Economic Policy Board

THE WHITE HOUSE

WASHINGTON

October 10, 1975

MEMORANDUM FOR: L. WILLIAM SEIDMAN

THROUGH: PHILIP BUCHEN P.

FROM: KENNETH LAZARUS KL

SUBJECT: Reactivation of the Suspended Homeownership Subsidy Program

Counsel's Office has reviewed your draft memorandum for the President on the referenced subject. We interpose no objection to the recommendation of Secretary Hills.

We would note, however, that at the present time, GAO is the only plaintiff in the suit challenging the impoundment of these funds. In this posture, it is our understanding that the Solicitor General is of the opinion that the Government has a 50-50 chance to prevail in the suit based on the available constitutional defense to the effect that law enforcement is a core Executive function beyond the powers of GAO. We are not aware of any private citizen who has indicated an interest in joining as private litigant in challenging this action. However, should the impoundment be attacked by an aggrieved private party, we would concur in the judgment reflected in your memorandum to the effect that the Government's chances for success are remote and the possibility for additional losses through litigation are real.

THE WHITE HOUSE

WASHINGTON

October 10, 1975

MEMO FOR: PHIL BUCHEN

FROM: KEN LAZARUS KL

I discussed this matter with Roger Porter on Wednesday, October 8th. He indicated that Bill Seidman would like to have a brief statement of our views on the matter despite the fact that it would not be reflected in the memo to the President which went in on that date.

THE WHITE HOUSE

WASHINGTON

October 10, 1975

MEMO FOR: PHIL BUCHEN

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I discussed this matter with Roger Porter on Wednesday, October 8th. He indicated that Bill Seidman would like to have a brief statement of our views on the matter despite the fact that it would not be reflected in the memo to the President which went in on that date.

Mc'd 4:20

THE WHITE HOUSE

WASHINGTON

October 7, 1975

MEMORANDUM FOR JOHN O. MARSH
PHILLIP BUCHEN ✓
ROBERT T. HARTMANN

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Reactivation of the Suspended Homeownership Subsidy Program

The Economic Policy Board has reviewed a proposal by Secretary Hills to release $264.1 million of impounded budget authority to reactivate an administratively modified Section 235 Homeownership Assistance Program.

I would appreciate your comments and recommendation on the attached memorandum on this issue by 3:00 p.m. Wednesday, October 8.

Thank you very much.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Reactivation of the Suspended Homeownership Subsidy Program

The Economic Policy Board has reviewed a proposal by Secretary Hills to release $264.1 of impounded budget authority to reactivate an administratively modified Section 235 Homeownership Assistance Program.

This memorandum outlines the current legal status of the impounded funds, the proposed administrative modifications, the budget and economic impact of reactivating the program, and requests your decision on the proposal to reactivate the program.

Background

The original Section 235 Homeownership Program provides families at 80 percent of the median income or less with an opportunity to purchase homes by reducing the interest rate on their mortgages down to 1 percent, but requires the homeowner to contribute 20 percent of his adjusted gross income to amortization. Thus, as the recipient family's income increases, the subsidy decreases, and may finally terminate.

In January 1973, the Nixon Administration suspended the Section 235 program and impounded the unused Section 235 contract authority.

The Comptroller General filed a suit on April 15, 1975 claiming that the Section 235 impoundment is subject to the provisions of the Budget Control Act which require the immediate obligation of the impounded funds.

It is the belief of the Attorney General, HUD's General Counsel and the Solicitor General that the Administration will not win this suit and that the Administration will be forced to reactivate the 235 program.

HUD Proposed Administrative Modifications

Secretary Hills believes that many of the identified defects in the "old" Section 235 program can be administratively remedied. She proposes an administratively revised program which would:

-- subsidize the mortgage interest rate down to 5%, instead of down to 1% so as to limit the program to moderate income families who were most successful under the prior program;

-- require a 3% down payment and buyer assumption of closing costs, which would result in approximately a $2,000 investment, instead of $200 as in the old program.

-- require geographic allocation of units; and

-- require dispersal of assisted units to prevent largely subsidized subdivisions and to encourage scattered-site development.

These administrative changes would effectively limit the program to moderate income families in the $9,000 to $12,000 range as opposed to the previous orientation of the old program which concentrated benefits on families in the $5,000 to $7,000 income range.

The new program would focus on an income group which is more likely to experience increases in income that would result in families working their way out of the program than previously. Moreover, these moderate income families are from a segment of the market who traditionally have been successful homeowners, but are now priced out of the market by high interest rates and recent escalations in housing prices.

A more detailed background paper prepared by Secretary Hills is attached at Tab A.

Budget Impact

The Secretary's proposal would involve the use of $264.1 million in contract authority. This would obligate the Federal government to a maximum potential payment of $7.9 billion over the next 30 years. Because many families, through increases in their income, will work themselves out of subsidy or will sell their homes before the end of the mortgage term, it is estimated

that there will only be $1.9 billion in actual expenditures, the great bulk occurring during the first 15 years of the program. Outlays are estimated as follows (in millions of $):

1976	TQ	1977	1978	Lifetime Estimate
0	0	39.6	109.8	1,925

Reactivation would also require the addition of 362 people to the HUD rolls in 1976 and 725 people in 1977.

Economic Impact

The housing industry's recovery is fragile and slow. The projected level of 1.2 million total housing starts for 1975 is lower than in 1974, which was considered a dismal year for the industry. Unemployment in the residential construction industry is running about 20 percent.

Secretary Hills' proposal would involve commitments for 100,000 new units annually, beginning in calendar year 1976. This would produce approximately 85,000 Section 235 starts during that year.

There is strong disagreement regarding the magnitude of the economic impact that would result from a reactivation of the program. There is currently substantial unused labor and material capacity in the housing industry, a considerable volume of available mortgage funds, and a very low level of construction. The homes which would be built under a reactivated program are priced in a range where there has been little construction activity. Accordingly, Secretary Hills believes that a reactivated Section 235 would produce almost entirely starts which would not have occurred without the program.

OMB and CEA question the assumption that the supply of mortgage credit will continue to be in excess as HUD projects. Consequently, they believe that most of the Section 235 starts would come at the expense of unsubsidized starts, limiting the amount of stimulus.

Issue: Should the Administration reactivate an administratively modified Section 235 Homeownership Assistance program?

Option A: Reactivate a modified Section 235 Homeownership Assistance program.

Advantages of reactivating a modified Section 235 program.

- The GAO impoundment suit could be settled, avoiding a court-ordered reimplementation of the program. HUD believes that under a court-ordered reimplementation of the program most of the administrative modifications could be made except for the crucial increase in the mortgage interest rate from 1% to 5%.

- HUD believes that the program will pay for itself by generating an increase in net GNP, tax revenues, and construction industry jobs over the next four to five years.

- Reactivating the program responds to homebuilding industry complaints that the Administration is callous to the plight of the industry during a period of depressed housing production.

- Reactivating the program provides an opportunity for moderate-income families now priced out of the market to buy their own homes.

- The 34-month dispute with the Congress would be diffused, and Congressional interest in new deep subsidy programs for homeownership could be blunted.

- This program would cost approximately 40 percent less per unit than the per unit cost under the "old" Section 235 program which offered a 1% mortgage.

- The President could take credit for the administrative changes which transform the program into a workable homeownership subsidy for moderate-income homeowners.

Option B: Continue suspension of the 235 program and continue litigating the law suit.

Advantages of continuing suspension of the 235 program.

- Reactivation of the program would increase federal spending by $39.6 million in FY 1977 and $109.8 million in FY 1978. Outlays over the term of the contract are estimated at $1.9 billion.

- Reactivation would require 362 additional HUD staff in FY 1976 and another 363 additional HUD staff in FY 1977 for a total increase of 725 personnel.

- OMB and CEA believe the program would have an insignificant impact on the level of housing starts, GNP and unem

ployment in 1976, since in their view, most of the units receiving the subsidy would have been built anyway.

- Like existing housing subsidy programs, a reactivated Section 235 is inequitable in that it would reach only a small portion of the families who are legally eligible for assistance and, like the current tandem plan, it could generate resentment among nonrecipients with the same or higher incomes who are forced to pay the market interest rate.

- If the reactivated program proves successful, it could be extremely difficult to terminate and could result in legislative pressure for a permanent continuation of the program.

- Reactivation of 235 involves potential legislative pressure to extend the program to rehabilitated or existing housing as a result of realtors' interest.

- Subjects the Administration to criticism for having suspended the program only to reimplement it two years later. However, changes in the program would counter this potential criticism.

Decision

Option A _____ Reactivate a modified Section 235 Homeownership Assistance program.

Supported by:

Option B _____ Continue suspension of the Section 235 program and continue litigating the law suit.

Supported by:

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C.. 20410

September 26, 1975

MEMORANDUM FOR: L. William Seidman, Executive Director
Economic Policy Board

FROM: Carla A. Hills

SUBJECT: Reactivation of the Suspended Homeownership Subsidy Program

On April 15, 1975, the Comptroller General filed suit to compel the obligation of $291.7 million of impounded budget authority to carry out Section 235, as amended, of the National Housing Act.

HUD recommends release of the impounded funds and reactivation of an administratively modified Section 235 Homeownership Assistance Program.

EXECUTIVE SUMMARY

The housing industry's recovery is fragile and slow. The projected level of total housing starts for 1975 is 1.2 million, or 59% of the number in 1973 and fewer than in 1974, which was considered a dismal year for the industry. Unemployment in the residential construction industry is running about 20%.

Partial causes of the lagging recovery in the housing industry are high interest rates and recent rises in housing costs, which have priced an increasingly large segment of American families out of the market. In 1965, 44% of American families could afford the median-priced new single-family home; today that proportion is only 31%.

In January 1973, the Nixon Administration suspended the Section 235 program and impounded $253.5 million of unutilized Section 235 contract authority.

The Section 235 homeownership program provides families at 80% of median income or less with an opportunity to purchase homes by reducing the interest rate on their mortgages down to 1%, and requiring the homeowner to contribute 20% of his adjusted gross income to amortization. As family income increases, the subsidy decreases and finally ceases.

The GAO has filed suit seeking the release of impounded Section 235 funds, and it is the belief of HUD's General Counsel, trial counsel in the Civil Division of the Department of Justice and the Solicitor General that the GAO is likely to prevail.

HUD believes that it can remedy administratively many of the identified defects in the Section 235 program. Accordingly, it recommends reimplementation of Section 235 but instead of subsidizing the mortgage interest rate down to 1%, it proposes to limit the interest subsidy to 5%, to require a 3% down payment, and to implement greater geographic dispersal of units.

The immediate budgetary effect of this proposal would be the obligation of $291.7 million in contract authority unutilized as of July 31, 1975. Outlays would occur primarily in 1977 and 1978. The total run-out cost should not exceed $1.8 billion over 15 years.

The funds impounded will subsidize 348,000 units, largely incremental in nature. This level of construction will provide 213,000 construction jobs. A net GNP increase of $12.8 billion is projected, providing increased revenues of almost $2.6 billion.

The advantages and disadvantages of reactivation of the Section 235 program are as follows:

Pros

- Permits the GAO impoundment suit to be settled, avoiding the embarrassment of losing that suit.
- Avoids a court ordered reimplementation of Section 235 at a later time, when (hopefully) the housing sector is less in need of a stimulant to new construction.
- Avoids a court ordered reimplementation of Section 235 which might preclude us from implementing proposed administrative revisions to improve the program.
- Impacts positively on starts in a period of depressed housing production and during the six months immediately preceding the election.
- Responds to the homebuilding industry's demands for a quick stimulus to the single-family sector.
- Increases the opportunity for homeownership for many of those moderate income families priced out of the market by recent rapid rises in housing costs.

- Costs approximately 40% less per unit than the per unit cost of the earlier 1% mortgage 235 program.
- Costs significantly less than assistance for a similar family under the Section 8 rental assistance program or a GNMA 5% tandem mortgage.
- Adds a moderate income homeownership opportunity program to HUD's tools to aid the housing sector.
- Enables the Administration to take credit for the administrative changes which transform the program into a workable homeownership subsidy for moderate income homeowners.
- Defuses a thirty-four month dispute with Congress.
- Decreases Congressional desire for a new interest subsidy program.

Cons

- Requires outlays of $39.6 million in 1977, and $109.8 million in 1978.
- Involves run-out costs of $1.8 billion.
- Requires additional staff in 1976 of 362, in 1977 of 725, and in 1978 of 725.
- Involves potential legislative pressure for a permanent continuation of the program, if revisions prove successful.
- Involves potential legislative pressure to extend the program to rehabilitated or existing housing, as a result of realtors' interest.
- May subject the Administration to criticism for having suspended the program only to reimplement it two years later, but changes in program would counter this potential criticism.

Recommendation

HUD recommends that an administratively altered Section 235 homeownership program be activated immediately and that the impounded funds be obligated.

Single-Family Housing Outlook

I. BACKGROUND

A. Housing Industry Conditions

The recovery in the housing sector is fragile and slow:

(AT A SEASONALLY ADJUSTED ANNUALIZED RATE)	JUNE	JULY	AUG	PERCENT CHANGE FROM YEAR AGO
Total Starts*	1,088	1,238	1,260	-5.8
Single-family Starts	879	927	977	-0.8
New single-family houses sold	565	521		+2.4
Total units under construction	1,076	1,092		-27.2
Single-family units under construction	541	558		-9.4

Housing production has been discouraged by high interest rates, escalating housing prices, and a lack of consumer confidence.

The rapid savings inflows of the last spring and early summer have slowed, tending to confirm the fears of many lending institutions that interest rates will rise during the coming months.

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*Although the multi-family sector is even more badly depressed than single-family construction, this paper addresses itself only to the latter.

Construction lending has dropped, totalling 25% less in June 1975 than in June of last year. Single-family construction lending dropped 15%.

Between 1971 and 1974, the median price of a new home jumped more than one-third, and between 1973 and 1974, it increased 10.5%. A decade ago, 44% of American families had sufficient income to purchase the median price new home, as compared with 31% today.* A gross income of over $18,400 is required to support a mortgage of $23,000, whereas the median income for a family of four is now only $12,836. This growing gap between housing and real incomes precludes home-ownership for an increasing segment of American families.

B. Housing Industry Outlook

It appears that in the next twelve months interest rates may well rise and that housing costs will not drop sufficiently to increase the opportunities for homeownership for middle America.

We are projecting 1,200,000 total starts and 850,000 single-family starts for calendar year 1975. For 1976, we are projecting 1,400,000 total starts and 1,000,000 single-family starts. The below chart compares these projections to housing production levels for recent years.

	1972	1973	1974	(projected) 1975	(projected) 1976
Total Starts	2,379	2,058	1,353	1,200	1,400
Single-family Starts	1,311	1,133	889	850	1,000

(in thousands)

*A Legislative Reference Service report estimates that only 15% of American families can afford the median priced new single-family home today.

II. THE SECTION 235 PROGRAM

A. History

The Section 235 Lower-Income Homeownership Program was suspended in January, 1973. The United States Court of Appeals for the District of Columbia Circuit sustained the suspension and the impoundment of unexpended program funds in Commonwealth v. Lynn, 501 F.2d 848 (CADC 1974).

B. Background of the GAO Lawsuit

On July 12, 1974, the provisions of Title X of the Budget Impoundment and Control Act became effective. On October 4, 1974, the President sent a message to Congress which contained a deferral of obligational authority for the Section 235 program in the amount of $264,117,000. The message indicated that the President had been informed by the Attorney General that the Budget Control Act was not applicable to impoundments pre-dating the effective date of the Act and that the 235 deferral was being reported for informational purposes only.

On November 6, 1974, the Comptroller General submitted a message to Congress purporting to reclassify the Section 235 deferral as a rescission on the grounds that since the statutory authority to obligate 235 funds expired on August 22, 1975, the purported deferral was a "de facto" rescission.

Under the Act, if applicable, Congress can disapprove a rescission by inaction, but one House must pass a deferral resolution in order to disapprove a deferral of funds. In view of the doubt regarding the Comptroller General's authority to reclassify a deferral as a rescission, on March 13, 1975, the Senate passed a resolution disapproving the 235 deferral (S. Res. 61). Under Title X, the President has 45 days to begin expending funds after he becomes legally obligated to do so, and if he fails to abide by the Act's requirements, the Comptroller General may bring suit 25 days thereafter.

The Comptroller General has brought such a suit (Staats v. Ford, Civ. No. 75-0551, D.C.D.C., filed April 15, 1975) claiming that the Section 235 impoundment is subject to the provisions of the Budget Control Act, which require the immediate obligation of the impounded funds.

District Judge, June Green, on August 20, 1975, entered an interlocutory order that the impounded Section 235 funds be obligated, albeit not expended, so that the program funds would not terminate on August 22, 1975, when the statutory authority terminated. HUD complied. That order is now on appeal.

HUD's General Counsel, trial counsel in the Civil Division of the Department of Justice and the Solicitor General believe that the GAO is likely to prevail in this litigation.

C. Description of the 235 Program

The Section 235, Lower-Income Homeownership Program, by which direct cash payments are provided to a lender on behalf of a lower-income family to enable it to purchase a home, was substantially amended in the Housing and Community Development Act of 1974. It now provides that:

-- the payments can reduce amortization costs to as low as 1%;

-- the homeowner must pay a minimum of 20% of adjusted income toward regular monthly payments;

-- the homeowner must pay a minimum of 3% of the purchase price as a down payment;*

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*These provisions represent amendments to the 235 program contained in Section 211 of the Housing and Community Development Act of 1974.

-- the mortgage ceilings are $21,600 ($25,200 in high cost areas) or $25,200 ($28,800 in high cost areas) for a family with 5 or more persons;* and

-- to be eligible a family's adjusted income must not exceed 80% of median income for the area.*

D. Strengths of the Section 235 Program

HUD's evaluation of the 235 program in Housing in the Seventies identified several strengths.

(1) The program did provide lower but particularly moderate income families with the stabilizing influence of an opportunity for homeownership. (We have no homeownership program today.)

(2) The program was useful for minority families and marginally increased the geographic dispersion of inner-city inhabitants to suburban areas, thereby contributing to the racial heterogeneity of some communities.

(3) Construction costs for 235 units were no higher than for similar conventional houses, partially because a Section 235 house is not actually designated as such until an eligible buyer is certified. Thus, the builder tended to build competitively.

(4) Section 235 has a relatively low first-year cost and a long run-out period.

(5) Fifty thousand families of the 450,000 beneficiaries of the program worked themselves out of subsidy and became self-sufficient homeowners.

*These provisions represent amendments to the 235 program contained in Section 211 of the Housing and Community Development Act of 1974.

E. Criticisms of the Section 235 Program

The Section 235 program was suspended in January, 1973 for programmatic and budgetary reasons. The programmatic reasons are identified in Housing in the Seventies, pages 104-110.

(1) There was perceived horizontal inequity in that only one out of fifty income-eligible families obtained those home-ownership benefits. However, this type of inequity is inherent in every subsidy program where the number of beneficiaries almost always exceeds available funding.

(2) There was a perceived vertical inequity problem in that beneficiaries with higher incomes received greater subsidies because they tended to purchase more expensive homes and the subsidy is a percentage of mortgage interest.

(3) There was a perceived geographical inequity as a result of low statutory mortgage limits and differences in regional construction costs which resulted in an over-concentration of subsidized units in low costs areas such as the South.

(4) Concern was expressed that the program had a substitution effect in that subsidized starts reduced the availability of mortgage funds and building resources for non-subsidized starts.

(5) Concern was expressed that the minimum down payment of $200 did not create sufficient incentive in the purchasers to care for their property. (Section 211 of the Housing and Community Development Act of 1974 increased the minimum down payment to 3% of purchase price which corrects this concern.)

(6) Finally, there has been a significant problem with defaults on 235 mortgages, particularly with respect to existing housing and large subdivisions. Currently, defaults coupled with our losses on acquired mortgages are running at a rate that makes the program actuarily unsound.

F. Proposed Administrative Revisions of 235

There are several ways in which the perceived deficiencies in the 235 program could be ameliorated.

(1) A screening process to select homeowners likely to work themselves out of subsidy range would significantly help to avoid defaults and minimize ultimate run-out costs. A recently reported experiment in the San Francisco area has proved extremely successful in avoiding delinquencies.

(2) A minimum down payment of 3% of the purchase price up to $25,000 and 5% of excess, with the purchaser to pay full closing costs, would give most homeowners a $2,000 or more cash investment in their homes and focus the program more on moderate-income families, which was the group which succeeded under the prior 235 program.

(3) Specifying 5% as the lowest interest rate to which the mortgage would be subsidized instead of the old 1% floor would:

(a) Limit participation to a higher income group which succeeded under the previous program, while leaving almost 6 million families within the eligible income range.

(b) Decrease the interest differential between 235 and other FHA home purchasers and thereby decrease the preceived inequity of the subsidy.

(c) Narrow the subsidy so that the funding would be available for more units. Assuming an average mortgage of $23,000 at a 9-1/2% market rate, the available $291.7 million would support 203,000 units at 1% but 348,000 units at 5%. The effect of a subsidy to 5% is demonstrated in the below table showing the gross income required to support a $23,000 mortgage at 9-1/2% and 5%, respectively.

Rate	Monthly Payment	Gross Income
5	134.25	$12,300
9-1/2	200.95	$18,411

Since the median income for an American family in 1974 was $12,836 a 5% subsidy brings a modest home within the reach of the average American family.

(4) Restricting 235 funds to new construction would maximize the immediate impact on housing starts.

(5) Restricting 235 funding to the lesser of 20 homes or 30% of the total units in a subdivision would avoid the large 235 financed subdivisions which gave rise to the most severe problems in the old 235 program. This restriction might also encourage non-subsidized housing starts by, in effect, assuring a developer of a relatively quick sale of 30% of his stock when he built a subdivision.

(6) Utilization of 235 would require compliance with Section 213 of the 1974 Housing and Community Development Act, which requires the allocation of 235 assistance to be on a geographical formula basis and in conformance with housing assistance plans. Thus, geographical inequities of the old 235 program could be mitigated and local governments could be given some control to assure more rational location of 235 construction.

G. Effects of Reimplementation

(1) Timing. If regulations were published simultaneously for effect and comment, Section 235, with the suggested changes, could be implemented in 30 to 45 days. Processing of larger scale developments would take 90 to 120 days. Hence, the program would be having its greatest effect on starts in the early spring of 1976.

(2) Housing Starts. At the recommended 5% interest rate, the available $291.7 million would cover 348,000 units. It is unlikely there would be significant substitution for unsubsidized starts, because the program would reach families now squeezed out of the market.

(3) Jobs and GNP. The construction of 348,000 units would provide 213,000 jobs and $12.8 billion in increased GNP. The GNP translates into $2.6 billion in increased revenues.

(4) Total Costs. Releasing the impounded Section 235 funding would involve $264 million of contract authority this year. In terms of actual outlays, because all funded units will be new, it is likely that there would be only minimal outlays

in FY 1976 -- followed by outlays of $39.6 million in FY 1977 and $109.8 million in FY 1978.

Based on previous experience with Section 235, we calculated the total potential run-out cost of the program over 15 years to be approximately $1.8 billion, although the theoretical maximum run-out cost over 30 years would be $8.7 billion, assuming no increases in recipient's incomes. The higher interest rate and prepurchase screening envisioned should insure that more of the recipients will work themselves out of the subsidy than under the program as previously implemented, further reducing the run-out cost.

The additional staff years required are 362 in 1976, 725 in 1977, and 725 in 1978.

(5) Cost Comparisons. Section 235 provides housing to moderate income families at about half the annual subsidy cost of the currently operable Section 8 Lower-Income Rental Assistance Program.

The annual Federal subsidy for a family of four with a gross income of $8,800 in a unit costing $25,000 is $1,619 under Section 8, $1,339 under the old Section 235 program, and $953 in the revised Section 235 program.

Because a Section 235 subsidy terminates when the recipient family's income increases to a given level, a Section 235 5% homeownership program is less expensive, on a per unit basis, than a GNMA tandem program involving 5% mortgages. For example, a 5% tandem plan for 60,000 units would cost approximately $395 million as compared to $178 million for the same number of units subsidized to 5% under Section 235.

OPTION

Whether or not to activate the Section 235 Lower-Income Homeownership Program with the administrative changes discussed above.

Pros

- Permits the GAO impoundment suit to be settled, avoiding the embarrassment of losing that suit.
- Avoids a court ordered reimplementation of Section 235 at a later time, when (hopefully) the housing sector is less in need of a stimulant to new construction.
- Avoids a court ordered reimplementation of Section 235 which might preclude us from implementing proposed administrative revisions to improve the program.
- Impacts positively on starts in a period of depressed housing production and during the six months immediately preceding the election.
- Responds to the homebuilding industry's demands for a quick stimulus to the single-family sector.
- Increases the opportunity for homeownership for many of those moderate income families priced out of the market by recent rapid rises in housing costs.
- Costs approximately 40% less per unit than the per unit cost of the earlier 1% mortgage 235 program.
- Costs significantly less than assistance for a similar family under the Section 8 rental assistance program or a GNMA 5% tandem mortgage.
- Adds a moderate income homeownership opportunity program to HUD's tools to aid the housing sector.

- Enables the Administration to take credit for the administrative changes which transform the program into a workable homeownership subsidy for moderate income homeowners.
- Defuses a thirty-four month dispute with Congress.
- Decreases Congressional desire for a new interest subsidy program.

Cons

- Requires outlays of $39.6 million in 1977, and $109.8 million in 1978.
- Involves run-out costs of $1.8 billion.
- Requires additional staff in 1976 of 362, in 1977 of 725, and in 1978 of 725.
- Involves potential legislative pressure for a permanent continuation of the program, if revisions prove successful.
- Involves potential legislative pressure to extend the program to rehabilitated or existing housing, as a result of realtors' interest.
- May subject the Administration to criticism for having suspended the program only to reimplement it two years later, but changes in program would counter this potential criticism.

RECOMMENDATION

HUD recommends that Section 235 be reactivated as modified immediately and the impounded funds obligated.

THE WHITE HOUSE

WASHINGTON

October 15, 1975

MEMORANDUM FOR: JIM CONNOR

THROUGH: PHIL BUCHEN P.W.B.

FROM: KEN LAZARUS KL

SUBJECT: Seidman's Draft Memo of 10/11/75 re Future Relations with the International Labor Organization (ILO)

This office has reviewed the subject Memorandum for the President with attachments. We agree with the unanimous recommendation of Secretaries Kissinger, Morton and Dunlop that the United States should give a two-year notice of intent to withdraw from the International Labor Organization. We also share the reservations of the Department of State, both as to the length of the letter and its specificity regarding the issues of concern to the United States.

On the technical level, we would point out that the second sentence of the first paragraph of the letter should reflect the fact that the transmittal is being made "pursuant to Article 1, Paragraph 5 of the Constitution of the Organization as amended".

Attachment

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON **LOG NO.:**

Date: October 14, 1975 **Time:**

FOR ACTION: **cc (for information):**

Phil Buchen
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: October 15, 1975 **Time:** 2 P.M.

SUBJECT:

L. William Seidman's memo 10/11/75
re Future Relations with the International
Labor Organization (ILO)

ACTION REQUESTED:

____ For Necessary Action

__X__ For Your Recommendations

____ Prepare Agenda and Brief

____ Draft Reply

__X__ For Your Comments

____ Draft Remarks

REMARKS:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor
For the President

THE WHITE HOUSE

WASHINGTON

October 11, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Future Relations with the International Labor Organization (ILO)

The attached memorandum from Secretary Dunlop summarizes the unanimous recommendation of Secretaries Kissinger, Morton and Dunlop that the U.S. should give a two-year notice of intent to withdraw from the International Labor Organization (ILO).

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Future Relations with the International Labor Organization (ILO)

After consultation with Secretaries Kissinger and Morton, I am submitting for your information the following considerations concerning our future relations with the ILO.

The ILO was established to specify by conventions international labor standards and to improve working conditions, create employment, and promote human rights. It also carries out technical assistance programs in less developed countries.

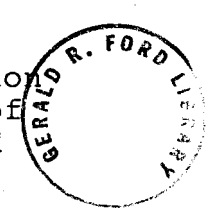
The ILO is older than most UN specialized agencies; it was founded in 1919. AFL President Samuel Gompers chaired the Commission which drafted the ILO constitution at the Paris Peace Conference. The United States joined in 1934. We pay 25 percent of the ILO budget, or $11,000,000 in 1975. The ILO is unique among international agencies in that it is tripartite. The U. S. tripartite Delegation to the annual Conference, which traditionally concerns itself with the development of labor standards, is composed of two delegates from the Government and one each from the AFL-CIO and the Chamber of Commerce of the United States. The two Government delegates normally come from the Department of Labor and Department of State with an alternate from the Department of Commerce. The United States has a Government seat (filled by the Department of Labor) on the tripartite Governing Body, which acts as a board of directors in providing instructions and guidance to the Director General. The U. S. worker delegate from the AFL-CIO, and the U. S. employer delegate from the U. S. Chamber have been elected to three year terms as Worker and Employer members of the Governing Body by their respective groups of the ILO Conference. Government, workers, and employers participate autonomously and vote separately, but the U. S. Government can continue to participate effectively only if U. S. Workers and Employers continue to support the Organization.

When the ILO Conference in June 1975 granted observer status to the Palestine Liberation Organization, the U. S. Workers walked out of the Conference and the Employers, together with the Government Delegation acting on instructions from Secretaries Kissinger and Dunlop, left for the balance of the day. The ILO action on the PLO was the latest event in a trend toward politicizing the ILO, diverting it from substantive work. The annual Conference spends too much time on political issues. Totalitarian states persistently seek to weaken the role of Workers and Employers, and the ILO itself seems indifferent to Communist bloc violations of its Conventions on Freedom of Association and Forced Labor.

The AFL-CIO Executive Council has now called on the U. S. Government to give the constitutionally required two-year notice of intent to withdraw from the ILO. The AFL-CIO Convention subsequently adopted a resolution calling for a reassessment of U. S. membership in the ILO. Until such a notice is transmitted, the AFL-CIO will not support payment of dues to the Organization and has pressured both Houses of Congress to cut off Department of State appropriations for these dues. Joint House Senate Conferees have opted for the House version which suspends payments for the last half of 1975.

An earlier crisis was reached in 1970 when Congress, stimulated in part by the AFL-CIO, cut off ILO dues for two years after the ILO appointed a Russian to a high-level position in the Secretariat. Although the funds cutoff was mildly successful in reducing political attacks, many countries considered that by failure to pay dues we had violated our treaty obligations.

The only means provided in the ILO Constitution to terminate membership is the issuance of a two-year notice of intent to withdraw. Should a notice be issued, the U. S. could press for reforms and, if satisfied, would be able to abort the action at any time within the two-year period.



Issue: In arriving at our unanimous recommendation that the U. S. should give the two-year notice of intent to withdraw, the following advantages and disadvantages were considered.

Advantages:

- The U. S. Government cannot continue effectively to participate if future U. S. Worker and/or Employer participation is in doubt. The AFL-CIO has made it clear that it will not support further dues payments

to the ILO until a letter of intent to withdraw is issued. The concerned committees of the U. S. Chamber agree with sending a letter of intent, and the position of the Chamber as to the timing of the letter will be decided by its Executive Committee in late October or early November.

- The interim period will provide an opportunity for labor and management, working with the Government, to develop a vigorous program of activities to reverse the objectionable trands in the ILO, and to ensure the U. S./ILO policy is reviewed continuously at high levels in State, Labor, and Commerce.

- A letter of intent is the only way we can establish a terminal date for US assessments, should we actually withdraw in two years.

- The letter may make the ILO, as well as other UN agencies, more amenable to reforms suggested by the U. S.

Disadvantages:

- U. S. Workers, Employers, and Government have never committed adequate resources for ILO work; a letter of withdrawal could be regarded as premature.

- U. S. influence in support of our main objectives--such as preserving tripartism and human rights -- may diminish with the prospect of U. S. withdrawal, since the U. S. would in effect be a lame duck. In such circumstances, our adversaries could benefit.

- Some ILO Member States may resent the letter which they may regard as a bluff.

- A letter of intent to withdraw from one UN agency may have a domino effect on Congressional attitudes toward membership in other UN agencies.

Tab A provides a draft of the letter of intent to withdraw developed by the Departments of Labor and Commerce. The Department of State has reservations both as to the length of the letter and its specificity regarding the issues of concern to the United States. We will continue our consultations to resolve these differences within the next two weeks.

1. Congressional Consultations.

Consultations with appropriate members of the Senate and the House, to inform them in advance of the decision to issue a letter of intent to withdraw and the reasons therefor, will be undertaken by the Departments of State, Commerce and Labor.

2. Timing the letter of intent will be sent before the next session of the ILO Governing Body convenes on November 10. The precise timing will be worked out by the Secretary of State in consultation with the Secretaries of Commerce and Labor.

3. Intensified U. S. Participation.

It is imperative to assemble a high level consultative committee to develop an ILO action program. Such a committee would not only deal with the US/ILO policy but would ultimately advise you on withdrawal.

While the committee is being formed, there are a number of actions we can take with existing staff; for example establishing a close consultative network with like-minded member states to arrive at joint positions on issues before the ILO and closer consultation with the ILO Director General and his office.

John T. Dunlop

SECRETARY OF LABOR

Attachment Tab A

The Director General
International Labor Office
Geneva, Switzerland

Dear Mr. Director General:

This letter constitutes notice of the intention of the United States to withdraw from the International Labor Organization in two years. It is transmitted pursuant to Article 1, Paragraph 5 of the Constitution of the Organization. Worker and employer organizations in the United States have been fully consulted.

This action is taken with deep regret. That regret is the more profound in the light of the close association of the United States with significant milestones in the Organization's history and development.

Among these are AFL President Samuel Gompers' Chairmanship of the Commission which drafted the ILO Constitution in 1919; the Declaration of Philadelphia in 1944, which reaffirmed the Organization's fundamental principles and reformulated its aims and objectives to guide its role in the postwar period; the revision of the ILO Constitution in 1945-46 and its affiliation with the United Nations as its first Specialized Agency in 1946; and the provision of greatly expanded technical assistance to Member States during the leadership of an American Director General.

The participation of the United States Government and United States worker and employer organizations in the ILO has reflected this Nation's historical support for the promotion of social justice throughout the world by the improvement of labor conditions and by

the raising of living standards of all workers. This participation has been based on the belief that the goals of social justice can best be attained through the unique tripartite structure embodied in the ILO.

Unfortunately, the work of the International Labor Organization is being diverted from its original aims and objectives, and from its commitment to tripartism, by the increasing politicization of the Organization and a consequent diversion from substantive work; by the erosion of the autonomous role of workers and employers in tripartite representation and decision making processes; by the declining respect in the Organization for those fundamental human rights which are central to the Organization's concerns and responsibilities; and by the growing disregard for the principles of due process in the pursuit of basic human rights.

The International Labor Office and the Member States of the Organization have been aware, at least since 1970, that these trends have reduced the enthusiasm with which the United States has supported the ILO. It is likely, however, that the basis and depth of the growing disenchantment have not been adequately understood or appreciated.

Now that these trends and our resultant concern have reached the point that we have decided it is time to give this two-year notice of intent to withdraw, it is only fair to the other Member States and the International Labor Office that we should include in this notification information on the reasons which have led to our decision.

In this context, the following issues and trends are of particular concern.

1. The Increasing Politicization of the Work of the Organization

In recent years the ILO has become increasingly and excessively involved in issues, reflecting the political ferment among nations, which are beyond the competence of and at times beyond the mandate of the Organization. The ILO does have a legitimate and necessary interest in certain issues which have political ramifications. It has major responsibility, for example, for international action to promote and protect fundamental human rights, particularly in respect of freedom of association, the abolition of forced labor, and trade union rights. These are central to its concerns.

International politics is not the main business of the ILO. Questions involving political relations between individual Member States and proclamations of economic ideology should be left to the United Nations and other international agencies where their consideration is more relevant to those organizations' responsibilities. Such irrelevant issues divert the attention of the ILO from improving the working, economic, and social conditions of the workers; that is, from questions where the tripartite structure of the ILO gives the Organization a unique advantage over the other, wholly governmental, organizations of the UN family.

2. The Erosion of Tripartite Representation

We are greatly concerned at the acquiescence by many members to the erosion of employer and worker rights (consciously provided for by the ILO Constitution to assure the separate representation of their

interests within the unique structure of the Organization) in favor of a political doctrine which would limit the rights of workers and employers to choose their own representatives.

The erosion of the autonomy of the non-Government Groups has gained strength since the Conference in 1959 adopted procedures under which the authority of the Employer Group, regarding the determination of its representation on tripartite committees of the Conference, was reduced.

A dangerous attack on group autonomy is now taking place in the Working Party on Structure, where a formula for the arithmetic regional distribution of Government seats on the Governing Body has been proposed. This would bring non-governmental representation closer to regional governmental aspirations and objectives, and so splinter employer and worker interests as to effectively remove the influence of the non-Government Groups as such from the ILO.

The United States believes that if this trend continues, the ILO will cease to function as a tripartite organization in which the two non-governmental partners can reflect their separate interests in the development of policies and programs to advance the welfare of workers.

3. The "Double Standard" on Basic Human Rights

The ILO Conference for years has practiced a double standard in the application of the ILO's basic human rights Conventions on Freedom of Association and Forced Labor, condemning the violation of human rights in some Member States but not others. This seriously undermines the credibility of the ILO's support of freedom of association which is so central to its tripartite structure and limits the effectiveness with

which the ILO can promote and uphold the principle of freedom of association among its Member States. It adds credence to the proposition that these human rights indeed are not universally applicable, but are subject to different interpretations for States with different social and economic systems.

4. Disregard of Due Process

The ILO until recent years has had an enviable record of objectivity and due process in its examination of alleged violations by its Member States of basic human rights under the purview of the ILO. The Constitution of the ILO provides for such procedures in respect of representations and complaints that a ratifying Member State is not securing the effective observance of any Convention which it has ratified (Articles 24-34). In addition, the ILO established, in conjunction with the UN, fact-finding and conciliation machinery to examine allegations of violation of trade union rights.

In recent years, however, the ILO Conference increasingly has adopted resolutions condemning individual Member States which are the political target of the moment, in utter disregard of ILO machinery for objective examination and due process.

This trend is accelerating. It gravely damages the ILO and its capacity effectively and seriously to pursue its aims and objectives in the human rights field. It has serious consequences for the ILO and for the whole future of its work relating to human rights.

The United States believes that such changes would further politicize the ILO, but we are not able to assess the degree of that impact

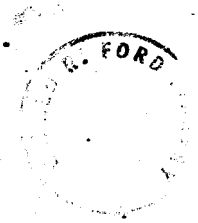
until we have examined provisions adopted in their stead. It is a certainty, however, that the retention of the ten non-elective government seats in exchange for the adoption of a formula for the regional allocation of Governing Body seats would to no degree reduce the adverse consequences as viewed by the United States.

To summarize, the ILO which this Nation has so strongly supported, appears to be losing interest in effectively advancing its basic aims and objectives and to be increasingly used in a way which serves the interests of neither the workers for which the Organization was established, nor of the United States as a Member of the Organization.

If these unfortunate trends continue, if the ILO fails in the next two years to reestablish its fidelity to its original principles, the United States will with great reluctance have no choice but to carry through with the intention enunciated in this letter to withdraw from further participation in the ILO.

Sincerely,

Secretary of State



THE WHITE HOUSE

MEMORANDUM WASHINGTON LOG NO.: 7

Date: October 31, 1975 Time:

FOR ACTION: cc (for information):

Phil Buchen
Jim Cannon
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: TODAY - October 31 Time: 2 P.M.

SUBJECT:

L. William Seidman Memo of October 30, 1975 re U.S. Participation in a New International Coffee Agreement

ACTION REQUESTED:

____ For Necessary Action
X For Your Recommendations
____ Prepare Agenda and Brief
____ Draft Reply
X For Your Comments
____ Draft Remarks

REMARKS:

As the memo indicates - the International Coffee Agreement negotiations resume in London on Monday - November 3 - The decision paper must go to the President today
Your cooperation in responding is appreciated.

No objection.

Dudley Chapman

D.C.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE

WASHINGTON

October 30, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

A memorandum, prepared in coordination with the Department of State and the Council of Economic Advisers, on the negotiating position the U.S. delegation should be instructed to take at the International Coffee Agreement negotiations which resume in London on November 3 is attached.

The Department of State has requested a decision on this matter as soon as possible. I shall be glad to discuss the paper with you if you wish.

THE WHITE HOUSE

WASHINGTON

October 30, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: U.S. Participation in a New International Coffee Agreement

Negotiations for a new International Coffee Agreement (ICA) resume in London November 3. This will be the sixth and presumably the last meeting of the negotiation group. At the July negotiations, agreement in principle was reached on many of the main concepts and key operating provisions of a new ICA, including automatic suspension of export quotas when prices rise by an agreed amount in a given period. This point was a basic U.S. negotiating objective. Most other provisions are similar to the ICA's of 1962 and 1968, which the United States supported. Proposals of some producer countries to build reserve stocks were rejected. The major issue unresolved in July was the division of market share allotments among producers.

Since the July meeting, a disastrous frost in the coffee growing regions of Brazil has changed the outlook for the next several years to one of tight supply and high coffee prices. Nevertheless, world interest in concluding an agreement remains strong. The State Department shares this interest in continued international cooperation on coffee matters. State considers it important for foreign relations reasons that we maintain a close and constructive relationship with the 42 producing countries in Latin America, Africa, and Asia.

The State Department has proposed that the United States play an active role in the final negotiations, based on its view that there will be important international political gains and that consumer interests are protected in the operation of the agreements. Specifically, in light of the effects of the Brazilian frost on prospective supply conditions, State proposes to revise the understanding reached in July. It is proposed that the Agreement enter into force in October 1976 with export quotas suspended and that export quotas remain suspended until the production situation returns to normal as reflected by significantly lower prices.

The CEA and some other agencies oppose an active U.S. role in the negotiations. The CEA view is that the State position accepts as given the system of export controls, and attempts only to ameliorate the adverse effects of imposing the controls in the first few years. The gains are not worth acquiescing in the basic mechanism of quotas operated by export controls. The CEA view is that ICA is a cartel agreement that will likely have strong adverse economic and political effects within the United States.

History of the International Coffee Agreement

The 1962 and 1968 agreements were designed to contribute to the stabilization of prices without either lowering or increasing long run price averages. Both agreements experienced difficulty during periods of short supplies, but the shortages developing late in 1972 were so severe that producer and consumer interests could not be reconciled in continued operation of the quota system.

Since 1972, the Coffee Organization has continued to function as a forum for negotiation and for the collection of statistics. Fifty-eight countries belong to the International Coffee Organization, including 42 producing and 16 importing nations. The United States has maintained a role in ICO in order to "protect our interests in any future coffee negotiations." (The Ninth Annual Report of the President to Congress on the ICA.)

The Proposed New Coffee Agreement

In order to restore price stability in coffee, each producing country would be allotted a quota of world exports. Quotas would be in effect when the price of coffee fell over a six month period, by a percentage to be decided upon. The imposition of quotas is intended to restrain exports and therefore put a floor under coffee prices. Quotas would be enforced by a system of export controls.

Year-by-year operations under the agreement would set the aggregate amount of coffee to be exported and the division of quotas among the exporting countries. The proposal leaves the determination of annual quotas to the Council. Country shares in exports would be partially reallocated annually in proportion to each country's share in world stocks.

At the present time, all but a very few representatives of the U.S. coffee industry believe continued producer/consumer

cooperation in a new ICA to be in the best interests of the U.S. The Senate, Tuesday, October 29, gave its advice and consent to a one year extension of the current Agreement to permit negotiation of a new Agreement by a vote of 94 to 0.

State Department Views Supporting the Proposed New Coffee Agreement

The U.S. has played an active and constructive role thus far in the negotiation for a new Agreement. In April, the U.S., after a full interagency review and approval by the substantive agencies concerned (Treasury, Commerce, USDA, and State), tabled a proposal which became the basis for further negotiations and which was largely incorporated into an Agreement in principle reached in July. The only major issue not resolved was the division of market shares among producers.

Because of the disastrous Brazilian frost last July, the world is facing two or three years of tight coffee supplies and relatively high prices. We thus wish to propose a standby mechanism, to become operative only if prices drop precipitously. This will assure:

-- the absence of restrictions on supply in the next two or three years;

-- an incentive to growers (primarily Brazilian) to replant coffee trees (because they will be assured against a sharp drop in prices in later years).

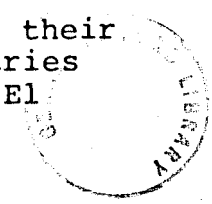
At the same time there is consumer protection in our proposals because of:

-- the absence of quotas when prices are high;

-- the flexibility of quotas (no specific price levels are specified in advance); and

-- the provision for allocation of some part of the quota on the basis of stocks (assuring that quotas are backed by real coffee).

Our foreign policy interest in coffee is extremely high. Coffee is of major concern to 43 producing countries. More than 14 countries in Latin America and Africa, including Brazil, Colombia and the Ivory Coast, earn more than 20 percent of their export earnings from coffee. For some of the poorer countries coffee is of even greater importance (Burundi 89 percent, El Salvador 38 percent, Ethiopia 30 percent).



It is essential to our credibility both as regards commodity policy and relations with the Third World that the U.S. be seen to be playing an active and constructive role in these negotiations. Because of differences between Brazil on the one hand and the small African and Latin producers on the other hand over the division of quotas, the negotiations could yet falter. If we indicate opposition to an agreement or take a passive attitude after our earlier positive stance, we will bear the onus for the failure of the negotiations.

For these reasons it is essential that we be given the negotiating flexibility to put forward proposals which would indicate U.S. readiness to support an agreement, fully consistent with our consumer interests.

CEA Criticisms of the Proposed Agreement

Commodity agreements fall into two classes -- buffer stock agreements and export control agreements. Buffer stock agreements, such as the U.S. proposed in wheat, even out price fluctuations without raising the price level. Export control mechanisms such as in coffee prevent prices from falling in periods of abundant supply but do not prevent them from rising in times of short supply. This characteristic follows from the lack of an inventory in an export control policy. To be sure when export controls are imposed, exporters will store more coffee, so that on the average there will be more coffee available to supply to the market when price rises. However, the amounts stored under this policy have not been enough to prevent significant price increases engendered by crop losses. The proposed agreement is not likely to be able to prevent price increases from crop losses in the future without an explicit inventory policy.

In the current situation a freeze in Brazil has just occurred and prices have risen accordingly from 60¢ to $1.00 per pound. Although prices have dropped back to 80¢ per pound, the concern is that the agreement would slow down the usual gradual price reduction to more normal levels over the next several years. The smaller producers would like to continue to expand their market share relative to the older, established exporters, notably Brazil. The operation of the agreement could curtail their growth and thereby induce the long-run supply adjustments. This would tend to prevent prices from falling as much as they otherwise would 4-5 years hence.

The effects of the agreement on domestic U.S. consumers are difficult to predict. But there are severe problems of the

appearance of cartel price increases in any case. The large price increases following the loss of the Brazilian crop will be reflected in retail price increases in the next few months of 20 to 30 cents per pound. Responsibility for the increases will be placed on ICA, even if inaccurately. There would be exceptional problems of explaining our renewed membership to domestic food retailers and consumers at a time when coffee prices are rising rapidly.

In the long run, effective operation of the coffee agreement would likely prevent prices from falling below the 60¢ per pound level in effect early this year, and would not prevent runups of prices beyond 90¢ per pound when there is a crop loss.

It is CEA's view that taking a strong position in November would move the United States along to almost certain membership in the agreement. If State is forthcoming in its recommendations, and these recommendations are accepted, then it would be embarrassing for this country not to join the agreement. A recommendation for active participation in November is de facto acceptance of the final agreement. Therefore, CEA proposes that the United States not take the additional steps that could require the U.S. to sign this agreement. State should be instructed to play a passive role.

Options

Option A: Instruct the U.S. delegation to present a U.S. proposal for operation of the quota system.

Pro:

- o United States participation along these lines would demonstrate our concern with the problems of the coffee exporting countries.
- o The proposal would continue the political benefits from our participation.
- o If accepted, the proposal would prevent drastic price increases due to artificial restrictions of exports in the next two years.

Con:

- o This would be tantamount to U.S. acceptance now of the final agreement.
- o The proposal will not likely prevent price increases due to the present crop shortfalls, but it will prevent price declines due to large crops.

Option B: Instruct the U.S. delegation to play a passive role in the last round of negotiations.

Pro:

- This provides maximum flexibility for the U.S. to reject the agreement if its final form is strongly against consumer interests.
- This posture would be consistent with CEA concerns regarding the restrictive effects of the agreement.

Con:

- The State Department proposal would minimize the occurrence of any artificial restriction of supplies in the next two years.
- There is some indirect incentive to build stocks in the proposed agreement. This incentive should be fostered by active U.S. participation.
- A passive U.S. position will be regarded by others as reflecting U.S. disinterest in the Agreement.

Option C: Instruct the U.S. delegation not to participate in the November negotiations.

Pro:

- The proposed ICA is based on export controls which are distinctly less preferred to buffer stocks.
- Will make clear at the outset our intention not to participate in such an agreement.

Con:

- By rejecting membership at this time, we would be left without any bargaining chips to use in trying to negotiate an agreement in our interest.
- This approach would immediately dissipate the political goodwill the United States has accumulated by participation in the International Coffee Organization.

Decision

Option A _____ Instruct the U.S. delegation to present a U.S. proposal for operation of the quota system.

Supported by: State, NSC

Option B _____ Instruct the U.S. delegation to play a passive role in the last round of negotiations.

Supported by: CEA, Treasury, OMB, CIEP

Option C _____ Instruct the U.S. delegation not to participate in the November negotiations.

November 26, 1975

To: Trudy

From: Eva

Mr. Buchen said he goes
along with Option 3.

THE WHITE HOUSE
WASHINGTON

Date 11/26

TO: Phil Buchen

FROM: DUDLEY CHAPMAN

Recommend: No objection

(I think Option 3 would make The President look more reasonable. The obvious reason for option 2 is to create the appearance of pressure on Congress, + I doubt that we should address that judgment.)

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: November 26, 1975 Time:

FOR ACTION: cc (for information):

Phil Buchen
Jim Cannon
Bob Hartmann
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Wednesday, 11/26 Time: c.o.b.

SUBJECT:

L. William Seidman memo 11/25/75
re Withholding Rate Strategy

ACTION REQUESTED:

____ For Necessary Action

____ Prepare Agenda and Brief

X For Your Comments

X For Your Recommendations

____ Draft Reply

____ Draft Remarks

REMARKS:

Prompt action on this matter is needed - your comments would be appreciate by c.o.b. today. Thanks.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE

WASHINGTON

November 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Withholding Rate Strategy

The current income tax withholding rates are scheduled to expire on December 31, 1975 and revert to the higher rates in effect before May 1, 1975.

Employers must know soon what withholding tables to use effective January 1, 1976. Employers with computerized payroll systems generally require a minimum of 30 days to implement new rates and tables; employers which are not computerized, about 45 days.

Reversion to the pre-May 1, 1975 rates or to new lower rates on January 1 will result in most employers being out of compliance with the law. Good faith efforts by employers to comply under such conditions, however, would be accepted as substantial compliance with the law.

The timing of congressional action on tax legislation is uncertain. It is conceivable that final action by both houses could be completed by the second week in December. Debate on a spending ceiling and on separation of a tax cut from tax reform might delay action. Congressional action early in December on a tax cut without a spending ceiling would allow time for a veto and congressional reconsideration. Action dragging on further into December, in the face of the planned Christmas recess, diminishes our maneuverability.

Options

Option 1: Take no further action except continued reiteration of your position that action on a tax reduction must be accompanied by a spending ceiling.

This keeps the focus on Congress and relies on the minority leadership, working with the Administration, to continue to press hard for a spending ceiling. Moreover, it keeps your options

open. However, should an impasse result and withholding rates rise January 1, it could be charged that employers and the public were not given adequate advance warning of the consequences.

Option 2: Approve Treasury issuing a press release alerting employers and the public that unless Congress acts, increased rates will take effect January 1. Issue a White House statement warning of the consequences of inaction and reiterating the need for a spending ceiling.

This strategy permits the IRS to provide advance guidance to employers to meet contingencies. It alerts the public to the consequences of inaction by Congress on your tax reduction and spending restraint program and dramatizes your commitment to favorable action on that program. However, escalation of the issue could increase public pressure on Congress to maintain the present withholding rates without accompanying legislation mandating a spending ceiling.

Option 3: Propose that Congress, after returning from its Thanksgiving recess, enact a simple 30-day extension (until January 31) of present withholding rates to allow more time to consider your tax reduction and spending restraint program and to give employers adequate notice of future changes in withholding rates.

A simple extension of the present withholding rates can be enacted at any time prior to January 1. Proposing an extension of the present rates now would likely weaken our position in pressing for enactment of the tax reduction and spending restraint program prior to the Christmas recess.

Recommendation

The Economic Policy Board Executive Committee unanimously recommends that you approve Option 2.

Max Friedersdorf concurs with this recommendation.

Approve _____ Disapprove _____