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ECONOMIC AND ENERGY MEETING

Tuesday - November 4, 1975

5:30 P.M.

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE
WASHINGTON

Jim -

This came in the outbox
(the meeting folder and original
Treasury Letters).

We now have received the
decision memo from Seidman --
Any action on the decision memo?

How do these original
Treasury letters get in?

Trudy

THE WHITE HOUSE

WASHINGTON

November 5, 1975

MEMORANDUM OF DECISIONS

ECONOMIC AND ENERGY MEETING

November 4, 1975

FROM: L. WILLIAM SEIDMAN

fwS

Decision 1: New York City Legislation

The President reiterated that he would accept no compromise with his previously stated public position on new Federal assistance for New York City.

The President requested that draft legislation be prepared to fulfill his commitment that the Federal Government would work with the Federal District Court to assure the provision of services essential to the protection of life and property in New York in the event of a New York City default.

Implementation: The Departments of Treasury and Justice will prepare the draft legislation for review by Friday, November 7.

Decision 2: Monitoring Stock and Bond Market Activity

The President requested a close monitoring of the stock and bond markets in light of the New York City financial situation.

Implementation: The Department of Treasury and Federal Reserve Board will closely monitor the stock and bond market activity and report on any significant developments.

Decision 3: New York City Legislative Strategy

The President indicated that if the Administration's proposed amendment to the Federal Bankruptcy Law is attached to bail-out or other post-default legislation, the Administration should urge that all provisions other than the Administration's proposal be struck from the bill.

Implementation: The White House Office of Congressional Liaison will closely monitor the situation.

Decision 4: Tax Reduction and Spending Restraint Proposal

The President indicated that the Ullman counterproposal (Tab A) to the Administration tax reduction and spending restraint program is unacceptable and that we should continue to urge enactment of a \$28 billion tax reduction and \$395 spending limitation for FY 1977.



~~THE PRESIDENT HAS SEEN....~~

THE SECRETARY OF THE TREASURY
WASHINGTON

November 4, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: Strategy re Tax Cut and Spending Limitation

(1) The President's Proposal. You have proposed a two-part program including permanent, meaningful tax reductions of \$28 billion for 1976 as compared with 1974 and a spending limitation for the fiscal year commencing October 1, 1976, of \$395 billion. In combination, these proposals would further economic recovery by lightening the tax burden in important sectors, encouraging capital formation and fighting inflation which is, in effect, the most regressive form of taxation.

(2) Ways and Means Committee Action. To date, the Ways and Means Committee has tentatively proposed to extend into 1976 the tax cuts which have been in effect for 1975, with most of such extensions to continue for one year only. The Committee has avoided any decision on the question of spending limitations, principally on technical grounds, but has left the impression that many members, in both parties, favor some sort of limitation.

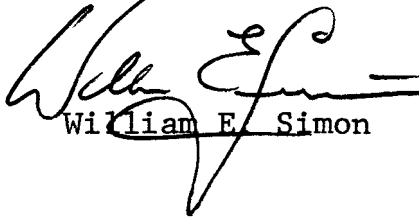
(3) Strategy in Ways and Means Committee. Upon consideration of the "clean bill" on November 4, the minority members will offer a series of amendments designed to force the Committee to take a position on (i) the most desirable level of individual tax cuts (your proposed cuts of \$20.7 billion as opposed to the Ways and Means proposed cuts of \$12.7 billion); (ii) the most desirable level of business tax cuts (your proposed cuts of \$7.3 billion as opposed to the Ways and Means proposed cuts of \$4.5 billion); (iii) limiting federal outlays in fiscal 1977; and (iv) deferring tax cuts at any level until Congress agrees to limit expenditures to correspond with the size of the tax cuts. The Committee may seek to avoid a decision on the latter two issues on technical grounds.

(4) Subsequent Strategy. Assuming that the final action of the Ways and Means Committee is not in accord with your program, the minority members will seek to obtain a modified rule from the House Rules Committee under which their amendments may be considered on the floor of the House. Failing this, the minority members will move to recommit the bill on the floor so that the appropriate amendments may be made. Thereafter, the dual goals will be pursued in the Senate, in conference and, if necessary through a Presidential veto.

(5) Possible Compromise. Chairman Ullman has indicated a desire to compromise on the spending limitation issue by including a "strong statement" favoring such a limitation. This appears unacceptable. Other possible compromises which may be proposed are: (i) conditioning a portion, such as \$11 billion, out of a total tax reduction of \$28 billion upon the adoption of a spending limitation or (ii) implementing the tax cut, at whatever level, only for the first six months of 1976 (i.e., so that Congress may know the exact content of the budget resolution for fiscal 1977 before it finalizes 1976 taxes).

(6) Debt Ceiling Limitation. When the Ways and Means Committee next considers the debt ceiling bill, the minority members will move to amend this bill by including your spending limitation proposal. This approach may obviate some of the previous technical objections of the majority and, in any event, will serve to highlight the relevant issues once again.

(7) Budget Legislation. Congressman Latta will endeavor to produce early action by the House Budget Committee seeking a concurrent resolution imposing a spending limitation for fiscal 1977 in line with your program.


William E. Simon



THE PRESIDENT HAS SEEN....

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

NOV 3 - 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: New York City

I. Legislative Situation. Last week, the Senate Banking Committee reported out a bill which would provide \$4 billion of financial assistance in the first year and additional amounts in later years to prevent default and operate the City. Floor action could begin as early as late this week or early next week.

The House Banking Committee reported a similar bill today.

Neither bill requires the Executive Branch to provide funds to prevent default. Both confer discretion on an Executive Board, consisting of Treasury, Labor and Federal Reserve in the Senate and Treasury, HUD, HEW, Federal Reserve and SEC in the House. The Senate bill is extremely strict, requiring new state taxes, renegotiation of labor contracts and substantial unguaranteed financial participation by the banks and pension funds. The House bill is far more vague. Both bills contain provisions authorizing money for essential services after default. The House bill will include our bankruptcy proposal as Title III.

II. New York City Finances. If New York City does not receive the November infusion of cash under the three month plan adopted by the Legislature in September, it will default on \$270 million of notes on November 10. While the availability of such cash seemed certain a few weeks ago, we understand that at least some people in New York are now taking the position that if New York City will default in December anyway, why weaken the state further by throwing more money in now.

III. Ongoing Negotiations in New York City. We understand that preliminary, but serious, conversations have taken place between union leaders and bankers to determine the concessions which might be effective in resolving the situation. But these parties recognize, as do we, that this approach will be futile unless the Governor and the Legislative leaders are full participants.

Basically, there would be three parts to a package:

- (1) New taxes.
- (2) Wage and benefit cutbacks.
- (3) Debt restructuring.

From a financial standpoint, new taxes are critical to success. The Governor has resisted these demands in the past, both in public and with his closest advisers. If he continues to do so, this approach cannot succeed, notwithstanding the best intentions of the other parties.

IV. Federal Assistance Regarding Essential Services. Since your Press Club speech, the most frequently asked questions have related to your statement that we will work with the court to insure that services essential to life and property are maintained. Specifically, two questions have been asked: what are essential services, is education an essential service, for example? and what mechanism would we employ to provide them?

In responding to these concerns, the timing of your action may be as important as the substance. Accordingly, in considering the following issues, I would recommend that you consider when any announcement should be made.

Issue One: What role should the Federal Government play with respect to ongoing negotiations?

Option One: Designate a Federal official to participate either actively or as an observer.

Option Two: Continue to remain completely removed from such negotiations.

Issue Two: What should be done to fulfill your commitment regarding essential services?

Option One: Submit legislation defining essential services and authorizing the Executive Branch to provide for the maintenance of these services through loans, guarantees or grants.

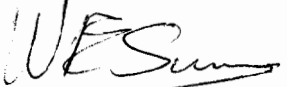
Option Two: Delay any further clarification at this time.

Issue Three: What should our position be with respect to current legislation?

Option One: Announce that you will sign the legislation coming out of the Congress, but that you will not use the mechanism to prevent default and will only use the post default mechanism.

Option Two: Announce that you will veto any legislation, which contains pre-default action, even if it only authorizes you to act.

Option Three: Make no further announcement and take no action until after default.


William E. Simon

THE PRESIDENT HAS SEEN . . .

THE WHITE HOUSE

WASHINGTON

November 3, 1975

ECONOMIC AND ENERGY MEETING

November 4, 1975

5:30 p.m.

Cabinet Room

From: L. William Seidman *FWB*

I. PURPOSE

- A. To review the strategy for tax cut spending legislation.
- B. To review and discuss issues related to New York City.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

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

Secretary Simon has been meeting with the minority members of the House Ways and Means Committee on the strategy which might be used to implement your tax cut spending proposals. An information memorandum from Secretary Simon is attached at Tab B.

In your recent speech to the National Press Club you committed to maintain essential services for New York City in the event of a default. This commitment needs to be reviewed in light of the current legislative proposals being considered by Congress. There are also other issues that should be discussed with you as outlined in the attached memorandum from Secretary Simon at Tab C.

- B. Participants: William E. Simon, L. William Seidman, James T. Lynn, Alan Greenspan, John T. Dunlop, Rogers C.B. Morton, James M. Cannon, Frank G. Zarb, Arthur F. Burns

III. AGENDA

A. Review the Strategy for Tax Cut Spending Legislation

Secretary will summarize his meeting with the House Ways and Means members.

B. Review Issues Related to New York City

Secretary Simon will discuss the current issues related to New York City's financial situation.

November 3, 1975

ECONOMIC POLICY BOARD WEEKLY REPORT

Issues Considered by the EPB During the Weeks of September 29 through October 31

1. Grain
Reviewed U.S. negotiating strategy with regard to a long term agreement with the Soviet Union. Discussed the current world grain situation and recent purchases in the world market by the Soviet Union and Eastern Europe.

A cable of instructions was approved by EPB Executive Committee reflecting its view on the alternatives.
2. Reactivation of Suspended Home Ownership Subsidy Program
Reviewed HUD memorandum on reactivation of suspended home ownership subsidy program. A memorandum will be prepared for submission to the President.
3. Seven Point Airline Action Plan
Reaffirmed the Administration's support of the DOT Seven Point Airline Action Plan. Secretary Coleman will issue the release.
4. Municipal Market Reform Proposals
Reviewed memorandum which will be redrafted for review and submission to the President.
5. Refundable Investment Credit
Approved Treasury recommendation that the Administration does not support provisions now before the House Ways and Means Committee to refund investment tax credits that would otherwise expire at the end of the seven year carry forward period provided by present law.
6. Cocoa Agreement Negotiations
Reviewed the current status of the cocoa agreement negotiations and reaffirmed the original guidance cable.
7. Tax Exempt Financing for Regional Municipal Power Systems
Reviewed a memorandum and agreed that the Treasury regulations should be tightly drawn. Treasury will prepare a summary of the regulations they propose to issue for public comment for review by the Executive Committee.
8. Role of EPB/NSC Task Force on Commodities
Reviewed schedule of upcoming commodity issues during the coming months and discussed procedures for monitoring and review of these issues by the EPB Executive Committee. Agreed that the EPB/NSC Task Force on Commodities will serve as the focal point for monitoring and regularly reporting on commodity issues.

9. International Economic Summit
Assignments made at an Executive Session for the preparation of briefing materials for the International Economic Summit Conference. Mr. Seidman's office coordinated the preparation of the briefing papers for the EPB.
10. Economic Aspects of Social Security Reform
Reviewed Treasury memorandum on economic aspects of social security reform. Recommend a memorandum outlining options with respect to alternative decoupling proposals, discussion of short term financing problem, and timing proposing major structural reforms in the social security system.
11. Economic Assumptions for the Current Services Budget
Reviewed a table providing for a range of economic assumptions for guidance to OMB in preparation of the current services budget.
12. Definition of Full Employment
Discussed issue of whether we should recommend a change in definition of full employment. Agreed not to propose any changes at this time.
13. President's Tax Reduction and Spending Restraint Program
Monitored congressional developments and reviewed Administration strategy.
14. Regulatory Reform Initiatives
Reviewed CEA's memorandum on regulatory reform efforts underway.
15. New York City
Numerous discussions have taken place within the past month re New York City financial problems.
16. Administration's Position on Third Flag Bill
Reviewed OMB memorandum and approved current Administration position.
17. Troika Forecast
Reviewed Troika forecast and approved figures in that forecast for use in the budget review process.
18. Foreign Payments by U.S. Companies
Reviewed a Commerce memorandum and current Administration action already underway.
19. Codes of Conduct for Multinational Corporations
Reviewed CIEP Interagency Report on Codes of Conduct for Multinational Corporations.

20. International Coffee Agreement
U.S. Participation in a New International Coffee Agreement memorandum was approved for submission to the President.

Task Force Status Report

1. Capital Formation
 - o Paper circulated to Executive Committee members for comments in preparation for submission to the President.

Major Upcoming Agenda Items

1. Social security reform.
2. Report of Subcommittee on Economic Statistics.
3. Economic effects of marketing orders for agricultural products.
4. Future of OPEC.

B



THE SECRETARY OF THE TREASURY
WASHINGTON

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11/4 Secretary Simon has not yet concurred on this memo.

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