June 26, 1976

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, June 28, 1976

No EPB Executive Committee meeting

Tuesday, June 29, 1976

1.	Status of Tax Reform Legislation	Treasury
2.	Report on Puerto Rico International Summit	Simon
3.	Report on East European Trip	Simon

Wednesday, June 30, 1976 PRINCIPALS ONLY

1.	New York City Update	Treasury
2.	Report on H.R. 12323	Seidman
3.	Economic Analysis of the Public Works Bill	OMB

Thursday, July 1, 1976

1.	Expropriation Policy	Parsky
2.	Outlook for the CPI	MacAvoy

Friday, July 2, 1976

No EPB Executive Committee meeting

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

Wednesday, June 30, 1976

1.	Economic Analysis of the Public Works Bill	OMB
2.	Report on H.R. 12323	Seidman
3.	Outlook for the CPI	MacAvoy

see S. 3192

94TH CONGRESS
2D SESSION

H. R. 12323

IN THE HOUSE OF REPRESENTATIVES

MARCH 4, 1976

Mr. RONCALIO introduced the following bill; which was referred to the Committee on Interstate and Foreign Commerce

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A BILL

To reaffirm the intent of Congress with respect to the structure of the common carrier telecommunications industry rendering services in interstate and foreign commerce; to grant additional authority to the Federal Communications Commission to authorize mergers of carriers when deemed to be in the public interest; to reaffirm the authority of the States to regulate terminal and station equipment used for telephone exchange service; to require the Federal Communications Commission to make certain findings in connection with Commission actions authorizing specialized carriers; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Consumer Communications Reform Act of 1976".

I

CONGRESSIONAL FINDINGS AND DECLARATION OF PURPOSE

SEC. 2. The Congress finds and declares that—

(a) The revenues from integrated interstate and foreign common carrier telecommunications services, based on charges reflecting both costs and value of service, have contributed toward meeting the costs of facilities used in common for providing such interstate and foreign services and local telephone exchange service throughout the United States, and thereby helped maintain a level of charges for telephone exchange service which is lower than otherwise would be required.

(b) The technical integrity of the nationwide telecommunications system, its coordinated planning, design, installation, improvement, management, operation and maintenance are indispensable elements in the interstate telecommunications network, necessary both to the reasonableness of charges and to the high quality and universality of common carrier telecommunications service, and accordingly Congress hereby reaffirms its policy that the integrated interstate telecommunications network shall be structured so as to assure widely available, high quality telecommunications services to all of the Nation's telecommunications users.

(c) The authorization of lines, facilities, or services of specialized carriers which duplicate the lines, facilities, or services of other telecommunications common carriers—

(1) involves higher charges for users of telephone exchange service by decreasing the interstate revenues that otherwise would be available for contribution to the common costs of providing telephone services throughout the United States;

(2) fosters inefficiencies in the utilization of national telecommunications resources through the creation of unnecessary and wasteful duplication of telecommunications lines and facilities and wasteful use of the radio spectrum;

(3) significantly impairs the technical integrity, the coordinated planning, design, installation, improvement, management, operation and maintenance of the integrated nationwide telecommunications network; and

(4) has an adverse impact on the national objectives of maintaining stability of consumer price levels, conserving national economic resources, improving productivity, and fostering an economy that will maintain adequate sources and reasonable costs of capital;

and is, therefore, contrary to the public interest.

(d) The Congress reaffirms its intent that the complete authority to regulate terminal and station equipment used for telephone exchange service shall rest with the States even though such terminal and station equipment also may be used in connection with interstate services.

(e) The congressional findings and declarations of policy set forth herein are necessary to achieve the purposes of the Communications Act of 1934 as specified in section 1 of that Act; and the Federal Communications Commission shall take no action inconsistent with the findings and declarations in this Act.

CHARGES FOR SERVICE

SEC. 3. Section 201 (b) of the Communications Act of 1934, as amended (47 U.S.C. 201) is amended by adding the following at the end of the first sentence: "No compensatory charges for or in connection with such communication service may be found to be unjust or unreasonable on the ground that it is too low. The Commission may not hold the charge of a carrier up to a particular level to protect the traffic or revenues from a communication service offered or provided by another carrier if such charge proposed by the carrier is compensatory. As used in this subsection, a charge is compensatory so long as it equals or exceeds the incremental cost of providing the communications service. Such incremental cost is the additional cost caused by the provision of the service including, where appropriate, the capital costs of whatever additional facilities are required to provide the service.".

ACQUISITIONS BY AND OF CERTAIN COMMON CARRIERS

SEC. 4. The Communications Act of 1934, as amended, is further amended by adding the following new section 224:

"SEC. 224. Upon application of any common carrier or other person involved in the transaction, the Commission shall have jurisdiction (i) to approve the acquisition of control by a domestic common carrier of any other domestic common carrier or the acquisition of the whole or any part of the property of a domestic common carrier by any other domestic common carrier, or (ii) to approve the acquisition by a person which is not a common carrier of control of any domestic common carrier or the acquisition of the whole or any part of the property of a domestic common carrier, whenever the Commission determines, after full opportunity for hearing on an evidentiary record, that such approval is in the public interest. The Commission shall give reasonable notice in writing concerning any such proposed action to the Governor of each of the States in which the physical property affected, or any part thereof, is situated, and to each State commission that may also have jurisdiction over any of the common carriers involved, and to such other persons as it may deem advisable, and shall afford such parties a reasonable opportunity to participate in any hearings related to such action. If the Commission approves the proposed acquisition, it shall certify to that effect; and thereupon any Act or Acts of Congress making the proposed acquisition unlawful shall not apply. As used in this section 224, 'domestic common carrier' shall mean a common carrier, the major portion of whose traffic and revenues is derived from communications services other than foreign communications. This section 224 shall not apply where either section 221 (a) or 222 of this Act is applicable or to the acquisition by any person of a telephone common carrier as defined in section 225 (a) (1).".

SEC. 5. Section 2 (b) of the Communications Act of 1934, as amended, (47 U.S.C. 152 (b)) is further amended by striking the clause beginning with the words "except that" following the semicolon and inserting the following "except that sections 201 through 205 of this Act, both inclusive, and section 224 of this Act shall, except as otherwise provided therein, apply to carriers described in clauses (2), (3), and (4).".

REAFFIRMATION OF STATE JURISDICTION OVER LOCAL TERMINAL AND STATION EQUIPMENT

SEC. 6. Section 2 (b) of the Communications Act of 1934, as amended (47 U.S.C. 152 (b)) is further amended by striking "or" at the end of the phrase following "(1)" and substituting therefor the following: "including but not limited to, the charges, classifications, practices, services, facilities, or regulations for or in connection with the use or connection of any station equipment, terminating facilities, exchange plant, and other like instrumentalities and apparatus used in common for both intrastate communication service and interstate or foreign communication service, whether provided by a common carrier or any other person, or".

SEC. 7. Section 3 of the Communications Act of 1934, as amended (47 U.S.C. 153), is further amended by adding the following new subsection:

"(gg) 'Intrastate communication' means communication or transmission between points in the same State, territory, or possession of the United States, or in the District of Columbia, including among other things, all station equipment, terminating facilities, exchange plant, and other like instrumentalities and apparatus used for or in connection with telephone exchange service or interexchange service, even though such equipment, facilities, plant, instrumentalities or apparatus are or may be used in connection with interstate or foreign communications service. 'Intrastate communication service' means any service which provides intrastate communication.".

FINDINGS TO BE INCLUDED IN COMMISSION AUTHORIZATIONS OF SPECIALIZED CARRIERS

SEC. 8. The following new section is added in title II of the Communications Act of 1934, as amended:

"SEC. 225. (a) As used in this section—

"(1) The term 'telephone common carrier' means any common carrier, the major portion of whose traffic and revenues, in interstate and foreign communication and in intrastate communication, is derived from message telephone services, telephone exchange services, radio-telephone exchange services, or a combination thereof.

"(2) The term 'telegraph common carrier' means any common carrier which provides a public message telegram service in interstate communications.

"(3) The term 'specialized carrier' means any common carrier other than a telephone or telegraph common carrier.

"(4) The term 'message telephone service' means telephone service between stations in different exchange areas on a message-by-message basis, contemplating a separate connection for each occasion of use.

"(5) The term 'public message telegram service' means a substantially nationwide telegraph service for the transmission and reception of record matter where the transmission is not directly controlled by the sender and for which a charge is collected on the basis of number of words transmitted and which is available to the public.

"(b) The Commission shall not grant or authorize any construction permit, station license, or certificate, for the construction, acquisition, or operation of any communication or transmission line or facility, or extension thereof, or any modification or renewal thereof, that otherwise might be granted or authorized pursuant to any provision of this Act, to any specialized carrier that furnishes or proposes to furnish interstate communication service unless the Commission shall find, after full opportunity for evidentiary hearing on the record, that such permit, license, or certificate, will not result in increased charges for telephone exchange service or in wasteful or unnecessary duplication of communication lines, facilities, equipment and instrumentalities of any telephone or telegraph common carrier, and will not significantly impair the technical integrity and capacity for unified and coordinated planning, management, design, and operation of the nationwide telephone network. In finding that such grant or authorization will not result in wasteful or unnecessary duplication, the Commission shall determine, among other things, that the proposed service or services of the specialized carrier, which are the subject of the requested grant or authorization, (i) are not like or similar to any service or services provided by a telephone or telegraph common carrier and (ii) cannot be provided by available communications lines, facilities, equipment, or instrumentalities of a telephone or telegraph common carrier. At any hearing involving a matter under this subsection, the burden of proof to support the requisite findings by the Commission shall be on the applicant for such permit, license, or certificate.".

94TH CONGRESS
2D SESSION

H. R. 12323

A BILL

To reaffirm the intent of Congress with respect to the structure of the common carrier telecommunications industry rendering services in interstate and foreign commerce; to grant additional authority to the Federal Communications Commission to authorize mergers of carriers when deemed to be in the public interest; to reaffirm the authority of the States to regulate terminal and station equipment used for telephone exchange service; to require the Federal Communications Commission to make certain findings in connection with Commission actions authorizing specialized carriers; and for other purposes.

By Mr. RONCALIO

MARCH 4, 1976

Referred to the Committee on Interstate and Foreign Commerce

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

June 29, 1976

ATTENDEES: Messrs. Seidman, Greenspan, Lynn, Richardson, Dixon, Cannon, MacAvoy, Gorog, Katz, Malkiel, Darman, Porter, Penner, Jones, Goldstein, Segall, Duval

1. Tax Reform Legislation

The Executive Committee reviewed a memorandum, prepared by the Treasury, on tax reform legislation and the 45-day extension of withholding rates which the Congress is anticipated to transmit to the President tomorrow. The discussion focused on whether the extension would terminate on August 15, 1976 or September 1, 1976, the current prospects of tax reform legislation during this session of Congress, the proliferation of amendments to the tax reform bill, what the Administration position should be on provisions for Employee Stock Ownership Plans (ESOPS) in the absence of provisions for Broadened Stock Ownership Plans (BSOPS), and whether a statement should be issued regarding congressional action on tax reform legislation. The Committee also discussed briefly a proposed draft statement.

Decision

The Executive Committee requested Treasury to prepare a proposed position on provisions in the tax bill relating to ESOPS in the absence of provisions providing for BSOPS for review by the Executive Committee and consideration by the President.

Executive Committee members were requested to provide their comments on tax legislation to Mr. Gorog no later than noon today.

2. Report on International Puerto Rican Summit

Mr. Greenspan reported on the recently concluded International Summit Conference in Puerto Rico, noting that the participants were pleased at how well the meetings went and that the level of discussion was very much like a seminar with regard to discussion of differences on tactics and strategy in dealing with the problems confronting the industrialized nations.

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

Wednesday, June 30, 1976

PRINCIPALS ONLY

1.	Economic Analysis of the Public Works Bill	OMB
2.	Report on H.R. 12323	Seidman
3.	Outlook for the CPI	MacAvoy

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 29, 1976

MEMORANDUM FOR: EXECUTIVE COMMITTEE OF THE ECONOMIC POLICY BOARD

FROM: DANIEL P. KEARNEY/BURTON MALKIEL RP for D.K BGM

SUBJECT: Public Works Jobs Bill, S. 3201

This memorandum describes and comments on provisions of S. 3201, now awaiting the President's action. Attached is a recent CEA paper on "Policies to Increase Employment."

STATUS

The last day for Presidential action is July 7.

The conference report on the enrolled bill was passed by the Senate 69 to 25 and by the House, 328 to 83.

SUMMARY OF BILL (Relation to vetoed H.R. 5247)

The previous public works jobs bill, H.R. 5247, was enrolled on January 29 and vetoed by the President on February 13, 1976. The House voted 319 to 98 to override the President's veto. The veto was sustained in the Senate by three votes, 63 to 35. H.R. 5247 would have authorized $6.2 billion for essentially the same purposes as the current bill, S. 3201. S. 3201, like H.R. 5247, would authorize appropriations through September 30, 1977.

Title I authorizes $2 billion for accelerated public works. It is identical to the public works title of the vetoed bill except that it authorizes $.5 billion less than did H.R. 5247.

Title II authorizes and directs the Secretary of the Treasury to make revenue sharing payments to State and local governments. This Title is similar to the anti-recessionary title of the vetoed H.R. 5247. H.R. 5247 included a complex distribution formula based on State and local tax revenues and the degree to which unemployment rates exceeded a specified base period. The formula in the current bill has been changed and it is now based on the general revenue sharing distribution and the degree to which unemployment rates exceed 4.5%. These changes result in a more even distribution of funds. The authorization has been reduced from $1.5 billion to $1.25 billion, for five quarters.

Title III authorizes an additional $700 million for EPA wastewater treatment grants. A similar provision in H.R. 5247 would have authorized $1.4 billion.

Several other provisions which were included in H.R. 5247 are not included in this bill: authorizations for the EDA Job Opportunities program, an EDA interest subsidy program, an EDA Urban Economic Development program and other miscellaneous amendments to the EDA statute. With the exception of the authorization for the Job Opportunities program, these provisions have been included in the EDA extension bill, H.R. 9398.

ANALYSIS OF THE THREE TITLES

Title I

Description

- Secretary of Commerce is authorized to make grants to any State or local government for construction, renovation or repair of local public works. The Federal share shall be 100% of the cost.

- May also make grants to cover the State or local share of the cost of any other Federally assisted project; such grants shall make the Federal share 100%.

- At least 70% of the funds are to go to areas having unemployment rates in excess of the national unemployment rate, but not less than one-half of 1% or more than 12.5% shall go to any one State. Priority shall be given to projects of local governments.

- The Secretary must make a final determination on each application for assistance within 60 days of receipt, or the request is automatically approved.

- The authorization of $2.0 billion is for the period ending September 30, 1977.

Comments

The primary arguments against this Title are:

- Outlays from the program would increase the 1977 deficit by an estimated $400 million. Estimated outlays in 1978 and 1979 are $800 million and $600 million respectively.

- Sponsors estimate that this Title would result in 200,000 new jobs. A more realistic estimate would be 120,000 jobs over a four or five year period. Thus, the probable per job cost would be over $16,000 for this Title alone.

- The peak job impact would not occur until late in fiscal year 1977 or early 1978.

- The requirement for a 100% Federal share reduces or removes State and local government incentives to conduct a careful project review or to consider the priority of a proposed project against other local priorities. The 60 day limit on Federal review also would minimize the Federal ability to screen proposals.

Title II

Description

- Provides countercyclical aid to State and local governments when the national rate of unemployment exceeds 6% during any quarter for the 5-quarter period beginning January 1976.

- Authorizes appropriation of $125 million for each of the five quarters in which unemployment reaches the 6% level--plus $62.5 million per quarter for each half percentage point by which unemployment exceeds 6%. For example, if the national rate of unemployment remained at 7% for a full year, an appropriation of $1 billion would be authorized for that year.

- One-third of the funds reserved for States and two-thirds for local governments. Distribution to a jurisdiction based on the relative excess of unemployment (over 4 1/2%), multiplied by the Revenue Sharing amount received by that jurisdiction. Distribution to a particular jurisdiction terminates when the rate of unemployment falls below 4 1/2%.

- Use of grants restricted to maintenance of basic services. Applications, reports, and assurances of nondiscrimination, conformance with Davis-Bacon and economization required.

Comments

The Administration has consistently opposed this type of aid. That opposition has been based on a preference for taking specific Federal actions directed toward achieving economic recovery and mitigating the effects of unemployment (including extension of unemployment compensation and tax reductions). Other reasons for the opposition are:

- The estimated outlays under this Title would be $250 million in the transition quarter and $1 billion during 1977.
- Due to the lag in unemployment statistics, their use in the formula could extend economic stimulation well into full recovery and thus generate new inflationary pressures.
- Sponsors have estimated that this Title would result in establishing 97,000 jobs. Studies of Revenue Sharing indicate that less than 20% of such funds are used to create new jobs. Thus, substantially fewer jobs than estimated would be created.
- Countercyclical aid would not encourage State and local fiscal responsibility. Rather, it would make unnecessary the accumulation of budgetary reserves in good years to carry through bad years.
- If unemployment were to remain above 6% at the end of 1977, there would be substantial pressure to continue such a program, further compounding problems of uncontrollable budget items.

Title III

Description

- Authorizes an additional $700 million for EPA's waste-water treatment grants. The purpose of the increase is to provide "hold harmless" funding to allow a change in the formula for distributing funds under this program.

Comments

- Sponsors estimate that this provision would create 28 to 56 thousand new jobs. A more reasonable estimate would be 15 to 30 thousand.

- The job impact of this Title would be more than two years away due to the long lead time required in constructing these facilities.

- The real effect of this Title is simply to add authorization for wastewater treatment grants, rather than create jobs.

SUMMARY

In summary the primary arguments against the bill are:

- Realistically the number of new jobs created would be less than 160,000--rather than the sponsors' claims of over 325,000.

- Based on this more realistic estimate of new jobs, the cost for each new job created would exceed $25,000 (for all three titles).

- The major job creation impact would not be until 1978 and would have an inflationary effect.

- If appropriations equaled authorizations, outlays for 1977 would be increased by about $1.5 billion. If the countercyclical revenue sharing were extended into 1978 and 1979, outlays would be increased approximately $2 billion in each year.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

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

June 29, 1976

MEMORANDUM FOR: EXECUTIVE COMMITTEE - ECONOMIC POLICY BOARD

FROM: Paul W. MacAvoy PM

SUBJECT: The June-December Outlook for the CPI

The May increase of 0.6 percent in the CPI has caused some concern as to renewed price inflation at the retail level. This memorandum examines the CPI outlook for the remainder of the Calendar Year. The view taken here is that changes in supply or demand conditions in certain basic markets over the past several months will largely determine the changes in the CPI for the rest of the year. Our assessment of the most recent information is that the basic picture has not changed. The CPI should be expected to rise by about 3.9 percent through yearend - an annual rate of 6.8 percent from the end of May through December, compared with the 4.2 percent annual rate during the first five months of this year.

1. <u>The June to December CPI Forecast</u>

CPI month-to-month forecasts are made based on CEA staff projections of food and energy wholesale prices and of wage settlements, as well as on linear extrapolations of past industrial price changes. The forecasting procedure begins with assumptions as to wholesale prices for energy and food in future months. Applying estimated markups and weights to these assumptions generate CPI forecasts. Energy price forecasts are based on the assumption that the maximum increases allowed under oil and gas price controls will occur. Food price forecasts are based on futures prices as quoted in organized markets. Industrial price forecasts are based in good part on markups of forecast labor costs which, in turn, are based on analyses and judgments as to future wage settlements. The WPI projections not based on futures prices,

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 energy or wage assumptions are linear extrapolations of past price changes.

The procedures are tentative, highly judgmental and probably subject to fairly high degrees of error. Nonetheless, they are based upon a systematic effort to draw out the implications of recent detailed price forecasts and cost changes for the pattern of overall price changes over the next six months or so. As new data are received the forecast index levels are revised. The forecast CPI increase for May using this procedure was 0.65 percent, and the forecast for June is 0.47 percent.

The projection of the passenger cars and iron and steel components of the WPI take into account special factors particular to these industries. Passenger car prices are assumed to rise at a 2 percent annual rate through August, then at monthly rates of 1-1/2, 2, and 1/2 percent in September through November, respectively, to reflect the phasing in of new model year cars. The iron and steel component reflects the steel price increases in June and July, and is assumed to rise at a 5 percent annual rate thereafter. Lastly, the CPI services index is forecast based on linear extrapolations of past price changes in the component indexes and reflects forecast wage settlements in the latter part of the year.

The forecast pattern of change in the CPI through December is as follows:

Consumer Price Index Percentage Change - 1976
(Seasonally adjusted)

	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
All Items	0.47	0.35	0.59	0.47	0.68	0.76	0.49
Food	0.64	-0.59	0.55	0.23	1.03	1.33	0.23
Nondurables less food	0.13	0.79	0.87	0.55	0.57	0.52	0.44
Durables	0.36	0.32	0.28	0.42	0.46	0.37	0.37
Services	0.61	0.66	0.60	0.59	0.62	0.70	0.74

Between the beginning of June and the end of December, the CPI is expected to rise by 3.9 percent, an annual rate of increase of 6.8 percent. This will mean a 5.7 percent increase in the CPI from last December to yearend 1976.

2. Risks in the Forecast

Food Prices. The grain futures prices, upon which the food price forecasts are based, have been subject to considerable gyrations in the past couple of months. Crops and growing conditions have progressed quite satisfactorily, yet the grain markets have not yet given full credence to the likelihood of a very large U.S. grain harvest and a considerable recovery in the USSR harvest as well.

On the supply side, the main risk of price increases is weather-induced shortfalls in one or more crops. On the demand side, the level of upcoming export sales is uncertain. Foreign demand will depend on crops abroad in both importing and exporting countries. A rough estimate is that any combination of U.S. grain crop shortfall or increased export demand that amounts to 1 million metric tons will increase the food at home CPI by 0.08 percent. Thus, a 10 million ton U.S. feed grain shortfall coupled with an unanticipated 5 million ton increase in grain exports would increase the food at home CPI by about 1 to 1-1/2 percent. The principal uncertainty concerns feed grain prices. If marketing of cattle slows up more than currently expected this summer, an even which could result from lower feed prices causing farmers to retain more cattle for feeding, beef prices could rise more than anticipated. An increase in demand for beef, which so far in the recovery has lagged somewhat, could have the same effect.

Energy Prices. Stabilization in fuel prices has persisted through the first half of 1976. There is now reason to believe that this stability may last through the end of the year. Seasonal price increases for gasoline and changes in pricing differentials in world oil markets may complicate the picture somewhat, but the situation looks less worrisome today than three months ago.

The price of domestically produced crude oil is now expected to remain relatively steady through the end of the year due to problems encountered in the initial determination of prices under EPCA. To offset the errors of the first months, lower prices than otherwise would have prevailed will be required through the end of the year. Decontrol of petroleum product prices is also expected to have little or no effect on consumer prices. The present surplus of refining capacity for production of distillate and residual fuel oils provides a substantial guarantee that refiner margins will not become excessive after decontrol.

The inflationary risks that might have resulted from adverse actions by OPEC nations have also been reduced, but not removed. Contrary to widely circulated stories, OPEC did not freeze the prices of all oil at Bali. Instead, the OPEC nations gave approval to a pricing system where crude values are determined by product prices in principal export markets. As a result, differences between heavy Arabian oils and lighter low sulphur West African oils will increase. This will increase U.S. prices because our imports have shifted towards the West African crudes and away from heavy Persian Gulf crudes.

The new issue in the energy price area is gasoline prices. Gasoline prices have experienced very substantial seasonal swings during 1974 and 1975, which are only partially offset by BLS seasonal adjustments. In 1974 they increased by 4.6¢ per gallon from April to their August peak while in 1975 they increased by 5.4¢ per gallon. Seasonal adjustments reduce the savings by about 1¢ per gallon.

In 1976 it appears that the same pattern will be repeated. Gasoline prices began increasing in April when rapid increases in demand forced unanticipated reductions in stocks. As a result, prices have already increased by 2 to 3¢. Further increases are expected over the next two months for two reasons. First, most refiners have substantial sums of unrecouped costs which they can and presumably will try to capture during the period of peak gasoline demand. Second, small independent refiners whose low prices until recently prevented most refiners from establishing prices at maximum levels have had their costs boosted substantially by FEA's adjustment in the EPCA mandated small refiner entitlement bias. The impact of the increase will be felt primarily during the summer months and should be gone by October or November. The effect of such an increase would be to add as much as a .3 percent increase in the CPI. In the worst case, a very tight summer gasoline market might cause the CPI to increase by .4 percent at the peak.

Wages. During the first quarter of 1976, first year increases under major collective bargaining agreements were about 10 percent overall. Compensation per man-hour for private employees increased at an annual rate of 7.5 to 8.0 percent. The adjusted hourly earnings index increased at a 7.7 percent annual rate during the first five months of 1976. These increases are 1.0 to 2.0 percentage points below the CEA forecasts made in December 1975.

Thus far this year strike activity has been at a relatively low level. The one important lengthy strike has been among rubber workers who did not have, and now seek, a COLA clause in their contract. Most of the important contracts that terminate later this year have COLA provisions. The lack of union militancy supports the view that collective bargaining settlements will be moderate this year.

With a rate of inflation of 5 to 6 percent, compensation per man-hour is not likely to exceed our forecast for 1976 (9.5 percent) and there is a strong likelihood that it will be one or two percentage points below this earlier forecast. Because of the large number of major collective bargaining agreements yet to come and the strength of the recovery, we prefer at this time not to lower our estimated range published in January. However, if current developments continue for another month or two, a downward revision would be warranted.

Summary. The combination of risks of further price changes than predicted are as follows. Food prices are as likely to fall short as to exceed the forecast based on futures markets prices. Energy prices are more likely to exceed, and wages to fall short, of the forecasts. Thus the "upside risk" cannot much exceed another 0.5 percent increase in the CPI beyond the 5 percent forecast.

THE WHITE HOUSE

WASHINGTON

June 29, 1976

MEMORANDUM FOR ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEMBERS

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Redirecting USG Expropriation Policy

A paper, prepared by the Department of the Treasury, on expropriation policy is attached. It will be discussed at the Thursday, July 1 Executive Committee meeting.

Attachment

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

JUN 15 1976

MEMORANDUM FOR THE HONORABLE L. WILLIAM SEIDMAN
ASSISTANT TO THE PRESIDENT FOR
ECONOMIC AFFAIRS

From : Gerald L. Parsky
Assistant Secretary
for International Affairs

Subject: Redirecting USG Expropriation Policy

I am enclosing the paper I promised on expropriation policy. The paper describes the weaknesses of present policy, in particular, the failure of present policy to focus adequately on the broad USG economic interests affected by expropriations. I believe the paper should be distributed to the EPB for discussion at a regular meeting, which State should attend. I trust we will have a chance to talk about the date and agenda for discussion.

REDIRECTING USG EXPROPRIATION POLICY

A CIEP Working Group has just finished a review of U.S. expropriation policy, and interagency agreement has been reached on a few measures which will help to implement existing policy. The CIEP Working Group, however, has failed to examine USG expropriation policy in a context which takes account of fundamental long-range USG economic interests.

The basic goal of present expropriation policy is to protect U.S. investors by helping them to obtain fair compensation after an expropriation has occurred. USG economic interests, however, go far beyond this admittedly important goal, because expropriations can affect the allocation of resources world-wide through their impacts on investment flows in general, and on the development of the public -- as opposed to the private -- sector in LDC economies.

Expropriations invariably worsen the investment climate in the expropriating country, and dissuade other investors (both domestic and foreign) from investing or reinvesting further in the country. Expropriations in one country also have spillover effects in other countries. Those countries may follow suit, as they have in the petroleum sector, or investors in those countries may be so concerned about this possibility that they limit their investment or reinvestment.

In all these cases "political" intervention in the market by one government leads generally to a misallocation of resources, as investors back off from what otherwise could be productive investments. Development is slowed, and demands for foreign assistance tend to increase. Resources are not developed as efficiently as should be the case, and commodity prices are higher than necessary. These results are clearly not in the interests of the USG.

Expropriations also mean increased government intervention into the private sector of LDCs, and a slower development of the private sector. This also is not in the interests of the USG. Expropriated -- i.e., public sector -- enterprises are likely to "politicize" business and economic decisions and to distort the market's allocation of resources. Widespread government intervention in particular sectors could increase the opportunities (such as they are) for concerted intergovernment controls over price or production, and, perhaps, for cartelization.

Development of the private sector free from expropriation, in contrast, permits investment to flow to the most productive projects. It can provide the basis for better economic cooperation and integration, as U.S. firms can generally work better with private firms abroad than with "political" entities. A strong private sector in LDCs will attract foreign investment for development, and reduce both the demands and the needs for increasing development assistance. An improved investment climate will also reduce the long-term need for USG programs (such as the proposed International ResourcesBank) which accept the LDC investment climate "as is," with a high degree of government involvement.

An effective expropriation policy must serve long-range economic goals, improving the climate for foreign (and domestic) investment in LDCs, and stemming the trend toward government intervention in LDC economies. In addition to protecting the interests of the investor, it must also aim at safeguarding the interests of consumers and taxpayers, who should not be allowed to bear the costs of an expropriation through higher prices and (because of lost tax revenues) higher taxes.

Weaknesses of Present Expropriation Policy

Our present expropriation policy is not broadly enough focused to serve long-range USG economic goals in a balanced manner:

-- The policy aims more at getting governments to pay after an expropriation than it does at deterring government intervention in the first place, or at resolving disputes at an early stage so that governments are not as impelled to enter the private sector.

-- In many cases U.S. political interests often more importantly affect USG action than do U.S. economic interests. Broader USG interests -- supporting the development of the private sector in LDCs, assuring access to important raw materials at prices determined by the market, and helping the development process -- seldom affect decision.

-- In very important cases the USG often only marginally influences outcomes. The traditional USG policy is not to take positions on the merits of particular cases, but rather to encourage the companies to work out problems with the countries concerned, e.g., the Aramco settlement. The USG seldom has sufficient information to make an informed judgment on the merits of particular cases or claims. (Often U.S. companies do not want USG involvement.)

-- There is no focal point in the USG for redirecting and strengthening USG expropriation policy. A CIEP Working Group is responsible for coordinating USG policy on expropriations, but the bulk of the work is done by country desk officers at State, who often attach more importance to smoothing over bilateral relations than to solving investment disputes. The CIEP group focuses mainly on monitoring events, and is often unable to deal with the real political and economic tradeoffs in the difficult cases, or to assure that broad USG interests are adequately taken account of in individual cases. It works too often only to avoid confrontation between the USG and expropriating countries.

<u>Expropriation Policy in Practice</u>

The gradual takeover of the U.S. bauxite-producing companies in Jamaica is an excellent example of the weaknesses of the U.S. expropriation policy. Jamaica began by imposing a substantial tax levy in violation of existing concession agreements. At that time the main USG efforts were to avoid expropriation and to encourage a negotiated solution of the tax issue. The result was unilateral imposition of the tax. Since that date the GOJ has implemented its policy of gradually taking over the companies, and is in the process of negotiating final settlements. (These settlements may have been slowed by the world recession.)

The USG, however, has not exerted any real influence over the settlement process, even though (a) the companies appear to have passed on some of the costs of the tax and possibly the settlement to the U.S. consumers, and (b) the companies may eventually obligate themselves to purchase higher cost Jamaican bauxite in long-term supply contracts.

To the best of our knowledge there has been no systematic analysis of USG interests in preserving even a modest degree of competition in the bauxite/alumina market, or in bringing USG influence to bear to protect these interests. The USG acceded to the wishes of both the U.S. companies and the Jamaican Government, and has not chosen to exert its influence directly to affect the outcomes.

<u>Saskatchewan Takeover of the Potash Industry: An Immediate Problem</u>

USG policy toward the Saskatchewan takeover of the potash industry is following the pattern of the Jamaican case:

-- There has been no full-scale and coordinated examination of the entire range of USG economic interests that can be affected by the pending takeovers. U.S. interests go beyond protecting the approximately 0.5 - 1.0 billion dollars of U.S. investment in Saskatchewan potash. A takeover would put a substantial portion of world potash production in government hands, and this, together with the oligopolistic nature of the industry, could tend to pricing well above marginal cost.

-- The CIEP staff group has focused mainly on whether "fair market value" will be paid. In fact, Saskatchewan was not willing to take the loss in revenues if it lost a court challenge to a 1974 tax law, and, though its legislation promises "fair market value," it assures that assets will be valued as if the contested taxes were imposed.

-- There has been no systematic study of what the USG might do to dissuade the takeovers, or to moderate their impacts on USG interests. The USG delivered an aide-memoire to the Federal Government, and Agriculture is heading a task force to develop contingency plans after an expropriation has occurred. Other policy instruments, such as high-level representations to the provincial government, have yet to be fully examined by the CIEP group.

Sector Nationalizations in Ethiopia

Broad USG interests in the healthy development of the private sector in LDCs apparently have been put to the side in the face of large-scale nationalizations of particular sectors in LDC economies. When Ethiopia threatened and then nationalized several economic sectors, USG influence was properly brought to bear to obtain adequate compensation for U.S. investors. No real attempt was made, however, to persuade Ethiopia that it was in its interest to refrain from nationalizations and to maintain a sound investment climate. On the compensation issue, Ethiopia has dragged its heels, and has yet to get a compensation commission going, some 15 months after the nationalizations.

Redirecting USG Policy

One technique for redirecting USG expropriation policy so that it better serves economic goals is to have the USG bring its influence to bear in selected cases at the "investment dispute" stage before a dispute becomes an expropriation. The USG would aim at assuring that these disputes are settled in a fair manner so that (where appropriate) the investor can remain in operation, and at persuading the government concerned that its interests lie in strengthening the private sector, rather than in intervening to put more of the private sector in government hands. The results may be less government intervention in LDC economies, and a better investment climate leading to more efficient resource allocation.

The USG would bring its influence to bear in this manner only in selected cases where major USG economic interests could be significantly affected by the outcome of the disputes. While keeping track of all such disputes, the USG would in all probability only become involved in a few important ones. The manner in which the USG would proceed could be tailored to the circumstances of the particular case, so that for some disputes the USG might recommend third-party dispute settlement, while in others the USG might take a position on the merits of certain issues.

Experience with the Marcona Case

USG involvement in the Marcona case suggests specific techniques for redirecting USG expropriation policy. In that case a prestigious and high-level policy official (Under Secretary Maw), who enjoyed the confidence of both Marcona and the Government of Peru, was able to use his influence to move the parties toward a satisfactory settlement. By focusing attention on the relevant business and economic facts, and avoiding polemical argument, the USG team was able to move both the Peruvians and Marcona toward an equitable settlement consistent with U.S. principles on valuing expropriated property.

The U.S. team was also able to seek independent and expert advice from an outside consultant. The consultant brought industry experience to bear in valuing the nationalized properties, provided expert information valuable in the actual negotiations, and helped set a reasonable negotiating goal for the U.S. team.

USG economic interests appear well-served in this case. The USG, by taking firm positions on the merits of particular issues, was able to protect a U.S. investor. This will be an important precedent for future disputes. Marcona was not turned over to the Peruvians "on the cheap." The fact that the Peruvians had to pay a fair price could not only deter future expropriations in Peru, but in other LDCs as well. The techniques used in this case, moreover, could stand the USG in good stead even before an expropriation occurred. Representations by high-level officials could lead to an orderly settlement of an investment dispute that was not yet an expropriation, and fact finding by impartial industry experts could provide the necessary back-up for these representations.

Recommendation

In view of the need to redirect USG expropriation policy to better take account of the overall USG economic interests, we recommend that the EPB direct the CIEP Expropriations Group to:

-- identify and analyze the USG economic interests affected by actual or potential expropriation disputes in important areas, i.e., petroleum, potash, bauxite, etc.

(Political and other interests could, of course, be described.)

-- examine possible changes or improvements in policies or operations to assure that these USG economic interests are adequately taken into account. Improvement of the existing "early warning system," better formal coordination of key decisions at a policy level, and other techniques should be examined.

-- formulate guidelines so that the USG can play a more effective role to protect its own economic and other interests in particular cases.

Particular attention should be paid to whether the USG can take practical and effective action to forestall or moderate the impacts that proposed takeovers like Saskatchewan may have.

The CIEP group should submit a preliminary report on the general issues and a detailed report by August 15th. A final report should be submitted by September 15th.

FOR IMMEDIATE RELEASE JUNE 28, 1976

Office of the White House Press Secretary
(Dorado Beach, Puerto Rico)

THE WHITE HOUSE

JOINT DECLARATION
INTERNATIONAL CONFERENCE

The heads of state and government of Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom of Great Britian and Northern Ireland and the United States of America met at Dorado Beach, Puerto Rico, on the 27th and 28th of June, 1976, and agreed to the following declaration:

The interdependence of our destinies makes it necessary for us to approach common economic problems with a sense of common purpose and to work toward mutually consistent economic strategies through better cooperation.

We consider it essential to take into account the interests of other nations. And this is most particularly true with respect to the developing countries of the world.

It was for these purposes that we held a broad and productive exchange of views on a wide range of issues. This meeting provided a welcome opportunity to improve our mutual understanding and to intensify our co-operation in a number of areas. Those among us whose countries are members of the European Economic Community intend to make their efforts within its framework.

At Rambouillet, economic recovery was established as a primary goal and it was agreed that the desired stability depends upon the underlying economic and financial conditions in each of our countries.

Significant progress has been achieved since Rambouillet. During the recession there was widespread concern regarding the longer-run vitality of our economies. These concerns have proved to be unwarranted. Renewed confidence in the future has replaced doubts about the economic and financial outlook. Economic recovery is well under way and in many of our countries there has been substantial progress in combatting inflation and reducing unemployment. This has improved the situation in those countries where economic recovery is still relatively weak.

Our determination in recent months to avoid excessive stimulation of our economies and new impediments to trade and capital movements has contributed to the soundness and breadth of this recovery. As a result, restoration of balanced growth is within our grasp. We do not intend to lose this opportunity.

Our objective now is to manage effectively a transition to expansion which will be sustainable, which will reduce the high level of unemployment which persists in many countries and will not jeopardize our common aim of avoiding a new wave of inflation. That will call for an increase in productive investment and for partnership among all groups within our societies. This will involve acceptance, in accordance with our individual needs and circumstances, of a restoration of better balance in public finance, as well as of disciplined measures in the fiscal area and in the field of monetary policy

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(OVER)

and in some cases supplementary policies, including incomes policy. The formulation of such policies, in the context of growing interdependence, is not possible without taking into account the course of economic activity in other countries. With the right combination of policies we believe that we can achieve our objectives of orderly and sustained expansion, reducing unemployment and renewed progress toward our common goal of eliminating the problem of inflation. Sustained economic expansion and the resultant increase in individual well-being cannot be achieved in the context of high rates of inflation.

The meeting last November, we resolved differences on structural reform of the international monetary system and agreed to promote a stable system of exchange rates which emphasized the prerequisite of developing stable underlying economic financial conditions.

With those objectives in mind, we reached specific understandings, which made a substantial contribution to the IMF meeting in Jamaica. Early legislative ratification of these agreements by all concerned is desirable. We agreed to improve cooperation in order to further our ability to counter disorderly market conditions and increase our understanding of economic problems and the corrective policies that are needed. We will continue to build on this structure of consultations.

Since November, the relationship between the dollar and most of the main currencies has been remarkably stable. However, some currencies have suffered substantial fluctuations.

The needed stability in underlying economic and financial conditions clearly has not yet been restored. Our commitment to deliberate, orderly and sustained expansion, and to the indispensable companion goal of defeating inflation provides the basis for increased stability.

Our objective of monetary stability must not be undermined by the strains of financing international payments inbalances. We thus recognize the importance of each nation managing its economy and its international monetary affairs so as to correct or avoid persistent or structural international payments imbalances. Accordingly, each of us affirms his intention to work toward a more stable and durable payments structure through the application of appropriate internal and external policies.

Imbalances in world payments may continue in the period ahead. We recognize that problems may arise for a few developed countries which have special needs, which have not yet restored domestic economic stability, and which face major payments deficits. We agree to continue to cooperate with others in the appropriate bodies on further analysis of these problems with a view to their resoution. If assistance in financing transitory balance of payments deficits is necessary to avoid general disruptions in economic growth, then it can best be provided by multilateral means coupled with a firm program for restoring underlying equilibrium.

(MORE)

In the trade area, despite the recent recession, we have been generally successful in maintaining an open trading system. At the OECD we reaffirmed our pledge to avoid the imposition of new trade barriers.

Countries yielding to the temptation to resort to commercial protectionism would leave themselves open to a subsequent deterioration in their competitive standing; the vigor of their economies would be affected while at the same time chain reactions would be set in motion and the volume of world trade would shrink, hurting all countries. Wherever departures from the policy set forth in the recently renewed OECD trade pledge occur, elimination of the restrictions involved is essential and urgent. Also, it is important to avoid deliberate exchange rate policies which would create severe distortions in trade and lead to a resurgence of protectionism.

We have all set ourselves the objective of completing the Multilateral Trade Negotiations by the end of 1977. We hereby reaffirm that objective and commit ourselves to make every effort through the appropriate bodies to achieve it in accordance with the Tokyo Declaration.

Beyond the conclusion of the trade negotiations we recognize the desirability of intensifying and strengthening relationships among the major trading areas with a view to the long-term goal of a maximum expansion of trade.

We discussed East/West economic relations. We welcomed in this context the steady growth of East/West trade, and expressed the hope that economic relations between East and West would develop their full potential on a sound financial and reciprocal commercial basis. We agreed that this process warrants our careful examination, as well as efforts on our part to ensure that these economic ties enhance overall East/West relationships.

We welcome the adoption, by the participating countries, of converging guidelines with regard to export credits. We hope that these guidelines will be adopted as soon as possible by as many countries as possible.

In the pursuit of our goal of sustained expansion, the flow of capital facilitates the efficient allocation of resources and thereby enhances our economic well-being. We, therefore, agree on the importance of a liberal climate for international investment flows. In this regard, we view as a constructive development the declaration which was announced last week when the OECD Council met at the Ministerial level.

(More)

In the field of energy, we intend to make efforts to develop, conserve and use rationally the various energy resources and to assist the energy development objectives of developing countries.

We support the aspirations of the developing nations to improve the lives of their peoples. The role of the industrialized democracies is crucial to the success of their efforts. Cooperation between the two groups must be based on mutual respect, take into consideration the interests of all parties and reject unproductive confrontation in favor of sustained and concerted efforts to find constructive solutions to the problems of development.

The industrialized democracies can be most successful in helping the developing countries meet their aspirations by agreeing on, and cooperating to implement, sound solutions to their problems which enhance the efficient operation of the international economy. Close collaboration and better coordination are necessary among the industrialized democracies. Our efforts must be mutually supportive, not competitive. Our efforts for international economic cooperation must be considered as complementary to the policies of the developing countries themselves to achieve sustainable growth and rising standards of living.

At Rambouillet, the importance of a cooperative relationship between the developed and developing nations was affirmed; particular attention was directed to following up the results of the Seventh Special Session of the UN General Assembly, and especially to addressing the balance of payments problems of some developing countries. Since then, substantial progress has been made. We welcome the constructive spirit which prevails in the work carried out in the framework of the Conference on International Economic Cooperation, and also by the positive results achieve in some areas at UNCTAD IV in Nairobi. New measures taken in the IMF have made a substantial contribution to stabilizing the export earnings of the developing countries and to helping them finance their deficits.

We attach the greatest importance to the dialogue between develpped and developing nations in the expectation that it will achieve concrete results in areas of mutual interest. And we reaffirm our countries' determination to participate in this process in the competent bodies, with a political will to succeed, looking toward negotiations, in appropriate cases. Our common goal is to find practical solutions which contribute to an equitable and productive relationship among all peoples.

# # #

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

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

June 23, 1976

MEMORANDUM TO EXECUTIVE COMMITTEE - ECONOMIC POLICY BOARD

FROM: Paul W. MacAvoy PWM

SUBJECT: The Economics of the Democratic Party Platform

The June 17 New York Times published excerpts from the Platform to be submitted to the Democratic National Convention next month. Assuming that this version contains the major items, CEA staff has analyzed the horn of plenty as follows:

I. Full Employment, Price Stability and Balanced Growth

Target

"Make every responsible effort to reduce adult unemployment to 3 percent within four years."

Comment

To achieve the 3 percent goal, public service employment programs and public works projects would have to be instituted in addition to countercyclical revenue sharing. Federal resources would have to be targeted to communities and areas that lag behind in the economic recovery. Public service jobs would have to be created to the extent that "people who will be especially difficult to employ" cannot find private sector jobs.

The Federal budget cost of attaining and maintaining such a goal would be in the tens of billions of dollars. Much unemployment in the United States arises from voluntary job changing and from new entrants and reentrants to the labor force looking for work.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

This unemployment reflects both the existence of job opportunities and the freedom of workers to change jobs or drop out and then reenter the labor force. Because of this, to attain the 3 percent unemployment goal a large-scale public service employment program would have to be created. Yet, if these jobs pay the prevailing wage or the "living wage" for a family, they will attract to the labor force large numbers who would otherwise not seek employment. The Federal budget cost of attaining and maintaining such a goal would be in the tens of billions of dollars. In addition, the availability of attractive PSE jobs would make it more difficult for private sector employers to hire workers, thereby setting into motion pressures for wage inflation.

The platform expresses naive optimism that the PSE jobs that are funded will actually represent net increases in productive employment. Our experience to date with PSE programs suggests that this would not occur. Under moderate sized PSE programs, for example, after two to three years about 90 percent of the jobs federally funded would have otherwise been funded from State and local sources.

It is politically appealing to assert that useful public service jobs are far superior to welfare and unemployment compensation. Unfortunately, the assertion lacks substance. Most of the adults who are on welfare (AFDC, Food Stamps, Supplemental Security Income) are aged, disabled or women who head households with young children. Very few could be usefully employed in a PSE job. Also, most persons on unemployment compensation are unemployed for a short period of time while on a temporary layoff or between jobs. To encourage productive private sector employment it is better for these persons to engage in compensated job search. PSE jobs reduce the time for job search, and the incentives for a long-term private sector adjustment. A PSE program is, therefore, counterproductive in promoting private sector employment compared to a tax reduction of a similar dollar magnitude.

II. Government and Human Needs

Target

"We need a comprehensive national health insurance system with universal and mandatory coverage."

Comment

Interest in national health insurance in the past had centered on (1) providing adequate coverage for the aged and the poor and (2) providing a measure of protection for the middle class against the devastating financial effects of a catastrophic illness. Although there are problems, by and large Medicare and Medicaid do provide access to medical services for the aged and poor. A national health insurance program along the lines proposed cannot be justified on grounds of dealing with the catastropic illness problem. National insurance, in fact, would extend insurance coverage to expenditures that most families now finance on a routine basis.

Target

"Fundamental welfare reform is necessary."

Comment

The reform of the welfare system proposed here calls for (a) treating intact and female headed families equally, (b) the same income floor for the working poor as for those from whom substantial work effort cannot be expected (the aged, disabled and female headed households with young children), and (c) a simple schedule of benefit reduction with earnings so as to guarantee "equitable levels of assistance to the working poor."

For those from whom we cannot expect substantial work effort, the welfare system must provide a sufficient income or basic benefit to assure an adequate consumption of goods and services. If this same program were available to all intact families, the number of program participants and program costs would easily increase to twice present levels.

Setting the same basic benefit available to all would imply that the welfare program would reach quite far up into the income distribution. A much larger program and substantially more benefits per recipient would result in program costs at least twice as great as present levels for this reason as well. Reform might well mean the development of a program four times the present size.

III. Natural Resources and Environmental Quality

Target

"We should narrow the gap between oil and natural gas prices with new natural gas ceiling prices that maximize production and investment while protecting the economy and the consumer."

Comment

This calls for Congress to set regulated gas prices or to require the FPC to use prices based on BTU-equivalent prices for oil. Neither would relate closely to market supply and demand conditions. Either would have the effect of reducing investment incentives because of new uncertainties as to the non-market or "political" price determinants.

Target

"United States coal production can and must be increased... strip mining legislation designed to protect and restore the environment while ending the uncertainty over the rules governing future coal mining must be enacted."

Comment

Since the reserves for increased coal production are located primarily in areas where strip mining offers the only means of recovery, strip mining must be increased. However, in many areas present technology would not permit restoration of the land at reasonable costs. Thus, the price of coal will have to be substantially increased to meet these goals. Whether coal companies will be willing to invest with such high costs or whether consumers will find the resulting higher prices of electricity acceptable is problematical.

Target

"When competition inadequate to insure free markets exists, we support effective restrictions on the right of major companies to own all phases of the oil industry."

Comment

This wording is no more than a restatement of the present mandate of the Antitrust Division to enforce the Sherman Act. However, this could be extended to call for divestiture in the oil industry - an action that would significantly reduce the efficiency of the domestic industry in the next five years. Such would reduce our capacity to become independent of foreign sources of oil and to develop further domestic refinery capacity while not providing significantly greater competition in the industry.

Target

"We must continue and intensify efforts to expand agriculture as long term markets abroad, but at the same time we must prevent irresponsible and inflationary sales from the American grainery to foreign purchasers."

Comment

In general, the platform statement suggests, but does not promise explicitly, a move towards more governmental management of exports -- attempting to push exports when farm prices fall and restricting exports when farm prices rise.

Other agricultural planks not quoted in the New York Times excerpts are: (1) Support of the Capper-Volstead Act in its present form, i.e., continue certain anti-trust exemptions for coops, and general support of coops and farm bargaining associations, (2) curb the influence of nonfarm corporations in agriculture, (3) insure that imported foods meet the same quality standards imposed on domestic producers. Although vague, these proposals would generally require increased governmental regulation of agriculture and would most likely lead to economically inadvisable activity. Under (3), if "quality" includes such things as size of imported tomatoes and specifications for shipping containers, the plank plays right into the hands of the domestic industry which has been trying for years to get restrictions on fruit and vegetable imports.

IV. International Relations

Target

"We will support reform of the international monetary system to strengthen institutional means of coordinating national economic policies."

Comment

The reform of the international monetary system over the past few years has not included a strengthening of the institutional means of coordinating national economic policies. It certainly included an intensification of the consultative arrangements among governments whereby finance ministries and central banks discuss on a regular basis their domestic economic and financial conditions and the impact of demand-management policies on these conditions, but not the coordination of national economic policies. It has been CEA's view that the choice and implementation of policies should be done on a national level, and although the effects on international stability should clearly be taken into account, there is no need to coordinate policies across into across borders.

THE WHITE HOUSE

WASHINGTON

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your information.

MINUTES OF THE ECONOMIC POLICY BOARD EXECUTIVE COMMITTEE MEETING

June 17, 1976

WS

ATTENDEES: Messrs. Seidman, Usery, Greenspan, Dixon, Cannon, O'Neill, Gorog, Malkiel, MacAvoy, Jones, Penner, Porter

1. Administration Position on Minimum Wage

Mr. Seidman reported that the President has reviewed the memorandum submitted to him on mimimum wage legislation and determined that he would like to meet with his advisers before making a decision on the issue.

2. Savings and Loan Monitoring

The Executive Committee briefly discussed developments in Mississippi and other states with regard to savings and loan institutions.

Decision

The Executive Committee approved the establishment of a group, chaired by the Department of the Treasury, to monitor developments in savings and loan institutions. The monitoring group was requested to provide a summary of recent developments in Mississippi and other states for the Executive Committee's consideration next week.

3. Economic Assumptions for the Mid-Year Budget Review

The Executive Committee reviewed in detail the economic assumptions for the mid-year budget review developed by Troika II. The discussions focused on the GNP, unemployment and inflation figures.

Decision

The Executive Committee approved the Troika II economic assumptions with minor modifications. The Execuitve Committee requested that a memorandum be prepared for the President outlining the proposed economic assumptions.

4. Report on Task Forces to Improve Government Regulation

Mr. MacAvoy reported on the work of the task forces that included government regulations. The discussions focused on the work of the OSHA, FEA, and Export Administration Task Forces.

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

June 19, 1976

MEMORANDUM FOR: Roger Porter

SUBJECT: Withholding Tax Schedule

This is the memorandum for the EPB about the prospects for extension of the present withholding tax schedule beyond June 30 -- which Bill Seidman requested at the EPB meeting last Thursday.

George H. Dixon

Date: JUN 18 1976

MEMORANDUM FOR: ACTING SECRETARY DIXON

From: Dale S. Collinson
Tax Legislative Counsel

Subject: Withholding taxes

You have requested our appraisal of the prospects for an increase in withholding taxes this July. The problem arises because the Congress, in the Revenue Adjustment Act of 1975, provided individual income tax reductions (changes in tax liabilities) in half the amount that was necessary to maintain through all of 1976 the 1975 withholding tax rates. (The 1975 rates reflected the tax cuts enacted in April 1975 by the Tax Reduction Act of 1975 and, on an annual basis, are about $12 billion below the 1974 rates.) Under present law, the Internal Revenue Service would be required on July 1, 1976, to reinstitute the higher 1974 withholding tax rates.

We have been generally proceeding on the assumption that, one way or another, the present withholding tax rates will be extended beyond the July 1 deadline. In order to avoid unnecessary costs the Internal Revenue Service has undertaken only minimal contingency planning for the possibility of an increase in withholding rates.

The extension of the present withholding tax rates might be achieved in any of the following ways:

--The Senate might complete action on the Tax Reform Act, including the individual tax cut extension, the Conference Committee might complete its work, and the bill might be enacted prior to the July 1 deadline. We regard this as very unlikely, given the pace at which the Senate is moving and the great number of controversial issues to be thrashed out. Moreover, the Senate bill is a technical mess, and Congressional and Treasury staff would like several weeks in which to clean up the bill even after the Senate and the Conference Committee complete their action.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	Collinson					
Initials / Date	DSC / 6/18	/	/	/	/	/

Form OS-3129
Department of Treasury

--The Senate might complete action, the Conference Committee might fully consider the bill and announce it had reached agreement but that additional time was needed for technical drafting work by the staff. A short extension of the present withholding tax rates, for perhaps 30 days, might then be quickly enacted, leaving final action on the Conference Committee tax reform bill until after the Democratic Convention. There is a substantial question whether Congress can proceed even this quickly.

--The Congress might still have the tax reform bill under consideration (either in the Senate or the Conference Committee) but enact an extension of the withholding tax rates prior to the recess for the Democratic Convention. We would expect liberals to seek a short extension (e.g., 30 rather than 90 days) in order to maintain pressure for action on tax reform.

In general, it should be noted that:

--The Congress need not enact a further tax liability change for 1976; it could simply direct Treasury to continue in force the present withholding tax rates for 30, 60, or 90 days.

--An extension of the withholding tax rates could be enacted very quickly (perhaps in one day). The Senate could simply attach such a provision to a minor tariff or tax bill (Senator Long has a substantial inventory of such bills).

--Since Congress could make an extension of the present withholding tax rates retroactive, as a practical matter the deadline for action is the July recess rather than June 30.

It is too early to say which of the described scenarios is most likely to occur. Much will depend on the progress of the Senate debate on the tax reform bill. We are fairly confident that the Democratic majority in Congress will take whatever action is necessary to avoid accompanying the opening of the Democratic Convention with an increase in withholding taxes.

THE WHITE HOUSE

WASHINGTON

June 21, 1976

MEMORANDUM FOR

THE EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARD

FROM: WILLIAM F. GOROG WFG

SUBJECT: Update of Selected Economic Statistics

1. Money Stock Measures

Change in May from:	M_1 (%Change)	M_2
February 1976	8.9	10.9
November 1975	5.1	10.5
May 1975	5.4	10.0

2. Total Industrial Production (Real terms, seasonally adj.)

(Index: 1967 = 100)	Index	% Change
May 1976	123.2	+0.7
April 1976	122.3	+0.5
March 1976	121.7	+0.7
February 1976	120.8	+1.1
January 1976	119.5	+0.9
December 1975	118.4	+0.7
(May 1975 - May 1976)		+11.9

3. Retail Sales (Current dollars, seasonally adj.)

Total:	$ Billions	% Change
May 1976	52.64	-1.2
April 1976	53.30	-0.1
March 1976	53.34	+1.4
February 1976	52.60	+1.9
January 1976	51.59	-0.8
(May 1975 - May 1976)		+9.3

4. Housing Starts and Building Permits (Seasonally adj.)

Starts (annual rates):	Millions of Units	% Change
May 1976	1,415,000	+2.5
April 1976	1,381,000	-2.5
March 1976	1,417,000	-8.4
February 1976	1,547,000	+25.2
January 1976	1,236,000	-3.7
December 1975	1,283,000	-7.1
Permits (annual rates):		
May 1976	1,158,000	+5.7
April 1976	1,095,000	-3.4
March 1976	1,134,000	-
February 1976	1,134,000	+1.3
January 1976	1,120,000	+8.9
December 1975	1,028,000	-5.3

5. Employment and Unemployment (Seasonally adj.)

Civilian Labor Force (CLF):	Millions of Persons - 16 yrs.+
May 1976	94.55
April 1976	94.44
March 1976	93.72
December 1975	93.13
March 1975	91.88
December 1974	91.64
Employment:	
May 1976	87.70
April 1976	87.40
March 1976	86.69
December 1975	85.39
March 1975 (low)	84.11
December 1974	85.05

Unemployment:	Millions of Persons	% of CLF
May 1976	6.86	7.3
April 1976	7.04	7.5
March 1976	7.03	7.5
December 1975	7.73	8.3
May 1975 (peak)	8.25	8.9
December 1974	6.58	7.2

Unemployment: (% of Group)

Heads of Households:		
May 1976		4.8
April 1976	-	4.8
March 1976	-	5.0
December 1975	-	5.7
May 1975	-	6.1
December 1974	-	4.6

6. Manufacturers' Shipments and Orders (current dollars, seasonally adj.)

Total Shipments:	$ Billions	% Change
April 1976	94.12	+1.1
March 1976	93.05	+2.3
February 1976	90.91	+1.8
January 1976	89.28	+1.9
December 1975	87.62	+1.3
Total Inventories:		
April 1976	148.22	-
March 1976	148.15	+0.6
February 1976	147.32	+0.2
January 1976	147.03	+0.3
December 1975	146.57	-0.1
Total New Orders:		
April 1976	94.41	+1.1
March 1976	93.39	+3.5
February 1976	90.20	+2.4
January 1976	88.08	+1.5
December 1975	86.75	+0.5

7. Consumer Price Index

All Items - 12 mos. previous to:	% Change
April 1976 (+0.4% for month)	+6.1
March 1976 (+0.2% for month)	+6.1
February 1976 (+0.1% for month)	+6.3
January 1976	+6.8
December 1975	+7.0
September 1975	+7.8
June 1975	+9.3
March 1975	+10.3
December 1974	+12.2

8. Wholesale Price Index

All Commodities - 12 mos. previous to:	% Change
May 1976 (+0.3 for month)	+5.0
April 1976 (+0.8 for month)	+5.3
March 1976 (+0.2 for month)	+5.5
September 1975	+6.3
June 1975	+11.6
March 1975	+12.5

9. Gross National Product (constant 1972 dollars)

Change from previous Quarter:	% Change
First Quarter 1976	+8.5
Fourth Quarter 1975	+5.0
Third Quarter 1975	+12.0
Second Quarter 1975	+3.3
First Quarter 1975	-9.2

10. Real Spendable Earnings

12 Months previous to:	% Change
April 1976	+3.8
March 1976	+4.5
December 1975	+3.8
September 1975	+1.6
June 1975	+0.2
March 1975	-4.6
January 1975	-5.1

11. Personal Income (current dollars, seasonally adj.)

Annual Rate:	$ Billions	% Change
May 1976	1,357.2	+0.8
April 1976	1,346.2	+0.8
March 1976	1,336.0	+0.8
February 1976	1,325.9	+0.9
Janaury 1976	1,313.6	+1.0
December 1975	1,300.2	+8.3
December 1974	1,200.4	-

12. Composite Index of Leading Indicators

Change from previous month:

		% Change
March	1976	-0.4
February	1976	+0.7
Janaury	1976	+1.2
December	1975	+0.9
November	1975	+0.2
October	1975	-0.5
September	1975	-
August	1975	+1.6
July	1975	+2.7
June	1975	+3.0
May	1975	+1.9
April	1975	+2.9
March	1975	+0.9
February	1975	-0.8
January	1975	-3.4
December	1974	-2.2
November	1974	-3.1
October	1974	-3.9

THE WHITE HOUSE

WASHINGTON

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your information.