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THE WHITE HOUSE

WASHINGTON

May 14, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
FROM: JERRY H. JONES
SUBJECT: Current Status of Pan American
World Airways and the Iranian Loan

Your memorandum to the President of May 12 on the above subject has been reviewed and your recommendation -- a concerted effort should be mobilized within the Executive Branch to monitor the Pan Am dilemma and to facilitate progress which will consider proposals to avoid a Pan Am bankruptcy; the Economic Policy Board should charge an interagency task force chaired by the Department of Transportation (with representatives from Treasury, State, Justice, OMB, Commerce, CIEP and your Counsel's office) with close attention to these matters; the White House contact would be Roderick Hills who would have the primary responsibility for following the issue for the White House -- was approved.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld

THE WHITE HOUSE

WASHINGTON

May 12, 1975

ECONOMIC AND ENERGY MEETING

May 13, 1975

4:00 p.m.

Cabinet Room

From: L. William Seidman

LWS

I. PURPOSE

- A. To review the current state of the economy.
- B. To consider the revised budget and economic assumptions.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background: The Weekly Economic Fact Sheet is attached at Tab A. The Economic Policy Board Weekly Report is attached at Tab B.

The Legislative Reorganization Act requires submission to the Congress of revised 1975 and 1976 budget estimates by June 1, along with estimates for "relatively uncontrollable" programs through fiscal year 1980. This requires submission of the economic assumptions on which the budget figures are based. A memorandum outlining the issues with respect to the submission of a revised budget is attached at Tab C.

A special session on the Pan Am issue was held last week. A memorandum outlining the current status of Pan American Airlines and the Iranian loan is attached at Tab D.

- B. Participants: William E. Simon, L. William Seidman, James T. Lynn, John T. Dunlop, Alan Greenspan, Arthur F. Burns, Frank G. Zarb, Donald Rumsfeld, Richard Dunham.
- C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Review of Current State of the Economy

Alan Greenspan will review the current state of the economy.

B. Revised Budget and Economic Assumptions

Jim Lynn will review the revised budget and economic assumptions.

WEEKLY ECONOMIC FACT SHEET

Employment and Unemployment

The rate of unemployment rose by 0.2 percent to 8.9 percent in April. Total employment held even at the first quarter level while the length of the workweek rose by 0.2 hours. The seasonally adjusted insured unemployment rate has been level during the past four weeks and the number of initial claims has run below the February-March totals. These factors suggest that although unemployment is still rising, the rise is slowing.

Production

Real gross national product declined at a 10.4 percent rate during the first quarter. Real final sales were level and a very large rate of inventory liquidation resulted.

Industrial production declined one percent in March for the fourth straight monthly decrease. The March decline was considerably less than the monthly decreases of 2 1/2 to 3 1/2 percent that occurred in the four preceding months. The April industrial production figure will be reported on May 15. Preliminary indications suggest a smaller decline than during April and perhaps even a small increase.

Prices

Consumer prices rose by 0.3 percent in March. Consumer prices have risen at a 6.6 percent rate during the past three months compared with the 12.2 percent rate of the last six months of 1974.

Wholesale prices rose by one percent last month--the result of a sharp reversal in farm commodity prices. Industrial commodity prices rose by only 0.1 percent further confirming the abatement in inflationary pressures.

Money and Financial

The money supply (M₁) grew at a seasonally adjusted annual rate of 2.7 percent during the past four weeks for which data is available. Interest rates declined rather substantially last week, partly because of the unanticipated increase announced in tax receipts and the probable reduced level of Treasury borrowing in the period immediately ahead.

Key Sectors of the Economy

Domestic automobile sales in April were at a seasonally adjusted annual rate of 5.8 million--considerably below the 6.2 million annual rate during March. Inventories of unsold units rose slightly during the month.

Housing starts were unchanged in March at an annual rate of about one million units. Savings inflows into the thrift institutions were at record levels in March.

Weekly Economic Review

An increase of 0.2 percent was reported last week in the unemployment rate for April, lifting the overall rate to 8.9 percent. There were a number of encouraging aspects which suggest that the rise in unemployment is slowing. Total employment held even in April and the average workweek in manufacturing by 0.2 hours. The weekly insured unemployment rate has risen only slightly during the past four weeks - a period during which the number of initial claims for unemployment benefits has continued to run below the February-March levels.

The Wholesale Price Index rose by 1.0 percent in April, breaking the four month string of declines experienced since last November. This was not an unanticipated increase. The reversal was due to a 4.8 percent runup in farm commodity prices, also the first increase since last November. Over the past three months wholesale prices have risen at a .6 percent annual rate. Prices of industrial commodities, which are less erratic than farm product prices did not accelerate in April, rising at a 0.1 percent rate. Consequently, aside from the farm product price flareup, wholesale price movements continue to confirm the abatement in inflationary pressures.

Total manufacturing and trade inventories declined by \$1.9 billion in March - about double the revised drop reported for February. Although the decline was widespread it was most significant for wholesale and retail stocks. The March estimates continue to confirm an extremely rapid working off of excess inventories.

The advance estimate of retail sales for April indicates an increase of 1.4 percent from the downwards revised March total. Automobile sales weakened late in the month and stocks of unsold cars began to back up again. Nevertheless, total retail sales for April are, however, still running ahead of the first quarter average - implying continued strength in the personal consumption component of the GNP accounts.

B

ECONOMIC POLICY BOARD WEEKLY REPORT

Issues Considered by EPB During Weeks of April 28 and May 5

1. Report from Under Secretary Maw on Law of the Sea Conference.
2. Report on Secretary Simon's International trip.
3. Preliminary Review of Role of Government in the Economy Study.
4. Review of proposed Iranian loan to Pan American Airways.
Current status of loan and financial situation of Pan Am reviewed and interagency task force chaired by Department of Transportation established.
5. Tax Reform
Treasury to revise memorandum to reflect the consensus of the discussion.
6. Re-estimate of Economic Assumptions in the Budget.
7. Review of Federal activities related to materials shortages.
CIEP to coordinate shortages policy development.
8. Review of meeting with Independent Regulatory Commissions.
Provided the Domestic Council and the Counsel's Office with EPB recommendations.

Task Force Status Reports

1. Food Deputies Group
 - March CPI showed first drop in food prices since last July.
 - Forty percent increase in price of slaughter cattle during the last two months. On April 1, 31 percent fewer cattle were on feed than a year earlier.
 - Wheat stocks are up 17 percent from a year ago. Corn stocks are down 23 percent and at their lowest level since 1955. Soybean stocks are down 11 percent.
 - Approved a three month work program for the Food Deputies Group.
2. Task Force on International Commodity Agreements
 - Tentative conclusion of desirability of continuing existing commodities policy of a preference for non-interference by governments but a willingness to entertain proposals on a case by case and commodity by commodity basis.
 - Task Force will continue to function as mechanism for development of commodity agreement policy in preparing for the OECD ministerial conference and the UN Special Session.

International Economic Policy Review

An International Economic Policy Review, coordinated by CIEP, was held on May 2 and 3. The issues discussed at the review will be considered at a full EPB/CIEP Board meeting on May 14. Issues discussed included:

- Foreign Investment
- International Finance
- Energy: International Economic Implications
- Strategy for the Multilateral Trade Negotiations
- Export Financing/Export Promotion
- International Commodities

Major Upcoming Agenda Items

1. Re-estimate of Economic Assumptions
2. Review of New York City Financial Problems
3. Review of Impact of Safety and Air Quality Standards on Automobile Prices
4. Review of Motor Vehicle Standard 121 (Air Brakes) and Motor Vehicle Standard 208 (Air Bags)
5. Interagency Fertilizer Task Force Report
6. Food Deputies Group Report
7. Antitrust Immunities Task Force Report
8. Full EPB/CIEP meeting on May 14.

THE WHITE HOUSE

WASHINGTON

May 13, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JAMES T. LYNN
SUBJECT: June 1 Review of the Budget

Background

The Legislative Reorganization Act of 1970 requires transmittal of revised budget estimates to the Congress by June 1. The 1970 law made mandatory an established practice and specified the date for the transmittal. The Act also requires estimates of "relatively uncontrollable" programs through fiscal year 1980.

The result -- the Mid-Session Review of the Budget -- is a low-key, 15-to-20-page statement emphasizing changes in estimates since the budget was issued. Past Reviews have been little more than the minimum needed to comply with the Act.

Because of the more detailed projections appearing in the fiscal 1976 Budget this year, we will be expected by congressional committees and the press to provide information on the economic assumptions on which the revised budget estimates are based. I have promised members of the Joint Economic Committee that we will furnish updated assumptions.

This memorandum outlines some of the issues in expanding the Mid-Session statement and also raises key issues regarding what we will have to publish in any case.

Energy Policy

In the two weeks left before we settle on final June 1 figures, we cannot develop a detailed, revised energy

program. However, for the purposes of the report, we need general guidance on broad Administration strategy.

Option I -- Retain your original energy package recognizing only changes that have been forced upon us including

- a new effective date of either August 1, September 1, or January 1, 1976 (the September 1 date may be preferable since the energy allocation authority will need to be renewed then); and
- the effect of changes in oil depletion allowance.

This option assumes decontrol effective immediately. A variation on this option would substitute a phase-in of decontrol (per your April 30 letter).

In the January budget, timing effects led to a \$3 billion addition to the 1976 deficit. We can now make this revised package neutral, thus reducing the deficit by \$3 billion.

Option II -- Show only the effect of a \$2 tariff on oil imports (adding \$4 billion to receipts) and assume phased-in decontrol of oil prices over 25 months beginning June 1, 1975 (per your April 30 letter). Delete effects of all other parts of your energy proposals on grounds that Congressional action is uncertain.

Assumptions Concerning Tax Cut and Tax Reform

The Tax Reduction Act went substantially beyond the Administration's proposals, but most of the effect will be in 1975. However, there is widespread expectation that the cut will be extended or made permanent. This would reduce receipts by approximately \$4 billion. This difference does not produce a large effect on the calendar year 1976 unemployment rate. However, Keynesian economists would argue that the prospects for strong economic recovery and a lower unemployment rate beyond 1976 are likely to be better if the tax cut is either extended or made permanent.

The Economic Policy Board recommends continuation of our assumption that the tax cut will end as scheduled in the Tax Reduction Act. The Board would also make no assumption concerning tax reform.

Effect of Reduction Proposals

By law, the Secretary of HEW will be required to announce on May 15 the cost-of-living increases for social security and SSI that become effective on June 1. The actual checks are not mailed to recipients until about June 27. In our June 1 Review, we can note that the Congress must act immediately if \$2.5 billion is to be saved, but such a statement poses a question of credibility. Similarly, other budget reductions are assumed to take place starting at the beginning of 1976 raising like questions of reasonableness.

\$60 Billion Deficit Target

Our ability to maintain a credible \$60 billion deficit figure depends on decisions on the above issues. Extension of the tax cut alone would almost certainly push us over. However, with a neutral energy package we might be able to accommodate the \$2.5 billion loss in savings from the cap on SSI and social security, although this would put us sufficiently close to the edge that we cannot be certain of staying within the \$60 billion. Of course, since breaking the \$60 billion would result from Congressional inaction, there is not the same need to accommodate this increase within the \$60 billion as there would be if we had initiated the social security increase.

In addition, to hold to the \$60 billion, we will need to maintain our \$8 billion estimate for offsetting offshore oil receipts and to hold back on most of the upward revisions for the food stamp program that appear to be occurring.

Nature of Projections

The Budget forecast unemployment rates of 8.1 and 7.9 percent for calendar 1975 and 1976. Since that time, unemployment has risen faster than was expected and staff forecasts suggest an 8.8 percent rate for 1975 and an 8.5 percent rate for 1976. The Economic Policy Board believes that a more optimistic stance is defensible. They suggest a rate of about 8.6 for 1975 and 7.9 percent

8.7

for 1976. The 1975 figure would be slightly below that projected by any of the major private forecasting services while the 1976 figure would be at the low end of the range. It should also be noted that the private forecasters are assuming a budget deficit larger than our \$60 billion and given their techniques a larger deficit lowers the unemployment rate. Consequently, while assumptions of lower unemployment rates are defensible, they will be subject to some attack. On the other hand, the assumption of higher rates may intensify calls for more spending programs.

Style of Presentation

Candor and clarity would argue for placing in the Review a table like that appearing in the budget. However, we could provide the information to the Budget Committees and the JEC informally or by a separate letter.

Under either of these approaches, we could avoid some of the problems of a single complete table by

- showing information only for the years 1975 and 1976 and stating that figures for the years 1977 through 1980 are essentially unchanged (Economic Policy Board preference);
- using a narrative style that avoids tables;
- providing figures in ranges; or
- dropping figures for the intermediate years (1977-1979).

D

THE WHITE HOUSE

WASHINGTON

May 12, 1975

MEMORANDUM FOR THE PRESIDENT

FROM:

L. WILLIAM SEIDMAN



SUBJECT:

Current Status of Pan American
World Airways and the Iranian Loan

Pan American Airways faces a deteriorating financial condition that (i) threatens bankruptcy on October 1, 1975, the expiration date of its present line of credit with 36 domestic banks, and (ii) may prevent the completion of the proposed Iranian investment of some \$300 million in Pan Am that was before the Administration three months ago. Although Pan Am has implemented a number of economy measures and executed a "route swap" with TWA, its traffic has dropped to levels substantially below those predicted.

In February, it was believed that the \$300 million cash assistance proposal by Iran would "save" the company, but today the Department of Transportation, Pan Am's bank creditors and most other observers believe it is not enough and that in addition Pan Am will have to complete a merger with a domestic carrier at an early date, or be granted extensive domestic route authority. Moreover, the apparent need for a merger is complicating Pan Am's negotiations with its bank creditors.

Because of the severity of Pan Am's condition, several matters may arise in the near future which could have a major impact on both the domestic and international air transport system of the United States:

1. Submission of an Iranian loan agreement to the CAB for approval.
2. Execution of agreement in principle for a Pan Am merger (American Airlines is leading

candidate -- Eastern and TWA may not be sufficiently strong) that may require early Administration support in principle.

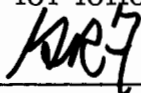
3. CAB recommendation to you with respect to the pending Transatlantic route proceedings.
4. Further implementation of or a challenge to the route exchanges between Pan Am, TWA and American.
5. Pending CAB action that may give Pan Am domestic route authority between Los Angeles and Miami.

Since an Iranian investment could prove worthless if Pan Am does not quickly secure domestic route authority, it is important that (a) Administration officials not unconsciously mislead Iran either as to the present financial status of Pan Am or as to the prospects for a successful merger, and (b) that the Administration make every effort to expedite CAB and other governmental procedures which will be considering these matters.

Early and complete understanding of these matters by all departments is necessary to deal with the problems of Pan Am in a manner which will not unduly disrupt the air transportation policies of your Administration.

Recommendation: A concerted effort should be mobilized within the Executive Branch to monitor the Pan Am dilemma and to facilitate progress which will consider proposals to avoid a Pan Am bankruptcy. The Economic Policy Board should charge an interagency task force chaired by the Department of Transportation (with representatives from Treasury, State, Justice, OMB, Commerce, CIEP and your Counsel's office) with close attention to these matters. The White House contact would be Roderick Hills who would have the primary responsibility for following the issue for the White House.

Approve _____



Disapprove _____