The original documents are located in Box 62, folder "1976/10/07 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

JMC

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

October 7, 1976
8:30 a.m.
Roosevelt Room

AGENDA

1.	Maritime Policy	Labor
2.	Small Dollar Coin	Treasury

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON. D.C. 20506

IMPROVING PRODUCTIVITY GROWTH

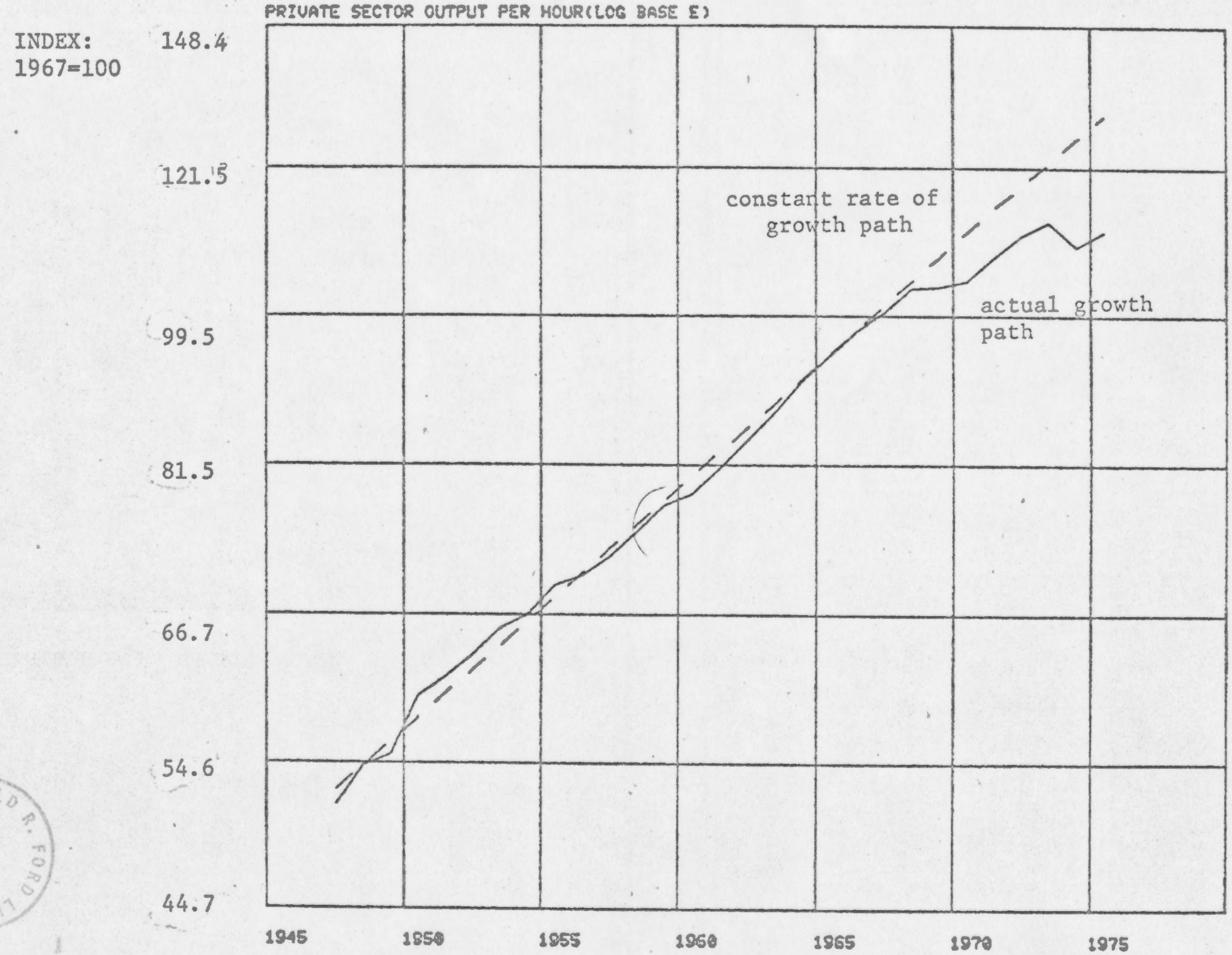
The growth in average labor productivity (output per hour worked) has been the most important determinant of growth of the U.S. economy and of the rising real take-home pay of the American workers. As shown in Figure 1, productivity growth in the private sector averaged over 3% per year in the 1950's and early 1960's. This allowed wages to rise at a 3% annual rate without generating increased prices for products. In the last 10 years, however, productivity growth has averaged about 1.7% per year. This slower advance contributed to increased inflationary pressures and to lower growth in real wages.

This paper examines the reasons for the productivity slowdown, and the policy measures that may be undertaken for improving the productivity growth rate in the future. Slower capital stock growth coupled with an expanding labor force, shifts in the composition of both output and the labor force, skyrocketing energy prices, and slower technical progress have all contributed to the productivity slowdown. Some of these factors, such as labor force growth and composition, will not affect productivity growth as much in the next 10 years as they have in the past 10. Barring unforeseen difficulties, productivity growth should improve, but remain below the levels of the early 1960's.

A number of policy measures can be taken which could reverse the productivity slowdown. Tax changes designed to lower the cost of capital and encourage investment could increase productivity. Increased expenditures on research and development can increase the rate of technical progress. In certain sectors, regulatory reform can increase competition and efficiency in the use of resources, thereby increasing productivity. Also, the next decade has the potential for better productivity performance than the recent past, and will attain this potential if sound policies are used to promote full employment and the operation of the economy at low levels of inflation.

Figure 1

Output per hour in the Private Business Economy



To understand the slowdown in productivity growth, the several sources of productivity increase have to be identified. The effects from changes in these underlying determinants of productivity must be measured for the time periods before and after the middle 1960's when the productivity growth rate began to decline. The main sources of growth are (1) increased capital, (2) growth and composition of the labor force, (3) composition of the mix of outputs, and (4) technical progress.

1. Productivity and Increased Capital and Labor

A major source of productivity growth since World War II has been the increase in the stock of capital per worker. Figure 2 shows the rate of growth of the private nonresidential capital stock and the growth rate of this capital stock per worker in the private sector. In the 1950's and 1960's capital per worker grew by about 2.1% per year, while in the 1969-75 period this growth rate fell to 1.1% per year. This decrease can be attributed to two factors: a large increase in the rate of growth of the labor force, and a small decline in the rate of growth of nonresidential capital stock.

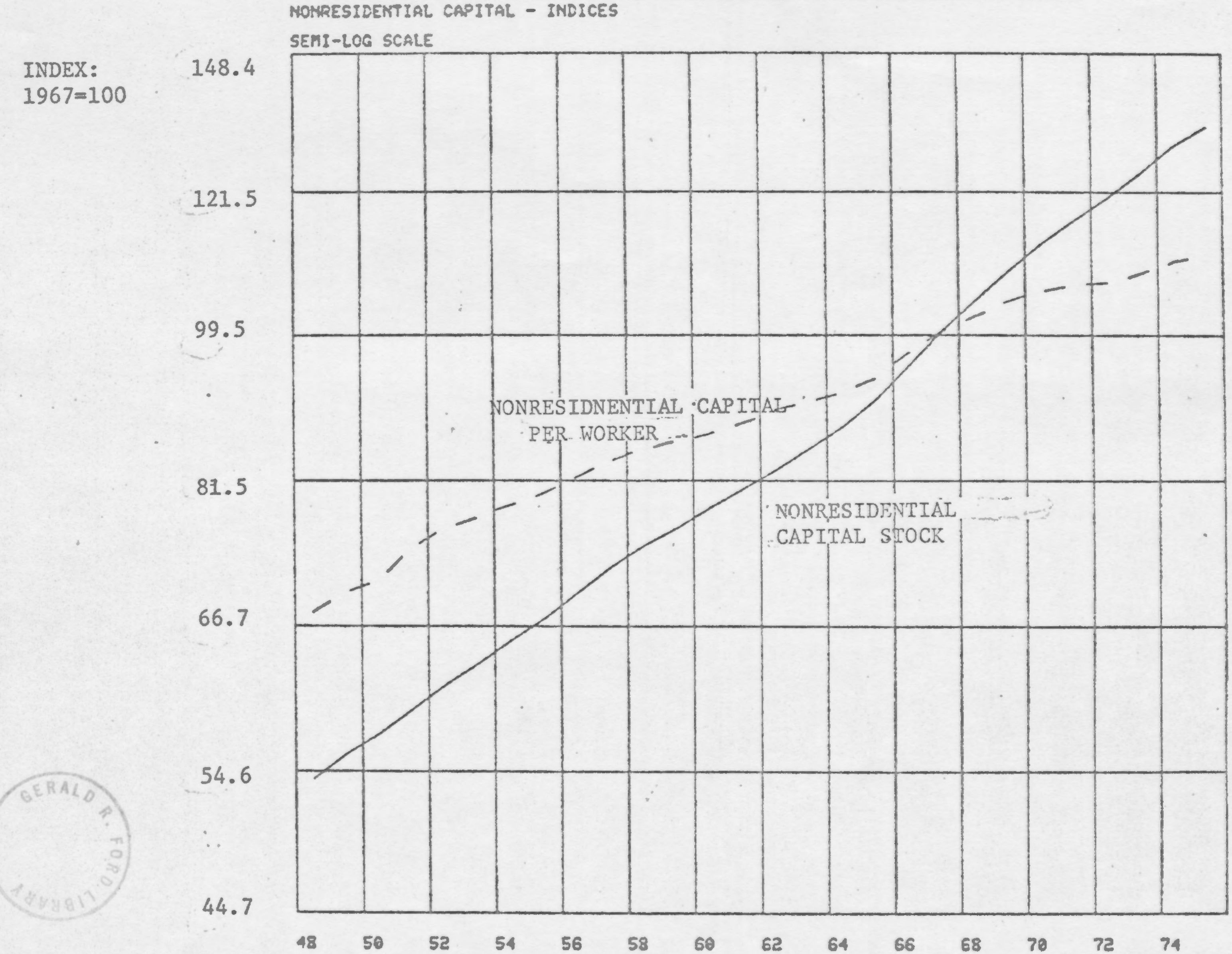
The larger growth in the labor force since the mid-sixties has been produced by the entrance into the labor market of the postwar "baby boom" and augmented by an increased number of women joining the work force. The slowdown in productivity growth generated by an increased labor force can be viewed as a natural reaction of the economy to changing demographic conditions and social values.

Slower growth in the nonresidential capital stock can be traced to three factors: increased replacement requirements, increased expenditure on pollution abatement equipment, and reduced incentives to invest. Increased replacement of obsolescent capital is a by-product of an increasingly capital-intensive society; as production processes require more capital, a larger share of output must be allocated just to replace machines that have worn out. Increasing the capital stock in the 50's and 60's has inevitably led to greater replacement needs in the 70's.

Increased expenditure on pollution abatement equipment has probably reduced spending on capital equipment used to produce measured output. Moreover, increased risk of liability claims for violations of safety or environmental standardsand risk of losses from changing standards in the

Figure 2

Growth Rates of Nonresidential Capital and Nonresidential Capital Per Worker in the Private Sector 1948-1975



future may also have decreased investment in productive capital. Of course, a clean and safe environment is an important national goal, and these expenditures produce services of value even though the results are not reflected in terms of GNP. Nonetheless, productivity as measured has not been as large as without these expenditures.

Incentives for investment have not been as strong because in the 1970's after-tax profits have been relatively lower than they were in the 1950-1970 period. Figure 3 shows the ratio of after-tax profits to GNP (after adjustment to exclude inventory profits and calculation of depreciation at replacement cost). The 1971-75 average of this ratio is more than one percentage point below its 1950-1970 average of 5.2%. This reduction in profits affects the rate of capital accumulation because with smaller retained earnings, the funds from which investments are financed are reduced.*

2. <u>Composition of the Labor Force</u>

In the last decade, labor force participation rates (the ratio of persons working or looking for work divided by the population) for teenagers, young adults, and women of all ages have been climbing. This increase in the propensity to enter the labor market has augmented the large population increase in the 16-24 age group caused by the post-World War II "baby boom." These two changes (as shown in Figure 4) have reduced the growth of labor productivity because in general women and young people entering the labor market with relatively little experience and training are less productive. Productivity is measured by output per hour worked, and the hours worked are not given weights for training and experience. Early retirement has also reduced the proportion of experienced workers. Thus lower productivity growth is a natural outgrowth of a work force whose average age is getting rapidly younger.

Average educational attainment in the labor force may also have increased more slowly in the past decade than it did in the previous two. Most age and sex categories of workers have shown a slight slowdown in

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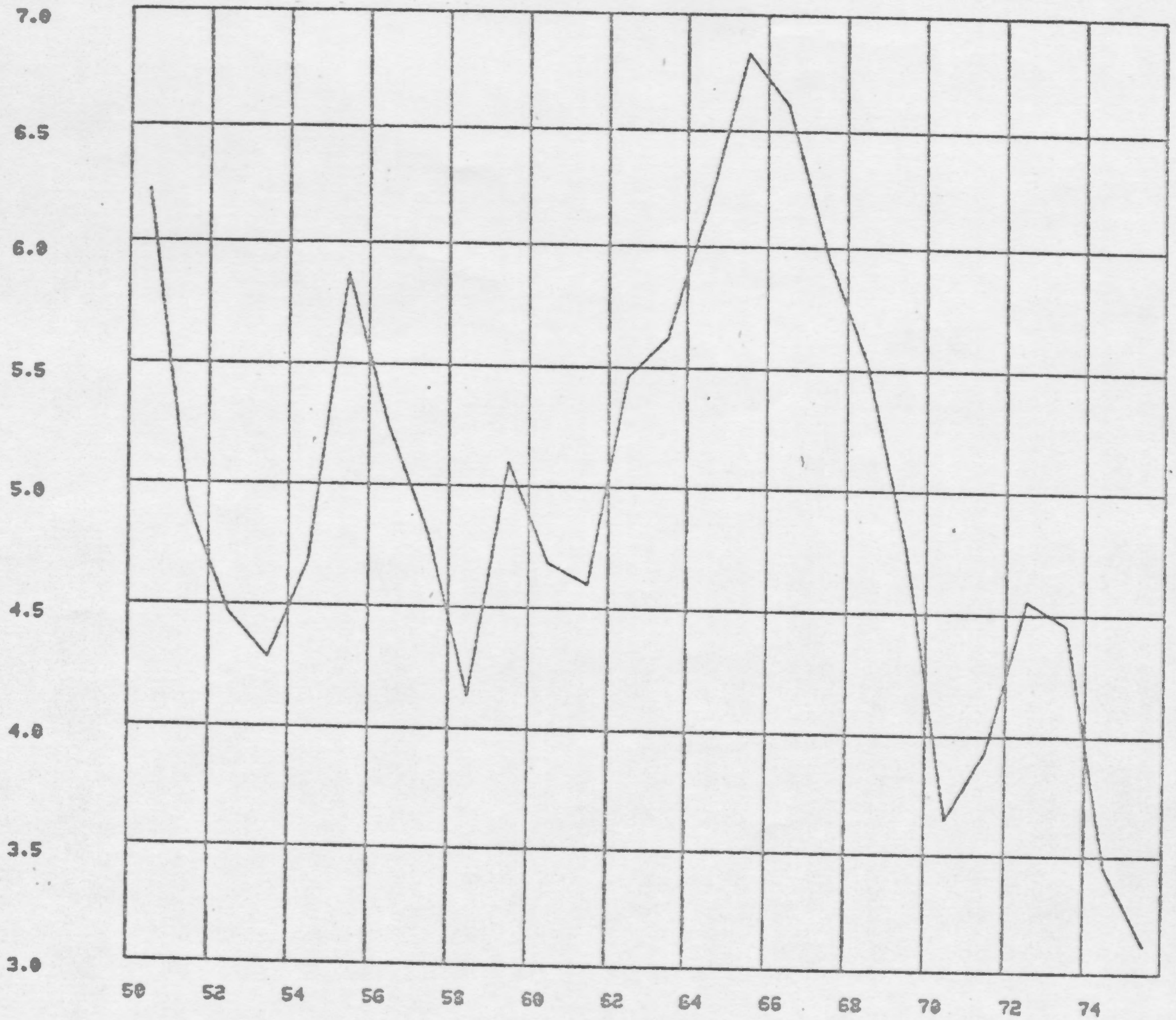
* The cause-effect relationship between profits and investment is important here. If profits have been decreased by such outside determinants as taxation, then profit reduction leads to investment reduction. However, increased investment also leads to profit reduction. This last, a result of diminishing returns to capital formation, limits the effect of policies to increase profits on capital stock growth.

Figure 3

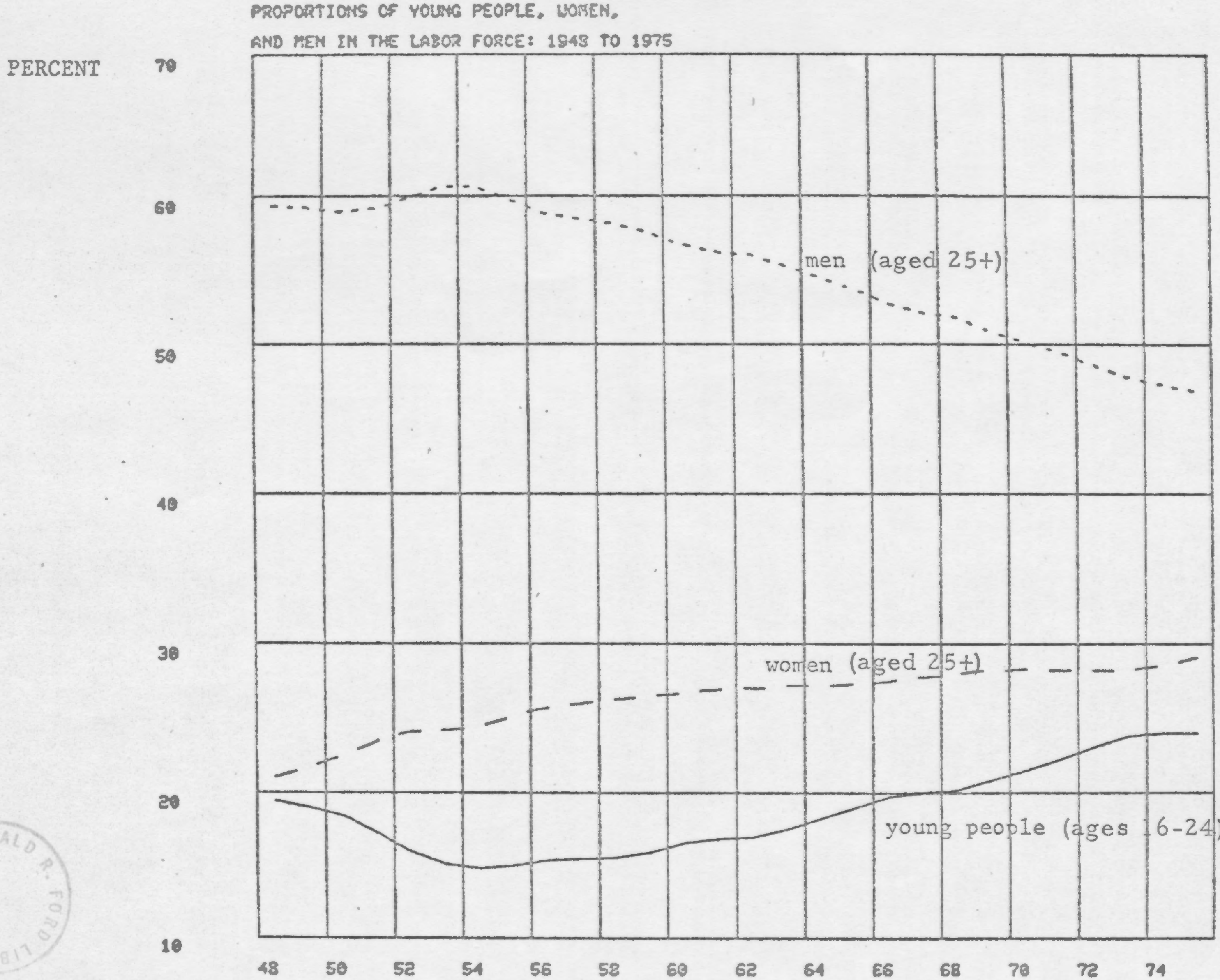
Net Corporate Profits[a] As Percent of GNP
1950 to 1975



a Net corporate profits are corporate profits (excluding inventory profits) after taxes, adjusted for depreciation at replacement cost.

Figure 4

Proportions of Young People, Women, and Men in the Work Force 1948-1975



the rate of increase in years of schooling. It is, however, very difficult to quantify the effects of any slowdown in educational attainment on the productivity of the average hour worked throughout the economy.

3. Shifts in Output

Changes in the composition of output have also been a factor in lower average productivity growth. Before 1970, the shift of workers out of agriculture (where the level of productivity was lower than average) contributed to growth in productivity. Even though the rate of growth of productivity in agriculture was high, the average level of productivity was low, and the movement of workers from agriculture to other sectors increased productivity. Since 1970, this shift out of agriculture has ended, and productivity growth from this source disappeared. To a lesser extent, a higher rate of increase in the number of workers in the low-productivity service sector has also contributed to the slowdown in productivity growth.

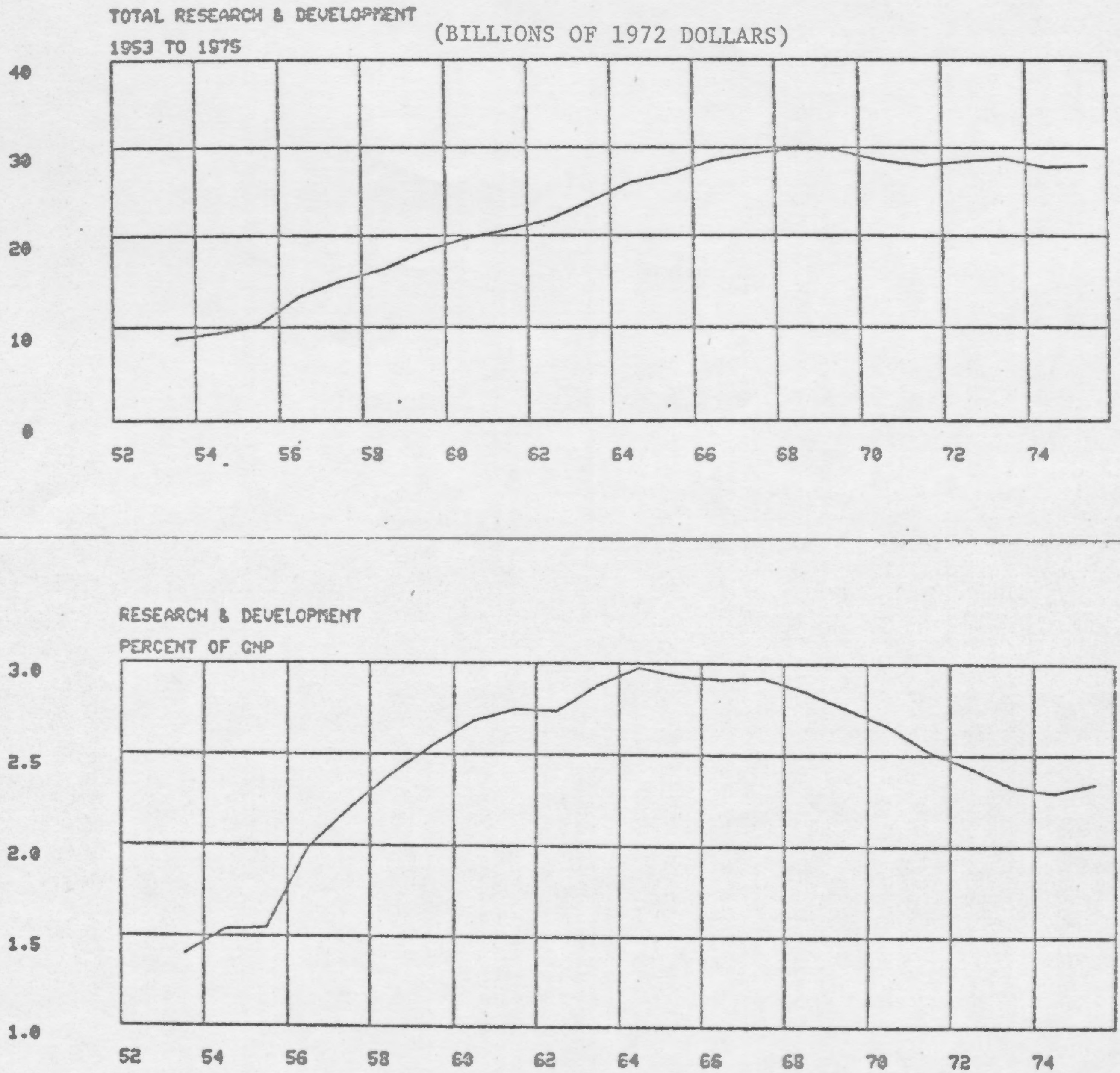
4. Technical Progress

The effects of changes in technology on productivity growth have been almost impossible to assess, because of the large number of changes in production conditions and variations in the rate at which new technology is installed. In fact, in econometric studies of productivity change, any productivity increase that has not been attributed to other factors has been attributed to technical progress as a residual. Except for an extraordinary drop in productivity in 1974 and 1975 that cannot be explained by cyclical factors, residual productivity increase or "technical progress" fell only a moderate amount from its 1948-1966 levels in 1966 through 1975. This falloff in residual productivity increase may be explained in part by a slowdown in expenditures on research and development (R&D) as shown in Figure 5. Throughout the 1950's and 1960's the proportion of GNP spent on R&D rose, reaching a peak in 1964 at about 3.0%. Since then, this proportion has fallen steadily to 2.3% in 1975.

Although declines in output reduce productivity growth, the virtual elimination of productivity increases in 1974 and 1975 cannot be explained fully by the recession. Other plausible explanations for this extraordinary decline include the oil crisis and the ensuing increases in energy prices, since the new higher energy prices reduced the efficiency of many energy-intensive processes. This may be a transitory effect, since in the long run, the new higher energy prices may generate energy-saving technology that can increase productivity growth.

Figure 5

R&D Expenditures in Deflated Dollars and as a Proportion of GNP 1948-1975



An accounting of the various contributions to productivity growth is given in Table 1 below. The productivity growth decline in the late 1960's was generated primarily by a decline in residual productivity growth, augmented by change in labor force composition. A high rate of capital stock growth generated by an economy operating above its noninflationary potential kept productivity growth from falling more in the 1965-1970 period. In the 1970-75 period, a very low residual growth rate combined with a lower growth rate in the capital stock to produce a very significant drop in productivity increase. Residual productivity growth in 1974 and 1975 was virtually zero, resulting in productivity increase for the whole 1970-75 period of only 1.4% per year, much less than the 2.5% per year in 1955-65. In the coming decade, it is reasonable to project productivity growth at about 2% per year.

The Productivity Decline in Perspective

The discussion indicates that part of the productivity decline in the past decade was built into the economy by social and demographic factors. The flood of young and inexperienced workers since 1965 lowered productivity growth. Also, part of the potential increase in productivity since 1966 has been relinquished in favor of other goals. Environmental cleanup has produced results that are not measured as part of GNP in the national income accounts, so that increased allocation of resources to this program lowers measured productivity growth. If it were possible to construct a measure of national output that included improvement or degradation of the environment, the difference in productivity growth between the last decade and earlier years might be smaller.

The faster rate of growth in productivity in the 1948-1965 period generated a tendency toward slower productivity growth in more recent years. During that period, capital per worker grew by 43%, leaving a much larger capital stock to incur depreciation charges against gross investment. At present, nonresidential fixed investment amounting to 10% of GNP will generate a capital stock growth rate of only about 3% per year, while in 1948, the same 1:10 ratio would have resulted in capital stock growth of 5% per year. Our current capital-intensive economy generates proportionally higher maintenance and replacement costs.

The shift of output toward the low-productivity service sectors may be viewed as natural for an affluent society that is well-provided with consumer durables and the output of high-productivity sectors. This shift

Table 1

Productivity Growth and Contributing Factors 1950-1975

Time Period	Productivity Growth Rate[a] (percent per year)	Contributions to Productivity Growth Rate		
		Capital per worker	Changes in Labor force composition	Other factors
1950-1955	3.1	.8	---	2.3
1955-1960	2.6	.6	-.2	2.2
1960-1965	2.5	.5	-.2	2.2
1965-1970	2.3	.8	-.3	1.8
1970-1975	1.4	.3	-.3	1.4

a Productivity growth rate is output per hour worked in the private business economy adjusted for cyclical variation.

is possibly beneficial for future productivity increase; high demand for the output of a low-productivity sector generates a financial incentive for increased productivity in that sector.

Thus, at least part of the recent productivity slowdown has been caused by identifiable factors likely to change in the next few years. Demographic factors will become less adverse in the next five years, and the disruption caused by energy price change should induce increased productivity as new capital/fuel combinations are put into place. In the next 10 years, the American economy should provide more productivity improvement than it has in the last 10, although rates of productivity increase will probably be lower than in the 1948-1966 period.

Policies for Productivity Improvement

Part of the productivity slowdown is explained by demographic factors and shifts in preferences which should be allowed to work through the system. But lower productivity growth makes it necessary to push harder in the areas where governmental action can produce results. Here we list a number of programs for adding to productivity beyond the increases resulting from market changes.

1. Encouragement of Investment

Addition to the capital stock is one of the primary sources of productivity growth that can be stimulated by Federal policy action. Some of the proposals that the Administration has put forward to increase investment and growth in the capital stock include:

- Increases in the investment tax credit for businesses and individuals[1]

1/ A proposal for making the temporary 10% investment tax credit permanent was made in a White House statement on October 6, 1975, and in the 1977 Budget. This proposal also included extension of the lower 20% and 22% tax rates on corporation income, and a lowering of the highest corporation tax rate from 48% to 46%. In the new tax reform act, the investment tax credit is continued through 1980 at 10%, and the 20% and 22% corporation tax rates continue; the highest corporate tax rate remains at 48%.

- Reductions in the corporate income tax rate[1]
- Integration of corporate and personal income taxation[2]
- Decreases in estate taxes on family farms and businesses[3]
- A broadened stock ownership plan[4]
- Elimination of taxation and dividends paid to nonresident aliens and foreign corporations[5]

These policies stimulate investment both by increasing the return on investments and increasing the supply of funds available for investment purposes. An increase in the investment tax credit, which was formerly 7% and has been temporarily raised to 10%, strongly encourages new investment. Explicit reductions in the corporate income tax or the reductions implicit in the integration of the corporate and personal income tax systems would also lower the cost of capital, increase the funds available for investment and thereby raise productivity.

The Administration plan for increases in investment includes continuation of present policies to encourage the building of new plant and equipment, such as the 10% investment tax credit. Further initiatives that have been passed over by Congress include a reduction of corporate tax rates.

1/ See previous page.
2/ Limited integration of corporate and personal income taxes was proposed in testimony of Treasury Secretary Simon before the House Ways and Means Committee, July 31, 1975.
3/ Liberalization of installment payment schedules and special valuation rules for estate and gift taxes on family farms and businesses were proposed in the 1976 State of the Union Message. A version of these proposals was enacted in the new tax reform bill.
4/ The proposal for income tax deferral on funds invested in stock ownership plans was made in the 1976 State of the Union Message.
5/ Proposed by Treasury Secretary Simon in testimony before the House Ways and Means Committee, July 8, 1975.

In the long run, however, piecemeal measures to counteract the distortionary effects of the current structure of double taxation on corporate earnings must be discarded in favor of complete revision of the tax law. Income from all sources, including wages and profits, should be taxed at equal rates at the time they are earned. The myriad of tax preferences and special considerations that create financial incentives which do not match the economic incentives of maximum output and minimum cost must be eliminated. Such a simplified and equitable system can be achieved only through the integration of the personal and corporate tax systems.

2. Promotion of Technical Progress

Federal policy can also play an important role in increasing productivity by promoting programs that increase the production of new ways to produce output at lower cost, and the implementation or demonstration of these new ideas.

Increases in expenditures on research and development can halt the slide in this area since the mid-1960's and increase the contribution of technical progress to productivity. The fiscal year 1977 budget proposed increases of about 20% in National Science Foundation support for basic research, and an increase of 26% in direct R&D obligations by the Energy Research and Development Administration. Although only a small fraction of research undertaken yields results that have economic applications, the few that do can generate such large cost savings and productivity increases to make expenditures on all the projects worthwhile. Development of well-known technologies and the demonstration that they are economically feasible is also important for productivity increase.

3. Policies to Promote Efficiency

In some areas of the economy, the proliferation of governmental regulations has resulted in low productivity. A number of steps have already been taken by the Administration to promote competition and efficiency in both the private and government sectors. These include:

- Introduction of measures for regulatory reform in the transportation industries, in the financial sector, and in energy production and distribution[1]

- Programs of paperwork reduction and process reform in a number of Cabinet agencies.[2]

Regulatory reform is a particularly fertile area for changes in policy that could generate gains in productivity. The interstate railroad, trucking, and airline industries are currently required to provide high cost and little-used services, many of which allow little productivity increase. Changes in regulations that result in increased load factors have the potential to increase productivity in these industries.

Deregulation of energy prices would raise average productivity in two ways. First, it would increase output in energy extraction, where productivity is much above average. Second, it would increase incentives to use energy more efficiently, rather than being allocated to low-productivity uses. In the case of natural gas, although the current FPC ruling on gas prices is a step in the right direction, only deregulation will generate full production and efficient use of natural gas.

Transportation and energy are only illustrative of the possibilities for increased productivity improvement available through regulatory reform. In general, reducing the number of rules instituted for the protection of particular groups or maintenance of the status quo can revitalize the American business environment, increase efficiency and productivity, and generate strong incentives for new investment in productive areas.

The National Center for Productivity and the Quality of Working Life is conducting a number of experiments in productivity through cooperation of management and labor and the reorganization of the productive process.

1/ The Railroad Revitalization and Regulatory Reform Act of 1976 was signed into law in February of this year. Measures that have died in the 94th Congress, but will be introduced early next year, include the Aviation Act, the Motor Carrier Reform Act and the Financial Institutions Act.

2/ The Federal Commission on Paperwork was created in 1975. In November, 1975, a 10% reduction in the number of forms for all agencies was mandated, and this reduction was completed by July of this year. Current directives include a 5% reduction in the number of man-hours spent on filling out forms. In the future, an additional 15% reduction in man-hours is contemplated through a proposed program that includes changes in legislation.

Many of these involve Federal agencies. Although the promising results of some of these experiments are by no means conclusive, they will help convince workers that productivity increases can result from increased worker satisfaction, rather than just the speed-up of assembly lines. The Administration will continue to support these experiments in productivity improvement, and will encourage larger demonstration projects in the most promising areas.

4. Balanced Growth

The general health of the economy also plays an important role in determining productivity advance through increased investment and capital stock growth. The economic environment most favorable for long-run growth in capital is maintenance of output at the highest levels that do not generate accelerating inflation. Underutilization of capital retards investment, for business is reluctant to add to the capital stock when present plant and equipment is underutilized. However, an overheated economy with accelerating inflation and increasing interest rates and risk premiums will surely lower investment as well. The inflation-recession instability of the recent past has substantially reduced investment spending.

The Administration is committed to a macroeconomic policy that ensures the steady growth in output which will result in improvement of business fixed investment without inflationary overexpansion and its recessionary consequences.* In the long run, avoiding economic instability will create the kind of environment in which business can plan for the future with confidence and may be the most powerful tool available for increasing the capital stock and productivity.

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* The fiscal year 1977 budget proposed a program of reduced growth in federal expenditures, reduction in the deficit, and stimulation of the economy through additional tax reductions. This fiscal policy approach was aimed at steady recovery and reduction of the rate of inflation.

NON-RUBBER FOOTWEAR INDUSTRY

STATUS REPORT

BACKGROUND

On April 16, President Ford determined that adjustment assistance for the firms and workers in the non-rubber footwear industry and for communities where shoe plants were located was the appropriate action to take in response to the affirmative finding of injury by the U.S. International Trade Commission (USITC) on the escape clause petition filed by that industry. President Ford also directed STR to monitor imports and other economic conditions of the non-rubber footwear industry and report appropriate recommendations to him. He also directed the Secretaries of Commerce and Labor to give expedited consideration to applications for adjustment assistance.

Among other reasons cited for this decision, President Ford noted the recent increases in production and employment the industry was experiencing plus the buildup in order backlogs and the rise in the number of plant reopenings then occurring. Reaction by the petitioners to this announcement was generally negative and quite skeptical regarding its potential effectiveness. In the intervening months both industry and Congressional spokesmen have maintained pressures for a reconsideration of this decision. These pressures intensified recently in the face of industry claims of a deteriorating situation for the domestic industry and continuing increases in import levels and import penetration. On September 22 the Economic Policy Board (EPB) requested the Council on International Economic Policy (CIEP) to chair an interagency group to investigate this matter and to report on the following points:

1. Current status of the non-rubber footwear industry.

2. Current status of the adjustment assistance program.

3. Status report on the Administration's monitoring system.

The Senate Finance Committee on September 24--by letter to the USITC--requested the USITC to reopen the non-rubber footwear industry case. On October 5 the USITC ordered that the case be reopened.

STATUS OF THE NON-RUBBER FOOTWEAR INDUSTRY

Domestic production of non-rubber footwear has been in a downward trend since the record levels of 1968. On a shorter term basis production did turn up in mid-1975 in response to the overall economic recovery. It continued this rise through March of this year, touching 44.4 million pairs.* In the intervening months to July, monthly production averaged about 40 million pairs. In July, however, production fell off sharply to 31 million pairs. Production did rise to 36.8 million pairs in August. However, the July decline was greater than seasonal while the August upturn in production appeared to be less than seasonal.

Imports, which have been on an upward path since the early 1960's, hit 307.5 million pairs in 1973. Over the past two years--on a monthly basis--imports hit a high of 42.3 million pairs in March 1976. In the following four months imports dropped to between 30-32 million pairs per month. In August they rose to 34.5 million pairs. The import penetration ratio has been well above 40 percent this year, hitting just under 50 percent in July and 48 percent in August.

On a year-to-year basis domestic production, employment and imports are up in 1976 as compared with 1975. Through August domestic production was up 18 percent and imports 37 percent. Domestic employment through July, the latest date for which data are available, was up 8 percent. Taiwan, which accounted for more than one-third of U.S. imports of non-rubber footwear in volume terms in 1975, has continued to expand its share of the U.S. market. Its imports, mostly of low-value vinyl footwear, were up 77 percent through the first seven months of this year as compared with the comparable 1975 period. Imports from Korea, mostly men's leather athletic shoes, were also up sharply. Those from Brazil rose 20 percent. Imports from Spain were virtually unchanged from last year while those from Italy actually declined by 20 percent.

Retail sales, especially for lower and medium priced footwear, have been sluggish recently with some concern voiced regarding the possibility of excessive inventory buildups. Spokesmen for domestic producers, workers, and importers indicate the likelihood of production slowdowns and import moderation through the balance of 1976. Some of these slowdowns can be attributed to the faster-than-normal pace of production and imports in late 1975 and early

*All production and import data are not seasonally adjusted.

1976 anticipatory of a Presidential decision that would impose some form of import relief through higher tariffs or quotas in response to the escape clause petition. Subsequent to this decision some orders for domestic production may have been cancelled.

In sum, it is quite probable that there will be a slowdown in the pace of new supply (production plus imports) through the rest of the year as compared with the first eight months of 1976. However, the allocation of this slowdown between domestic production and imports cannot be determined with any certainty at this time.

STATUS OF ADJUSTMENT ASSISTANCE PROGRAM

Under the Trade Act of 1974 adjustment assistance is available to firms, communities and workers. The Economic Development Administration (EDA) in the Department of Commerce administers the program for firms and communities while the Department of Labor handles assistance for workers. Under the EDA program firms may receive financial assistance in the form of direct loans, loan guarantees, and technical assistance. Communities that are eligible may receive the full range of EDA's program tools, which, in addition to the above, also includes public works grants and loans and planning grants. Department of Labor programs include trade readjustment allowances, training, and job search and relocation allowances. Both Departments established outreach programs to reach potential applicants in response to the President's request.

Firms

Since the April 16 Presidential decision seven firms have submitted petitions for certification of eligibility to apply for adjustment assistance. Six have been certified as eligible for assistance, three of whom had applied prior to April 16. No funds have been approved as yet for the recently certified firms. Over the one and a half year life of this program 17 firms have been certified and three have actually received assistance. This assistance has ranged between $700,000 and $1,000,000 per firm and has been used for working capital and asset acquisition purposes. Under the terms of its statute EDA can grant such assistance only to those firms who can be expected to repay the loans. Similarly, the Trade Act requires EDA to charge some three basis points above the prime rate. Non-rubber footwear manufacturers are generally not eligible for assistance under the regular EDA programs because of the "excess capacity" provisions of that agency's statute.

Communities

Under the Trade Act, to become eligible for assistance a community must demonstrate that increased imports of articles like or directly competitive with those produced by area firms, or the transfer of area firms (or subdivisions thereof) to foreign countries, contributed importantly to declines in total production, or sales, and employment of all firms in the community. In practice, this has been virtually impossible to demonstrate. Therefore, no communities have been able to participate in this program. EDA has therefore been encouraging all communities with import-related problems to utilize its regular programs.

Workers

From April 16 through August 31, 1976, 45 petitions, affecting 7200 workers, have been received. Five petitions (840 workers) have been certified while another five (545 workers) petitions have been denied. These figures reflect an increase of 45 percent in the number of petitions and 11 percent in the number of workers affected over the comparable period in 1975. Thus far, worker benefits from the overall program, including workers in the non-rubber footwear industry, have primarily taken the form of trade readjustment allowances, which are supplements to worker unemployment payments.

STATUS OF MONITORING SYSTEMS

An interagency task force was set up in May under the chairmanship of STR. It was composed of representatives from USITC and the Departments of Labor and Commerce. After considerable discussion, the task force agreed that data on production, employment and imports already being collected would be sufficient for its purposes. It was also agreed that the monitoring report would be prepared monthly and would consist of a series of tables showing monthly, quarterly, and annual data and comparisons. To date the monthly tables have been updated four times. The monthly report is available about six to seven weeks after the close of the reporting month. All reports have been submitted to STR.

Attachments (A thru D)

October 6, 1976

ATT.

A

United States Senate

ATTACHMENT A

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

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September 24, 1976

RECEIVED
SEP 28 1976
OFFICE OF THE CHAIRMAN

#415

Office of the Secretary
Int'l. Trade Commission

Mr. Will E. Leonard
Chairman, International
Trade Commission
Eighth and E Streets, NW
Washington, D. C. 20436

Dear Mr. Chairman:

Enclosed with this letter is a resolution adopted by the Committee on Finance on September 22, 1976, directing the Commission to make an investigation into footwear imports under section 201 of the Trade Act of 1974.

If you have any questions about this resolution, please contact Bob Best on the Finance Committee staff.

With every good wish, I am

Sincerely,

Russell B. Long

Chairman

enclosure

94th Congress
2nd Session

RESOLUTION
COMMITTEE ON FINANCE
SEPTEMBER 22, 1976

Resolved by the Committee on Finance of the United States Senate, That (a) pursuant to section 201 (b) (1) of the Trade Act of 1974, the United States International Trade Commission shall promptly make an investigation to determine whether footwear is being imported into the United States in such increased quantities as to be a substantial cause, or threat thereof, of serious injury to the domestic industry producing an article like or directly competitive with the imported footwear. For purposes of this resolution, the term "footwear" means articles classified under items 700.05 through 700.85, inclusive (except items 700.51, 700.52, 700.53 and 700.60), of the Tariff Schedules of the United States (19 U.S.C. 1202).

(b) It is the sense of the Committee that changed circumstances, including increasing imports and rapidly deteriorating economic conditions in the domestic footwear industry, constitute good cause, within the meaning of section 201 (e) of such Act, to commence an investigation.

ATT.

B

ATTACHMENT B

CURRENT CONDITIONS IN THE U.S. NON-RUBBER FOOTWEAR INDUSTRY

Since April, the domestic non-rubber footwear industry has been experiencing a slowdown in production. In spite of this slowdown, however, through the first eight months of 1976 production was about 18 percent ahead of last year's record low. Domestic production peaked in March at 44.4 million pairs, declined through July to 31.0 million pairs and rose to 36.8 million pairs in August. Conversely, employment had been improving consistently through June. However, it declined sharply in July (by 9700 workers). Nevertheless, in July total employment, at 168,000 workers, was some 5 percent above last year's July level. The average employment rate for the industry through the first seven months of the year was estimated at 10.6 percent compared with 14 percent for the comparable period last year.

Imports in the first eight months of 1976 were 37 percent higher in volume than in the comparable period of 1975.1/ They amounted to some 262.2 million pairs, valued at about $978 million. Monthly imports peaked at 42.3 million pairs in March and declined to the 30 to 32 million level in the next four months. In August imports moved back up to 34.5 million pairs.

In terms of quantity, Taiwan is the leading supplier of footwear imports, having surpassed Italy in 1972. Italy is the leading supplier in value terms. The principal sources of non-rubber footwear imports in 1975 were Taiwan (35%), Italy (18%), Spain (13%), Brazil (9%), and Korea (5%).

A regional breakdown of import data is available only through July. Imports from Taiwan in the January-July period amounted to some 97 million pairs, 77 percent above the comparable period last year. Imports from Italy totaled 30.9 million pairs (down 20 percent); Spain, 23.8 million pairs (up 2 percent); Brazil, 18.3 million pairs (up 20 percent); and Korea, 22.6 million pairs (up 253 percent).

The major increases in non-rubber shoe imports have come from Taiwan (up more than 40 million pairs) and from Korea (up about

1/ In addition to large retailers that import directly from foreign sources, imports are entered by wholesalers, discounters and small retailers, trading companies, and by some of the larger, diversified manufacturing companies. The latter account for somewhat more than one-third of total U.S. footwear imports.

16 million pairs). The imports from Taiwan still consist largely of low-value vinyl footwear for women. The bulk of imports from Korea consist of men's leather athletic shoes.

Imports from Italy and Spain are principally leather dress casual footwear, but include footwear of vinyl and other materials. The imports from Italy, which have been declining in quantity since 1971, are composed of a variety of price lines. In recent years, there has been a reduction inthe lower-end merchandise, predominantly ladies sandals. Imports from Spain are largely in medium price lines.

Imports from Brazil, a relative newcomer, are nearly all leather dress and casual footwear, mostly in the medium and low price range, but the cost of Brazilian footwear has been increasing.

Women's shoes make up 80 percent of the imports from Italy; 60 percent from Spain, and 90 percent from Brazil.

Imports from Spain and Brazil have been subject to countervailing duties since October 1974 but at low rates.

A number of smaller supplying countries, such as Uruguay, Yugoslavia, Romania, Poland, Greece, and India, also experienced a growth in their exports to the United States.

Over the May 1 to September 18 period, retail sales, in value terms, were up only 3 percent and it is understood that retailers have imposed rigorous buying controls to avoid excessive inventory buildups. These data do not distinguish between domestic and imported shoes. Sales of lower-end and medium priced footwear reportedly are flat, but sales of better quality merchandise are improving in both men's and women's lines. There is a strong consumer demand for dress shoes and better boots priced at $40 and above, particularly for women's boots, most of which are imported.

A variety of soundings were taken with industry spokesmen. One, a survey of ten well-known manufacturers (including the four largest),[2/] conducted by the American Footwear Industry Association, indicates that orders in September are down, compared to last year.

2/It is estimated that these ten companies account for 30 percent of the value of industry shipments.

For some of the smaller firms, the decline ranged from 25 to 50 percent; for the larger manufacturers the declines were in the 10 to 20 percent range. Several firms indicated they are working fewer hours to avoid layoffs. Others are operating with reduced workforces.

Recent reports from manufacturers at trade shows and trade press reports indicate that the volume of new orders is considerably lower than anticipated earlier in the year, and that production is expected to decline this fall. It also has been noted that a large number of buyers were traveling to Europe and South America.

Spokesmen for the two unions involved with the industry, the United Shoe Workers and the Boot and Shoe Workers, confirmed these softer conditions. In telephone discussions both union leaders stated that company officials have strongly resisted any wage increases in their current contract negotiations. The manufacturers indicated a growing inability to compete with imports if their costs rise due to higher wages. Manufacturers also noted a slowdown in orders in recent months. In another telephone discussion, a representative of the Footwear Division of the American Importers Association also stated there has been a slowdown in new import orders, beginning around May, with some order cancellations also being reported.

Finally, an informal Department of Commerce tabulation reported that for the January through June period this year, eight shoe plants ceased operations, while 21 plants started operations. (Commerce Department field offices are checking the list of openings and closings.) Most of the openings took place early in the year, however.

Explanation of Recent Industry Performance

One possible explanation for the recent pattern of domestic production (i.e., the slowdown following the improvements that started in mid-1975) may be found in the footwear escape clause case. When the USITC investigation began in August 1975, retailers placed more orders with domestic manufacturers, fearing a possible loss of supply if imports were to be restricted. During the same period other importers engaged in hedge buying to beat the possible import quotas. After the President's decision in April, rejecting import quotas as a remedy for injury to the domestic industry, retailers again changed their mix of supply sources--increasing the import side. This is evidenced by the relative stability and high levels of imports since March. On the other hand, the generally longer lag time between placement of orders and arrival of shipments could account for the continuing strength in imports in the face of a softening in current demand.

Another explanation for this behavior is that 1976 has been an extraordinary year for footwear. New supply (production plus imports), or apparent consumption, in the first half of the year was running at an annual rate of about 880 million pairs. Both production and imports shared in this increase, with production up 24 percent and imports up 37 percent over the previous year. 1975 was a poor year for domestic production but a relatively strong one for imports. Nevertheless, it does not appear probable that the rate at which new supply has been growing can be sustained over the balance of the year. At its current pace, apparent consumption would be at its highest level in history, some 7 percent above the record year of 1968. To achieve this, there would have to be a reversal of the down trend in per capita consumption which has prevailed since 1968. The decline in per capita consumption has been more than sufficient to offset the rise in total population.

The higher rate of consumption in the first half of 1976 can also be attributed to the relatively low consumption levels in 1975 and 1974. In 1975 retailers reportedly drew down their inven-inventories where possible, deferring purchases to 1976 when inventories again were rebuilt. Although official data are lacking, shoe inventories at the retail level reportedly were at their lowest levels in mid-1975. Beginning in May 1976, retail sales began to lag while the supply pipelines began filling up.

Short Run Future Prospects

A more realistic rate of apparent consumption (or new supply) for all of 1976 would be around the 800 million pair level. This was the level that prevailed in the 1970-73 period and is above the depressed levels in 1974 and 1975. Thus, in the second half of 1976, a scaling down of purchases can be expected with reductions in the levels of both domestic production and imports. The major unknown is the allocation of this decline between domestic and foreign products. Two possible scenarios, which place the major burden on domestic producers, are sketched out below. Both assume a 800-million pair level of new supply for all of 1976. First, if the import/consumption ratio for the year is 44 percent (the ratio for the first seven months of 1976), then imports would end the year with a record level of nearly 355 million pairs (up 23 percent over last year) and domestic production would end the year at about 450 million pairs (up 4 percent over last year). Second, if imports maintain their current pace of 30 million pairs per month, which means that domestic production bears the brunt of reduced consumption, then production would end the year at roughly 425 million pairs and record-high imports would account for 47 percent of the U.S. market. Other scenarios, which place more of the burden on imports, could be posited. However, since domestic orders do appear to be more easily cancellable than orders for imported merchandise and since only four months remain this year, reported import flows are less likely to be affected by the assumed cutbacks than are domestic orders.

Conclusion

Prospects for the non-rubber footwear industry for the remainder of the year are not bright and, if the domestic segment of the industry bears a disproportionate share of the expected decline in new supply, the year may end with a near record low level of production.

October 6, 1976

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ATTACHMENT C

ADJUSTMENT ASSISTANCE FOR THE U.S. NON-RUBBER FOOTWEAR INDUSTRY

On April 16, 1976, President Ford called for adjustment assistance to help the U.S. footwear industry to adjust to foreign competition and directed the Secretaries of Commerce and Labor to give expeditious consideration to any petitions for adjustment assistance filed by firms, communities, and workers hurt by imported footwear.

Assistance to Firms

Under the program of trade adjustment assistance for firms authorized by the Trade Act of 1974, administered by the Economic Development Administration (EDA) in the Department of Commerce, 17 footwear firms have been certified eligible to apply for assistance, and so far three have received financial assistance: (1) a working capital loan of $1 million; (2) an $880,000 fixed asset and working capital loan; and (3) a working capital loan of $700,000. Two other certified footwear firms have their applications for assistance under review by EDA. Several others are developing their recovery plans, including one firm that has received technical assistance to help prepare its adjustment proposal.

A firm may be certified eligible to apply for adjustment assistance by petitioning the Department of Commerce and demonstrating that increasing imports have contributed importantly to declines in its sales or production, or both, and total or partial separation, or the threat thereof, of its workers.

Following the President's request, the Department of Commerce on May 15 mailed a notice about the trade adjustment assistance program to 589 U.S. footwear companies. Since the date of the President's directive, 47 identifiable footwear firms or their representatives have requested additional information about the program and copies of the petition forms. In addition, seven footwear firms have submitted petitions for certification and six firms have been certified. Two petitions were withdrawn prior to a determination, and two are in process.

Firms which have been certified eligible may then apply for technical or financial assistance. The Commerce Department may provide up to 75 percent of the cost of technical assistance to develop a recovery plan, help implement it or both. Financial assistance may be provided in the form of direct loans not to exceed $1 million, loan guarantees not to exceed $3 million or a combination not to exceed $4 million.

Financial assistance may be used for working capital or for acquisition of fixed assets. While the law allows for loan maturities up to 25 years, in practice the working capital loans usually mature in 5 to 7 years; fixed asset loans in from 12 to 17 years. Interest rates are devised by formula provided in the Trade Act. Current rates are 9 3/4 percent for direct loans and a ceiling of 10 1/2 percent on loan guarantees.

Community Assistance

Communities which qualify for adjustment assistance under the Act become eligible essentially, for all forms of assistance available to areas under EDA's enabling legislation. A community, identified within the law as a political subdivision of a state, may qualify for adjustment assistance if it can show that within its area a significant number or proportion of workers have or may become totally or partially unemployed; that sales and/or production of firms (including subdivisions) have declined, and that imports of articles which are like or directly competitive with those produced by firms within the area were an important cause of the identified losses. There is nothing within this language which allows a community to consider only firms and employment within a specific industry.

These criteria all but eliminate, from eligibility, any community that has a diversified economy and a significant number of firms. As an example Lawrence, Haverhill and Amesbury, are all towns within Essex County, Massachusetts, with a long history of shoe production. Each of these towns has experienced losses of firms and employment within the industry. However, official readily available data upon which a petition might be based are available only for the county as a whole and not for the individual subdivisions, and although county data reveal a decline in employment in the leather footwear industry of nearly 3,000 workers between 1970 and 1973 and a of loss over 40 percent of their plants total covered employment increased during this period. Using such data, these communities cannot show the first of the necessary criteria, e.g. a decline or threatened decline in area employment. Inability to rely on official data places on a petitioning community the time consuming and costly burden of surveying firms within a smaller area. Should a community determine to undertake such a survey, it does not have the legal authority to require response from surveyed firms.

Because of the practical inability of most communities to qualify under the criteria of the Trade Act, EDA has established a policy of encouraging each community with import-related adjustment problems to utilize the EDA-administered program which can respond most fully to its adjustment needs in a timely fashion. Many footwear dependent communities are in areas already designated by EDA and are eligible for assistance under EDA's other programs pursuant to the Public Works and Economic Development Act of 1965 (PWEDA), as amended. Moreover, EDA's Title IX program is available to assist communities either in or outside designated areas. This program provides considerable flexibility to areas either experiencing or threatened with employment declines.

Communities are accordingly encouraged to consult with the appropriate EDA regional office. Communities located in designated areas, and those not in designated areas but having eligible economic adjustment problems, will be apprised of the existing programs under PWEDA and the prospects for obtaining assistance under them. Following an exploration of these programs, a community may decide to apply for PWEDA benefits directly or it may determine that its interests will best be served by petitioning for a Certification of Eligibility for Adjustment Assistance under the Trade Act.

To date, one community that has been identified as having economic problems related to shoe imports is seeking a technical assistance grant under Title III of PWEDA to develop a community recovery plan.

Worker Assistance

To comply with the April 16 Presidential directive to the Secretary of Labor to expedite adjustment assistance petitions by shoe workers, the Department of Labor established an outreach program. This program has accelerated the petitioning process involving shoe workers through action by the Department to assist workers in filing petitions. Essentially, the Department makes direct contact with shoe workers' unions, individual workers and shoe firms troubled by imports to assist in the filing of petitions.

Petitions Filed

Since the April 16 directive, the Department has received a total of 45 petitions for adjustment assistance involving 7,198 shoe workers. As of August 31, 1976, five of these petitions had been certified (838 shoe workers) and five denied (543 shoe workers). Thirty-four petitions involving 5,617 shoe workers are pending. One petition involving 200 shoe workers was terminated before a final determination was made by the Department.

The number of petitions from shoe workers filed during the current period 1/ represents a 45 percent increase over the same period a year ago. The number of shoe workers who petitioned in the period represents an 11 percent increase over the same period last year. These increases do reflect the Department's efforts to expedite petitions under the outreach program.

During the same period last year, 31 petitions were filed involving 6,474 shoe workers. Of this total 24 petitions were certified involving 5,163 shoe workers. Seven were denied for some 1,311 shoe workers.

Because of the lag between the filing of a petition and determination as to its certification the proportion of petitions certified and denied cannot be accurately compared to last year's performance at this time. All pending petitions are still in process of being completed within the 60-day time frame permitted under the law.

Certification Criteria

The Trade Act of 1974 specifies that workers may be certified eligible to apply for adjustment assistance benefits if increased imports have contributed importantly to the total or partial separation, or threat of total or partial separation, of a significant number or proportion of workers of a firm or subdivision of a firm and to the absolute decline of sales or production of the firm or subdivision.

1/ April 16 through August 31, 1976

Worker Benefits

The worker adjustment assistance program provides a range of benefits to workers who have been certified as eligible to receive adjustment assistance. These include trade readjustment allowances (TRA) which compensate displaced workers for up to 70 percent of their previous weekly wage; training and related services as testing, counseling, placement and supportive services; and job search and relocation allowances. Certified workers have a basic two-year period in which they must file for benefits.

Benefits are generally provided up to a maximum of 52 weeks. However, workers 60 years of age and older at separation may receive up to 26 additional weeks of TRA in order to complete training, providing they made application for such training within 180 days of the date they became eligible to apply for adjustment assistance or the date their benefits became effective, whichever is later.

Cost of Program

There is no readily available data with respect to the cost of adjustment assistance benefits to shoe workers alone. Under the trade adjustment assistance provisions to the 1974 Trade Act, as of July 31, 1976 the total cost of the program, involving all industries, was $88 million. 161,286 workers, in all industries, had been certified as eligible for benefits. Among the number of persons certified, 72 had been approved for job search allowances, 38 for job relocation allowances, and 745 persons had been referred for training. Because workers may apply for benefits for a basic period of two years after being certified it is too early to know exactly how many persons will ultimately avail themselves of these particular benefits.

September 30, 1976

Summary of Shoe Worker Trade
Adjustment Assistance Cases

April 16 - August 31, 1976

	Number	Estimated No. of workers
Petitions certified	5	838
Petitions denied	5	543
Petitions in process	34	5,617
Terminations	1	200
Totals	45	7,198

April 16 - August 31, 1976

	Number	Estimated No. of workers
Petitions certified	24	5,163
Petitions denied	7	1,311
Petitions in process	-	-
Terminations	-	-
Totals	45	6,474

9/30/76

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ATTACHMENT D

Monitoring Footwear Production, Employment and Imports

Pursuant to the President's instruction to the Special Trade Representative to monitor U.S. footwear trade, an interagency task force was convened in May, 1976, to establish the mechanism for assembling and reporting data on a periodic schedule and to determine the information which should be included in the reports. The task force held three meetings in early May during which there was extensive discussion of the data on U.S. footwear production, employment and imports which were already being regularly collected by various agencies of the government, the adequacy and shortcomings of the data (particularly data on current production and employment) as reliable indicators in a monitoring system, and the feasibility of collecting additional information not currently reported. The consensus of the task force was (a) that the statistical reports which would be compiled should be kept relatively simple and at aggregate, not detailed, levels in order to highlight changes in production, employment and the overall import penetration ratio, and (b) that it was not practical to conduct special industry surveys to obtain information not currently collected by the government because of the large number of producers in the industry, the additional burden which this would impose on firms already making a number of periodic statistical reports to government agencies, the length of time required to get a system of surveys in operation, and the resources which would be required.

The task force concluded that surveillance of important developments and trends in trade in footwear would be adequately accomplished by compiling for the Special Trade Representative periodic statistical tables basically comparing the quantities of production and imports and giving data on employment. Monthly tables would be prepared at a total aggregate level for all footwear. These would be supplemented quarterly with additional detail on type of footwear and supplying countries for imports. The tables were to be prepared by U.S. International Trade Commission staff using data regularly compiled and published by the Bureau of the Census and the Department of Labor. The data required for the report were to be supplied to the USITC on an expedited basis earlier than they normally become available through regular publication. Information, such as prices and costs, would not be included because it could be obtained only by special surveys. Developments in production, employment and imports would be readily apparent from the statistical tables, rendering unnecessary any textual statement. The tables are described below.

Statistical Tables for Monitoring Footwear Trade 1/

Monthly

Table 1 compares current (1976) monthly production, imports, apparent consumption, ratio of imports to consumption, employment (all employees and production workers), and the unemployment rate with the

1/ Examples of the most recent tables are attached.

corresponding month in the previous year (1975) and also shows January-to-date information for the current year and the previous year. The table is prepared each month as soon as data become available.

Quarterly

Two tables, prepared quarterly, give January-to-date (March, June, September, December) comparisons between current year and previous year performance.

Table 3 provides January-to-date data, by type of footwear, on current U.S. production, imports, consumption, and the ratio of imports to consumption, compared with the corresponding period for the previous year.

Table 5 provides data on imports, by principal supplying countries, for the current year compared with the previous year.

Annually

Historical tables covering the period 1968 to the present, presenting annual data corresponding to the monthly and quarterly data in tables 1, 3, and 5 are to be compiled at the close of each year.

Table 2 presents annual data on U.S. footwear production, imports, exports, apparent consumption, ratio of imports to consumption, employment (all employees and production workers), and the unemployment rate.

Table 4 presents annual data, by type of footwear, on U.S. production, imports, consumption, and the ratio of imports to consumption.

Table 6 presents annual data, by principal supplying countries, on U.S. imports.

The first set of 6 tables were circulated in early June showing annual data for 1968-75, data for the first quarter of 1975 and 1976, and monthly data for January-March, 1975 and 1976. Since then the monthly table has been updated 5 times, carrying the data through August. The quarterly tables 3 and 5 comparing the first half of 1975 and 1976 have just become available. The monthly report is available 6 to 7 weeks after the close of the reporting month. Quarterly reports should be available within 8 weeks after the close of each quarter.

Table 1.--Nonrubber footwear: U.S. production, imports for consumption. apparent consumption, average number of employees, total and production workers, and unemployment rate, January-August 1975 and January August 1976

Item	Production			Imports			Apparent Consumption			Ratio of imports to consumption		All Employees			Production workers			Unemployment rate 1/	
	1975	1976	Increase or decrease (-)	1975	1976	Increase	1975	1976	Increase	1975	1976	1975	1976	Increase	1975	1976	Increase	1975	1976
	1,000 pairs	1,000 pairs	Percent	1,000 pairs	1,000 pairs	Percent	1,000 pairs	1,000 pairs	Percent	Percent	Percent	Thousands	Thousands	Percent	Thousands	Thousands	Percent	Percent	Percent
January	32,676	38,970	19	27,511	32,200	17	60,187	71,170	18	46	45	166.2	171.1	3.0	143.6	149.8	4.3	11.0	10.7
February	31,177	37,981	22	24,483	29,238	19	55,660	67,219	21	44	44	161.2	172.6	7.1	138.4	151.1	9.2	17.7	16.2
March	31,576	44,361	41	27,856	42,300	52	59,432	86,661	46	47	49	155.7	172.9	11.0	133.6	151.4	13.3	15.8	7.4
April	32,768	41,575	27	23,911	32,362	35	56,679	73,937	30	42	44	156.7	174.7	11.5	135.0	152.9	13.3	15.0	7.1
May	32,684	40,748	25	19,036	30,106	58	51,720	70,854	37	37	43	159.5	176.8	10.8	138.3	155.3	12.3	13.4	8.5
June	34,083	39,118	15	20,675	30,858	49	54,758	69,976	28	38	44	164.7	177.4	7.7	143.5	155.9	8.6	13.5	12.5
July	32,192	31,034	-4	25,293	30,596	21	57,485	61,630	7	44	50	159.1	167.7	5.4	138.2	147.9	7.0	11.9	12.1
August	36,170	36,809	2	22,749	34,549	52	58,919	71,349	21	39	48	164.8	2/	2/	143.6	2/	2/	13.9	9.5
Total or average	263,326	310,596	18	191,514	262,200	37	454,840	572,796	26	42	46	-	-	-	-	-	-	-	-
Monthly average	32,916	38,824	18	23,939	32,775	37	56,843	71,600	26	42	46	161.0	2/	2/	139.3	2/	2/	14.0	10.5

1/ For the leather and leather products industry (SIC 31). Approximately two-thirds of the workers in the leather and leather industry are nonrubber footwear workers.
2/ Not available.

Source: Compiled from official statistics of the U.S. Department of Commerce and the U.S. Department of Labor.

U.S. International Trade Commission
October 1976

Table 2.--Nonrubber footwear: U.S. production, imports for consumption, exports of domestic merchandise, apparent consumption, average number of employees, total and production workers, and unemployment rate, 1968-75

Year	Production	Imports	Exports	Apparent consumption	Ratio of imports to consumption	Average number of employees		Unemployment rate 1/
						All persons	Production workers	
	Million pairs	Million pairs	Million pairs	Million pairs	Percent	Thousands	Thousands	Percent
1968	642.4	181.5	2.4	821.5	22	233.4	204.1	4.0
1969	577.0	202.2	2.3	776.9	26	226.3	197.1	4.6
1970	562.3	241.7	2.2	801.8	30	213.6	185.5	6.9
1971	535.8	268.6	2.1	802.3	33	200.6	173.6	8.0
1972	526.7	296.7	2.3	821.1	36	198.1	172.2	7.2
1973	490.0	307.5	3.6	793.9	39	189.1	164.3	6.1
1974	453.0	266.4	4.0	715.4	37	178.1	154.3	7.5
1975	413.1	287.8	4.6	696.3	41	163.0	141.4	13.3

1/ For the leather and leather products industry (SIC 31). Approximately two-thirds of the workers in the leather and leather products industry are nonrubber footwear workers.

Source: Compiled from official statistics of the U.S. Department of Commerce and U.S. Department of Labor.

Note.--Data on imports of so-called disposable paper slippers from Mexico, which were entered in substantial quantities beginning in 1973, have been excluded from this table. Such imports amounted to an estimated 32 million pairs in 1975. Data on zoris have also been excluded from this table; such imports amounted to 20 million pairs in 1975.

U.S. International Trade Commission
October 1976

Table 3.--Nonrubber footwear: U.S. production, imports for consumption, and apparent consumption, by types, January-June 1975 and January-June 1976

(Quantity figures in millions of pairs)

Item	January-June-- 1975	January-June-- 1976	Percentage increase or decrease (-)
Athletic:			
Production	4	5	25
Imports	8	16	100
Consumption	12	21	75
Ratio (percent) of imports to consumption	67	76	13
Work:			
Production	13	14	8
Imports	1	2	100
Consumption	14	16	14
Ratio (percent) of imports to consumption	7	13	86
Other:			
For women and misses:			
Production	76	102	57
Imports	98	123	26
Consumption	174	225	38
Ratio (percent) of imports to consumption	56	55	-2
For men, youths, and boys:			
Production	48	56	17
Imports	27	42	56
Consumption	75	98	31
Ratio (percent) of imports to consumption	36	43	19
For children and infants:			
Production	22	27	23
Imports	10	14	40
Consumption	32	41	28
Ratio (percent) of imports to consumption	31	34	10

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note.--Data on slippers are not reported above since comparable production and import data are not available.

U.S. International Trade Commission
October 1976

Table 4.--Nonrubber footwear: U.S. production, imports for consumption, and apparent consumption, by types, 1968-75

(Quantity figures in millions of pairs)

Item	1968	1969	1970	1971	1972	1973	1974	1975
Athletic:								
Production	8	9	9	8	9	10	10	8
Imports	2	2	4	5	6	6	8	17
Consumption	10	11	13	13	15	16	18	25
Ratio (percent) of imports to consumption	20	18	31	38	40	38	44	68
Work:								
Production 1/	36	35	38	38	35	29	27	25
Imports	2	2	2	2	2	3	3	2
Consumption	38	37	40	40	37	32	30	27
Ratio (percent) of imports to consumption	5	5	5	5	5	9	10	7
Other:								
For women and misses:								
Production	317	266	253	232	218	197	183	167
Imports	133	140	166	181	199	210	183	191
Consumption	450	406	419	413	417	407	366	358
Ratio (percent) of imports to consumption	30	34	40	44	48	52	50	53
For men, youths, and boys:								
Production	114	105	106	102	115	112	101	95
Imports	31	38	48	57	62	63	53	60
Consumption	145	143	154	159	177	175	154	155
Ratio (percent) of imports to consumption	21	27	31	36	35	36	34	39
For children and infants:								
Production	60	56	55	54	50	49	44	43
Imports	14	19	21	22	27	26	19	19
Consumption	74	75	76	76	77	75	63	62
Ratio (percent) of imports to consumption	19	25	28	29	35	35	30	31

1/ The data reported for years prior to 1973 include all work shoes, regardless of ankle height; data for 1973 and subsequent years include only such shoes of ankle height or higher. In 1972, production of work shoes less than 6 inches high amounted to 8 million pairs.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note.--Data on slippers are not reported above since comparable production and import data are not available.

U.S. International Trade Commission
October 1976

Table 5.--Nonrubber footwear: U.S. imports for consumption, by principal sources, January-June 1975 and January-June 1976

Source	January-June-- 1975	January-June-- 1976	Percentage of increase or decrease (-)
	Quantity (1,000 pairs)		
European Economic Community	38,287	30,871	-19
Italy	34,433	27,529	-20
Republic of China (Taiwan)	46,011	84,635	84
Spain	19,612	20,370	4
Brazil	12,898	15,992	24
Republic of Korea	4,610	18,643	304
Greece	2,204	2,536	15
France	2,022	1,698	-16
Yugoslavia	1,492	1,674	12
Mexico	3,364	3,721	11
Poland	1,393	2,790	100
Canada	697	922	32
India	2,845	3,758	32
Romania	1,035	1,743	68
West Germany	988	688	-30
Uruguay	325	948	192
Ireland	398	389	-2
United Kingdom	351	369	5
Austria	516	601	17
Japan	1,908	2,132	12
Switzerland	121	151	25
Hong Kong	3,180	2,846	-11
All other	3,069	2,946	-4
Total	143,472	197,081	37
	Value (1,000 dollars)		
European Economic Community	217,817	190,902	-12
Italy	179,411	158,977	-11
Republic of China (Taiwan)	66,178	135,289	104
Spain	110,884	113,624	3
Brazil	52,703	73,851	40
Republic of Korea	16,514	70,769	329
Greece	11,920	15,853	33
France	19,215	15,214	-21
Yugoslovia	13,238	14,944	13
Mexico	10,701	12,424	16
Poland	4,970	10,206	105
Canada	6,334	8,107	28
India	4,524	7,587	68
Romania	3,390	7,341	117
West Germany	10,065	6,953	-31
Uruguay	1,618	4,790	196
Ireland	4,668	4,543	-3
United Kingdom	3,813	4,062	7
Austria	3,260	3,748	15
Japan	3,351	3,568	7
Switzerland	3,098	3,351	8
Hong Kong	2,063	2,900	41
All other	15,113	14,725	-3
Total	547,031	692,826	27

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. International Trade Commission
September 1976

Table 6.--Nonrubber footwear: U.S. imports for consumption, by principal sources, 1968-75

Source	1968	1969	1970	1971	1972	1973	1974	1975
	Quantity (1,000 pairs)							
Italy	59,284	61,081	80,679	77,847	79,698	76,853	62,603	54,443
Spain	14,268	20,728	21,245	31,221	39,254	36,805	35,033	38,412
Republic of China (Taiwan)	16,353	25,896	42,046	64,786	91,253	111,703	88,284	103,443
Brazil	23	377	2,410	8,146	11,809	19,528	21,324	26,467
Republic of Korea	908	880	1,920	3,296	7,950	7,173	9,202	15,960
France	2,632	2,521	3,101	2,886	2,957	2,742	2,965	3,808
Yugoslavia	133	185	297	540	1,232	965	1,784	2,959
Greece	83	228	480	778	1,581	2,581	3,238	3,936
Mexico	2,489	2,450	3,964	3,538	4,044	6,664	4,145	5,477
Canada	1,732	1,979	2,527	2,196	2,272	2,665	2,534	2,037
West Germany	964	1,944	2,806	2,452	2,666	1,795	1,668	1,550
Poland	5	85	341	613	1,065	1,349	1,677	3,061
Austria	152	199	270	364	1,374	3,108	2,746	1,553
Romania	740	601	585	682	1,068	2,467	2,817	2,288
Ireland	86	168	337	391	444	676	785	702
United Kingdom	2,785	3,145	2,773	2,326	1,603	1,064	896	687
Japan	68,937	66,785	59,843	51,415	27,544	9,166	5,855	4,276
Switzerland	535	604	564	614	559	406	363	299
India	1,924	2,096	2,926	3,029	3,547	2,762	2,924	3,900
Czechoslavia	2,036	2,622	1,791	1,605	1,928	1,343	841	1,059
Argentina	15	59	56	284	463	3,875	5,328	994
Colombia	1/	1	36	285	545	740	1,164	1,007
Hong Kong	2,951	4,323	5,516	6,003	6,814	6,647	5,580	5,943
All other	2,457	3,248	5,143	3,328	5,033	4,672	2,667	3,503
Total	181,492	202,208	241,656	268,625	296,703	307,549	266,423	287,764
	Value (1,000 dollars)							
Italy	157,376	197,130	263,992	285,151	337,262	360,685	323,547	330,275
Spain	47,635	73,467	78,051	125,276	171,431	189,175	192,807	226,213
Republic of China (Taiwan)	8,369	14,250	28,712	50,355	79,326	116,587	129,468	157,338
Brazil	209	1,191	6,126	23,438	41,806	81,260	88,696	120,655
Republic of Korea	1,207	1,225	2,935	6,055	13,413	16,816	23,499	52,899
France	8,099	9,420	14,681	16,306	17,803	21,930	23,912	36,024
Yugoslavia	625	1,100	2,107	4,113	8,272	7,769	13,699	26,426
Greece	636	2,042	3,471	5,137	8,959	13,863	18,306	22,882
Mexico	4,321	5,182	8,487	9,585	9,791	13,352	20,007	21,792
Canada	5,216	6,877	10,434	10,007	11,377	15,850	15,313	16,974
West Germany	6,610	11,007	16,044	16,921	19,306	17,478	15,390	15,497
Poland	4	174	1,070	1,441	2,665	4,306	5,804	11,199
Austria	2,890	3,701	4,253	4,073	7,689	16,595	13,159	9,574
Romania	1,409	1,349	1,231	1,803	2,862	8,640	11,329	8,128
Ireland	529	1,107	2,537	2,996	3,857	6,297	8,154	8,125
United Kingdom	16,176	20,836	19,478	17,622	13,581	9,893	9,053	7,970
Japan	49,424	57,314	60,221	64,490	40,824	12,957	7,420	7,386
Switzerland	7,109	8,291	8,718	8,988	9,316	7,699	6,737	7,052
India	2,014	2,108	2,938	3,190	3,845	3,090	3,922	6,548
Czechoslavia	4,260	5,730	4,410	4,420	5,148	5,208	4,233	5,669
Argentina	107	221	219	1,040	2,054	16,719	23,681	5,258
Colombia	3	7	103	1,019	1,921	2,864	4,871	4,943
Hong Kong	2,084	2,776	3,989	4,963	4,774	4,658	5,027	4,817
All other	6,388	9,465	15,144	9,993	17,724	21,793	12,633	18,756
Total	332,700	435,970	559,351	678,382	835,006	975,484	980,667	1,132,400

1/ Less than 500 pairs.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note.- Data on imports of so-called disposable paper slippers from Mexico, which were entered in substantial quantities beginning in 1973, have been excluded from this table. Such imports amounted to 32 million pairs in 1975. Data on zoris have been excluded from this table; such imports amounted to 20 million pairs in 1975.

U.S. International Trade Commission
June 1976

THE WHITE HOUSE

WASHINGTON

October 4, 1976

MEMORANDUM FOR ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEMBERS

FROM: ROGER B. PORTER RBP

SUBJECT: Secretary Usery's Speech to the Propeller Club

At the September 22 Executive Committee meeting, the Executive Committee requested Secretary Usery to prepare a draft of his speech to the Propeller Club for review by the Executive Committee in its examination of maritime policy.

A copy of Secretary Usery's draft remarks are attached. They will be discussed at an upcoming Executive Committee meeting.

Attachment

DRAFT

Thank you for that fine introduction, Jim. (James Reynolds, former Under Secretary of Labor, now president of the American Institute of Merchant Shipping.) I'm not going to ruin it by separating the few facts from the many myths it contains -- myths that I have been careful not to interfere with as they have grown over the years.

In a speech delivered last May to the Propeller Club in Houston, Jim wondered aloud just how many Americans outside of the 76 Propeller Clubs and your 13,000 members are truly aware that this great nation of ours can trace its material advancement and spiritual liberty to the essential role the United States Merchant Marine has played in times of war and peace since that uncertain beginning 200 years ago.

Well, Jim, I am proud to be able to say that I am aware -- truly aware.

While my hometown of Milledgeville, Georgia, is not exactly a world seaport, I found myself working as a welder in a shipyard in Brunswick, Georgia, when the thunder-clouds of World War II were rumbling our way from Europe.

And when that storm hit, it was a logical step for me -- like nearly every young friend I had -- to join the service. My choice was the Navy, where in three years as an underwater welder, I saw much of the Pacific Ocean from the view of a turtle.

My years as a union representative at Port Canaveral, Florida, often brought me in contact with the seafaring community.

More than once I was involved in grievances filed by maintenance workers who were employed on vessels bringing a steady stream of supplies needed for our space program.

As a mediator -- and Jim knows this well, because he has been there with me -- many of our most challenging cases have stemmed from disputes in the longshoring, shipbuilding and shipping industries.

Beyond those experiences, I've had the pleasure of serving on a number of committees with one of the most knowledgable and dynamic leaders in the maritime trades -- President Paul Hall of the Seafarers.

So, Jim, I can truthfully say that I appreciate and understand the heritage of the American Merchant Marine.

I know, too, of its roller coaster history -- its dominant role is the sealanes in its earlier years, and of the long years of deterioration brought about by internal feuds and government neglect that brought it nearly to its knees in the 1960s.

I'm pleased to be on the team of a President who, as a Congressman, was in the forefront of the struggle that brought the passage of the Merchant Marine Act of 1970 -- and with it, a new sense of hope for the industry.

President Ford was then, and is now committed to the proposition that the United States must develop, protect and promote the most advanced, efficient merchant marine that can be assembled.

Let me repeat the words he used on April 23, 1975, when he said, and I quote:

"I have always believed in doing everything possible to keep the American flag flying over a large, competitive Merchant Marine . . .

"I give you my word that we will have a vital Merchant Marine in the future, and in the White House I will do as I did in the Congress -- work for that objective for our national security."

President Ford's commitment to a strong, profitable maritime industry has been with us for many years, is with us now, and will be with us in the years to come.

And I share his commitment. Completely.

As your Secretary of Labor, my primary responsibility in the maritime industry -- and thus my primary interest -- lies in the areas of jobs and labor-management relations.

In the first area -- jobs -- the picture is mixed. In the second area -- labor-management relations -- we have a success story that is unique.

On the employment front, we have a serious problem in the steadily declining number of shipboard jobs that are available to American seamen.

Since 1970, the number of available shipboard positions has dropped from nearly 38,000 to under 24,000 -- a loss of 14,000 jobs. There are a variety of reasons for the decline, but the challenge before us is to reverse the flow by strengthening the American-flag fleet.

Shoreside, we have seen the number of longshoring jobs drop from 68,000 in 1970 to about 59,000 today, largely because of technological achievements.

On the good news side, shipbuilding employment has risen by 20,000 jobs in the past six years, to more than 80,000.

While much of the world's shipbuilding industry is in dire straights because of the depressed tanker market, the American yards are holding steady, primarily because of the vigorous shipbuilding activity made possible by the Merchant Marine Act of 1970.

The fact that our shipyards are now constructing or have orders for 72 merchant ships valued at four-and-a-half billion dollars is proof of the vitality of the American shipbuilding industry today.

The potential for the full utilization of the American-flag fleet today, as well as those ships that are being built or have been ordered, is enhanced by the spirit of cooperation that has been created through the dogged determination of the leaders of labor and management.

For too many years, the unions within the maritime industry conducted one of the grandest organizing and bargaining free-for-all's in the annals of the trade union movement. The results were devastating.

Strike followed strike. And shippers, needing some guarantee that cargoes would move on schedule, fled the turbulent and unreliable American-flag industry, placing their valuable goods on ships of other nations.

We have seen in the past few years a dramatic turnaround. Unions have found ways to proceed in harmony.

And at the collective bargaining table, labor and management have displayed a new attitude of responsibility and progressiveness.

Unions have agreed to a substantial reduction in manning scales on new vessels entering the fleet.

The new ships are, as you know, far larger and faster, and equipped to load and unload rapidly.

This combination of larger ships, faster ships, more efficient ships, manned by smaller crews of highly efficient seamen -- this combination has resulted in stunning increases in productivity.

And all of this has been accomplished in a climate of cooperation and peace.

In the past five years, all but one of the 23 major seafaring contracts that have expired have been renegotiated without strikes.

This attitude of cooperation has extended beyond the bargaining table. The leadership of our unions has linked arms with management and the Maritime Administration in an aggressive, nationwide marketing effort.

Under the banner of the National Maritime Council, exporters, importers and freight forwarders are being shown the advantages of using American-flag vessels.

And the response has been heartening.

The theme of "be-American, ship-American" is catching hold -- not only because it is the right thing to do, but because the American-flag fleet has shown it is able to deliver the goods.

By 1974, this campaign resulted in American-flag vessels carrying six-and-a-half percent of the total U. S. oceanborne commerce -- a figure that reflected a healthy 73 percent increase over the tonnage carried in 1972.

The American fleet, of course, was not immune to the recession. But even so, American-flag liner operators transported just over 30 percent of our liner cargoes last year -- the highest percentage recorded since 1958!

These are truly bright spots on the surface of the U. S. maritime industry.

Yet our position remains soft -- and far more must be accomplished if the American-flag fleet is to regain its proper place as a leader on the world's oceans.

We have more than 20 tankers laid up -- a luxury that the delicate economy of the shipping industry can ill afford.

Like you, I am looking forward to the day when many of our tankers will be employed in the carriage of oil from Alaska.

Let me say here and now that I have been assured that when ships are used to transport Alaskan oil, those ships will bear only one flag -- and that flag will be the flag of the United States of America.

I believe, too, that it is right and proper for the Federal Government to come to the aid of the fleet during troubled times.

We are, for example, dangerously low in the number of bulk carriers in foreign trade and in the utilization of the 19 ships that do exist, 16 of which, incidently, have at least 19 years of service behind them.

The spark that has brought dignity and profits and secure jobs to the liner trades is missing in our bulk fleet. The result: the United States now ranks 26th in world standings in this vital area of commerce. We carry less than 2 percent of our own dry bulk imports and exports.

For a nation that is becoming increasingly more dependent on foreign sources for a multitude of essential raw materials, this is a condition that can clearly carry the mark of danger.

What can be done to bring an economic transfusion to this weakened segment of our shipping industry?

Until it has regained its health, we might wish to review present government programs that have an impact on the dry-bulk fleet. Programs under Public Law 480, for example.

This, I know, is a tender spot. So I want to be both careful and precise.

It seems to me we might consider bringing some temporary relief to the dry-bulk fleet by expanding the amount of Title I shipments -- shipments of agricultural commodities to friendly governments -- that are made available to the American-flag fleet.

Our fleet now carries, by law, half of this cargo. An increase to even 75 percent would bring new life to as many as six ships, and employment to as many as 500 U. S. seafarers.

We might consider, too, increasing the amount of cargo allotted to American-flag carriers under the AID program. While not significant in scope, the act of placing more of this government-sponsored cargo on U. S. ships would be another sign that the government really does intend to support the American-flag fleet.

I am led to believe that such support could provide some incentive for private operators to make the necessary heavy investment in more modern, more efficient dry-bulk vessels.

Having tested these tender waters, I might go a step further.

Let's for just a minute take a look at what has happened since the United States and the Soviet Union reached an accord last December on who would ship what portion of the grain flowing from our nation to theirs.

That agreement provided that Soviet vessels would carry a minimum of a third of the cargo . . . that American-flag ships would transport a minimum of a third -- and that the remainder would be available to others.

What has actually happened?

Let me tell you.

This year American-flag bulk carriers have carried 26 percent of our grain exports to the Soviet Union -- about 20 percent less than was agreed to.

The State Department has told me that it is deeply concerned, and that it is making a concerted effort to convince the Soviet Union that a deal is a deal -- that a 33 percent minimum is an absolute floor -- and that we will insist that the terms of that agreement be abided by fully and in good faith.

Speaking of the Soviet Union brings me to another problem area that we share.

The Soviet merchant fleet has doubled in size in the past 20 years -- and in the past year surpassed the American-flag fleet in both the number of ships and tonnage. It has been most aggressive in seeking cargo, not to mention fish.

And we have been a target of that aggressiveness.

Since 1972, when we opened our ports to Soviet vessels, the Russians have been regular callers. Indeed, Soviet ships in 1975 made six times as many voyages to American ports as they did in 1972.

And they are succeeding in luring American shippers to use their services, not just for cargoes bound for the Soviet Union, but to every part of the world.

A State Department study indicates that the Soviet fleet could carry 7 to 8 percent of the U. S. trade in 1978 -- or more than our own American-flag fleet is carrying today.

A nagging worldwide problem that has been heightened by the Soviet fleet lies in the field of cost cutting.

They simply have not abided by the Conference Rates that have been negotiated by the major shipping nations in order to preserve a balance of oceangoing trade.

I know that the State Department and Commerce are making every effort to convince the Soviets that while they are welcome to participate in the family of nations that ply the ocean routes, this welcome is contingent on playing by the same rules.

There is, of course, considerable confusion on just what the rules of maritime shipping are today.

We see a vast array of cargo preference laws, regulations and policies being adopted throughout the world.

-- Australia, for example, in 1973 announced that it would require that 40 percent of its export minerals be carried on Australian-owned, manned and built ships.

-- The People's Republic of China has instituted a self-reliance policy in shipping, and has a general rule that important goods be transported on its own vessels.

-- France requires that two-thirds of its crude oil imports be transported on French ships or ships specifically chartered by the government.

-- Because of the close-knit government-industry relationship in Japan, Japanese industrialists give first preference to Japanese ships.

-- And now we hear rumbles from Saudi Arabia that it is considering a requirement that 50 percent of its oil exports be transported on a Saudi Arabian fleet that will be established specifically for that purpose.

This is far from a complete list.

But even so, it sends a harsh message.

And that message is that protectionism -- under the guise of nationalism -- is rapidly eroding free competition in the international shipping markets.

The United States, it seems to me, must send a clear and unmistakable signal to the world: A message that says that we will not permit our American-flag fleet to be suffocated by self-serving restrictions imposed by our trading partners.

After all, our imports and exports represent 25 percent of all the world's trade. To be denied the capability to ship a decent proportion of that trade is to be denied a viable position in our own economic well-being.

Few industries in America have more government agencies involved in their day-to-day operations than the maritime industry. We have, it seems, helped you until it hurts.

The Department of Commerce, the Department of Agriculture, the State Department . . .

The Department of Transportation, the Department of the Treasury, the Department of Defense. . .

My own Department of Labor, the Department of the Interior, the White House, the Navy, the Federal Maritime Commission . . .

It seems that every federal agency, with the possible exception of the Bureau of Prisons, has a hand in the maritime industry.

And all of them, I can assure you, truly do want to help the American-flag fleet. It's high time that we turn that laudable desire into tangible accomplishments.

It might be that we could accomplish this goal more effectively through a Cabinet-level coordinating committee for maritime affairs.

Commerce Secretary Elliot Richardson has suggested that such a body be established -- and I'm readily available to second his motion.

The maritime industry affects -- and is affected by -- everything from our international trade policies and tariffs to fishing rights and our national defense.

To me, it makes sense that the federal government would provide a focal point for the coordination of the multitude of governmental activities that have an impact on this vital industry.

It is appropriate that we take the necessary steps to protect and promote the American-flag fleet at this particular time -- at a time when we are entering our third century as a free and independent nation.

It is one way that we could pay honor to those gallant seafarers who, even before the Declaration of Independence was adopted, answered a call from the second Continental Congress to arm their ships and cruise on the enemies of the United Colonies.

We who have read our history know that there would have been no victory in the American Revolution had there not been a patriotic band of courageous and determined men who anxiously took on all comers with their small fleet of armed merchant vessels.

Everyone in this room is familiar with the story of the British commander who issued a surrender call to a young Scotsman named John Paul Jones, whose outgunned ship had been raked unmercifully and was close to sinking.

John Paul Jones shouted his reply:

"I have not yet begun to fight!"

He proved his words by continuing the fight until victory was his.

I would suggest that on this day we might adopt those words as our own -- that in our desire to strengthen the United States Merchant Marine, we have not yet begun to fight.

And if we -- management and labor and government -- carry out our commitment with the same sense of dedication, victory will be ours.

xxxxxxxxxxxxxx

THE WHITE HOUSE

WASHINGTON

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your information.

BRITISH INFORMATION SERVICES

POLICY AND REFERENCE DIVISION

September 28, 1976 POLICY STATEMENTS

39/76. ECONOMIC POLICY: THE TASK AHEAD

Mr. James Callaghan, Prime Minister, at Blackpool, England on September 28, 2976:

At the Labour Party Conference in Blackpool, Mr. James Callaghan, the Prime Minister and Leader of the Party, called on the nation to face up to economic realities. He outlined the fundamental choices and changes in economic and social planning which are needed to achieve national self-reliance.

Mr. Callaghan described the problems which have led to Britain's current economic difficulties.

> "... We have lived for too long on borrowed money and even borrowed ideas and we live in too troubled a world to be able in a matter of months or even a couple of years to enter the promised land...
>
> "For too long, perhaps ever since the War, we have postponed facing up to fundamental choices and fundamental changes in our society and in our economy... For too long this country has trodden the primrose path and borrowed money from abroad... Governments of both parties have failed to ignite the fires of industrial growth in the ways that Germany, France and Japan, with their very different political and economic philosophies have done."

Superficial Remedies Rejected

Mr. Callaghan agreed with delegates on the problem of high unemployment but rejected superficial remedies that would lead to inflating the economy. He said,

/"We ...

845 Third Avenue, New York, N.Y., 10022, Telephone: (212) 752-8400

"We have unemployment today which cannot be justified on any grounds -- least of all the human dignity of those involved...

"When we reject unemployment, as we all do, and when we reject also superficial remedies, as all socialists should, then we must ask ourselves unflinchingly, what is the cause of high unemployment? Quite simply and unequivocally it is caused by paying ourselves more than the value of what we produce. This ... is an absolute fact of life which no Government, be it left of right, can alter."

The recession, Mr. Callaghan said, would not be cured by the familiar practice of increasing consumer and Government expenditure.

"We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candor that that option no longer exists, and that insofar as it ever did exist, it worked by injecting inflation into the economy. And each time that happened the average level of unemployment has risen. Higher inflation, followed by higher unemployment. That is the history of the last twenty years.

"And each time we did this the twin evils of unemployment and inflation have hit hardest those least able to stand them -- our own people, the poor, the old and the sick."

Industrial Competitiveness the Solution

"... overcoming unemployment now unambiguously depends on our labor costs being at least comparable with those of our major competitors,"

Mr. Callaghan stated. He enumerated conditions in which British industry would achieve the required international competitiveness.

"We can only become competitive by having the right kind of investment at the right kind of level and by significantly improving the productivity of both labor and capital. Nor will we succeed if we use confetti money to pay ourselves more than we produce..."

/"We ....

"We have the chance to make real and fundamental choices about priorities which are absolutely necessary to achieve a growing and prosperous manufacturing industry."

Vital Role of the Social Contract

Mr. Callaghan called for a full implementation of the social contract and the Government's industrial strategy.

"... Without the social contract and without our industrial strategy and all the socialist measures which they involve, the country will continue to go downhill. But I am asking for more than lip service. It is their full implementation that will give us every chance of forging a powerful British economy in the next decade."

Industrial Profits Needed for New Investment

The Prime Minister expressed the Government's determination to bring down inflation to rates comparable with those of Britain's competitors by the end of 1977 and reviewed the progress of the National Enterprise Board and tripartite industrial planning between industry, Government and the unions.

But overcoming inflation, was not the only problem.

"The willingness of industry to invest in new plant and machinery requires not only that we overcome inflation but that industry is left with sufficient funds and sufficient confidence to make the new investment... I mean they must be able to earn a surplus, which is a euphemism for saying they must make a profit. And whether you call it surplus or profit it is necessary whether we live in a socialist economy,a mixed economy or a capitalist economy...

"Our industrial strategy and our economic policy for the next three years must be primarily concerned with the distribution of wealth. These two aspects should not be in conflict."

Balance Between Creation and Distribution of Wealth

The Prime Minister spoke of the need to scale public expenditure to the nation's productive output and to look to a healthy competitive manufacturing industry to finance future improvements in social services and to reduce unemployment.

/"The ...

"The wealth must be created before it can be distributed...

"You know that we have not been creating sufficient new wealth as fast as we have been distributing it. Over the last three years while our domestic product has risen by 2 percent, the increase in our public expenditures -- including central and local government -- has been 18 percent. We have bridged the gap by higher taxation, by borrowing from abroad and worst of all, by printing money.

"We must get back into balance again. It cannot be done in 12 months, for the disruption is too great. But it would be folly to continue to borrow at the present rate of £10 billion a year even if we could find the lenders. The long term cure for unemployment is to create a healthy manufacturing industry that can hold its own overseas and in the domestic market...

"We cannot indefinitely rely on foreign borrowing to provide for greater social expenditure, a better welfare service, better hospitals, better education, the renewal of our inner cities. In the end these things will only be provided by our own efforts."

Working Within the Government's Industrial Strategy

Ways of controlling imports would be examined case by case, Mr. Callaghan said.

"... I am already publicly committed to discuss the particular problem of Japanese imports with the European heads of state when we meet at the Hague in November. There will be a constant dialogue between the TUC, CBI and Government on this matter, and action will be taken where it is to our net advantage."

Replying to critics of the high level of unemployment, Mr. Callaghan said:

"I accept the criticisms, but I say in reply that there are no soft options. Nor will a generation of decline in British industry be reversed by gimmicks. That is why in asking for the movement's support of our present industrial strategy, I ask for your understanding too. Loyalty is not enough for that will crumble in time. What we need is conviction, and a determination to go out into the workshops, on to the streets, at the doorsteps, explaining with passion to others why we follow this path. There is no other way and if we follow it to the end we shall save not only our Party, but our Government and our Country."

On the subject of unemployment, Mr. Callaghan had stated that the Government would not simply wait for its medium term strategy to succeed, and he concluded by saying that,

> "We have embarked on a succession of schemes aimed at alleviating unemployment where and when we can within the context of the overall industrial strategy..."

Industrial Relations

Earlier in his speech, Mr. Callaghan had spoken of the new spirit of cooperation in industry, and the increasing acceptance among management and the trade unions of "joint responsibility to make the factory work." Mr. Callaghan drew attention to Britain's improving record on industrial relations:

> "The number of days lost through industrial disputes this year is the lowest for any comparable period since 1967. And the number of disputes is lower than at any time since 1953. That should be the headline news -- that is what the world should be learning about Britain."

(Prev. Ref. 35/76)

E N D

VCpp

A1-6, B4, EEC, P1/2/3/4/5/6/9/13/14.

JMC

EYES ONLY

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

September 27, 1976

Attendees: Messrs. Simon, Lynn, Greenspan, Usery, Zarb, Malkiel, Penner, Kendrick, Gorog, Jones, Porter

1. Economic Outlook

The Executive Committee reviewed the economic outlook, focusing on the third quarter figures, the re-acceleration of economic activity now underway, and the Troika II forecast for the fourth quarter of 1976 and calendar year 1977.

2. Economic Assumptions for the Current Services Budget

The Executive Committee reviewed and approved a set of economic assumptions to be used in the current services budget.

EYES ONLY
RPB

THE WHITE HOUSE

WASHINGTON

September 27, 1976

MEMORANDUM FOR EPB/ERC EXECUTIVE COMMITTEE MEMBERS

FROM: ROGER B. PORTER RBP

SUBJECT: Boycott Question and Answers

Frank Zarb has prepared two questions and answers on the boycott question which are attached for your information. These have been cleared by State, Treasury, and Scowcroft.

Attachment

September 27, 1976

Q: We have seen reports that the Saudi Arabian Government has warned U.S. officials that the passage of the pending anti-boycott legislation would provoke another oil embargo. Do you have any comment on that report?

A: Saudi Arabian officials have not threatened an embargo or other retaliatory action. Some Saudi officials have said that passage of the anti-boycott legislation could very well make it impossible for American oil companies to legally do business in Saudi Arabia. That is, compliance with some provisions of proposed anti-boycott legislation could put them in violation of Saudi Arabian law.

Q: Are the Saudis right about the impact of the proposed legislation?

A: I can't answer that question since it is still unclear what will come from the Congress. The Administration has opposed additional legislation as not being the most effective way to deal with the boycott problem. Therefore, we will not comment further until we see what the Congress actually produces in the way of a final bill.

JMC - EPB

THE SECRETARY OF THE TREASURY

WASHINGTON 20220

SEP 21 1976

MEMORANDUM FOR: Executive Committee
Economic Policy Board

SUBJECT: Small-size Dollar Coin

Treasury proposes to introduce legislation in the next Congress which would:

1. Replace the existing dollar coin with a smaller, conveniently-sized dollar coin.

2. Eliminate the existing half-dollar coin.

Size and Material:

The new coin would be sized between the existing quarter and half-dollar. Compared to the quarter, the diameter would be 10 percent greater and the weight 40 percent greater (the half-dollar has twice the weight of the quarter). The material would be cupro-nickel clad on copper (currently used for the dime, quarter, half-dollar, and dollar coin), which has excellent wear and corrosion resistance and provides a greater degree of protection against "slugging" than a "nonsandwich" material.

Cost:

The cost of producing the new dollar coin would be approximately 3 cents, compared to 6 cents for the present dollar. Annual production requirements are estimated to be 600 million, costing $18 million, compared to a current average of 60 million dollar coins and 180 million half-dollars, costing $9 million. However, the 600 million estimate appears optimistic, at least during the first few years, and, if halved, would leave costs as at present.

Although not an integral part of the proposal, the new one dollar coin offers potential cost savings by supplanting some of the demand for one dollar bills. The coin would have an average life of 15 years while the bill, costing 1.5 cents, lasts approximately 15 months. Thus, it would take 12 bills, costing 18 cents, to provide the medium of exchange service of one dollar coin, costing 3 cents. It would be highly speculative, however, to attempt to project savings in $1 bill production in view of the number of uncertain interrelated variables--e.g., if initially the dollar coin became merely a numismatic item and did not circulate, production of $1 bills would remain high and there would be little or no savings; at the other extreme, if production of $1 bills were arbitrarily stopped there would be a saving of about $25 million. This savings would be partially offset by the increased demand for, and therefore cost of, $2 bills.

Seigniorage:

Seigniorage represents the proceeds received from the issuance of coins at face value less the manufacturing cost of those coins. It would increase from about $140 million to $584 million annually upon adoption of the recommendations in this memorandum, assuming an optimistic production rate of 600 million new dollar coins each year. Since seigniorage does not represent income, but merely the net proceeds of an alternative form of borrowing, it should not be considered in evaluating the merits of this proposal.*

ADVANTAGES:

1. The present dollar and half-dollar coins, being cumbersome, do not circulate.

2. There is a need for a dollar coin for use in vending machines, which are being used to purvey more expensive mer-

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* The economic effect of issuing coins is identical to that of borrowing funds in the securities markets. Regardless of whether the government issues a coin or a Treasury bill, it receives "real" dollars in exchange for a negotiable instrument which represents agreement to repay at some future time. Given the number of borrowing alternatives which are available and the magnitude of that borrowing, the portion which is accomplished through coin issuance is insignificant.

chandise. The inconvenience of having to insert a large number of quarters and other coins would be mitigated. Mass transit service would be facilitated by conversion to dollar coin changers, which are much cheaper and offer greater security than dollar bill changers.

3. Inflation will gradually make it increasingly convenient to carry dollar coins.

4. Vending equipment manufacturers and operators have indicated substantial interest in adapting their machines to use the new coin, although it will likely take 3 to 4 years after the passage of authorizing legislation to achieve widespread application.

5. The dollar coin would reduce the requirement for dollar bills and thereby result in cost savings to the Government.

DISADVANTAGES:

1. The dollar coin's weight, carrying qualities, and pocket sortability are inferior to the paper dollar, which may lead the public to subordinate the dollar coin in their choice for circulation except where they are heavily involved with vending machines. Only 30 percent of present vending machine sales are for 60 cents or more.

2. The public may perceive the coin an an acceptance of inflation and symbolic of the diminishing (literally, "shrinking") purchasing power of the dollar.

3. The public may assume that the availability of the coin will cause an increase in the price of vending machine merchandise.

4. Because of its value relative to other coins the new dollar might be susceptible to counterfeiting (or slugging). Vending machine and production technology, however, have reduced this risk to minimal proportions. In fact, the coin would be less susceptible to counterfeiting than the one dollar bill.

CONCLUSION:

If inflation continues the dollar coin will eventually be needed to meet increasing median values for vending machine purchases. Since considerable time will be consumed in clearing legislation and maneuvering it through Congress, and in the vending industry's preparations to utilize the new coin, the project should be initiated now to permit introduction of legislation in the next Congress. Public demand may develop by the time implementation can commence.

RECOMMENDATION:

That the Economic Policy Board endorse Treasury's proposal and forward the attached communication to the President.

William E. Simon

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

SEP 21 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Small-size Dollar Coin

Treasury has recommended and the Economic Policy Board endorses the submission of legislation to the next Congress authorizing (1) replacement of the present dollar coin with a smaller, conveniently-sized dollar coin and (2) elimination of the half-dollar coin.

The new coin would be sized between the present quarter and half-dollar, with a weight 40 percent greater than the quarter, and would be made of cupro-nickel clad copper (the same as most currently circulating coins). Cost of the coin would be 3 cents compared to 6 cents for the present large dollar. Additional savings may be generated to the extent that the coin is substituted for dollar bills which, while less expensive, have a substantially shorter useful life.

The present dollar and half-dollar coins, being cumbersome, do not circulate. The need for a convenient coin at the upper end of the coinage scale has grown with inflation. It would be particularly useful to consumers who use vending machines which are dispensing increasingly more expensive merchandise. Also, dollar bill changers could be replaced with less costly and more secure coin changers, an attractive feature to the mass transit industry.

There is certain to be some opposition to any decision to move ahead with these recommendations. A market survey showed banks and businesses opposed a new dollar coin. Moreover, the public may see the small dollar coin as acceptance of inflation and symbolic of the "shrinking" purchasing power of U.S. currency.

In summary, the Board believes that there is a present need for a small size dollar coin and that its usefulness should increase in the future as vending applications are developed and as existing machines are converted to accept the new coin. If inflation continues the need will be even greater. Conversely, the half dollar coin does not circulate and introduction of a viable one dollar coin would seem to obviate its future usefulness. Despite expected resistance, these coinage changes are worth pursuing.

The Board recommends that you approve Treasury's submission of appropriate legislation to the next Congress.

William E. Simon

Attachment

Approve:_______________)
)
)
Disapprove:_____________)

JMC - EPB

U.S. DEPARTMENT OF LABOR
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D.C. 20210

September 21, 1976

MEMORANDUM FOR: ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

FROM: MICHAEL H. MOSKOW s/M. H. Moskow
Under Secretary

SUBJECT: Teenage Job Search Patterns

The labor market for teenagers is characterized by short spells of employment interspersed with frequent short spells of unemployment. In August, mean duration of a spell of unemployment for teenagers was less than 8 weeks, compared with 19 weeks for adult men and 15 weeks for adult women. In addition, about two-thirds of the teenage unemployed are either new entrants or reentrants into the labor market, compared to about 19% for unemployed adult males and 33% for unemployed adult women.

These factors all contribute to the relatively high rates of unemployment exprienced by teenagers, which, in August, stood at 19.7% compared with 7.7% for adult women and 5.9% for adult men. However, teenage labor market behavior also reflects a high degree of fluidity which is an important element in job search behavior for this group.

Research done by Ohio State University and sponsored by the Labor Department, which followed a group of male youth from 1966 to 1975, revealed that about half of the teenage/student group found their current jobs through friends and relatives. One-fourth found their jobs by contacting employers directly and one-tenth used school employment services. Public or private employment agencies or advertising were used less than 4% of the time. For employed teenagers out of school, direct contact with employers or referals by friends and relatives remained the most common job search method.

The Ohio State data show that the major difference between teenagers who had jobs and those who were unemployed was that those who found jobs relied much more heavily on friends and relatives.

More recent Department of Labor data supports the Ohio State findings. Almost 80% of unemployed teenagers contacted employers directly while only 13% sought assistance from friends and relatives.

Unemployed jobseekers by jobsearch methods used:

From Employment and Earnings: June 1976
Method Used as a Percent of Total Jobseekers

	#Methods Used	Public Employment Agency	Private Employment Agency	Employer Directly	Placed or Answered Ads	Friends or Relatives	Other Methods
Teenagers	1.4	16.2	4.0	78.1	24.7	13.4	4.3
20- Over	1.6	29.8	7.5	68.4	32.1	15.7	8.7

The types of jobs that teenagers apply for usually do not warrant sophisticated job search methods such as the use of employment agencies or advertising. The relatively more successful teenager has found that friends and relatives are a valuable source of information.

Despite the high unemployment rates, the low average duration of unemployment suggests that the teenage job market is relatively efficient. Large numbers of entrants and reentrants tend to raise frictional unemployment rates. The problems seem centered on minority inner city groups located in areas where teenage job opportunities are limited. The fact that this group relies heavily on direct employer contact as their primary job search method suggests that policy programs which work through prospective employers might be an effective way of reaching the target group of disadvantaged teenagers.

MINUTES OF THE ECONOMIC POLICY BOARD EXECUTIVE COMMITTEE MEETING

September 22, 1976

Attendees: Messrs. Seidman, Greenspan, Richardson, Usery, Dixon, Kearney, MacAvoy, Katz, Porter, Kasputys, Jones, Hormats, Rosenblatt

1. Youth Unemployment

The Executive Committee approved a question and answer on what the Administration is doing to address the problem of teenage unemployment for use by Administration officials in responding to queries on this subject.

2. Job Creation Forecast

The Executive Committee discussed inquiries regarding the President's announced jobs goal of creating 2-1/2 million jobs every year with emphasis on our youth, especially the minorities.

Decision

The Executive Committee requested CEA and Treasury to prepare a statement on the issue for review by the Executive Committee.

3. Tax Bill

The Executive Committee discussed the timing of when the tax bill will reach the White House and the content of a Presidential statement on it. A draft statement was distributed to Executive Committee members who were requested to provide their comments on it to Mr. Seidman's office by noon today.

4. Monitoring Shoes

The Executive Committee discussed the need to review several factors relating to the shoe industry, including: (1) domestic production, shipments, employment, investment, and imports; (2) the status of adjustment assistance petitions; and (3) the status of the Administration's monitoring efforts.

Decision

The Executive Committee requested CIEP to chair an interagency group to prepare a status report on the shoe industry for Executive Committee consideration the week of September 27. The status report should include the best available information on domestic production, shipments, employment, investment, and imports; the status of adjustment assistance petitions; and the effectiveness of the Administration's current monitoring efforts. The task force will include representatives from the Departments of Treasury, State, Commerce and Labor, CIEP, STR and the USITC.

5. U.S. Maritime Policy

The Executive Committee reviewed a memorandum, prepared by an interagency task force, on proposed changes in the administration of cargo preference. The discussion focused on the merits of each of the proposed changes in the administration of cargo preference, recommendations to assist the maritime industry which Congressman McCloskey recently submitted to various Administration officials, recent technological innovations which have benefited the U.S. industry, and the upcoming address by Secretary Usery at the Propeller Club in San Diego on October 14.

Decision

The Executive Committee requested Secretary Usery to prepare a draft of his speech to the Propeller Club in coordination with the Department of Commerce for review by the Executive Committee the week of September 27.

The Executive Committee members were requested to provide Mr. Seidman's office with their comments and suggestions on the draft options paper.