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EPB/ERC EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a. m.
Roosevelt Room

June 9, 1976

- | | |
|--|-------|
| 1. Scrubber Technology | EPA |
| 2. Synthetic Fuels Legislation | ERDA |
| 3. Administration Policy on Minimum Wage Legislation | Labor |



MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

June 7, 1976

fwB

ATTENDEES: Messrs. Seidman, Lynn, Greenspan, Fletcher, Gorog,
Porter, Perritt, Arena, Hormats, Leach, and
Ms. Ancker-Johnson

1. Report on Technology and its Impact on Productivity and
Economic Growth

Dr. Fletcher presented his views on technology and its impact on productivity and economic growth. The discussion focused on the comparative productivity rates of industrial nations in recent years, the contribution of technology to productivity growth, trends in U.S. technology imports and exports, comparative data on technology investment in industrial nations, and the long-term economic leverage of space technology.



MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

Paul Leach
David Levin

June 4, 1976

Attendees: Messrs. Greenspan, Usery, Dent, Dixon, O'Neill, Darman, Porter, Penner, Perritt, Hill, Harper, Rosenblatt, Leach, Reichley, DuVal, Geimer

1. Report of Task Force on Services and the MTN

The Executive Committee reviewed a status report on the work of the Task Force on Services and the Multilateral Trade Negotiations. The discussion focused on the recommendations under consideration by the Task Force for the treatment of services in relation to the multinational trade negotiations and on the appropriate timing of the Task Force's final report.

Decision

The Executive Committee requested the Task Force to include among the alternatives under consideration the undertaking of direct consultations on the problems facing the service sector with other countries with services-oriented economies, including West Germany, France, Japan, Canada, the United Kingdom, and Italy.

The Executive Committee approved extending the date for the final report of the Task Force to August 1, 1976, in view of the postponement of the GATT Trade Negotiation Committee meetings until some time during October 1976.

2. Report of Labor Negotiations Committee

The Executive Committee reviewed a memorandum prepared by the Department of Labor on the rubber strike. The discussion focused on the current level of production in the tire industry (45 percent), the positions of the parties involved in the negotiations, and the impact of the strike on the automobile, trucking and retail tire sectors. Secretary Usery will keep the President apprised of any new developments with respect to the rubber strike.



3. Trade Policy Monthly Status Report

Ambassador Dent reported the favorable foreign reaction to the automobile dumping investigation decision and that the major trade relief cases have now been concluded. Remaining relief cases include stainless steel wire, honey, and Japanese television sets. He reported that thus far during 1976 U.S. imports from abroad are up 16 percent and exports are up 1.5 percent, producing a \$3.8 billion deficit on a CIF basis.

4. Questions and Answers

Mr. Porter reported that a series of questions and answers provided by Executive Committee members have been submitted for the President's briefing book in preparation for his appearance this week on Face the Nation. Executive Committee members were encouraged to submit any additional questions and answers they felt appropriate. Treasury was requested to prepare a question and answer on the New York City situation reflecting the most recent developments.



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THE WHITE HOUSE

WASHINGTON

June 8, 1976

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your
information.

Attachment: Article by Charles L. Schultze in the
Washington Post, June 7, 1976



Charles L. Schultze

The Washington Post

Times Herald *Pg. A23*

JUN 7 1976

Employment and Inflation



The Full Employment and Balanced Growth Act of 1976, S.50, addresses the most important domestic problem of this decade—high and persistent unem-

ployers scoured the back-country farm areas and turned poor and untrained sharecroppers into productive industrial workers, whose sons and daughters became the high school

ing the adult unemployment rate to the 3 per cent target of S.50 would generate substantial inflation in the absence of major new tools for inflation control.

The Washington Post
Times Herald

PG. A23

JUN 7 1976

Sec. 206(d) of S.50 establishes a major new policy—the federal government is pledged to become the employer-of-last-resort for those who cannot find work elsewhere. Sec. 206(e)(4) provides that a person shall be eligible for an employment opportunity under this section if, among other things, he or

skilled and unskilled jobs in private industry. Wage rates would rise sharply and prices would follow; the size of the government's job programs would grow rapidly, as workers left lower paying private jobs for the higher wages stipulated in Sec. 402.

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THE WHITE HOUSE

WASHINGTON

June 7, 1976

MEMORANDUM FOR

THE EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARD

FROM: WILLIAM F. GOROG *WFG*

SUBJECT: Update of Selected Economic Statistics

1. Money Stock Measures

Change in April from:	<u>M₁</u> (%Change)	<u>M₂</u>
January 1976	+8.9	+13.0
October 1975	+5.7	+11.0
April 1975	+5.9	+10.4

2. Total Industrial Production (Real terms, seasonally adj.)

(Index: 1967 = 100)	<u>Index</u>	<u>% Change</u>
April 1976	122.5	+0.7
March 1976	121.7	+0.7
February 1976	120.8	+1.1
January 1976	119.5	+0.9
December 1975	118.4	+0.7
(April 1975 - April 1976)		+11.5%

3. Retail Sales (Current dollars, seasonally adj.)

Total:	<u>\$ Billions</u>	<u>% Change</u>
April 1976	53.29	-
March 1976	53.30	+1.3
February 1976	52.60	+1.9
January 1976	51.59	-0.8
(April 1975 - April 1976)		+13.8



4. Housing Starts and Building Permits (Seasonally adj.)

Starts (annual rates):	<u>Millions of Units</u>	<u>% Change</u>
April 1976	1,372,000	-4.3
March 1976	1,433,000	-7.3
February 1976	1,547,000	+25.2
January 1976	1,236,000	-3.7
December 1975	1,283,000	-7.1
Permits (annual rates):		
April 1976	1,102,000	-2.8
March 1976	1,134,000	-
February 1976	1,134,000	+1.3
January 1976	1,120,000	+8.9
December 1975	1,028,000	-5.3

5. Employment and Unemployment (Seasonally adj.)

Civilian Labor Force (CLF):	<u>Millions of Persons - 16 yrs.+</u>
May 1976	94.55
April 1976	94.44
March 1976	93.72
December 1975	93.13
March 1975	91.88
December 1974	91.64

Employment:	
May 1976	87.69
April 1976	87.40
March 1976	86.69
December 1975	85.39
March 1975 (low)	84.11
December 1974	85.05

Unemployment:	<u>Millions of Persons</u>	<u>% of CLF</u>
May 1976	6.86	7.3
April 1976	7.04	7.5
March 1976	7.03	7.7
December 1975	7.73	8.3
May 1975 (peak)	8.25	8.9
December 1974	6.58	7.2



Unemployment:

(% of Group)

Heads of Households:

May 1976		4.8
April 1976	-	4.8
March 1976	-	5.0
December 1975	-	5.7
May 1975	-	6.1
December 1974	-	4.6

6. Manufacturers' Shipments and Orders (current dollars, seasonally adj.)

	<u>\$ Billions</u>	<u>% Change</u>
Total Shipments:		
April 1976	94.12	+1.1
March 1976	93.05	+2.3
February 1976	90.91	+1.8
January 1976	89.28	+1.9
December 1975	87.62	+1.3
Total Inventories:		
April 1976	148.22	-
March 1976	148.15	+0.6
February 1976	147.32	+0.2
January 1976	147.03	+0.3
December 1975	146.57	-0.1
Total New Orders:		
April 1976	94.41	+1.1
March 1976	93.39	+3.5
February 1976	90.20	+2.4
January 1976	88.08	+1.5
December 1975	86.75	+0.5

7. Consumer Price Index

All Items - 12 mos. previous to:

% Change

April 1976 (+0.4% for month)	+6.1
March 1976 (+0.2% for month)	+6.1
February 1976 (+0.1% for month)	+6.3
January 1976	+6.8
December 1975	+7.0
September 1975	+7.8
June 1975	+9.3
March 1975	+10.3
December 1974	+12.2



8. Wholesale Price Index

All Commodities - 12 mos. previous to:		<u>% Change</u>
May	1976 (+0.3 for month)	+5.0
April	1976 (+0.8 for month)	+5.3
March	1976 (+0.2 for month)	+5.5
September	1975	+6.3
June	1975	+11.6
March	1975	+12.5

9. Gross National Product (constant 1972 dollars)

Change from previous Quarter:	<u>% Change</u>
First Quarter 1976	+8.5
Fourth Quarter 1975	+5.0
Third Quarter 1975	+12.0
Second Quarter 1975	+3.3
First Quarter 1975	-9.2

10. Real Spendable Earnings

12 Months previous to:	<u>% Change</u>
April 1976	+3.8
March 1976	+4.5
December 1975	+3.8
September 1975	+1.6
June 1975	+0.2
March 1975	-4.6
January 1975	-5.1

11. Personal Income (current dollars, seasonally adj.)

Annual Rate:	<u>\$ Billions</u>	<u>% Change</u>
April 1976	1,347.6	-0.9
March 1976	1,336.0	+0.8
February 1976	1,325.9	+0.9
January 1976	1,313.6	+1.0
December 1975	1,300.2	+8.3
December 1974	1,200.4	-



12. Composite Index of Leading Indicators

Change from previous month:		<u>% Change</u>
March	1976	-0.4
February	1976	+0.7
January	1976	+1.2
December	1975	+0.9
November	1975	+0.2
October	1975	-0.5
September	1975	-
August	1975	+1.6
July	1975	+2.7
June	1975	+3.0
May	1975	+1.9
April	1975	+2.9
March	1975	+0.9
February	1975	-0.8
January	1975	-3.4
December	1974	-2.2
November	1974	-3.1
October	1974	-3.9



DRAFT

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: W. J. USERY, JR.

SUBJECT: Administration Policy on
Minimum Wage Legislation

Last October, Congressman Dent introduced legislation which would increase the basic minimum wage (now standing at \$2.30) to \$2.65 on July 1, 1976 and \$3.00 on January 1, 1977. Thereafter the bill would index the minimum wage upward twice yearly by percentage increases in the CPI plus a 1 percent add-on at each adjustment.

Currently, however, Congressman Dent and the AFL-CIO are giving greater attention to an informal proposal which would increase the minimum wage to \$2.65 on January 1, 1977 with annual increases thereafter so as to maintain the minimum as a fixed percentage of gross average hourly earnings of non-agricultural workers. This method would "index" the minimum wage to average wages. A number of other wage indexing models have also been discussed informally.

As you know, Congressman Dent agreed to delay action on minimum wage legislation during May, and understood that the Administration would come forward with a "positive" proposal in June. "Positive" was not defined.

Proposals to increase the minimum wage and especially proposals to index it will be controversial. The minimum wage has always been an emotional issue and is supported by rank and file workers. On the other hand, the economics profession by-and-large, believes that increases in the minimum wage tend to decrease employment opportunities, especially for certain groups like the elderly, the handicapped, youth, and those seeking part-time employment. Generally, the business community, reluctantly accepts periodic increases although they would prefer no increase.



The following are a set of options spelling out a range of "positive" actions on the minimum wage.

Option 1: Favor a legislated increase but oppose indexing.

This would permit the President to recognize the erosion of the minimum wage due to inflation while avoiding the relatively controversial step of endorsing indexation. However, a somewhat larger increase is likely if indexation is not adopted.

The impact of such an increase on inflation and employment opportunities would of course depend on the size of the increase.

Option 2: Propose a modest increase in January, 1977, and mandate a study to determine the best method for increasing the minimum wage in January 1978. The study might result in a proposal for another simple increase, or some method of indexation.

This option would permit the President to favor an increase in the minimum wage without committing himself on the subject of indexation. It recognizes the complexity of designing a satisfactory indexation formula and provides a method whereby the issue must be addressed roughly the same time frame as the Dent proposal would address it. While the concept is relatively simple, previous experience with indexing in the case of social security, has demonstrated the importance of correct technical design. The two stage approach thus permits both the Congress and the President flexibility to do further analysis on proper indexing methods, to monitor events, and to exercise with judgment as to the best course of action in early 1977.

Option 3: Favor indexation.

This option probably would be considered the most "positive" by those favoring an increase in the minimum wage. Historical comparisons show that after allowing for the irregular pattern of legislated increases, the minimum wage has, on average, followed the rate of increase for average wages. In particular, the minimum wage has averaged 48 percent of



average hourly earnings. Indexing the minimum wage to the historically observed increases in average hourly earnings would have resulted in a minimum wage very close to the current level. Indexing to prices--such as the CPI--would have resulted in a much lower minimum wage level.

In taking this option, there is some risk of future legislated increases on top of the indexed minimum, particularly if it is indexed to the CPI. Wage indexation, however, probably would undercut political support for such increases.

DRAFT



THE WHITE HOUSE
WASHINGTON

June 8, 1976

TO EPB EXECUTIVE COMMITTEE MEMBERS

The attached letter is distributed at Secretary Simon's request and addresses the minimum wage issue scheduled for discussion at the Wednesday EPB/ERC Executive Committee meeting.

Attachment





THE SECRETARY OF THE TREASURY
WASHINGTON

JUN 8 1976

Dear Bill:

It is my understanding that the Labor Department is writing an options paper for the President on the minimum wage and the question of indexation. Treasury has strong views on these topics, and I want to make sure that these views are reflected in the options paper.

Basically, we believe that increases in the minimum wage erode the efficiency of competitive markets, thereby increasing unemployment particularly for teen-agers and minorities. As long as the minimum wage is above the market wage for certain unskilled workers, employers will hire fewer workers than otherwise. As a result, unemployment is greater.

Teen-agers in particular and minorities tend to represent a higher portion of unskilled labor than the working population overall, and increases in the minimum wage are not an unmitigated blessing. If a low-wage worker realizes a wage increase as a result of such legislation, he or she obviously benefits if employment continues. However, certain unskilled labor will be priced out of the market and lose their jobs. For them, the true minimum wage becomes zero! Various studies have shown that with rises in minimum wage, unemployment of teen-agers and non-whites rises. Yet these are the segments of the unemployed with which we are most concerned because they have by far the highest rate of unemployment.

Moreover, increases in the minimum wage raise the cost of unskilled labor relative to skilled. This works to increase the demand for skilled workers relative to unskilled. As skilled workers tend to be unionized, it is understandable why the labor movement has such an interest in raising the minimum wage and not having a lower minimum for youths. Yet we must ask, is this in the interest of all labor--the nonorganized, nonunionized and nonvocal as well as unionized labor? Too often we hear only the point of view expressed by the heads of organized labor. Our concern, and compassion, must extend further.



I am concerned also that indexing the minimum wage will lead to built-in inflation. It will make automatic the minimum wage problems associated with unemployment gaps and skilled versus unskilled workers. Also there will be battles over the method of indexing similar to those that went on over Social Security decoupling.

If the minimum wage is indexed, this will give rise to other things being indexed. As more and more things are indexed, there will be no way to bring inflation under control. Price and wage spirals will lead to distortions in the marketplace and inefficiencies in labor and other markets. In the end, we will all be worse off. Inflation is simply a disruptive influence that permeates our economy in such a way as to cause recessions and increases in unemployment.

For all of these reasons (and others not raised), we are opposed to indexing the minimum wage and to increases in it at this time. Unemployment continues high and an increase would compound this overall problem as well as accentuate certain social problems involving teen-agers and minorities. On principle then, we feel that minimum wage increases should be opposed at this time, and that indexing should be opposed even more strongly.

With best regards,

Sincerely yours,



William E. Simon

The Honorable
William J. Usery
Secretary of Labor
Washington, D.C. 20210

cc:
Executive Committee EPB

