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MTG. W/ THE PRES. ON THE TAX BILL

Thursday, Sept. 16

9:30 a.m.

Cabinet Room

JMS - - kitchen  
somewhat disorganized

Good by lane

THE WHITE HOUSE

WASHINGTON

September 15, 1976

MEETING WITH THE ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE

September 16, 1976

9:30 a.m.

Cabinet Room

From: L. William Seidman

*LWS*

I. PURPOSE

- A. To discuss H.R. 10612, the Tax Reform Act of 1976, review the status of the Treasury study of basic tax reform, and to discuss your position on the tax reform issue.
- B. To discuss the sugar situation.
- C. To briefly discuss conference committee action on extension of the Public Service Employment program.
- D. To briefly discuss the mushroom import situation.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background: Last Thursday evening, the Conference Committee completed its action on the Tax Reform Act of 1976. The Conference Report was filed on Monday, September 13. It is scheduled for action in the House of Representatives at 10:00 a.m. Thursday, September 16. It is scheduled for action in the Senate later the same day.

The Treasury has prepared a paper outlining the positive features of the tax bill, reviewing those Administration proposals which were omitted from the bill, detailing the negative features of the bill, and presenting some advantages and disadvantages to consider in determining whether or not to sign the bill. This paper, along with a memorandum from Secretary Simon providing his evaluation of the bill, is attached at Tab A.

The EPB Executive Committee has reviewed the bill as it will be reported by the Conference Committee and

considers it, on balance, a good bill and recommends that you sign it. The EPB Executive Committee has also discussed possible points that might be included in a signing statement. A brief paper outlining some ideas for a signing statement is attached at Tab B.

Last winter you approved Secretary Simon's proposal to undertake a study of basic tax reform and simplification of the tax system. A status report on that project, prepared by the Treasury, is also attached at Tab B.

Sugar: During the first six months of 1976 the price of raw sugar fluctuated between approximately 14¢ and 17¢ per pound. Since the middle of July the price for raw sugar has declined from over 15¢ a pound to between 9¢ and 10¢ per pound. The prospects for a rapid rise in sugar prices are not good. The Sugar Policy Task Force was reconstituted in early August to review the outlook for sugar prices and the implications for our sugar policy. A memorandum on the sugar situation outlining several policy alternatives is attached at Tab C.

Public Service Employment Bill: The Conference Committee has completed action on H.R. 12987, the Emergency Jobs Program Extension Act of 1976. A memorandum discussing whether you should sign the bill as it emerged from conference and how your position should be explained to the public is attached at Tab D.

Mushroom Imports: Since May mushroom imports have rapidly escalated prompting appeals for relief from domestic mushroom producers. A memorandum on the situation and recommended course of action is attached at Tab E.

- B. Participants: L. William Seidman, Alan Greenspan, James T. Lynn, Elliot L. Richardson, George Dixon, Charles Robinson, Frederick B. Dent, Earl L. Butz, John O. Marsh, Max Friedersdorf, Brent Scowcroft, James Cannon, Michael Moskow, Charles Walker, Scott Crampton.
- C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Tax Reform Bill

Deputy Secretary Dixon and Assistant Secretary Walker will review the Tax Reform Act of 1976, the status of the Treasury study of basic tax reform, and your position on the tax reform issue.

B. Sugar

Secretary Butz will review the sugar situation in the light of recent significant declines in the price of raw sugar.

C. Public Service Jobs Extension Bill

Under Secretary Moskow will briefly review the public service jobs bill.

D. Mushroom Imports

Ambassador Dent will briefly review the mushroom import situation and a recommended course of action.





THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

*At*  
*bill in way - personal exemption*

SEP 11 1976  
*Majorly related matters*  
*for work with*  
*in relation to*

MEMORANDUM FOR THE ECONOMIC POLICY BOARD EXECUTIVE COMMITTEE

SUBJECT: Evaluation of Tax Legislation

The Tax Reform Act of 1976 (HR 10612) has now been through the Conference. The Conference report is scheduled to be filed at noon Monday, September 13. The earliest it can be considered will be noon Thursday unless the Rules Committee waives the "3-day rule" or unanimous consent is obtained to consider the bill at an earlier time.

Work on the tax reform portions of the bill has been underway for almost four years. Early in 1973 the Administration proposed closing tax shelters and strengthening the minimum tax.

Many provisions have been included in the bill which the Administration has not proposed. Many are good, some are bad. There is no doubt that complexity is being added to the tax code, but much of this is due to the technical character of the changes. The bill also, however, enacts the long sought after "deadwood bill" which removes from the Code many obsolete provisions and unnecessary language.

Among the good features of the bill are those which close tax shelters. The Administration recommended doing this by means of LAL (limitation on artificial accounting losses). Congress rejected LAL in favor of a different mechanism which, although not as effective as LAL, should substantially reduce the use of tax shelters:

The bill also tightens the minimum tax provisions. The Administration has consistently urged use of an alternative minimum tax to assure that all taxpayers pay their fair share of taxes. That is if the alternative tax (computed by taxing certain tax preferences) is higher than the regularly computed tax, the alternative would apply. The bill, however, uses an add on minimum tax. That is, regardless of the amount of regularly computed tax, there will be a minimum tax imposed on the tax preferences. The principal effect of the add on tax

is to increase the tax rate on capital gains. While the minimum tax provision in the bill is not in the preferred form, it does assure that tax preferences can no longer be used to escape paying taxes.

The bill includes provisions in aid of capital formation: continuing through 1977 the corporate tax rate reductions enacted in 1975, and extending through 1980 the 10% investment credit.

The bill includes estate tax relief. It allows a credit equivalent to raising the present \$60,000 exemption to \$175,000, phased in over 5 years. It increases the allowable marital deduction for transfers between spouses. It provides special valuation rules for farms and small businesses. It provides for a longer payment period for tax attributable to farms and small businesses. ( (

The attached analysis lists numerous other good features.

The most significantly bad feature of the bill is the tax sanction against boycott activity. The Administration has firmly opposed any such legislation. The Conference adopted only the principle of the measure, providing for loss of foreign tax credits, DISC benefits and benefits of deferring tax on foreign source income attributable to boycott related activity. The language is still being developed by the Joint Committee.

The cutback on DISC tax benefits also is bad. The bill cuts them back about 1/3 by adopting an incremental approach to computing the benefits.

The attached analysis lists numerous other bad features in the bill.

On balance, I consider the bill, as it will be reported by the Conference Committee, to be a good one. In my opinion, good provisions significantly outweigh the bad ones.

((Signed) William E. Simon

William E. Simon



Analysis of Tax Legislation  
(H.R. 10612)

A. The tax bill emerging from Conference has the following good features:

1. Extends existing tax cuts.
2. Closes tax shelters. The Administration initiated an effort to do this in 1973 and has pursued the effort ever since. Our method was by means of LAL (limitation on artificial accounting losses); the bill uses a different mechanism which may not be as effective but should substantially reduce the abusive use of tax shelters.
3. Tightens minimum tax provisions. The administration has consistently urged use of an alternative minimum tax to assure that all taxpayers pay their fair share of taxes. The bill, however, uses an add-on tax, the principal effect of which is to increase the tax rate on capital gains. While the add-on tax is not preferred, it does assure that tax preferences can no longer be used to escape paying taxes. The present 10% minimum tax rate is increased to 15%.
4. Aids capital formation by:
  - a. Extending through 1977 the corporate tax rate reduction and increased surtax exemption enacted by the Tax Reduction Act of 1975, and which expired July 1, 1976.
  - b. Extends the 10% investment tax credit through 1980. Otherwise the 10% credit would expire after 1976, and return to 7%.
  - c. Improves availability of investment tax credit through changing the sequence in which credits are used.
  - d. Avoids possible loss of investment tax credits and foreign tax credits by allowing election to carry operating losses forward only instead of first carrying them backward; extending carryforward by 2 additional years.

5. Provides estate tax relief by:
  - a. Effectively increasing the exemptions to approximately \$175,000 over 5 years.
  - b. Increasing the marital deduction for transfer between spouses.
  - c. Extending the period for the payment of the estate tax attributable to interests in farms and other closely-held businesses.
  - d. Providing for special valuation for real property used in farms and closely-held businesses.
6. Removes from the Code many obsolete provisions and unnecessary language - the so-called "Deadwood" provisions.
7. Many meritorious provisions are in the bill:
  - a. The retirement income credit has been substantially improved and simplified.
  - b. Relief for child care expense has been expanded and changed from a deduction to a non-refundable credit.
  - c. Alimony is made an above-the-line deduction,
  - d. Moving expense deductions are increased.
  - e. Provisions are tightened in abusive use of:
    - (1) Deduction for business use of homes and expenses of rented vacation homes.
    - (2) Deduction for attending foreign conventions.
    - (3) The "sale" of operating loss carryovers.

- f. Constructive changes are made in the tax treatment of foreign income.
- g. Constructive changes are made in certain administrative provisions, including:
  - (1) Publication of private IRS rulings, without violating taxpayer privacy.
  - (2) Restricting disclosure of tax return information
  - (3) Imposing requirements on tax return preparers
  - (4) Giving taxpayers the opportunity to contest jeopardy assessments
- h. Small corporation (Subchapter S) provisions have been eased
- i. Tax benefits are provided for rehabilitation of historic structures
- j. Increase from \$1,000 to \$2,000 in 1977 and to \$3,000 in 1978 the amount of ordinary income against which capital losses may be offset
- k. Long-sought and helpful changes are made for real estate investment trusts (REITs).
- l. The mandatory payout requirement of private foundations is fixed at 5%. Present law requires periodic changes--now set at 6.75%.
- m. A charity can bring suit to determine its right to tax exemption as a charity. Under present law, the only way to test this issue is for a contributor to sue when IRS denies his charitable deduction.
- n. Tax free transfer to partnership and trust funds are prohibited (swap funds).
- o. Gain from lapse of an option and gain or loss from a closing transaction in options

to be treated as short term capital gain or loss, not as ordinary income.

- B. The bill has omitted the following features which had been included in the Administration's program
1. The Administration's proposed deepened tax cuts have not been adopted which also would have:
    - a. introduced a higher (\$1,000) personal exemption.
    - b. established a simplified standard deduction
    - c. eliminated the refundable earned income credit.
    - d. eliminated the per exemption general tax credit
  2. The closing of tax shelters by means of LAL (limitation on artificial accounting losses) has been rejected in favor of a different mechanism. The Administration introduced LAL in 1973. The House version of the tax bill adopted it. The Senate firmly rejected it. The alternative mechanism set forth in the bill may not be as effective as LAL, but should substantially reduce the abusive use of tax shelters, and probably is less complicated.
  3. The minimum tax provisions take the form of an add on tax, not an alternative tax as proposed by the Administration. The principal effects of the difference are:
    - a. To increase the tax rate on capital gains. The half of capital gains excluded from the regular tax base is included in the minimum tax base.
    - b. The add on minimum tax is regressive in nature, since it is a flat rate on tax preferences, regardless of the amount of other taxable income.

4. The Administration had proposed to repeal the withholding tax on interest and dividends paid to foreign investors. This has been rejected, although the bill does provide for a permanent exemption from tax of interest paid on bank accounts of foreigners.
5. The Administration's job creation proposal designed to provide jobs in areas of high unemployment is not included in the bill.
6. The electric utility tax package proposed by the Administration is not included in the bill.
7. The Broadened Stock Ownership Plan (BSOP) proposed by the Administration is not in the bill.
8. The bill omitted the Administration's proposal for a sliding scale for reducing the amount of the capital gain to be taxed according to the length of time the asset is held.

C. The bill has the following bad features:

1. The boycott tax sanctions (sponsored by Senator Ribicoff) are significantly bad. They deny to taxpayers participating in the boycott the tax benefits of DISC, deferral of tax on foreign source income and use of the foreign tax credit.
2. The foreign bribe provision included in the Senate bill invoked the same tax sanctions (DISC, deferral and foreign tax credit) for taxpayers who pay bribes or make illegal payments overseas. The Conference Committee substantially modified the "penalty" by classifying such payments as deemed distributions to the U.S. parent corporation which would not reduce the earnings and profits of the foreign subsidiary. This result is a close parallel to the tax treatment of bribes and illegal payments made by domestic U.S. corporations. The Administration has consistently opposed use of the tax system to discipline overseas behavior.

3. The bill cut back by about 1/3 the DISC tax benefits by adopting an incremental approach to computing the benefit. The administration has consistently opposed any cutback on DISC.
4. An extra 1% investment credit is given to companies adopting an employee stock ownership plan (ESOP). This is 100% government financing of an employee plan with respect to which employers take no risk--a plan which invests solely in stock of the employer. Present law which grants the extra 1% expires after 1976. The bill extends it to 1980, and adds a still further 1/2 of 1% if matched by a voluntary employee contribution.
5. The bill increases the holding period for long term capital gains to 9 months in 1977 and to 12 months in 1978. The 6 month period continues for farm commodity futures contracts.
6. In the estate tax area, the bill provides that the basis of property held by a decedent will be "carried over" to his heirs (not increased to the property's value on the date of death), except that the basis will be stepped up to the value of the property on December 31, 1976. Also, the bill contains a very complex provision relating to generation skipping trusts.
7. Social Security numbers are authorized for use by State and local authorities, not only in connection with tax administration (which the Administration has not opposed) but also in connection with drivers licenses, motor vehicle registration and the location of runaway parents.
8. Other undesirable provisions include the following:

- a. One half the normal investment tax credit is provided for vessels constructed with money from tax-free capital construction funds.
- b. Enforcement of tax crimes will be impeded by provisions in the bill which give taxpayers the right to contest an administrative 3rd party summons. The measure will virtually assure that in criminal tax investigations only judicial summons will be available.
- c. Contributions to water and sewer utilities in aid of construction will not be taxable to them. With a proper phase-in, such contributions should be taxable. In any event, there should be consistent rules for all utilities.
- d. Countries which aid and abet international terrorists will be denied preferential tariff treatment. The wrong remedy is used for the problem, as in the case of tax sanctions for boycotting activity.
- e. Railroads and airlines are singled out for preferential treatment by being able to use investment tax credits up to 100% of tax liability (instead of 50% under current law) for 1977 and 1978 declining 10% per year after 1978 until returned to 50% in 1983. Utilities were given similar benefits by the 1975 Act but no other taxpayer entitled to an investment credit has the same benefit. The reasons for providing special treatment for utilities are inapplicable to airlines and railroads.
- f. The bill makes an unwarranted statutory classification as self-employed persons (hence not subject to withholding or employment taxes) crewmen on a fishing boat with a crew less than 10. While not significant in impact, the provision is symbolic of unwarranted complexity and discrimination among taxpayers.

D. Balanced evaluation

Given the relative significance of the good and bad features, the good outweigh the bad. It is a matter of judgement how heavily to weigh that balance. Weight cannot be measured merely by a numerical listing of the good and bad. (See the full tally sheet for the relevant numbers).

Secretary Simon weighing:

66 2/3% good

33 1/3% bad

E. Tax Reform still to come

The present tax bill, engrafting as it does so many complicated measures on an already complicated tax code, points dramatically to the need for a basic restructuring of the tax law.

The Treasury Department has been at work since early in the year developing a specific proposal for basic tax reform. Attached is a status report of the project (as of July 27, 1976).

The fundamental objective of the proposal will be to present a tax system that is simple, fair, and economically efficient. It necessarily will be responsive to the need for job creation and capital formation. Included, of course, will be the objective sought by the Administration's integration proposal to avoid the double tax on dividends. Until the basic tax reform package is presented for approval of the President (it is scheduled for mid-December) any new tax program or proposal should be kept sufficiently general that it will not impede the flexibility needed to move in the direction of a more basically restructured system.

F. Options

1. Sign the bill.

Advantages: Supports the tax reform effort which has been underway since 1973.

Enacts the many desirable measures in the bill.



An accompanying statement can emphasize that the tax cuts should have been deeper; also can comment on bad features of the bill.

**Disadvantages:**

Further complicates the law.

Tax reform elements of the bill are not significant enough to warrant the complexity.

Better to await more basic reform

Enacts undesirable provisions of the bill.

**2. Veto the bill**

**Advantages:**

Avoids further complicating the law.

Tax reform elements are not significant enough to warrant the complexity.

More basic reform should be made.

Prevents enactment of undesirable provisions of the bill.

**Disadvantages:**

Disavows the tax reform features of the bill.

Lose the desirable provisions in the bill.

Will require a revised bill with tax cuts equivalent to those in the bill or there will be a 1976 tax increase.



## IDEAS FOR A SIGNING STATEMENT

If you decide to sign the bill, there will be an opportunity, when signing, to make a statement concerning your tax program generally. This could include the following:

1. Disappointment that the tax cuts were not as deep as you had recommended.
2. Disappointment that the bill omitted elements of your tax program including:
  - a. The job creation proposal designed to provide jobs in areas of high unemployment.
  - b. The broadened stock ownership plan.
  - c. The proposal to repeal the withholding tax on interest and dividends paid to foreign investors. The bill does, however, provide for a permanent exemption from tax of interest paid on bank accounts of foreigners--an exemption which has heretofore been only temporary.
  - d. The electric utility tax package.
  - e. The proposal for a sliding scale for reducing the amount of capital gain to be taxed according to the length of time the asset is held.
3. Disappointment that the bill contains the bad features it does, including:
  - a. The boycott tax sanctions.
  - b. The reduction in DISC benefits.
  - c. The 100% government financing of the investment credit ESOP--a provision which gives an extra 1% investment credit to companies adopting an employee stock ownership plan which invests solely in stock of the employer. The Administration has consistently urged, but without success, the adoption of a broadened stock ownership plan (BSOP) which is not nearly as heavily subsidized as an ESOP, and has much broader application.

- d. The increase of the present 6 month holding period for long term capital gains to 9 months in 1977 and to 12 months in 1978.

4. Concern that the bill adds such an additional weight of complexity to the already dangerously complex tax code that the voluntary compliance and self-assessment elements of our system will be severely damaged.

5. A move towards true tax reform is underway. Having seen the dangers of an ever-increasing complexity of the tax code, the Administration directed the Treasury Department early this year to undertake a project to design a basically restructured and simplified tax law. The present system is being examined for the purpose of changing it to achieve the following objectives:

- a. Make it simple.
- b. Make it more fair.
- c. Make it economically efficient.

The simplification goal is self-evident. The Code provisions should be easily understood and applied, especially by the large majority of individual taxpayers. Simplicity is of less concern to high income, sophisticated taxpayers and large business enterprises.

The fairness goal is designed to treat equally situated taxpayers in as equal a manner as possible, and to produce a system under which all taxpayers are perceived to pay, and in fact do pay, their fair share of taxes.

The economic efficiency goal is designed to neutralize the tax system in the utilization and allocation of resources.

Tentative decisions are being made on specific elements in the proposed restructured system. These have not yet been completed. When they are, computer analysis will enable a determination of an appropriate rate structure. Statutory rates should be lower than present rates.

Until the computer analysis has been made it will not be possible to determine how practical the tentative decisions have been. Some may very well have to be changed.

When a viable package emerges (perhaps by mid-November) we can then develop a mechanism for phasing in the new system. This work is essential before the proposal can be made public, and it probably can not be ready much before the end of the year.

6. When the next Congress convenes, the deepened tax cuts and other desirable measures omitted from the bill will be introduced.

Status Report on Basic Tax Reform  
(July 27, 1976)

The present income tax system purports to impose tax on a net income base, but the actual base used does not derive from consistent application of any concept of income. Many items are excluded from the base that really are income, and many deductions, exemptions, credits, exclusions, etc. are applied in reduction of the base which are not costs of producing income. Moreover, there is no consistent approach to the economic consequences of taxes reflected in the present system. For example, many provisions are biased against saving and capital accumulation; a few are biased for it.

In approaching the Basic Tax Reform project, we are examining the present system for the purpose of changing it to achieve the following objectives:

1. Make it simple.
2. Make it more fair.
3. Make it economically efficient.

The simplification goal is self-evident. The Code provisions should be easily understood and applied, especially by the large majority of individual taxpayers. Simplicity is of less concern to high income, sophisticated taxpayers and large business enterprises.

The fairness goal is designed to treat equally situated taxpayers in as equal a manner as possible, and to produce a system under which all taxpayers are perceived to pay, and in fact do pay, their fair share of taxes.

The economic efficiency goal is designed to neutralize the tax system in the utilization and allocation of resources.

The review has assumed that no changes would occur in the total revenue raised, in the effective degree of progressivity in the present tax system, or in the distribution of the tax burden among income classes.

The project is under the direction of the Secretary of the Treasury, William E. Simon. He has assigned it to his Assistant Secretary for Tax Policy, Charles M. Walker, who

is developing the project with Deputy Assistant Secretaries David F. Bradford and William M. Goldstein. They are making tentative decisions on specific elements in the proposed restructured system. They have been going through the Code as it now exists and have made numerous tentative decisions. More are yet to be made. When these have been completed, computer analysis can begin to determine the appropriate rate structure. We expect to find statutory rates very substantially lower than present rates.

Until the computer analysis has been made (perhaps by the end of September), it will not be possible to determine how practical the tentative decisions have been. Some may very well have to be changed.

When a viable package emerges we can then develop a mechanism for phasing in the new system. This work is essential before the proposal can be made public, and it probably can not be ready much before the end of the year.

Our present feeling is that no effort should be made to introduce legislation to adopt the new system in the near future. Rather public education and discussion of it should occur appropriately in advance of Congressional consideration.

It is premature at this time to state any of the tentative decisions which have been made. It can be said, however, that there has been an effort to broaden the tax base in every reasonable and consistent way, and to reduce deductions, credits and exemptions to a minimum. In this respect, the starting point has been to eliminate all of them, and to retreat from that point only as far as necessary to advance the goals of simplicity, fairness and efficiency of the tax system. Decisions also have been made concerning the measurement and taxation of income from business, conducted both in corporate and noncorporate form. Decisions are in process with respect to the measurement and taxation of foreign source income. Decisions are yet to be made on numerous other subjects, including proposed statutory assurance that the relative tax burden among income classes, reflected by the lower rate structure adopted for the broadened base, will remain constant.

The finished product will be appropriate for publication. Its precise form has not yet been designed. The target date is December 15, 1976.

TAB C



THE WHITE HOUSE

WASHINGTON

September 15, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: U. S. Sugar Policy

The prices U. S. sugarbeet and sugarcane producers are receiving have declined to a level where they cannot operate profitably over the current season. Numerous sugar producers and their Congressional representatives have urged the Administration to raise prices through existing Presidential authority. Cane refiners, food manufacturers, and consumers oppose a government-induced sharp increase in sugar prices.

The Sugar Policy Task Force was reconstituted when sugar prices declined sharply in early August to review the outlook for sugar prices and the implications for our sugar policy. The Task Force has completed its update of the supply, demand and price projections for the remainder of 1976. The policy alternatives have been reviewed by the EPB Executive Committee. This memorandum seeks your decision on three policy alternatives.

Background

Forty years of protection afforded the U.S. sugar industry ended on December 31, 1974 with the expiration of the Sugar Act. With the expiration of the Act imminent, and sugar prices at their historical peak, you took administrative action on November 18, 1974, establishing an unrestrictive import quota of 7 million tons for sugar in order to retain the tariff on sugar at its lowest legal rate. This administrative action and the expiration of the Act signalled a shift in U.S. sugar policy toward an open market orientation.

Since late 1974, sugar prices have drifted steadily downward. The price of raw sugar has fallen from an historical high of 64.5 cents per pound in November 1974 to 9.6 cents on September 13. The current price is at an unprofitable level for U.S. producers and the outlook is for prices to remain

unprofitable at least through the end of 1976. This low price trend could continue well into 1977 depending on the planting intentions of Northern Hemisphere sugarbeet producers which will not be known until early 1977. Depressed sugar prices are primarily a result of excess supply.

### Policy Considerations

Protective action which significantly increased the price of sugar would please the 13,400 farmers who produce sugar by helping them to minimize short-term losses and avoid a contraction in production. However, since other sweeteners such as high fructose corn syrup (HFCS) can be produced at less cost than most U.S. sugar, a protected price for sugar would encourage increased investment in HFCS production and thereby hasten its displacement of sugar. This would lead to a long-term reduction in U.S. sugar imports, domestic sugar production, or both. It is estimated that HFCS will have displaced about 10 percent of U.S. sugar consumption by the end of 1976. While the protective options discussed below can provide short-term relief, they will not sustain U.S. sugar producers at current record high production levels. Lower-cost HFCS will continue to increase its share of the sweetener market at the expense of sugar.

If a decision not to protect is made, losses will likely be experienced by domestic producers. Areas with high costs and/or reasonable crop alternatives would likely shift from sugar to more profitable crops with a resulting decline in U.S. sugar production.

The U.S. has historically relied on foreign sources for about 45 percent of its sugar, although in 1975 imports declined to 38 percent. Most foreign suppliers are LDCs that depend on sugar to earn a major portion of their foreign exchange. About 20 percent of imported sugar enters duty-free under the Generalized System of Preferences (GSP) for eligible LDCs.

Each one cent increase in the price of raw sugar costs U.S. consumers an estimated \$200 million. In the long-term, consumers would pay higher but more stable prices for sugar in a protected market than in an unprotected market.

The return to a protected sugar market would be inconsistent with the open market orientation of U.S. agricultural policy. While continuation of current U.S. sugar policy would be consistent with overall U.S. agricultural policy, it could result in increased pressure for restrictive legislation to benefit U.S. sugar producers.

## ITC Escape Clause Investigation

On September 14 the Senate Finance Committee, at the initiative of Senator Carl Curtis, voted to request the U.S. International Trade Commission (USITC) to undertake a Section 201 escape clause investigation to determine whether U.S. sugar producers are being injured by sugar imports or whether there is the threat of such injury. By statute the USITC has six months in which to conduct its investigation. The USITC normally takes about six months to complete most of its studies. While the sugar investigation could be expedited, it is highly unlikely that it will be completed in less than three months.

### Options

The EPB Executive Committee considered several policy options, including a price support program for sugar and removing sugar from the list of products eligible for GSP, concluding that these options were not feasible for budgetary and foreign policy reasons. Three policy options are outlined for your consideration.

Option 1: Continue the current policy and issue a Presidential Statement calling for an expedited USITC investigation.

The statement would indicate that you join with the Senate Finance Committee in its request for the USITC study, that you are withholding action until the study is completed, and that you are requesting the USITC to expedite the investigation. This option would continue the U.S. open market sugar policy by maintaining the global quota at an unrestrictive level of 7 million tons and retaining the tariff at its lowest legal rate.

#### Advantages:

- o An open market policy encourages the most efficient allocation of resources both there and abroad by allowing the market to determine prices and production.
- o An open market policy results in lower but more volatile prices to U.S. consumers than in a protected sugar market.
- o The current sugar policy is consistent with overall U.S. agricultural policy.
- o A Presidential statement would demonstrate your concern while indicating why no protective action is being taken at this time.

Disadvantages:

- o Domestic sugar producers would experience short-term losses.
- o Continued depressed prices would increase pressure for the consideration of sugar legislation early in 1977.
- o Sugar producers would likely view this as insufficient action to meet their current difficulties.

Option 2: Triple the duty on sugar and issue a Presidential Statement calling for an expedited USITC investigation.

The statement would indicate that you join with the Senate Finance Committee in its request for the USITC study but that, given the current low-price situation, immediate action is necessary and that therefore you are tripling the duty from .625 cents per pound to 1.875 cents per pound.

Advantages:

- o Since a tariff is the least distorting restrictive trade measure, it would be more consistent with overall U.S. agricultural policy than a restrictive quota.
- o Treasury receipts would increase 1.25 cents per pound of sugar imported into the U.S. If such a duty increase were in effect throughout 1976, the increase in Treasury receipts would amount to \$85.2 million.
- o Tripling the duty could be viewed by sugar producers as a more decisive action than merely calling for an expedited USITC investigation.

Disadvantages:

- o Announcement of a tripling of the duty on sugar would undoubtedly prompt adverse consumer reaction.
- o An increase in the tariff would provide little or no immediate price protection for U.S. producers. Foreign suppliers are likely to absorb the increased tariff to maintain their competitive position thereby reducing their export earnings.
- o Sugar producers would likely view this as insufficient action to meet their current difficulties and criticize the policy as ineffective.

- o Although permissible under the GATT, an increase in the duty could cause some adverse reaction from our trading partners.
- o The ITC study could criticize the tariff increase as ineffective.

Option 3: Impose a restrictive global quota with no duty change.

A restrictive 4 million ton quota would be set initially, thus requiring stock reduction to allow consumption at its expected level for 1976. This action would reduce domestic supplies by 2 percent, resulting in a 4-5 cent increase in sugar prices before the end of 1976.

Advantages:

- o A restrictive quota would prevent domestic producers from incurring immediate losses and, therefore, would slow a significant contraction in U.S. sugar production.
- o A restrictive quota may reduce pressure for sugar legislation in 1977.

Disadvantages:

- o A quota would not provide long-term protection to U.S. sugar producers from other sweeteners competition. It could, in fact, encourage HFCS production and consumption thereby displacing sugar consumption. A reduction in U.S. sugar imports, domestic sugar production, or both could result.
- o A restrictive quota would require some allocation system to avoid cutting across contracts and other trade distortions. The traditional allocation method has been on a country-by-country basis which would cause foreign relations problems.
- o In the long term, consumers would pay higher, more stable prices for sugar. In the short term, retail prices would be 4-5 cents per pound higher than they would at levels associated with current raw sugar prices. The aggregate cost to consumers would range between \$800 million and \$1 billion annually.

Decision

Option 1 \_\_\_\_\_ Continue the current policy and issue a Presidential Statement calling for an expedited USITC investigation.

Supported by: Treasury, Commerce, STR, State, CEA

Option 2 \_\_\_\_\_ Triple the duty on sugar and issue a Presidential Statement calling for an expedited USITC investigation.

Supported by: Agriculture, Labor

Option 3 \_\_\_\_\_ Impose a restrictive global quota with no duty change.

Supported by:

TAB D

THE WHITE HOUSE

WASHINGTON

September 15, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Conference Committee Action on Extension of  
the Public Service Employment Program

The Conference Committee has completed action on H.R. 12987, the Emergency Jobs Program Extension Act of 1976. Before they began their deliberations, the conferees were informed of your decision of August 30 that you supported an extension of the program (Title VI) at current levels as long as new employees were limited to the long-term unemployed.

The Conference version targets 50 percent of the job openings resulting from attrition to the long-term unemployed and limits all jobs resulting from an increase in the size of the program to the long-term unemployed. As expected, the size of the program has been left open for resolution at the appropriations stage.

This memorandum discusses whether you should sign the bill as it emerged from conference and how your position should be explained to the public.

Issue 1: Should you sign the conference bill which limits only 50 percent of new positions to the long-term unemployed?

Option 1: Sign H.R. 12987

Advantages:

- o The bill establishes the principle that the public service jobs program should be targetted to the long-term unemployed. This is consistent with your original request for this program in October 1974.
- o You can justifiably claim credit for the provisions in the bill limiting eligibility to the long-term unemployed since this was the thrust of your original proposal and since your position, as conveyed to the conferees, almost certainly was responsible for the limitations that are included in the conference version.



- o Support for H.R. 12987 is consistent with your announced high priority for jobs and desire to more effectively target Federal outlays for jobs programs.
- o A major reason the eligibility limitations were not applied across the board is the crime wave in Detroit where PSE funds were used to rehire laid off policemen.

Option 2: Veto H.R. 12987

Advantages:

- o The bill continues a 260,000 emergency job program at a time when we are in the midst of a healthy recovery.
- o If you sign the authorization bill, it may prove impractical to oppose an increase in the size of the program at the appropriation stage if the appropriation for this program is included in an omnibus bill at the end of the session.

Decision

Option 1 \_\_\_\_\_ Sign H.R. 12987

Supported by: Labor, Commerce, Treasury, OMB  
Cannon, Friedersdorf, Marsh

Option 2 \_\_\_\_\_ Veto H.R. 12987

Supported by: Greenspan\*

\* Given the options I would recommend a veto. However, I wonder whether there are other potential options such as allowing the bill to become law without your signature or alternatively signing the extension of the act but being prepared to veto an omnibus appropriations bill if the amounts for the public service jobs program and/or other elements in the omnibus appropriations bill are excessive.

Philip Buchen: I would lean towards recommending that the President sign H.R. 12987. However, before making a firm recommendation, I would want to see the OMB report on the enrolled bill.

Issue 2: Should you announce your position on H.R. 12987 before final congressional action or wait to announce your position when the bill reaches your desk?

The House is scheduled to vote on the Conference Report on Thursday, September 16. The bill should reach the Senate early the week of September 20.

If you decide to sign the bill, regardless of when you make your position known, your statement could rely on two bases: (1) the importance of targetting public service jobs on the long-term unemployed now that the recovery is proceeding well; (2) the appropriateness of relaxing present restrictions as an emergency measure to permit urban areas confronted with unrest to rehire law enforcement officers.

The Department of Labor anticipates that the House Appropriations Committee will begin consideration of a supplemental appropriation for this program the week of September 20.

Option 1: Issue a statement on H.R. 12987 before Senate action on the Conference Report.

Advantages:

- o Issuing a statement before final congressional action puts you in the position of leading rather than reacting since you could call upon the Congress to pass or defeat the bill.

Disadvantages:

- o If you reveal your position on the bill before congressional action is completed, this could encourage the Appropriations Committees to increase the size of the program substantially since the authorization bill authorizes "such sums as may be provided."

Option 2: Make no statement on H.R. 12987 until the bill reaches your desk.

If you decide to sign the bill and the Appropriations Committees have not acted, you could take the initiative on program size by announcing submission of a supplemental appropriation request in your signing statement.

Advantages:

- o Permits you to withhold a public commitment to the bill until the size of the program is more clearly defined.
- o Uncertainty as to your intentions can be used to obtain greater leverage with the appropriations committees.

Disadvantage:

- o Puts you in the position of reacting rather than leading.

Decision

Option 1 \_\_\_\_\_ Issue a statement on H.R. 12987 before Senate action on the Conference Report.

Supported by: Commerce, Friedersdorf

Option 2 \_\_\_\_\_ Make no statement on H.R. 12987 until the bill reaches your desk.

Supported by: Labor, OMB, CEA, Marsh, Buchen



THE WHITE HOUSE

WASHINGTON

September 15, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Mushroom Imports

On March 17, 1976, the U.S. International Trade Commission (USITC) announced its finding that the domestic mushroom canning industry was being injured or threatened with injury by imports and recommended expedited adjustment assistance as the remedy. On May 17, 1976, as required by law, you accepted the recommendation of the USITC and ordered expedited adjustment assistance for the industry and its workers.

Since May mushroom imports have rapidly escalated. Imports during the first seven months of 1976 were up 29 percent over the comparable period in 1975. Imports during June and July this year were 108 percent higher than the comparable period in 1975 and far exceeded the previous record for imports in any one month.

Mushroom Imports  
(thousands of pounds)

	<u>1975</u>	<u>1976</u>
January-May	23,330	21,744
June	4,708	10,391
July	<u>6,025</u>	<u>11,939</u>
January-July	34,063	44,074

Government figures for August will not be available until September 24. However, spot checks with selected ports indicate that the pattern of increased imports is continuing. If this pattern of significantly increased imports continues, imports would equal total current U.S. consumption.

The surge in mushroom imports comes primarily from the Republic of China and the Republic of Korea. They have captured a large share of the U.S. market because of their significantly lower production costs. Moreover, restraints on mushroom imports by the European Community have exacerbated the situation.

Domestic mushroom producers, which are concentrated in Pennsylvania and Michigan, question the effectiveness of adjustment assistance as a solution to their problem and are distressed by the dramatic increase in imports since the matter was reviewed by the USITC.

The industry has urged restrictive legislation in the Congress. Since hearings have not been held on these bills, it is virtually certain that no legislative action will be taken this session. On September 2, 1976, the Trade Subcommittee of the House Ways and Means Committee passed a concurrent resolution calling upon the President to negotiate with representatives of foreign governments in an effort to obtain agreements limiting exports of mushrooms to the United States. If these negotiations are unsuccessful during a 90-day period, the resolution calls for a referral of the case to the USITC. The future of this resolution in the Congress is uncertain.

The Economic Policy Board has reviewed this issue and there is general agreement that the situation for the domestic mushroom industry has significantly deteriorated in the period since the USITC announced its finding and that some action is merited. This conviction is strengthened by the restraints applied to mushroom imports by the European Community which have resulted in a diversion of exports to the U.S. market.

There is agreement that the best legal course available is to seek a reinvestigation of the matter by the USITC and to direct the Special Representative for Trade Negotiations to discuss the problem with the major supplying countries (Korea and Taiwan) with a view to obtaining their commitment to moderate the quantity of exports to the U.S.

#### Recommendation

The EPB Executive Committee unanimously recommends that you direct the Special Representative for Trade Negotiations to seek a reinvestigation of the matter by the USITC and that you direct the STR to discuss the problem with the major supplying countries with a view to obtaining their commitment to moderate the quantity of exports to the U.S.

John Marsh, James Cannon, Brent Scowcroft, and Max Friedersdorf concur with this recommendation.

Philip Buchen has no objection.

Approve \_\_\_\_\_

Disapprove \_\_\_\_\_