles I and II) and, in addition, may secure designation and funding under the new Section 405.

Designed for Urban Areas

The new Section 405 establishes a number of important principles. For the first time, there is a program specially designed for urban areas. Second, the notion that economic distress is measured by a combination of unemployment and poverty statistics is challenged by the theory that there is *prima facie* evidence that any city of more than 50,000 population is economically distressed in whole or in part.

Third, depending upon the regulations established by EDA, cities can be given flexibility in the use of Section 405 grant funds, including a range of real estate activities not usually possible under the existing EDA program.

Fourth, Section 405 allows the possibility that cities can set up revolving funds for local economic development purposes thus, in part, relieving themselves of the necessity to seek EDA assistance on a project-by-project basis.

The significance of these breakthroughs should not be underestimated, especially since they may serve as an important opening in further amendments to the PW & EDA to be considered early in 1976.

Address "Capital Crunch"

2. The conferees agreed to the Senate proposal to address the "capital crunch" problem by adding a program to Title II of the PW & EDA whereby EDA is authorized to subsidize up to 4 percent of the interest on any loan it guarantees under Section 202 of the act. Under this interest subsidy program, to remain in effect through the end of calendar 1976, preference is given to "entities" employing fewer than 1500 people. In addition, the conferees agreed to increase the Title II authorization for FY76 from $75 million to $200 million.

3. House conferees agreed to extend the authorization for the Title X Job Opportunities Program and to authorize $500 million in FY76 funds to be obligated through Sept. 30, 1976. In so doing, the conferees expressed their strong dissatisfaction in the allocation pattern of Title X funds, feeling that too often these funds were used especially by agencies other than EDA as a substitute for regularly allocated funds in the current or future fiscal years. As a result, the conference added the following language to Section 1006 of the act: "Funds authorized to carry out this title shall be in addition to, and not in lieu of, any amounts authorized by other provisions of law."

The conference report also expresses some dissatisfaction with EDA's heavy reliance on its computer for allocation decisions and goes on to indicate the conferees' confidence in the judgment of EDA's experienced personnel and its desire for EDA staff to exercise such judgment in making future allocation decisions.

Other Key Features

Other key features of the compromise Title X provision include:

o Strengthening the selection criteria statement in Section 1003 (d) to read "the Secretary shall (1) give priority to programs and projects which are most effective in creating and maintaining productive employment, including *permanent and skilled employment* measured as the amount of such direct and indirect employment generated or supported by the additional expenditures of Federal funds under this title, and (2) consider the appropriateness of the proposed activity to the number and needs of unemployed persons in the eligible area." (emphasis added)

This new language should improve the chances of economic development projects being funded under Title X, and should skew the selection toward "package deals" where Title X funds will be linked with other funds in one project.

- Establishing a priority system similar to that in the APW program whereby 70 percent of the Title X funds must go to areas with unemployment rates in excess of the national average when the national average is over 6.5 percent. If the national average recedes below 6.5 percent, authority to carry out Title X is suspended.

- Making it clear that states and political subdivisions may apply directly to appropriate Federal agencies and that such applications will receive priority.

- Amending the requirement for an equitable distribution of funds between urban and rural areas to state that such distribution is not necessary if it would require grants in areas that would not meet the criteria of the title.

C. COUNTERCYCLICAL FISCAL ASSISTANCE TO STATES AND LOCALITIES

The program of countercyclical fiscal assistance to state and local governments originally proposed by Sen. Edmund Muskie (D -Me.), was adopted by the conference committee for a period of five quarters beginning April 1, 1976.

Good data!!

The jurisdictional question involving the House Government Operations Committee and its chairman, Rep. Jack Brooks (D-Tex.) , was repeatedly raised by House conferees who with the exception of Ms. Abzug, consistently wanted to shorten the duration of the program. The original House position was for a two-quarter program and the Senate began with a 12-quarter program. The compromise should allow the countercyclical program to begin its authorized life at about the same time that appropriations could first be made available, and extend its life well beyond the time when General Revenue Sharing comes under heavy consideration by the same House Government Operations Committee.

The program will provide "no-strings" quarterly allocations to states and local governments (of more than 50,000 population) which have unemployment rates in excess of 6 percent. Funds will be distributed according to a formula based on recession-related unemployment and tax effort.[1]

The entire program is suspended if the national unemployment rate falls below 6 percent. The amount distributed nationally will rise and fall with the national unemployment rate. Based on current projections, it is estimated that about $1.6 billion would be allocated over the five-quarter period.

---

[1] A print-out of allocations under this program to state and local governments based on current unemployment data is not available. However, the Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations did prepare such a listing in July, 1975, based on unemployment during the first quarter of 1975 which, nationally, averaged 8.3 percent. This listing is contained in a report #55-304 O entitled "State and Local Governmental Allocations under S. 1359, the Intergovernmental Anti-Recessionary Act of 1975."

D. WASTE WATER TREATMENT FACILITY FUNDS

In July, the Senate adopted the Nunn/Talmadge amendment which would have re-allocated $9 billion in funds for waste water treatment facilities so that more rural states, especially in the South and Mountain area would have gained and industrial states in the Northeast, North Central area and West would have lost. This provision was extremely unpopular in the House because of the heavier representation of those industrial states, and, in fact, the impass on this issue was the primary reason why the House-Senate conference was delayed for more than three months.

The final compromise was to reject the Nunn/Talmadge amendment and instead authorize somewhat more than $1.4 billion in FY77 funds to supplement the allocations to the states that would have gained under the Nunn/Talmadge provision. States that would have lost money under Nunn/Talmadge will remain at their original funding level.

ACTION ON ARC/TITLE V BILL

In separate but related action, the House and Senate also settled their differences on legislation to extend the Appalachian Regional Commission and the Title V Regional Commissions. The House had passed a "straight" four-year extension for ARC; the Senate had extended ARC deliberations on the part of governors.

In addition, however, the Senate had also tacked an extension of the Title V Regional Commissions onto the ARC bill and had expanded both the programmatic and funding authorizations for the Title V Regional Commissions. It was this last provision relating to the Regional Commissions that was unpopular in the House, primarily because such an arrangement was expected to reduce gubernatorial support for the rest of the PW&EDA.

The strong support behind the Title V provisions, coming primarily from Regional Commission governors and from Sen. John McClellan (D-Ark.) and Sen. Mike Mansfield (D-Mont.) was sufficient to cause the Senate conferees to stand firm. It was the Senate's unbudgeable position on Title V that caused the House conferees to insist upon Roe's amendment in Title IV relating to the designation of cities.

The final arrangement involves a four-year extension of ARC at a total authorized funding level of $2.811 billion level (which includes funds for the highway program through FY81) and requirements for increased involvement by governors. It also includes a two-year extension of the Title V Regional Commissions with expanded authority to undertake demonstration programs in the areas of energy, transportation, health care and vocational education.

In addition, a program for the development of arts and crafts in Appalachia and the Regional Commissions is authorized. Authority was also given to California and Texas to become single-state regional commissions and to Puerto Rico and the Virgin Islands to combine as one regional commission.

The Title V authorization is increased from $150 million to $200 million in FY76 and a $50 million authorization for the transitional period ending September 30, 1976, is provided.

PW & EDA AMENDMENTS - 1976

Regular readers of this publication have probably noted by now that the signals can switch very quickly on Capitol Hill. This was precisely the case with regard to the proposed amendments to the Public Works and Economic Development Act (PW&EDA) discussed in the Nov. 1 *Legislative Bulletin.*

The House Economic Development Subcommittee, chaired by Rep. Roe, had a bill for a two-year extension of the PW&EDA ready for subcommittee mark-up early in November. Contained in that bill were several key amendments that would have improved the access of cities to the EDA program and altered that program to make it more relevant to the economic development needs of cities.

The proposal made by Rep. Abzug amending Title II to permit EDA to make grants to local economic development corporations for the purpose of establishing local revolving funds for economic development activities was combined with the proposal made by Roe amending Title IV to open up designation for cities. This joint proposal was changed even further and has now become a part of the conference committee compromise package (H. R. 5247) which features the accelerated public works and countercyclical assistance to states and local governments.

Another proposal, made by Rep. Henry Nowak (D-N. Y.), would have redefined "economic adjustment" under Title IX to include long-term economic deterioration, thus making cities eligible to receive Title IX funding to address one of the most pervasive economic problems they face. Although this provision was not included in the anti-recessionary package, it will most likely be taken up again when PW&EDA amendments are next considered.

The mark-up session on this composite EDA extension bill was suddenly canceled when the path was opened for a House-Senate conference on the various pieces of major anti-recessionary legislation discussed earlier in this *Legislative Bulletin*. This development, however, should not be viewed as a lack of interest on the part of key members of the House Economic Development Subcommittee for a thorough examination of the Public Works and Economic Development Act with an eye toward making the program more effective in urban settings.

***

MEMBER PARTICIPATION INVITED

The PW&EDA expires on June 30, 1976. Because of the new schedule on all congressional activities imposed by the new Congressional Budgeting Process, both the House and Senate must begin very early in the new year to consider extension legislation, probably in late January or early February. Based on previous experience, NCUED will likely be asked to provide technical advice to staff on both the House and Senate sides relating to urban economic development problems and solutions as seen in the context of the PW&EDA. To help us provide this advice, we will be undertaking a process of information gathering especially during the early part of January, prior to the Congress' return on Jan. 19. We welcome your participation in this process.

***

1976 PROGRAM IN PREPARATION

The Board of Directors and staff of NCUED are currently preparing its plans for the 1976 Legislative Analysis program. As previously, a key part of that program will involve informing members of legislative activity taking place in the United States Congress. Clearly, however, NCUED cannot cover every bill under consideration and must establish priorities. It is, therefore, extremely helpful and, in fact, important for our members to let us know their views concerning what these legislative priorities should be.

THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

JAN 7 1976

MEMORANDUM TO: Economic Policy Board

FROM: Charles M. Walker CEW

SUBJECT: Returns with increased tax liability

1. Description of affected returns. A comparison of the proposed compromise 1976 tax cuts with a hypothetical 12-months extension of the recent Congressional tax cuts indicates that for 1.28 million returns (about 1.5 percent of all returns), tax liability would be higher under the compromise plan than under the hypothetical Congressional tax cut. The total amount of increased liability would be about $35 million. Of the affected returns, 0.82 million would be returns for single taxpayers with incomes over $10,000. The average increase would be $27.40, ranging from $7.60 in the lowest AGI range to $49.80 in the highest AGI range. It should be emphasized that these are average figures for the AGI ranges and not the absolute lowest and highest increases.

2. Analysis of tax burden tables and other material for public presentation of tax program. At the outset, two points should be emphasized. First, no taxpayer would have a higher tax liability under the 1976 compromise tax cut plan than under the tax cut actually enacted by the Congress for 1976. Second, while we have developed material comparing the compromise 1976 tax cut with the hypothetical 12-months Congressional tax cut in order to be prepared should it become necessary during public and Congressional consideration of further tax cuts to provide such material, we recommend most strongly against its inclusion in any Administration discussion of tax cut proposals. The hypothetical 12-months extension of the present tax cut is only one of a number of plans that Congress might adopt or others might propose. Obviously some taxpayers will gain and others will lose under the many alternative ways of effecting tax

reductions. The proper comparison is with the law in place. For that reason, although we developed for internal use various comparisons of the President's October 6 proposals with a hypothetical 50 percent magnification of 1975 law, such comparisons were never made public. Instead, the tables published in the White House Fact Sheet and contained in the Treasury Department testimony provided comparisons only with 1974 and 1975 law.

Attached are the full range of income distribution and tax burden tables that would accompany the comparison of the proposed 1976 compromise tax with the hypothetical 12-months extension of the Congressional tax cuts. It will be observed that none of the returns with an increased tax liability show up on these tables. That is because the tax burden tables usually distributed assume itemized deductions equal to 16 percent of AGI (with taxpayers in the lower income ranges taking the larger standard deduction). The problem group of affected taxpayers are mainly taxpayers who have high incomes but nevertheless take the standard deduction because their itemized deductions are a small percentage of AGI.

The textual materials distributed in connection with the October 6 proposal did not state directly whether any taxpayers would have a higher tax liability than under 1975 law. For example, the White House Fact Sheet stated only that "the changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers."

3. <u>Other comparisons showing that overall tax cuts may result in increased liability for some taxpayers</u>. A comparison in October of the October 6 proposals with what then appeared to be the most likely Congressional alternative, a 50 percent magnification of the 1975 tax cuts, would have shown that exclusive of the earned income credit 1.43 million returns would have a higher tax liability (totaling about $14 million) under the October 6 proposals.

A comparison of the October 6 proposal to the hypothetical 1976 12-months tax cut would produce similar results (1.3 million affected returns and $70 million in total liability).

In short, if the optional tax calculation is considered a political necessity for 1976, the same considerations could well dictate its continuation for 1977 and subsequent years.

The increase in some taxpayers' liability despite the overall deeper tax cut under the October and compromise proposals as compared with two hypothetical alternatives results from the decision made in October to seize the opportunity to use the major tax cuts to achieve substantial simplification. Thus, the October 6 proposals substitute a single standard deduction, an increased personal exemption deduction, and rate reductions for a complex structure of low income allowances, percentage standard and maximum standard deduction, personal exemption deduction, per capita exemption credit, taxable income credit and earned income credit. Allowance of an optional tax computation would abandon that commitment to simplification and bring down the wrath of the great numbers of taxpayers who would undertake the optional calculation (generally with no change, or an insignificant change, in tax liability) or would be unable to cope with the complexities introduced by dual instructions and dual tax provisions.

4. Possible changes in the single taxpayer rate schedule. The number of affected taxpayers could be reduced if the rates for single taxpayers were further reduced in the upper brackets. The maximum rate reduction would be that provided in the October 6 proposals. The top two taxable income brackets for which reduced rates were provided by the October 6 proposals are set out below, together with present law rates, the compromise plan rates, the October 6 proposed rates, and the modified compromise plan rates.

Taxable Income Bracket	Present Rates	Proposed '76 rates	Oct. 6 Proposal	Modified '76 Plan
$6,000-$ 8,000	24	22.5	21	21
$8,000-$10,000	25	24.5	24	24

The change in single tax rates would substantially eliminate single taxpayers from the problem group. Thus, the number of single taxpayers with tax increases would be reduced from 0.82 million to 0.19 million. The number of affected taxpayers remaining would be 0.66 million, with total increased tax liability of approximately $10 million (or an average increased liability of about $15). The change would cost $190 million.

We recommend against changing the compromise plan.

-- Would cost $190 million

-- Would increase the number of single taxpayers having tax increases in 1977 unless additional rate cuts (beyond the 1977 proposals) are also provided for 1977 and subsequent years

-- Would further alter the relationship of married and single tax liabilities (single taxpayers received the same taxable income credit as married couples, which disturbs the existing relationship of the single and married tax rate schedules).

Attachments

Table 6

Income Distribution of Liability Under
Revenue Adjustment Act Extended Compared With
Revenue Adjustment Act (Unextended)
(1975 Levels of Income)

AGI class ($000)	Total tax liability, Revenue Adjustment Act	The Act Extended	Tax Cut Caused by Extending Revenue Adjustment Act: Amount	Percent distribution	As percent of tax under Act
	(.......... $ billions	...........)	(....................	percent	.....................)
Up to 5	1.5	1.0	0.4	6.5	29.3
5 - 10	12.2	10.4	1.9	28.1	15.2
10 - 15	21.5	19.8	1.7	26.0	8.0
15 - 20	22.4	21.1	1.3	19.9	5.9
20 - 30	27.1	26.2	0.9	14.1	3.4
30 - 50	16.7	16.4	0.3	4.0	1.6
50 - 100	12.0	11.9	0.07	1.1	0.6
100 +	9.4	9.4	0.01	0.2	0.2
TOTAL	122.9	116.3	6.6	100.0	5.4

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

Note: Estimates exclude net refunds under E.I.C.; they are treated as expenditures.

Table 7
Income Distribution of Liability Under Proposed 1976 Law
Compared with Revenue Adjustment Act (Unextended)
(1975 Levels of Income)

AGI class ($000)	Total tax liability: Revenue Adjustment Act	Total tax liability: Proposed 1976 law	Tax cut caused by proposal: Amount	Tax cut caused by proposal: Percent distribution	Tax cut caused by proposal: As percent of tax under Act
	(.......... $ billions ....)		(.................... percent	....	)
Up to 5	1.5	0.9	0.6	5.3	37.8
5 - 10	12.2	9.7	2.5	24.1	20.8
10 - 15	21.5	18.7	2.9	27.3	13.4
15 - 20	22.4	20.3	2.1	20.1	9.5
20 - 30	27.1	25.5	1.7	15.9	6.2
30 - 50	16.7	16.2	0.5	5.0	3.1
50 - 100	12.0	11.8	0.2	1.8	1.6
100 +	9.4	9.4	*	0.4	0.5
TOTAL	122.9	112.4	10.5	100.0	8.6

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

Note: Estimates of total tax liabilities exclude net refunds of E.I.C.

Table 9

Tax Liabilities Under Proposed 1976 Law Compared with Revenue Adjustment Act Extended for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax liability		Additional tax cut under proposal
	Revenue act extended	Proposed 1976 law	
$ 5,000	$ 130	$ 88	$42
7,000	448	387	61
10,000	948	872	76
15,000	1,882	1,827	55
20,000	2,905	2,842	63
25,000	4,060	4,006	54
30,000	5,384	5,358	26
40,000	8,522	8,481	41
50,000	12,200	12,140	60

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

Table 11

Tax Liabilities Under Proposed 1976 Law Compared With
Revenue Adjustment Act Extended for Family with 1 Dependent,
Filing Jointly with Itemized Deductions of
16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax liability		Additional tax cut under proposal 2/
	Revenue act extended 2/	Proposed 1976 law	
$ 5,000	0	0	0
7,000	$ 289	$ 234	$55
10,000	820	726	94
15,000	1,717	1,635	82
20,000	2,717	2,624	93
25,000	3,850	3,757	93
30,000	5,144	5,070	74
40,000	8,226	8,140	86
50,000	11,847	11,739	108

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If the effects of the EIC were included, the table would have these entries (negative numbers represent direct payments to the taxpayer):

AGI	1975 Law	Proposed 1976 Law
$5,000	- $300	- $150
$7,000	+ $189	+ $184

Table 13

Tax Liabilities Under Proposed 1976 Law Compared With Revenue Adjustment Act Extended for Family with 2 Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax liability: Revenue act extended 2/	Tax liability: Proposed 1976 law	Additional tax cut under proposal 2/
$ 5,000	0	0	0
7,000	$ 135	$ 89	$ 46
10,000	651	555	96
15,000	1,552	1,446	106
20,000	2,530	2,405	125
25,000	3,640	3,507	133
30,000	4,904	4,781	123
40,000	7,934	7,799	135
50,000	11,510	11,345	165

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If the effects of the EIC were included, the table would have these entries (negative numbers represent direct payments to the taxpayer):

AGI	1975 Law	Proposed 1976 Law
$5,000	- $300	- $150
$7,000	+ $ 35	+ $ 39

Table 15

Tax Liabilities Under Proposed 1976 Law Compared With Revenue Adjustment Act Extended for Family with 4 Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax liability: Revenue act extended 2/	Tax liability: Proposed 1976 law	Additional tax cut under proposal 2/
$ 5,000	0	0	0
7,000	0	0	0
10,000	$ 308	$ 240	$ 68
15,000	1,192	1,078	114
20,000	2,125	1,966	159
25,000	3,190	3,002	188
30,000	4,394	4,191	203
40,000	7,319	7,101	218
50,000	10,805	10,542	263

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Eanred Income Credit (EIC) if they earn less than $8,000. If the effects of the EIC were included, the table would have these entries (negative numbers represent direct payments to the taxpayer):

AGI	1975 Law	Proposed 1976 Law
$5,000	- $300	- $150
$7,000	- $100	- $ 50

Table 17

Tax Liabilities Under Proposed 1976 Law Compared With Revenue Adjustment Act Extended for Single Person Without Dependents, With Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax liability		Additional tax cut under proposal
	Revenue act extended	Proposed 1976 law	
$ 5,000	$ 363	$ 334	$29
7,000	714	677	37
10,000	1,331	1,278	53
15,000	2,409	2,358	51
20,000	3,667	3,609	58
25,000	5,145	5,080	65
30,000	6,790	6,722	68
40,000	10,535	10,455	80
50,000	14,897	14,811	86

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.