ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

February 3, 1976

1. Countercyclical assistance HUD

EPB 2/3/76

50,000 jobs per $1 of support

Construction alternative -

Bill

HR 5247

800,000 JOBS

$500 m

~~$10 B authoriz~~

6 B

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

February 2, 1976

ATTENDEES: Messrs. Simon, Seidman, Lynn, Cannon, Dent, Baker, O'Neill, Gorog, Walker, Penner, Porter, Collinson, Hormats, Hughes, Arena

1. <u>Steel</u>

The Committee reviewed in Executive Session recent developments with respect to the USITC recommended remedy with respect to speciality steel and the pending litigation regarding the Treasury Department's denial of the steel countervailing duty case against the remission of value-added taxes and the levying of value-added taxes on U.S. exports to Europe.

Ambassador Dent reported on the trade oversight hearings held last week by the Senate Finance Committee.

2. <u>Countercyclical Assistance</u>

The Executive Committee discussed possible Administration responses to H.R. 5247.

3. <u>Social Security Tax on the Self-Employed</u>

The Executive Committee discussed the Administration's position on the recommended level of increase in social security taxes for the self-employed.

<u>Decision</u>

The Executive Committee approved recommending that the social security tax rate for the self-employed be increased 150 percent of the proposed increase in the employee sosial security tax rate.

4. <u>Taxation of Withdrawals from a Broadened Stock Ownership Plan</u>

The Executive Committee reviewed a Treasury memorandum on the "Taxation of Withdrawals from a Broadened Stock Ownership Plan."

<u>Decision</u>

The Executive Committee approved option 2--recommending that all withdrawals from a BSOP (other than realized appreciation in value of distributed securities) be taxed at capital gains rates.

The National Broadcasting Company Presents

MEET THE PRESS

America's Press Conference of the Air

Guest: L. WILLIAM SEIDMAN
Assistant to the President for Economic Affairs

VOLUME 19 SUNDAY, DECEMBER 21, 1975 NUMBER 51

Merkle Press Inc. *Printers and Periodical Publishers*

Subsidiary of Pubco Corporation
Box 2111, Washington, D. C. 20013

25 cents per copy

Panel: IRVING R. LEVINE, *NBC News*
EILEEN SHANAHAN, *The New York Times*
FRANK SWOBODA, *Business Week*
PETER LISAGOR, *Chicago Daily News*

Moderator: BILL MONROE

Executive Producer: BILL MONROE

Producer: BETTY COLE DUKERT

MEET THE PRESS

MR. MONROE: Our guest today on MEET THE PRESS is L. William Seidman, Assistant to the President for Economic Affairs and Executive Director of the President's Economic Policy Board. He is a lawyer, economist, teacher, and until recently head of an international accounting firm. A personal friend of President Ford for many years, Mr. Seidman is considered one of the President's most influential advisers on economic matters.

We will have the first questions now from Irving R. Levine of NBC News.

MR. LEVINE: Mr. Seidman, on Thursday President Ford vetoed the tax cut extension bill because it did not include the ceiling on federal spending which the President has consistently insisted on, but on Friday the President agreed to sign the bill after Congress added a vaguely worded statement saying that Congress would try to match tax cuts with spending reductions.

Now the President's critics say that he changed his position in order not to risk unpopularity with voters whose taxes would be increased on January 1st. What economic considerations, if any, went into the President's decision?

MR. SEIDMAN: I think very important economic conditions went into his decision, because he was fighting for really a fundamental principle, and that is to tie spending and tax cuts together. I couldn't agree with your characterization that this is not a commitment by the Congress. I think that the difference between the time he vetoed the bill and the time he signed it was the fact that the Congress did commit, for I believe the first time in history, to tie together spending and tax cuts. They now have said and they have committed in their own language that they will tie these two together and, when they cut taxes further, they will cut spending further. That is what the President gained by his veto.

MR. LEVINE: There are two other bills affecting the economy which now await the President's veto or signature. One of them is the energy bill which would roll back oil prices rather than increase prices, which the President has said is necessary in order to have more domestic production and conservation.

Do you believe that the merits of this bill outweigh its defects?

MR. SEIDMAN: I think it is a very tough call. As a matter of fact, I am in a little bit of a tough position because the President hasn't announced what he is going to do with that bill yet, and I don't think that I should take a position on it with anybody but the President until he has made his decision.

I can say though, with respect to your comment, that while there is perhaps a very small rollback in price at the beginning, its objective is, over 40 months, to get us out of controls, and that was the President's original objective. So while I am sure that the bill has good parts and bad parts, the pricing provision is the most worrisome. It starts in the wrong way, but should hopefully end up in the right way by getting out of controls in 40 months.

MR. LEVINE: The other bill which affects the economy is the so-called "common situs" bill, a bill which would increase picketing rights at construction sites. Do you consider this bill a plus or a minus?

MR. SEIDMAN: I consider this bill a very tough bill for the President. As you all know, there have been unbelievable amounts of mail come to the White House. People are very emotional about the bill. The arguments are very strident. The President has not yet made his decision on the bill. I believe he will be announcing it on Monday. Until that time all I can say is it is a rough political call.

(Announcements)

MS. SHANAHAN: Mr. Seidman, I am having a little trouble figuring out how you and the President can claim a victory in this budget and tax fight. Is it not true and—how can you claim a victory when the Congress hedged it in two ways: First, they said in effect we will balance tax cuts and spending cuts unless we change our mind over economic conditions or unforeseen circumstances, which is a fairly total escape hatch. In addition to which the President wanted the tax reductions and spending reductions balanced against this tax cut and any future ones, and the way they worded it they said, only "any future ones." How can you claim a victory?

MR. SEIDMAN: First, I kind of hate to hear the discussion put in that way—the question is what was done for the American people by what the Congress did, and I think they made a very substantial step forward in tying spending and taxes together. What they said was, we commit that we will tie any tax cuts to equivalent spending cuts, and they defined them. In fact, Chairman Ullman said, in his statement to the House, that he saw no circumstances now that would require any change in this commitment, and he said that only if there were unforseen things that none of us could see now would there be a change. I don't think those are big loopholes. I think they are reasonable provisions to a firm commitment by the Congress.

The same kind of statements were made by Chairman Long before the bill was passed in the Senate, so I think it was a victory, a complete victory in establishing the principle that we are going to tie spending cuts and tax cuts together.

MS. SHANAHAN: Again, I am not clear how you can claim a victory and claim that it is the first time this has been done when Congress all this year has been operating under the new congressional budget procedures, which, in fact, make just such a tie.

Why do you discuss this as if that didn't exist?

MR. SEIDMAN: I think the difference—I commend what they have been doing, and we certainly don't want to do anything to harm that procedure because we are very enthusiastic about it, but I think what the President wanted to do was to get the dollar for dollar concept. That is, if you take a dollar out of taxes, you are going to cut spending by a dollar.

That concept had not been established in the budget procedure, and establishing it, we think, was a very important concept for the future of this country.

MR. SWOBODA: Mr. Seidman, why then didn't the President accept that concept when it was offered by Chairman Long of the Senate Finance Committee before he vetoed the tax bill?

MR. SEIDMAN: I was personally involved in all that, and there was a lot of discussion. Chairman Long was interested in some kind of a compromise like that, but the people who were with him were not, so no such compromise was offered, I can tell you from my personal experience. When the compromise was offered it was accepted, but it was not accepted by the people who were in touch with us before that, to my knowledge.

MR. SWOBODA: The idea of cutting spending $1 for every dollar you have cut in taxes may make good political sense this year, but how much economic sense does it make to a nation still trying to pull out of one of the deepest recessions in its history?

MR. SEIDMAN: I think it makes a great deal of sense. Our analysis is that government deficits have been importantly the cause of inflation, and inflation is the cause of the recession, the unemployment, all the difficulties we have had. So we are fighting the basic battle here: Are we going to get inflation under control and thereby get unemployment under control and get out of the kinds of cycles we have just been in? So, I think it was very important.

MR. LISAGOR: Mr. Seidman, the President appears to be in deep political trouble according to the polls, and he has been advised to use his State of the Union Message to outline a Ford blueprint for this country.

My question is, with a $395 billion budget ceiling, how is he going to propose any new programs that will cost money?

MR. SEIDMAN: Let me start by saying I can't agree with you that the President is in trouble, because a poll may have made some kind of an indication, because the polls fluctuate. They are like the stock market. They go up and down. I think you have to look at the real job to make a judgment. On that I think the President's State of the Union and what he proposes for the country will be vitally important.

I wouldn't agree with you that he has to propose new and expensive programs in order to propose a good blueprint for this country. In fact, I would disagree with you. I think it is vitally important that we take the programs that we have now and run them well, cut out the ones that aren't working, use those funds to implement the ones that are working, and overall propose a fiscal policy that will give us a sound economic recovery. By that I mean a recovery with good, sound growth and without inflation.

MR. LISAGOR: So it will be, I take it from your answer, a no-new-name policy, a hold-the-line policy in the State of the Union?

MR. SEIDMAN: I think we should wait until the President presents it to give it any characterization. It will be limited to $395 billion.

MR. LISAGOR: Vice President Rockefeller has conducted extensive hearings around the country and has made some elaborate recommendations as to what the President ought to do in a whole range of areas: health insurance, welfare reform, tax reform, and so on.

Are you saying that those recommendations will have to be put aside for the President to stay within his $395 billion ceiling?

MR. SEIDMAN: No, the Vice President's recommendations, I am sure, will be an important part of the program, but that does not necessarily mean that we are going to have the kind of recommendations that lead to the spending of another Great Society-type effort.

The Vice President's efforts are important in the area of making sense out of what we have now, and I think that when people see these new programs they will see that they do make sense and that just throwing money at problems is not the way to correct them.

MR. MONROE: Mr. Seidman, in this confrontation just completed, didn't the Democrats have some justification in feeling that the President was operating politically on at least two grounds: one, the President has practically announced that he sort of likes the way Harry Truman ran against Congress years ago and that he intends to run against Congress this time if he can get past Ronald Reagan; and two, he came up with a plan of tax cuts that everybody could enjoy before the election but spending cuts that might hurt some people and might hinder the recovery that would not really take effect until after the election.

MR. SEIDMAN: I think there are a couple of things. The President certainly admires Truman for a great many reasons, and I would say because he was courageous, because he did what he thought was right and not necessarily because he and the Congress tangled from time to time. I think calling this program political just doesn't look even at the political aspects of it because this budget that is going to be proposed is going to be a very tight budget. It is going to be $28 billion under what it would be with normal growth of spending. That means that practically every program is going to have to take some kind of limitation. Those are the kinds of discussions that politicians usually don't like to have right before elections, so I would say that characterizing it as a political windfall would not be the proper way to state it. I think what it is is an honest attempt to meet a fundamental American problem.

MR. MONROE: Is the Defense budget going to be cut a little bit, or substantially?

MR. SEIDMAN: I don't think I ought to go into the particular areas, but the President has said that every program is going to be looked at across the board, including Defense.

MR. LEVINE: Mr. Seidman, with 1976 approaching, what do you foresee as the inflation rate and the unemployment rate in 1976 as compared to what the final figures may be this year?

MR. SEIDMAN: That is a very difficult question because it depends, as you know, on a great many actions that have not yet been taken. We have some very important labor contracts which are coming up early in the year. We still have the battle of the budget with the Congress to be determined, and those could very much change the kinds of forecasts that we see at this time, but we see that the inflation rate hopefully will be six per cent or a little bit under and moving down. The unemployment rate, I am hopeful, will be in the low seven per cent or perhaps even under that by the end of the year. Those are our forecasts. They are based on our best judgment of the facts as they are now. They are not our goals. We hope we will do better on both of those.

MR. LEVINE: Some economists and some businessmen believe that the recovery we are now experiencing is a good deal slower than had been expected and there is even a fear that it may be interrupted.

Are you satisfied with the pace of the recovery?

MR. SEIDMAN: I think the pace of the recovery in the third quarter of this year was very rapid, somewhat more rapid than we had expected, with the GNP growing at an 11 to 13 per cent rate. It has slowed up a little bit now as we would expect. At this time we feel that it is reasonably well on track. These are a couple of areas that we would like to see better. Housing, certainly, we would like to see moving ahead a little bit faster. Investment in plant and equipment, we are still waiting for it to take off. So I think it is on a reasonable track considering where we were last summer.

MS. SHANAHAN: Mr. Seidman, the President said yesterday that he is going to recommend an additional $10 billion tax cut, giving him his $28 billion he originally wanted in two bites, $18 [billion] the bill as such was passed and then another $10 [billion]. What can you tell us about what is going to be in that proposal? Is he going to recommend the undone parts of his October proposal including a corporate tax rate cut and personal exemption increase?

MR. SEIDMAN: Frankly, I don't know. We just got the package that we ended up with, as you know, just a day or two ago, so we haven't had a chance to really discuss that in depth, but it would be my judgment that we will move towards the kind of program that we originally proposed since that was our judgment of the best way to make tax cuts. However, there are some others on the books now. We will have to take those into consideration in order to make a judgment.

MS. SHANAHAN: Specifically the administration has been arguing earnestly, almost since it first came into office, that we need to make changes in the tax law that would make investment in business more attractive, what the economists call capital formation.

Is this $10 billion the vehicle for that, and would a program of that sort use up the whole $10 billion?

MR. SEIDMAN: I think that is a question that we are going to address, but I think the point that we must have increased investment in this country in order to provide jobs, good jobs, good paying jobs in the private sector, is fundamental to the future of our people, and we will be looking at that area. We have proposed a number of programs in that area, and we intend to continue to push for more investment to provide more jobs. That is the President's position.

MR. SWOBODA: Mr. Seidman, I would like to follow that up for a minute. Theoretically, under the free-market system, the capital flows to those corporations that most deserve it. Since this administration espouses the free market system, why

should business be given massive tax breaks to attract new capital investment?

MR. SEIDMAN: There are a number of arguments in that area, and I think it is important that you start with the understanding that capital is not freely flowing now. There are all kinds of things in the system which direct it to one place or another. The important thing I think is to try to either neutralize those or move those in a way that will go to the areas where we do not appear to be meeting our needs.

I think a good example of that is the public utility field where we have had considerable problem getting sufficient capital to build for the future at the rate that we need it, and therefore the President proposed a program to give special incentives so that the public utilities would be able to get the capital in order to provide electricity for the future.

MR. SWOBODA: Yet, Alan Greenspan, the Chairman of the President's Council of Economic Advisers, makes little secret of the fact that he doesn't believe there is a capital crisis; what makes the President differ with his chief economic adviser?

MR. SEIDMAN: I don't think there is a difference in those terms. I think what Alan is saying is that the capital availability will be there if the federal government will get out of the market and leave the funds for the private sector. In other words, he is saying that the private sector will work okay if the federal government will stop borrowing so much money, and I don't believe there is any difference between him and the President on that point.

MR. LISAGOR: Mr. Seidman, is the President's economic advice too one-sided? Is there a dissenter in the crowd at the White House?

MR. SEIDMAN: I would say that if he isn't getting a broad view in terms of economic advice, then I have failed in my job, because it is my job to see that he does get a broad spectrum of views, and it is my view that he does.

Just two or three days ago we had 16 or 17 economists in from all around the country, leaders with all points of view, from Heller on one side right across the spectrum, and those views are all summarized and given to the President.

Within the group that talks to him on a much more daily basis, Secretary Dunlop certainly disagrees with Alan Greenspan from time to time. Secretary Simon has his differences with me from time to time, not personal but on the basis of policy. We work very hard to see that the President gets a broad spectrum in making his decisions.

MR. LISAGOR: Some of the critics of the President's eco-

nomic policy say that it doesn't appear that he has a clearly defined economic policy. Let me ask you straightaway, does the administration have a comprehensive policy for reducing inflation and unemployment?

MR. SEIDMAN: It clearly does.

MR. LISAGOR: What is it?

MR. SEIDMAN: It clearly does. It starts with fiscal policy. It starts with the way the government behaves towards the private sector, and it says that if the government is not responsible in handling its finances it will make it impossible for the private sector to handle its finances and grow appropriately. So, the first thing to do is to allow the private sector sufficient funds to do the job which they have done so well for us historically.

If they have it, then they will have capital funds. That means they will be able to borrow money and use it to buy plants, to put machines in place and to hire people, and that will provide real employment, that will provide real production, and those are the things we need to have a sound economy.

In addition to that, we have looked at the whole regulatory area in the attempt to hold down costs. The whole energy program is a part of our economic program.

MR. LISAGOR: I suppose the question then is, why isn't it working? Why does inflation continue to creep up and why doesn't unemployment come down?

MR: SEIDMAN: I think you have to look at what the President has done. Let me take you back just a year ago.

A year ago, we had an inflation rate of 12 to 13 per cent. We were having unemployment increasing, people becoming unemployed at almost a millon a month. We were looking at a fall in our GNP of 7 to 8 per cent. Now, a year later, the inflation rate is in half; unemployment is no longer increasing, it is going down; and the GNP is increasing at a 10 per cent or more rate.

The President said in his State of the Union speech he was going to turn the country around and point it in a new direction, and I believe he has.

Let me just finish by saying, I don't say that we are where we want to be. We are not. We had a terrific recession and it is going to take a while to go out of it, but we have turned it around, and due to the President's policies it is going in the right direction.

MR. MONROE: Mr. Seidman, you talked a moment ago about 7 percent unemployment all during 1976, almost as if you were satisfied with that. Do you know anybody who is unemployed?

MR. SEIDMAN: I certainly do, and I can tell you that it is a terribly disheartening experience. I have been out there in the private sector where we had to let people go, and it is an emotional and a terrible experience. And the question is, what can we do about it?

We have done two things. One, we have tried to provide for the people who have become unemployed in a way that their incomes can be maintained and in ways that will help them to find new jobs, and at the same time we have tried to build good new private jobs for them and that takes time. So no one in this administration thinks that those kinds of unemployment figures are good or are we satisfied with them. What we want to do, however, is build employment for people who are unemployed that will be real, solid, well-paying, and long-lasting.

MR. MONROE: We have about 40 seconds.

MR. LEVINE: I would like to return to the picketing bill. There is general belief that the President may veto that, that he is under extreme pressure to do so, and that Secretary of Labor John Dunlop would resign. Is the President willing to pay that price?

MR. SEIDMAN: The President will make his decision, I am sure, on the merits of the bill. I have no information on what the Secretary of Labor will do, if there were a veto. My hope would be that he stays with us, because he is an outstanding gentleman and I think does a great job for the country.

MR. MONROE: I am sorry to interrupt, but our time is about up. Thank you, Mr. Seidman, for being with us today on MEET THE PRESS.

The Proceedings of

MEET THE PRESS

as broadcast nationwide by the National Broadcasting Company, Inc., and printed and made available to the public to further interest in impartial discussions of questions affecting the public welfare. Transcripts may be obtained by sending a stamped, self-addressed envelope and twenty-five cents for each copy to:

Merkle Press Inc.   Box 2111, Washington, D. C. 20013

Subsidiary of Publco Corporation

MEET THE PRESS is telecast every Sunday over the NBC Television Network. This program originated from the NBC Studios in Washington, D.C.

Television Broadcast 12:00-12:30 P.M. EST